Phihong Technology Co., Ltd. and Subsidiaries

Consolidated 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 consolidated balance sheets of Phihong Technology Co., Ltd. and subsidiaries (collectively, the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Phihong Technology Co., Ltd. and subsidiaries as of December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

March 22, 2013

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated 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 consolidated financial statements shall prevail. Also, as stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2012 AND 2011

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

	2012		2011			2012		2011	
ASSETS	Amount	%	Amount	%	LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 1,543,288	16	\$ 2,119,386	20	Accounts payable	\$ 2,088,302	22	\$ 2,028,697	19
Accounts receivable (Notes 2 and 5)	1,907,482	20	1,936,108	18	Accounts payable to related parties (Note 21)	48,320	1	35,939	-
Other financial assets - current	54,641	1	81,406	10	Income tax payable (Notes 2 and 18)	93,017	1	204,632	2
	,		,	-					
Inventories (Notes 2 and 6)	1,680,224	17	2,080,000	20	Other payables (Note 11)	1,026,344	11	1,224,745	11
Deferred income tax asset - current (Notes 2 and 18)	37,880	-	55,860	-	Other current liabilities	45,078		66,325	1
Other current assets	<u>154,722</u>	2	219,118	2	m - 1	2 201 061	25	2.560.220	22
Total current assets	5,378,237	56	<u>6,491,878</u>	61	Total current liabilities	3,301,061	<u>35</u>	3,560,338	33
Total cultent assets	<u> </u>	56	0,491,676	<u>61</u>	LONG-TERM LIABILITIES				
FUNDS AND LONG-TERM INVESTMENTS					Long-term debts (Note 12)	200,000	2	200,000	2
Available-for-sale financial assets - noncurrent (Notes 2 and 7)	30,620	_	33,357		Long-term debts (Note 12)	200,000		200,000	
	*	- 1	93,254	1	OTHER LIARIESTES				
Financial assets carried at cost - noncurrent (Notes 2 and 8)	90,945	1	93,234	1	OTHER LIABILITIES	<i>(5.</i> 0 70	1	(4.640	1
Long-term equity investments at accounted for by the equity	222 = 44		277.402		Accrued pension cost (Notes 2 and 13)	65,270	1	64,648	1
method (Notes 2 and 9)	339,761	4	355,603	<u>4</u>	Advance deposits received	985	-	1,128	-
					Deferred income tax liabilities, noncurrent (Notes 2 and 18)	69,552	1	69,662	1
Total funds and long-term investments	461,326	5	482,214	5	Others	50,326		49,052	
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 10)					Total other liabilities	<u> 186,133</u>	2	184,490	2
Cost	5,670,841	60	5,512,773	52	Total other nationales	100,133		104,470	
Less accumulated depreciation	(2,461,494)	(26)	(2,133,757)	(20)	Total liabilities	3,687,194	39	3,944,828	27
				(20)	Total flaoffities	3,067,194	39	3,944,020	37
Prepayments for purchase of equipment	307,662	3	93,314	1	STOCKHOLDERS' EQUITY OF PARENT COMPANY				
Property, plant and equipment, net	3,517,009	37	3,472,330	33	Capital stock, NT\$10 par value (Note 14)				
1 roperty, plant and equipment, net	3,317,007		3,472,330		Authorized - 600,000 thousand shares as of December 31, 2012				
INTANGIBLE ASSETS (Note 2)					and 2011				
	12.760	1	10.700						
Computer software cost	42,760	1	19,729	-	Issued and outstanding - 277,164 thousand shares and 274,933	2.771 (20	20	2 7 10 220	2.
Land use rights	131,847	1	117,778	<u> </u>	thousand shares as of December 31, 2012 and 2011	2,771,639	29	2,749,329	26
					Advanced collections for common stock	-	-	16,154	-
Total intangible assets	174,607	2	137,507	<u> </u>	Capital surplus				
					Additional paid-in capital in excess of par	226,556	2	203,406	2
OTHER ASSETS					Additional paid-in capital - bond conversion	661,582	7	661,582	6
Refundable deposits	28,133	-	32,438	-	Treasury stock transactions	48,234	1	48,234	1
Others	3,924	-	18,306	-	Long-term equity investments	11,305	-	11,305	-
		·		·	Interest payable from bond conversion	13,243	_	13,243	_
Total other assets	32,057	_	50,744	_	Retained earnings (Note 16)	,		,	
					Legal reserve	1,052,192	11	909,627	9
					Unappropriated earnings	999,381	10	1,828,362	17
					Other equity	<i>)</i> ,501	10	1,020,302	17
					Cumulative translation adjustments (Note 2)	101,935	1	250,296	2
					Unrealized loss on financial instruments	(15,603)	_	(22,304)	_
					Unrealized revaluation increment	10,968	_	10,968	_
					Officialized revaluation increment	10,700		10,700	
					Total stockholders' equity of parent company	5,881,432	61	6,680,202	63
					MINORITY INTEREST	(5,390)		9,643	
					Total stockholders' equity	5,876,042	61	6,689,845	<u>63</u>
TOTAL	\$ 9,563,236	<u>100</u>	\$ 10,634,673	<u>100</u>	TOTAL	<u>\$ 9,563,236</u>	<u>100</u>	<u>\$ 10,634,673</u>	<u>100</u>

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

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	2012		2011	
	Amount	%	Amount	%
GROSS SALES AND REVENUES	\$ 11,882,539	100	\$ 14,385,481	100
COST OF GOODS SOLD	9,580,840	<u>81</u>	10,795,920	<u>75</u>
GROSS PROFIT	2,301,699	<u>19</u>	3,589,561	<u>25</u>
OPERATING EXPENSES				
Sales and marketing	776,550	6	975,988	7
General and administrative	576,018	5	586,700	4
Research and development	477,023	4	572,560	4
Total operating expenses	1,829,591	<u>15</u>	2,135,248	<u>15</u>
INCOME FROM OPERATIONS	472,108	4	1,454,313	<u>10</u>
NONOPERATING INCOME AND GAINS				
Interest income	15,965	_	14,128	_
Investment income recognized under equity method,	- ,		, -	
net (Note 9)	11,156	_	14,934	_
Dividend income	4,927	_	4,776	_
Gain on disposal of investment (Note 7)	-	_	215,231	1
Foreign exchange gain, net	_	_	76,598	1
Gain on reversal of bad debts	15,954	_	70,570	_
Others	96,505	1	256,448	2
Oulers		1	230,440	
Total nonoperating income and gains	144,507	1	582,115	4
NONOPERATING EXPENSES AND LOSSES				
Interest expense	4,532	-	3,968	-
Loss on disposal of property, plant and equipment	18,591	-	25,831	-
Foreign exchange loss, net	92,840	1	-	-
Impairment loss (Note 8)	-	_	54,969	1
Others	19,790		32,121	
Total nonoperating expenses and losses	135,753	1	116,889	1
INCOME BEFORE INCOME TAX	480,862	4	1,919,539	13
PROVISION FOR INCOME TAX (Notes 2 and 18)	(186,117)	<u>(2</u>)	(514,686)	<u>(3</u>)
CONSOLIDATED NET INCOME	<u>\$ 294,745</u>	2	<u>\$ 1,404,853</u>	<u>10</u>
ATTRIBUTED TO				

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(Continued)

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	203	12	20	11
	Amount	%	Amount	%
Parent company's stockholders Minority interest	\$ 309,53 (14,80		\$ 1,425,6 (20,8	
	\$ 294,74	<u>2</u>	<u>\$ 1,404,8</u>	<u></u>
	203	12	20	11
	Before	After	Before	After
	Income	Income	Income	Income
	Tax	Tax	Tax	Tax
BASIC EARNINGS PER SHARE (Notes 2 and 19) Included income for minority interest Attributed to stockholders of the parent company	<u>\$ 1.74</u>	\$ 1.06 \$ 1.12	<u>\$ 6.99</u>	\$ 5.11 \$ 5.19
DILUTED EARNINGS PER SHARE (Notes 2 and 19) Included income for minority interest Attributed to stockholders of the parent company	<u>\$ 1.71</u>	\$ 1.05 \$ 1.10	<u>\$ 6.73</u>	\$ 4.93 \$ 5.00

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

(Concluded)

