

Flytech Technology Co., Ltd.
Nonconsolidated Financial Statements
December 31, 2012 and 2011
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Flytech Technology Co., Ltd.:

We have audited the nonconsolidated balance sheets of Flytech Technology Co., Ltd. as of December 31, 2012 and 2011, and the related nonconsolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the nonconsolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Flytech Technology Co., Ltd. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with the accounting principles generally accepted in the Republic of China.

Taipei, Taiwan (the Republic of China)
March 19, 2013

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

Flytech Technology Co., Ltd.

Nonconsolidated Balance Sheets

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

Assets	2012	2011	Liabilities and Stockholders' Equity	2012	2011
Current assets:			Current liabilities:		
Cash and cash equivalents (note 4(a))	\$ 1,759,017	1,568,310	Financial liabilities at fair value through profit or loss – current (notes 4(b) and (h))	\$ -	4,610
Financial assets at fair value through profit or loss – current (note 4(b))	157	12	Accounts payable	449,062	294,110
Notes and accounts receivable (note 4(c))	672,731	462,281	Payables to related parties (note 5)	24,659	16,993
Receivables from related parties (note 5)	29,231	38,251	Income tax payable	73,387	49,610
Other receivables	19,668	21,424	Payables on construction and equipment	9,350	145,347
Inventories (note 4(d))	330,520	438,398	Bonds payable due within one year (note 4(h))	-	739,577
Prepaid expenses and other current assets	1,588	5,246	Accrued expenses and other current liabilities (notes 4(k) and 5)	<u>198,784</u>	<u>222,587</u>
Deferred income tax assets – current (note 4(j))	10,866	9,837	Total current liabilities	<u>755,242</u>	<u>1,472,834</u>
Pledged time deposits (note 6)	<u>110</u>	<u>108</u>	Other liabilities:		
Total current assets	<u>2,823,888</u>	<u>2,543,867</u>	Bonds payable (note 4(h))	755,232	-
Investments:			Accrued pension liability (note 4(i))	17,303	18,053
Financial assets at fair value through profit or loss – non-current (notes 4(b) and (h))	159	-	Deferred income tax liabilities – non-current (note 4(j))	<u>15,567</u>	<u>13,199</u>
Financial assets carried at cost – non-current (note 4(b))	14,608	16,480	Total other liabilities	<u>788,102</u>	<u>31,252</u>
Equity method (note 4(e))	<u>280,810</u>	<u>271,331</u>	Total liabilities	<u>1,543,344</u>	<u>1,504,086</u>
Total investments	<u>295,577</u>	<u>287,811</u>	Stockholders' equity (notes 4(h), (j) and (k)):		
Property, plant and equipment (note 4(f)):			Common stock	1,004,249	910,117
Land	319,238	319,238	Capital surplus	225,169	211,197
Building	604,167	596,481	Legal reserve	409,103	355,339
Machinery and equipment	275,167	228,911	Special Reserve	3,872	12,465
Transportation equipment	11,924	9,669	Unappropriated earnings	1,156,108	1,002,432
Furniture and fixtures	35,667	24,009	Translation adjustment	(7,837)	29
Miscellaneous equipment	172,553	137,409	Net losses not recognized as retirement costs (note 4(i))	<u>(2,837)</u>	<u>(3,901)</u>
Prepayments for construction and equipment	<u>-</u>	<u>14,378</u>	Total stockholders' equity	<u>2,787,827</u>	<u>2,487,678</u>
	1,418,716	1,330,095	Commitments (notes 4(b) and 7)		
Less: accumulated depreciation	<u>(239,670)</u>	<u>(177,831)</u>			
Net property, plant and equipment	<u>1,179,046</u>	<u>1,152,264</u>			
Deferred pension cost (note 4(i))	<u>603</u>	<u>724</u>			
Deferred expenses and other assets	<u>32,057</u>	<u>7,098</u>			
Total assets	<u>\$ 4,331,171</u>	<u>3,991,764</u>	Total liabilities and stockholders' equity	<u>\$ 4,331,171</u>	<u>3,991,764</u>

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated Statements of Income

For the years ended December 31, 2012 and 2011
 (expressed in thousands of New Taiwan dollars, except earnings per share)

	2012	2011		
Net sales (note 5)	\$ 3,432,615	2,906,188		
Cost of sales (notes 4(d), (i) and (k), 5 and 10)	<u>(2,398,539)</u>	<u>(1,983,694)</u>		
Gross profit	1,034,076	922,494		
Change in unrealized inter-company profits (note 5)	<u>(1,872)</u>	<u>(2,466)</u>		
Realized gross profit	<u>1,032,204</u>	<u>920,028</u>		
Operating expenses (notes 4(c), (i) and (k), 5 and 10):				
Selling expenses	(134,864)	(170,124)		
Administrative expenses	(94,337)	(84,889)		
Research and development	<u>(118,377)</u>	<u>(113,035)</u>		
	<u>(347,578)</u>	<u>(368,048)</u>		
Operating income	<u>684,626</u>	<u>551,980</u>		
Nonoperating income and gains:				
Interest income	17,254	8,632		
Investment income recognized under equity method (note 4(e))	17,345	27,955		
Gain on disposal of investments, net	-	1,912		
Foreign currency exchange gain, net	-	28,766		
Evaluation gain on financial instruments, net (notes 4(b), (h) and (m))	4,914	-		
Other income, net	<u>13,196</u>	<u>10,738</u>		
	<u>52,709</u>	<u>78,003</u>		
Nonoperating expense and loss:				
Interest expense (note 4(h))	(15,667)	(15,749)		
Loss on disposal of property and equipment	(444)	(2,041)		
Foreign currency exchange loss, net	(26,272)	-		
Impairment loss on investments (note 4(b))	-	(2,100)		
Evaluation loss on financial instruments, net (notes 4(b), (h) and (m))	-	(765)		
	<u>(42,383)</u>	<u>(20,655)</u>		
Income before income taxes	694,952	609,328		
Income taxes (note 4(j))	<u>(85,832)</u>	<u>(71,690)</u>		
Net income	<u>\$ 609,120</u>	<u>537,638</u>		
	Before	After	Before	After
	income	income	income	income
	taxes	taxes	taxes	taxes
Earnings per share (note 4(l))				
Basic earnings per share	\$ <u>6.93</u>	<u>6.07</u>	<u>6.09</u>	<u>5.37</u>
Diluted earnings per share	\$ <u>6.12</u>	<u>5.38</u>	<u>5.45</u>	<u>4.82</u>

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated Statements of Changes in Stockholders' Equity

