Phihong Technology Co., Ltd.

Financial Statements for the
Three Months Ended March 31, 2012 and 2011 and
Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying balance sheets of Phihong Technology Co., Ltd. (the "Company") as of March 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity and cash flows for the three months then ended (all expressed in thousands of New Taiwan dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

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

As mentioned in Note 10 to the financial statements, certain long-term equity investments accounted for under the equity method for the three months ended March 31, 2012 and 2011 are based on unreviewed financial statements. As of March 31, 2012 and 2011, the aggregate balance of the Company's investments in its investees whose financial statements have not been reviewed by independent accountants amounted to $373,527 thousand and $278,497 thousand, respectively. For the three months ended March 31, 2012 and 2011, the Company's investment loss from such investments amounted to $5,328 thousand and $2,416 thousand, respectively.

Based on our reviews, except for the effects of such adjustments, if any, as might have been determined to be necessary had the long-term equity investments and investment income of investees mentioned above been recognized based on reviewed financial statements, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also reviewed the consolidated financial statements of the Company and its subsidiaries for the three months ended March 31, 2012 and 2011 (not presented herewith) on which we have issued a qualified review report dated April 27, 2012.

April 27, 2012

Notice to Readers

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

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

PHIHONG TECHNOLOGY CO., LTD.

BALANCE SHEETS
MARCH 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2012		2011	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 1,751,361	17	$ 1,548,169	14
Accounts receivable (Notes 2 and 5)	1,114,524	11	929,561	8
Accounts receivable from related parties (Notes 2, 5 and 21)	303,987	3	1,514,018	14
Other financial assets, current (Notes 6 and 21)	535,481	5	1,087,388	10
Inventories (Notes 2 and 7)	457,202	5	546,241	5
Deferred income tax asset, current (Notes 2 and 18)	47,930	1	89,174	1
Other current assets	127,365	1	21,031	-
Total current assets	4,337,850	43	5,735,582	52
FUNDS AND LONG-TERM INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 8)	41,888	-	-	-
Financial assets carried at cost, noncurrent (Notes 2 and 9)	48,812	1	77,281	1
Long-term investments at equity method (Notes 2 and 10)	5,073,584	51	4,784,185	43
Total funds and long-term investments	5,164,284	52	4,861,466	44
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 11)				
Cost	794,398	8	633,642	6
Less accumulated depreciation	(296,803)	(3)	(264,843)	(3)
Prepayments for purchase of equipment	1,911	-	80,345	1
Property, plant and equipment, net	499,506	5	449,144	4
INTANGIBLE ASSETS				
Computer software cost	19,259	-	18,146	-
OTHER ASSETS				
Refundable deposits	13,759	-	14,680	-
Deferred charges (Note 2)	-	-	18,804	-
Total other assets	13,759	-	33,484	-
TOTAL	$ 10,034,658	100	$ 11,097,822	100

	2012		2011	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Notes payable	$ -	-	$ 15	-
Accounts payable	27,975	-	29,683	-
Accounts payable to related parties (Note 21)	267,460	2	173,416	1
Income tax payable (Notes 2 and 18)	171,705	2	336,345	3
Other payables (Note 13)	2,399,817	24	3,087,299	28
Other current liabilities	15,283	-	7,742	-
Total current liabilities	2,882,240	28	3,634,500	32
LONG-TERM LIABILITIES				
Long-term borrowings (Notes 2 and 12)	200,000	2	200,000	2
OTHER LIABILITIES				
Accrued pension cost (Note 2)	64,782	1	63,328	1
Deferred income tax liabilities, noncurrent (Notes 2 and 18)	69,632	1	69,842	1
Deferred credits (Note 2)	90,205	1	378,908	3
Others (Note 2)	49,052	-	34,051	-
Total other liabilities	273,671	3	546,129	5
Total liabilities	3,355,911	33	4,380,629	39
STOCKHOLDERS' EQUITY				
Capital stock, $10 par value (Note 14)				
Authorized - 600,000 thousand shares and 600,000 thousand shares at March 31, 2012 and 2011				
Issued - 276,882 thousand shares and 274,748 thousand shares at March 31, 2012 and 2011	2,768,819	28	2,747,479	25
Advance collections for common stock	636	-	-	-
Capital surplus				
Additional paid-in capital - common stock	223,871	2	201,292	2
Additional paid-in capital - bond conversion	661,582	7	661,582	6
Treasury stock transaction	48,234	-	48,234	-
Long-term equity investments	11,305	-	11,132	-
Interest of bonds converted to common stock	13,243	-	13,243	-
Retained earnings (Note 16)				
Legal reserve	909,627	9	748,423	7
Unappropriated earnings	1,870,034	19	2,080,810	19
Cumulative translation adjustments	170,863	2	24,525	-
Unrealized (losses) gains on financial instruments	(10,435)	-	169,505	2
Unrealized revaluation increment	10,968	-	10,968	-
Total stockholders' equity	6,678,747	67	6,717,193	61
TOTAL	$ 10,034,658	100	$ 11,097,822	100

