# Lite-On Technology Corporation 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
Lite-On Technology Corporation

We have audited the accompanying balance sheets of Lite-On Technology Corporation ("Parent Company") and subsidiaries 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 financial statements are the responsibility of the Parent Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. However, as disclosed in Note 2 to the financial statements, we did not audit the financial statements as of and for the years ended December 31, 2012 and 2011 of some consolidated subsidiaries. The assets of these subsidiaries were 3.42% (NT$6,681,382 thousand) and 3.67% (NT$7,488,587 thousand) of the consolidated total assets as of December 31, 2012 and 2011, respectively. The sales of these subsidiaries were 5.23% (NT$11,292,480 thousand) and 5.96% (NT$13,750,342) of the consolidated total sales in 2012 and 2011, respectively. These subsidiaries' financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these subsidiaries, as well as the subsidiaries' information disclosed in Note 2 to the financial statements, is based solely on the reports of the other auditors.

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 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 and the reports of the other auditors provide a reasonable basis for our opinion.

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

March 29, 2013

<u>*Notice to Readers*</u>

*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.*

## LITE-ON TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

| ASSETS | 2012 Amount | % | 2011 Amount | % |
|---|---|---|---|---|
| CURRENT ASSETS | | | | |
| Cash (Notes 4) | $ 60,590,077 | 31 | $ 56,515,383 | 28 |
| Financial assets at fair value through profit or loss - current (Notes 2, 5 and 30) | 13,023 | - | 111,584 | - |
| Available-for-sale financial assets - current (Notes 2, 6 and 30) | 10 | - | 9 | - |
| Notes receivable (Note 2) | 119,941 | - | 82,039 | - |
| Accounts receivable, net (Notes 2 and 7) | 44,025,784 | 23 | 45,469,494 | 22 |
| Accounts receivable from related parties (Notes 2 and 25) | 83,421 | - | 1,099 | - |
| Other receivables from related parties (Note 25) | 2,231 | - | 955 | - |
| Other financial assets - current | 2,321,847 | 1 | 1,575,370 | 1 |
| Inventories, net (Notes 2 and 8) | 20,566,117 | 10 | 27,659,384 | 14 |
| Construction in progress in excess of progressive billings (Notes 2 and 9) | 72,527 | - | 38,294 | - |
| Prepayments | 3,863,172 | 2 | 4,024,067 | 2 |
| Deferred income tax assets - current (Notes 2 and 22) | 1,110,308 | 1 | 951,668 | - |
| Other current assets | 340,170 | - | 355,282 | - |
| Total current assets | 133,108,628 | 68 | 136,784,628 | 67 |
| LONG-TERM INVESTMENTS (Notes 2, 10, 11,12 and 30) | | | | |
| Available-for-sale financial assets - noncurrent | 1,032,235 | - | 2,783,354 | 1 |
| Financial assets carried at cost - noncurrent | 1,122,230 | 1 | 1,487,972 | 1 |
| Investments accounted for by the equity method | 3,554,690 | 2 | 3,590,108 | 2 |
| Prepayments for investments | 13,155 | - | 74,843 | - |
| Total long-term investments | 5,722,310 | 3 | 7,936,277 | 4 |
| PROPERTIES (Notes 2 and 13) | | | | |
| Cost | | | | |
| Land | 2,693,413 | 1 | 2,746,331 | 1 |
| Buildings | 20,872,077 | 11 | 19,560,099 | 9 |
| Machinery and equipment | 40,739,682 | 21 | 40,574,926 | 20 |
| Transportation equipment | 97,204 | - | 107,323 | - |
| Office equipment | 2,578,640 | 1 | 2,724,727 | 1 |
| Leased assets | 1,347,828 | 1 | 1,399,977 | 1 |
| Miscellaneous equipment | 3,042,252 | 2 | 3,256,612 | 2 |
| Total cost | 71,371,096 | 37 | 70,369,995 | 34 |
| Less: Accumulated depreciation | 34,266,654 | 18 | 32,273,396 | 16 |
| Accumulated impairment | 938,543 | 1 | 790,279 | - |
| | 36,165,899 | 18 | 37,306,320 | 18 |
| Add: Construction in progress and prepayments for equipment | 1,309,891 | 1 | 2,679,675 | 2 |
| Properties, net | 37,475,790 | 19 | 39,985,995 | 20 |
| INTANGIBLE ASSETS (Notes 2 and 14) | | | | |
| Patents, net | 10,175 | - | 14,698 | - |
| Goodwill, net | 14,267,414 | 7 | 14,261,731 | 7 |
| Land use rights | 572,519 | - | 620,210 | - |
| Other intangible assets | 1,245,850 | 1 | 1,511,460 | 1 |
| Total intangible assets | 16,095,958 | 8 | 16,408,099 | 8 |
| OTHER ASSETS | | | | |
| Assets leased to others, net (Notes 2 and 15) | 111,394 | - | 113,843 | - |
| Idle assets, net (Notes 2 and 15) | 203,233 | - | 135,538 | - |
| Refundable deposits | 311,277 | 1 | 314,903 | - |
| Deferred charges, net (Note 2) | 2,067,016 | 1 | 2,273,596 | 1 |
| Restricted assets - noncurrent (Note 26) | 102,560 | - | 108,107 | - |
| Total other assets | 2,795,480 | 2 | 2,945,987 | 1 |
| TOTAL | $ 195,198,166 | 100 | $ 204,060,986 | 100 |