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

	Issued and			A 1 1945 1	Capital Surplus	T					Other Equity		<u></u>	
	Capit	al Stock Advanced	Additional	Additional Paid-in Capital -		From Long-term	Interest Payable	Retained	d Earnings	Cumulative	Unrealized Gain (Loss) on	Unrealized		
	Capital Stock	Collections for Common Stocks	Paid-in Capital Common Stock	Bond Conversion	Treasury Stock Transactions	Equity Investments	from Bond Conversion	Legal Reserve	Unappropriated Earnings	Translation Adjustments	Financial Instruments	Revaluation Increment	Minority Interest	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	\$ 29,898	\$ 6,222,812
Appropriation of the 2010 net income (Note 16) Legal reserve Cash dividends	- -	- -	- -	-	- -	- -	-	161,204	(161,204) (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	-	-	-	-	-	-	-	-	-	-	(30,444)	-	-	(30,444)
Advanced collections for common stock transferred to capital stock (Note 14)	8,000	(17,520)	9,520	-	-	-	-	-	-	-	-	-	-	-
Employee stock options (Note 15)	15,390	16,154	18,227	-	-	-	-	-	-	-	-	-	-	49,771
Changes in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	545	545
Net income for 2011	<u>-</u>			-			<u>-</u>	-	1,425,653		<u>-</u>		(20,800)	1,404,853
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	9,643	6,689,845
Appropriation of the 2011 net income (Note 16) Legal reserve Cash dividends	- -	<u>-</u> -	- -	- -	- -	<u>-</u>	- -	142,565	(142,565) (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	-	-	-	-	-	-	-	-	-	-	6,458	-	-	6,458
Advanced collections for common stock transferred to capital stock (Note 14)	7,880	(16,154)	8,274	-	-	-	-	-	-	-	-	-	-	-
Employee stock options (Note 15)	14,430	-	14,876	-	-	-	-	-	-	-	-	-	-	29,306
Changes in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(225)	(225)
Net income for 2012	<u>=</u>	_	_	_	_		-	_	309,553	_	<u>-</u>	-	(14,808)	294,745
BALANCE, DECEMBER 31, 2012	\$ 2,771,639	<u>\$</u>	<u>\$ 226,556</u>	<u>\$ 661,582</u>	<u>\$ 48,234</u>	<u>\$ 11,305</u>	<u>\$ 13,243</u>	<u>\$ 1,052,192</u>	\$ 999,381	<u>\$ 101,935</u>	<u>\$ (15,603)</u>	\$ 10,968	<u>\$ (5,390)</u>	\$ 5,876,042

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

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

		2012		2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Consolidated net income	\$	294,745	\$	1,404,853
Adjustments to reconcile consolidated net income to net cash provided		,	·	, ,
by operating activities				
Depreciation and amortization		466,221		410,731
(Reversal of provision) provision for loss on doubtful accounts		(15,954)		4,923
Investment income recognized under the equity method		(11,156)		(14,934)
Cash dividend received from equity-method investees		16,262		23,254
Impairment loss		-		54,969
Net gain on disposal of investments		-		(215,231)
Net loss on disposal of property, plant and equipment		18,591		25,831
Net changes in operating assets and liabilities				
Accounts receivable		44,580		(129,363)
Other financial assets - current		29,329		129,505
Inventories		399,776		409,148
Deferred income tax asset - current		17,980		60,290
Other current assets		63,771		(66,986)
Other assets		14,382		(17,603)
Notes payable		-		(23)
Accounts payable		59,605		(363,136)
Accounts payable to related parties		12,381		11,890
Income tax payable		(111,615)		(168, 264)
Other payables		(211,304)		(134,858)
Other current liabilities		(21,247)		24,533
Reserve for retirement plan		622		1,763
Deferred income tax liability		(110)		(280)
Other liabilities	_	1,274	_	15,000
Net cash provided by operating activities	_	1,068,133		1,466,012
CASH FLOWS FROM INVESTING ACTIVITIES				
Increase in available-for-sale financial assets		-		(37,939)
Proceeds of the disposal of available-for-sale financial assets		-		522,258
Acquisition of investments accounted for by the equity-method		-		(150,000)
Decrease in and return of capital from investees		22,483		41,128
Acquisition of property, plant and equipment		(621,004)		(630,310)
Acquisition of land use rights		(21,523)		-
Proceeds of the disposal of property, plant and equipment		3,956		12,415
Decrease (increase) in refundable deposits		4,305		(3,582)
Increase in deferred charges		-		(27,766)
Increase in intangible asset - computer software	_	(35,073)		(11,400)
Net cash used in investing activities	_	(646,856)	_	(285,196)
CASH FLOWS FROM FINANCING ACTIVITIES				(C (1)

(Continued)

CONSOLIDATED 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)
Decrease in advanced deposits received	(143)	(319)
Changes in minority interest	(225)	545
Net cash used in financing activities	(967,031)	(1,007,782)
EFFECT OF EXCHANGE RATE CHANGES	(30,344)	56,108
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(576,098)	229,142
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,119,386	1,890,244
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,543,288</u>	\$ 2,119,386
SUPPLEMENTAL CASH FLOW INFORMATION Cash paid during the year Interest Income tax	\$ 3,947 \$ 279,825	\$ 3,032 \$ 622,956
NONCASH INVESTING AND FINANCING ACTIVITIES Translation adjustments on long-term equity investments Recognized unrealized (gain) loss on investees' financial instruments Change in unrealized (gain) loss on available-for-sale financial instruments Adjustment brought by changes in percentage of ownership in investees	\$ (148,361) \$ (243) \$ (6,458) \$ -	\$ 277,326 \$ 177,412 \$ 30,444 \$ 173
ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT Increase in property, plant and equipment acquired Add payables for acquisition of property, plant and equipment, beginning of year Less payables for acquisition of property, plant and equipment, end of	\$ 633,907 256	\$ 629,214 1,352
year Cash paid for the acquisition of property, plant and equipment	(13,159) \$ 621,004	(256) \$ 630,310

(Concluded)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2012 AND 2011

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

1. ORGANIZATION AND OPERATIONS

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

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

In addition to Phihong, the consolidated financial statements included the following companies:

Name	Place of Incorporation	Phihong and its Subsidiaries' Ownership Percentage
Phihong International Corp.	British Virgin Islands	100.00
Phitek International Co., Ltd.	British Virgin Islands	100.00
Ascent Alliance Ltd.	British Virgin Islands	100.00
Phihong USA Corp.	USA	100.00
American Ballast Corp.	USA	100.00
Guang-Lai Investment Co., Ltd.	Republic of China	100.00
Phihong Technology Japan Co., Ltd.	Japan	100.00

Phihong International Corp. (PHI), a 100% subsidiary of Phihong incorporated in the British Virgin Islands in 1996, sells power supplies as well as invests in its subsidiaries in China to manufacture various power supplies.

PHI's subsidiaries were as follows:

Name	Place of Incorporation	Direct Ownership Percentage	Primary Operations
Phihong (Dongguan) Electronics Co., Ltd.	Mainland China	100.00	Manufactures various power supplies
Phitek (Tianjin) Electronics Co., Ltd.	Mainland China	100.00	Manufactures various power supplies
Phihong Electronics (Suzhou) Co., Ltd.	Mainland China	100.00	Manufactures various power supplies and ballasts
Value Dynamic Investment Ltd.	British Virgin Islands	100.00	Makes investments
N-Lighten Technologies, Inc.	USA	58.45	Makes investments

Phihong acquired 78.23% ownership of N-Lighten Technologies, Inc. through the PHI and Guang-Lai investment Co., Ltd. as of December 31, 2012.

Value Dynamic's subsidiary was as follows:

		Direct	
	Place of	Ownership	
Name	Incorporation	Percentage	Primary Operations
Yanghong Lighting Trade Co., Ltd.	Mainland China	100.00	Sells various lighting supplies

Phitek International Co., Ltd. (PHK), a 100% subsidiary of Phihong incorporated in the British Virgin Islands in 1999, is an agent for selling power supplies as well as an investor in its subsidiary in China which manufactures various power supplies.

PHK's subsidiary was as follows:

Name	Place of Incorporation	Direct Ownership Percentage	Primary Operations
Dongguan Phitek Electronics Co., Ltd.	Mainland China	100.00	Manufactures various power supplies
Suzhou Xin Phihong Electronics Co., Ltd.	Mainland China	10.12	Manufactures and sells lighting supplies

Suzhou Xin Phihong Electronics Co., Ltd., a subsidiary of PHK and Phihong Electronics (Suzhou) Co., Ltd. in China, manufactures and sells lighting supplies. PHK and Phihong Electronics (Suzhou) Co., Ltd. acquired 10.12% and 89.88% ownership of Suzhou Xin Phihong Electronics Co., Ltd., respectively.