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

(With Deloitte & Touche review report dated April 27, 2012)

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2012		2011	
	Amount	**%**	**Amount**	**%**
GROSS SALES AND REVENUES	$ 2,354,974	100	$ 3,334,636	100
LESS SALES RETURNS AND ALLOWANCES	-	-	(805)	-
NET SALES AND REVENUES	2,354,974	100	3,333,831	100
COST OF GOODS SOLD	2,097,753	89	2,555,429	77
GROSS PROFIT	257,221	11	778,402	23
REALIZED GROSS PROFIT FROM INTERCOMPANY TRANSACTIONS	68,731	3	66,359	2
REALIZED GROSS PROFIT	325,952	14	844,761	25
OPERATING EXPENSES				
Sales and marketing	62,121	3	79,973	2
General and administration	38,318	2	65,960	2
Research and development	101,956	4	120,333	4
Total operating expenses	202,395	9	266,266	8
INCOME FROM OPERATIONS	123,557	5	578,495	17
NONOPERATING INCOME AND GAINS				
Interest income	3,686	-	1,540	-
Gain on disposal of property, plant and equipment	-	-	95	-
Gain on sale of investments, net	-	-	23,828	1
Foreign exchange gains, net	-	-	27,820	1
Others	29,654	2	15,731	-
Total nonoperating income and gains	33,340	2	69,014	2
NONOPERATING EXPENSES AND LOSSES				
Interest expense	788	-	706	-
Investment loss recognized under equity method, net (Note 10)	56,609	2	81,796	2
Loss on disposal of the asset	34	-	-	-
Foreign exchange losses, net	34,870	2	-	-
Others	24	-	1	-
Total nonoperating expenses and losses	92,325	4	82,503	2

(Continued)

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2012		2011	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	$ 64,572	3	$ 565,006	17
INCOME TAX EXPENSE (Notes 2 and 18)	(22,900)	(1)	(105,888)	(3)
NET INCOME	$ 41,672	2	$ 459,118	14

	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Notes 2 and 18)				
Basic	$ 0.23	$ 0.15	$ 2.06	$ 1.67
Diluted	$ 0.23	$ 0.15	$ 2.02	$ 1.64

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

(With Deloitte & Touche review report dated April 27, 2012) (Concluded)

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Capital Stock		Capital Surplus					Retained Earnings		Other Adjustments of Stockholders' Equity			
	Common Stock	Advance Collections for Common Stock	Additional Paid-in Capital Common Stock	Additional Paid-in Capital - Bond Conversion	Treasury Stock Transaction	Long-term Equity Investments	Interest of Bonds Converted to Common Stock	Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Financial Instruments	Unrealized Revaluation Increment	Total
BALANCE, JANUARY 1, 2012	$ 2,749,329	$ 16,154	$ 203,406	$ 661,582	$ 48,234	$ 11,305	$ 13,243	$ 909,627	$ 1,828,362	$ 250,296	$ (22,304)	$ 10,968	$ 6,680,202
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	(79,433)	-	-	(79,433)
Recognized unrealized gain on investee's financial instruments	-	-	-	-	-	-	-	-	-	-	3,338	-	3,338
Unrealized gain on available-for-sale financial instrument	-	-	-	-	-	-	-	-	-	-	8,531	-	8,531
Advance collections for common stock transferred to capital stock (Note 14)	7,880	(16,154)	8,274	-	-	-	-	-	-	-	-	-	-
Employee stock options (Note 14)	11,610	636	12,191	-	-	-	-	-	-	-	-	-	24,437
Net income for the three months ended March 31, 2012	-	-	-	-	-	-	-	-	41,672	-	-	-	41,672
BALANCE, MARCH 31, 2012	$ 2,768,819	$ 636	$ 223,871	$ 661,582	$ 48,234	$ 11,305	$ 13,243	$ 909,627	$ 1,870,034	$ 170,863	$ (10,435)	$ 10,968	$ 6,678,747
BALANCE, JANUARY 1, 2011	$ 2,725,939	$ 17,520	$ 175,659	$ 661,582	$ 48,234	$ 11,132	$ 13,243	$ 748,423	$ 1,621,692	$ (27,030)	$ 185,552	$ 10,968	$ 6,192,914
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	51,555	-	-	51,555
Unrealized gain on investee's financial instruments	-	-	-	-	-	-	-	-	-	-	9,815	-	9,815
Unrealized loss on available-for-sale financial instrument	-	-	-	-	-	-	-	-	-	-	(25,862)	-	(25,862)
Advance collections for common stock transferred to capital stock (Note 14)	8,000	(17,520)	9,520	-	-	-	-	-	-	-	-	-	-
Employee stock options (Note 14)	13,540	-	16,113	-	-	-	-	-	-	-	-	-	29,653
Net income for the three months ended March 31, 2011	-	-	-	-	-	-	-	-	459,118	-	-	-	459,118
BALANCE, MARCH 31, 2011	$ 2,747,479	$ -	$ 201,292	$ 661,582	$ 48,234	$ 11,132	$ 13,243	$ 748,423	$ 2,080,810	$ 24,525	$ 169,505	$ 10,968	$ 6,717,193

