TONG HSING ELECTRONIC INDUSTRIES, LTD.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2012 and 2011

(With Auditors' Report Thereon)

Independent Auditor's Report

The Board of Directors
Tong Hsing Electronic Industries, Ltd.:

We have audited the accompanying consolidated balance sheets of Tong Hsing Electronic Industries, Ltd. and subsidiaries 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 "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Those regulations 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 in the first paragraph present fairly, in all material respects, the financial position of Tong Hsing Electronic Industries, Ltd. and subsidiaries as of December 31, 2012 and 2011, and the 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.

KPMG

February 7, 2013

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

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2012 and 2011
(Expressed in thousands of New Taiwan dollars)

Assets	2012 Amount	%	2011 Amount	%
Current assets:				
Cash and cash equivalents (note 4)	$ 3,174,564	31	3,194,346	34
Financial assets at fair value through profit or loss – current (note 5)	373,034	3	691,557	7
Notes and accounts receivable, net (note 6)	1,104,931	11	749,937	8
Other current financial assets (note 18)	71,190	1	83,980	1
Inventories, net (note 7)	725,926	7	599,088	7
Deferred income tax assets and other current assets (note 15)	36,358	-	40,336	-
	5,486,003	53	5,359,244	57
Property, plant and equipment (notes 8, 18 and 19):				
Land	83,524	1	81,021	1
Land revaluation increments	254,935	2	254,935	3
Buildings	848,733	8	833,987	9
Machinery and equipment	4,860,247	47	3,895,666	41
Office equipment	230,660	2	239,543	3
Leasehold improvement	178,634	2	116,749	1
	6,456,733	62	5,421,901	58
Less: accumulated depreciation	1,977,213	19	1,681,156	18
Unfinished construction and prepayment for purchase of equipment	178,833	2	134,406	1
	4,658,353	45	3,875,151	41
Intangible assets (note 9):				
Patent	14,262	-	14,312	-
Cost of computer software	8,515	-	5,030	-
Goodwill	51,936	-	51,936	1
Other intangible assets	23,872	-	29,840	-
	98,585	-	101,118	1
Other assets:				
Prepaid pension cost (note 12)	55,741	1	44,498	-
Deferred expenses and other assets (notes 8, 17 and 18)	91,444	1	80,172	1
	147,185	2	124,670	1
Total assets	**$ 10,390,126**	**100**	**9,460,183**	**100**

Liabilities and Stockholders' Equity	2012 Amount	%	2011 Amount	%
Current liabilities:				
Short-term loans (note 10)	$ 250,030	2	143,891	1
Notes and accounts payable	385,319	4	345,334	4
Income tax payable	119,843	1	113,924	1
Accrued expenses and other current liabilities	570,763	5	548,628	6
	1,325,955	12	1,151,777	12
Long-term loans (note 11)	65,000	1	65,000	1
Non-current liabilities:				
Provision for land value increment tax (note 8)	80,950	1	80,950	1
Deferred income tax liabilities and other non-current liabilities (notes 12 and 15)	17,477	-	72,591	1
	98,427	1	153,541	2
Total liabilities	1,489,382	14	1,370,318	15
Stockholders' equity:				
Common stock (note 13)	1,629,071	16	1,625,351	17
Capital collected in advance (note 13)	-	-	1,730	-
Capital surplus (note 13):				
Paid-in capital in excess of par value	4,807,304	47	4,805,453	51
Treasury stock	51,647	-	-	-
	4,858,951	47	4,805,453	51
Retained earnings (note 13):				
Legal reserve	489,944	5	393,644	4
Special reserve	-	-	137,634	1
Unappropriated retained earnings	1,894,109	18	1,184,319	13
	2,384,053	23	1,715,597	18
Equity adjustment:				
Accumulated currency translation adjustments	(132,487)	(1)	(56,091)	(1)
Unrealized land revaluation increment (note 8)	161,156	1	161,156	2
	28,669	-	105,065	1
Treasury stock (note 13)	-	-	(163,331)	(2)
Total stockholders' equity	8,900,744	86	8,089,865	85
Commitments and contingencies (note 19)				
Total liabilities and stockholders' equity	**$ 10,390,126**	**100**	**9,460,183**	**100**

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2012 and 2011

(Expressed in thousands of New Taiwan dollars, except net income per share, which is expressed in New Taiwan dollars)

	2012 Amount	%	2011 Amount	%
Gross sales	$ 7,168,348	103	6,436,108	103
Less: sales returns and allowances	183,355	3	177,733	3
Net sales	6,984,993	100	6,258,375	100
Cost of sales (notes 7 and 20)	4,832,864	69	4,406,779	70
Gross profit	2,152,129	31	1,851,596	30
Operating expenses (note 20):				
Selling expenses	161,386	2	167,716	3
Administrative expenses	449,438	7	505,227	8
Research and development expenses	75,112	1	62,180	1
	685,936	10	735,123	12
Operating income	1,466,193	21	1,116,473	18
Non-operating income:				
Interest income	25,674	-	16,148	-
Gain on foreign currency exchange, net	-	-	24,810	-
Other (note 5)	10,921	-	18,086	-
	36,595	-	59,044	-
Non-operating expenses and losses:				
Interest expense	6,619	-	5,122	-
Loss on foreign currency exchange, net	15,436	-	-	-
Other (note 5)	1,499	-	15,333	-
	23,554	-	20,455	-
Income before tax	1,479,234	21	1,155,062	18
Income tax expense (note 15)	168,258	2	192,058	3
Consolidated net income	$ 1,310,976	19	963,004	15

	Before income tax	After income tax	Before income tax	After income tax
Basic net income per share (note 14)	$ 9.12	8.08	7.67	6.39
Diluted net income per share	$ 9.05	8.02	7.60	6.34

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2012 and 2011
(Expressed in thousands of New Taiwan dollars)

					Retained earnings						
	Common stock	Capital collected in advance	Capital surplus - paid-in capital in excess of par value	Capital surplus - treasury stock	Legal reserve	Special reserve	Unappropriated	Accumulated currency translation adjustments	Unrealized land revaluation increment	Treasury stock	Total
Balance on January 1, 2011	$ 1,417,906	200	2,852,106	-	314,788	-	1,005,047	(124,145)	42,669	-	5,508,571
Appropriation:											
Legal reserve	-	-	-	-	78,856	-	(78,856)	-	-	-	-
Special reserve	-	-	-	-	-	137,634	(137,634)	-	-	-	-
Dividends (cash)	-	-	-	-	-	-	(567,242)	-	-	-	(567,242)
Cash injection	200,000	-	1,900,000	-	-	-	-	-	-	-	2,100,000
Adjustment for increase in capital reserved for employees	-	-	45,000	-	-	-	-	-	-	-	45,000
Issuance of stock for employee stock options exercised	7,245	1,730	8,347	-	-	-	-	-	-	-	17,322
Capital collected in advance converted to common stock	200	(200)	-	-	-	-	-	-	-	-	-
Unrealized land revaluation increment	-	-	-	-	-	-	-	-	118,487	-	118,487
Treasury stock	-	-	-	-	-	-	-	-	-	(163,331)	(163,331)
Foreign currency translation adjustments	-	-	-	-	-	-	-	68,054	-	-	68,054
Consolidated net income for 2011	-	-	-	-	-	-	963,004	-	-	-	963,004
Balance on December 31, 2011	1,625,351	1,730	4,805,453	-	393,644	137,634	1,184,319	(56,091)	161,156	(163,331)	8,089,865
Appropriation:											
Legal reserve	-	-	-	-	96,300	-	(96,300)	-	-	-	-
Dividends (cash)	-	-	-	-	-	-	(642,520)	-	-	-	(642,520)
Reversal of special reserve	-	-	-	-	-	(137,634)	137,634	-	-	-	-
Issuance of stock for employee stock options exercised	1,990	-	1,851	-	-	-	-	-	-	-	3,841
Capital collected in advance converted to common stock	1,730	(1,730)	-	-	-	-	-	-	-	-	-
Treasury stock transferred to employees	-	-	-	-	-	-	-	-	-	163,331	163,331
Adjustment for treasury stock transferred to employees	-	-	-	51,647	-	-	-	-	-	-	51,647
Foreign currency translation adjustments	-	-	-	-	-	-	-	(76,396)	-	-	(76,396)
Consolidated net income for 2012	-	-	-	-	-	-	1,310,976	-	-	-	1,310,976
Balance on December 31, 2012	**$ 1,629,071**	**-**	**4,807,304**	**51,647**	**489,944**	**-**	**1,894,109**	**(132,487)**	**161,156**	**-**	**8,900,744**

Note 1: Directors' and supervisors' remuneration amounting to $8,000 and employees' bonuses amounting to $56,000 were recognized in the 2010 statement of income.

Note 2: Directors' and supervisors' remuneration amounting to $8,000 and employees' bonuses amounting to $65,600 were recognized in the 2011 statement of income.