Ascent Alliance Ltd. (PHQ), a 100% subsidiary of Phihong incorporated in the British Virgin Islands in 2004, is an agent for selling electronic materials as well as an investor in its subsidiary in China which manufactures various electronic materials.

PHQ's subsidiaries were as follows:

Name	Place of Incorporation	Direct Ownership Percentage	Primary Operations
Dongguan Shuang-Ying Electronics Co., Ltd.	Mainland China	100.00	Manufactures and sells electronic materials
Jin-Sheng-Hong (Jiangxi) Electronics Co., Ltd.	Mainland China	100.00	Manufactures and sells the electronic materials and transformers

Phihong USA Corp. (PHA), a 100% subsidiary of Phihong incorporated in the USA in 1997, sells various power supplies.

American Ballast Corp. (PHAB), a 100% subsidiary of Phihong incorporated in the USA in 2004, sells various ballasts.

Guang-Lai Investment Co., Ltd. ("Guang-Lai"), was incorporated in Taiwan in October 2011, primarily engages in investments.

N-Lighten Technologies' Inc., a subsidiary of PHI and Guang-Lai incorporated in the USA, invests in its subsidiary in China.

N-Lighten Technologies' subsidiary was as follows:

Name	Place of Incorporation	Direct Ownership Percentage	Primary Operations
N-Lighten (Shanghai) Trading Inc.	Mainland China	100.00	Develops, manufactures and sells various equipment and monitors

Phihong Technology Japan Co., Ltd. (PHJ) was incorporated in Japan in April 2010. It primarily sells of power components.

Phihong and its subsidiaries (collectively, the "Company") had 9,416 and 8,394 employees as of December 31, 2012 and 2011, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC.

For readers' convenience, the accompanying consolidated 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 the 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 (SFB, formerly the "Securities and Futures Commission" before July 1, 2004) for their oversight purposes.

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

Consolidation

The accompanying consolidated financial statements include the accounts of Phihong and its subsidiaries (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated.

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 those 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 stockholders' equity if the changes in fair value are recognized in stockholders' 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 the 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 paper, with carrying values that 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

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 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 Accounted for by the 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.

When the Company's share in losses of an investee over which the Company has significant influence equals its investment in that investee plus any advances made to the investee, the Company discontinues applying the equity method. The Company continues to recognize its share in losses of the investee if (a) the Company commits to provide further financial support to the investee or (b) the losses of the investee are considered to be temporary and sufficient evidence shows imminent return to profitability.

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.

Land Use Rights

Royalties paid in Mainland China for land use rights are amortized on a straight-line basis over 50 years.

Computer Software

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

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

The Company has two types of pension plans: defined benefit and defined contribution.

Under the defined benefit plan, the net pension cost is recognized according to actuarial calculations. Under the defined contribution plan, the amounts contributed are recognized as current expense throughout the employees' service periods.

PHA, a 100% subsidiary of Phihong, subscribed pension plans. It participates in the qualification as the formal staff on the job and allots the pension fund according to 3% of total wages every month.

The subsidiaries located in the People's Republic of China have defined contribution pension plans based on their local regulations. The amounts contributed are recognized as current expense every month.

Income Tax

The Company adopted Statement of Financial Accounting Standards No. 22 - "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.

Tax credits of Phihong for research and development expenditures are recognized using the flow-through method.

Income tax on Phihong's and Guang-Lai's 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.

Under the related income tax laws in the USA, PHA's, PHAB's and N-Lighten Technologies' state income taxes are computed at 8.84% of taxable income. Federal income taxes are computed at 15% to 38% of taxable income.

Under the laws and regulations of the British Virgin Islands (BVI), PHI, PHK, PHQ and Value Dynamic Investment Ltd. are exempt from BVI income tax.

Under the Income Tax Law of the People's Republic of China for foreign enterprises and enterprises with foreign investments, Phihong (Dongguan) Electronics Co., Ltd., Phitek (Tianjin) Electronics Co., Ltd., Phihong Electronics (Suzhou) Co., Ltd., Dongguan Phitek Electronics Ltd., Dongguan Shuang-Ying Electronics Co., Ltd., Jin-Sheng-Hong (Jiangxi) Electronics Co., Ltd., Yanghong Lighting Trade Co., Ltd., N-Lighten (Shanghai) Trading, Inc. and Suzhou Xin Phihong Electronic Co., Ltd.

Under the related income tax laws in Japan, PHJ's income tax is computed at 18% of taxable income if the taxable income is lower than (or equal to) JPY8,000 thousand and the taxable income in excess of JPY8,000 is taxed at 30% of taxable income.

Stock-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for under Statement of Financial Accounting Standards (SFAS) No. 39 - "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 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. The 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 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 the loans and receivables originated by the Company being required to be accounted for 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 the 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. The adoption of this statement, which supersedes SFAS No. 20 - "Segment Reporting," resulted in a change in the manner of disclosure of segment reporting information.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2012 and 2011 were as follows:

	2012	2011
Cash on hand	\$ 1,72	27 \$ 2,073
Checking accounts	1,24	-1 6,470
Savings accounts	213,30	79,022
Foreign-currency accounts	1,206,04	7 1,528,524
Time deposits	57,00	00 164,060
Short-term notes	63,96	339,237
	<u>\$ 1,543,28</u>	<u>\$ 2,119,386</u>

5. ACCOUNTS RECEIVABLE

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

	2012	2011
Accounts receivable Less allowance for doubtful accounts	\$ 1,937,679 (30,197)	\$ 1,987,812 (51,704)
	<u>\$ 1,907,482</u>	<u>\$ 1,936,108</u>

As of December 31, 2012 and 2011, accounts receivable of PHA amounted to \$435,683 thousand and \$522,793 thousand, respectively, had been pledged to secure short-term debts (the amount was not used as of December 31, 2012 and 2011, respectively). See Note 22 to the consolidated financial statements.

6. INVENTORIES

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

	2012	2011
Raw materials Work-in-process	\$ 527,235 148,214	\$ 617,296 181,425
Finished goods Merchandise	351,712 653,063	427,637 853,642
	<u>\$ 1,680,224</u>	<u>\$ 2,080,000</u>

As of December 31, 2012 and 2011, allowances for inventory devaluation were \$291,012 thousand and \$266,370 thousand, respectively.

The costs of inventories recognized as costs of goods sold for the years ended December 31, 2012 and 2011 were \$9,580,840 thousand and \$10,795,920 thousand, respectively, which included inventory devaluation amounting to \$33,056 thousand and \$150,879 thousand, respectively.

As of December 31, 2011, inventories of PHA amounting to \$448,725 thousand, had been pledged to secure short-term debts (the amount was not used as of December 31, 2011). See Note 22 to the consolidated financial statements.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NONCURRENT

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

	2012	2011
Marketable equity securities		
Hua Jung Component Co., Ltd.	<u>\$ 30,620</u>	<u>\$ 33,357</u>

Hua Jung Component Co., Ltd. decreased its paid-in capital by cash at the ratio of 18% in September 2012. Phihong has received amount \$9,195 thousand. For the years ended December 31, 2012 and 2011, The Company thus recognized an unrealized gain of \$6,458 thousand for 2012 and an unrealized loss of \$30,444 thousand for 2011. These amounts were recorded as "stockholders' equity-unrealized gain (loss) on financial instruments" as of December 31, 2012 and 2011.

PHI sold all of its own shares of JK Yaming International Holdings Ltd. in May 2011. As a result, the gain on such disposal of investment in the amount of \$189,319 thousand was recorded as gain on disposal of investment for the year ended December 31, 2011.

8. 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
Asiatech Taiwan Venture Fund	12,748	15,057
NeoPac Lighting Limited	32,224	32,224
Yong-Li Investment Ltd.	50,000	50,000
TC-1 Culture Fund	30,000	30,000
Hui-Cheng Electronic Co., Ltd.	15,248	15,248
Less accumulated impairment	(112,775)	(112,775)
	<u>\$ 90,945</u>	<u>\$ 93,254</u>

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

Bao-Dian Venture Capital Co., Ltd., Yong-Li Investment Ltd., TC-1 Culture Fund, and NeoPac Lighting Limited have experienced continuous operating loss; thus, the Company recognized \$54,969 thousand impairment loss for the year ended December 31, 2011.

Bao-Dian Venture Capital Co., Ltd. decreased its paid-in capital to write-off its accumulated deficits for year ended December 31, 2012, at the 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% for the year ended December 31, 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.