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

(With Deloitte & Touche audit report dated April 27, 2012)

PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 41,672	$ 459,118
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	13,434	15,716
Investment loss recognized under the equity method	56,609	81,796
Cash dividends received from equity method investees	-	9,832
Gain on disposal of available-for-sale financial assets	-	(23,828)
Unrealized gross profit from intercompany transactions	(68,731)	(66,359)
Net losses (gains) on disposal of property, plant and equipment	34	(95)
Net changes in operating assets and liabilities		
Accounts receivable	209,704	34,490
Accounts receivable from related parties	250,422	34,762
Inventories	74,053	12,581
Other financial assets, current	(65,654)	(58,597)
Deferred income tax assets, current	7,930	26,961
Other current assets	(91,874)	(9,576)
Notes payable	-	(9)
Accounts payable	(13,237)	(7,050)
Accounts payable to related parties	108,579	18,207
Income tax payable	14,755	51,034
Other payables	(261,568)	(183,563)
Other current liabilities	(23,676)	(4,879)
Deferred income tax liabilities, noncurrent	(30)	(100)
Reserve for retirement plan	134	443
Net cash provided by operating activities	252,556	390,884
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of available-for-sale financial assets	-	29,660
Increase in long-term investments at equity method	(60,307)	-
Acquisition of property, plant and equipment	(13,864)	(85,207)
Decrease in refundable deposits	-	355
Increase in deferred charges	-	(7,016)
Increase intangible asset - computer software	(4,380)	-
Net cash used in investing activities	(78,551)	(62,208)
CASH FLOWS FROM FINANCING ACTIVITIES		
Employee stock options	24,437	29,653

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PHIHONG TECHNOLOGY CO., LTD.

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2012	2011
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 198,442	$ 358,329
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,552,919	1,189,840
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,751,361	$ 1,548,169
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period		
Interest (excluding interest capitalized)	$ 788	$ 698
Income tax	$ 245	$ 59
NONCASH INVESTING AND FINANCING ACTIVITIES		
Translation adjustments on long-term equity investments	$ (79,433)	$ 51,555
Recognized unrealized gain on investee's financial instruments	$ 3,338	$ 9,815
Unrealized gain (loss) on available-for-sale financial instruments	$ 8,531	$ (25,862)

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

(With Deloitte & Touche review report dated April 27, 2012) (Concluded)

1. ORGANIZATION AND OPERATIONS

Phihong Technology Co., Ltd. (the “Company”), which was formerly known as Phihong Enterprise Co., Ltd., was incorporated on December 12, 1972 under the laws of the Republic of China (ROC). Under a resolution approved in the stockholders’ meeting in June 2003, the Company changed its name to Phihong Technology Co., Ltd. The Company primarily manufactures and sells AC/DC power adapters, charger bases, power supply modules, UPS for computers, ballasts, etc. The Company had 395 and 340 employees as of March 31, 2012 and 2011, respectively.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

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

Accounting Estimates

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

Current/Noncurrent Assets and Liabilities

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

Cash and Cash Equivalents

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

Available-for-sale Financial Assets

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

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

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

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

Financial Assets Carried at Cost, Noncurrent

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

Impairment of Accounts Receivable

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

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

Inventories

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

Long-term Investments at Equity Method

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

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

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

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

Property, Plant and Equipment

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

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

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

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

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

Intangible Assets

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

Deferred Charges

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

Impairment of Assets

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

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

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

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

Pension Plan

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.

The prior service costs should be amortized on a straight-line basis over the average period from the plan amendment date until the benefits become vested. When the benefits are already vested immediately following the changes to a defined benefit plan, the prior service cost should be recognized as expense immediately.

Income Tax

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

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

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

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

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

Deferred Credits

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

Stock-based Compensation

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

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

Sales Recognition

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

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

Earnings Per Share

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

Nonderivative Financial Instruments

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

Reserve for Export Losses

Reserve for export losses is accrued and adjusted based on reasonable estimates made by management of the Company.

Reclassifications

Certain accounts in the financial statements as of and for the three months ended March 31, 2011 have been reclassified to conform to the presentation of the financial statements as of and for the three months ended March 31, 2012.

3. ACCOUNTING CHANGES

Accounting Treatment of the Financial Instruments

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions included loans and receivables originated by the Company under SFAS No. 34. This accounting change did not have a significant effect on the Company's financial statements as of and for the three months ended March 31, 2011.

Operating Segments

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires identification and disclosure of operating segments on the basis of how the Company's chief operating decision maker regularly reviews information in order to allocate resources and assess performance. This statement supersedes SFAS No. 20, "Segment Reporting." The Company conformed to the disclosure requirements as of and for the three months ended March 31, 2012.