| LIABILITIES AND SHAREHOLDERS' EQUITY | 2012 Amount | % | 2011 Amount | % |
|---|---|---|---|---|
| CURRENT LIABILITIES | | | | |
| Short-term loans (Note 16) | $ 7,010,394 | 4 | $ 4,737,488 | 2 |
| Financial liabilities at fair value through profit or loss - current (Notes 2, 5 and 30) | 35,239 | - | 42,274 | - |
| Notes payable | 240,009 | - | 498,568 | - |
| Accounts payable | 51,989,611 | 27 | 61,055,907 | 30 |
| Accounts payable to related parties (Note 25) | 137,923 | - | 317,508 | - |
| Income tax payable (Notes 2 and 22) | 2,042,444 | 1 | 2,165,581 | 1 |
| Accrued expenses | 10,563,304 | 5 | 11,139,255 | 5 |
| Other payable to related parties (Note 25) | 20,173 | - | 43,058 | - |
| Advance receipts | 826,441 | 1 | 1,154,214 | 1 |
| Current portion of long-term bank loans (Notes 17 and 30) | 4,411,168 | 2 | 1,173,473 | 1 |
| Obligations under capital leases - current (Notes 18 and 30) | 62,381 | - | 84,360 | - |
| Product warranty reserve (Note 2) | 820,311 | - | 1,028,614 | 1 |
| Other current liabilities | 5,581,677 | 3 | 6,549,962 | 3 |
| Total current liabilities | 83,741,075 | 43 | 89,990,262 | 44 |
| LONG-TERM LIABILITIES, NET OF CURRENT PORTION | | | | |
| Long-term bank loans (Notes 17 and 30) | 19,956,634 | 10 | 23,294,964 | 12 |
| Hedging derivative liabilities - noncurrent (Notes 2 and 30) | 101,563 | - | 165,225 | - |
| Obligations under capital leases - noncurrent (Notes 18 and 30) | 232,299 | - | 316,466 | - |
| Total long-term liabilities | 20,290,496 | 10 | 23,776,655 | 12 |
| RESERVE FOR LAND VALUE INCREMENT TAX (Note 2) | 239,693 | - | 239,693 | - |
| OTHER LIABILITIES | | | | |
| Accrued pension costs (Notes 2 and 19) | 175,583 | - | 143,168 | - |
| Guarantee deposits received | 89,068 | - | 85,224 | - |
| Deferred income tax liabilities - noncurrent (Notes 2 and 22) | 843,248 | 1 | 747,622 | - |
| Total other liabilities | 1,107,899 | 1 | 976,014 | - |
| Total liabilities | 105,379,163 | 54 | 114,982,624 | 56 |
| SHAREHOLDERS' EQUITY OF PARENT COMPANY | | | | |
| Authorized 3,500,000 thousand shares; issued and outstanding 2,295,315 thousand shares in 2012; 2,309,980 thousand shares in 2011 | 22,953,154 | 12 | 23,099,801 | 11 |
| Advance receipts for common stock | 6,840 | - | - | - |
| Total capital stock | 22,959,994 | 12 | 23,099,801 | 11 |
| Capital surplus | | | | |
| Additional paid-in capital from share issuance in excess of par value | 8,551,730 | 4 | 8,533,185 | 4 |
| Bond conversion | 7,540,388 | 4 | 7,641,499 | 4 |
| Treasury stock transactions | 370,703 | - | 416,974 | - |
| Long-term stock investments | 915,676 | 1 | 907,070 | 1 |
| Merger | 10,120,217 | 5 | 10,255,921 | 5 |
| Employee stock options | 6,112 | - | 4,602 | - |
| Total capital surplus | 27,504,826 | 14 | 27,759,251 | 14 |
| Retained earnings | | | | |
| Legal reserve | 7,847,905 | 4 | 7,125,313 | 3 |
| Unappropriated earnings | 13,253,899 | 7 | 11,729,938 | 6 |
| Total retained earnings | 21,101,804 | 11 | 18,855,251 | 9 |
| Other equity | | | | |
| Cumulative translation adjustments | 126,009 | - | 1,625,560 | 1 |
| Net loss not recognized as pension cost | (29,536) | - | (17,182) | - |
| Unrealized loss on financial instruments | (677,435) | - | (372,591) | - |
| Unrealized loss on cash flow hedging | (101,563) | - | (165,225) | - |
| Treasury stock - 2012: 27,979 thousand shares; 2011: 58,405 thousand shares | (1,104,073) | (1) | (1,857,643) | (1) |
| Total other equity | (1,786,598) | (1) | (787,081) | - |
| Total shareholders' equity of parent company | 69,780,026 | 36 | 68,927,222 | 34 |
| MINORITY INTEREST | 20,038,977 | 10 | 20,151,140 | 10 |
| Total shareholders' equity | 89,819,003 | 46 | 89,078,362 | 44 |
| TOTAL | $ 195,198,166 | 100 | $ 204,060,986 | 100 |

