Phihong Technology Co., Ltd.

Financial Statements for the
Years Ended December 31, 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 December 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2012 and 2011 (not presented herewith) and have expressed an unqualified opinion thereon in our report dated March 22, 2013.

March 22, 2013

<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
DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Par Value)

	2012		2011	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 962,803	10	$ 1,552,919	15
Accounts receivable (Notes 2 and 5)	1,409,661	15	1,324,227	13
Accounts receivable from related parties (Notes 2, 5 and 22)	191,708	2	554,410	5
Other financial assets, current (Notes 6 and 22)	531,251	6	469,827	5
Inventories (Notes 2 and 7)	319,496	4	531,255	5
Deferred income tax asset, current (Notes 2 and 19)	37,880	-	55,860	1
Other current assets	11,206	-	35,491	-
Total current assets	3,464,005	37	4,523,989	44
FUNDS AND LONG-TERM INVESTMENTS				
Available-for-sale financial assets, noncurrent (Notes 2 and 8)	30,620	-	33,357	-
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)	5,186,016	56	5,148,989	50
Total funds and long-term investments	5,263,139	57	5,231,158	51
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 11)				
Cost	829,840	9	779,570	8
Less accumulated depreciation	(329,115)	(3)	(286,207)	(3)
Prepayments for purchase of equipment	1,265	-	7,544	-
Property, plant and equipment, net	501,990	6	500,907	5
INTANGIBLE ASSETS (Note 2)				
Computer software cost	33,689	-	16,971	-
OTHER ASSETS				
Refundable deposits	13,914	-	13,759	-
TOTAL	$ 9,276,737	100	$ 10,286,784	100

	2012		2011	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Accounts payable	$ 30,141	1	$ 41,212	-
Accounts payable to related parties (Note 22)	388,686	4	158,881	2
Income tax payable (Notes 2 and 19)	75,404	1	156,950	2
Other payables (Notes 12 and 22)	2,431,495	26	2,665,274	26
Other current liabilities	20,439	-	38,959	-
Total current liabilities	2,946,165	32	3,061,276	30
LONG-TERM LIABILITIES				
Long-term debts (Notes 13)	200,000	2	200,000	2
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 14)	65,270	1	64,648	1
Deferred income tax liabilities, noncurrent (Notes 2 and 19)	69,552	1	69,662	1
Deferred credits (Note 2)	65,267	1	158,937	1
Others	49,051	-	52,059	-
Total other liabilities	249,140	3	345,306	3
Total liabilities	3,395,305	37	3,606,582	35
STOCKHOLDERS' EQUITY				
Capital stock, $10 par value (Notes 15 and 16)				
Authorized - both 600,000 thousand shares at December 31, 2012 and 2011				
Issued - 277,164 thousand shares and 274,933 thousand shares at December 31, 2012 and 2011	2,771,639	30	2,749,329	27
Advance collections for capital stock	-	-	16,154	-
Capital surplus				
Additional paid-in capital - common stock	226,556	2	203,406	2
Additional paid-in capital - bond conversion	661,582	7	661,582	6
Treasury stock transaction	48,234	1	48,234	1
Long-term equity investments	11,305	-	11,305	-
Interest of bonds converted to common stock	13,243	-	13,243	-
Retained earnings (Note 17)				
Legal reserve	1,052,192	11	909,627	9
Unappropriated earnings	999,381	11	1,828,362	18
Other items of stockholders' equity				
Cumulative translation adjustments	101,935	1	250,296	2
Unrealized gain on financial instruments	(15,603)	-	(22,304)	-
Unrealized revaluation increment	10,968	-	10,968	-
Total stockholders' equity	5,881,432	63	6,680,202	65
TOTAL	$ 9,276,737	100	$ 10,286,784	100