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

	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Translation Adjustment	Net Losses Not Recognized as Retirement Costs	Total
Balance at January 1, 2011	\$ 826,337	286,908	297,158	-	907,481	(11,075)	(1,390)	2,305,419
Appropriation approved by the stockholders ((note a):								
Legal reserve	-	-	58,181	-	(58,181)	-	-	-
Special Reserve	-	-	-	12,465	(12,465)	-	-	-
Cash dividends	-	-	-	-	(372,041)	-	-	(372,041)
Capital surplus transferred to common stock	82,676	(82,676)	-	-	-	-	-	-
Net income for 2011	-	-	-	-	537,638	-	-	537,638
Translation adjustments on long-term investments	-	-	-	-	-	11,104	-	11,104
Issuance of common stock under option plan	620	3,758	-	-	-	-	-	4,378
Convertible bonds converted into common stock	484	3,207	-	-	-	-	-	3,691
Adjustment to minimum pension liability	-	-	-	-	-	-	(2,511)	(2,511)
Balance at December 31, 2011	<u>910,117</u>	<u>211,197</u>	<u>355,339</u>	<u>12,465</u>	<u>1,002,432</u>	<u>29</u>	<u>(3,901)</u>	<u>2,487,678</u>
Appropriation approved by the stockholders (note b):								
Legal reserve	-	-	53,764	-	(53,764)	-	-	-
Special Reserve	-	-	-	(8,593)	8,593	-	-	-
Stock dividends	91,172	-	-	-	(91,172)	-	-	-
Cash dividends	-	-	-	-	(319,101)	-	-	(319,101)
Net income for 2012	-	-	-	-	609,120	-	-	609,120
Translation adjustments on long-term investments	-	-	-	-	-	(7,866)	-	(7,866)
Issuance of common stock under option plan	2,960	13,972	-	-	-	-	-	16,932
Adjustment to minimum pension liability	-	-	-	-	-	-	1,064	1,064
Balance at December 31, 2012	<u>\$ 1,004,249</u>	<u>225,169</u>	<u>409,103</u>	<u>3,872</u>	<u>1,156,108</u>	<u>(7,837)</u>	<u>(2,837)</u>	<u>2,787,827</u>

Note a: Directors' and supervisors' remuneration of \$2,400 and employee bonuses of \$67,600 for 2010 have been deducted in the 2010 net income.

Note b: Directors' and supervisors' remuneration of \$2,400 and employee bonuses of \$63,600 for 2011 have been deducted in the 2011 net income.

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated Statements of Cash Flows

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

	2012	2011
Cash flows from operating activities:		
Net income	\$ 609,120	537,638
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	64,664	50,161
Amortization	1,258	1,212
Amortization of discount on convertible bond	15,655	15,678
Investment income recognized under equity method	(17,345)	(27,955)
Loss on disposal of property and equipment	444	2,041
Gain on disposal of investments	-	(1,912)
Evaluation loss (gain) on financial instruments	(4,914)	765
Impairment loss on investment	-	2,100
Deferred income tax expense	1,339	1,884
Changes in operating assets and liabilities:		
Notes and accounts receivable	(210,450)	(33,492)
Receivables from related parties	9,020	(27,477)
Other receivables	1,756	(9,269)
Inventories	107,878	(142,606)
Prepaid expenses and other current assets	3,658	1,001
Accounts payable	154,952	90,258
Payables to related parties	7,666	14,509
Income tax payable	23,777	(1,558)
Accrued expenses and other current liabilities	(23,803)	46,157
Accrued pension liability	435	193
Net cash provided by operating activities	<u>745,110</u>	<u>519,328</u>
Cash flows from investing activities:		
Increase in financial assets at fair value through profit or loss	-	(17,930)
Proceeds from disposal of financial assets at fair value through profit or loss	-	19,842
Proceeds from investee's capital reduction	1,872	-
Additions to property and equipment	(227,887)	(424,087)
Proceeds from disposal of property and equipment	-	310
Increase in refundable deposits	(25,948)	-
Increase in other assets	(269)	(576)
Increase in pledged time deposits	(2)	(1)
Net cash used in investing activities	<u>(252,234)</u>	<u>(422,442)</u>
Cash flows from financing activities:		
Distribution of cash dividends	(319,101)	(372,041)
Proceeds from exercise of employee stock options	16,932	4,378
Net cash used in financing activities	<u>(302,169)</u>	<u>(367,663)</u>
Net increase (decrease) in cash and cash equivalents	190,707	(270,777)
Cash and cash equivalents at beginning of year	<u>1,568,310</u>	<u>1,839,087</u>
Cash and cash equivalents at end of year	<u>\$ 1,759,017</u>	<u>1,568,310</u>
Additional disclosure of cash flow information:		
Interest paid	<u>\$ 12</u>	<u>71</u>
Income taxes paid	<u>\$ 60,718</u>	<u>70,080</u>
Supplemental information on noncash investing and financing activities:		
Convertible bonds converted into common stock	<u>\$ -</u>	<u>3,691</u>
Change in translation adjustment on equity method investments	<u>\$ (7,866)</u>	<u>11,104</u>
Additions to property and equipment:		
Additions to property and equipment	\$ 91,890	546,424
Payables at beginning of year	145,347	23,010
Payables at end of year	(9,350)	(145,347)
Net payment	<u>\$ 227,887</u>	<u>424,087</u>

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Notes to Nonconsolidated Financial Statements

December 31, 2012 and 2011

**(amounts expressed in thousands of New Taiwan dollars,
except for per share information and unless otherwise specified)**

1. Organization and Principal Activities

Flytech Technology Co., Ltd. (the “Company”) was incorporated on August 13, 1984, as a company limited by shares under the Republic of China (“ROC”) Company Act. The Company is engaged in the development, design and manufacture of Book PCs, Net PCs, POS PCs, and IPCs.

As of December 31, 2012 and 2011, the Company had hired 384 and 361 employees, respectively.

2. Summary of Significant Accounting Policies

The Company prepares its nonconsolidated financial statements in accordance with the accounting principles generally accepted in the Republic of China (“ROC GAAP”). The major accounting policies adopted in preparing the financial statements are summarized below:

(a) Use of estimates

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

(b) Foreign currency transactions and translation

The Company’s functional and reporting currency is the New Taiwan dollar. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities denominated in foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are reported at the rate that was in effect when the fair values were determined. Subsequent adjustments to carrying values of such non-monetary assets and liabilities, including the effects of changes in exchange rates, are reported in profit or loss for the period, except that if movement in fair value of a non-monetary item is recognized directly in equity, any foreign exchange component of that adjustment is also recognized directly in equity.

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Flytech Technology Co., Ltd.**Notes to Non-consolidated Financial Statements**

Translation adjustments resulting from the translation of foreign currency financial statements into the Company's reporting currency and a monetary item that forms part of the Company's net investment in a foreign operation are accounted for as translation adjustment, which is a separate component of stockholders' equity.

(c) Principles of classifying assets and liabilities as current or non-current

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

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

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, unrestricted time deposits, negotiable certificates of deposit, and other highly liquid investments which do not have a significant level of market risk from potential interest rate changes.

(e) Financial assets at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. In addition, derivatives that do not meet the criteria for hedge accounting are classified as financial assets at fair value through profit or loss. Derivative transactions are recorded on a trade-date basis. Upon initial recognition, financial instruments are recognized at fair value. Acquisition costs are expensed as incurred. Subsequent to initial recognition, financial assets are measured at fair value, and changes therein are recognized in profit or loss.