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

(With Deloitte & Touche audit report dated March 29, 2013)

# LITE-ON TECHNOLOGY CORPORATION 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 | % |
| SALES (Notes 2 and 25) | $ 218,947,484 | 101 | $ 233,539,401 | 101 |
| LESS: SALES RETURNS | 845,582 | - | 1,158,034 | - |
| SALES ALLOWANCES | 2,428,040 | 1 | 2,258,602 | 1 |
| NET SALES | 215,673,862 | 100 | 230,122,765 | 100 |
| OTHER OPERATING REVENUE | 373,148 | - | 397,328 | - |
| Total operating revenue | 216,047,010 | 100 | 230,520,093 | 100 |
| OPERATING COSTS | | | | |
| Cost of goods sold (Notes 8, 23 and 25) | 185,147,993 | 86 | 196,187,219 | 85 |
| Other operating cost | 271,320 | - | 285,319 | - |
| Total operating costs | 185,419,313 | 86 | 196,472,538 | 85 |
| GROSS PROFIT | 30,627,697 | 14 | 34,047,555 | 15 |
| REALIZED INTERCOMPANY GAINS (Note 2) | - | - | 122 | - |
| REALIZED GROSS PROFIT | 30,627,697 | 14 | 34,047,677 | 15 |
| OPERATING EXPENSES (Notes 23 and 25) | | | | |
| Selling and marketing | 8,173,096 | 4 | 9,767,614 | 5 |
| General and administrative | 5,850,375 | 3 | 6,962,214 | 3 |
| Research and development | 5,712,229 | 2 | 5,097,613 | 2 |
| Total operating expenses | 19,735,700 | 9 | 21,827,441 | 10 |
| OPERATING INCOME | 10,891,997 | 5 | 12,220,236 | 5 |
| NONOPERATING INCOME AND GAINS | | | | |
| Interest income | 1,064,375 | 1 | 578,494 | 1 |
| Investment income recognized under the equity method (Notes 2 and 12) | 15,217 | - | - | - |
| Dividend income | 57,166 | - | 151,166 | - |
| Exchange gain, net (Note 2) | 8,177 | - | 76,970 | - |
| Gain on disposal of investments, net | 585,557 | - | 436,695 | - |
| Valuation gain on financial assets (Notes 2 and 5) | 300,844 | - | 485,231 | - |
| Other income (Note 23) | 1,911,477 | 1 | 2,192,341 | 1 |
| Total nonoperating income and gains | 3,942,813 | 2 | 3,920,897 | 2 |