4. CASH AND CASH EQUIVALENTS

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

	2012	2011
Cash on hand	$ 815	$ 1,059
Checking accounts	2,874	23,365
Savings accounts	89,873	111,521
Foreign-currency deposits	799,544	830,060

(Continued)

	2012	2011
Time deposits	$ 60,000	$ -
Short-term commercial papers	798,255	582,164
	$ 1,751,361	$ 1,548,169

(Concluded)

5. ACCOUNTS RECEIVABLE

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

	2012	2011
Accounts receivable	$ 1,159,243	$ 972,212
Less allowance for doubtful accounts	(44,719)	(42,651)
	1,114,524	929,561
Accounts receivable from related parties (Note 21)	303,987	1,514,018
Less allowance for doubtful accounts	-	-
	303,987	1,514,018
	$ 1,418,511	$ 2,443,579

6. OTHER FINANCIAL ASSETS, CURRENT

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

	2012	2011
Other receivables from related parties (Note 21)	$ 508,124	$ 1,054,099
Others	27,357	33,289
	$ 535,481	$ 1,087,388

7. INVENTORIES

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

	2012	2011
Raw materials	$ 3,657	$ 4,220
Work-in-process	1,016	1,795
Merchandise	452,529	540,226
	$ 457,202	$ 546,241

As of March 31, 2012 and 2011, allowances for inventory devaluation was both $53,327 thousand.

For the three months ended March 31, 2012 and 2011, the Company's cost of goods sold was $2,097,753 thousand and $2,555,429 thousand, respectively.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

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

	2012	2011
Marketable equity securities		
Hua Jung Components assets-noncurrent	$ 41,888	$ -

9. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as of March 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	50,000
Asia Tech Taiwan Venture Fund	15,057	15,057
NeoPac Lighting Limited	32,224	32,224
Less accumulated impairment loss	(61,969)	(50,000)
	$ 48,812	$ 77,281

The stocks and other investments mentioned above do not have open pricing and reliable fair values, thus they are carried at cost. They are tested for impairment periodically.

Bao-Dian Venture Capital Co., Ltd. and NeoPac Lighting Limited have experienced continuous operating loss; thus, the Company recognized $4,745 thousand and $7,224 thousand impairment loss for the year ended December 31, 2011.

10. LONG-TERM EQUITY INVESTMENTS

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

	2012			2011	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Phihong International Corp.	$ 2,509,461	$ 2,998,446	100.00	$ 2,933,677	100.00
Phihong USA Corp.	207,203	707,429	100.00	572,438	100.00
Phitek International Co., Ltd.	63,286	528,030	100.00	424,001	100.00
Ascent Alliance Ltd.	195,449	337,760	100.00	411,591	100.00
American Ballast Corp.	16,579	15,490	100.00	15,408	100.00
Guang-Lai Investment Co., Ltd.	239,758	245,157	100.00	317,647	100.00
Phihong PWM Brasil Ltda.	8,258	-	60.00	-	60.00
First International Computer Do Brasil Ltda.	67,618	-	33.85	-	33.85
Hao-Xuan Venture Capital Co., Ltd.	70,830	68,252	24.67	98,762	24.67
H&P Venture Capital Investment Corp.	150,000	147,356	32.26	-	-
Phihong Technology Japan Co., Ltd.	94,154	25,664	100.00	10,661	100.00
	$ 3,622,596	$ 5,073,584		$ 4,784,185	

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

	2012	2011
Phihong International Corp.	$ (76,110)	$ (62,054)
Phihong USA Corp.	44,960	14,774
Phitek International Co., Ltd.	3,199	17,055
Ascent Alliance Ltd.	(18,931)	(44,896)
American Ballast Corp.	16	17
Guang-Lai Investment Co., Ltd.	(1,780)	3,205
Hao-Xuan Venture Capital Co., Ltd.	(110)	908
H&P Venture Capital Investment Corp.	(174)	-
Phihong Technology Japan Co., Ltd.	(7,679)	(10,805)
	$ (56,609)	$ (81,796)

The above-mentioned investees, which the Company recognized its investment income (loss) based on unreviewed financial statements for the three months ended March 31, 2012 and 2011 are as follows:

	2012	2011
Name of investees	HaoXuan Venture Capital Co Ltd GuangLai Investment Co Ltd Phihong Technology Japan Co Ltd H&P Venture Capital Investment Corp.	HaoXuan Venture Capital Co Ltd GuangLai Investment Co Ltd Phihong Technology Japan Co Ltd

Phihong International Corp. (PHI) was incorporated in the British Virgin Islands in 1996. Through PHI, the Company made additional investments in Phihong (Dongguan), Phitek (Tianjin) and Phihong (Suzhou) to manufacture various power supplies in Mainland China. The Company had made additional investments of $21,158 thousand in cash in PHI in 2012. Its paid-in capital was US$80,444 thousand as of March 31, 2012.

Phihong USA Corp. (PHA) was incorporated in the USA in 1997 as the Company’s sales agent. Its paid-in capital was US$6,200 thousand as of March 31, 2012.