(f) Impairment for receivables

Effective January 1, 2011, the Company adopted the third revision of Republic of China Statement of Financial Accounting Standards ("SFAS") No. 34 "Financial Instruments: Recognition and Measurement". Under this standard, the Company considers evidence of impairment for receivables at both individual and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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Flytech Technology Co., Ltd.**Notes to Non-consolidated Financial Statements**

(g) Inventories

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

(h) Financial assets carried at cost

Equity investments for which the Company is not able to exercise significant influence over the investees' operating and financial policies and which cannot be evaluated at fair value are carried at original cost. If there is objective evidence which indicates that an equity investment carried at cost has been impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

(i) Equity method investments

Long-term equity investments in which the Company owns 20% or more of the investee's voting shares, or less than 20% of the investee's voting shares but is able to exercise significant influence over the investee's operating and financial policies, are accounted for using the equity method. Under the amended ROC SFAS No. 5, "Long-term Investments under Equity Method," the difference between acquisition cost and carrying amount of net equity of the investee as of the acquisition date is allocated proportionately based on the excess of the fair value over the carrying value of noncurrent assets on the investee's books. Allocated amounts are amortized based on the method used for the related assets. Any unallocated difference is treated as investor-level goodwill. If the allocation reduces non-current assets to zero value, the remaining excess over the acquisition cost is recognized as an extraordinary gain.

When an equity-method investment is disposed of, the difference between the selling price and the book value of the equity method investments is recognized as disposal gain or loss in the accompanying nonconsolidated statements of income. If there are capital surplus and separate components of shareholders' equity resulting from such equity method investments, they are accounted for as a reduction of disposal gain/loss based on the percentage of investments disposed of.

Unrealized profits or losses from transactions between the Company and equity method investees are deferred and reported as deferred inter-company profits or losses. The profits or losses resulting from depreciable or amortizable assets are recognized over the estimated useful lives of such assets. The profits or losses from other assets are recognized when realized.

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Flytech Technology Co., Ltd.**Notes to Non-consolidated Financial Statements**

(j) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost. Interest expense related to the construction and purchase of property and equipment is capitalized and included in the cost of the related asset. Significant additions, improvements, and replacements are capitalized. Maintenance and repair costs are expensed in the period incurred. Gains and losses on the disposal of property, plant and equipment are recorded in the nonoperating section in the accompanying nonconsolidated statements of income.

Property, plant and equipment are depreciated over the asset's estimated useful life using the straight-line method. Leasehold improvement is depreciated over the lower of the rental period or the asset's estimated useful life using the straight-line method.

Commencing from November 20, 2008, the Company capitalized the retirement or recovery obligation for newly acquired property and equipment in accordance with Interpretation (97) 340 issued by the Accounting Research and Development Foundation. A component which is significant in relation to the total cost of the property and equipment and for which a different depreciation method or rate is appropriate should be depreciated separately.

The estimated useful lives of property, plant and equipment are as follows: building: 50 years; machinery and equipment: 3~12 years; transportation equipment: 5 years; and other equipment: 2~10 years.

The Company regularly evaluates the estimated useful lives, depreciation method and residual value at the end of each year. Changes in the estimated useful lives, depreciation method and residual value are accounted for as changes in accounting estimates and recognized in current profit or loss.

(k) Non-financial asset impairment

The Company assesses at each balance sheet date whether there is any indication that an asset may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount. An impairment loss recognized in prior periods is reversed if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

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

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. In addition, derivatives that do not meet the criteria for hedge accounting are classified as financial liabilities at fair value through profit or loss. Derivative transactions are recorded on a trade-date basis. Upon initial recognition, financial

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Flytech Technology Co., Ltd.**Notes to Non-consolidated Financial Statements**

instruments are recognized at fair value. Acquisition costs are expensed as incurred. Subsequent to initial recognition, financial liabilities are measured at fair value, and changes therein are recognized in profit or loss.

(m) Convertible bonds

Convertible bonds issued by the Company contain both a financial liability and an equity component. The equity component grants an option to the bondholder to convert a fixed number of bonds into a fixed number of the Company's common shares. On initial recognition, the carrying amount of the liability component is measured at the fair value of a similar liability that does not have an equity conversion option. The carrying amount of the equity component is then determined by deducting the fair value of the financial liability from the proceeds of the issuance of convertible bonds.

The difference between the initial carrying amount of the liability component and the redeemable amount that is payable on maturity is amortized and charged to interest expense using the effective interest rate method over the life of the bond. The embedded financial instruments (redemption options) are accounted for as financial liabilities at fair value through profit and loss and measured at fair value. The equity component of the convertible bonds is recognized in capital surplus upon initial recognition and is not subject to valuation in subsequent periods.

When bonds are converted into common stock, the liability components are measured at fair value on the conversion date, and changes in fair value are recognized immediately in profit or loss. Shares to be issued are recorded based on the book value of the liability and equity components of convertible bonds. No gain or loss is recognized.

The liability component of the bonds is classified as a current liability where the bondholders have the right to require the Company to redeem the bonds within one year. It can be reclassified to long-term liability once the redemption option period expires and the liability component qualifies as a long-term liability.

(n) Revenue recognition

Revenue from sales of products is recognized when products are delivered to customers and the significant risks and rewards of ownership are transferred. Service revenue is recognized when the service is provided and the amount becomes billable currently.

(o) Share-based payment

The employee stock options that were granted before January 1, 2008, apply Interpretations (92) 070, 071 and 072 of the Accounting Research and Development Foundation. The Company adopts the intrinsic value method to recognize the compensation cost, which is the difference between the market price of the stock and the exercise price of the employee stock option on the measurement date. Any compensation cost should be charged to expense over the employee vesting period and increase stockholders' equity accordingly.

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Flytech Technology Co., Ltd.**Notes to Non-consolidated Financial Statements****(p) Employee bonuses and directors' and supervisors' remuneration**

Employee bonuses and directors' and supervisors' remuneration are accounted for in accordance with Interpretation (2007) 052 issued by the Accounting Research and Development Foundation. The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes it as cost of revenues or operating expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

(q) Retirement plan**(i) Defined benefit retirement plan**

In 1986, the Company established a retirement plan (the "Plan") covering substantially all employees. This plan provides for lump-sum retirement benefits to retiring employees based on length of service, age, and the average salary for the six months before retirement. The Company deposits monthly retirement funds equal to 5% of employees' total salaries with Bank of Taiwan.

The Company has an actuarial calculation of its pension liability under the Plan using the balance sheet date as the measurement date. The Company recognizes a minimum pension liability equal to the amount by which the actuarial present value of the accumulated benefit obligation exceeds the fair value of the retirement plan's assets, and also recognizes the net periodic pension costs using actuarial techniques. A deferred pension cost is recognized when the additional minimum liability does not exceed the unrecognized net transition obligation. The excess, which represents a net loss not yet recognized as net periodic pension cost, is reported as a reduction of equity.

