Coxon Precise Industrial Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2012 and 2011 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Coxon Precise Industrial Co., Ltd.

We have audited the accompanying consolidated balance sheets of Coxon Precise Industrial Co., Ltd. and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

March 12, 2013

Notice to Readers

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

For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail.

COXON PRECISE INDUSTRIAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012		2011	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2, 4 and 23)	$ 1,700,188	15	$ 1,809,415	17
Financial assets at fair value through profit or loss - current (Notes 2, 5 and 23)	-	-	5,028	-
Available-for-sale financial assets - current (Notes 2, 6 and 23)	54,150	1	-	-
Hedging derivative assets - current (Notes 2, 7 and 23)	-	-	5,564	-
Notes receivable, net (Notes 2, 3, 8, 9 and 23)	13,257	-	3,991	-
Accounts receivable, net (Notes 2, 3, 9, 23 and 24)	2,644,272	24	2,313,462	22
Other receivables (Note 24)	41,497	-	38,230	-
Inventories (Notes 2 and 10)	714,202	6	759,745	7
Prepaid expenses	75,769	1	57,674	-
Deferred income tax assets - current (Notes 2 and 20)	60,032	1	59,595	1
Restricted assets - current (Note 25)	4,580	-	44,222	-
Other current assets	25,952	-	8,772	-
Total current assets	5,333,899	48	5,105,698	47
FUNDS AND INVESTMENTS (Notes 2, 11, 12 and 23)				
Financial assets carried at cost - noncurrent	56,345	-	76,075	1
Investments accounted for by the equity method	345,268	3	276,008	2
Total funds and investments	401,613	3	352,083	3
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 13, 24, 25 and 26)				
Cost				
Land	79,244	1	79,244	1
Buildings	1,808,522	16	1,872,908	17
Machinery and equipment	6,504,678	58	5,951,732	55
Transportation equipment	60,671	1	63,475	1
Office equipment	134,700	1	122,324	1
Leasehold improvements	716,721	7	711,408	7
Other equipment	228,241	2	220,088	2
Total cost	9,532,777	86	9,021,179	84
Less: Accumulated depreciation	(4,496,281)	(40)	(4,141,109)	(39)
Less: Accumulated impairment	(46,431)	(1)	(46,431)	-
Construction in progress and prepayments for equipment	201,271	2	171,695	2
Total property, plant and equipment	5,191,336	47	5,005,334	47
INTANGIBLE ASSETS (Notes 2, 18 and 25)				
Computer software	14,495	-	15,101	-
Deferred pension cost	697	-	-	-
Land tenure	60,982	1	65,510	1
Other intangible assets	7,905	-	9,970	-
Total intangible assets	84,079	1	90,581	1
OTHER ASSETS (Notes 2, 9, 14 and 20)				
Refundable deposits	10,972	-	12,040	-
Deferred charges	87,044	1	69,230	1
Deferred income tax assets - noncurrent	22,607	-	105,412	1
Other assets - others	-	-	-	-
Total other assets	120,623	1	186,682	2
TOTAL	$ 11,131,550	100	$ 10,740,378	100

	2012		2011	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans (Notes 15, 23 and 25)	$ 161,172	2	$ 521,693	5
Financial liabilities at fair value through profit or loss - current (Notes 2, 5 and 23)	5,220	-	-	-
Notes payable (Note 23)	2,185	-	5,058	-
Accounts payable (Notes 23 and 24)	992,700	9	944,471	9
Income tax payable (Notes 2 and 20)	17,586	-	68,303	1
Accrued expenses (Note 24)	879,423	8	829,683	8
Payables on equipment	393,855	4	332,737	3
Other payables	8,049	-	18,394	-
Receipts in advance (Note 24)	18,591	-	46,806	-
Current portion of long-term loans payable (Notes 16, 23 and 25)	565,000	5	879,663	8
Other current liabilities	25,006	-	50,235	-
Total current liabilities	3,068,787	28	3,697,043	34
LONG-TERM LIABILITIES (Notes 2, 16, 17, 23 and 25)				
Bonds payable	541,169	5	-	-
Long-term debt	1,287,648	12	598,686	6
Long-term payables	30,921	-	207,277	2
Total long-term liabilities	1,859,738	17	805,963	8
OTHER LIABILITIES (Notes 2, 18 and 20)				
Accrued pension cost	7,838	-	5,875	-
Guarantee deposits received	6,473	-	4,100	-
Deferred income tax liabilities - noncurrent	153,785	1	197,967	2
Total other liabilities	168,096	1	207,942	2
Total liabilities	5,096,621	46	4,710,948	44
SHAREHOLDERS' EQUITY (Notes 2, 19 and 20)				
Common stock	1,127,100	10	1,114,430	10
Capital surplus	2,328,069	21	2,241,046	21
Retained earnings				
Legal reserve	456,361	4	421,728	4
Special reserve	173,553	1	173,553	2
Unappropriated earnings	1,522,600	14	1,538,386	14
Other equity				
Cumulative translation adjustments	(71,978)	(1)	154,485	1
Unrealized gain (loss) on financial instruments	44,550	1	(641)	-
Total parent company shareholders' equity	5,580,255	50	5,642,987	52
MINORITY INTEREST	454,674	4	386,443	4
Total shareholders' equity	6,034,929	54	6,029,430	56
TOTAL	$ 11,131,550	100	$ 10,740,378	100

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

COXON PRECISE INDUSTRIAL CO., LTD. AND SUBSIDIARIES

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

	2012 Amount	2012 %	2011 Amount	2011 %
OPERATING REVENUES				
Sales (Notes 2 and 24)	$ 8,753,900	103	$ 8,261,429	103
Less: Sales returns	(171,530)	(2)	(156,770)	(2)
Less: Sales allowances	(47,577)	(1)	(65,654)	(1)
Net operating revenues	8,534,793	100	8,039,005	100
COST OF GOODS SOLD (Notes 2, 10, 21 and 24)	(7,466,124)	(87)	(6,866,370)	(85)
GROSS PROFIT	1,068,669	13	1,172,635	15
OPERATING EXPENSES (Notes 21 and 24)				
Selling expenses	(187,022)	(2)	(188,583)	(2)
General and administrative expenses	(428,422)	(5)	(440,518)	(6)
Research and development expenses	(69,362)	(1)	(61,131)	(1)
Total operating expenses	(684,806)	(8)	(690,232)	(9)
OPERATING INCOME	383,863	5	482,403	6
NONOPERATING INCOME AND GAINS				
Interest income	4,869	-	13,872	-
Investment income recognized under equity method (Notes 2 and 12)	26,379	-	17,321	-
Dividend income	1,950	-	-	-
Gain on disposal of property, plant and equipment (Note 2)	3,657	-	17,169	-
Exchange gain, net (Note 2)	44,374	1	-	-
Rental income	27,690	-	6,735	-
Gains on bad debt recoveries (Notes 2 and 9)	-	-	34,631	-
Reversal of impairment loss (Notes 2 and 14)	396	-	80	-
Valuation gain on financial assets, net (Notes 2, 5 and 23)	2,417	-	11,479	-
Miscellaneous income (Note 24)	54,009	1	36,189	1
Total nonoperating income and gains	165,741	2	137,476	1
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 15 and 16)	(44,421)	(1)	(29,560)	-
Loss on disposal of property, plant and equipment (Note 2)	(5,478)	-	(3,227)	-
Exchange loss, net (Note 2)	-	-	(83,292)	(1)

(Continued)

COXON PRECISE INDUSTRIAL CO., LTD. AND SUBSIDIARIES

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

	2012		2011	
	Amount	%	Amount	%
Valuation loss on financial assets, net (Notes 2 and 11)	$ (9,977)	-	$ -	-
Miscellaneous expenses	(7,599)	-	(59,371)	(1)
Total nonoperating expenses and losses	(67,475)	(1)	(175,450)	(2)
INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS	482,129	6	444,429	5
INCOME TAX EXPENSE (Notes 2 and 20)	(153,682)	(2)	(112,515)	(1)
CONSOLIDATED NET INCOME	$ 328,447	4	$ 331,914	4
ATTRIBUTABLE TO				
Shareholders of the parent company	$ 354,043	4	$ 346,327	4
Minority interest	(25,596)	-	(14,413)	-
	$ 328,447	4	$ 331,914	4

	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY (Note 22)				
Basic earnings per share	$ 3.82	$ 3.16	$ 3.65	$ 3.02
Diluted earnings per share (Note 22)	$ 3.77	$ 3.12	$ 3.59	$ 2.97

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

COXON PRECISE INDUSTRIAL CO., LTD. AND SUBSIDIARIES

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

			Retained Earnings			Cumulative	Unrealized Gain (Loss) on		
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Translation Adjustments	Financial Instruments	Minority Interest	Total
BALANCE, JANUARY 1, 2011	$ 1,153,760	$ 2,359,772	$ 388,138	$ -	$ 1,860,770	$ (173,553)	$ 1,818	$ 369,675	$ 5,960,380
Appropriations of 2010 earnings									
Legal reserve	-	-	33,590	-	(33,590)	-	-	-	-
Special reserve	-	-	-	173,553	(173,553)	-	-	-	-
Cash dividends	-	-	-	-	(461,568)	-	-	-	(461,568)
Issuance of stock for exercised employee stock options	670	2,003	-	-	-	-	-	-	2,673
Consolidated net income in 2011	-	-	-	-	346,327	-	-	(14,413)	331,914
Change in unrealized gain (loss) on cash flow hedging financial instruments	-	-	-	-	-	-	(2,459)	-	(2,459)
Change in translation adjustments	-	-	-	-	-	328,038	-	31,181	359,219
Retirement of treasury stock	(40,000)	(120,729)	-	-	-	-	-	-	(160,729)
BALANCE, DECEMBER 31, 2011	1,114,430	2,241,046	421,728	173,553	1,538,386	154,485	(641)	386,443	6,029,430
Appropriations of 2011 earnings									
Legal reserve	-	-	34,633	-	(34,633)	-	-	-	-
Cash dividends	-	-	-	-	(335,196)	-	-	-	(335,196)
Equity component of convertible bonds - stock option	-	49,140	-	-	-	-	-	-	49,140
Issuance of stock for exercised employee stock options	12,670	37,883	-	-	-	-	-	-	50,553
Consolidated net income in 2012	-	-	-	-	354,043	-	-	(25,596)	328,447
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	44,550	-	44,550
Change in unrealized gain (loss) on cash flow hedging financial instruments	-	-	-	-	-	-	641	-	641
Change in translation adjustments	-	-	-	-	-	(226,463)	-	(16,865)	(243,328)
Change in minority interest	-	-	-	-	-	-	-	110,692	110,692
BALANCE, DECEMBER 31, 2012	$ 1,127,100	$ 2,328,069	$ 456,361	$ 173,553	$ 1,522,600	$ (71,978)	$ 44,550	$ 454,674	$ 6,034,929