9. LONG-TERM EQUITY INVESTMENTS

Long-term equity investments accounted for by the equity method as of December 31, 2012 and 2011 were as follows:

	2012			2011	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
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 PWM Brasil Ltda.	8,258	-	60.00	-	60.00
First International Computer Do					
Brasil Ltda.	67,618	-	33.85	-	33.85
Han-Yu Venture Capital C., Ltd.	100,000	99,243	22.22	109,986	22.22
Spring City Resort Co., Ltd. (formerly named Ai-Hon					
Investment Co., Ltd.)	190,000	32,704	25.33	30,707	25.33
	<u>\$ 575,727</u>	\$ 339,761		\$ 355,603	

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

	2012	2011
Hao-Xuan Venture Capital Co., Ltd.	\$ 108	\$ 3,099
H&P Venture Capital Investment	5,829	(1,898)
Han-Yu Venture Capital Co., Ltd.	3,222	14,920
Spring City Resort Co., Ltd.	1,997	(1,187)
	\$ 11,156	\$ 14,934

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.

Han-Yu Venture Capital Co., Ltd. ("Han-Yu") was incorporated in June 2004 to engage in investments. Its paid-in capital was \$450,000 thousand as of December 31, 2012.

Ai-Hon, which was invested by Phihong, was primarily engaged in investment business. Spring City Resort, which was a wholly-owned subsidiary of Ai-Hon, was founded in 1975 and is primarily engaged in hotel, restaurant and bathroom services. Spring City Resort merged with Ai-Hon on December 31, 2011; Spring City Resort is the surviving company. Its paid-in capital was \$112,000 thousand as of December 31, 2012.

Phihong'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 a 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.

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.

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2012 and 2011 were as follows:

		2012		
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 254,350	\$ -	\$ 254,350	\$ 256,353
Buildings and improvements	2,446,205	837,046	1,609,159	1,765,101
Machinery and equipment	2,365,881	1,186,716	1,179,165	1,158,881
Transportation equipment	35,981	29,195	6,786	13,430
Furniture, fixtures and office				
equipment	279,616	229,525	50,091	68,979
Other equipment	288,808	179,012	109,796	116,272
Prepayments for purchase of				
equipment	307,662		307,662	93,314
	\$ 5,978,503	<u>\$ 2,461,494</u>	\$ 3,517,009	\$ 3,472,330

In March 2011, Phihong bought a parcel of land for \$85,136 thousand in Yongkang District in Tainan City for factory construction.

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

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

11. OTHER PAYABLES

	2012	2011
Accrued expenses	\$ 646,680	\$ 716,615
Bonus payable	55,720	256,618
Salaries payable	284,044	165,914
Others	39,900	85,598
	<u>\$ 1,026,344</u>	\$ 1,224,745

12. 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 payable monthly. The principal of \$200,000 will be repaid on September 27, 2014. Medium-term secured loan. The loan term was from December 29, 2011 to December 29, 2013. Interest rate was 1.37% on	\$ 200,000	\$ -
December 31, 2012. Interest is payable monthly, with principal repayable on December 29, 2013. The principle was fully repaid in September 2012.		200,000
	\$ 200,000	\$ 200,000

For pledged properties and endorsements/guarantees as collaterals for bank loans, please see Notes 10, 21 and 22 to the financial statements.

13. 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 at 6% of the employees' monthly wages. Thus, the Company recognized pension costs of \$15,681 thousand for 2012 and \$13,926 thousand for 2011.

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	<u>\$ 4,427</u>

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	<u>(41,470</u>)	(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 gain not yet recognized	(1,940)	4,713
Accrued pension cost	<u>\$ (65,270)</u>	<u>\$ (64,648)</u>
	2012	2011
Weighted-average discount rate	1.875%	2.00%
Assumed rate of increase in salary	3.250%	3.25%
Expected rate of return on plan assets	1.875%	2.00%

14. CAPITAL 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)	<u>\$ 10</u>	\$ 10	
Capital	<u>\$ 2,771,639</u>	\$ 2,749,329	

Phihong'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, Phihong's outstanding capital amounted to \$2,749,329 thousand, divided into 274,933 thousand common shares with a par value of NT\$10.

As of January 1, 2012, Phihong'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, Phihong's outstanding capital amounted to \$2,771,639 thousand, divided into 277,164 thousand common shares with a par value of NT\$10.

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

15. EMPLOYEE STOCK OPTION PLANS

At the November 23, 2007 meeting, the Board of Directors of Phihong 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 Phihong'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, Phihong issued stock warrants of 15,000 units at an 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 (decrease) 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 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 Options exercised	6,867 (1,323)	\$20.50 20.50	9,194 (1,477)	\$21.90 21.90
Invalid	(120) (909)	18.20	(850) (1	Note) 20.50
Balance, end of year	4,515	18.20	<u>6,867</u>	20.50
Options exercisable, end of year	<u>4,515</u>		6,867	

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

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

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

Had the Company recognized the compensation cost under 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 Expected life Expected volatility	2.41% 6 years 48.59%
Expected dividend yield	-
Net income	
As reported (attributed to stockholders of the parent company)	\$ 1,425,653
Pro forma (attributed to stockholders of the parent company) Basic earnings per share after income tax (NT\$)	\$ 1,416,586
As reported (attributed to stockholders of the parent company)	\$5.19
Pro forma (attributed to stockholders of the parent company)	\$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.

16. RETAINED EARNINGS

Under the Company Law of the ROC and Phihong's Articles of Incorporation, 10% of Phihong's annual earnings, net of tax and any deficit, should first be appropriated as legal reserve until such reserve equals to the amount of the Phihong'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 Phihong or resolved otherwise by the stockholders, and plan to assign proposal, draw stockholders 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 ended December 31, 2012 and 2011, the bonuses to employees were estimated at \$50,148 thousand and \$236,998 thousand, respectively, and the remunerations to directors and supervisors were estimated at \$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 stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting.

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

	Appropriatio	Appropriation of Earnings		Per Share T\$)
	For	For	For	For
	Year 2011	Year 2010	Year 2011	Year 2010
Legal reserve	\$ 142,565	\$ 161,204	\$ -	\$ -
Cash dividends	<u>995,969</u>		3.59	3.85
	<u>\$ 1,138,534</u>	\$ 1,218,983		

The stockholders' meeting approved the following appropriations of the 2011 and 2010 earnings: \$236,988 thousand and \$267,167 thousand, respectively, as employees' bonuses and \$19,620 thousand and \$23,000 thousand, respectively, as remunerations 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 from the 2012 earnings were proposed by the board of directors on March 22, 2013. The appropriations and dividends per share were as follows:

	For Yes	For Year 2012		
	Appropriation of Earnings	Dividends Per Share (NT\$)		
Legal reserve	\$ 30,955	-		
Cash dividends	277,164	\$1.00		

The appropriation of 2012 earnings, bonus to employees and the remuneration to directors and supervisors will be presented to the stockholders for their approval in their meeting on June 14, 2013.

17. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

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

	2012			2011					
	Operating Costs		perating Expenses	Total	Operating Costs		perating xpenses	Т	otal
Personnel expenses									
Salaries	\$ 1,104,735	\$	786,431	\$ 1,891,166	\$ 1,072,723	\$	847,169	\$ 1,9	19,892
Labor insurance and health									
insurance	6,133		34,193	40,326	1,852		22,588		24,440
Pension cost	2,484		22,754	25,238	2,384		21,638		24,022
Others	77,952		69,451	147,403	83,045		68,031	1	51,076
Depreciation expenses	278,805		172,893	451,698	190,740		118,669	3	309,409
Amortization expenses	2,980		11,543	14,523	21,980		79,342	1	01,322

18. INCOME TAX

The income tax expenses for 2012 and 2011 were as follows:

	2012	2011
Income tax expense - current period Additional tax at 10% of unappropriated earnings Adjustments to prior year's income tax expense	\$ 158,328 28,712 (923)	\$ 442,575 39,306 32,805
Income tax expense, net	<u>\$ 186,117</u>	<u>\$ 514,686</u>

The components of deferred tax asset (liability) 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 gross profit	11,100	27,020
Unrealized export trading losses	8,340	8,340
Unrealized pension expense	10,280	10,170
Long-term equity investment income	(79,832)	(79,832)
Deferred tax liability, net	(31,672)	(13,802)
Deferred tax assets - current	_(37,880)	(55,860)
Deferred tax liabilities - noncurrent	<u>\$ (69,552</u>)	<u>\$ (69,662</u>)

Current income tax expense 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%	\$ 138,325	\$ 432,389
Loss on long-term equity investments accounted for by the		
equity-method	20,777	9,540
Impairment loss on financial assets carried at cost	-	5,430
Gain on disposal of investments	-	(4,050)
Others	(774)	(734)
Current income tax expense	158,328	442,575
Reversal of provision for deferred income tax assets (liabilities)		
Unrealized exchange gains	(2,160)	(12,880)
Unrealized export trading losses	-	2,550
Unrealized bad-debt expense	100	(1,270)
Unrealized gross profit	(15,920)	(48,675)
Others	110	280
	140,458	382,580
Add prior years' income tax payable	6,088	108,745
Add 10% income tax on unappropriated earnings	28,712	39,306
Deduct current year's withholding income tax	(82,241)	(325,999)
Income tax payable as of December 31, 2012 and 2011	\$ 93,017	<u>\$ 204,632</u>

The income tax returns examined and cleared by the tax authorities are summarized as follows:

	Year
Phihong	2010
Guang-Lai	2010

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

Balance of imputation credit account	\$ 222,734
Undistributed earnings generated until 1997	\$ <u> </u>
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.