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# LITE-ON TECHNOLOGY CORPORATION 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** | **%** |
| NONOPERATING EXPENSES AND LOSSES | | | | |
| Interest expense (Notes 2 and 30) | $ 554,850 | - | $ 589,603 | - |
| Investment loss recognized under the equity method, net (Notes 2 and 12) | - | - | 150,230 | - |
| Loss on disposal of properties | 157,087 | - | 73,770 | - |
| Impairment loss (Notes 2, 10, 11, 13, 14 and 15) | 750,433 | 1 | 1,138,364 | 1 |
| Valuation loss on financial liabilities (Notes 2 and 5) | 227,641 | - | 511,008 | - |
| Other expenses (Notes 23 and 27) | 1,173,411 | 1 | 1,204,706 | 1 |
| Total nonoperating expenses and losses | 2,863,422 | 2 | 3,667,681 | 2 |
| INCOME BEFORE INCOME TAX | 11,971,388 | 5 | 12,473,452 | 5 |
| INCOME TAX EXPENSE (Notes 2 and 22) | 2,451,510 | 1 | 2,751,677 | 1 |
| CONSOLIDATED NET INCOME | $ 9,519,878 | 4 | $ 9,721,775 | 4 |
| ATTRIBUTED TO: | | | | |
| Shareholders of parent company | $ 7,534,860 | 3 | $ 7,225,925 | 3 |
| Minority interest | 1,985,018 | 1 | 2,495,850 | 1 |
| | $ 9,519,878 | 4 | $ 9,721,775 | 4 |

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Pretax** | **After-tax** | **Pretax** | **After-tax** |
| EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 24) | | | | |
| Basic | $ 3.35 | $ 3.33 | $ 3.34 | $ 3.21 |
| Diluted | $ 3.30 | $ 3.28 | $ 3.28 | $ 3.15 |

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# LITE-ON TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

Pro forma information on the assumption that shares of the Parent Company's held by its direct and indirect subsidiaries were not treated as treasury stock:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Pretax** | **After-tax** | **Pretax** | **After-tax** |
| CONSOLIDATED NET INCOME | $ 7,644,884 | $ 7,590,713 | $ 7,605,456 | $ 7,296,208 |
| EARNINGS PER SHARE (NEW TAIWAN DOLLARS) | | | | |
| Basic | $3.33 | $3.31 | $3.33 | $3.20 |
| Diluted | $3.29 | $3.26 | $3.27 | $3.14 |

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

(With Deloitte & Touche audit report dated March 29, 2013) (Concluded)

## LITE-ON TECHNOLOGY CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**YEARS ENDED DECEMBER 31, 2012 AND 2011**
**(In Thousands of New Taiwan Dollars; Except Cash Dividends Per Share)**