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

COXON PRECISE INDUSTRIAL CO., LTD. AND SUBSIDIARIES

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

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 328,447	$ 331,914
Unrealized foreign exchange (gain) loss	13,932	(26,685)
Depreciation	740,253	693,262
Amortization	264,428	249,630
Provision for (recovery of) doubtful accounts	11,998	(34,632)
Recovery of loss on inventories	6,509	(7,065)
Investment income recognized under equity method	(26,379)	(17,321)
Reversal of impairment loss on idle assets	(396)	(80)
Gain on disposal of property, plant and equipment, net	1,821	(13,942)
Amortization of discount on bonds payable	1,789	-
Valuation gain on financial assets	(2,417)	(11,479)
Impairment loss on financial liabilities	9,977	-
Deferred income tax	84,571	(10,977)
Accrued pension cost	1,266	1,898
Changes in operating assets and liabilities		
Financial assets held for trading	6,185	8,805
Notes receivable	(9,360)	668
Accounts receivable	(356,485)	(262,578)
Other receivables	(3,267)	22,820
Inventories	18,795	(35,606)
Prepaid expenses	(18,095)	48,567
Other current assets	(17,180)	(82)
Notes payable	(2,873)	(1,921)
Accounts payable	54,947	69,844
Income tax payable	(50,717)	13,569
Accrued expenses	49,740	269,016
Other payables	(10,345)	(29,883)
Unearned sales revenue	(28,215)	(12,160)
Other current liabilities	(25,229)	12,602
Net cash provided by operating activities	1,043,700	1,258,184
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets carried at cost	-	(56,345)
Increase in restricted assets	39,642	(38,922)
Acquisition of property, plant and equipment	(1,229,980)	(846,953)
Proceeds from disposal of property, plant and equipment	5,052	198,306
Increase in intangible assets	(7,336)	(9,015)
Decrease in refundable deposits	1,068	19,537
Increase in deferred charges	(250,137)	(235,760)
Decrease in other assets	-	10,140
Net cash used in investing activities	(1,441,691)	(959,012)

(Continued)

COXON PRECISE INDUSTRIAL CO., LTD. AND SUBSIDIARIES

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

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	$ (360,521)	$ (285,032)
Increase in long-term debt	374,299	367,157
Increase in guarantee deposits received	2,373	1,242
Issuance of convertible bonds	595,000	-
Proceeds from exercise of employee stock options	50,553	2,673
Cash dividends	(335,196)	(461,568)
Change in minority interest	93,827	31,181
Cash paid for acquisition of treasury stock	-	(160,729)
Net cash (used in) provided by financing activities	420,335	(505,076)
EFFECTS OF EXCHANGE RATE CHANGES	(131,571)	122,581
NET DECREASE IN CASH AND CASH EQUIVALENTS	(109,227)	(83,323)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,809,415	1,892,738
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,700,188	$ 1,809,415
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 41,816	$ 28,992
Income tax paid	$ 122,794	$ 98,112
NET CASH USED IN ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT		
Acquisition of property, plant and equipment	$ 1,114,742	$ 1,132,043
Add: Payable at the beginning of the year	540,014	254,924
Less: Payable at the end of the year	(424,776)	(540,014)
Net cash used in acquisition of property, plant and equipment	$ 1,229,980	$ 846,953
NONCASH FINANCING ACTIVITIES		
Current portion of long-term bank loans	$ 565,000	$ 879,663
Conversion of financial assets carried at cost to available-for-sale financial assets	$ 9,600	$ -

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

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Coxon Precise Industrial Co., Ltd. (hereinafter referred to as “the parent company”) was incorporated in June 1989, under the Company Law of the Republic of China to engage in the designing, manufacturing, packaging, and selling of all kinds of molds, metal and plastic components.

The shares of Coxon Precise Industrial Co., Ltd. have been listed on the Taiwan Stock Exchange (“TSE”) since October 2009.

The number of employees of the parent company and subsidiaries (collectively, the “Company”) as of December 31, 2012 and 2011 was 10,083 and 10,646, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (“ROC”).

For readers’ convenience, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the financial statements shall prevail.

Significant accounting policies are summarized as follows:

Principles of Consolidation

The accompanying consolidated financial statements included the accounts of all directly and indirectly majority owned subsidiaries of Coxon Precise Industrial Co., Ltd., and the accounts of investees in which the parent company’s ownership percentage is less than 50% but over which the parent company has a controlling interest. All significant intercompany balances and transactions are eliminated upon consolidation.

The consolidated entities were as follows:

Investor	Investee	Business Nature	Percentage of Ownership (%)
Coxon Precise Industrial Co., Ltd.	Teckyork Enterprise Co., Ltd. (Samoa)	Global investing activities	100
	Sun Can International Ltd. (Samoa)	Global investing activities	100
	Coxon Industry Ltd. (Samoa)	Global investing activities	100
	Cheng Da Industry Ltd. (Samoa)	Global investing activities	100
	Cheng Yee Enterprise Ltd. (Samoa)	Global investing activities	80
	Soartek Optoelectronics Technology Co., Ltd.	Manufacturing of optical instrument and electronic components	100
	PT. Coxon Industrial	Manufacturing and sale of nonmetal molding and automobile parts	100

(Continued)

Investor	Investee	Business Nature	Percentage of Ownership (%)
Teckyork Enterprise Co., Ltd. (Samoa)	Shanghai Teckyork Enterprise Co., Ltd.	Manufacturing and sale of nonmetal molding, precision plastic injection parts and optical lens	100
	Shanghai Sonor Enterprise Co., Ltd.	Manufacturing and sale of nonmetal molding, precision plastic injection parts, related semi-finished goods and components	100
	Vastech Industrial Co., Ltd. (Samoa)	Global investing activities	100
	Changshu Huaxon Industry Co., Ltd.	Manufacturing, assembling and sale of optical disc drive, digital camera parts, electric parts and nonmetal molding	100
	Changshu Houkennixx Plastic Product Co., Ltd.	Manufacturing, assembling and sale of plastic products	20
Sun Can International Ltd. (Samoa)	Sinxon Plastic (DongGuan) Ltd.	Manufacturing and sale of nonmetal molding and automobile parts	100
Vastech Industrial Co., Ltd. (Samoa)	Vastech Plastic (Shanghai) Industrial Co., Ltd.	Manufacturing and sale of nonmetal molding, precision plastic injection parts and optical lens	100
Cheng Yee Enterprise Ltd. (Samoa)	Hang Yuan Enterprise Ltd. (Samoa)	Global investing activities	100
	Coxon Precise International Ltd. (BVI)	Global investing activities	100
	Coxon Medical Limited (Samoa)	Global investing activities	80
Hang Yuan Enterprise Ltd. (Samoa)	Coxon Industry (Changshu) Co., Ltd.	Manufacturing and sale of nonmetal molding, precision plastic injection parts, related semi-finished goods and components	100
Coxon Precise International Ltd. (BVI)	Toyo Precision Appliance (Changshu) Co., Ltd.	Manufacturing and processing of sheet metal-press work parts	30
Coxon Medical Limited (Samoa)	Shanghai Coxon Medical Limited	Manufacturing of medical materials	100
Changshu Huaxon Industry Co., Ltd.	Shandong GoerXon Precision Industry Co., Ltd.	Manufacturing and sale of precision plastic injection parts	51
Soartek Optoelectronics Technology Co., Ltd.	Hsiangtek Optical Technology Co., Ltd. (Samoa)	Global investing activities	100
Hsiangtek Optical Technology Co., Ltd. (Samoa)	Dong Guan Soartek Optical Technology Co., Ltd.	Manufacturing and sale of optical instrument, electronic products and plastic products	100
Dong Guan Soartek Optical Technology Co., Ltd.	GoerXon Optical Technology Co., Ltd.	Manufacturing and sale of optical lens	40

(Concluded)

Foreign Currencies

Non-derivative foreign-currency transactions are recorded in local currency at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

a. Recognized in shareholders’ equity if the changes in fair value are recognized in shareholders’ equity;

b. Recognized in profit and loss if the changes in fair value are recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee’s financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders’ equity.

Accounting Estimates

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

Current and Noncurrent Assets and Liabilities

Current assets include cash and cash equivalents, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property, plant and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

Cash Equivalents

Cash equivalents, consisting of commercial paper, bank acceptances and repurchase agreements collateralized by bonds, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

Financial Assets and Liabilities at Fair Value through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (“FVTPL”) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company recognizes a financial asset or a financial liability on its balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Available-for-sale Financial Assets

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

The recognition, derecognition and the fair value bases of available-for-sale financial assets are similar to those of financial assets at FVTPL.

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity.

Hedge Accounting

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item as follows:

a. Fair value hedge

   The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss.

b. Cash flow hedge

   The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity. The amount recognized in shareholders' equity is recognized in profit or loss in the same year or years during which the hedged forecast transaction or an asset or liability arising from the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in shareholders' equity is not expected to be recovered in the future, the amount that is not expected to be recovered is reclassified into profit or loss.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is the same with that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

Impairment of Accounts Receivable

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Company assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

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

- Significant financial difficulty of the debtor;
- Accounts receivable becoming overdue; or
- It is becoming probable that the debtor will enter bankruptcy or financial re-organization.

Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Company's past experience in the collection of payments, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

The amount of impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable's original effective interest rate.

The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

Impairment of Assets

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

Inventories

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

Investments Accounted for by the Equity Method

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

The cost of investment is allocated to the assets and liabilities of the investee on the basis of their fair values at the date of acquisition, and the investment cost in excess of the fair value of the identifiable net assets of the investee is recognized as goodwill. Goodwill is not amortized. The fair value of the net identifiable assets of the investee in excess of the investment cost is used to reduce the fair value of each of the noncurrent assets of the investee (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain.