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2012 and 2011
(Expressed in thousands of New Taiwan dollars)

	2012	2011
Cash flows from operating activities:		
Net income	$ 1,310,976	963,004
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	691,838	476,257
Compensation cost arising from transferring treasury stock to employees	52,137	-
Compensation cost arising from capital increase by cash reserved for employees	-	45,000
Increase in allowance for inventory obsolescence	21,356	7,196
Decrease (increase) in financial assets at fair value through profit or loss – current	318,523	(661,236)
Decrease (increase) in notes and accounts receivable	(354,994)	150,786
Decrease (increase) in inventories	(147,979)	52,054
Decrease (increase) in other current assets	3,423	(12,848)
Decrease (increase) in other current financial assets	1,071	7,195
Deferred income tax expense (benefit)	(49,702)	1,669
Increase (decrease) in notes and accounts payable	39,985	(56,587)
Increase (decrease) in accrued expenses and other current liabilities	(12,693)	21,013
Others	(2,558)	(9,616)
Cash provided by (used in) operating activities	1,871,383	983,887
Cash flows from investing activities:		
Additions to property, plant and equipment	(1,472,211)	(1,311,184)
Proceeds from sale of fixed assets	2,126	302
Decrease (increase) in restricted assets	11,719	(1,940)
Increase in deferred expenses and intangible assets	(27,192)	(6,578)
Others	(1,700)	326
Cash provided by (used in) investing activities	(1,487,258)	(1,319,074)
Cash flows from financing activities:		
Increase (decrease) in short-term loans	106,139	(140,738)
Proceeds from issuance of stock for employee stock options exercised	3,841	17,322
Cash injection	-	2,100,000
Cash dividend	(642,520)	(567,242)
Purchase of treasury stock	-	(163,331)
Purchase of treasury stock by employees	162,841	-
Cash provided by (used in) financing activities	(369,699)	1,246,011
Effects of exchange rate change on cash and cash equivalents	(34,208)	33,083
Net increase (decrease) in cash and cash equivalents	(19,782)	943,907
Cash and cash equivalents at beginning of year	3,194,346	2,250,439
Cash and cash equivalents at end of period	**$ 3,174,564**	**3,194,346**
Supplementary disclosures of cash flow information:		
Cash paid during the period for:		
Interest	**$ 6,833**	**4,903**
Income tax	**$ 211,292**	**229,842**
Supplementary disclosures of additions to property, plant and equipment by paying cash:		
Additions to property, plant and equipment	$ 1,512,958	1,246,330
Decrease (increase) in payable for purchase of equipment	(40,747)	64,854
Cash paid	**$ 1,472,211**	**1,311,184**

See accompanying notes to consolidated financial statements.

(1) Organization

Tong Hsing Electronic Industries, Ltd. ("the Company") was incorporated as a company limited by shares in August 1974. The major business activities of the Company are the manufacture and sale of RF modules, hybrid integrated circuits, metalized ceramic substrates and image sensors. The Company's common shares were listed on the Taiwan Stock Exchange (TSE) on November 16, 2007.

Based on a resolution of the directors' meeting held on August 27, 2009, the Company decided to merge with Impac Technology Co., Ltd. ("Impac"). The merger effective date was December 31, 2009. Impac was dissolved.

Tong Hsing Electronic Phils., Inc. ("THEPI") was incorporated as a company limited by shares in 1994. The major business activities of THEPI are the manufacture and sale of RF modules, metalized ceramic substrates, hybrid integrated circuits and image sensors. As of December 31, 2012, the Company had 100% ownership of THEPI, amounting to US$65,059 thousand.

As of December 31, 2012 and 2011, the number of employees hired by the Group was approximately 2,914 and 2,719, respectively.

(2) Summary of Significant Accounting Policies

The accompanying consolidated financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles and practices generally accepted in the Republic of China. The consolidated financial statements of the Group have been prepared in the local currency and in Chinese. The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail. The significant accounting policies and measurement basis adopted in preparing the accompanying financial statements are summarized as follows:

(a) Reporting entities of the consolidated financial statements and basis of consolidation

The Company uses the equity method to evaluate investees which it has the power to control, and consolidates the investees into its financial statements at the end of each quarter and full fiscal year. As of December 31, 2012 and 2011, the subsidiary included in the consolidated financial statements and the Company's direct and indirect percentage of ownership was as follows:

(Continued)

Investor	Name of subsidiary	Nature of operation	Percentage of ownership December 31, 2012	Percentage of ownership December 31, 2011
The Company	THEPI	Sales and manufacturing of RF modules, metalized ceramic substrates, hybrid integrated circuits and image sensors	100 %	100 %

(b) Use of estimates

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

(c) Foreign currency transactions and translation

Each member of the Group records its books in its functional currency. Transactions not quoted in the functional currency are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities not denominated in the functional currency are translated into the functional currency using the exchange rates on that date. The resulting realized and unrealized exchange incomes (losses) from such translations are recorded as non-operating gains or losses. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the exchange rate ruling at the balance sheet date. If the non-monetary assets or liabilities are measured at fair value through profit and loss, the resulting unrealized exchange income (loss) from such translations is reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange income (loss) from such translations is recorded as a separate component of stockholders' equity.

For long-term equity investments in foreign investees, which are accounted for by the equity method, their foreign currency financial statements have to be translated into the Group's reporting currency. Translation adjustments resulting from the translation of foreign currency financial statements into the Group's reporting currency are accounted for as translation adjustment, which is a separate component of stockholders' equity.

(d) Classification of current and non-current assets and liabilities

Cash or cash equivalents, and assets that will be held primarily for the purpose of being traded or are expected to be realized within 12 months after the balance sheet date are classified as current assets; all other assets shall be classified as non-current.

(Continued)

Liabilities that will be held primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities shall be classified as non-current.

(e) Asset impairment

The Group assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. The Group recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Group reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Group assesses the cash-generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the carrying value in excess of the recoverable amount.

(f) Cash equivalents

Cash equivalents are short-term investments that are readily convertible to known amounts of cash and so near maturity that they present insignificant risk of change in value because of changes in interest rates, including bonds purchased under resale agreements, government bonds and commercial paper with a maturity of three months or less from the date of investment.

(g) Financial assets measured at fair value through profit or loss

These financial instruments include financial assets held for trading and designated as at fair value through profit and loss. The main purposes of the financial instruments are selling or repurchasing within a short period of time. The derivative instruments held by the Group are classified in this account, except if they are designated and effective hedging instruments. If a financial instrument that the Group holds is a hybrid instrument that includes an embedded derivative and a non-derivative host contract, the embedded derivative shall be recorded as financial assets measured at fair value through profit or loss as of the acquisition date.

(h) Notes and accounts receivable, other receivables, and refundable deposits

Notes and accounts receivable are the creditors’ rights from selling goods or rendering services. Other receivables and refundable deposits are created from non-operating income.

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Concerning financial assets, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Impairment loss is recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognized in profit or loss. The present value of estimated future cash flows includes the recoverable amount of collateral and insurance.

If, in a subsequent period, the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

(i) Factoring of accounts receivable

The Company adopts ROC Statement of Financial Accounting Standards (SFAS) No. 33 "Accounting for Transfers of Financial Assets and Extinguishments of Liabilities" and derecognizes the related financial assets and liabilities when all of the following conditions are met:

1. The transferred assets have been isolated from the transferor.

2. The transferee obtains the right to exchange the transferred assets with a third party.

3. The transferor does not maintain effective control over the transferred assets through an agreement that entitles and obligates the transferor to repurchase the transferred assets before their maturity.

The accounts receivable of factoring are accounted for as other current financial assets net of commission.

(j) Derivative financial instruments and hedging

The derivative financial instruments held by the Group are for hedging the risk of changes in foreign currency exchange rates and interest rates resulting from operational, financial and investing activities. The derivatives are recognized as financial instruments held for trading when they do not meet the criteria for hedge accounting.

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When each of the three types of hedger—"fair value hedge", "cash flow hedge" and "hedge of a net investment in a foreign operation"—meets all the criteria for hedge accounting, the offsetting effects on gain or loss of changes in the fair value of the hedging instruments and the hedged item will be recognized.

(k) Inventories

The cost of inventories consists of all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Fixed production overheads are allocated to finished goods and work in progress based on the normal capacity of the production facilities. Variable production overheads are allocated to each unit of production based on the actual use of the production facilities. Inventories are measured individually at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

(l) Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost and can be revalued at government-declared values or indexes. Provision for land value increment tax recorded under non-current liabilities can be estimated for land revaluation. When the Group disposes of the land, the related land revaluation increments and provision for land value increment tax should be transferred to other accounts. Interest in connection with the acquisition or construction of property, plant and equipment is capitalized. Major renewals and improvements are capitalized and depreciated accordingly. Gains or losses on the disposal of property, plant and equipment are included in non-operating income or losses.

Excluding land, depreciation of property, plant and equipment is provided using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the estimated useful lives or the contract periods by the straight-line method. If the property, plant and equipment have reached the end of their estimated useful lives but are still in use, the Group will estimate the remaining useful lives and residual value, and depreciate the residual value using the same method. The useful lives of respective assets are summarized as follows:

1. Buildings: 25~50 years

2. Improvement to buildings: 3~25 years

3. Machinery and equipment: 1~10 years

4. Office equipment: 2~10 years

5. Leasehold improvement: 3~25 years

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to Financial Statements

(m) Intangible assets

The Group adopted SFAS No. 37 “Intangible Assets”. In accordance with SFAS No. 37, other than an intangible asset acquired by way of a government grant, which should be measured at its fair value, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

The depreciable amount of capitalized development expenditure is determined after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. Patents, costs of computer software, and other intangible assets are amortized using the straight-line method over three to seven years.