19. 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	Earı	nings Per Sha	ure (NT\$)
	Before Income Tax	After Income Tax	After Income Tax (Attributed to Parent's Stockholders)	Common Shares (Outstanding in Thousands)	Before Income Tax	After Income Tax	After Income Tax (Attributed to Parent's Stockholders)
Basic earnings per share Net income Effect of dilutive potential common shares Employee stock options Employee bonuses	<u>\$ 480,862</u>	\$ 294,745	\$ 309,553	276,929 1,856 2,026	<u>\$ 1.74</u>	<u>\$ 1.06</u>	<u>\$ 1.12</u>
Diluted earnings per share Net income attributed to holders of common shares plus the effect of dilutive potential common shares	<u>\$ 480,862</u>	<u>\$ 294,745</u>	<u>\$ 309,553</u>	<u>280,811</u>	<u>\$1.71</u>	<u>\$1.05</u>	<u>\$ 1.10</u>
				2011 Weighted			
				Average Number of	For	nings Per Sha	ura (NT\$)
			After Income		Lan	inigs i ei siia	After Income
	Before Income Tax	After Income Tax	Tax (Attributed to Parent's Stockholders)	Common Shares (Outstanding in Thousands)	Before Income Tax	After Income Tax	Tax (Attributed to Parent's Stockholders)
Basic earnings per share Net income Effect of dilutive potential common shares Employee stock options Employee bonuses	<u>\$ 1,919,539</u>	<u>\$ 1,404,853</u>	<u>\$ 1,425,653</u>	274,773 3,925 6,430	<u>\$ 6.99</u>	\$ 5.11	<u>\$ 5.19</u>
Diluted earnings per share Net income attributed to holders of common shares plus the effect of dilutive potential common shares	<u>\$ 1,919,539</u>	<u>\$ 1,404,853</u>	<u>\$ 1,425,653</u>	<u>285,128</u>	<u>\$ 6.73</u>	<u>\$ 4.93</u>	<u>\$ 5.00</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 stockholders' meeting in the following year.

20. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

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

	20	12	2011			
Nonderivative	Carrying	Fair	Carrying	Fair		
Financial Instruments	Value	Value	Value	Value		
Assets						
Cash and cash equivalents	\$ 1,543,288	\$ 1,543,288	\$ 2,119,386	\$ 2,119,386		
Accounts receivable	1,907,482	1,907,482	1,936,108	1,936,108		
Other financial assets - current	54,641	54,641	81,406	81,406		
Available-for-sale financial						
assets - noncurrent	30,620	30,620	33,357	33,357		
Financial assets carried at cost -						
noncurrent	90,945	-	93,254	-		
Long-term equity investments						
accounted for by the equity						
method	339,761	339,761	355,603	355,603		
Refundable deposits	28,133	28,133	32,438	32,438		
Liabilities						
Accounts payable	2,088,302	2,088,302	2,028,697	2,028,697		
Accounts payable to related						
parties	48,320	48,320	35,939	35,939		
Other payables	1,026,344	1,026,344	1,224,745	1,224,745		
Long-term debts	200,000	200,000	200,000	200,000		
Advance deposits received	985	985	1,128	1,128		

Reporting of Derivative Instruments in the Financial Statements

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, other financial assets - current, refundable deposits, accounts payable, accounts payable to related parties, other payable, advanced deposits received, etc. are based on their carrying values because of their short maturities.
- b. Fair values of financial instruments measured at fair value through profit or loss and available-for-sale financial assets are determined using the market value in the open market or estimated by evaluation method according to the open information in the market.
- c. Fair values of long-term equity investments are estimated based on the audited net value of investees as of 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 future 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:

		alue in the Market	Bv Va	aluation M	Iethod	
	2012	2011	2012		2011	
Available-for-sale financial assets, noncurrent	\$ 30,620	\$ 33,357	\$	- \$	S -	

For the year ended December 31, 2011, the net foreign exchange gain on forward contracts 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 value of the stock are fluctuated due to changes in market value. One percent 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 counterparties or third parties breached the contracts. The risk factors include centralization of credit, components, contract term, and accounts receivable. 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's long-term borrowings 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.

21. RELATED-PARTY TRANSACTIONS

The Company's related parties were as follows:

Related Party	Relationship with the Company				
Xu Sheng Technology Co., Ltd. ("Xu Sheng") Shine Tech Ltd. ("Shine Tech")	The chairman of Xu Sheng is a director of Phihong The chairman of Shine Tech is the spouse of				
Peter Lin	Phihong's director Phihong's chairman				

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

Cost of Sales - Purchases

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

	201	12	201		
	Amount	Percentage to Total Purchases	Amount	Percentage to Total Purchases	
Shine Tech Ltd.	<u>\$ 133,851</u>	<u> </u>	<u>\$ 120,104</u>	<u> </u>	

There is no significant difference between related parties and unrelated parties for purchase price.

Accounts Payable

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

	2012	2012		
	Amount	%	Amount	%
Shine Tech Ltd.	\$ 48,314	2	\$ 35,926	2
Xu Sheng	6		13	
	<u>\$ 48,320</u>	2	\$ 35,939	2

Credit Guarantees

See Note 23 to the consolidated financial statements.

The related party who had guaranteed the payments of Phihong's loans as of December 31, 2012 and 2011 was 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	\$ 37,254	\$ 21,850
Incentives	16,500	22,624
Bonus	9,707	53,918
Others	<u>4,356</u>	3,981
	\$ 67,817	\$ 102,373

22. PLEDGED PROPERTIES

As of December 31, 2012 and 2011, Phihong offered property, plant and equipment amounting to \$272,029 thousand and \$282,518 thousand, respectively, as collateral for long-term loan.

As of December 31, 2012 and 2011, the following assets of Phihong USA Corp. had been pledged to secure its bank loans:

	2012	2011
Accounts receivable Inventory	\$ 435,683 	\$ 522,793 448,725
	<u>\$ 435,683</u>	\$ 971,518

23. COMMITMENTS AND CONTINGENCIES

Loan Guarantees

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

24. OTHERS

As of December 31, 2012 and 2011, significant foreign-currency financial assets and liabilities were as follows:

			2012				2011			
	Cur	Foreign rencies (In lousands)	Exchange Rate (Note)	Ι	ew Taiwan Dollars (In Thousands)	Cur	Foreign rencies (In ousands)	Exchange Rate (Note)	New Taiwan Dollars (In Thousands)	
Financial assets										
Monetary items										
USD	\$	115,370	29.0400	\$	3,350,345	\$	107,850	30.2800	\$ 3,265,698	
JPY		296,607	0.3354		99,482		286,008	0.3888	111,200	
HKD		3,554	3.7462		13,314		13,266	3.8940	51,658	
RMB		81,781	4.6172		377,599		77,482	4.7944	371,480	
Financial liabilities										
Monetary items										
USD		90,092	29.0400		2,616,272		80,089	30.2800	2,425,095	
JPY		7,656	0.3354		2,568		16,754	0.3888	6,514	
HKD		3,123	3.7462		11,699		19,548	3.8940	76,120	
RMB		128,917	4.6172		595,236		74,877	4.7944	358,990	

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

25. OPERATING SEGMENTS

a. The Company's power supply segment is the only reportable segment. The power supply segment mainly manufactures and sells AC/DC power adapters, charger bases, and power supply modules for computers. The Company's other operating segments did not exceed the quantitative threshold so they are not disclosed as reportable segments. These segments mainly manufacture and sell lighting supply and develop, manufacture and sell monitors.