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

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	%	Amount	%
SALES AND REVENUES (Note 22)	$ 10,778,860	100	$ 12,618,954	100
COST OF GOODS SOLD (Note 22)	9,583,463	89	10,301,081	81
GROSS PROFIT	1,195,397	11	2,317,873	19
REALIZED GROSS PROFIT FROM INTERCOMPANY TRANSACTIONS	93,670	1	286,331	2
REALIZED GROSS PROFIT	1,289,067	12	2,604,204	21
OPERATING EXPENSES (Note 22)				
Sales and marketing	278,737	2	378,521	3
General and administration	180,988	2	245,275	2
Research and development	420,473	4	464,253	4
Total operating expenses	880,198	8	1,088,049	9
INCOME FROM OPERATIONS	408,869	4	1,516,155	12
NONOPERATING INCOME AND GAINS				
Interest income	12,055	-	10,840	-
Dividend income	3,613	-	4,550	-
Gain on disposal of property, plant and equipment	-	-	70	-
Gain on sale of investment, net	-	-	23,828	-
Foreign exchange gain, net	-	-	59,646	1
Gains on bad debt recoveries	20,519	-	-	-
Others (Note 22)	150,548	2	292,059	2
Total nonoperating income and gains	186,735	2	390,993	3
NONOPERATING EXPENSES AND LOSSES				
Interest expense	3,312	-	2,746	-
Investment loss recognized under equity method, net (Note 10)	114,226	1	56,978	1
Loss on disposal of property, plant and equipment	433	-	-	-
Foreign exchange losses, net	45,367	1	-	-
Impairment loss (Note 9)	-	-	11,969	-
Others	313	-	15,402	-
Total nonoperating expenses and losses	163,651	2	87,095	1
INCOME BEFORE INCOME TAX	431,953	4	1,820,053	14
INCOME TAX EXPENSE (Notes 2 and 19)	(122,400)	(1)	(394,400)	(3)
NET INCOME	$ 309,553	3	$ 1,425,653	11

	2012		2011	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Notes 2 and 20)				
Basic	$ 1.56	$ 1.12	$ 6.62	$ 5.19
Diluted	$ 1.54	$ 1.10	$ 6.38	$ 5.00

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

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus					Retained Earnings		Other Items of Stockholders' Equity			
	Common Stock	Advanced Collections for Common Stocks	Additional Paid-in Capital Common Stock	Additional Paid-in Capital - Bond Conversion	Treasury Stock Transaction	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, 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 17)													
Legal reserve	-	-	-	-	-	-	-	161,204	(161,204)	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(1,057,779)	-	-	-	(1,057,779)
Adjustment brought by changes in percentage of ownership in investees	-	-	-	-	-	173	-	-	-	-	-	-	173
Recognized unrealized loss on investee's financial instruments	-	-	-	-	-	-	-	-	-	-	(177,412)	-	(177,412)
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	277,326	-	-	277,326
Unrealized loss on available-for-sale financial assets (Note 8)	-	-	-	-	-	-	-	-	-	-	(30,444)	-	(30,444)
Advanced collections for common stock transferred to capital stock (Note 15)	8,000	(17,520)	9,520	-	-	-	-	-	-	-	-	-	-
Employee stock options (Note 16)	15,390	16,154	18,227	-	-	-	-	-	-	-	-	-	49,771
Net income for 2011	-	-	-	-	-	-	-	-	1,425,653	-	-	-	1,425,653
BALANCE, DECEMBER 31, 2011	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 (Note17)													
Legal reserve	-	-	-	-	-	-	-	142,565	(142,565)	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(995,969)	-	-	-	(995,969)
Recognized unrealized gain on investee's financial instruments	-	-	-	-	-	-	-	-	-	-	243	-	243
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(148,361)	-	-	(148,361)
Unrealized gain on available-for-sale financial assets (Note 8)	-	-	-	-	-	-	-	-	-	-	6,458	-	6,458
Advanced collections for common stock transferred to capital stock (Note 15)	7,880	(16,154)	8,274	-	-	-	-	-	-	-	-	-	-
Employee stock options (Note 16)	14,430	-	14,876	-	-	-	-	-	-	-	-	-	29,306
Net income for 2012	-	-	-	-	-	-	-	-	309,553	-	-	-	309,553
BALANCE, DECEMBER 31, 2012	$ 2,771,639	$ -	$ 226,556	$ 661,582	$ 48,234	$ 11,305	$ 13,243	$ 1,052,192	$ 999,381	$ 101,935	$ (15,603)	$ 10,968	$ 5,881,432