The residual value, the amortization period, and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. Any changes shall be accounted for as changes in accounting estimates.

In accordance with SFAS No. 37, except when it forms part of the cost of a business combination, expenditure on research is recognized as an expense when it is incurred. An intangible asset arising from development shall be recognized if, and only if, the Group cash demonstrate all of the following:

1. the technical feasibility of completing the intangible asset so that it will be available for use or sale.

2. its intention to complete the intangible asset and use or sell it.

3. its ability to use or sell the intangible asset.

4. how the intangible asset will generate probable future economic benefits.

5. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

6. its ability to measure reliably the expenditure attributable to the intangible asset during its development.

(n) Deferred expenses

Construction of electricity supply, improvements, and mold expenses are amortized using the straight-line method over three years.

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(o) Goodwill

The cost of investment in excess of the fair value of identifiable net assets is recognized as goodwill, and is determined by the original cost less its accumulated impairment.

(p) Financial liabilities at fair value through profit or loss

Financial instruments are classified into this category if the purpose of acquisition is principally for selling or repurchasing in the near term. Except for effective hedging derivative financial instruments, all financial derivatives are included in this category. Changes in fair value are charged to current operations.

(q) Retirement plan

The Company has established an employee noncontributory pension plan covering all regular employees. According to this plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. The retirement benefits are lump-sum payments. Payments of employee retirement benefits are based on the years of service and average salary for the six months before the employee's retirement. Each employee will earn two months' salary for the first 15 years of service and one month's salary for each service year after the sixteenth year. The total number of months each employee can earn is limited to 45 months.

In accordance with the requirements of the ROC Labor Standards Law, the Company has made monthly cash contributions of 8% of salaries and wages incurred to a pension fund maintained with Bank of Taiwan (originally the "Central Trust of China"). Retirement benefits are paid first from the fund and then by the Company if the fund is insufficient.

THEPI has established an employee noncontributory pension plan covering all regular employees. Employees are eligible for retirement or are required to retire after meeting certain age or service requirements. The retirement benefits are lump-sum payments. Payments of employee retirement benefits are based on the years of service and half of the final month's salary before the employee's retirement.

The Company and THEPI have their pension plans actuarially valued on the year-end date and recognize net periodic pension cost, including service costs, interest cost, expected return on plan assets, and amortization of net unrecognized transition costs, over the average remaining service period of employees (15 and 14 years, respectively).

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Under the Labor Pension Act, which came into force on July 1, 2005, a defined contribution pension plan should be implemented by the Company for all new employees and for any employees employed before that date who chose the new plan. For the employees who are under for the defined contribution pension plan, the Company has made a monthly cash contribution of 6% of salaries and wages to employees' individual pension fund accounts at the Bureau of Labor Insurance based on the Labor Pension Act, and the contribution was recorded as pension expenses in the accompanying statements of income.

(r) Share-based payment

The employee stock options granted before January 1, 2008, are accounted for by interpretations (92)070, 071, and 072 issued by the Accounting Research and Development Foundation (ARDF). The Company adopts the intrinsic value method for the employee stock options. Compensation costs are the excess, if any, of the fair value of the stock at the measurement date over the amount employees must pay to acquire the stock. Meanwhile, the compensation costs mentioned above are recorded as current expense and a separate component of stockholders' equity during the service period of the employees specified in the employee stock option plan. According to SFAS No. 39 "Share-based Payment", the Company need not apply SFAS No. 39 retrospectively to the share-based payments that were granted before January 1, 2008; however, the pro-forma net income and earnings per share must still be disclosed.

If the Company increases its capital through a cash injection, it will reserve 10% to 15% of the capital injection for employees to purchase in accordance with Article 267 of the ROC Company Act. The amount reserved is evaluated at fair value on the grant date, and recorded as salary expense and capital surplus－employee stock options. After purchasing, the capital surplus－employee stock options are reclassified into capital surplus－paid-in capital in excess of par value, in accordance with Interpretation (96) 267 issued by the ARDF.

(s) Employees' bonuses and directors' and supervisors' remuneration

Employees' bonuses and directors' and supervisors' remuneration based on the ROC Company Act and the Company's articles of incorporation and appropriated after January 1, 2008, are accounted for by Interpretation (96)052 issued by the ARDF. The Company estimates the amount of employees' bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes it as expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

(Continued)

(t) Income tax

Income tax is calculated based on accounting income. The amount of deferred tax liabilities or assets is calculated by applying the provisions of enacted tax law to determine the amount of tax payable or refundable, currently or in future years. The tax effects of taxable temporary differences are recorded as deferred income tax liabilities. The tax effects of deductible temporary differences and tax credits are recognized as deferred income tax assets. The realization of deferred income tax assets is evaluated, and if it is considered more likely than not that the asset will not be realized, a valuation allowance is recognized accordingly.

Deferred income tax assets or liabilities are classified as current or non-current based on the classification of the asset or liability relating to the deferred item or, for certain transactions not directly related to an asset or liability, based on the timing of the expected reversal date.

Investment tax credits are accounted for using the flow-through method. Therefore, deferred income tax credits generated from purchases of machinery for automation of production and production technology are recognized in the year in which the credit arises.

The 10% surtax on undistributed earnings is recorded as current income tax expense after the resolution to appropriate retained earnings is approved in a stockholders' meeting.

The Group's income tax returns are calculated and filed based on the Company's and THEPI's local tax law. The Group's income tax expenses are the aggregation of all consolidated entities' income tax expenses.

(u) Treasury stock

The Group accounts for the cost of purchasing its outstanding stock as "treasury stock". A gain on the sale of treasury stock is credited to capital surplus – treasury stock. Losses are charged to capital surplus, but only to the extent of available net gains from previous sales or retirements of the same class of stock; otherwise, losses are charged to retained earnings. The cost of treasury stock is computed using the weighted-average method.

When treasury stock is retired, the weighted-average cost of the retired treasury stock is written off against the par value of the shares and the paid-in capital derived from the issuance of shares in excess of par value. If the weighted-average cost written off exceeds the sum of the par value and the paid-in capital in excess of par value, the difference is debited to capital surplus – treasury stock arising from the same class of stock or to retained earnings, and if vice versa, the difference is credited to capital surplus – treasury stock.

(Continued)

(v) Revenue recognition

Sales of goods are recognized when products are shipped and the significant risks and rewards of ownership are transferred to the customers. Costs and expenses are recognized when the revenue is earned.

(w) Net income per share

Net income per share of common stock is computed based on the weighted-average number of common shares outstanding during the year. Net income per share for the prior year is retroactively adjusted to reflect the effects of new shares issued by transferring capital surplus and retained earnings.

The employee stock options issued by the Company and employee stock bonuses which have not yet been approved by the stockholders' meeting are potential common shares. Only basic net income per share is disclosed if there is no dilution effect. Otherwise, both basic net income and diluted net income per share are disclosed. For the purpose of calculating diluted net income per share, the potential common shares are deemed to have been converted into common stock at the beginning of the period, and the effect on net income of the additional common shares outstanding is considered accordingly.

(x) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance for which discrete financial information is available.

(3) Change in Accounting Policy and Its Influence

(a) Effective from January 1, 2011, the Group adopted the third amended SFAS No. 34 "Financial instruments: Recognition and Measurement". In accordance with SFAS No. 34, loans and receivables originated by the Group shall apply the regulations on initial recognition, subsequent recognition and impairment. The change in accounting policy had no material effects on the Group's net income and net income per share for the year ended December 31, 2011.

(Continued)

TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

Notes to Financial Statements

(b) Effective from January 1, 2011, the Group adopted the newly issued SFAS No. 41 "Operating Segments". In accordance with SFAS No. 41, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The Group determines and presents operating segments based on the information that is internally provided to the chief operating decision maker. In accordance with SFAS No. 41, the operating segment information is disclosed within the consolidated financial statements rather than in the separate financial statements. The Standard supersedes SFAS No. 20 "Segment Reporting." Such changes in accounting principle did not have any effect on the financial statements for the year ended December 31, 2011.

(4) Cash and Cash Equivalents

	December 31, 2012	December 31, 2011
Petty cash and foreign currency on hand	$ 1,640	1,237
Checking accounts and demand deposits	1,141,792	1,085,829
Time deposits	2,031,132	2,007,280
Commercial paper purchased under resale agreements	-	100,000
	$ 3,174,564	3,194,346

(5) Financial Instruments

(a) Non-derivative financial instruments

As of December 31, 2012 and 2011, the non-derivative financial instruments held by the Group were as follows:

	December 31, 2012	December 31, 2011
Financial assets at fair value through profit or loss – current:		
Financial assets held for trading:		
Open-end mutual funds	$ 362,380	581,843
Bonds purchased under resale agreements with a maturity of three months or more from the date of investment	-	100,259
Bonds investment – convertible bonds payable	9,633	9,455
	$ 372,013	691,557

As of December 31, 2012 and 2011, the unrealized gain on financial assets through profit or loss resulting from changes in fair value amounted to $2,113 and $1,398, respectively, recorded under non-operating income and under non-operating expenses and losses, respectively.