Phitek International Co., Ltd. (“PHK”) was incorporated in the British Virgin Islands in 1999. Through PHK, the Company made additional investments in Phitek (Dongguan) to manufacture various power supplies in mainland China. Its paid-in capital was US$2,200 thousand as of March 31, 2012.

Guang-Lai Investment Co., Ltd. (Guang-Lai) was incorporated in Taiwan in October 2001. It primarily engages in investing activities. In February 2011, it decreased its paid-in capital by cash in the amount of $100,000 thousand. As a result, its paid-in capital was $239,758 thousand as of March 31, 2012.

Ascent Alliance Ltd. was incorporated in the British Virgin Islands in June 2004. Through this investee, the Company made additional investments in Shuang-Ying (Dongguan) Ltd. and Jin-Sheng-Hong (Jiangxi) to manufacture and sell electronic materials. Its paid in capital was US$7,003 thousand as of March 31, 2012.

American Ballast Corporation was incorporated in the USA in 2004 as the Company’s sales agent. Its paid-in capital was US$500 thousand as of March 31, 2012.

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

Hao-Xuan Venture Capital Co., Ltd. ("Hao-Xuan") was incorporated in May 2004 to engage in investing activities. Its original paid-in capital was $450,000 thousand. In May 2011, it decreased its paid-in capital by cash in the amount of $99,846 thousand. As a result, its paid-in capital was $287,154 thousand as of March 31, 2012.

Phihong Technology Japan Co., Ltd. ("PHJ") was incorporated in Japan in April 2010 as the Company's sales agent. In March 2012, it increased its paid-in capital by cash in the amount of JPY100,000 thousand. As a result, its paid-in capital was JPY250,000 thousand as of March 31, 2012.

H&P Venture Capital Investment Corp. was incorporated in May 2011. It primarily engages in investing activities. Its paid-in capital was $465,000 thousand as of March 31, 2012.

11. PROPERTY, PLANT AND EQUIPMENT

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

	2012			2011
	Cost	**Accumulated Depreciation**	**Carrying Value**	**Carrying Value**
Land	$ 207,436	$ -	$ 207,436	$ 122,300
Buildings and improvements	294,946	112,556	182,390	188,312
Machinery and equipment	135,498	80,635	54,863	32,348
Furniture, fixtures and office equipment	116,787	94,647	22,140	25,460
Other equipment	39,731	8,965	30,766	379
Prepayments for purchase of land and equipment	1,911	-	1,911	80,345
	$ 796,309	$ 296,803	$ 499,506	$ 449,144

In March 2011, Phihong has purchased a parcel of land in the amount of $85,136 thousand in Yongkang Dist, Tainan City for factory.

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

	2012	2011
Land	$ 112,450	$ 112,450
Buildings and improvements	167,232	176,010
	$ 279,682	$ 288,460

12. LONG-TERM DEBTS

Long-term debts as of March 31, 2012 and 2011 were as follows:

	2012	2011
Hua Nan Bank		
Medium-term secured loan. The loan term was from December 29, 2011 to December 29, 2013. Interest rate was 1.37% on March 31, 2012. Interest is paid monthly and principal of $200,000 is paid on December 29, 2013.	$ 200,000	$ -
Medium-term secured loan. Repayable from September 30, 2010 to September 30, 2017. Interest rate was 1.40% on March 31, 2011. Interest is paid monthly. The principal is due in monthly installments commencing from September 30, 2012. Principal was fully repaid in December 2011.	-	200,000
	$ 200,000	$ 200,000

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

13. OTHER PAYABLES

	2012	2011
Accrued expenses	$ 553,206	$ 585,790
Bonus payable	264,119	373,527
Salaries payable	62,487	58,240
Payable for materials procurement	1,310,979	1,751,827
Other payable to related parties (Note 21)	207,396	316,475
Other	1,630	1,440
	$ 2,399,817	$ 3,087,299

14. CAPITAL STOCK

a.

	March 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)	276,882	274,748
Par value (in dollars)	$ 10	$ 10
Capital	$ 2,768,819	$ 2,747,479

b. As of January 1, 2012, the Company's outstanding capital amounted to $2,749,329 thousand. The employee stock warrant holders exercised 1,161 thousand common shares at an exercise price of $20.5, and exercised 788 thousand common shares for advance collections for capital stock - transferred to capital stock between January 1, 2012 to March 31, 2012. As of March 31, 2012, the Company's outstanding capital amounted to $2,768,819 thousand, divided into 276,882 thousand common shares with a par value of NT$10.

c. The Company's outstanding capital amounted to $2,725,939 thousand on January 1, 2011. The employee stock warrant holders exercised 1,354 thousand shares at an exercise price of $21.90, and exercised 800 thousand common shares for advance collections for capital stock transferred to capital stock, between January 1, 2011 to March 31, 2011. As of March 31, 2011, the Company's outstanding capital amounted to $2,747,479 thousand, divided into 274,748 thousand common shares with a par value of NT$10.

d. As the registration procedures were still in process, the amounts of $636 thousand were recorded as "advance collections for capital stock" as of March 31, 2012.