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

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 309,553	$ 1,425,653
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	57,281	70,341
(Recovery from) provision for loss on doubtful accounts	(20,519)	4,300
Investment loss recognized under equity method	114,226	56,978
Realized gross profit from intercompany transactions	(93,670)	(286,331)
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	(70)
Net changes in operating assets and liabilities		
Accounts receivable	(64,914)	(364,476)
Accounts receivable from related parties	362,701	994,370
Other financial assets, current	(58,860)	442,641
Inventories	211,759	27,567
Deferred income tax assets, current	17,980	60,275
Other current assets	24,285	(24,036)
Notes payable	-	(24)
Accounts payable	(11,071)	4,479
Accounts payable to related parties	229,805	3,672
Income tax payable	(81,546)	(128,361)
Other payables	(233,779)	(587,658)
Other current liabilities	(18,520)	26,337
Reserve for retirement plan	622	1,763
Deferred income tax liabilities, noncurrent	(110)	(280)
Other liabilities	-	15,000
Net cash provided by operating activities	748,489	1,740,113
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in available-for-sale financial assets	-	(37,939)
Proceeds from disposal of available-for-sale financial assets	-	29,660
Acquisition of investments accounted for by equity method	(316,191)	(322,888)
Return to capital stock of invested company disinvestment	22,483	141,128
Acquisition of property, plant and equipment	(52,438)	(155,088)
Proceeds from disposal of property, plant and equipment	476	216
(Increase) decrease in refundable deposits	(155)	1,276
Increase intangible asset - computer software	(26,117)	(9,384)
Increase in deferred charges	-	(16,007)
Net cash used in investing activities	(371,942)	(369,026)
CASH FLOWS FROM FINANCING ACTIVITIES		

(Continued)

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
Employee stock options	29,306	49,771
Cash dividends	(995,969)	(1,057,779)
Net cash used in financing activities	(966,663)	(1,008,008)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(590,116)	363,079
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,552,919	1,189,840
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 962,803	$ 1,552,919
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest	$ 3,297	$ 2,730
Income tax	$ 186,076	$ 462,767
NONCASH INVESTING AND FINANCING ACTIVITIES		
Translation adjustments on long-term equity investments	$ (148,361)	$ 277,326
Recognized unrealized (gain) loss on investees' financial instruments	$ (243)	$ 177,412
Change in unrealized (gain) loss on available-for-sale financial assets	$ (6,458)	$ 30,444
Adjustment brought by changes in percentage of ownership in investees	$ -	$ 173

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 382 and 396 employees as of December 31, 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 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

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.

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

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 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 receivable are due in a year, they are not recorded at discounted value as the fair value approximates the carrying 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.

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 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 year ended December 31, 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 December 31, 2012 and 2011 were as follows:

	2012	2011
Cash on hand	$ 602	$ 895
Checking accounts	1,241	6,470
Savings accounts	61,135	77,335
Foreign-currency accounts	835,859	1,008,422
Time deposits	-	120,560
Short-term notes	63,966	339,237
	$ 962,803	$ 1,552,919

5. ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2012 and 2011 were as follows:

	2012	2011
Accounts receivable	$ 1,431,728	$ 1,368,946
Less allowance for doubtful accounts	(22,067)	(44,719)
	1,409,661	1,324,227
Accounts receivable from related parties (Note 22)	191,708	554,410
Less allowance for doubtful accounts	-	-
	191,708	554,410
	$ 1,601,369	$ 1,878,637

6. OTHER FINANCIAL ASSETS, CURRENT

Other financial assets, current as of December 31, 2012 and 2011 were as follows:

	2012	2011
Other receivables from related parties (Note 22)	$ 489,278	$ 423,703
Others	41,973	46,124
	$ 531,251	$ 469,827

7. INVENTORIES

Inventories as of December 31, 2012 and 2011 were as follows:

	2012	2011
Raw materials	$ 4,150	$ 4,465
Work-in-process	586	1,129
Merchandise	314,760	525,661
	$ 319,496	$ 531,255

As of December 31, 2012 and 2011, valuation allowances of inventories both were $53,327 thousand.

For the years ended December 31, 2012 and 2011, the Company’s cost of goods sold was $9,583,463 thousand and $10,301,081 thousand, respectively.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

Available-for-sale financial assets, noncurrent as of December 31, 2012 and 2011 were as follows:

	2012	2011
Marketable equity securities		
Hua Jung Components Co., Ltd.	$ 30,620	$ 33,357

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 years ended December 31, 2012 and 2011, the Company's recognition of unrealized gain (loss) on available-for-sale financial assets was $6,458 thousand and $(30,444) thousand, respectively. The amount was recorded as "stockholder's equity-unrealized gain (losses) on financial instruments" as of December 31, 2012 and 2011.

9. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as of December 31, 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. They are tested for impairment 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 year ended December 31, 2012, respectively. Bao-Dian Venture Capital Co., Ltd. decreased its paid-in capital to write-off its accumulated deficits for the year ended December 31, 2012, at a ratio of 55%. As a result, its paid-in capital was $128,700 thousand as of December 31, 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 ratio 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 December 31, 2012.

10. LONG-TERM EQUITY INVESTMENTS

Long-term equity investments as of December 31, 2012 and 2011 were as follows:

	2012			2011	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Equity method					
Phihong International Corp.	$ 2,727,245	$ 3,123,783	100.00	$ 3,095,241	100.00
Phihong USA Corp.	207,203	704,371	100.00	678,943	100.00
Phitek International Co., Ltd.	63,286	509,977	100.00	535,005	100.00
Guang-Lai Investment Co., Ltd.	239,758	237,019	100.00	244,827	100.00
Ascent Alliance Ltd.	195,449	348,209	100.00	364,209	100.00
American Ballast Corp.	16,579	15,242	100.00	15,854	100.00
Phihong PWM Brasil Ltda.	8,258	-	60.00	-	60.00

(Continued)

	2012			2011	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
First International Computer Do Brasil Ltda.	$ 67,618	$ -	33.85	$ -	33.85
Hao-Xuan Venture Capital Co., Ltd.	59,851	55,052	24.67	67,350	24.67
H&P Venture Capital Investment Corp.	150,000	152,762	32.26	147,560	32.26
Phihong Technology Japan Co., Ltd.	132,254	39,601	100.00	-	100.00
	$ 3,867,501	$ 5,186,016		$ 5,148,989	

(Concluded)

Long-term equity investment (loss) income for the years ended December 31, 2012 and 2011 was summarized as follows:

	2012	2011
Phihong International Corp.	$ (130,754)	$ (67,855)
Phihong USA Corp.	54,210	103,115
Phitek International Co., Ltd.	(6,675)	96,145
Guang-Lai Investment Co., Ltd.	(7,068)	(48,592)
Ascent Alliance Ltd.	(2,383)	(115,973)
American Ballast Corp.	38	43
Hao-Xuan Venture Capital Co., Ltd.	108	3,099
H&P Venture Capital Investment Corp.	5,829	(1,898)
Phihong Technology Japan Co., Ltd.	(27,531)	(25,062)
	$ (114,226)	$ (56,978)

For the years ended December 31, 2012 and 2011, the Company recognized its investment (loss) income based on audited financial statements of the equity-method investees.

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 in 2012. Its paid-in capital was US$87,871 thousand as of December 31, 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 December 31, 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 December 31, 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 $100,000 thousand. As a result, its paid-in capital was $239,758 thousand as of December 31, 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 December 31, 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 December 31, 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 under 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 years ended December 31, 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 December 31, 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 year ended December 31, 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 December 31, 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 December 31, 2012.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 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	121,187	174,025	185,181
Machinery and equipment	138,485	86,542	51,943	48,878
Furniture, fixtures and office equipment	117,467	99,768	17,699	24,476
Other equipment	71,240	21,618	49,622	27,392
Prepayments for purchase of equipment	1,265	-	1,265	7,544
	$ 831,105	$ 329,115	$ 501,990	$ 500,907

In March 2011, the Company had purchased a parcel of land in the amount of $85,136 thousand in Yongkang District, Tainan City for factory.

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	159,579	170,068
	$ 272,029	$ 282,518

12. OTHER PAYABLES

	2012	2011
Accrued expenses	$ 487,765	$ 563,181
Bonus payable	55,720	256,618
Salaries payable	141,843	44,687
Materials payable and deputy procurement	1,530,388	1,569,651
Other payable to related parties (Note 22)	214,300	229,602
Others	1,479	1,535
	$ 2,431,495	$ 2,665,274

13. LONG-TERM DEBTS

Long-term debts as of December 31, 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 December 31, 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 December 29, 2011 to December 29, 2013; interest rate was 1.37% on December 31, 2011. Interest is paid monthly. The principal of $200,000 thousand will be paid on December 29, 2013. The full principle was early repaid in September 2012.	-	200,000
	$ 200,000	$ 200,000

The pledged properties and endorsements/guarantees as collaterals for bank loans , please see Notes 11, 22 and 23 to the financial statements.