(Continued)

(b) Derivative financial instruments (expressed in thousands of US dollars)

As of December 31, 2011, there was no derivative financial instrument. As of December 31, 2012, the details of the derivative financial instruments were as follows (in thousands of New Taiwan and US dollars):

	December 31, 2012	
	Book value	**Nominal amount**
Derivative financial assets:		
USD forward foreign exchange contracts sold (USD/NTD)	**$ 1,021**	**USD 23,000**

The above derivative financial instruments were accounted for as financial assets measured at fair value through profit or loss – current financial assets.

To hedge the exchange rate, the Group signed forward foreign currency contracts with several banks for the years ended December 31, 2012 and 2011. The gain or loss resulting from changes in fair value of these contracts were a loss of $2,603 and a loss of $13,836 for the years ended December 31, 2012 and 2011, respectively, recorded under non-operating income and under non-operating expenses and losses, respectively.

(6) Notes and Accounts Receivable – Third Parties

	December 31, 2012	December 31, 2011
Notes receivable	$ 9	991
Accounts receivable	1,124,215	758,683
	1,124,224	759,674
Less: allowance for doubtful accounts	(19,293)	(9,737)
	$ 1,104,931	749,937

Short-term notes and accounts receivable are not discounted, and their book value is considered to be an approximation of fair value.

The Group, one of its clients, and Standard Chartered Bank signed a three-way contract in which Standard Chartered Bank purchases accounts receivable from the Group. The total amount of the accounts receivable should not exceed the facility limit provided by the bank to the Group's client. As of December 31, 2012, the total amount was USD 20,000 thousand. Based on the contract, Standard Chartered Bank has no right to request the Group to repurchase the accounts receivable. Thus this is a non-recourse accounts receivable transfer. As of December 31, 2012, all transferred accounts receivable had been derecognized since the conditions for derecognization were met.

(Continued)

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As of December 31, 2012, the details of the factored accounts receivable were as follows (expressed in thousands of US dollars):

	December 31, 2012				
Bank	**Accounts receivable factored (gross)**	**Cash received**	**Collateral**	**Amount derecognized**	**Interest rate**
Standard Chartered Bank	$ 231,218	231,218	-	231,218	1.035888%~ 1.723003%

(7) Inventories

	December 31, 2012	December 31, 2011
Finished goods	$ 63,797	27,004
Less: allowance for inventory valuation loss and obsolescence	(6,254)	(4,255)
Sub-total	57,543	22,749
Semi-finished goods	153,868	121,409
Less: allowance for inventory valuation loss and obsolescence	(17,405)	(18,379)
Sub-total	136,463	103,030
Work in process	198,896	136,556
Less: allowance for inventory valuation loss and obsolescence	(7,181)	(7,822)
Sub-total	191,715	128,734
Raw materials	265,553	308,301
Less: allowance for inventory valuation loss and obsolescence	(10,166)	(8,488)
Sub-total	255,387	299,813
Supplies	85,292	45,416
Less: allowance for inventory valuation loss and obsolescence	(474)	(654)
Sub-total	84,818	44,762
	$ 725,926	599,088

(a) The allowance for inventory valuation loss and obsolescence amounted to $41,480 and $39,598 as of December 31, 2012 and 2011, respectively.

(Continued)

(b) Inventory-related expenses amounted to losses of $21,356 and $7,196 for the years ended December 31, 2012 and 2011, as follows:

		2012	2011
Write-downs (recovery) on inventory valuation and obsolescence	$	2,097	(9,873)
Loss on scrapping of inventory		19,259	17,069
	$	**21,356**	**7,196**

Due to the fact that the Group sold and scrapped obsolete inventories in the year ended December 31, 2011, the net realized value of inventories was no longer lower than the cost, and the Group recognized recovery on inventory valuation and obsolescence amounting to $9,873.

(c) The Group did not provide inventories as collateral for its loans as of December 31, 2012 and 2011, respectively.

(8) Property, Plant and Equipment, and Other Assets

(a) Land was revalued based on the government-declared value in 2011 and 1990, the revaluation increments as of December 31, 2012 and 2011, were as follows:

		December 31, 2012	December 31, 2011
Land revaluation increments	$	254,935	254,935
Less: provision for land value increment tax		(80,950)	(80,950)
Net revaluation increments	**$**	**173,985**	**173,985**

(b) The Group extended the factory and building a dormitory for employees on December 31, 2008. As of December 31, 2010, the dormitory had been completed and reclassified under buildings. As of December 31, 2012, a part of the factory construction had been completed and reclassified under buildings.

(c) Because Philippine regulations prohibited foreigners from owning land, THEPI paid for land and owned it in the name of Multi-field Holdings Corp. (Multi-field). As of December 31, 2012 and 2011, the land amounted to $57,713 (91,110 thousand pesos) and was recorded as other asset. To assure the right to the land, THEPI provided the land as collateral for a credit line from a local bank. Please refer to note 17.

(d) As of December 31, 2012 and 2011, the Group provided property, plant and equipment as collateral for its loans. Please refer to note 18 for details.

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TONG HSING ELECTRONIC INDUSTRIES, LTD. AND SUBSIDIARIES

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(9) Intangible Assets

	Patents	Cost of computer software	Goodwill	Others	Total
Balance on January 1, 2012	$ 14,312	5,030	51,936	29,840	101,118
Acquisition	3,994	7,728	-	-	11,722
Amortization	(4,044)	(4,243)	-	(5,968)	(14,255)
Balance on December 31, 2012	**$ 14,262**	**8,515**	**51,936**	**23,872**	**98,585**
Balance on January 1, 2011	$ 17,890	7,962	51,936	35,808	113,596
Acquisition	-	908	-	-	908
Amortization	(3,578)	(3,840)	-	(5,968)	(13,386)
Balance on December 31, 2011	**$ 14,312**	**5,030**	**51,936**	**29,840**	**101,118**

(10) Short-term Loans

	December 31, 2012	December 31, 2011
Secured loans	$ 230,034	79,133
Loans for letter of credit	-	44,766
Commercial paper, net of prepaid interest expense	19,996	19,992
	$ 250,030	**143,891**
Unused short-term credit lines	**$ 1,347,629**	**1,354,124**

Annual interest rates on short-term loans for the years ended December 31, 2012 and 2011, ranged from 1.158% to 2.05% and 0.96% to 2.10%, respectively. The commercial paper was credit loans. The Group provided land and building as the collateral for part of the secured loans. Please refer to note 18 for details.

(11) Long-term Loans

Bank	Purpose and repayment term	December 31, 2012	December 31, 2011
Tai Shin Bank	Increase investment to extend productivity (2014.05.31)	**$ 65,000**	**65,000**
Unused long-term credit lines		**$ -**	**-**

The annual interest rates on long-term loans for the years ended December 31, 2012 and 2011, ranged from 1.36% to 1.37% and 1.25% to 1.36%, respectively. The aforementioned long-term loans were credit loans.

(Continued)

(12) Pensions

The Group made an actuarial valuation of its defined benefit pension plans on December 31, 2012 and 2011. According to the actuarial reports, the reconciliation of the funded status and accrued pension liability was as follows:

	December 31, 2012		December 31, 2011	
	The Company	**THEPI**	**The Company**	**THEPI**
Benefit obligations:				
Vested benefit obligations	$ (63,493)	-	(45,218)	-
Non-vested benefit obligations	(154,082)	(13,654)	(137,097)	(8,429)
Accumulated benefit obligation	(217,575)	(13,654)	(182,315)	(8,429)
Projected future employee compensation increases	(134,402)	(21,381)	(116,638)	(11,872)
Projected benefit obligation	(351,977)	(35,035)	(298,953)	(20,301)
Plan assets at fair value	231,461	6,821	206,444	6,136
Funded status	(120,516)	(28,214)	(92,509)	(14,165)
Unrecognized past service cost	-	1,744	-	1,873
Unrecognized net transition obligation	-	-	103	-
Unrecognized net pension loss	176,257	12,816	136,904	3,863
Prepaid pension cost (Accrued pension liability)	**$ 55,741**	**(13,654)**	**44,498**	**(8,429)**

Actuarial assumptions were as follows:

	2012		2011	
	The Company	**THEPI**	**The Company**	**THEPI**
Discount rate	1.75%	6.60%	2.00%	7.10%
Future salary increase rate	3.00%	7.00%	3.00%	6.00%
Expected long-term rate of return on plan assets	1.75%	7.00%	2.00%	7.00%

(Continued)

The net pension expense consisted of the following:

	2012		2011	
	The Company	**THEPI**	**The Company**	**THEPI**
Service cost	$ 5,182	3,650	5,451	1,666
Interest cost	5,954	1,467	5,297	885
Actual return on plan assets	(1,681)	(437)	(1,831)	(392)
Amortization	2,638	306	4,336	(141)
Net pension expense for defined benefit pension plan	**$ 12,093**	**4,986**	**13,253**	**2,018**
Net pension expense for defined contribution pension plan	**$ 30,179**	**-**	**27,288**	**-**

The vested benefits were approximately $88,942 and $69,467 as of December 31, 2012 and 2011, respectively. The payment of employee pensions in 2012 was $283 and in 2011 was $0.