Property, Plant and Equipment

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

Depreciation is provided on a straight-line basis over estimated useful lives as follows: buildings - 2 to 50 years; machinery and equipment - 1 to 9 years; transportation equipment - 4 to 5 years; office equipment - 2 to 8 years; leasehold improvements - 2 to 20 years; and other equipment - 3 to 20 years.

Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their new estimated useful lives.

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

Idle Assets

Idle assets are classified as other assets at the lower of net fair value or carrying amount, with the difference charged to non-operating expenses and losses. The original cost and accumulated depreciation are removed from the accounts.

Intangible Assets

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Computer software and land tenure are amortized on a straight-line basis over 5 and 30 years, respectively.

Pension Cost

Pension cost under a defined benefit plan is determined by actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Income Tax

The Company applies the intra-year and inter-year allocations methods to its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

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

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Stock-based Compensation

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

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

Treasury Stock

Treasury stock is stated at cost and shown as a deduction in shareholders' equity.

Revenue Recognition

Revenue from sales of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable. The Company does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

Reclassifications

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

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change had no effect on net income for the year ended December 31, 2012.

Operating Segments

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires that segment information be disclosed based on the information about the components of the Company that management uses to make operating decisions. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting."

4. CASH AND CASH EQUIVALENTS

	December 31	
	2012	**2011**
Cash on hand	$ 2,846	$ 2,299
Checking accounts and demand deposits	1,633,260	1,665,488
Time deposits	64,082	132,193
Cash equivalents		
Bank acceptances	-	9,435
	$ 1,700,188	$ 1,809,415

5. FINANCIAL INSTRUMENTS AT FVTPL

Financial instruments classified as held for trading were as follows:

	December 31	
	2012	**2011**
Financial assets held for trading		
Forward exchange contracts	$ -	$ 5,028
Financial liabilities held for trading		
Convertible bonds	$ 5,220	$ -

The Company entered into derivative contracts during the years ended December 31, 2012 and 2011 to manage exposures due to exchange rate changes. The financial risk management objective of the Company is to minimize risks due to changes in fair value or cash flows.

Outstanding forward exchange contracts as of December 31, 2012 and 2011 were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
December 31, 2012: None			
December 31, 2011			
Buy	RMB/US$	January 2012 to June 2012	RMB85,674/US$13,400
	JPY/US$	January 2012 to April 2012	JPY240,000/US$3,073

Net gain on financial assets held for trading for the years ended December 31, 2012 and 2011 was $1,157 thousand and $11,479 thousand, respectively. Net gain on convertible bonds for the year ended December 31, 2012 was $1,260 thousand. Therefore, the total net gain on financial instruments at FVTPL for the years ended December 31, 2012 and 2011 was $2,417 thousand and $11,479 thousand.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Financial instruments classified as available-for-sale financial assets were as follows:

	December 31	
	2012	2011
Domestic quoted stocks	$ 54,150	$ -

Calin Technology Co., Ltd. went public in November 2012; therefore, it was reclassified from financial assets carried at cost to available-for-sale financial assets for $9,600 thousand (Note 11).

7. HEDGING DERIVATIVE ASSETS - CURRENT

The future cash flows of the foreign currency debt with floating interest rate will be influenced by changes in interest rate and exchange rate. The Company's assessment showed that the cash flow interest rate risk will be high; therefore, the Company entered into cross currency swap contract to minimize risks. The contract was as follows:

	Hedge Tools		Period of	Profit and Loss
Hedge Items	Financial Instruments	Fair value	Cash Flow Generation	Recognition Period
Foreign currency loan with floating interest rate	Cross-currency swap	$ 5,564	2011.9.6-2012.9.6	2011.9.6-2012.9.6

The terms of the transaction are as follows:

a. Nominal capital: US$5,000 thousand.

b. The Company will pay fixed interest at the rate 0.65% and receive interest at the floating rate of three-month U.S. dollar LIBOR plus 0.60% during the contract period.

c. The Company bought US$5,000 thousand at NT$29.034 per one U.S. dollar for paying off the foreign currency loan at the expiration date of September 6, 2012.

8. NOTES RECEIVABLE

	December 31	
	2012	2011
Notes receivable	$ 13,391	$ 4,031
Less: Allowance for doubtful accounts	(134)	(40)
	$ 13,257	$ 3,991

9. ACCOUNTS RECEIVABLE

	December 31	
	2012	2011
Accounts receivable - nonrelated parties	$ 2,635,687	$ 2,334,063
Accounts receivable - related parties	27,901	-
Less: Allowance for doubtful accounts	(19,316)	(20,601)
	$ 2,644,272	$ 2,313,462

Movements of the allowance for doubtful accounts were as follows:

	Year Ended December 31					
	2012			2011		
	Notes Receivable	Accounts Receivable	Overdue Receivable	Notes Receivable	Accounts Receivable	Overdue Receivable
Balance, beginning of year	$ 40	$ 20,601	$ 19,106	$ -	$ 58,751	$ 16,024
Deduct: Amounts written off	-	(17)	-	-	(2,310)	-
Add: Provision for doubtful accounts	94	-	12,663	40	-	2,822
Less: Reversal of provision for doubtful accounts	-	(759)	-	-	(37,494)	-
Add (deduct): Effect of exchange rate changes	-	(509)	(165)	-	1,654	260
Balance, end of year	$ 134	$ 19,316	$ 31,604	$ 40	$ 20,601	$ 19,106

Overdue receivables were classified under other assets.

10. INVENTORIES

	December 31	
	2012	2011
Raw materials	$ 138,419	$ 161,418
Supplies and spare parts	50,787	33,125
Work in process	212,024	258,774
Semi-finished goods	78,925	72,464
Finished goods	234,047	233,964
	$ 714,202	$ 759,745

As of December 31, 2012 and 2011, the allowance for inventory devaluation was $262,474 thousand and $259,627 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2012 and 2011 was $7,466,124 thousand and $6,866,370 thousand, respectively, which included $6,509 thousand of write-downs of inventories and $7,065 thousand of gain on reversal of write-downs of inventories, respectively.

11. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2012	2011
Unquoted common stocks	$ 56,345	$ 76,075

The above equity investments, which had no quoted prices in an active market and of which fair values could not be reliably measured, were carried at cost.

12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2012		2011	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Unlisted companies				
Toyo Precision Appliance (Kunshan) Co., Ltd.	$ 283,490	30	$ 276,008	30
Changshu Houkennixx Plastic Product Co., Ltd.	17,424	20	-	-
GoerXon Optical Technology Co., Ltd.	44,354	40	-	-
	$ 345,268		$ 276,008	

The investment income of $26,379 thousand and $17,321 thousand for the years ended December 31, 2012 and 2011 was based on the investees' financial statements audited by auditors for the same year.

13. PROPERTY, PLANT AND EQUIPMENT

	December 31, 2012				December 31, 2011
	Cost	Accumulated Depreciation	Accumulated Impairment Losses	Balance	Balance
Land	$ 79,244	$ -	$ 18,812	$ 60,432	$ 60,432
Buildings	1,808,522	420,194	14,481	1,373,847	1,507,957
Machinery and equipment	6,504,678	3,566,853	5,352	2,932,473	2,599,744
Transportation equipment	60,671	39,235	-	21,436	27,745
Office equipment	134,700	90,412	-	44,288	39,546
Leasehold improvements	716,721	235,395	6,971	474,355	506,208
Other equipment	228,241	144,192	815	83,234	92,007
Construction in progress and prepayments	201,271	-	-	201,271	171,695
	$ 9,734,048	$ 4,496,281	$ 46,431	$ 5,191,336	$ 5,005,334

There were no interest capitalized for the years ended December 31, 2012 and 2011.

14. OTHER ASSETS

Idle Assets

	December 31	
	2012	2011
Idle assets	$ 66,185	$ 68,373
Accumulated depreciation	(38,654)	(40,447)
Accumulated impairment losses	(27,531)	(27,926)
	$ -	$ -

Idle assets are equipment retired from active use.

Overdue Receivables

	December 31	
	2012	2011
Overdue receivables	$ 31,604	$ 19,106
Allowance for doubtful accounts	(31,604)	(19,106)
	$ -	$ -

15. SHORT-TERM LOANS

	December 31	
	2012	2011
Working capital loans	$ 161,172	$ 521,693

Interest rates of the working capital loans ranged from 1.82% and 1.3% to 2.12% at December 31, 2012 and 2011, respectively.

16. LONG-TERM DEBT

	December 31	
	2012	2011
China Development Industrial Bank		
Medium-term working capital loan with a credit line of $200,000 thousand and interest rate of 1.86% for the year ended December 31, 2011; loan period from August 19, 2010 to August 19, 2013. Repayable in 9 quarterly installments from August 2010 and interest is paid monthly. The Company had paid off ahead of time.	$ -	$ 155,556
Hua Nan Bank		
Medium-term working capital loan with a credit line of $500,000 thousand and interest rate of 1.82% to 1.87% for the year ended December 31, 2011; loan period from December 2, 2011 to December 2, 2013. Principal lump-sum payment at maturity in December 2013 and interest payment monthly. The Company had paid off ahead of time.	-	200,000

(Continued)

	December 31	
	2012	2011
Hua Nan Bank		
Medium-term working capital loan with a credit line of $500,000 thousand and interest rate of 1.75% for the year ended December 31, 2012; loan period from July 31, 2012 to July 31, 2014. Principal lump-sum payment at maturity and interest payment monthly.	$ 50,000	$ -
Hua Nan Bank		
Medium-term working capital loan with a credit line of $500,000 thousand and interest rate of 1.87% for the year ended December 31, 2012; loan period from September 4, 2012 to September 4, 2014. Principal lump-sum payment at maturity and interest payment monthly.	50,000	-
Hua Nan Bank		
Medium-term working capital loan with a credit line of $500,000 thousand and interest rate of 1.87% for the year ended December 31, 2012; loan period from October 31, 2012 to October 31, 2014. Principal lump-sum payment at maturity and interest payment monthly.	140,000	-
Hua Nan Bank		
Medium-term working capital loan with a credit line of $500,000 thousand and interest rate of 1.82% for the year ended December 31, 2012; loan period from October 31, 2012 to October 31, 2014. Principal lump-sum payment at maturity and interest payment monthly.	60,000	-
E. Sun Bank		
Medium-term working capital loan with a credit line of $200,000 thousand and interest rate of 1.90%; loan period from September 3, 2012 to September 3, 2015. Repayable in 12 quarterly installments from September 2012 and interest is paid monthly. A grace period of one year is given.	200,000	-
China Trust Bank		
Medium-term working capital loan with a credit line of $250,000 thousand and interest rate of 1.80%; loan period from July 9, 2012 to July 9, 2014. Principal lump-sum payment at maturity and interest payment monthly.	250,000	-
China Trust Bank		
Medium-term working capital loan with a credit line of $250,000 thousand and interest rate of 1.75% for the year ended December 31, 2011; loan period from July 8, 2011 to July 8, 2013. Repayable in 4 quarterly installments from October 2012 and interest is paid monthly. The Company had paid off ahead of time.	-	250,000
China Trust Bank		
Medium-term working capital loan with a credit line of $400,000 thousand and interest rate of 1.27%; loan period from March 8, 2012 to March 8, 2014. Principal lump-sum payment at maturity and interest payment monthly.	107,448	-