| | Issued and Outstanding Capital Stock (Note 20) | | | Capital Surplus (Notes 2 and 20) | | | | | | | Retained Earnings (Notes 2 and 20) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares (Thousands) | Amount | Advance Receipts for Common Stock | Additional Paid-in Capital from Share Issuance in Excess of Par Value | Bond Conversion | Treasury Stock Transactions | Long-term Stock Investments | Merger | Employee Stock Options | Total | Legal Reserve | Unappropriated Earnings | Total | Cumulative Translation Adjustments (Note 2) | Net Loss Not Recognized as Pension Cost (Note 2) | Unrealized Gain or Loss on Financial Instruments (Notes 2 and 20) | Unrealized Loss on Cash Flow Hedging (Note 2) | Treasury Stock (Notes 2 and 21) | Minority Interest (Note 2) | Total Shareholders' Equity |
| BALANCE, JANUARY 1, 2011 | 2,284,794 | $ 22,847,940 | $ - | $ 8,200,480 | $ 7,641,499 | $ 346,691 | $ 959,438 | $ 10,255,921 | $ 2,857 | $ 27,406,886 | $ 6,226,667 | $ 11,985,007 | $ 18,211,674 | $ 489,217 | $ (22,338) | $ 1,429,993 | $ (159,166) | $ (1,857,643) | $ 18,874,015 | $ 87,220,578 |
| Appropriation of prior year's earnings | | | | | | | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | - | - | - | - | - | 898,646 | (898,646) | - | - | - | - | - | - | - | - |
| Cash dividends - 28.7% | 11,271 | 112,711 | - | - | - | - | - | - | - | - | - | (6,469,637) | (6,469,637) | - | - | - | - | - | - | (6,356,926) |
| Stock dividends - 0.5% | - | - | - | - | - | - | - | - | - | - | - | (112,711) | (112,711) | - | - | - | - | - | - | (112,711) |
| Bonus to employees - stock | 13,915 | 139,150 | - | 332,705 | - | - | - | - | - | 332,705 | - | - | - | - | - | - | - | - | - | 471,855 |
| Cash dividends received by subsidiaries | - | - | - | - | - | 70,283 | - | - | - | 70,283 | - | - | - | - | - | - | - | - | - | 70,283 |
| Adjustment arising from changes in equity in investments due to subsidiaries' distribution of bonus to employees | - | - | - | - | - | - | (2,152) | - | - | (2,152) | - | - | - | - | - | - | - | - | - | (2,152) |
| Adjustment arising from changes in unrealized loss on subsidiaries' financial assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (666,937) | - | - | - | (666,937) |
| Adjustment arising from changes in capital surplus from long-term equity investments | - | - | - | - | - | - | (50,216) | - | 1,745 | (48,471) | - | - | - | - | - | - | - | - | - | (48,471) |
| Unrealized loss on cash flow hedging | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (6,059) | - | - | (6,059) |
| Consolidated net income in 2011 | - | - | - | - | - | - | - | - | - | - | - | 7,225,925 | 7,225,925 | - | - | - | - | - | 2,495,850 | 9,721,775 |
| Unrealized valuation loss on available-for sale financial assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (1,135,647) | - | - | - | (1,135,647) |
| Change in translation adjustments | - | - | - | - | - | - | - | - | - | - | - | - | - | 1,136,343 | - | - | - | - | - | 1,136,343 |
| Effect of change in parent's equity in subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (1,218,725) | (1,218,725) |
| Change in net loss not recognized as pension cost | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 5,156 | - | - | - | - | 5,156 |
| BALANCE, DECEMBER 31, 2011 | 2,309,980 | 23,099,801 | - | 8,533,185 | 7,641,499 | 416,974 | 907,070 | 10,255,921 | 4,602 | 27,759,251 | 7,125,313 | 11,729,938 | 18,855,251 | 1,625,560 | (17,182) | (372,591) | (165,225) | (1,857,643) | 20,151,140 | 89,078,362 |
| Conversion of advance receipts for common stock | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Appropriation of prior year's earnings | | | | | | | | | | | | | | | | | | | | |
| Legal reserve | - | - | - | - | - | - | - | - | - | - | 722,592 | (722,592) | - | - | - | - | - | - | - | - |
| Cash dividends - 22.7% | - | - | - | - | - | - | - | - | - | - | - | (5,174,335) | (5,174,335) | - | - | - | - | - | - | (5,174,335) |
| Stock dividends - 0.5% | 11,397 | 113,972 | - | - | - | - | - | - | - | - | - | (113,972) | (113,972) | - | - | - | - | - | - | - |
| Retirement of treasury stock | (30,565) | (305,650) | - | (112,909) | (101,111) | (98,196) | - | (135,704) | - | (447,920) | - | - | - | - | - | - | - | 753,570 | - | - |
| Issuance of stock on the exercise of employee stock options | 82 | 816 | 6,840 | 19,589 | - | - | - | - | - | 19,589 | - | - | - | - | - | - | - | - | - | 27,245 |
| Bonus to employees - stock | 4,421 | 44,215 | - | 111,865 | - | - | - | - | - | 111,865 | - | - | - | - | - | - | - | - | - | 156,080 |
| Cash dividends received by subsidiaries | - | - | - | - | - | 55,853 | - | - | - | 55,853 | - | - | - | - | - | - | - | - | - | 55,853 |
| Adjustment arising from changes in equity in investments due to subsidiaries' distribution of bonus to employees | - | - | - | - | - | - | 1,828 | - | - | 1,828 | - | - | - | - | - | - | - | - | - | 1,828 |
| Adjustment arising from changes in unrealized loss on subsidiaries' financial assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (280,660) | - | - | - | (280,660) |
| Adjustment arising from changes in capital surplus from long-term equity investments | - | - | - | - | - | (3,928) | 6,778 | - | 1,510 | 4,360 | - | - | - | - | - | - | - | - | - | 4,360 |
| Unrealized gain on cash flow hedging | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 63,662 | - | - | 63,662 |
| Consolidated net income in 2012 | - | - | - | - | - | - | - | - | - | - | - | 7,534,860 | 7,534,860 | - | - | - | - | - | 1,985,018 | 9,519,878 |
| Change in net loss not recognized as pension cost | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (12,354) | - | - | - | - | (12,354) |
| Unrealized valuation loss on available-for-sale financial assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (24,184) | - | - | - | (24,184) |
| Change in translation adjustments | - | - | - | - | - | - | - | - | - | - | - | - | - | (1,499,551) | - | - | - | - | - | (1,499,551) |
| Effect of change in parent's equity in subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (2,097,181) | (2,097,181) |
| BALANCE, DECEMBER 31, 2012 | 2,295,315 | $ 22,953,154 | $ 6,840 | $ 8,551,730 | $ 7,540,388 | $ 370,703 | $ 915,676 | $ 10,120,217 | $ 6,112 | $ 27,504,826 | $ 7,847,905 | $ 13,253,899 | $ 21,101,804 | $ 126,009 | $ (29,536) | $ (677,435) | $ (101,563) | $ (1,104,073) | $ 20,038,977 | $ 89,819,003 |