(13) Stockholders' Equity

(a) Capital increase

Based on a resolution at the annual stockholder's meeting held on June 2, 2011, the Company declared a 4 New Taiwan dollar cash dividend per share amounting to $567,242. The ex-dividend date was July 2, 2011. Based on a resolution of the board of directors' meeting held on June 9, 2011, the Company increased its common stock by issuing 20,000 thousand shares through a cash injection at $105 (dollars) per share. The effective date of share issuance was July 2, 2011, and the registration procedures related to the above issuance was completed on August 3, 2011.

Based on a resolution at the annual stockholders' meeting held on June 19, 2012, the Company declared a 4 New Taiwan dollar cash dividend per share amounting to $642,520. The ex-dividend date was July 31, 2012.

The Company's employees exercised stock options to acquire the Company's common stock amounting to $8,975, and the new shares issued were 897 thousand shares for the year ended December 31, 2011. As of December 31, 2012, the registration processes were completed.

The Company's employees exercised stock options to acquire the Company's common stock amounting to $1,990, and the new shares issued were 199 thousand shares for the year ended December 31, 2012. As of December 31, 2012, the registration processes were completed.

As of December 31, 2012 and 2011, the authorized common stock with par value of 10 New Taiwan dollars per share was $2,000,000, of which $100,000 was reserved for the issuance of employee stock options.

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(b) Treasury stock

In the meeting of the board of directors held on August 22, 2011, pursuant to the Securities and Exchange Act, the board decided to purchase 6,000 thousand shares of treasury stock for the purpose of transferring to its employees. As of December 31, 2011, the Company had purchased 2,200 thousand shares of treasury stock at a total cost of $163,331, recorded as a deduction item of stockholders' equity.

Based on the resolution of the board of directors' meeting held on February 24, 2012, the Company decided to transfer 2,200 thousand shares of treasury stock to its employees. The Company set the average buyback price as the exercise price and recognized compensation cost amounting to $52,137, recorded as capital surplus – treasury stock after the employees' purchase. The effective date of the share purchase was February 29, 2012. As of December 31, 2012, the amount of $162,841 had been completely collected.

Pursuant to the Securities and Exchange Act, the number of shares of treasury stock cannot exceed 10% of the number of shares issued. The total purchase cost of treasury stock cannot exceed the sum of retained earnings, paid-in capital in excess of par value, and realized capital surplus. The shares bought back with the intent of transferring to employees must be transferred within three years from the date of buyback. Otherwise, the shares shall be deemed as not issued by the Company, and cancelled. In addition, treasury stock cannot be pledged for debts, and treasury stock does not carry any shareholder rights until it is disposed of or transferred to employees.

(c) Capital surplus

From the year 2011, pursuant to the ROC Company Act, capital surplus should be used to offset a deficit first, and then the realized capital surplus may be converted into capital and distributed as stock dividends or distributed as cash dividends. The aforementioned realized capital surplus was generated from the excess of the issuance price over the par value of capital stock and donations for the year 2011. According to Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of total common stock outstanding. In addition, capital increases by transferring paid-in capital in excess of par value can only commence in the following year.

Based on the resolution of the board of directors' meeting held on March 16, 2011, the Company increased its common stock by issuing 20,000 thousand shares through a cash injection and retained 15% of the capital for the employees to purchase, accounted for by Interpretation (96) 267 issued by the ARDF. The fair value was $45,000 on the grant day, recorded as capital surplus－paid-in capital in excess of par value. In addition, the Company increased capital surplus – additional paid-in capital by $1,900,000 from a cash injection, and by $8,347 from the exercise of employee stock options in the year ended December 31, 2011.

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Based on the resolution of the board of directors' meeting held on February 24, 2012, the Company decided to transfer 2,200 thousand shares of treasury stock to its employees. The effective date of share purchase was February 29, 2012, and the Company recognized compensation cost amounting to $52,137, recorded as capital surplus – treasury stock after the employees' purchase. In addition, the Company increased capital surplus by $1,851 from the exercise of employee stock options and decreased treasury stock by $490 in the year ended December 31, 2012.

(d) Legal reserve

The ROC Company Act stipulates that companies must retain 10% of their annual net earnings, as defined in the Act, until such retention equals the amount of the issued share capital. When a company incurs no loss, it may, pursuant to a resolution to be adopted by the shareholders' meeting as required, distribute its legal reserve by issuing new shares or cash to shareholders. Only the portion of the legal reserve which exceeds 25% of the paid-in capital may be distributed.

(e) Employee stock options

In the meeting of the board of directors held on May 15, 2007, the board decided to issue 4,000 units of employee stock options with an exercisable right of 1,000 shares of the Company's common stock per unit. The information on total options issued is summarized as follows:

	2012		**2011**	
	Units (in thousands)	**Weighted-average exercise price (NT dollars)**	**Units (in thousands)**	**Weighted-average exercise price (NT dollars)**
Outstanding units on January 1	199	$ 19.3	1,116	19.8
Current units granted	-	-	-	-
Current units abandoned	-	-	20	19.8
Current units exercised	199	19.3	897	19.3
Current units expired	-	-	-	-
Outstanding units on December 31	-	-	199	19.3
Exercisable units on December 31	-	-	199	19.3

The weighted-average fair price of the Company's stock was $97.73 (dollars) and $108.59 (dollars) for the years ended December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, the weighted-average life of the stock options was 0 and 0.58 years, respectively.

The issuance term of the stock options are as follows:

1. Exercise price: The exercise price is $19.30 (dollars) per share after adjustments.

2. Exercisable duration: Employees who received stock options that exceed two years can exercise a specific percentage in each period as below. The exercisable duration of the options is five years. No transference is allowed except for inheritance. After the expiration of the exercisable duration, the Company will retire the unexercised options and not re-issue the options.

Option holding period	Exercisable percentage (cumulative)
More than 2 years	50%
More than 3 years	75%
More than 4 years	100%

3. Exercise method: The Company would issue new shares as the options are exercised.

4. Exercise procedure: In accordance with the Company's issuance and exercise rules, the entitlement certification of stock options exercised is registered as common stock at least once a quarter.

   The compensation cost of the stock options issued before December 31, 2007, was computed by the intrinsic value method. Because the Company was a publicly owned company and the net value of the Company's common stock on the measurement date was not in excess of the exercise price of the stock options, the Company did not need to recognize compensation cost. The compensation cost for the years ended December 31, 2012 and 2011, would be $6,002 and $(18,515), respectively, if the Company adopted paragraph fifty of SFAS No. 39, which states that changes in intrinsic value after the measurement date should be treated as compensation cost. The pro-forma information would be as follows:

		2012	2011
Net income	Actual	$ 1,310,976	963,004
	Pro forma	1,304,974	981,519
Basic net income per share	Actual	8.08	6.39
	Pro forma	8.04	6.51

(f) Limitation on distribution of retained earnings

Based on the Company's articles of incorporation, 10% of annual net income after covering accumulated deficit, if any, is to be set aside as a legal reserve, and an amount equal to a net debit balance of stockholders' equity is appropriated as a special reserve. The remuneration to directors and supervisors cannot be higher than 2% of the remaining balance, and no less than 5%

(Continued)

is distributed as bonus to employees. The remaining balance and the accumulated unappropriated earnings of prior years, if any, can be distributed as dividends to stockholders. The amount of dividends is determined by the board of directors and approved by the stockholders at their annual meeting. Dividends are paid in cash and/or stock from retained earnings, and cash dividends cannot be less than 30% of the total cash and stock dividends.

According to SFB (former SFC) regulations, when there is a deduction item in stockholders' equity during the year, an amount equal to the deduction before appropriation must be included as a special reserve within retained earnings. The special reserve could be available for dividend distribution only after the related stockholders' equity deduction item has been reversed. Based on the resolution approved by the stockholders during the annual meetings on June 19, 2012, and June 2, 2011, the special reserve was reversed by $137,634 and set aside in the amount of $137,634, respectively.

(g) Based on the resolution approved by the stockholders during the annual meetings on June 19, 2012, and June 2, 2011, the employees' bonuses, and directors' and supervisors' remuneration were appropriated from the distributable retained earnings of 2011 and 2010 as follows:

	2011	2010
Employees' bonuses – cash	$ 65,600	56,000
Directors' and supervisors' remuneration	8,000	8,000
	$ 73,600	**64,000**

The earnings distribution above had no difference from the estimated distribution in the financial report for 2011 and 2010. The related information about earnings distribution for employees' bonuses and directors' and supervisors' remuneration can be accessed from the Market Observation Post System after these meetings are held.

(h) The Company estimates the amount of employees' bonuses and directors' and supervisors' remuneration according to the ROC Company Act and the Company's articles of incorporation for the annual financial statements. The Company recognized employees' bonuses and directors' and supervisors' remuneration amounting to $90,000 and $73,600, respectively, for each of the years ended December 31, 2012 and 2011, which were calculated as a proportion of net income after deducting the legal reserve and special reserve. The number of shares of the dividend distribution is based on the closing price of the day before the shareholders' meeting and considering the ex-rights and ex-dividend effects. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the distribution year.