14. PENSION PLAN

Based on the defined contribution plan under the Labor Pension Act, the rate of the Company’s monthly contribution to the employees’ individual pension accounts is 6% of the employee’s monthly wages. Thus, the Company recognized pension cost of $15,681 thousand and $13,926 thousand for the years ended December 31, 2012 and 2011, respectively.

Under the defined benefit pension plan of the Labor Standards Law, benefits are based primarily on an employee's years of service and average gross compensation of the six months before retirement.

Net pension costs of the defined benefit plan in 2012 and 2011 were as follows:

	2012	2011
Service cost	$ 1,876	$ 2,101
Interest cost	2,553	2,448
Expected return on plan assets	(1,193)	(1,181)
Amortization of net transition obligation	-	1,059
Net pension cost	$ 3,236	$ 4,427

The following were the actuarial assumptions and defined benefit plan status as of December 31, 2012 and 2011:

	2012	2011
Actuarial present value of benefit obligation		
Vested benefits	$ (34,342)	$ (39,198)
Non-vested benefits	(41,470)	(50,066)
Accumulated benefit obligation	(75,812)	(89,264)
Additional benefits on future salaries	(33,907)	(38,387)
Projected benefit obligation	(109,719)	(127,651)
Plan assets at fair value	46,389	58,290
Projected benefit obligation in excess of plan assets	(63,330)	(69,361)
Net pension loss not yet recognized	(1,940)	4,713
Accrued pension cost	$ (65,270)	$ (64,648)

	2012	2011
Weighted-average discount rate	1.875%	2.000%
Assumed rate of increase in salary	3.250%	3.250%
Expected rate of return on plan assets	1.875%	2.000%

15. CAPITAL STOCK

a. Common stock

	December 31	
	2012	2011
Authorized capital		
Shares (in thousands)	600,000	600,000
Par value (in dollars)	$ 10	$ 10
Capital	$ 6,000,000	$ 6,000,000
Issued capital		
Shares (in thousands)	277,164	274,933
Par value (in dollars)	$ 10	$ 10
Capital	$ 2,771,639	$ 2,749,329

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 December 31, 2011. As of December 31, 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 and 120 thousand common shares at an exercise price of $20.50 and $18.20, respectively, and exercised 788 thousand common shares for advanced collections for capital stock transferred to capital stock between January 1, 2012 to December 31, 2012. As of December 31, 2012, the Company's outstanding capital amounted to $2,771,639 thousand, divided into 277,164 thousand common shares with a par value of NT$10.

d. As the registration procedures were still in process, the amounts of $16,154 thousand was recorded as "advance collections for capital stock" as of December 31, 2011.

16. 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-fourths 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 a calculation formula when there are stock and cash dividends and issuance of capital stock. As a result, the exercise price was $18.20 per share as of December 31, 2012.

Information about employee stock option plans as of December 31, 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 year	6,867	$20.50	9,194		$21.90
Options exercised	(1,323)	20.50	(1,477)		21.90
	(120)	18.20	(850)	(Note)	20.50
Invalid	(909)		-		
Balance, end of year	4,515	18.20	6,867		20.50
Options exercisable, end of year	4,515		6,867		

Note: Included options exercised but not outstanding in the amounts of 788 thousand shares recognized as "Advance collections for capital stock."

Information about outstanding and exercisable options as of December 31, 2012 and 2011 was as follows:

Range of Exercise Price (NT$)	Options Outstanding: Number of Options (In Thousand Shares)	Options Outstanding: Weighted-average Remaining Life (Years)	Options Outstanding: Weighted-average Exercise Price (NT$)	Options Exercisable: Number of Options (In Thousand Shares)	Options Exercisable: Weighted-average Exercise Price (NT$)
2012					
$18.20	4,515	1	$ 18.20	4,515	$ 18.20
2011					
$20.50	6,867	2	$20.50	6,867	$20.50

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 year ended December 31, 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	$ 1,425,653
Pro forma	$ 1,416,586
Basic earnings per share after income tax	
As reported	$5.19
Pro forma	$5.16

No more employee stock option information needs to be disclosed for the year ended December 31, 2012, because the service years of the employees was expired on December 28, 2011.