(Continued)

	December 31	
	2012	2011
Shanghai Commercial Savings Bank		
Medium-term working capital loan with a credit line of $200,000 thousand and interest rate of 1.80% for the year ended December 31, 2012; loan period from March 19, 2012 to January 15, 2014. Repayable in 4 quarterly installments from April 14 2013 and interest is paid monthly.	$ 200,000	$ -
Shanghai Commercial Savings Bank		
Medium-term working capital loan with a credit line of $250,000 thousand and interest rate of 1.79% for the year ended December 31, 2011; loan period from October 1, 2010 to October 15, 2012. Repayable in 8 quarterly installments from January 2011 and interest is paid monthly.	-	125,000
Ta Chong Bank		
Medium-term working capital loan with a credit line of $300,000 thousand and interest rate of 1.80% for the year ended December 31, 2012; loan period from May 28, 2012 to May 28, 2014. Repayable in 4 quarterly installments from August 28, 2013 and interest is paid monthly.	150,000	-
Ta Chong Bank		
Medium-term working capital loan with a credit line of $200,000 thousand and interest rate of 2.455% for the year ended December 31, 2011; loan period from December 20, 2011 to December 20, 2013. Repayable in 4 quarterly installments from March 20, 2013 and interest is paid monthly.	-	112,018
Ta Chong Bank		
Medium-term working capital loan with a credit line of $300,000 thousand and interest rate of 1.83% for the year ended December 31, 2012; loan period from December 26, 2012 to December 26, 2014. Repayable in 4 quarterly installments from March 26, 2013 and interest is paid monthly.	145,200	-
Entie Bank		
Medium-term working capital loan with a credit line of $200,000 thousand and interest rate of 2.04% for the year ended December 31, 2012; loan period from December 4, 2012 to December 3, 2014. Repayable in 5 quarterly installments from December 3, 2013 and interest is paid monthly.	200,000	-
Syndicated loan		
Loan with a credit line of $1,200,000 thousand and interest rate of 1.90%, for the year ended December 31, 2012; loan period from July 15, 2011 to July 15, 2014. Repayable within 180 days from July 15, 2011 and interest is paid monthly.	300,000	635,775
	1,852,648	1,478,349
Less: Current portion	(565,000)	(879,663)
	$ 1,287,648	$ 598,686

(Concluded)

17. BONDS PAYABLE

	December 31	
	2012	2011
Unsecured domestic convertible bonds		
Issued on November 5, 2012 and repayable in November 2017, zero coupon bond	$ 600,000	$ -
Deduct: Discount on convertible bonds payable	(58,831)	-
	$ 541,169	$ -

a. The Company issued the unsecured domestic convertible bonds on November 5, 2012. The main issuance terms are as follows:

1) Total amount of the convertible bonds at issuance: $600,000 thousand

2) Nominal rate: 0%

3) Duration of issuance: 5 years (from November 5, 2012 to November 5, 2017)

4) Conversion period: Each bondholder has the right to convert all or from time to time any portion of its convertible bonds into common shares during the conversion period (up to 31 days after the original issue date to 10 days before the maturity date).

5) Conversion price and adjustment: The conversion price is $58 per common share initially. The conversion price will be adjusted upon the occurrence of an increase in the number of common shares.

6) Call option: The Company could redeem the convertible bonds at par value at any time during the period from 31 days after the original issue date to 40 days before the maturity date, under the following conditions: The closing price of the common shares on each of 30 consecutive trading days reaches or exceeds 30% of the conversion price, or the outstanding balance of the bonds is less than 10% of the original issuance.

7) Put option: Each bondholder has the right to put the convertible bonds at 101% of par value or 101.51% of par value in 30 days after the 3rd and 4th year.

b. The fair value of non-equity convertible options, put options, call options and resetting options embedded in bonds payable was separated from bonds payable, and was recognized in “Financial assets or liabilities at fair value through profit or loss” in accordance with SFAS No. 36.

c. As of December 31, 2012, no bonds were converted so the outstanding bonds were still $600,000 thousand.

18. PENSION PLANS

a. Coxon Precise Industrial Co., Ltd.

The pension plan under the Labor Pension Act (the “LPA”) is a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages. Such pension costs were $6,354 thousand and $5,662 thousand for the years ended December 31, 2012 and 2011, respectively.

Based on the defined benefit plan under the Labor Standards Law (LSL), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in the Bank of Taiwan in the committee's name. The Company recognized pension costs of $2,573 thousand and $3,264 thousand for the years ended December 31, 2012 and 2011, respectively.

Information about the defined benefit plan was as follows:

1) Components of net periodic pension cost

	Year Ended December 31	
	2012	**2011**
Service cost	$ 1,220	$ 1,602
Interest cost	968	1,184
Projected return on plan assets	(765)	(751)
Amortization	1,150	1,229
Net periodic pension cost	$ 2,573	$ 3,264

2) Reconciliation of funded status of the plan and accrued pension cost as of December 31, 2012 and 2011

	December 31	
	2012	**2011**
Benefit obligation		
Vested benefit obligation	$ (7,181)	$ (6,782)
Non-vested benefit obligation	(37,454)	(33,908)
Accumulated benefit obligation	(44,635)	(40,690)
Additional benefit based on future salaries	(8,251)	(7,719)
Projected benefit obligation	(52,886)	(48,409)
Fair value of plan assets	36,796	37,534
Funded status	(16,090)	(10,875)
Unrecognized net transitional obligation	9,200	10,350
Unrecognized net loss	(251)	(5,350)
Additional liability	(697)	-
Accrued pension cost	$ (7,838)	$ (5,875)
Vested benefit	$ (8,464)	$ (7,475)

3) Actuarial assumptions as of December 31, 2012 and 2011

	December 31	
	2012	**2011**
Discount rate used in determining present values	1.88%	2.00%
Future salary increase rate	2.00%	2.00%
Expected rate of return on plan assets	1.88%	2.00%

	Year Ended December 31	
	2012	2011
4) Contributions to the fund	$ 1,307	$ 1,367
5) Payments from the fund	$ 2,408	$ 1,140

b. Soartek Optoelectronics Technology Co., Ltd. has not launch its main operating and thus, has not recognized pension cost yet.

c. Coxon Industry Ltd. (Samoa), Sun Can International Ltd. (Samoa), Sixon Plastic (DongGuan) Ltd., Teckyork Enterprise Co., Ltd. (Samoa), Shanghai Teckyork Enterprise Co., Ltd., Shanghai Sonor Enterprise Co., Ltd., Vastech Industrial Co., Ltd. (Samoa), Vastech Plastic (Shanghai) Industrial Co., Ltd., Changshu Huaxon Industry Co., Ltd., Cheng Da Industry Ltd. (Samoa), Cheng Yee Enterprise Ltd. (Samoa), Coxon Precise International Ltd. (BVI), Hang Yuan Enterprise Ltd. (Samoa), Coxon Industry (Changshu) Co., Ltd., PT Coxon Industrial, Coxen Medical Limited (Samoa), Shanghai Coxon Medical Limited, Shandong GoerXon Precision Industry Co., Ltd., Dong Guan Soartek Optical Technology Co., Ltd. and Hsiangtek Optical Technology Co., Ltd. (Samoa) do not have pension plans.

19. SHAREHOLDERS' EQUITY

a. Coxon Precise Industrial Co., Ltd.

Capital stock

As of December 31, 2012 and 2011, the authorized capital of the parent company was $1,500,000 thousand and the amount of the outstanding common stocks was $1,127,100 thousand and $1,114,430 thousand, respectively, divided into 112,710 thousand shares and 111,443 thousand shares at $10.00 par value.

The parent company reserved common stocks of $120,000 thousand, divided into 12,000 thousand common shares at $10.00 par value, for employee stock option. Those shares can be issued after being approved by the board of directors. As of December 31, 2012 and 2011, the amount of outstanding common stocks included the conversion of employee stock option amounting to $12,670 thousand and $670 thousand.

Employee stock option plans

In August 2007 and October 2007, 5,000 and 660 options, respectively, were granted to qualified employees of the Company. Each option entitles the holder to subscribe for one thousand common shares of the Company when exercisable. The options granted are valid for 8 years and exercisable at certain percentages after the second anniversary year from the grant date. The options were granted at an exercise price equal to the net assets value per share of the Company's latest audited financial statements. For any subsequent changes in the Company's paid-in capital, the exercise price and the number of options are adjusted accordingly.

Information about employee stock options was as follows:

	Year Ended December 31, 2012	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
Balance, beginning of year	2,848	
Options forfeited	(1,267)	$39.9
Options expired	(59)	
Balance, end of year	1,522	
Options exercisable, end of year	685	
Weighted-average fair value of options granted (NT$)	$ -	

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

	Outstanding Employee Stock Option			Exercisable Employee Stock Option	
Range of Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT$)
$39.9	1,219	2.58	$39.9	499	$39.9
39.9	303	2.75	39.9	186	39.9
	1,522			685	

Compensation cost recognized was zero both for the years ended December 31, 2012 and 2011.

The pro forma compensation cost was $1,451 thousand for the year ended December 31, 2012 assuming employee stock options granted before January 1, 2008 were accounted for under SFAS No. 39. The pro forma income statement information is as follows:

	Year Ended December 31, 2012
Net income from continuing operations	$ 426,321
Net income	$ 352,839
After income tax basic earnings per share (NT$)	$ 3.15

Capital surplus

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (limited to a certain percentage of the Company’s paid-in capital and once a year).