15. EMPLOYEE STOCK OPTION PLANS

At the November 23, 2007 meeting, the Board of Directors of the Company resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 15,000 units. Each individual employee stock warrant is granted the right to purchase 1,000 new issued common shares. The exercise price is the closing price of the Company's common shares at the employee stock warrants' issuance date. The warrant holders can exercise the right up to half of the granted warrant units no earlier than two years from the granted date. After three years from the granted date, the warrants holders are eligible to exercise the right up to three-fourth of the granted warrant units. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. The options granted are valid for six years and the warrant holders can not exercise the right after six years from the granted date. As of December 28, 2007, the Company issued stock warrants of 15,000 units with the exercise price is $21.30 per share. The exercise price will be adjusted according to a calculation formula when there are stock and cash dividends and issuance of capital stock. As a result, the exercise price was $20.50 per share as of March 31, 2012.

Information about employee stock option plans as of March 31, 2012 and 2011 was as follows:

	2011		2010	
	Number of Exercisable Shares (Thousands)	**Weighted-average Exercise Price (NT$)**	**Number of Exercisable Shares (Thousands)**	**Weighted-average Exercise Price (NT$)**
Balance, as of January 1	6,867	$20.50	9,194	$21.90
Options exercised	(1,192)*	20.50	(1,354)	21.90
Balance, as of March 31	5,675	20.50	7,840	21.90
Options exercisable, end of year	5,675		4,090	
Weighted-average fair value of options granted (NT$)	10.40		10.40	

* Included options exercised but not outstanding in the amounts of 31 thousand shares, recognized as "advance collections for capital stock."

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

	Options Outstanding			Options Exercisable	
Exercise Price (NT$)	**Number of Exercisable Shares (Thousands)**	**Weighted-average Remaining Life (Years)**	**Weighted-average Exercisable Price (NT$)**	**Number of Exercisable Shares (Thousands)**	**Weighted-average Exercisable Price (NT$)**
March 31, 2012					
$20.50	5,675	1.75	$ 20.50	5,675	$ 20.50
March 31, 2011					
$21.90	7,840	2.75	$ 21.90	4,090	$ 21.90

Had the Company recognized compensation cost based on the fair value method using the Black-Scholes pricing model, the assumptions and pro forma results of the Company for the three months ended March 31, 2011 would have been as follows:

	2011
Assumptions	
Risk-free interest rate	2.41%
Expected life	6 years
Expected volatility	48.59%
Expected dividend yield	-
Net income	
As reported	$ 459,118
Pro forma	$ 456,882
Basic earnings per share after income tax	
As reported	$1.67
Pro forma	$1.66

16. RETAINED EARNINGS

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

Any remaining amount, unless to be retained partially by the Company, 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. Remainders as dividends, of which at least 10% should be cash dividends.

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

For the three months ended March 31, 2012 and 2011, the bonus to employees was $6,751 thousand and $74,377 thousand, respectively, and the remuneration to directors and supervisors was $750 thousand and $8,264 thousand, respectively. The bonus to employees and remuneration to directors and supervisors represented 20% of net income (net of the bonus and remuneration). Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the shareholders' meeting.

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

	For Year 2010	
	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 161,204	-
Cash dividends	1,057,779	$3.85
	$ 1,218,983	

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

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

The appropriations of 2011 earnings had been proposed by the board of directors on March 22, 2012. The appropriations and dividends per share were as follows:

	For Year 2011	
	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 142,565	-
Cash dividends	995,969	$3.60

The bonus to employees and the remuneration to directors and supervisors for 2011 will be determined in the stockholders' meetings on June 19, 2012.

17. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel expenses, depreciation and amortization for the three months ended March 31, 2012 and 2011 were summarized as follows:

	2012			2011		
	Operating Costs	**Operating Expenses**	**Total**	**Operating Costs**	**Operating Expenses**	**Total**
Personnel expenses						
Salaries	$ 8,529	$ 95,491	$ 104,020	$ 15,878	$ 159,661	$ 175,539
Labor insurance and health insurance	515	6,484	6,999	446	5,140	5,586
Pension cost	602	4,096	4,698	585	3,695	4,280
Others	408	4,495	4,903	513	5,003	5,516
Depreciation expenses	394	10,948	11,342	293	6,744	7,037
Amortization expenses	-	2,092	2,092	442	8,237	8,679

18. INCOME TAX

The provision for income tax amounted to $22,900 thousand and $105,888 thousand for the three months ended March 31, 2012 and 2011 were current income tax expense.

Under Article 10 of the Statute for Industrial Innovation passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019.