The Company took the operating profits as the measurement. There was no material inconsistency between the accounting policies of the operating segment and the accounting policies described in Note 2.

b. The Company's operating segment information is as follows:

1) Segment income

	Segment	nt Profit				
	Years Ended December 31 Years Ended December					
	2012	2011	2012	2011		
Power supply	\$ 11,132,190	\$ 13,638,743	\$ 634,064	\$ 1,577,329		
Others	750,349	746,738	(161,956)	(123,016)		
Operating income	\$ 11,882,539	\$ 14,385,481	472,108	1,454,313		
Interest income			15,965	14,128		
Investment income recognized under the equity method			11,156	14,934		
Dividend income			4,927	4,776		
Gain on disposal of investment			-	215,231		
Gain on reversal of bad debts			15,954	-		
Loss on disposal of property, plant and equipment			(18,591)	(25,831)		
Foreign exchange (losses) gains, net			(92,840)	76,598		
Interest expense			(4,532)	(3,968)		
Impairment loss			-	(54,969)		
Income - others			96,505	256,448		
Expenses - others			(19,790)	(32,121)		
Income before income tax			\$ 480,862	\$ 1,919,539		

2) Segment assets and liabilities

	2012	2011
Power supply assets Others	\$ 1,830,517 7,732,719	\$ 1,833,709 8,800,964
	<u>\$ 9,563,236</u>	\$ 10,634,673
	2012	2011
Power supply assets Others	2012 \$ 2,050,412	2011 \$ 1,955,440

c. Geographic information

	20		2011				
	 ncurrent Assets]	Net Sales	N	oncurrent Assets]	Net Sales
China	\$ 3,018,601	\$	4,164,295	\$	2,941,333	\$	2,211,904
United States	137,010		2,110,335		162,811		3,729,165
Japan	4,158		614,383		6,011		572,112
Taiwan	535,771		1,626,253		517,988		1,169,244
Hungary	-		1,009,545		-		2,815,376
India	-		887,032		-		495,687
Canada	-		100,525		-		1,057,448
Romania	-		245,630		-		890,042
Others	 		1,124,541		<u> </u>		1,444,503
	\$ <u>3,695,540</u>	\$	11,882,539	\$	3,628,143	\$	14,385,481

d. Major customers

Customers accounting for at least 10% of net sales for the years ended December 31, 2012 and 2011 were as follows:

	20	12		201	1
	Sales	Percentage %		Sales	Percentage %
Customers A	\$ 2,666,297	22	\$	1,821,535	13
Customers B	633,593	5		1,490,595	10
Customers C	395,213	3	_	1,581,863	<u>11</u>
	\$ 3,695,103	_30	<u>\$</u>	4,893,993	<u>34</u>

26. PLAN FOR THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

According to Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Company's pre-disclosure information regarding the adoption of International Financial Reporting Standards (IFRSs) is as follows.

a. On May 14, 2009, the FSC announced the roadmap of IFRSs adoption for ROC companies. Starting from 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare consolidated financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, IFRSs, International Accounting Standards (IASs), interpretations and related guidance translated by Accounting Research and Development Foundation (ARDF) and issued by the FSC. The Company formed a task force to monitor and execute the IFRSs adoption plan. The important plan items, responsible divisions and plan progress are listed as follows.

Plan Item	Responsible Division	Plan Progress
1) Complete the identification of GAAP differences and impact	Accounting division and finance division	Completed
1		(Continued)

Plan Item	Responsible Division	Plan Progress
2) Complete the identification of consolidated entities under IFRSs	Accounting division and finance division	Completed
3) Assessment and selection of IFRSs 1 "First-time Adoption of International Financial Reporting Standards" optional exemptions	Accounting division and finance division	Completed
4) Complete evaluation and configuration of the IT systems	IT division	Completed
5) Complete the evaluation of resources and budget needed for IFRSs adoption	Internal audit division	Completed
6) Determine IFRSs accounting policies	Accounting division and finance division	Completed
7) Selection of IFRSs 1 "First-time Adoption of International Financial Reporting Standards" optional exemptions	Accounting division and finance division	Completed
8) Complete the preparation of opening date balance sheet under IFRSs	Accounting division and finance division	Completed
9) Prepare comparative financial information under IFRSs for 2012	Accounting division and finance division	In progress according to the plan
10) Complete modifications to the	Internal audit division	Completed
relevant internal controls		(Concluded)

- b. As of December 31, 2012, the significant differences between the Company's current accounting policies under ROC GAAP and the accounting policies to be adopted under IFRSs are as follows:
 - 1) Reconciliation of consolidated balance sheet as of January 1, 2012

			ct of Trans	ition to II	FRSs			
R.O.C. GAAP		Recognition and Measurement		Presentation				
Item	Amount	Diffe	rent	Diffe	rence	Amount	Item	Note
Current assets							Current assets	
Cash and cash equivalents	\$ 2,119,386	\$	-	\$	-	\$ 2,119,386	Cash and cash equivalents	
Accounts receivable	1,936,108		-		-	1,936,108	Accounts receivable	
Other financial assets, current	81,406		-		-	81,406	Other financial assets, current	
Inventories	2,080,000		-		-	2,080,000	Inventories	
Deferred income tax assets, current	55,860		-	(:	55,860)	-	=	6) a)
Other current assets	219,118					219,118	Other current assets	
Total current assets	6,491,878			(55,860)	6,436,018	Total current assets	
Fund and investments							Noncurrent assets	
Available-for-sale financial assets, noncurrent	33,357		-		-	33,357	Available-for-sale financial assets, noncurrent	
Financial assets carried at cost, noncurrent	93,254		-		-	93,254	Financial assets carried at cost, noncurrent	
Long-term equity investments accounted for by the equity method	355,603					355,603	Long-term equity investments accounted for by the equity method	
Total fund and investments	482,214					-		
							(C	

(Continued)

		Effect of Trans	sition to IFRSs			
R.O.C. GAAP		Recognition and Measurement	Presentation		IFRSs	
Item	Amount	Different	Difference	Amount	Item	Note
Property, plant and equipment Intangible assets	\$ 3,472,330	<u>\$</u>	<u>\$</u>	\$ 3,472,330	Property, plant and equipment	
Computer software cost	19,729	=	=	19,729	Computer software cost	
Land use rights	117,778	-	(117,778)	-	-	6) e)
Total intangible assets Other assets	137,507		(117,778)	-		
Deferred income tax assets, noncurrent	-	1,466	66,030	67,496	Deferred income tax assets, noncurrent	6) a), 6) c)
Refundable deposits	32,438	-	-	32,438	Refundable deposits	
Others	19 206	-	117,778	117,778	Long-term prepaid lease payment Others	6) e)
Total other assets	18,306 50,744	1,466	183,808	18,306	Others	
-				4,210,291	Total noncurrent assets	
Total	<u>\$10,634,673</u>	\$ 1,466	<u>\$ 10,170</u>	\$10,646,309	Total	
Current liabilities					Current liabilities	
Accounts payable	\$ 2,028,697	\$ -	\$ -	\$ 2,028,697	Accounts payable	
Accounts payable - related party	35,939	-	-	35,939	Accounts payable - related party	
Income tax payable	204,632	-	=	204,632	Income tax payable	
Other payables	1,224,745	34,554	-	1,259,299	Other payables	6) b)
Other current liabilities Total current liabilities	66,325 3,560,338	34,554		66,325 3,594,892	Other current liabilities Total current liabilities	
Long-term liabilities				3,354,052	Noncurrent liabilities	
Long-term debts	200,000	_	_	200,000	Long-term debts	
Other liabilities						
Accrued pension liabilities	64,648	8,622	-	73,270	Accrued pension liabilities	6) c)
Advance deposits received	1,128	-	-	1,128	Advance deposits received	
Deferred income tax liabilities,	69,662	-	10,170	79,832	Deferred income tax liabilities,	6) a)
noncurrent Others	49,052	_	_	49,052	noncurrent Others	
Total other liabilities	184,490	8,622	10,170	47,032	-	
- Total liabilities	3,944,828	43,176	10,170	403,282 3,998,174	Total noncurrent liabilities Total liabilities	
Total natifices	3,744,020	43,170	10,170	3,770,174	Total habilities	
Stockholders' equity					Stockholders' equity	
Capital stock	2.740.220			2.740.220	Capital stock	
Common stock	2,749,329 16,154	-	-	2,749,329 16,154	Common stock Advanced collections for capital	
Advanced collections for capital stock	10,134	-	-	10,134	stock	
Capital surplus					Capital surplus	
Additional paid-in capital -	203,406	-	-	203,406	Additional paid-in capital -	
common stock					common stock	
Additional paid-in capital - bond	661,582	-	-	661,582	Additional paid-in capital - bond	
conversion Treasury stock transactions	48,234			48,234	conversion Treasury stock transactions	
Long-term equity investments	11,305	(11,305)	-	40,234	Long-term equity investments	6) d)
Interest payable from bond	13,243	(11,505)	-	13,243	Interest payable from bond	-, -,
conversion					conversion	
Retained earnings					Retained earnings	
Legal reserve	909,627		=	909,627	Legal reserve	
- Unappropriated earnings	1 020 262	230,859	-	230,859 1,828,362	Special reserve	4) 4), 5) b), 5)
Chappropriated earnings	1,828,362	-	-	1,626,302	Unappropriated earnings	d), 6) b), 6 c), 6) d)
Other equity					Other equity	-,, -, -,
Cumulative translation	250,296	(250,296)	-	-	Cumulative translation	5) d)
adjustments	(22.204)			(22.20.1)	adjustments	
Unrealized loss on financial instruments	(22,304)	-	-	(22,304)	Unrealized loss on financial instruments	
Unrealized revaluation	10,968	(10,968)	-	-	Unrealized revaluation	5) b)
increment Total stockholders' equity of perent	6,680,202	(41.710)		6,638,492	increment Total stockholders' equity of parent	
Total stockholders' equity of parent company		(41,710)	-		company	
Minority interest	9,643	(41.710)		9,643	Noncontrolling interests	
Total stockholders' equity	6,689,845	(41,710)	-	6,648,135	Total stockholders' equity	
Total	<u>\$10,634,673</u>	<u>\$ 1,466</u>	<u>\$ 10,170</u>	\$ 10,646,309	Total	naludad