17. 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 years December 31, 2012 and 2011, the bonus to employees was $50,148 thousand and $236,998 thousand, respectively, and the remuneration to directors and supervisors was $5,572 thousand and $19,620 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 appropriations 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.

The appropriations of 2012 earnings had been proposed by the board of directors on March 22, 2013. The appropriations and dividends per share were as follows:

	For Year 2011	
	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 30,955	-
Cash dividends	277,164	$1.00

The appropriations of 2012 earnings, bonus to employees and the remuneration to directors and supervisors will be determined in the stockholders' meetings on June 14, 2013.

18. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel expenses, depreciation and amortization for the years ended December 31, 2012 and 2011 were summarized as follows:

	2012			2011		
	Operating Costs	**Operating Expenses**	**Total**	**Operating Costs**	**Operating Expenses**	**Total**
Personnel expenses						
Salaries	$ 39,191	$ 403,060	$ 442,251	$ 48,043	$ 523,344	$ 571,387
Labor insurance and health insurance	2,094	25,967	28,061	1,842	22,588	24,430
Pension cost	2,484	16,433	18,917	2,384	15,969	18,353
Others	1,799	19,673	21,472	2,031	20,530	22,561
Depreciation expenses	1,683	46,199	47,882	1,407	33,395	34,802
Amortization expenses	-	9,399	9,399	1,698	33,841	35,539

19. INCOME TAX

The provision for income tax expense for the years ended December 31, 2012 and 2011 was as follows:

	2012	2011
Provision for income tax expense - current period	$ 92,279	$ 316,324
Additional tax at 10% unappropriated earnings	28,712	39,306
Adjustments to prior year's income tax expense	1,409	38,770
Income tax expense, net	$ 122,400	$ 394,400

The components of deferred tax assets (liabilities) as of December 31, 2012 and 2011 were as follows:

	2012	2011
Deferred tax assets (liabilities)		
Unrealized exchange (gains)losses	$ (790)	$ 1,370
Unrealized inventory devaluation losses	9,070	9,070
Unrealized bad debt losses	10,160	10,060
Unrealized profit from inter-affiliate transactions	11,100	27,020
Unrealized export trading losses	8,340	8,340
Unrealized pension expense	10,280	10,170
Income on long-term equity investments	(79,832)	(79,832)
Deferred tax liability, net	(31,672)	(13,802)
Deferred tax asset, current	(37,880)	(55,860)
Deferred tax liability, noncurrent	$ (69,552)	$ (69,662)

Current income tax expense for the years ended December 31, 2012 and 2011 and income tax payable as of December 31, 2012 and 2011 were reconciled as follows:

	2012	2011
Income tax expense at statutory rate of 17%	$ 73,430	$ 309,400
Investment loss on long-term equity investments	19,420	9,690
Impairment loss of financial assets carried at cost	-	2,030
Gain on sale of investment, net	-	(4,050)

(Continued)

	2012	2011
Exempt dividends	$ (610)	(770)
Others	39	24
Current income tax expense	92,279	316,324
Provision for (reversal of) deferred income tax assets (liabilities)		
Unrealized exchange gains	(2,160)	(12,880)
Unrealized export trading losses	-	2,550
Unrealized loss on bad debt	100	(1,270)
Unrealized gross profit	(15,920)	(48,675)
Unrealized pension expense	110	300
Others	-	(20)
	74,409	256,329
Less current year's withholding income tax	(33,360)	(165,997)
Add prior years' income tax payable	5,643	27,312
Add 10% income tax on unappropriated earnings	28,712	39,306
Income tax payable as of December 31, 2012 and 2011	$ 75,404	$ 156,950

(Concluded)

The income tax returns for the years through 2010 had been examined and approved by the tax authorities.

Information on the integrated income tax system as of December 31, 2012 was as follows:

Balance of imputation credit account	$ 222,734
Undistributed earnings generated until 1997	$ -
Undistributed earnings generated since 1998	$ 999,381
Expected imputation credit (IC) ratio for earnings distribution in 2013 (included income tax payable)	29.27%
Actual IC ratio for earnings distribution in 2012	23.28%

In the balance of imputation credit account as of December 31, 2012, the income tax payable for 2012 had been taken into account.