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

(With Deloitte & Touche audit report dated March 29, 2013)

# LITE-ON TECHNOLOGY CORPORATION 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 | $ 9,519,878 | $ 9,721,775 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: | | |
| Depreciation | 5,850,237 | 5,693,294 |
| Amortization | 1,359,208 | 1,294,722 |
| Allowance for doubtful accounts | 61,009 | 47,043 |
| Valuation loss (gain) on financial instruments, net | (73,203) | 25,777 |
| Gain on disposal of investments, net | (585,557) | (314,471) |
| Loss on disposal of properties | 157,087 | 73,770 |
| Impairment loss on financial and fixed assets | 750,433 | 1,138,364 |
| Investment loss (income) recognized under the equity method, net | (15,217) | 150,230 |
| Cash dividends received from equity-method investees | 36,353 | 64,048 |
| Product warranty reserve | (193,307) | (13,947) |
| Accrued pension costs | 32,415 | (10,702) |
| Deferred income taxes | 53,806 | (385,319) |
| Deferred credits - gain on intercompany transactions | - | (122) |
| Net changes in operating assets and liabilities | | |
| Financial instruments at fair value through profit or loss | 164,729 | 295,102 |
| Notes receivable | (37,902) | (23,506) |
| Accounts receivable | 378,375 | (4,463,979) |
| Accounts receivable from related parties | (82,322) | 140,305 |
| Other receivable from related parties | (1,276) | 2,170 |
| Inventories | 5,177,333 | (1,065,792) |
| Construction in progress in excess of progressive billings | (34,233) | (26,318) |
| Prepayments | 100,913 | (683,221) |
| Other financial assets - current | (776,468) | 275,209 |
| Other current assets | 15,112 | (66,237) |
| Notes payable | (258,559) | 97,908 |
| Accounts payable | (6,401,572) | 5,166,360 |
| Accounts payable to related parties | (179,585) | (5,651) |
| Other payable to related parties | (22,885) | 12,744 |
| Income taxes payable | (93,146) | (290,775) |
| Accrued expenses | (269,916) | 178,803 |
| Advance receipts | (312,777) | 21,191 |
| Progressive billings in excess of construction in progress | - | (44,599) |
| Other current liabilities | (1,324,354) | (367,232) |
| Net cash provided by operating activities | 12,994,609 | 16,636,944 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of properties | (4,755,634) | (8,930,917) |
| Proceeds of the disposal of properties | 1,548,111 | 452,473 |
| Proceeds of the disposal of available-for-sale financial assets | 1,534,799 | 113,514 |
| Increase in deferred charges | (564,802) | (908,668) |