(ii) Defined contribution retirement plan

Starting from July 1, 2005, pursuant to the ROC Labor Pension Act (the "New System"), employees who elected to participate in the New System or commenced working after July 1, 2005, are subject to a defined contribution plan under the New System. For the defined contribution plan, the Company contributes monthly an amount equal to 6% of each employee's monthly salary to an individual labor pension fund account. Contributions made for the defined contribution retirement plans are expensed as incurred.

(Continued)

Flytech Technology Co., Ltd.**Notes to Non-consolidated Financial Statements**

(r) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax is determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the asset will not be realized, a valuation allowance is recognized accordingly. When a change in the tax rate is enacted, the deferred tax assets and liabilities are recalculated using the new tax rate in the year of change, and any resulting variances are recognized as income tax expense or benefit of continuing operations accordingly.

Classification of deferred income tax assets and liabilities as current or non-current is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the asset's or liability's expected realization date.

According to the ROC Income Tax Act, undistributed earnings, if any, earned after December 31, 1997, are subject to an additional 10% retained earnings tax. The surtax is accounted for as income tax expense in the following year when the stockholders decide not to distribute the earnings.

(s) Earnings per common share

Earnings per common share are based on net income divided by the weighted-average number of common shares outstanding. The increase in the number of outstanding shares through distribution of stock dividends from retained earnings or capital surplus is included in the outstanding shares retroactively.

Convertible bonds and stock options are dilutive potential common stock. The computation of diluted earnings per share is based on the above-mentioned weighted-average number of outstanding common shares plus the weighted-average number of common shares which would be issued on the conversion of all the dilutive potential common shares into common shares.

Additionally, as the Company can choose to distribute employee bonuses by issuing common shares, the computation of diluted earnings per share is based on the assumption that all employee bonuses are distributed in common shares as of the balance sheet date.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(t) Operating segments

Effective January 1, 2011, the Company adopted SFAS No. 41, “Operating Segment.” Under this standard, an operating segment is defined as a component of the Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Company). The segment’s operating results are reviewed regularly by the Company’s chief operating decision maker who decides on the allocation of resources to the segment and assesses its performance for which discrete financial information is available.

The Company has disclosed the operating segment information in its consolidated financial statements. Therefore, this non-consolidated financial statement did not include the segment information.

3. Changes in Accounting Policies

- (a) Effective January 1, 2011, the Company adopted the third revision of SFAS No. 34 “Financial Instruments: Recognition and Measurement”. Under this revised standard, the Company considers evidence of impairment for receivables at both individual and collective level. Losses are recognized in profit or loss and reflected in an allowance account against receivables. The adoption of this revised standard did not have any significant effect on the Company’s financial statements as of and for the year ended December 31, 2011.
- (b) Effective January 1, 2011, the Company adopted SFAS No. 41 “Operating Segments”. In accordance with SFAS No. 41, information is disclosed to enable users of the Company’s financial statements to evaluate the nature and financial effects of the business activities in which they engage and the economic environment in which they operate. Accordingly, the Company determines and presents operating segments based on the information that is internally provided to the chief operating decision maker. This new accounting standard superseded SFAS No. 20 “Segment Reporting”. The adoption of this accounting standard did not have any cumulative effect to the financial statements as of and for the year ended December 31, 2011.

4. Significant Account Disclosures

(a) Cash and cash equivalents

	2012	2011
Cash on hand	\$ 684	1,145
Cash in banks	886,303	364,569
Time deposit	<u>872,030</u>	<u>1,202,596</u>
	\$ <u>1,759,017</u>	<u>1,568,310</u>

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(b) Financial instruments

As of December 31, 2012 and 2011, the financial instruments held by the Company were as follows:

	2012	2011
Financial assets at fair value through profit or loss – current:		
Foreign currency forward contract	\$ <u>157</u>	<u>12</u>
Financial assets at fair value through profit or loss – non-current:		
Redemption options of the convertible bonds (note 4(h))	\$ <u>159</u>	<u>-</u>
Financial liabilities at fair value through profit or loss – current:		
Foreign currency forward contract	\$ -	391
Redemption options of the convertible bonds (note 4(h))	<u>-</u>	<u>4,219</u>
	\$ <u>-</u>	<u>4,610</u>
Financial assets carried at cost – non-current:		
Equity securities – Mythology Tech Express Inc.	\$ <u>14,608</u>	<u>16,480</u>

In November 2012, Mythology Tech Express Inc. returned capital of \$1,872 to the Company.

In 2011, the Company recognized an impairment loss on the value of its investments in Mythology Tech Express Inc. amounting to \$2,100.

As of December 31, 2012 and 2011, the Company had the following foreign currency forward contracts outstanding:

	December 31, 2012		
	Contract amount (USD in thousands)	Settlement date	Fair value
Financial assets at fair value through profit or loss:			
NTD Call / USD Put	\$ <u>5,000</u>	2013/01/11~2013/02/22	\$ <u>157</u>

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

	December 31, 2011		
	Contract amount (USD in thousands)	Settlement date	Fair value
Financial assets at fair value through profit or loss:			
NTD Call / USD Put	\$ <u>1,000</u>	2012/03/09	\$ <u>12</u>
Financial liabilities at fair value through profit or loss:			
NTD Call / USD Put	\$ <u>5,000</u>	2012/01/13~2012/02/29	\$ <u>391</u>

In 2012 and 2011, the Company recognized a valuation gain (loss) amounting to \$4,914 and \$(765), respectively, on the financial assets (liabilities) at fair value through profit or loss.

(c) Notes and accounts receivable

	December 31, 2012	December 31, 2011
Notes receivable	\$ 10,664	14,933
Less: allowance for impairment loss	<u>(107)</u>	<u>(219)</u>
	<u>10,557</u>	<u>14,714</u>
Accounts receivable	669,158	452,403
Less: allowance for impairment loss	<u>(6,984)</u>	<u>(4,836)</u>
	<u>662,174</u>	<u>447,567</u>
	<u>\$ 672,731</u>	<u>462,281</u>

Change in allowance for impairment loss was as follows:

	2012	2011
Balance at January 1	\$ 5,055	4,486
Additions	<u>2,036</u>	<u>569</u>
Balance at December 31	<u>\$ 7,091</u>	<u>5,055</u>

For the years ended December 31, 2012 and 2011, the accounts receivable were insured, and the total coverage was \$1,800,000 and \$1,500,000, respectively. Accounts receivable insurance which has been approved by insurance company covers 90% of losses against loss on receivables. In addition, current accounts receivable and current notes receivable are not discounted.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(d) Inventories

- (1) The inventories (net of provision for obsolescence and devaluation) as of December 31, 2012 and 2011, were as follows:

	2012	2011
Raw materials	\$ 187,617	245,758
Work in process	130,522	171,299
Finished goods	10,772	19,777
Merchandise	<u>1,609</u>	<u>1,564</u>
	\$ <u>330,520</u>	<u>438,398</u>