20. EARNINGS PER SHARE

Earnings per share (EPS) before and after income tax for the years ended December 31, 2012 and 2011 were as follows:

	2012				
			Weighted Average Number of Common	Earnings Per Share (NT$)	
	Before Income Tax	After Income Tax	Shares Outstanding (In Thousands)	Before Income Tax	After Income Tax
Basic earnings per share					
Net income	$ 431,953	$ 309,553	276,929	$ 1.56	$ 1.12
Effect of dilutive potential common shares					
Employee stock option			1,856		
Employee bonuses			2,026		
Diluted earnings per share					
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	$ 431,953	$ 309,553	280,811	$ 1.54	$ 1.10

	2011				
			Weighted Average Number of Common	Earnings Per Share(NT$)	
	Before Income Tax	After Income Tax	Shares Outstanding (In Thousands)	Before Income Tax	After Income Tax
Basic earnings per share					
Net income	$ 1,820,053	$ 1,425,653	274,773	$ 6.62	$ 5.19
Effect of dilutive potential common shares					
Employee stock option			3,925		
Employee bonuses			6,430		
Diluted earnings per share					
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	$ 1,820,053	$ 1,425,653	285,128	$ 6.38	$ 5.00

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.

21. OTHERS

Fair Value of Financial Instruments

The fair values of nonderivative financial instruments as of December 31, 2012 and 2011 is summarized as follows:

	2012		2011	
Nonderivative Financial Instruments	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	$ 962,803	$ 962,803	$ 1,552,919	$ 1,552,919
Accounts receivable	1,409,661	1,409,661	1,324,227	1,324,227
Accounts receivable from related parties	191,708	191,708	554,410	554,410
Other financial assets, current	531,251	531,251	469,827	469,827
Available-for-sale financial assets, noncurrent	30,620	30,620	33,357	33,357
Financial assets carried at cost, noncurrent	46,503	-	48,812	-
Long-term equity investments at equity method	5,186,016	5,197,999	5,148,989	5,170,782
Refundable deposits	13,914	13,914	13,759	13,759
Liabilities				
Accounts payable	30,141	30,141	41,212	41,212
Accounts payable to related parties	388,686	388,686	158,881	158,881
Other payables	2,431,495	2,431,495	2,665,274	2,665,274
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:

a. Fair values of current assets and liabilities, cash and cash equivalents, accounts receivable, accounts receivable from related parties, other financial assets - current, refundable deposits, 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 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 December 31, 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 valuation method as of December 31, 2012 and 2011 are summarized as follows:

	Market Value in the Open Market		**By Valuation Method**	
	2012	**2011**	**2012**	**2011**
Available-for-sale financial assets, noncurrent	$ 30,620	$ 33,357	$ -	$ -

For the year ended December 31, 2011, the net foreign exchange gain on forward contracts was $2,435 thousand, which was recorded as non-operating 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 $306 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 percent increase in market rate will cause the Company to 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.

22. RELATED-PARTY TRANSACTIONS

Names and relationships of the related parties are 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 Technology Japan Co., Ltd.	100% subsidiary
Guang-Lai Investment Co., Ltd.	100% subsidiary
Phihong (Dongguan) Electronics Co., Ltd.	100% subsidiary
Dongguan Phitek Electronics Ltd.	100% subsidiary
Phihong Electronics (Suzhou) Co., Ltd.	100% subsidiary
Jin-Sheng Hong (Jiangxi) Electronics 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 years ended December 31, 2012 and 2011 were summarized as follows:

	2012		2011	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
Phihong USA Corp.	$ 3,015,584	28	$ 5,932,321	47
Phihong Technology Japan Co., Ltd.	369,225	4	356,291	3
Others	23,066	-	48,362	-
	$ 3,407,875	32	$ 6,336,974	50

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

Cost of Sales - Purchases

Purchases from related parties for the years ended December 31, 2012 and 2011 were summarized as follows:

	2012		2011	
	Amount	Percentage to Total Purchases	Amount	Percentage to Total Purchases
Phihong (Dongguan) Electronics Co., Ltd.	$ 6,440,583	68	$ -	-
Dongguan Phitek Electronics Ltd.	1,634,563	17	-	-
Phihong Electronics (Suzhou) Co., Ltd.	1,435,075	15	-	-
Phihong International Corp.	-	-	6,877,622	67
Phitek International Co., Ltd.	-	-	3,221,247	32
Others	22,338	-	21,201	-
	$ 9,532,559	100	$ 10,120,070	99

The purchase prices for both related parties and third parties were similar.