The components of deferred tax asset (liability) as of March 31, 2012 and 2011 were as follows:

	2012	**2011**
Deferred tax asset (liability)		
Unrealized exchange losses	$ 1,140	$ 1,470
Unrealized inventory devaluation losses	9,070	9,070
Unrealized bad-debt expense	13,920	8,430
Unrealized gross profit	15,460	64,414
Unrealized export trading losses	8,340	5,790
Unrealized pension expense	10,200	9,990
Income on long-term equity investments	(79,832)	(79,832)
Deferred tax (liability) asset, net	(21,702)	19,332
Deferred tax asset, current	(47,930)	(89,174)
Deferred tax liability, noncurrent	$ (69,632)	$ (69,842)

Current income tax expense for the three months ended March 31, 2012 and 2011 and income tax payable as of March 31, 2012 and 2011 were reconciled as follows:

	2012	**2011**
Income tax expense at statutory rate of 17%	$ 11,000	$ 96,100
Loss on long-term equity investments accounted for by equity method	11,900	13,910

(Continued)

	2012	2011
Gain on sale of investments	$ -	$ (4,050)
Others	-	(72)
Current income tax expense	22,900	105,888
Provision (reversal) of deferred income tax asset		
Unrealized exchange losses	(230)	(12,780)
Unrealized bad-debt expense	-	(20)
Unrealized profit from intercompany transaction	3,860	(2,900)
Unrealized pension expense	(11,560)	(11,281)
Income tax payable	30	120
	15,000	79,027
Less current year's withholding income tax	(245)	(59)
Add prior year's income tax payable	156,950	257,377
Income tax payable as of March 31, 2012	$ 171,705	$ 336,345

(Concluded)

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

Balance of imputation credit account	$ 391,026
Undistributed earnings generated until 1997	$ -
Undistributed earnings generated since 1998	$ 1,870,034
Expected imputation credit (IC) ratio for earnings distribution in 2011	20.91%
Actual IC ratio for earnings distribution in 2010	20.48%

In the balance of imputation credit account as of March 31, 2012, the income tax payable for 2011 had been taken into account.

19. EARNINGS PER SHARE

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

	2012				
				Earnings Per Share	
	Income Before Tax	Income After Tax	Weighted Average Number of Common Shares Outstanding (In Thousands)	Income Before Tax	Income After Tax
Basic earnings per share					
Net income attributed to holders of common stock	$ 64,572	$ 41,672	276,567	$ 0.23	$ 0.15
Effect of dilutive potential common shares					
Stock-based compensation			2,757		
Employee bonuses			161		
Diluted earnings per share					
Net income attributed to holders of common shares plus the effect of dilutive potential common shares	$ 64,572	$ 41,672	279,485	$ 0.23	$ 0.15

	2011				
			Weighted Average Number of Common Shares	Earnings Per Share	
	Income Before Tax	Income After Tax	Outstanding (In Thousands)	Income Before Tax	Income After Tax
Basic earnings per share					
Net income attributed to holders of common stock	$ 565,006	$ 459,118	274,438	$ 2.06	$ 1.67
Effect of dilutive potential common shares					
Stock-based compensation			4,451		
Employee bonuses			1,467		
Diluted earnings per share					
Net income attributed to holders of common shares plus the effect of dilutive potential common shares	$ 565,006	$ 459,118	280,356	$ 2.02	$ 1.64

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

20. OTHERS

Fair Value of Financial Instruments

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

Nonderivative Financial Instruments	2012 Carrying Value	2012 Fair Value	2011 Carrying Value	2011 Fair Value
Assets				
Cash and cash equivalents	$ 1,751,361	$ 1,751,361	$ 1,548,169	$ 1,548,169
Accounts receivable	1,114,524	1,114,524	929,561	929,561
Accounts receivable from related parties	303,987	303,987	1,514,018	1,514,018
Other financial assets, current	535,481	535,481	1,087,388	1,087,388
Available-for-sale financial assets - noncurrent	41,888	41,888	-	-
Financial assets carried at cost, noncurrent	48,812	-	77,281	-
Long-term equity investments	5,073,584	5,090,200	4,784,185	4,810,579
Refundable deposits	13,759	13,759	14,680	14,680
Liabilities				
Notes payable	-	-	15	15
Accounts payable	27,975	27,975	29,683	29,683
Accounts payable to related parties	267,460	267,460	173,416	173,416
Other payables	2,399,817	2,399,817	3,087,299	3,087,299
Long-term debts	200,000	200,000	200,000	200,000

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

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

b. Available-for-sale financial assets are determined using the market value in the open market or estimated by applying valuation method to open information in the market.

c. Fair values of long-term equity investments are estimated based on the net value of investees as of March 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 for similar long-term debts.

The amounts of financial assets determined by market value in the open market or estimated by evaluation method as of March 31, 2012 and 2011 were summarized as follows:

	Market Value in the Open Market		By Valuation Method	
	2012	**2011**	**2012**	**2011**
Available-for-sale financial assets, noncurrent	$ 41,888	$ -	$ -	$ -

For the three months ended March 31, 2011, the net foreign exchange gain on forward contracts was $2,315 thousand, which was recorded as non-operating expenses and losses.