- (2) Changes in provision for obsolescence and devaluation for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
Balance at January 1	\$ 20,900	20,900
Additions	<u>8,700</u>	<u>-</u>
Balance at December 31	\$ <u>29,600</u>	<u>20,900</u>

- (3) For the years ended December 31, 2012 and 2011, the details of loss on inventories were as follows:

	2012	2011
Write-down of inventories to net realizable value	\$ 8,700	-
Scrap loss	<u>11,733</u>	<u>4,988</u>
	\$ <u>20,433</u>	<u>4,988</u>

(e) Equity method investments

Investee	Percentage of ownership (%)	2012		Investment income (loss)
		Investment cost	Book value	
Flytech USA International Co., Ltd.	100.00	\$ 38,652	34,970	(1,691)
Flytech JP International Co., Ltd.	100.00	3,446	2,819	1
Flytech HK International Co., Ltd.	100.00	10,392	92,310	10,254
Flytech CN International Co., Ltd.	100.00	69,089	91,307	5,797
Flycom Investment Co., Ltd.	100.00	<u>50,000</u>	<u>59,404</u>	<u>2,984</u>
		\$ <u>171,579</u>	<u>280,810</u>	<u>17,345</u>

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

Investee	Percentage of ownership (%)	2011		Investment income (loss)
		Investment cost	Book value	
Flytech USA International Co., Ltd.	100.00	\$ 38,652	38,188	(3,592)
Flytech JP International Co., Ltd.	100.00	3,446	2,938	(15)
Flytech HK International Co., Ltd.	100.00	10,392	85,525	14,571
Flytech CN International Co., Ltd.	100.00	69,089	88,260	10,572
Flycom Investment Co., Ltd.	100.00	<u>50,000</u>	<u>56,420</u>	<u>6,419</u>
		\$ <u>171,579</u>	<u>271,331</u>	<u>27,955</u>

(f) Property, Plant, and Equipment

The Company reclassified the prepayments for construction and equipment as building, and machinery and equipment, amounted to \$418,331 and \$105,107, respectively, upon the completion of the construction of Linkou plant in December 2011.

(g) Short-term borrowings

Unused credit facilities as of December 31, 2012 and 2011, amounted to \$645,200 and \$651,375, respectively. As of December 31, 2012 and 2011, short-term borrowings were guaranteed by the issuance of promissory notes amounting to \$500,000.

(h) Bonds payable

On August 9, 2010, the Company issued \$800,000 of domestic unsecured zero coupon convertible bonds (the "Bonds"). The significant terms and conditions of the convertible bonds are as follows:

(1) Maturity date

Five Years, from August 9 2010 to August 9, 2015.

(2) Conversion period

Bondholders may convert bonds into the Company's common shares at any time after one month from the issue date until the day 10 days prior to the maturity date, at the conversion price on the conversion date. The Company will issue new common shares for the conversion of the Bonds.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(3) Conversion price

The conversion price was initially \$90.9 (dollars) per share, subject to adjustment by the formula provided in the issue terms if the Company's outstanding common shares are increased. As of December 31, 2012 and 2011, the adjusted conversion price was \$61.2 (dollars) and \$70.9 (dollars) per share, respectively.

(4) Redemption at the option of the Company

The Company may redeem all or some of the Bonds at the principal amount after one month from the issue date until the day 40 days before maturity when the market price of the Company's common stock exceeds 130% of the conversion price for 30 consecutive trading days, or no more than 10% of the Bonds remain outstanding.

(5) Redemption at the option of the bondholders

On August 9, 2012, bondholders shall have right, at such holders' option, to require the Company to redeem the Bonds, in whole or in part, at an amount equal to the principal amount plus a gross yield of 0.5% per annum (calculated on an annual basis).

As of December 31, 2012 and 2011, the liability and equity components of the aforementioned convertible bonds were as follows:

	2012	2011
Par value of bonds payable	\$ 800,000	800,000
Converted into common stock	(4,000)	(4,000)
Discount on bonds payable	<u>(40,768)</u>	<u>(56,423)</u>
Carrying amount of bonds payable (straight bond value)	755,232	739,577
Less: current portion	<u>-</u>	<u>(739,577)</u>
	<u>\$ 755,232</u>	<u>-</u>
Recognized as financial assets (liabilities) at fair value through profit or loss (redemption options of the convertible bonds)	<u>\$ 159</u>	<u>(4,219)</u>
Recognized as capital surplus — conversion right	<u>\$ 67,229</u>	<u>67,229</u>

For the years ended December 31, 2012 and 2011, the details of expenses resulting from the Bonds were as follows:

Evaluation gain on redemption options of the convertible bonds	<u>\$ 4,378</u>	<u>2,021</u>
Amortization of bonds payable discount (recognized as interest expense, using the effective interest rate of 2.09%)	<u>\$ 15,655</u>	<u>15,678</u>

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(i) Retirement plan

(1) Defined benefit retirement plan

The following table sets forth the benefit obligation and accrued pension liability related to the Company's defined benefit pension plan:

	2012	2011
Benefit obligation:		
Vested benefit obligation	\$ (12,976)	(6,313)
Nonvested benefit obligation	<u>(20,559)</u>	<u>(26,558)</u>
Accumulated benefit obligation	(33,535)	(32,871)
Projected compensation increases	<u>(10,084)</u>	<u>(10,374)</u>
Projected benefit obligation	(43,619)	(43,245)
Plan assets at fair value	<u>16,232</u>	<u>14,818</u>
Funded status	(27,387)	(28,427)
Unrecognized transition obligation	603	724
Unrecognized net pension loss	12,922	14,275
Adjustment to recognize minimum liability	<u>(3,441)</u>	<u>(4,625)</u>
Accrued pension liability	\$ <u>(17,303)</u>	<u>(18,053)</u>

The components of the net periodic pension cost for 2012 and 2011 are summarized as follows:

	2012	2011
Service cost	\$ 500	465
Interest cost	865	954
Expected return on plan assets	(311)	(334)
Amortization of net transition obligation	121	121
Amortization of pension loss	<u>524</u>	<u>367</u>
Net periodic pension cost	\$ <u>1,699</u>	<u>1,573</u>

Major assumptions used to determine the above information:

	December 31,	
	2012	2011
Discount rate	2.00%	2.00%
Rate of increase in future compensation levels	2.00%	2.00%
Expected long-term rate of return on plan assets	2.00%	2.00%

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(2) Defined contribution retirement plan

In 2012 and 2011, pension cost under the defined contribution pension plan was \$9,516 and \$8,717, respectively.

(j) Income taxes

(1) The income tax rate for profit-seeking enterprises was 17% in 2012 and 2011. In addition, an alternative minimum tax (“AMT”) in accordance with the Income Basic Tax Act is calculated.

(2) In accordance with the Statute for Upgrading Industries, which has been repealed on December 31, 2009, the Company obtained governmental approval for tax exemption on most products manufactured by the Company for 5 years starting from 2010.