(Continued)

# LITE-ON TECHNOLOGY CORPORATION AND SUBSIDIARIES

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

| | 2012 | 2011 |
|---|---|---|
| Acquisition of financial assets carried at cost | $ (194,781) | $ (147,142) |
| Acquisition of investments under the equity method | (155,134) | (926,819) |
| Decrease in restricted assets | 5,547 | 5,877 |
| Increase in prepayments for investments | (4,610) | (74,843) |
| Decrease in refundable deposits | 3,626 | 89,782 |
| Increase in land use rights | (2,965) | (69,701) |
| Proceeds of the disposal of financial assets carried at cost | - | 307,875 |
| Proceeds of the capital reduction on financial assets carried at cost | - | 31,680 |
| Acquisition of available-for-sale financial assets | - | (6,783) |
| Net cash used in investing activities | (2,585,843) | (10,063,672) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Cash dividends paid | (5,174,335) | (6,469,637) |
| Decrease in minority interest | (2,581,635) | (643,351) |
| Increase in short-term loans | 2,377,875 | 1,258,851 |
| Increase in long-term bank loans | 244,262 | 4,659,212 |
| Decrease in obligations under capital lease | (106,146) | (77,421) |
| Proceeds of the exercise of employee stock options | 27,245 | - |
| Increase (decrease) in guarantee deposits | 3,844 | (15,642) |
| Net cash used in financing activities | (5,208,890) | (1,287,988) |
| EFFECTS OF EXCHANGE RATE CHANGES | (1,125,182) | 788,777 |
| NET INCREASE IN CASH | 4,074,694 | 6,074,061 |
| CASH, BEGINNING OF YEAR | 56,515,383 | 50,441,322 |
| CASH, END OF YEAR | $ 60,590,077 | $ 56,515,383 |
| SUPPLEMENTARY CASH FLOW INFORMATION | | |
| Interest paid | $ 536,643 | $ 462,085 |
| Income tax paid | $ 2,520,841 | $ 2,770,890 |
| NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Current portion of long-term bank loans | $ 4,411,168 | $ 1,173,473 |
| Current portion of capital lease obligations | $ 62,381 | $ 84,360 |
| CASH PAID FOR THE ACQUISITION OF PROPERTIES | | |
| Increase in properties | $ 5,186,681 | $ 8,699,632 |
| Decrease (increase) in payable for properties | (431,047) | 231,285 |
| | $ 4,755,634 | $ 8,930,917 |

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

(With Deloitte & Touche audit report dated March 29, 2013) (Concluded)

## 1. ORGANIZATION AND OPERATIONS

Lite-On Technology Corporation (the "Parent Company") was established in March 1989. Its shares are traded on the Taiwan Stock Exchange. The Parent Company manufactures and markets (1) computer software, hardware, peripherals and components and (2) multifunction and all-in-one printers, cameras, internet systems and image-processing equipment.

The Parent Company merged with Lite-On Electronics, Inc., Silitek Corp. and GVC Corp., with the Parent Company as the survivor entity. The merger took effect on November 4, 2002, and the Parent Company thus assumed all rights and obligations of the three merged companies on that date. The Parent Company merged with its subsidiary, Lite-On Enclosure Inc. (LOEI), with the Parent Company as the survivor entity. The merger took effect on April 1, 2004, and the Parent Company thus assumed all of LOEI's rights and obligations of on that date.