(Concluded)

2) Reconciliation of consolidated balance sheet as of December 31, 2012

Effect of Transition to IFI		sition to IFRSs				
		Recognition and				
R.O.C. GAAP		Measurement	Presentation		IFRSs	
Item	Amount	Different	Difference	Amount	Item	Note
Current assets					Current assets	
Cash and cash equivalents	\$ 1,543,288	\$ -	\$ -	\$ 1,543,288	Cash and cash equivalents	
Accounts receivable	1,907,482	-	-	1,907,482	Accounts receivable	
Other financial assets - current	54,641	-	-	54,641	Other financial assets - current	
Inventories	1,680,224	-	-	1,680,224	Inventories	
Deferred income tax assets - current	37,880	-	(37,880)	_	-	6) a)
Other current assets	154,722	-	-	154,722	Other current assets	-, -,
Total current assets	5,378,237		(37,880)	5,340,357	Total current assets	
Fund and investments					Noncurrent assets	
Available-for-sale financial assets - noncurrent	30,620	-	-	30,620	Available-for-sale financial assets - noncurrent	
Financial assets carried at cost - noncurrent	90,945	=	=	90,945	Financial assets carried at cost - noncurrent	
Long-term equity investments accounted for by the equity	339,761			339,761	Long-term equity investments accounted for by the equity	
method	461 226				method	
Total fund and investments	<u>461,326</u>			2 517 000	December alone and assistant	
Property, plant and equipment	3,517,009			3,517,009	Property, plant and equipment	
Intangible assets	10.760			12.750	G	
Computer software cost	42,760	-	(121.045)	42,760	Computer software cost	~
Land use rights	131,847		(131,847)	-	-	6) e)
Total intangible assets Other assets	174,607		(131,847)	-		
		259	40 170	40 410	Deferred income tax assets -	6) 0) () -)
Deferred income tax assets -	-	259	48,160	48,419		6) a), 6) c)
noncurrent	20.122			20, 122	noncurrent	
Refundable deposits	28,133	-	121.045	28,133	Refundable deposits	~
- Ouls	2.024	-	131,847	131,847	Long-term prepaid lease payment	6) e)
Others	3,924	250	100.007	3,924	Others	
Total other assets	32,057	259	180,007	4,233,418	- Total noncurrent assets	
Total	\$ 9,563,236	<u>\$ 259</u>	\$ 10,280	\$ 9,573,775	Total	
Comment No. 1. No. 1.					Comment Habilitation	
Current liabilities	¢ 2,000,202	\$ -	\$ -	¢ 2,000,202	Current liabilities	
Accounts payable	\$ 2,088,302	\$ -	\$ -	\$ 2,088,302	Accounts payable	
Accounts payable - related party	48,320	-	-	48,320	Accounts payable - related party	
Income tax payable	93,017	22.076	-	93,017	Income tax payable	() b)
Other payables	1,026,344	32,076	-	1,058,420	Other payables	6) b)
Other current liabilities	45,078	22.076		45,078	Other current liabilities	
Total current liabilities	3,301,061	32,076		3,333,137	Total current liabilities	
Long-term liabilities	200,000			200,000	Noncurrent liabilities	
Long-term debts	200,000			200,000	Long-term debts	
Other liabilities	65.270	1.500		66.702	A company of the Control of the Cont	0.0
Accrued pension liabilities	65,270 985	1,522	-	66,792	Accrued pension liabilities	6) c)
Advance deposits received		-	10.200	985	Advance deposits received	6) 0)
Deferred income tax liabilities, noncurrent	69,552	-	10,280	79,832	Deferred income tax liabilities, noncurrent	6) a)
Others	50,326			50,326	Others	
Total other liabilities	186,133	1,522	10,280	30,320	Others	
-				397,935	Total noncurrent liabilities	
Total liabilities	3,687,194	33,598	10,280	3,731,072	Total liabilities	
Stockholders' equity Capital stock					Stockholders' equity	
	2 771 620			2,771,639	Capital stock	
Common stock	2,771,639	-	-	2,771,039	Common stock	
Capital surplus Additional paid-in capital -	226,556			226,556	Capital surplus Additional paid-in capital -	
excess of par Additional paid-in capital - bond	661,582	-	-	661,582	excess of par Additional paid-in capital - bond	
conversion Treasury stock transactions	48,234	-	-	48,234	conversion Treasury stock transactions	
Long-term equity investments	11,305	(11,305)	-	-0,23+	Long-term equity investments	6) d)
Interest payable from bond	13,243	(11,505)		13,243	Interest payable from bond	0) u)
conversion	13,243	-	-	13,243	conversion	
Retained earnings					Retained earnings	
Legal reserve	1,052,192	_	_	1,052,192	Legal reserve	
-	1,002,172	230,859	-	230,859	Special reserve	4)
Unappropriated earnings	999,381	8,371	-	1,007,752	Unappropriated earnings	4), 5) b), 5) d), 6) b), 6)
						c), 6) d)
Other equity	,				Other equity	#0 TO
Cumulative translation	101,935	(250,296)	-	(148,361)	Cumulative translation	5) d)
adjustments Unrealized loss on financial	(15,603)	-	-	(15,603)	adjustments Unrealized loss on financial	
instruments Unrealized revaluation	10,968	(10,968)	-	-	instruments Unrealized revaluation	5) b)
increment Total stockholders' equity of parent	5,881,432	(33,339)		5,848,093	increment Total stockholders' equity of parent	
company Minority interest	(5,390)			(5,390)	company Noncontrolling interests	
Total stockholders' equity	5,876,042	(33,339)		5,842,703	Total stockholders' equity	
Total	\$ 9,563,236	<u>\$ 259</u>	<u>\$ 10,280</u>	<u>\$ 9,573,775</u>	Total	

3) Reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2012

		Effect of Trans	sition to IFRSs			
P.O.G.GAAP		Recognition and	D		TED C	
R.O.C. GAAP Item	Amount	Measurement Different	Presentation Difference	Amount	IFRSs Item	Note
Net sales	\$ 11,882,539	\$ -	\$ 8,850	\$ 11,891,389	Net sales	
Cost of goods sold	9,580,840	(1,162)	8,850	9,588,528	Cost of goods sold	6) b), 6) c), 6) f)
Gross profit	2,301,699	1,162		2,302,861	Gross profit	-/
Operating expenses					Operating expenses	
Sales and marketing	776,550	20	-	776,570	Sales and marketing	6) b), 6) c)
General and administration	576,018	98	(15,954)	560,162	General and administration	6) b), 6) c), 6) g)
Research and development	477,023	(1,654)		475,369	Research and development	6) b), 6) c)
Total	1,829,591	(1,536)	(15,954)	1,812,101	Total	
Income from operations	472,108	2,698	15,954	490,760	Operating income	
Nonoperating income and gains					Nonoperating income and gains	
Interest income	15,965	-	-	15,965	Interest income	
Investment income recognized under the equity method, net	11,156	=	-	11,156	Investment income recognized under the equity method, net	
Dividend income	4,927	_	_	4,927	Dividend income	
Gain on reversal of bad debts	15,954	_	(15,954)	4,727	-	6) g)
Others	96,505		(15,754)	96,505	Others	0) 5)
Total	144,507		(15,954)	128,553	Total	
Nonoperating expenses and losses	144,507		(13,734)	120,333	Nonoperating expenses and losses	
Interest expense	4,532			4,532	Interest expense	
Loss on disposal of property, plant	18,591	-	-	18,591	Loss on disposal of property, plant	
and equipment	00.010			00.010	and equipment	
Foreign exchange loss, net	92,840	-	-	92,840	Foreign exchange loss, net	
Others	19,790			19,790	Others	
Total	135,753			135,753	Total	
Income before income tax	480,862	2,698	-	483,560	Income before income tax	
Income tax expense	(186,117)	(37)		(186,154)	Income tax expense	6) c)
Consolidated net income	\$ 294,745	\$ 2,661	<u>s -</u>	297,406	Consolidated net income	
				(148,361)	Exchange differences on translating foreign operations	
				6,458	Unrealized gains on available-for-sale financial assets	
				243	Other comprehensive income	
					recognized under the equity method, net	
				6,880	Defined benefit obligations' actuarial gain and losses	
				(1,170)	Income tax relating to components of other comprehensive income	
				(135,950)	Other comprehensive income for the	
				(155,750)	year, net of tax	
				<u>\$ 161,456</u>	Total comprehensive income for the year	
					,	

4) Appropriation of special reserve

Under Rule No. 1010012865 issued by the FSC on April 6, 2012, on the first-time adoption of IFRSs, a company should appropriate to a special reserve an amount that is the same as these of unrealized revaluation increment and cumulative translation differences (gains) transferred to retained earnings as a result of the company's use of exemptions under IFRS 1. However, at the date of transition to IFRSs, if the increase in retained earnings that resulted from all IFRSs adjustments is not enough for this appropriation, only the increase in retained earnings that resulted from all IFRSs adjustments will be appropriated to special reserve. The special reserve appropriated as above may be reversed to retained earnings in proportion to the usage, disposal or reclassification of the related assets and thereafter distributed. The amounts of unrealized revaluation increment and cumulative translation differences transferred to retained earnings were \$10,968 thousand and \$250,296 thousand, respectively. However, the increase in retained earnings that resulted from all IFRSs adjustments was not enough for this appropriation; thus, only the increase of \$230,859 thousand in retained earnings that resulted from all IFRSs adjustments will be appropriated to special reserve.

5) Exemptions from IFRS 1

IFRS 1 "First-time Adoption of International Financial Reporting Standards" establishes the procedures for the preparation of the Company's first consolidated financial statements prepared in accordance with IFRSs. Under IFRS 1, the Company is required to determine which IFRS accounting policies to use and retrospectively apply those accounting policies to its opening balance sheet at the date of transition to IFRSs (January 1, 2012), except for optional exemptions such

retrospective application. The main optional exemptions the Company adopted are summarized as follows:

a) Business combinations

The Company elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations that occurred before the date of transition to IFRSs. Thus, in the opening balance sheet, the amounts of goodwill generated from past business combinations, related assets and liabilities acquired, and noncontrolling interests remain the same as those amounts shown in the ROC GAAP balance sheet as of December 31, 2011. This exemption also applies to investments in associates.

b) Fair value or revaluation amount as deemed cost

The Company revalued some of its landholdings in accordance with ROC GAAP and used the revalued amount as the deemed cost at the date of transition to IFRS, and other property, plant and equipment were valued at cost under IFRS. The amount of unrealized revaluation increment reclassified \$10,968 thousand as of December 31, 2012 and January 1, 2012.

c) Employee benefits.

The Company elected to recognize all cumulative actuarial gains and losses in retained earnings as of January 1, 2012.

d) Cumulative translation difference.

The Company elected to reset to zero its cumulative translation adjustment in stockholders' equity and to recognize this amount under retained earnings at the date of transition to IFRS. The amount of cumulative translation adjustments reclassified to retained earnings was both \$250,296 thousand.

6) Notes to the reconciliation of the significant differences:

The Company-specific areas of possible material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs were as follows:

a) Deferred income tax asset/liability

Under ROC GAAP, valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. Under International Accounting Standards (IAS) 12 "Income Taxes," deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits; thus, valuation allowance account is not needed.

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

Under ROC GAAP, the current and noncurrent deferred tax liabilities and assets of the same taxable entity should be offset against each other and presented as a net amount. However, under IAS 12, an entity offset current tax assets and current tax liabilities against each other only if the entity has a legally enforceable right to make this offset and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on

the same taxable entity.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from deferred income tax assets to noncurrent assets were \$37,880 thousand and \$55,860 thousand, respectively. Under ROC GAAP, the Company also revised the deferred tax liabilities and assets that had been offset against each other and increased the deferred tax liabilities - noncurrent and assets - noncurrent simultaneously by \$10,280 thousand and \$10,170 thousand as of December 31, 2012 and January 1, 2012, respectively.

b) Short-term employee benefits

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

As of December 31, 2012 and January 1, 2012, the Company increased other payable by \$32,076 thousand and \$34,554 thousand, respectively, for short-term employee benefits. In addition, for 2012, the Company decreased "salary expenses" by \$2,478 thousand.

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

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

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

As of December 31, 2012 and January 1, 2012, the Company performed the actuarial valuation under IAS No. 19 and recognized the valuation difference directly in retained earnings in accordance with IFRS 1; accrued pension liabilities were adjusted for increases of \$1,522 thousand and \$8,622 thousand, respectively; deferred income tax assets were adjusted for increases of \$259 thousand and \$1,466 thousand, respectively; pension cost was adjusted for a decrease of \$220 thousand, and income tax expense was adjusted for an increase of \$37 thousand, and also recognized "employee benefits - gain or loss on actuarial valuation on defined benefit plan" (as other comprehensive income) and its income tax expense of \$6,880 thousand and \$1,170 thousand, respectively.

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

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

Under IFRSs, changes in equity in associates in which significant influence on the associates is retained are regarded as acquisition or disposal of shares in associates; however, changes in equity in subsidiaries in which control over the subsidiaries is retained are regarded as equity transactions. In addition, based on the "Q&A for adopting IFRSs" issued by the Taiwan Stock Exchange, accounts that do not conform to IFRSs or not covered under the Company Law as

well as capital surplus items required by the Ministry of Economics Affairs should be adjusted at the date of transition to IFRSs.

As of December 31, 2012 and January 1, 2012, the capital surplus - long-term equity investments of the Company reclassified to retained earnings was both \$11,305 thousand.

e) Land use rights

Under ROC GAAP, land use rights are recognized as intangible assets. Under IAS 17 "Leases," land use rights should be classified under lease prepayments.

As of December 31, 2012 and January 1, 2012, the amounts of land use rights reclassified to lease prepayments were \$131,847 thousand and \$117,778 thousand, respectively.

f) Allowance for sales returns and others

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

As of December 31, 2012, the Company recorded the amount that as mentioned above reclassified to cost of goods sold was \$8,850 thousand.

g) Reversal of the provision for loss on doubtful accounts

Under ROC GAAP, reversal of the provision for loss on doubtful accounts is recognized under nonoperating income and gains, and it should be reclassified to operating expense - general and administrative under IFRSs.

As of December 31, 2012, the Company had reclassified \$15,954 thousand to operating expense – general and administrative.

c. The Company's aforementioned assessment is based on the 2010 version of IFRSs translated by the ARDF and on the Guidelines Governing the Preparation of Financial Reports by Securities Issuers issued by the FSC on December 22, 2011. However, these assessments may change as the International Accounting Statements Board continues to issue or amend standards and as the FSC may issue new rules governing the adoption of IFRSs. Actual accounting policies adopted under IFRSs in the future may differ from those contemplated during the assessments.