(3) The income taxes for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
Current income tax expense	\$ 84,493	69,806
Deferred income tax expense	<u>1,339</u>	<u>1,884</u>
Income tax expense	<u>\$ 85,832</u>	<u>71,690</u>

(4) The differences between the expected income tax expense based on the pre-tax income at the Company’s statutory income tax rate and the actual income tax expense reported in the non-consolidated statements of income for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
Expected income tax expense	\$ 118,142	103,586
Tax-exempt income	(70,097)	(48,579)
10% surtax on undistributed earnings	8,219	13,912
Prior-year income tax adjustment	6,948	(5,276)
Additional income tax under Income Basic Tax Act	21,227	6,662
Others	<u>1,393</u>	<u>1,385</u>
	<u>\$ 85,832</u>	<u>71,690</u>

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(5) The components of the deferred income tax expense were as follows:

	2012	2011
Investment income recognized under equity method	\$ 2,441	3,661
Unrealized inter-company profits	(318)	(419)
Unrealized exchange gain (loss), net	(3,428)	5,009
Warranty provisions	2,089	(2,402)
Others	<u>555</u>	<u>(3,965)</u>
	\$ <u>1,339</u>	<u>1,884</u>

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

	2012	2011
Deferred income tax assets (liabilities)—current:		
Inventory provisions	\$ 5,032	3,553
Unrealized inter-company profits	1,268	950
Warranty provisions	1,739	3,828
Unrealized exchange loss, net	1,120	-
Evaluation gain on financial instruments	(1,071)	(236)
Unrealized exchange gain, net	-	(2,308)
Others	<u>2,778</u>	<u>4,050</u>
	\$ <u>10,866</u>	<u>9,837</u>
Deferred income tax assets (liabilities)—non-current:		
Accrued pension liabilities	\$ 2,736	2,663
Investment income recognized under equity method	<u>(18,303)</u>	<u>(15,862)</u>
	\$ <u>(15,567)</u>	<u>(13,199)</u>

(7) Imputation credit account (“ICA”) and creditable ratio

As of December 31, 2012 and 2011, the information related to the integrated tax system was as follows:

	2012	2011
ICA balance	\$ <u>91,033</u>	<u>82,448</u>

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

The Company's estimated creditable ratio for the 2012 earnings distribution to ROC resident stockholders is approximately 12.23%, and the actual creditable ratio for the 2011 earnings distribution to ROC resident stockholders was 11.55%.

	2012	2011
Unappropriated earnings:		
Before January 1, 1998	\$ 177	177
From January 1, 1998	<u>1,155,931</u>	<u>1,002,255</u>
	<u>\$ 1,156,108</u>	<u>1,002,432</u>

(8) The ROC tax authorities have examined the Company's income tax returns for all fiscal years through December 31, 2009.

(k) Stockholders' equity

(1) Common stock

As of December 31, 2012 and 2011, the Company's authorized common stock consisted of 120,000,000 shares, at \$10 par value per share, of which 100,425 and 91,012 thousand shares, respectively, were issued and outstanding.

In 2012 and 2011, the Company issued 296 and 62 thousand shares, respectively, for the exercise of employee stock options.

In 2011, the Company issued 48 thousand shares for the conversion of the convertible bonds.

In June 15, 2012, the Company's stockholders resolved to appropriate \$91,172 from retained earnings as of December 31, 2011, and issue a total of 9,117,170 common shares as stock dividends. The issuance of common stock was approved by and registered with the governmental authorities. The effective date of the stock issuance was August 25, 2012.

In June 9, 2011, the Company's stockholders resolved to appropriate \$82,676 from capital surplus as of December 31, 2010, and issued a total of 8,267,570 common shares as stock dividends. The issuance of common stock was approved by and registered with the governmental authorities. The effective date of the stock issuance was August 25, 2011.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(2) Capital surplus

As of December 31, 2012 and 2011, the components of capital surplus were as follows:

	2012	2011
Share premium:		
Paid-in common stock in excess of par value	\$ 92,220	78,248
Convertible bonds converted in excess of the common stock's par value	65,705	65,705
Others:		
Conversion right of convertible bonds (note 4(h))	67,229	67,229
Gain on disposal of property and equipment	<u>15</u>	<u>15</u>
	<u>\$ 225,169</u>	<u>211,197</u>

In pursuant to the amended Company Law which was announced in January 2012, any realized capital surplus is initially used to cover accumulated deficit, and the balance, if any, could be transferred to common stock as stock dividends or distributed by cash based on a resolution approved by the stockholders. Realized capital surplus includes the premium derived from the issuance of shares of stock in excess of par value and endowments received by the Company. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, distribution of stock dividend from capital surplus in any one year cannot exceed 10% of paid-in capital.

(3) Legal reserve

According to the amended Company Law which was announced in January 2012, the Company must retain 10% of its annual income as a legal reserve until such retention equals the amount of paid-in capital. If a company has no accumulated deficit, it may, in pursuant to a resolution approved by the stockholders, distribute its legal reserve by issuing new shares or cash for the portion in excess of 25% of the paid-in capital.

(4) Special reserve

In pursuant to regulations promulgated by the Financial Supervisory Commission, and effective from the distribution of earnings for fiscal year 1999 onwards, a special reserve equivalent to the total amount of items that are accounted for as deductions to the stockholders' equity shall be set aside from current earnings, and not distributed. This special reserve shall be reverted to retained earnings and made available for distribution when the items that are accounted for as deductions to the stockholders' equity are reversed in subsequent periods. As of December 31, 2012 and 2011, the Company appropriated a special reserve of \$3,872 and \$12,465, respectively.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(5) Appropriation of earnings and dividend policy

The Company's articles of incorporation stipulate that the balance of annual income after deducting accumulated deficit, if any, must be set aside as a legal reserve equal to 10% of such balance. The remaining balance, if any, must be distributed as follows:

- 3% to 15% as employee bonuses;
- 3% or less as remuneration for directors and supervisors;
- The remainder as dividends and bonuses for stockholders.

In view of the overall economic environment, the development of the industry, the Company's long-term capital policy, and stockholders' demands for cash, the Company has adopted a consistent dividend policy. Cash dividends distributed would not be lower than 10% of total stock and cash dividend distributions.

For the years ended December 31, 2012 and 2011, the Company recognized employee bonuses and directors' and supervisors' remuneration amounting to \$70,000 and \$66,000, respectively. The computation for the employee bonuses distributed in shares of stock was based on the closing price of the day prior to the stockholders' meeting, considering the ex-rights and ex-dividend effect. The difference between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, is accounted for as changes in accounting estimates and recognized as profit or loss in the current year.

The appropriation of 2011 and 2010 earnings was approved by the shareholders at the meetings on June 15, 2012 and June 9, 2011, respectively. The approved appropriations for employee bonus and remuneration to directors and supervisors and dividends per share were as follows:

	2011	2010
Cash dividends per share	\$ 3.5	4.5
Stock dividends per share	1.0	-
Employee bonuses – cash	63,600	67,600
Remuneration to directors and supervisors	2,400	2,400

The appropriation mentioned above did not differ from the resolution approved by the directors. The appropriation of 2012 earnings is subject to the Company's directors' and shareholders' resolutions. After the resolutions, related information can be obtained from the public information website.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(6) Employee stock option plan

The Company adopted an employee stock option plan approved by the Company's directors in a meeting on November 6, 2007, to issue 3,000 units of employee stock options with the right for each option to purchase 1,000 shares of the Company's common stock. The Company issued all the stock options on December 27, 2007. The options are valid for 7 years.