The capital surplus from long-term investments, employee stock options and conversion options may not be used for any purpose.

Capital surplus comprised of the following:

	December 31	
	2012	2011
From issuance of common shares	$ 2,303,766	$ 2,303,766
From stock option of convertible bonds	49,140	-
From long-term investments	580	580
From conversion of employee stock options	89,012	51,129
From employee stock options - issuance of common shares	6,300	6,300
From retirement of treasury stock	(120,729)	(120,729)
	$ 2,328,069	$ 2,241,046

Appropriation of earnings and dividend policy

Under the Company law and the Company's articles of incorporation, 10% of the Company's net income after paying taxes and offsetting any deficit should first be appropriated as legal reserve. The special reserve can be appropriated or reversed if necessary. The appropriation of remaining amount which is proposed by the board of directors and approved by the shareholders in their annual meeting should be distributed in the following order:

1) Set aside 3% to 15% of the remaining amount as employee bonus.
2) Set aside no more than 3% of the remaining amount as directors' and supervisors' remuneration.
3) Set aside the remaining portion as shareholders' bonus.

To ensure that the Company has funds for its present and future expansion plans, the Company prefers to distribute stock dividends and cash dividends as shareholders' bonus. The distribution policy would be adjusted depending on the operating conditions, industry developments, capital requirement and so forth.

For the years ended December 31, 2012 and 2011, the bonus to employees was $30,000 thousand and $30,000 thousand, respectively, and the remuneration to directors and supervisors was $10,000 thousand and $10,000 thousand, respectively. The bonus to employees represented 3% to 15% and the remuneration to directors and supervisors represented no more than 3% of amount distributed. Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the shareholders' meeting.

Based on a directive issued by the Securities and Futures Bureau, an amount equal to the net debit balance of certain shareholders' equity accounts (including unrealized revaluation increment, unrealized gain or loss on financial instruments, net loss not recognized as pension cost, cumulative translation adjustments) shall be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

Legal reserve shall be appropriated until it has reached the Company's paid-in capital. This reserve may be used to offset a deficit. Under the revised Company Law issued on January 4, 2012, when the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2011 and 2010 had been approved in the shareholders' meetings on June 6, 2012 and June 9, 2011, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Year 2011	**For Year 2010**	**For Year 2011**	**For Year 2010**
Legal reserve	$ 34,633	$ 33,590	$ -	$ -
Special reserve	-	173,553	-	-
Cash dividends	335,196	461,568	3.00	4.00

The bonus to employees of $30,000 thousand and the remuneration to directors and supervisors of $10,000 thousand which were charged directly to expense for 2011 were approved in the shareholders' meeting. Such approved amounts of bonus to employees and remuneration to directors and supervisors were the same as the accrued amounts.

The appropriations of earnings for 2012 had been proposed by the board of directors on March 12, 2013. The proposed appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 35,404	$-
Cash dividends	347,263	3

The appropriations of 2012 earnings and the amounts of bonus to employees and remuneration to directors and supervisors will be resolved by the shareholders in their meeting scheduled for June 11, 2013.

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

Unrealized gain or loss on financial instruments

For the years ended December 31, 2012 and 2011, movements of unrealized gain or loss on financial instruments were as follows:

	Year Ended December 31	
	2012	**2011**
Available-for-sale financial assets		
Balance, beginning of year	$ (641)	$ 1,818
Recognized in shareholders' equity	45,191	(2,459)
Balance, end of year	$ 44,550	$ (641)

Treasury stock

According to the approval of the board of directors on August 26, 2011, the Company bought back 4,000 thousand shares of its own stock at a price of $38 to $48 per share during the August 29, 2011 to October 28, 2011, respectively. When the market price is lower than the limit of initial agreed range, the Company will continue to buy back their shares. It bought a total of 4,000 thousand shares at a total cost of $160,729 thousand as of the end of the execution period, which shares were subsequently retired in December 2011.

b. According to "Rules for the implementation of the law of the People's Republic of China on foreign-capital enterprises", Sinxon Plastic (DongGuan) Ltd., Shanghai Teckyork Enterprise Co., Ltd., Shanghai Sonor Enterprise Co., Ltd., Vastech Plastic (Shanghai) Industrial Co., Ltd., Changshu Huaxon Industry Co., Ltd., Coxon Industry (Changshu) Co., Ltd., Shanghai Coxon Medical Limited, Shandong GoerXon Precision Industry Co., Ltd. and Dong Guan Soartek Optical Technology Co., Ltd. shall have reserve funds to be withdrawn from their profits after they, as foreign-capital enterprise, have paid income tax in accordance with the provisions of the Chinese tax law. The proportion of reserve funds to be withdrawn from profits shall not be lower than 10% of the total amount of profits after payment of tax; the withdrawal from profits for reserve funds may be stopped when the total cumulative reserve has reached 50% of the registered capital.

20. INCOME TAX

a. Income tax accounts of the Company were as follows:

	Year Ended December 31, 2012			
	Income Tax Benefit (Expense)	Income Tax Payable	Deferred Income Tax Assets	Deferred Income Tax Liabilities
Coxon Precise Industrial Co., Ltd.	$ (73,729)	$ 17,586	$ 41,040	$ 153,785
Sinxon Plastic (DongGuan) Ltd.	(7,431)	-	10,973	-
Shanghai Teckyork Enterprise Co., Ltd.	(28,175)	-	4,682	-
Shanghai Sonor Enterprise Co., Ltd.	(4,319)	-	3,315	-
Vastech Plastic (Shanghai) Industrial Co., Ltd.	(4,123)	-	-	-
Coxon Industry (Changshu) Co., Ltd.	(34,292)	-	22,629	-
Shanghai Coxon Medical Limited	(111)	-	-	-
Vastech Industrial Co., Ltd. (Samoa)	(698)	-	-	-
Coxon Precise International Ltd. (BVI)	(804)	-	-	-
	$ (153,682)	$ 17,586	$ 82,639	$ 153,785

	Year Ended December 31, 2011			
	Income Tax Benefit (Expense)	Income Tax Payable	Deferred Income Tax Assets	Deferred Income Tax Liabilities
Coxon Precise Industrial Co., Ltd.	$ (71,449)	$ 68,303	$ 40,489	$ 197,967
Sinxon Plastic (DongGuan) Ltd.	(15,415)	-	19,017	-
Shanghai Teckyork Enterprise Co., Ltd.	(19,777)	-	34,102	-
Shanghai Sonor Enterprise Co., Ltd.	(2,173)	-	7,846	-
Vastech Plastic (Shanghai) Industrial Co., Ltd.	(6,931)	-	4,230	-
Coxon Industry (Changshu) Co., Ltd.	3,782	-	59,207	-
Shanghai Coxon Medical Limited	(59)	-	116	-
PT Coxon International Ltd.	(493)	-	-	-
	$ (112,515)	$ 68,303	$ 165,007	$ 197,967

b. Coxon Precise Industrial Co., Ltd.

A reconciliation of income tax expense based on income before income tax at the statutory rate of 17% and income tax expense was as follows:

	Year Ended December 31	
	2012	2011
Income tax expense at the statutory rate	$ 72,721	$ 71,022
Tax effect on adjusting items:		
Permanent differences	(28)	367
Temporary differences	263	40,232
Additional 10% income tax on unappropriated earnings	-	-
Current income tax expense	72,956	111,621
Adjustments for prior years' tax	(879)	60
Deferred income tax expense		
Temporary differences	1,652	(40,232)
	$ 73,729	$ 71,449

In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 20% to 17%, effective January 1, 2010.

Deferred income tax assets (liabilities) were as follows:

	December 31	
	2012	2011
Current		
Deferred income tax assets		
Unrealized allowance for loss on inventories	$ 28,756	$ 29,617
Allowance for bad debts exceeded the limitation	1,969	1,749
Unrealized sales profit	1,454	1,565
Unrealized unallocated fixed overhead	1,378	783
Loss on litigations	7,606	7,606
Other	91	-
	41,254	41,320

(Continued)

	December 31	
	2012	**2011**
Deferred income tax liabilities		
The allocation of unrealized gains and losses on disposal of property, plant and equipment	$ -	$ 79
Unrealized valuation gain on convertible bond	214	-
Unrealized foreign exchange income	-	752
	214	831
Net deferred income tax assets	$ 41,040	$ 40,489
Noncurrent		
Deferred income tax assets		
Impairment loss	$ 13,133	$ 12,665
Recognition of pension cost	1,209	993
Cumulative translation adjustments	14,744	-
	29,086	13,658
Less: Valuation allowance	(5,978)	(4,955)
	23,108	8,703
Deferred income tax liabilities		
Investment income recognized on overseas equity-method investments	176,893	175,029
Cumulative translation adjustments	-	31,641
Other	-	-
	176,893	206,670
Net deferred income tax liabilities	$ 153,785	$ 197,967

(Concluded)

The income tax returns through 2010 have been assessed and approved by the tax authorities.

Information about integrated income tax was as follows:

	December 31	
	2012	**2011**
Unappropriated earnings generated before January 1, 1998	$ 981	$ 981
Unappropriated earnings generated on and after January 1, 1998	1,521,619	1,537,405
	$ 1,522,600	$ 1,538,386

As at December 31, 2012 and 2011, the balance of the imputation credits which can be allocated to the shareholders amounted to $419,785 thousand and $412,394 thousand.