The information of financial risk was summarized as follows:

Market Risk

The Company is exposed to market risk because of its investments in listed companies; the fair values of the investments fluctuate due to changes in market price. One percent decline in market value will cause the fair value of financial instruments to decline by $419 thousand.

Credit Risk

Financial instruments are evaluated for credit risk which represents the potential loss that would be incurred by the Company if the counter parties or third parties breached the contracts. The risk factors include centralization of credit, components, contract figure, 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 increase its cash-out by $2,000 thousand.

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

21. RELATED-PARTY TRANSACTIONS

The Company's related parties were as follows:

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

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

Sales

Sales to related parties for the three months ended March 31, 2012 and 2011 were summarized as follows:

	2012		2011	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
Phihong USA Corp.	$ 820,464	35	$ 1,926,345	58
Others	74,589	3	45,387	1
	$ 895,053	38	$ 1,971,732	59

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

Cost of Sales - Purchases

Purchases from related parties for the three months ended March 31, 2012 and 2011 were summarized below:

	2012		2011	
	Amount	Percentage to Total Purchases	Amount	Percentage to Total Purchases
Phihong (Dongguan) Electronics Co., Ltd.	$ 1,146,875	58	$ -	-
Dongguan Phitek Electronics Ltd.	499,540	25	-	-
Phihong Electronics (Suzhou) Co., Ltd.	331,203	17	-	-
Phihong International Corp.	-	-	1,600,206	64
Phitek International Co., Ltd.	-	-	899,953	36
Others	7,217	-	6,158	-
	$ 1,984,835	100	$ 2,506,317	100

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

The processing fee was based on intercompany agreements.

Accounts Receivable

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

	2012		2011	
	Amount	%	Amount	%
Phihong USA Corp.	$ 250,394	18	$ 1,471,180	60
Others	53,593	4	42,838	2
	$ 303,987	22	$ 1,514,018	62

Accounts Payable

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

	2012		2011	
	Amount	%	Amount	%
Dongguan Phitek Electronics Ltd.	$ 106,166	37	$ -	-
Phitek International Co., Ltd.	93,121	32	173,192	90
Others	68,173	24	224	-
	$ 267,460	93	$ 173,416	90

Other Receivables, Current

Other receivables, current as of March 31, 2012 and 2011 were as follows:

	2012		2011	
	Amount	**%**	**Amount**	**%**
Phihong (Dongguan) Electronics Co., Ltd.	$ 275,041	51	$ -	-
Phihong International Corp.	151,984	28	931,377	86
Phitek International Co., Ltd.	63,971	12	17,819	2
Others	17,128	3	104,903	9
	$ 508,124	94	$ 1,054,099	97

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

Other Payables

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

	2012		2011	
	Amount	**%**	**Amount**	**%**
Dongguan Shuang-Ying Electronics Ltd.	$ 188,808	8	$ -	-
Ascent Alliance Ltd.	-	-	281,429	9
Others	18,588	1	35,046	1
	$ 207,396	9	$ 316,475	10

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

Other Income

	2012		2011	
	Amount	**Percentage to Total Tooling Development Revenue**	**Amount**	**Percentage to Total Tooling Development Revenue**
Phihong USA Corp.	$ 2,197	7	$ 5,221	33

Credit Guarantees

a. Please see Note 23 to the financial statements.

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

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

22. MORTGAGED OR PLEDGED ASSETS

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

	2012	2011
Land	$ 112,450	$ 112,450
Buildings and improvements	167,232	176,010
	$ 279,682	$ 288,460

23. COMMITMENTS AND CONTINGENCIES

Loan Guarantees

As of March 31, 2012, the Company had guaranteed the US$6,000 thousand loan of Phihong USA Corp. and American Ballast Corp.

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

As of March 31, 2012 and 2011, significant foreign currency financial assets and liabilities are as follows:

	2011			2010		
	Foreign Currencies (In Thousands)	Exchange Rate (Note)	New Taiwan Dollars (In Thousands)	Foreign Currencies (In Thousands)	Exchange Rate (Note)	New Taiwan Dollars (In Thousands)
Monetary items						
USD	$ 76,771	29.5550	$ 2,268,971	$ 85,984	29.4800	$ 2,534,799
JPY	176,663	0.3573	63,116	64,283	0.3575	22,981
HKD	4,979	3.8068	18,954	2,634	3.7826	9,965
RMB	234	4.6963	1,098	254	4.4949	1,130
EUR	3	39.4200	113	1	41.5200	59
Investments accounted for by the equity method						
USD	155,207	29.5550	4,587,155	147,799	29.4800	4,357,115
JPY	71,834	0.3573	25,664	29,819	0.3575	10,661
Financial liabilities						
Monetary items						
USD	57,062	29.5550	2,304,550	82,591	29.4800	2,434,783
JPY	45,673	0.3573	4,149	19,337	0.3575	6,913
HKD	4,178	3.8068	15,913	22,547	3.7826	85,284
RMB	5	30.6900	143	1	30.3900	37

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

25. OPERATING SEGMENTS INFORMATION

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