The major terms of the plan are as follows:

- (i) Exercise price: \$100 per share. (As of December 31, 2012 and 2011, the adjusted prices were \$52.30 and \$60.60 per share, respectively.)
- (ii) Vesting period: The granted and issued options are eligible to be exercised in 4 installments according to the following schedule:

<u>Exercisable date</u>	<u>Accumulated exercisable percentage</u>
Dec. 2009	25%
Dec. 2010	50%
Dec. 2011	75%
Dec. 2012	100%

- (iii) Shares to be issued: new common stock.

The Company adopts the intrinsic value method to account for its stock-based employee compensation plan. The Company did not recognize any compensation cost in 2007 as the market value of the stock equaled the exercise price at the measurement date.

Had the Company determined compensation cost at the grant date based on the fair value of the stock options of \$31.6 per share, total compensation cost would be \$94,800, which would be amortized over a period of 5 years starting from 2008. The assumptions regarding the options using the Black-Scholes option pricing model at the date of grant were as follows:

Expected dividend yield	5.00%
Expected volatility of the stock price	49.957%
Risk-free interest rate	2.635%
Expected life	7 years

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

Had the related costs been accounted for using the fair value method, for the years ended December 31, 2012 and 2011, the pro forma operating results would have been as follows:

		2012	2011
Net income	Net income	\$ 609,120	537,638
	Pro forma net income	606,044	529,470
Basic earnings per share	Earnings per share	6.07	5.37
(expressed in New Taiwan dollars)	Pro forma earnings per share	6.04	5.29

As of December 31, 2012 and 2011, information on outstanding stock options was as follows (expressed in thousand shares/New Taiwan dollars):

December 31, 2012					
Exercise price	Options outstanding			Options exercisable	
	Number of outstanding options	Weighted-average remaining contractual life	Weighted-average exercise price	Shares (in thousands)	Weighted-average exercise price
\$ 52.30	2,221	2 years	\$ 52.30	2,221	\$ 52.30

December 31, 2011					
Exercise price	Options outstanding			Options exercisable	
	Number of outstanding options	Weighted-average remaining contractual life	Weighted-average exercise price	Shares (in thousands)	Weighted-average exercise price
\$ 60.60	2,604	3 years	\$ 60.60	1,953	\$ 60.60

In 2012 and 2011, the movements in number of stock options outstanding were as follows:

Stock options granted	2012		2011	
	Shares (in thousands)	Weighted-average exercise price (in dollars)	Shares (in thousands)	Weighted-average exercise price (in dollars)
Balance at beginning of year	\$ 2,604	\$ 60.60	2,995	70.60
Exercised	(296)	\$ 60.60 and \$52.30	(62)	70.60
Invalidated	(87)	-	(329)	-
Balance at end of year	\$ <u>2,221</u>	\$ 52.30	<u>2,604</u>	60.60

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(m) Disclosure of financial instruments

(1) As of December 31, 2012 and 2011, fair values of financial assets and liabilities were as follows:

	Carrying amount	2012		Carrying amount	2011	
		Publicly quoted price	Fair value Based on valuation technique		Publicly quoted price	Fair value Based on valuation technique
Financial assets:						
Cash and cash equivalents	\$ 1,759,017	1,759,017	-	1,568,310	1,568,310	-
Financial assets at fair value through profit or loss – foreign currency forward contract	157	-	157	12	-	12
Receivables	721,630	-	721,630	521,956	-	521,956
Pledged time deposits	110	-	110	108	-	108
Financial assets at fair value through profit or loss – redemption options of the convertible bonds	159	-	159	-	-	-
Financial assets carried at cost – non-current	14,608	-	Refer to (v)	16,480	-	Refer to (v)
Financial liabilities:						
Financial liabilities at fair value through profit or loss – foreign currency forward contract	-	-	-	391	-	391
Payables	483,071	-	483,071	456,450	-	456,450
Financial liabilities at fair value through profit or loss – redemption options of the convertible bonds	-	-	-	4,219	-	4,219
Bonds payable	755,232	-	768,856	739,577	-	754,210

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

- (i) The carrying amounts, as reflected in the balance sheets, of receivables (including notes and accounts receivable, receivables from related parties and other receivables), pledged time deposits and payables (including accounts payable, payables to related parties and payables on construction and equipment) approximate their fair values because of the short maturity of these instruments.
- (ii) The fair values of cash and cash equivalents are based on the publicly quoted price.
- (iii) Financial assets (liabilities) at fair value through profit or loss – foreign currency forward contract

The fair values of the Company's derivative financial instruments are estimated using a valuation method. The assumptions used should be the same as those used by financial market traders when quoting their prices, which are readily available to the Company.

(Continued)

Flytech Technology Co., Ltd.**Notes to Non-consolidated Financial Statements**

- (iv) Financial assets (liabilities) at fair value through profit or loss – redemption options of the convertible bonds

The fair values of the redemption options of the convertible bonds are estimated using a valuation method. The assumptions used should be the same as those used by financial market traders when quoting their prices, which are readily available to the Company.

- (v) Financial assets carried at cost – non-current

Financial assets carried at cost represent equity investments in non-publicly traded securities. Management believes that it is not practicable to estimate the fair value of these investments since market information is not readily available.

- (vi) Bonds payable

The fair value of bonds payable is estimated based on the present value of future discounted cash flows based on the prevailing market interest rates for similar debt instruments of comparable maturities and credit standing of the borrower.

- (2) For the years ended December 31, 2012 and 2011, the evaluation gain (loss) on financial assets and liabilities using a valuation technique amounted to \$4,914 and \$(765), respectively.

- (3) Disclosure of financial risk

- (i) Market risk

The Company entered into foreign currency forward contracts to hedge exchange risk resulting from assets and liabilities denominated in foreign currency. The gain and loss resulting from the change in the exchange rate of the forward contracts was offset by those from the hedged assets and liabilities. Therefore, the market risk related to the changes in exchange rates was not considered significant.

- (ii) Credit risk

The Company's credit risk is mainly from potential breach of contract by the counterparties associated with cash and cash equivalents, and accounts receivable. The Company usually deposits cash with various financial institutions in order to control its exposure to credit risk. As a result, the concentration of credit risk related to the Company's cash and cash equivalents is not considered significant.

The Company's accounts receivable were concentrated on certain customers. As of December 31, 2012 and 2011, three clients accounted for 39% and 33%, respectively, of the Company's accounts receivable balance. To reduce the Company's concentration of credit risk, the Company made a continuous assessment of the financial position of the clients and transferred the risk through insurance.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(iii) Liquidity risk

The Company's capital and operating funds are sufficient to fulfill all obligations. Therefore, the Company did not have liquidity risk.