The creditable ratio for distribution of earnings of 2012 and 2011 was 28.74% (estimate) and 31.21%, respectively.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to shareholders of the Company is based on the balance of the ICA as of the date of dividend distribution. The expected creditable ratio for the 2012 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

21. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31					
	2012			2011		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Personnel						
Salary	$ 1,932,173	$ 235,715	$ 2,167,888	$ 1,884,127	$ 222,170	$ 2,106,297
Pension	3,381	6,854	10,235	3,431	6,784	10,215
Meals	91,450	9,943	101,393	96,142	8,449	104,591
Welfare	9,928	8,551	18,479	8,882	9,033	17,915
Insurance	80,797	15,340	96,137	57,173	14,077	71,250
Others	913	507	1,420	377	686	1,063
	$ 2,118,642	$ 276,910	$ 2,395,552	$ 2,050,132	$ 261,199	$ 2,311,331
Depreciation	$ 661,319	$ 78,934	$ 740,253	$ 613,498	$ 79,764	$ 693,262
Amortization	255,215	9,213	264,428	223,268	26,362	249,630

22. EARNINGS PER SHARE

The numerators and denominators used in calculating basic and diluted EPS were as follows:

	Amounts (Numerator)		Shares	EPS (NT$)	
	Before Income Tax	After Income Tax	(Denominator) (In Thousands)	Before Income Tax	After Income Tax
Year ended December 31, 2012					
Basic EPS					
Income for the year attributable to parent company	$ 427,772	$ 354,043	111,916	$ 3.82	$ 3.16
Effect of dilutive potential common stock					
Employee stock option	-	-	390		
Bonus to employees	-	-	1,308		
Diluted EPS					
Income for the year attributable to parent company plus effect of potential dilutive common stock	$ 427,772	$ 354,043	113,614	$ 3.77	$ 3.12
Year ended December 31, 2011					
Basic EPS					
Income for the year attributable to parent company	$ 417,776	$ 346,327	114,571	$ 3.65	$ 3.02
Effect of dilutive potential common stock					
Employee stock option	-	-	619		
Bonus to employees	-	-	1,322		
Diluted EPS					
Income for the year attributable to parent company plus effect of potential dilutive common stock	$ 417,776	$ 346,327	116,512	$ 3.59	$ 2.97

The Company recognized bonuses paid to employees, directors and supervisors as compensation expenses. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares should be included in the calculation of diluted EPS until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

23. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

	December 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Financial assets carried at cost	$ 56,345	$ -	$ 76,075	$ -

b. Methods and assumptions used to estimate the fair values of financial instruments were as follows:

1) The carrying amounts of the following short-term financial instruments approximate their fair values because of their short maturities: Cash and cash equivalents, receivables, payables and short-term bank loans.

2) Fair values of financial instruments designated as at FVTPL and available-for-sale are based on their quoted prices in an active market. For those instruments with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

3) Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.

4) Fair values of derivatives are based on their quoted prices in an active market. For those derivatives with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

5) Fair value of long-term loans and long-term payables are estimated using the present value of future cash flows discounted by the interest rates the Company may obtain for similar loans.

c. Fair values of financial assets and liabilities determined based on quoted market prices or valuation techniques were as follows:

	Quoted Market Prices		Valuation Techniques	
	December 31		December 31	
	2012	2011	2012	2011
Assets				
Financial assets at FVTPL	$ -	$ -	$ -	$ 5,028
Hedging derivative assets	-	-	-	5,564
Available-for-sale financial assets	54,150	-	-	-
Liabilities				
Financial liabilities at FVTPL	-	-	5,220	-

d. Valuation gains arising from changes in fair value of financial instruments determined by using valuation techniques were $2,417 thousand and $30,659 thousand for the years ended December 31, 2012 and 2011, respectively.

e. Financial risks

1) Market risk

The Company uses forward contracts for hedging purpose, i.e., to reduce any adverse effect of exchange rate. The gains or losses on these contracts almost offset the gains or losses on the hedged items. As a result, the market risk is not material.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Company if the counterparties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counterparties to the foregoing financial instruments are reputable financial institutions and business organizations. Management does not expect the Company's exposure to default by those parties to be material.

3) Liquidity risk

The Company has no forward contracts and cross-currency swap contracts on December 31, 2012. Therefore, there is no related liquidity risk.

24. RELATED PARTY TRANSACTIONS

a. Related parties and their relationships with the Company

Related Party	Relationship with the Company
Toyo Precision Appliance (Kanshan) Co., Ltd.	Equity-method investee
Taising Coxon Limited (Hong Kong)	Its director is the chairman of the parent company
GoerTek Inc.	Related party in substance
Weifang GoerLight Opto-electricity Co., Ltd.	Related party in substance
Weifang GoerTek Technology Co., Ltd.	Related party in substance
Yishui GoerTek Electronics Co., Ltd.	Related party in substance
Ying Da Enterprise Co., Ltd. (Samoa)	Related party in substance
Ying Da Plastic (Shen-zhen) Ltd.	Related party in substance
Zhao Xuan Enterprise Co., Ltd. (Samoa)	Related party in substance

b. Significant transactions with related parties:

1) Sales

Related Party	2012 Amount	2012 % to Total	2011 Amount	2011 % to Total
Taising Coxon Limited (Hong Kong)	$ 430	-	$ 1,606	-
GoerLight Opto-electricity Co., Ltd.	32,529	-	-	-
Others	1,096	-	-	-
	$ 34,055	-	$ 1,606	-

(Year Ended December 31)

The selling prices and collection terms for products sold to related parties were similar to those for products sold to third parties.

2) Purchase

Related Party	2012 Amount	2012 % to Total	2011 Amount	2011 % to Total
GoerTek Inc.	$ 1,647	-	$ -	-

(Year Ended December 31)

3) Revenue, costs and expenses

	Related Party	2012 Amount	2012 % to Total	2011 Amount	2011 % to Total
Other revenue	Toyo Precision Appliance (Kanshan) Co., Ltd.	$ 990	1	$ -	-
Manufacturing overhead - outsourced	Ying Da Enterprise Co., Ltd. (Samoa)	$ 19,626	-	$ 38,684	1
	Ying Da Plastic (Shen-zhen) Ltd.	726	-	1,489	-
	Taising Coxon Limited (Hong Kong)	4,984	-	3,806	-
	GoerTek Inc.	24	-	-	-
Manufacturing overhead - other	Ying Da Plastic (Shen-zhen) Ltd.	-	-	48	-
	Taising Coxon Limited (Hong Kong)	119	-	-	-
	GoerTek Inc.	664	-	-	-
Manufacturing overhead - rental expense	GoerTek Inc.	1,309	-	-	-
Manufacturing overhead - electric expense	GoerTek Inc.	3,946	-	-	-
		$ 31,398	-	$ 44,027	1

(Year Ended December 31)

	Related Party	Year Ended December 31 2012 Amount	2012 % to Total	2011 Amount	2011 % to Total
Operating expense - electric expense and other	GoerTek Inc.	$ 1,199	-	$ -	-

4) Receivables from and payables to related parties

	Related Party	December 31 2012 Amount	2012 % to Total	2011 Amount	2011 % to Total
Accounts receivable	GoerTek Inc.	$ 6,170	-	$ -	-
	Yishui GoerTek Electronics Co., Ltd.	107	-	-	-
	Weifang GoerLight Opto-electricity Co., Ltd.	21,613	1	-	-
	Weifang GoerTek Technology Co., Ltd.	11	-	-	-
		$ 27,901	1	$ -	-
Other receivable	Taising Coxon Limited (Hong Kong)	$ 7,437	18	$ 12,069	32
Accounts payable	Ying Da Enterprise Co., Ltd. (Samoa)	$ 3,692	-	$ 10,059	1
	GoerTek Inc.	10,596	1	437	-
		$ 14,288	1	$ 10,496	1
Accrued expenses	GoerTek Inc.	$ 7,911	-	$ -	-
	Ying Da Plastic (Shen-zhen) Ltd.	787	-	3,704	-
		$ 8,698	-	$ 3,704	-
Unearned sales revenue	Ying Da Plastic (Shen-zhen) Ltd.	$ 86	-	$ 89	-
	Toyo Precision Appliance (Kanshan) Co., Ltd.	-	-	1,016	2
		$ 86	-	$ 1,105	2
Payable for equipment	GoerTek Inc.	$ 4,305	1	$ -	-

5) Acquisition of property, plant and equipment

Asset	Related Party	Year Ended December 31 2012	2011
Machinery and equipment	GoerTek Inc.	$ 3,699	$ -

6) Security transactions

Coxon Precise Industrial Co., Ltd. signed a contract to buy 42.12% of common shares of Cheng Yee Enterprise Ltd. (Samoa) with Zhao Xuan Enterprise Co., Ltd. (Samoa). The value per share is based on net asset value per share of latest financial statements. As of December 31, 2011, the Company had bought 22.12% of Cheng Yee's common shares.

25. MORTGAGED OR PLEDGED ASSETS

The Company's assets mortgaged or pledged as collateral for bank loans were as follows:

	December 31 2012	2011
Land	$ 79,244	$ 79,244
Buildings, net	422,511	459,205
Intangibal assets - land access	-	22,335
Restricted assets - current	4,580	44,222
	$ 506,335	$ 605,006

26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

In addition to those disclosed in other notes, significant commitments and contingencies of the Company as of December 31, 2012 were as follows:

a. The rental payments in next five years are as follows:

Period (Year)	Amount
2013	$ 142,547
2014	97,305
2015	73,543
2016	66,586
2017	64,267
2018-2019	28,424

b. Coxon Industry Ltd. (Samoa) had commitments to buy machinery and equipment which amounted to $136,390 thousand, of which $86,131 thousand had been paid.

c. Sun Can International Ltd. (Samoa) had commitments to buy machinery and equipment and to comply with repair construction contracts which amounted to $85,924 thousand, of which $58,799 thousand had been paid.

d. Cheng Da Industry Ltd. (Samoa) had commitments to buy machinery and equipment which amounted to $33,492 thousand, of which $26,441 thousand had been paid.

e. Coxon Industry (Changshu) Co., Ltd. had signed a renovation contract which amounted to $68,968 thousand, of which $23,300 thousand had been paid.

f. Coxon Industry (Changshu) Co., Ltd. had controversy with Kunshan Ya-Chun Trading Co., Ltd. in 2011 in which Ya-Chun Company claim for RMB2,200 thousand. The lawsuit is not judged yet. In the lawyer's opinion, the Yu-Chun Company's probability of winning is small. The Company thinks this litigation would not have a significant impact on the operation.

g. JCD Corporation (hereinafter referred to as "JCD") applied to the Japan commercial arbitration association for a tort arbitration in relation to its forbidding of the Company from producing and selling the digital camera lens designed by JCD as well as its demand for payment of US$2,662 thousand, JPY635 thousand and RMB393 thousand as compensation.

According to the decision of the arbitration association, the defendant should pay US$1,441 thousand, JPY1,270 thousand and JPY1,562 thousand related litigation costs to the complainant. The Company had estimated the loss of $44,738 thousand (including US$1,441 thousand and JPY2,832 thousand) in 2011. Besides, the defendant was forbidden from producing the digital camera lens in sales catalogue. However, the Company was still in doubt about the content of arbitration decision and had made an appeal for the revocation of the arbitration award. The appeal was dismissed by Tokyo District Court. Thereafter, the Company made an appeal to Tokyo High Court, but the appeal was still dismissed. Only till the Company receives the official verdict from the Court will they take the right action against it.