(Continued)

(14) Net Income per Share

Net income per share for the years ended December 31, 2012 and 2011, was computed as follows (all net income per share amounts are expressed in New Taiwan dollars):

	2012		2011	
	Before income tax	After income tax	Before income tax	After income tax
Basic net income per share:				
Net income	$ 1,479,234	1,310,976	1,155,062	963,004
Weighted-average number of shares outstanding (thousands)	162,253	162,253	150,660	150,660
Net income per share	$ 9.12	8.08	7.67	6.39
Diluted net income per share:				
Weighted-average number of shares outstanding (thousands)	162,253	162,253	150,660	150,660
Effects of dilutive potential common stock:				
Employee stock options	-	-	164	164
Employee stock bonuses	1,130	1,130	1,082	1,082
Weighted-average number of shares outstanding for calculation of diluted net income per share (thousands)	163,383	163,383	151,906	151,906
Diluted net income per share	$ 9.05	8.02	7.60	6.34

(15) Income Tax

(a) The Group's income tax returns are calculated and filed based on the Company's and THEPI's local tax law.

(b) The Company's purchase of machinery through proceeds from common stock issuances met the prescribed criteria under the "Statute for Upgrading Industries" as follows:

Year	Tax exemption products	Tax exemption chosen	Tax exemption period
2009	RF modules, hybrid integrated circuits, metalized ceramic substrates, and image products	Tax exemption on the Company's corporate income taxes for five years	2012.1.1~2016.12.31

(Continued)

(c) THEPI met the prescribed criteria for tax exemption under local tax laws as follows:

Tax exemption products	Tax exemption	Tax exemption period
Chip Size Package/Ball Grid Array (CSP/BGA)	Tax exemption on THEPI's corporate income taxes for four years	May 2007 to May 2011
IR multiphase optimized power block (IMOPB)	Tax exemption on THEPI's corporate income taxes for four years	May 2007 to May 2011
Surface acoustic wave (SAW) filters	Tax exemption on THEPI's corporate income taxes for four years	June 2007 to June 2011
Direct plating copper (DPC)	Tax exemption on THEPI's corporate income taxes for four years	January 2009 to August 2013
Camera module (CM)	Tax exemption on THEPI's corporate income taxes for four years	July 2010 to June 2014
Transistors for military application	Tax exemption on THEPI's corporate income taxes for four years	July 2011 to June 2015

(d) The Company was subject to an income tax rate of 17% for the years ended December 31, 2012 and 2011. The Company is also subject to the "Income Basic Tax Act" to calculate income tax. THEPI's income tax is calculated based on the local tax rate. The components of income tax expense of the Group were as follows:

	2012	2011
Current income tax expense	$ 187,394	188,557
10% surtax on unappropriated earnings	30,566	1,832
	217,960	190,389
Deferred income tax expense (benefit):		
Investment loss under the equity method	(39,025)	(11,906)
Decrease in loss reserve on outward investment	(14,037)	-
Unrealized foreign currency exchange loss	(1,729)	7,922
Unrealized foreign currency exchange gain	3,702	(453)
Amortized goodwill	1,765	3,532
Others	(378)	2,574
	(49,702)	1,669
Income tax expense	**$ 168,258**	**192,058**

(Continued)

(e) The reconciliation of the expected income tax expense computed at the statutory rate to the actual income tax expense for the years ended December 31, 2012 and 2011, is summarized as follows:

	2012	2011
Expected income tax expense	$ 258,894	212,518
10% surtax on unappropriated earnings	30,566	1,832
Tax exemption	(127,973)	(8,031)
Adjustment of prior year's income tax	(1,414)	(15,942)
Others	8,185	1,681
Income tax expense	**$ 168,258**	**192,058**

(f) Deferred income tax assets (liabilities) as of December 31, 2012 and 2011, were as follows:

	December 31, 2012	December 31, 2011
Deferred income tax assets:		
Provision for inventory obsolescence	$ 6,420	5,871
Foreign currency translation adjustments	20,341	10,259
Unrealized foreign currency exchange loss	10,076	8,347
Others	1,524	360
	38,361	24,837
Less: valuation allowance	-	-
	38,361	24,837
Deferred income tax liabilities:		
Reserve for overseas investment loss	-	(14,037)
Prepaid pension cost	(6,710)	(5,670)
Investment income under the equity method	(12,157)	(51,182)
Unrealized foreign currency exchange gain	(7,215)	(3,513)
Amortized goodwill	(5,297)	(3,532)
Other	(533)	(238)
	(31,912)	(78,172)
	$ 6,449	**(53,335)**
Net deferred income tax assets – current	$ 10,272	10,827
Net deferred income tax liabilities – non-current	(3,823)	(64,162)
	$ 6,449	**(53,335)**

(g) The ROC tax authorities have examined the Company's income tax returns through 2009.

(h) Imputation credit account and creditable ratio

Calculation of the ICA balance as of December 31, 2012 and 2011, and the creditable ratio for 2012 and 2011 was as follows:

	December 31, 2012	December 31, 2011
Unappropriated retained earnings after January 1, 1998	$ 1,894,109	1,184,319
Imputation credit account balance	$ 216,385	136,058

	2012	2011
Creditable ratio for earnings distribution to resident shareholders	16.95% (estimated)	20.13% (actual)

(16) Related Information about Financial Instruments

(a) Fair value of financial instruments

The book value of non-derivative short-term financial instruments is considered to be the fair value because of the short-term nature of these instruments, and the book value method is considered to be a reasonable basis to assess the fair value. Such method is applicable to cash and cash equivalents, notes and accounts receivable/payable, other current financial assets, short-term loans, and current accrued expenses.

As of December 31, 2012 and 2011, the details of fair value of financial assets and liabilities other than the financial instruments mentioned above were as follows:

	December 31, 2012		December 31, 2011	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Financial assets at fair value through profit and loss – current:				
Financial assets held for trading:				
Open-end mutual funds	$ 362,380	362,380	581,843	581,843
Bonds purchased under resale agreements with a maturity of three months or more from the date of investment	-	-	100,259	100,259
Bonds investment – convertible bonds payable	9,633	9,633	9,455	9,455
Forward foreign currency exchange contracts	1,021	1,021	-	-

(Continued)

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	December 31, 2012		December 31, 2011	
	Book value	Fair value	Book value	Fair value
Financial liabilities:				
Financial liabilities at fair value through profit and loss – current:				
Long-term loans	65,000	65,000	65,000	65,000

(b) The following methods and assumptions were used in estimating fair values:

1. The book value of short-term financial instruments is considered to be the fair value because of the short-term nature of these instruments, and the book value method is considered to be a reasonable basis to assess the fair value. This method is applicable to cash and cash equivalents, notes and accounts receivable/payable, other current financial assets, short-term loans, and accrued expenses.

2. If public quoting of financial assets and liabilities is available, then the quoted price will be the fair value. If market value is not available, an assessment method will be used. The assumptions used by financial market traders for similar financial instruments when quoting their prices are used as a reference. Those terms and characteristics include the credit rating of the debt, the method of computing interest expense for the remaining period of the contract, the payment of principal, and the currency.

3. The fair value of long-term loans is based on the book value because of their floating rate.

(c) As of December 31, 2012 and 2011, the fair value of the financial instruments evaluated by the Group under public quoting or an assessment method was as follows:

	December 31, 2012		December 31, 2011	
	Public quote value	Assessment value	Public quote value	Assessment value
Financial assets:				
Cash and cash equivalents	$ 3,174,564	-	3,194,346	-
Financial assets at fair value through profit and loss – current:				
Financial assets held for trading:				
Open-end mutual funds	362,380	-	581,843	-
Bonds purchased under resale agreements with a maturity of three months or more from the date of investment	-	-	100,259	-
Bonds investment – convertible bonds payable	9,633	-	9,455	-

(Continued)

	December 31, 2012		December 31, 2011	
	Public quote value	**Assessment value**	**Public quote value**	**Assessment value**
Forward foreign currency exchange contracts	-	1,021	-	-
Notes and accounts receivable	-	1,104,931	-	749,937
Other current financial assets	-	71,190	-	83,980
Financial liabilities:				
Short-term loans	-	250,030	-	143,891
Notes and accounts payable	-	385,319	-	345,334
Accrued expenses and other payables	-	679,408	-	656,849
Long-term loans	-	65,000	-	65,000

(d) Information on financial risk

1. Market risk

a. The purpose of the derivative financial instruments is to hedge. Therefore, the gains or losses resulting from the changes in exchange rates will be offset from those of the hedged item. Management believes that the related market risk is not significant.

b. The equity securities held by the Group are classified as financial assets measured at fair value through profit or loss. As these assets are measured at fair value, the Group has risk exposure related to changes in fair value in an equity securities market.

2. Credit risk

a. The amount of credit risk is a potential loss of the Group if the counterpart involved in that transaction defaults. Since the Group's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, management does not expect any significant credit risk from these transactions.

b. The primary potential credit risk is from financial instruments like cash, cash equivalents, checking accounts and demand deposits, and accounts receivable. The Group's cash deposits are in different financial institutions. Cash equivalents represent investments in bonds purchased under resale agreements with a maturity of three months or less from the date of investment. The Group manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk of cash and cash equivalents.

(Continued)

c. The aggregation of sales to the Group's major customers exceeding 10% of the Group's total sales accounted for 63% and 68% of the total net sales for the years ended December 31, 2012 and 2011, respectively. In order to reduce credit risk, the Group assesses the financial status of the customers and the possibility of collection of receivables in order to estimate an adequate allowance for doubtful accounts on a regular basis. The customers have a good credit and profit record. The Group has never been exposed to significant credit risk.