5. Transactions with Related Parties

(a) Name of and relationship with related parties

Name	Relationship
Flytech USA International Co., Ltd. ("Flytech USA BVI")	Subsidiary of the Company
Flytech HK International Co., Ltd. ("Flytech HK BVI")	Subsidiary of the Company
Flytech CN International Co., Ltd. ("Flytech CN BVI")	Subsidiary of the Company
Flycom Investment Co., Ltd. ("Flycom Investment")	Subsidiary of the Company
Flytech Technology (U.S.A.), Inc. ("Flytech USA")	Subsidiary of Flytech USA BVI
Flytech Technology Hong Kong Ltd. ("Flytech HK")	Subsidiary of Flytech HK BVI
Flytech Technology (Shang Hai) Co., Ltd. ("Flytech CN")	Subsidiary of Flytech CN BVI
O TEK System Co., Ltd. ("O TEK System") (note)	Subsidiary of Flycom Investment
Directors, supervisors, chief executive officer, and vice presidents	The Company's key management personnel

(note) O TEK System has become the Company's related party since January 2011 because Flycom Investment, the Company's subsidiary, acquired 60% and 8.88% of its shares in January and June 2011, respectively.

(b) Significant transactions with related parties

(1) Sales, and related notes and accounts receivable

Sales to:

	2012		2011	
	Amount	Percentage of net sales	Amount	Percentage of net sales
O TEK System	\$ 80,013	2	80,322	3
Flytech CN	70,879	2	60,430	2
Flytech HK	47,350	2	58,037	2
Flytech USA	10,265	-	2,975	-
	<u>\$ 208,507</u>	<u>6</u>	<u>201,764</u>	<u>7</u>

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

Trading terms and selling prices with related parties are decided by the economic environment and market competition of the respective region. Trading terms with related parties require payment within 60 to 90 days. Trading terms with third parties require payment within 30 to 60 days.

As of December 31, 2012 and 2011, the unrealized profit on the above inter-company transactions amounting to \$7,459 and \$5,587, respectively, was recorded as accrued expenses and other current liabilities in the accompanying balance sheets.

Notes and accounts receivable from:

	2012		2011	
	Amount	Percentage of notes and accounts receivable	Amount	Percentage of notes and accounts receivable
OTEK System	\$ 16,572	2	20,988	4
Flytech CN	8,730	1	11,137	2
Flytech HK	3,608	1	5,481	1
Flytech USA	<u>321</u>	<u>-</u>	<u>583</u>	<u>-</u>
	<u>\$ 29,231</u>	<u>4</u>	<u>38,189</u>	<u>7</u>

(2) Purchases, and related notes and accounts payable

Purchases from:

	2012		2011	
	Amount	Percentage of net purchases	Amount	Percentage of net purchases
OTEK System	\$ 75,043	4	60,835	3
Flytech HK	<u>-</u>	<u>-</u>	<u>63</u>	<u>-</u>
	<u>\$ 75,043</u>	<u>4</u>	<u>60,898</u>	<u>3</u>

There were no significant differences between the terms for purchases from related parties and those from third-party suppliers.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

Accounts Payable to:

	2012	2011
	Amount	Amount
	Percentage of notes and accounts Payable	Percentage of notes and accounts Payable
O TEK System	\$ <u>22,960</u>	<u>15,930</u>
	<u>5</u>	<u>5</u>

(3) Royalty expenses and royalty payable

The Company has entered into a product design license agreement with OTEK system. According to the agreement, the Company makes the payment based on the sales quantity of the related products. Royalty expenses resulting from selling the products mentioned above for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
O TEK System	\$ <u>2,659</u>	<u>2,234</u>

Royalty payable to:

	2012	2011
O TEK System	\$ <u>1,214</u>	<u>635</u>

(4) Commission expenses and commission payable

Commission expenses resulting from related parties' introducing business to the Company for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
Flytech USA	\$ <u>10,906</u>	<u>11,483</u>

Commissions payable to:

	2012	2011
Flytech USA	\$ <u>461</u>	<u>398</u>

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(5) Summary of related-party receivables

Receivables from related parties as of December 31, 2012 and 2011, resulting from the above transactions are summarized as follows:

	2012	2011
Accounts receivable	\$ 29,231	38,189
Advances to related parties	<u>-</u>	<u>62</u>
	\$ <u>29,231</u>	<u>38,251</u>

(6) Summary of related-party payables

Payables to related parties as of December 31, 2012 and 2011, resulting from the above transactions are summarized as follows:

	2012	2011
Accounts payable	\$ 22,960	15,930
Commissions payable	461	398
Royalty payable	1,214	635
Advances from related parties	<u>24</u>	<u>30</u>
	\$ <u>24,659</u>	<u>16,993</u>

(c) Compensation to key management personnel

	2012	2011
Salaries, cash awards and special allowances	\$ 12,072	10,229
Business expenses	2,765	2,856
Employee bonuses	<u>7,820</u>	<u>8,610</u>
	\$ <u>22,657</u>	<u>21,695</u>

The aforementioned compensation included the accruals for employee bonuses and remuneration to directors and supervisors as discussed in note 4(k).

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

6. Pledged Assets

Pledged assets	Pledged to secure	2012	2011
Time deposits	Customs duty	\$ <u>110</u>	<u>108</u>

7. Commitments

(a) As of December 31, 2012, unused letters of credit for purchases of inventories amounted to \$37,871.

(b) The Company has entered into a parking lease agreement. Minimum lease payments are summarized as follows:

2013 \$ 325

8. Significant Disaster Loss: none.

9. Significant Subsequent Events : none.

10. Others

(a) The personnel expenses, depreciation, and amortization for 2012 and 2011 are summarized as follows:

	2012			2011		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Personnel expenses:						
Salaries and wages	\$ 128,711	170,165	298,876	106,403	158,835	265,238
Labor insurance	9,593	8,682	18,275	7,958	8,206	16,164
Pension	4,515	6,700	11,215	3,971	6,319	10,290
Other	5,004	2,752	7,756	4,661	2,664	7,325
Depreciation	56,040	8,624	64,664	43,299	6,862	50,161
Amortization	-	1,258	1,258	-	1,212	1,212

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(b) The significant financial assets and liabilities denominated in foreign currencies were as follows:

	December 31, 2012			December 31, 2011		
	Foreign Currency (in thousands)	Exchange Rate	New Taiwan Dollars (in thousands)	Foreign Currency (in thousands)	Exchange Rate	New Taiwan Dollars (in thousands)
Financial assets						
Monetary item						
USD	\$ 27,489	29.04	798,272	16,698	30.275	505,536
RMB	130,662	4.66	608,885	128,078	4.807	615,670
Equity method investments						
USD	7,624	29.04	221,406	7,099	30.275	214,911
Financial liabilities						
Monetary item						
USD	8,008	29.04	232,560	4,384	30.275	132,733

(c) Disclosure of the Adoption of IFRSs :

The information regarding the adoption of the IFRSs was disclosed in the Company's consolidated financial statement.