27. OPERATING SEGMENT FINANCIAL INFORMATION

a. Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the financial information of every region. The Company's reportable segments under SFAS No. 41 are therefore as follows:

1) Taiwan and South China
2) South China
3) Shanghai
4) Changshu
5) Others

b. Segment revenue and results

The analysis of the Company's revenue and results from continuing operations by reportable segment was as follows:

	Year Ended December 31, 2012						
	Taiwan and South China Region	South China Region	Shanghai	Changshu	Others	Adjustments and Elimination	Total
Segment revenues and results							
Sales from external customers	$ 6,207,035	$ 455,316	$ 785,891	$ 1,017,885	$ 68,666	$ -	$ 8,534,793
Sales among intersegments	3,440,384	26	48,085	6,749	23	(3,495,267)	-
	$ 9,647,419	$ 455,342	$ 833,976	$ 1,024,634	$ 68,689	$ (3,495,267)	$ 8,534,793

(Continued)

	Year Ended December 31, 2012						
	Taiwan and South China Region	**South China Region**	**Shanghai**	**Changshu**	**Others**	**Adjustments and Elimination**	**Total**
Gross profit	$ 543,792	$ 65,516	$ (50,586)	$ (108,934)	$ (13,361)	$ 21,536	$ 457,963
Interest income							4,869
Other income							79,173
Interest expense							(44,421)
Other expense and loss							(15,455)
Income from continuing operating before income tax							$ 482,129
Segment assets							
Assets	$ 7,077,701	$ 508,730	$ 1,484,435	$ 2,488,379	$ 594,798	$ (1,506,745)	$ 10,647,298
Investments							401,613
Deferred income tax assets							82,639
							$ 11,131,550
Depreciation and amortization	$ 569,220	$ 82,195	$ 157,681	$ 183,319	$ 12,266		$ 1,004,681
Acquisition of property, plant and equipment	$ 829,113	$ 3,375	$ 235,496	$ 45,690	$ 1,068		$ 1,114,742

(Concluded)

	Year Ended December 31, 2011						
	Taiwan and South China Region	**South China Region**	**Shanghai**	**Changshu**	**Others**	**Adjustments and Elimination**	**Total**
Segment revenues and results							
Sales from external customers	$ 5,799,703	$ 645,059	$ 666,677	$ 894,249	$ 33,317	$ -	$ 8,039,005
Sales among intersegments	3,017,241	-	55,979	20,368	31	(3,093,619)	-
	$ 8,816,944	$ 645,059	$ 722,656	$ 914,617	$ 33,348	$ (3,093,619)	$ 8,039,005
Gross profit	$ 801,571	$ (132,761)	$ (17,563)	$ (83,381)	$ (24,456)	$ 1,915	$ 545,325
Interest income							13,872
Other income							46,049
Interest expense							(29,560)
Other expense and loss							(131,257)
Income from continuing operating before income tax							$ 444,429
Segment assets							
Assets	$ 6,608,205	$ 673,062	$ 1,355,690	$ 2,707,195	$ 566,685	$ (1,687,549)	$ 10,223,288
Investments							352,083
Deferred income tax assets							165,007
							$ 10,740,378
Depreciation and amortization	$ 496,781	$ 96,465	$ 133,900	$ 203,034	$ 12,712		$ 942,892
Acquisition of property, plant and equipment	$ 829,859	$ 154,588	$ 44,950	$ 86,348	$ 16,298		$ 1,132,043

Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' compensation, investment income or loss recognized under the equity method, gain or loss on disposal of investments accounted for by the equity method, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, gain or loss on sale of investments, exchange gain or loss, valuation gain or loss on financial instruments, interest expense and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

c. Revenue from major products and services

The following is an analysis of the Company's revenue from continuing operations from its major products and services:

	Year Ended December 31	
	2012	2011
Plastic components	$ 7,467,549	$ 7,198,079
Molds	864,727	689,601
Others	202,517	151,325
	$ 8,534,793	$ 8,039,005

d. Geographical information

The Company operates in three principal geographical areas - Taiwan, China and Japan. The Company's revenue from continuing operations from external customers and information about its noncurrent assets by geographical location are detailed below.

	Revenue from External Customers		Noncurrent Assets	
	December 31		December 31	
	2012	2011	2012	2011
Taiwan	$ 1,698,778	$ 1,335,344	$ 197,317	$ 193,210
China	5,499,910	5,728,278	5,176,114	4,983,975
Japan	576,049	437,047	-	-
	760,056	538,336	-	-
	$ 8,534,793	$ 8,039,005	$ 5,373,431	$ 5,177,185

Noncurrent assets excluded those classified as held for sale, financial instruments, deferred tax assets.

e. Major customers

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

	Year Ended December 31			
	2012		2011	
	Amount	% to Total	Amount	% to Total
Customer A	$ 432,588	5	$ 938,885	12
Customer B	336,517	4	815,841	10
	$ 769,105	9	$ 1,754,726	22

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

The significant foreign-currency financial assets and liabilities were as follows:

	December 31					
	2012			2011		
	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)
Financial assets						
Monetary items						
USD	$ 95,966	29.04	$ 2,786,853	$ 84,345	30.275	$ 2,553,545
JPY	55,041	0.3364	18,516	58,891	0.3906	23,003
HKD	23,582	3.747	88,362	20,043	3.897	78,108
RMB	75,231	4.66	350,576	61,618	4.807	296,198
Investment accounted for by the equity method						
RMB	74,092	4.66	345,268	57,418	4.807	276,008
Financial liabilities						
Monetary items						
USD	21,848	29.04	634,466	45,413	30.275	1,374,879
JPY	1,079,021	0.3364	362,983	1,306,340	0.3906	510,256
HKD	38,117	3.747	142,824	22,772	3.897	88,742
RMB	146,055	4.66	680,616	148,086	4.807	711,849

29. PLAN FOR THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Company discloses its plan for the adoption of the International Financial Reporting Standards (IFRSs) as follows:

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

Plan Item	Responsible Division	Status
1) Establish the IFRSs task force	Board of directors	Completed
2) Set up a work plan for IFRSs adoption	IFRS project team	Completed
3) Complete the identification of GAAP differences and impact	IFRS project team	Completed
4) Identify the consolidated entities under IFRSs	IFRS project team	Completed

(Continued)

Plan Item	Responsible Division	Status
5) Evaluate the impact of the adoption of IFRS 1 - "First-time Adoption of International Financial Reporting Standards" (IFRS 1)	IFRS project team	Completed
6) Evaluate the configuration, testing, and evaluation of the IT systems	IFRS project team	Completed
7) Evaluate the internal controls	IFRS project team	Completed
8) Determine the IFRSs accounting policies to be adopted	IFRS project team	Completed
9) Determine which IFRS 1 exemptions will be a adopted	IFRS project team	Completed
10) Prepare the opening balance sheet at the IFRS transition date	IFRS project team	Completed
11) Prepare comparative IFRS financial information for 2012	IFRS project team	Completed
12) Modify the relevant internal controls	IFRS project team	Completed

(Concluded)

b. The Company had assessed the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs as follows:

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

Items	ROC GAAP	Adjustments	IFRSs	Note
Assets				
Advance payment	$ 57,674	$ 42,459	$ 100,133	6) f), g)
Deferred income tax assets - current	59,595	(59,595)	-	6) a)
Property, plant and equipment	5,005,334	(132,895)	4,872,439	6) f), g), h), k)
Computer software	15,101	79	15,180	6) f)
Land tenure	65,510	(65,510)	-	6) i)
Other intangible assets	9,970	10,785	20,755	6) g)
Prepayments for equipment	-	171,695	171,695	6) h)
Deferred charges	69,230	(69,230)	-	6) g)
Deferred income tax assets - noncurrent	105,412	60,837	166,249	6) a), c)
Prepaid lease	-	67,365	67,365	6) f), i)
Liabilities				
Accrued expense	829,683	(829,683)	-	6) j)
Other payables	18,394	829,683	848,077	6) j)
Provision for employee benefit plan - current	-	16,669	16,669	6) b)
Accrued pension cost	5,875	7,276	13,151	6) c)
Shareholders' equity				
Capital surplus	2,241,046	45,373	2,286,419	6) d), e)
Unappropriated earnings	1,538,386	(43,328)	1,495,058	6) b), c), d), f)

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

Items	ROC GAAP	Adjustments	IFRSs	Note
Assets				
Cash and cash equivalents	$ 1,700,188	$ (64,082)	$ 1,636,106	6) n)
Other financial assets	-	64,082	64,082	6) n)
Advance payment	75,769	69,004	144,773	6) f), g)
Defrred income tax assets - current	60,032	(60,032)	-	6) a)
Financial assets carried at cost - current	56,345	(56,345)	-	6) m)
Available for sale financial assets - noncurrent	-	56,345	56,345	6) m)
Property, plant and equipment	5,191,336	(171,924)	5,019,412	6) f), g), h), k)
Computer software	14,495	47	14,542	6) f)
Deferred pension cost	697	(697)	-	6) c)
Land tenure	60,982	(60,982)	-	6) i)
Other intangible assets	7,905	7,587	15,492	6) g)
Prepayments for equipment	-	201,271	201,271	6) h)
Deferred charges	87,044	(87,044)	-	6) g)
Defrred income tax assets - noncurrent	22,607	61,970	84,577	6) a), c)
Prepaid lease	-	62,743	62,743	6) f), i)
Liabilities				
Accrued expense	879,423	(879,423)	-	6) j)
Other payables	8,049	879,423	887,472	6) j)
Provision for employee benefit plan - current	-	16,299	16,299	6) b)
Accrued pension cost	7,838	10,674	18,512	6) c)
Shareholders’ equity				
Capital surplus	2,328,069	52,338	2,380,407	6) d), e)
Unappropriated earnings	1,522,600	(57,368)	1,465,232	6) b), c), d), f)

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

Items	ROC GAAP	Adjustments	IFRSs	Note
Net operating revenue	$ 8,534,793	$ -	$ 8,534,793	
Operating costs	(7,466,124)	419	(7,465,705)	6) c)
Gross profit	1,068,669	419	1,069,088	
Operating expenses	(684,806)	(9,748)	(694,554)	6) b), c), d), f)
Other operating gains and losses	-	26,265	26,265	6) l)
Operating loss	383,863	16,936	400,799	
Nonoperating income and losses	98,266	(26,265)	72,001	6) l)
Income before income tax	482,129	(9,329)	472,800	
Income tax expense	(153,682)	(223)	(153,905)	6) c)
Consolidated net income	$ 328,447	$ (9,552)	318,895	
Other comprehensive income				
Exchange differences arising from the translation of foreign operations			(226,463)	
Unrealized valuation gain on available-for-sale assets			44,550	
Actuarial losses from defined benefit plans			(4,488)	6) c)
Total other comprehensive income			(186,401)	
Total comprehensive income			$ 132,494	

4) Appropriation for special reserve at the date of transition to IFRSs

Under Order No. 1010012865 issued by the FSC on April 6, 2012, on the first-time adoption of IFRSs, an entity may elect to use an exemption, specified in IFRS 1, to reset unrealized revaluation increment and cumulative translation differences under stockholders' equity to zero by crediting the amount to retained earnings. The amount credited to retained earnings will be appropriated to special reserve if it is smaller than the increase in retained earnings that resulted from all IFRS adjustments at the date of transition to IFRSs. If the increase in retained earnings that resulted from all IFRS adjustments at the date of transition to IFRSs is smaller than the total of the increment and differences, only the increase in retained earnings that resulted from all IFRSs adjustments will be appropriated to special reserve. The special reserve will be reversed proportionately upon the subsequent usage, disposal or reclassification of the related assets.