3. Liquidity risk (expressed in thousands of dollars)

a. The amount of credit risk is a potential loss of the Group if the counterpart involved in that transaction defaults. Since the Group's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, management does not believe that there is a significant credit risk from these transactions.

	December 31, 2012		
Financial instruments	**Date**	**Cash outflow**	**Cash inflow**
Forward foreign currency exchange contracts sold	January 7 to February 25, 2013	USD 23,000	NTD 668,756

b. The funds, bonds, and marketable securities investment held by the Group have quoted prices and would be sold back at the approximate market price. Management believes that the cash flow risk is not significant.

c. Management believes that the liquidity risk is not significant because all obligations under signed contracts of the Group are expected to be performed with its working capital.

4. Cash flow risk arising from variation in interest rates

The short-term and long-term loans are both based on floating interest rates. Changes in market interest rates will affect the interest on short-term and long-term loans and cause variations in future cash flows. For every 1% increase in market interest rates, the cash outflows of the Group in the following year would increase by $3,150.

(17) Related-party Transactions

(a) Names of related parties and relationship

Related Party	**Relationship**
Multi-field	Related party in essence

(Continued)

(b) Summary of significant transactions with related parties

For operational needs, THEPI acquired land for $57,713 (91,110 thousand pesos) beginning in 2004, which was recorded as other assets. Because Philippine regulations prohibited foreigners from owning land, the Group paid for the land and owned it in the name of Multi-field. To assure the right to the land, THEPI provided the land as collateral for a credit line from a local bank.

(c) Salaries and remuneration of the main management

The Group paid salaries and remuneration to the directors, supervisors, chief executive officer, and executive vice president in 2012 and 2011 as follows:

	2012	2011
Salaries	$ 45,585	47,241
Incentives	22,036	20,090
Special compensation	2,470	2,496
Employees' bonuses	17,312	14,526

The directors' and supervisors' remuneration and employees' bonuses were an estimate as stated in note 13.

(18) Pledged Assets

Pledged assets	Subject	Book value December 31, 2012	Book value December 31, 2011
Time deposits (other current financial assets)	THEPI's credit lines for letter of credit	$ 34,130	45,849
Fixed assets – Land and land revaluation increments	Short-term loans	77,198	77,198
– Buildings	"	153,780	141,169
– Buildings	THEPI's credit lines	305,481	-
Other assets – others – land	"	57,713	57,713
		$ 628,302	**321,929**

(19) Commitments and Contingencies

As of December 31, 2012, the Group's significant commitments and contingencies were as summarized below:

(Continued)

(a) The Group’s future payments for the purchase of equipment were approximately $50,844.

(b) The unused and outstanding letters of credit and the deposit for the Group’s customs duties totaled $64,097.

(c) For improving productivity, the Company entered into a contract to build a factory and dormitory for employees on October 18, 2007. Total design and construction costs were estimated to be $376,000. The Company had paid $255,769 as of December 31, 2012. A part of the factory construction was finished.

(d) For improving productivity, THEPI entered into a contract with GMC Construction and Development Corporation to build a new factory on April 15, 2008. The total price amounted to $301,464 (US$10,381 thousand). THEPI had paid $273,324 (US$9,412 thousand) as of December 31 2012. The factory was completed and is in use, but a part of factory construction has not been verified yet.

(e) According to the existing operating lease contract for office and vehicles, the contracts will expire in December 2017. The future rental commitments were as follows:

Period	Amount
2013.01.01~2013.12.31	$ 22,903
2014.01.01~2014.12.31	21,680
2015.01.01~2015.12.31	10,654
2016.01.01~2016.12.31	7,562
2017.01.01~2017.12.31	5,219
	$ 68,018

(20) Other

(a) The Company has provided a loss reserve on outward investment in accordance with the “Statute for Upgrading Industries”. The amount was computed at 20% of the total amount of outward investment, which is the limit stipulated by the “Statute for Upgrading Industries”. The statute also stipulates that if there are no actual losses in the five years after the initial provision for the reserve, the loss reserve should be reversed and recognized as revenue in the fifth year. However, as such reserve is not in accordance with generally accepted accounting principles, the loss reserve is reversed during the preparation of the financial statements, but the Company does not adjust the books. Accordingly, the net income and retained earnings on the Company’s books are decreased by the following amounts:

	2012	2011
Increase in net income	$ 82,569	-
Decrease in retained earnings	-	(82,569)

(b) Employee expenses, depreciation expenses, and amortization expenses for the years ended December 31, 2012 and 2011, were as follows:

	2012			2011		
	Cost of sales	**Operating expense**	**Total**	**Cost of sales**	**Operating expense**	**Total**
Employee expenses						
Salaries and wages	$ 826,589	273,226	1,099,815	753,823	252,597	1,006,420
Labor and health insurance	55,806	10,281	66,087	48,184	9,375	57,559
Pension expense	38,080	9,178	47,258	32,144	10,415	42,559
Other	115,164	16,682	131,846	82,623	15,148	97,771
Depreciation expenses	628,516	43,169	671,685	411,849	45,592	457,441
Amortization expenses	7,770	12,383	20,153	5,838	12,978	18,816

(c) Significant foreign currency financial assets and liabilities (in thousands of New Taiwan dollars and foreign currency) were as follows:

	December 31, 2012			December 31, 2011		
	Foreign Currency	**Exchange Rate**	**NTD**	**Foreign Currency**	**Exchange Rate**	**NTD**
Financial assets:						
Monetary items –						
USD	74,683	29.04	2,168,794	60,304	30.28	1,826,005
Financial liabilities:						
Monetary items –						
USD	18,969	29.04	550,860	9,516	30.28	288,144
JPY	186,120	0.3364	62,611	148,020	0.39	57,728

(Continued)

(21) Operating Segment Information

(a) Segment information

	December 31, 2012					
	BU1 Segment	BU2 Segment	BU3 Segment	Other	Adjustment & Elimination	Total
Revenue						
Revenue from external customers	$ 1,767,774	996,071	4,154,884	66,264	-	6,984,993
Revenue from segments	-	1,079,896	-	-	(1,079,896)	-
Total revenue	$ 1,767,774	2,075,967	4,154,884	66,264	(1,079,896)	6,984,993
Reportable segment profit	$ 334,028	55,266	1,105,229	(28,330)	13,041	1,479,234
Reportable segment assets	$ -	-	-	-	-	-

	December 31, 2011					
	BU1 Segment	BU2 Segment	BU3 Segment	Other	Adjustment & Elimination	Total
Revenue						
Revenue from external customers	$ 1,648,990	1,392,063	3,109,845	107,477	-	6,258,375
Revenue from segments	-	1,402,310	-	-	(1,402,310)	-
Total revenue	$ 1,648,990	2,794,373	3,109,845	107,477	(1,402,310)	6,258,375
Reportable segment profit	$ 333,191	138,229	699,191	(54,138)	38,589	1,155,062
Reportable segment assets	$ -	-	-	-	-	-

The Group has three reportable segments: Segment BU1, Segment BU2, and Segment BU3. Segment BU1 engages in SF with gold-plated processing; Segment BU2 engages in THEPI's manufacturing process; and Segment BU3 engages in CO2, SF with non-gold-plated, SMT, AS, RW and CP's processing. The Group's reportable segments are strategic units of business for different products. Each strategic unit of business is managed separately because each segment needs different skills and marketing strategy.

The Group does not allocate tax expense or nonoperating gains and losses to reportable segments. The amounts disclosed are the same as those in the reports used by the chief operating decision maker.

(Continued)

The accounting policies of operating segments are the same as those described in the summary of significant accounting policies as stated in note 2. The Group evaluates performance on the basis of income prior to tax deduction (excluding non-regular income, non-operating gains, and non-operating losses). The Group regards the sales and transfers between segments as transactions with a third party measured at the market price.

(b) Industrial information

1. Production information

The Group's information about revenue from external customs was as follows:

Productions	**2012**	**2011**
Hybrid integrated circuits	$ 3,212,374	2,793,926
Image sensor	2,179,793	1,674,088
RF modules	720,225	871,594
Metalized ceramic substrates	806,337	811,290
Others	66,264	107,477
	$ 6,984,993	**6,258,375**

2. Geographic information

The Group's revenue presented by customer location and non-current assets presented by location were as follows:

a. Revenue from external customers:

Country	**2012**	**2011**
United States	$ 3,314,168	3,921,753
Singapore	960,640	348,690
Hong Kong	939,017	22,258
Netherlands	530,043	1,237,337
Others	1,241,125	728,337
	$ 6,984,993	**6,258,375**

(Continued)

b. Non-current assets:

Country	2012	2011
Taiwan	$ 3,561,328	2,696,833
Philippines	1,287,054	1,359,608
	$ 4,848,382	4,056,441

3. Major clients

Sales to individual customers generating over 10% of consolidated net sales for the years ended December 31, 2012 and 2011, are summarized as follows:

	2012	2011
C1444	$ 1,864,182	1,294,263
C0897	1,256,281	1,113,762
C0803	1,290,520	1,021,086
C0497	606,274	819,410
	$ 5,017,257	4,248,521

(22) Pre-disclosure of the Adoption of International Financial Reporting Standards

According to Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Group is required to provide pre-disclosure GAAP differences regarding the adoption of International Financial Reporting Standards (IFRSs) in the consolidated financial statements. They are as follows:

(a) Starting from 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare financial statements in accordance with IFRSs, International Accounting Standards (IASs), and the explanations of the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) translated by the Accounting Research and Development Foundation (ARDF) and approved by the FSC. The Group established a task force to monitor and execute the IFRSs adoption plan. The important plan items, responsible departments, and plan progress are as follows:

(Continued)

Contents of plan	Responsible department	Status of execution
Assessment phase (from January 1, 2010, to December 31, 2011):		
◎ Make a plan to adopt IFRSs and set up a project team	Accounting Department	Completed
◎ Compare and analyze the differences between the existing accounting policies and the accounting policies to be adopted under IFRSs	Accounting Department	Completed
◎ Assess the adjustments of the existing accounting policies	Accounting Department	Completed
◎ Assess the applicability of IFRS 1 - "First-time Adoption of International Financial Reporting Standards"	Accounting Department	Completed
◎ Assess the adjustments of the related information technology system and internal control	Internal Audit Department and IT Department	Completed
Preparation phase (from January 1, 2011, to December 31, 2012):		
◎ Determine how to adjust the existing accounting policies in accordance with IFRSs	Accounting Department	Completed
◎ Determine how to apply IFRS 1 - "First-time Adoption of International Financial Reporting Standards"	Accounting Department	Completed
◎ Adjust the related information technology system and internal control	Internal Audit Department and IT Department	In Progress
Implementation Phase (from January 1, 2012, to December 31, 2013):		
◎ Test run the adjusted related information technology system	IT Department	In Progress
◎ Gather information to prepare the opening balance sheets and comparative financial statements in conformity with IFRSs	Accounting Department	In Progress
◎ Prepare financial statements in conformity with IFRSs	Accounting Department	In Progress

(b) As of December 31, 2012, the Group had assessed the material differences shown below between the existing accounting policies and the accounting policies to be adopted under IFRSs:

(Continued)

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1) Reconciliation of consolidated balance sheet as of January 1, 2012

	ROC GAAP	Effect of transition to IFRSs	IFRSs
Current assets (i)	$ 5,359,244	(10,827)	5,348,417
Intangible assets	101,118	-	101,118
Other assets ((i), (iv) and (v))	3,999,821	(3,396)	3,996,425
Total assets	**$ 9,460,183**	**(14,223)**	**9,445,960**
Current liabilities (iii)	$ 1,151,777	12,692	1,164,469
Other liabilities ((i), (ii) and (iv))	218,541	100,541	319,082
Total liabilities	1,370,318	113,233	1,483,551
Common stock	1,625,351	-	1,625,351
Capital collected in advance	1,730	-	1,730
Capital surplus	4,805,453	-	4,805,453
Retained earnings ((ii), (iii) and (iv))	1,715,597	33,700	1,749,297
Other stockholders' equity (ii)	105,065	(161,156)	(56,091)
Treasury stock	(163,331)	-	(163,331)
Total stockholders' equity	8,089,865	(127,456)	7,962,409
Total liabilities and stockholders' equity	**$ 9,460,183**	**(14,223)**	**9,445,960**

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

	ROC GAAP	Effect of transition to IFRSs	IFRSs
Current assets (i)	$ 5,486,003	(10,273)	5,475,730
Intangible assets	98,585	-	98,585
Other assets ((i), (iv) and (v))	4,805,538	7,354	4,812,892
Total assets	**$ 10,390,126**	**(2,919)**	**10,387,207**
Current liabilities (iii)	$ 1,325,955	15,131	1,341,086
Other liabilities ((i), (ii) and (iv))	163,427	151,439	314,866
Total liabilities	1,489,382	166,570	1,655,952
Common stock	1,629,071	-	1,629,071
Capital surplus	4,858,951	-	4,858,951
Retained earnings ((ii), (iii) and (iv))	2,384,053	(8,603)	2,375,450
Other stockholders' equity (ii)	28,669	(160,886)	(132,217)
Total stockholders' equity	8,900,744	(169,489)	8,731,255
Total liabilities and stockholders' equity	**$ 10,390,126**	**(2,919)**	**10,387,207**

(Continued)

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

	ROC GAAP	Effect of transition to IFRSs	IFRSs
Operating revenues	$ 6,984,993	-	6,984,993
Cost of sales	4,832,864	-	4,832,864
Gross profit	2,152,129	-	2,152,129
Operating expenses ((iii) and (iv))	685,936	(2,892)	683,044
Operating profit	1,466,193	2,892	1,469,085
Nonoperating income	36,595	-	36,595
Nonoperating expenses and losses	23,554	528	24,082
Net income before income tax	1,479,234	2,364	1,481,598
Income tax expense (i)	168,258	402	168,660
Net income	1,310,976	1,962	1,312,938
Other comprehensive income (iv)			
Actuarial losses on defined benefit plans	-	(44,265)	(44,265)
Total comprehensive income	**$ 1,310,976**	**(42,303)**	**1,268,673**

4) Explanation of reconciliation of each difference

(i) In accordance with IFRSs, when the Group estimates the income tax, the deferred income tax assets and liabilities related to taxable temporary differences and investment tax credits are classified as non-current accounts. Additionally, when the Group estimates the deferred income tax assets and liabilities, the right to statutory tax offset and the timing of the expected reversal for the deferred income tax assets and liabilities should be considered. Therefore, deferred income tax assets amounting to $10,827 and $10,723 were reclassified from current assets to non-current assets as of January 1 and December 31, 2012, respectively.

Net non-current deferred income tax assets as of January 1 and December 31, 2012, were converted to gross non-current deferred income tax assets and increased by $41,102 and $63,095, respectively. Net non-current deferred income tax liabilities as of January 1 and December 31, 2012, were converted to gross non-current deferred income tax liabilities and increased by $4,169 and $18,107, respectively.

In addition, the income tax expense increased by $402 according to IFRSs for the year ended December 31, 2012.

(Continued)

(ii) According to IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), a first-time adopter is allowed to establish a deemed cost of property, plant and equipment using its previous GAAP and revaluation. Therefore, the Group uses the revaluation calculated before December 31, 2011, as the deemed cost of land and the book value calculated by ROC GAAP as the deemed cost of buildings, machinery and equipment, office equipment, and leasehold improvement.

Because the Group uses the revaluation as the deemed cost of land, unrealized land revaluation increment of $161,156 (which was the net value after deducting the provision for revaluation increments of $80,950) was reclassified to special reserve under retained earnings.

(iii) An employee earns compensated absences when he has rendered service to an entity during an accounting period. An entity has a present legal or constructive obligation for accumulating compensated absences, and an entity shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as a liability.

The Group recognized the expected cost of compensated absences as an accrued expense amounting to $10,534 and $12,558 as of January 1 and December 31, 2012, respectively. As a result of accumulating compensated absences, the amount of retained earnings decreased by $12,692 and $15,131 as of January 1 and December 31, 2012, respectively. The Group recognized wage expenses amounting to $2,439 for compensated absences for the year ended December 31, 2012.

(iv) The Group provides its employees a defined benefit pension plan in which the postretirement benefit obligations are measured using actuarial techniques. Under ROC GAAP, the actuarial gains or losses arising from the adjustment based on experience and changes in actuarial assumptions are recognized as profit or loss and are amortized over the remaining service period of employees.

According to IFRS 1, a first-time adopter is permitted to recognize all actuarial gains or losses up to the date of transition to IFRSs. The Group recognized all actuarial losses on January 1, 2012.

As a result of recognizing all actuarial losses, the amount of retained earnings decreased by $116,922 and $112,936 and the amount of prepaid pension cost decreased by $44,498 and $55,741 as of January 1 and December 31, 2012, respectively; and the amount of accrued pension liabilities increased by $96,372 and $133,332 and the amount of non-current deferred income tax assets increased by $23,931 and $32,143 as of January 1 and December 31, 2012, respectively.

(Continued)

In addition, the Group recognized pension benefits for the defined benefit plan amounting to $5,331 and recognized pension loss for the defined benefit plan amounting to $44,265 (which was the net value after deducting the tax effects of $9,066 and recognizing loss on foreign currency exchange of $528) resulting from the change in the discount rate from conversion from ROC GAAP to IFRSs for the year ended December 31, 2012.

(v) In accordance with IFRSs, the Group reclassified prepayment for purchase of equipment from property, plant and equipment to other assets.

(vi) In accordance with IFRSs, the Group reclassified deferred expenses and other assets from other assets to property, plant and equipment.

(c) In accordance with IFRSs, an entity should comply with each IFRS effective at the first-time adoption to prepare and present financial statements and make retrospective adjustments, except that IFRSs grant optional exemptions and mandatory exemptions. The main optional exemptions the Group adopted are summarized as follows:

1) The Group used the fair value regulated by Rule No. 1000032208 issued by the Financial Supervisory Commission (FSC) as the deemed cost of property, plant and equipment on January 1, 2012.

2) The Group elected to recognize all cumulative actuarial gains and losses relating to employee benefits in accumulated earnings on January 1, 2012.

(d) The aforementioned assessment is based on the International Financial Reporting Standards and International Accounting Standards approved by the FSC. However, the assessment result may be impacted by the FSC issuing new rules governing the adoption of IFRSs. The accounting policies selected under IFRS 1 “First-time Adoption of International Financial Reporting Standards” are based on the conditions at present, and the selection may change as conditions change.