Accounts Receivable

Accounts receivable from affiliates as of December 31, 2012 and 2011 were summarized as follows:

	2012		2011	
	Amount	%	Amount	%
Phihong USA Corp.	$ 114,011	7	$ 442,187	24
Phihong Technology Japan Co., Ltd.	77,697	5	112,223	6
	$ 191,708	12	$ 554,410	30

Accounts Payable

Accounts payable to related parties as of December 31, 2012 and 2011 were summarized as follows:

	2012		2011	
	Amount	%	Amount	%
Dongguan Phitek Electronics Ltd.	$ 179,942	43	$ -	-
Phihong International Corp.	121,312	29	-	-
Phihong Electronics (Suzhou) Co., Ltd.	50,597	12	-	-
Phitek International Co., Ltd.	32,957	8	158,272	79
Others	3,878	1	609	-
	$ 388,686	93	$ 158,881	79

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

Other receivables as of December 31, 2012 and 2011 were summarized as follows:

	2012		2011	
	Amount	%	Amount	%
Phihong (Dongguan) Electronics Co., Ltd.	$ 386,589	73	$ -	-
Phihong USA Corp.	99,289	19	27,153	6
Jin-Sheng Hong (Jiangxi) Electronics Co., Ltd.	3,020	-	-	-
Phihong International Corp.	-	-	338,829	72
Phitek International Co., Ltd.	-	-	56,551	12
Others	380	-	1,170	-
	$ 489,278	92	$ 423,703	90

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

Other Payables

Other payables to affiliates as of December 31, 2012 and 2011 were summarized as follows:

	2012		2011	
	Amount	%	Amount	%
Ascent Alliance Ltd.	$ 125,377	5	$ 193,678	7
Others	88,923	4	35,924	1
	$ 214,300	9	$ 229,602	8

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

Other Income

	2012		2011	
	Amount	Percentage to Total Other Revenue	Amount	Percentage to Total Other Revenue
Phihong USA Corp.	$ 27,314	18	$ 42,976	15

Commission Expenses

Commission expenses to related parties for the years ended December 31, 2012 and 2011 were as follows:

	2012		2011	
	Amount	Percentage to Total Commission Expenses	Amount	Percentage to Total Commission Expenses
Phihong USA Corp.	$ 1,043	3	$ 4,494	16

Credit Guarantees

a. Please see Note 24 to the financial statements.

b. Related parties had guaranteed the payments of loans of the Company as of December 31, 2012 and 2011 as follows:

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

Compensation of directors, supervisors and management personnel:

	2012	2011
Salaries	$ 25,393	$ 21,694
Incentives	16,500	22,624
Bonus	9,707	53,918
Others	4,356	3,981
	$ 55,956	$ 102,217

23. MORTGAGED OR PLEDGED ASSETS

The Company's assets mortgaged or pledged as collateral for bank loans as of December 31, 2012 and 2011 were as follows:

	2012	2011
Land	$ 112,450	$ 112,450
Buildings and improvements	159,579	170,068
	$ 272,029	$ 282,518

24. COMMITMENTS AND CONTINGENCIES

Loan Guarantees

As of December 31, 2012, the Company had guaranteed US$6,000 thousand loan of Phihong USA Corp.

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

As of December 31, 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)**
Financial assets						
Monetary items						
USD	$ 94,235	29.0400	$ 2,736,584	$ 82,950	30.2800	$ 2,511,726
JPY	222,408	0.3354	74,596	236,774	0.3888	92,046

(Continued)

	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)**		
HKD	$	3,215	3.7462	$	12,044	$	11,950	3.8940	$	46,533	
RMB		234	4.6172		1,080		233	4.7944		1,122	
Investments accounted for by the equity method											
USD		161,900	29.0400		4,701,582		154,863	30.2800		4,689,252	
JPY		118,071	0.3354		39,601		-	-		-	
Financial liabilities											
Monetary items											
USD		86,958	29.0400		2,525,260		76,108	30.2800		2,304,550	
JPY		2,681	0.3354		899		10,672	0.3888		4,149	
HKD		3,105	3.7462		11,632		9,169	3.8940		35,704	

(Concluded)

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

26. OPERATING SEGMENTS INFORMATION

The Company has provided the operating segments disclosure in the consolidated financial statements for the year ended as of December 31, 2012.