The IFRS adjustments were a net decrease in retained earnings; thus, no amount was appropriated to special reserve.

5) Exemptions from IFRS 1

IFRS 1 contained the procedures for the preparation of consolidated financial statements for the first time in accordance with IFRSs. Under the procedures, the Company should determine which IFRS accounting policies to adopt and retrospectively apply these accounting policies to its opening balance sheet at the date of transition to IFRSs (January 1, 2012). IFRS 1 also provided several optional exemptions. The exemptions adopted by the Company were as follows:

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

b) Share-based payment. The Company elected to take the optional exemption from applying IFRS 2, "Share-based Payment," retrospectively for the shared-based payment transactions granted and vested before January 1, 2012.

c) Business combinations. The Company elected not to apply IFRS 3, "Business Combinations," retrospectively to business combinations that occurred before January 1, 2012. Therefore, in the opening balance sheet, the amount of goodwill generated from past business combinations remains the same compared with the amount under ROC GAAP as of December 31, 2011.

6) Explanation for the adjustments on IFRSs transition

a) Classifications of deferred income tax asset/liability and valuation allowance

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

In addition, under ROC GAAP, valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. In accordance with IAS No. 12, "Income Taxes," deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits and the valuation allowance account is no longer used.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from deferred income tax assets to noncurrent assets were $60,032 thousand and $59,595 thousand, respectively.

b) Employee benefits - accumulated compensated absences

Accumulated compensated absences are not addressed in existing ROC GAAP; thus, the Company has not recognized the expected cost of employee benefits in the form of accumulated compensated absences at the end of reporting periods. However, under IFRSs, when the employees render services that increase their entitlement to future compensated absences, an entity should recognize the expected cost of employee benefits at the end of reporting periods. As a result, as of December 31, 2012 and January 1, 2012, the IFRS adjustment resulted in an increase in "provision for employee benefit plan" by $16,299 thousand and $16,669 thousand, respectively, and salary expense for the year 2012 decreased by $370 thousand.

c) Employee benefits - pension plan

Under ROC GAAP, it is not allowed to recognize actuarial gains and losses from defined benefit plans directly to equity; instead, actuarial gains and losses should be accounted for under the corridor approach which resulted in the deferral of gains and losses. When using the corridor approach, actuarial gains and losses should be amortized over the expected average remaining working lives of the participating employees. Under IAS No. 19, "Employee Benefits," the Company elects to recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income. The subsequent reclassification to earnings is not permitted.

As of December 31, 2012 and January 1, 2012, accrued pension cost of the Company was adjusted for an increase of $10,674 thousand and $7,276 thousand, respectively; deferred income tax assets were adjusted for an increase of $1,938 thousand and $1,242 thousand, respectively; and also deferred pension cost was adjusted for a decrease of $697 thousand and zero, respectively. Pension cost and income tax expense for the year ended December 31, 2012 were also adjusted for a decrease of $1,312 thousand and an increase of $223 thousand, respectively; actuarial loss of $4,488 thousand from defined benefit plans and associated tax benefit was recognized in other comprehensive income.

d) Share-based payment

Employee stock options that were granted or modified in the period from January 1, 2004 to December 31, 2007 are accounted for by the interpretations issued by the Accounting Research and Development Foundation of the Republic of China. The Company adopted the intrinsic value method and any compensation cost determined using this method is recognized in earnings over the employee vesting period. Employee stock option plans that were granted or modified after December 31, 2007 are accounted for using intrinsic value method in accordance with the interpretations issued by Financial Supervisory Commission of the Republic of China.

Under IFRSs, according to IFRS 2, unless the share-based payments cannot be measured reliably, they should be accounted for using fair value method. As a result, as of December 31, 2012 and January 1, 2012, IFRS adjustment resulted in an increase in "capital surplus" by $52,918 thousand and $45,953 thousand, respectively, and an increase in salary expense by $6,965 thousand for the year 2012.

e) Investee issues new shares and an investor does not purchase new shares proportionately

Under ROC GAAP, if an investee issues new shares and an investor does not purchase new shares proportionately, capital surplus and the long-term equity investment accounts should be adjusted for the change in the investor's holding percentage and interest in the investee's net assets. By contrast, under IFRSs, a reduction of investor's ownership interest that results in loss of significant influence on or control over an investee would be treated as deemed disposal, with the related gain or loss recognized in profit or loss. An entity may elect not to adjust the difference retrospectively, and the Company elected to use the exemption from retrospective application. As of December 31, 2012 and January 1, 2012, the IFRS adjustment resulted in a decrease in capital surplus - long-term equity investments by $18,037 thousand and $18,037 thousand, respectively.

f) The fair value of the net identifiable assets acquired in excess of the acquisition cost

Under ROC GAAP, the fair value of the net identifiable assets acquired in excess of the acquisition cost is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain.

After converting to IFRS, the fair value and the acquisition-related costs should be reassessed, and the difference between carrying amount and the reassessed value should be recognized immediately in profit or loss as an investment income instead of extraordinary gain. As a result, as of December 31, 2012 and January 1, 2012, IFRS adjustment resulted in an increase in "property, plant and equipment" by $18,875 thousand and $22,781 thousand, an increase in "advance payments" by $19 thousand and $33 thousand, and an increase in "computer software" by $47 thousand and $79 thousand, respectively. Also, the operating expense was increased by $4,046 thousand for the year 2012.

g) Deferred charges

Under ROC GAAP, deferred charges are classified as other assets. Under IFRSs, deferred charges should be reclassified as property, plant and equipment; intangible assets; prepaid expenses; or long-term prepaid expenses, depending on the nature of these charges. Thus, based on IFRSs, as of December 31, 2012 and January 1, 2012, deferred charges of $10,472 thousand and $16,019 thousand, respectively, were reclassified as property, plant and equipment; deferred charges of $7,587 thousand and $10,785 thousand, respectively, were reclassified as other intangible assets; and deferred charges of $68,985 thousand and $42,426 thousand, respectively, were reclassified as advance payments.

h) Prepayments for equipment

Under ROC GAAP, prepayments for equipment are classified as property, plant and equipment. Under IFRSs, prepayments for equipment should be reclassified as prepaid expenses and should be treated as current or noncurrent on the basis of the expected length of the realization or settlement period. Thus, based on IFRSs, prepayments for equipment of $201,271 thousand and $171,695 thousand as of December 31, 2012 and January 1, 2012, respectively, were reclassified as prepaid expenses.

i) Land tenures

Under ROC GAAP, land tenures are classified as intangible asset. Under IFRSs, land tenures should be reclassified as prepaid leases. Thus, based on IFRSs, land tenures of $60,982 thousand and $65,510 thousand as of December 31, 2012 and January 1, 2012, respectively, were reclassified as prepaid leases.

j) Accrued expenses

Accrued expenses should be classified as other payables after the transition to IFRSs. As a result, accrued expenses of $879,423 thousand and $829,683 thousand as of December 31, 2012 and January 1, 2012, respectively, were classified as other payables.

k) Idle assets and leasing assets

Under IFRSs, idle assets and leasing assets should be reclassified as property, plant and equipment.

l) Line items in the consolidated statement of comprehensive income

In accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers before its amendment due to the adoption of IFRSs, operating income shown in the consolidated income statement only includes net sales, cost of sales and operating expenses. Under IFRSs, based on the nature of operating transactions, rental revenue, depreciation of rental assets, net loss on disposal of property, plant and equipment and other assets, and impairment loss on idle assets, are reclassified as other operating gains and losses, which are reflected in consolidated operating income.

Based on IFRS, rental income of $27,690 thousand, loss on disposal of property, plant and equipment of $1,821 thousand and reversal of impairment loss on property, plant and equipment of $396 thousand, for the year ended December 31, 2012 were reclassified as other operating gains and losses.

m) Financial assets carried at cost

Under ROC GAAP, investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. After converting to IFRS, equity instruments which were designated as available-for-sale financial assets or not designated as financial assets at fair value through profit or loss should be reclassified as available-for-sale financial assets and measured at fair value.

Thus, based on IFRSs, financial assets carried at cost of $56,345 thousand as of December 31, 2012, were reclassified as available-for-sale financial assets.

n) Time deposits with periods over three months

Under ROC GAAP, time deposits that can be readily terminated and withdrawn without adverse effect on the principal are accounted for as cash equivalents.

After converting to IFRS, time deposits with periods of over three months are not usually recognized as cash and cash equivalents. Those deposits with fixed or determinable payments that are not quoted in an active market and with deposit period of over three months should be classified as other financial assets.

Thus, based on IFRSs, cash equivalents of $64,082 thousand as of December 31, 2012, were reclassified as other financial assets.

c. The Company has prepared the above assessments in compliance with (a) the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the FSC may issue new rules governing the adoption of IFRSs, and as other laws and regulations may be amended to comply with the adoption of IFRSs. Thus, actual IFRS accounting policies adopted in the future may differ from those contemplated during the assessments.