As of December 31, 2012 and 2011, the Parent Company and subsidiaries (also collectively referred to as the "Group") had 77,497 and 90,201 employees, respectively.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

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). The preparation of financial statements in conformity with the foregoing guidelines and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. Actual results may differ from those estimates.

For the convenience of readers, 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 financial statements shall prevail.

The Parent Company and its subsidiaries' significant accounting policies are summarized as follows:

### Basis for Consolidation

As required by the revised ROC Statement of Financial Accounting Standards No. 7 - "Consolidated Financial Statements," starting from January 2005, consolidated financial statements should include the accounts of the Parent Company and its direct and indirect subsidiaries and other investees over which the Group has controlling influence. All significant intercompany accounts and transactions have been excluded from the consolidation.

Please see Table 3 (attached) for the intercompany relationships and percentages of ownership.

We did not audit the financial statements as of and for the years ended December 31, 2012 and 2011 of Lite-On Electronics (Thailand) Co., Ltd., Lite-On Electronics (Europe) Ltd., G&W Technology (BVI) Ltd., G&W Technology Limited, Fordgood Electronic Ltd., Philips & Lite-On Digital Solutions Netherlands B.V., Philips & Lite-On Digital Solutions USA Inc., Philips & Lite-On Digital Solutions Germany GmbH., Lite-On Information Technology B.V., Lite-On Information Technology GmbH, Silitech Technology (Europe) Ltd., Lite-On Automotive Electronics (Europe) B.V. and Lite-On Automotive North America Inc. The financial statements of these subsidiaries were audited by other auditors.

Minority interests, which were presented separately in the consolidated financial statements, were at these percentages: (a) as of December 31, 2012 - 57.35% in Lite-On IT Corporation; 67.02% in Silitech Technology Corp. Ltd.; 15.11% in Lite-On Automotive Co., Ltd.; 34.77% in Lite-On Japan Ltd.; 60.37% in Logah Technology Co., Ltd.; and (b) as of December 31, 2011 - 56.97% in Lite-On IT Corporation; 64.48% in Silitech Technology Corp. Ltd.; 15.11% in Lite-On Automotive Co., Ltd.; 34.77% in Lite-On Japan Ltd.; 60.37% in Logah Technology Co., Ltd.; and 26.60% in Leotek Electronics Corporation.

The financial statements of consolidated subsidiaries are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities - year-end rates; shareholders' equity - historical rates; and income and expenses - average rate during the year.

**Current and Noncurrent Assets and Liabilities**

Current assets include cash, financial assets held for trading and other assets to be converted to cash or to be consumed or used up within 12 months. All other assets such as property, plant and equipment and intangible assets are classified as noncurrent. Current liabilities include financial liabilities resulting from trading or to be repaid or settled within 12 months. All other assets and liabilities are classified as noncurrent.

**Financial Assets/Liabilities at Fair Value through Profit or Loss**

Financial instruments at fair value through profit or loss (FVTPL) include financial assets or liabilities for trading and financial assets and liabilities that were designated at the time of initial recognition as assets or liabilities to be measured at fair value, with changes in fair value to be recognized under earnings. Derivatives are initially recognized at fair value, with transaction costs expensed as incurred. After initial recognition, the derivatives are remeasured at fair value, and the changes in fair value are recognized in current earnings. Cash dividends received are recognized under current earnings. Regular purchase or sale of financial assets is recognized and derecognized using trade date accounting.

Derivatives that do not meet the criteria for hedge accounting are classified as financial assets or liabilities held for trading. If the fair value of a derivative is a positive amount, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

The fair value of stocks listed on the Taiwan Stock Exchange or traded over the counter on the GreTai Securities Market ("GreTai") are their closing prices on the balance sheet date. For open-end funds, fair values are their net asset values on the balance sheet date. For bonds, fair values are the reference prices on GreTai on the balance sheet date. Fair values of financial instruments with no active market are estimated through valuation techniques incorporating estimates and assumptions that are consistent with those used by other market participants.

**Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts**

Sales revenues are recognized when titles to products and material risks of ownerships are transferred to clients, primarily upon shipment, when the earnings process is mostly completed and the profit has been realized or is realizable. On unprocessed materials delivered to subcontractors for further processing, the Group does not recognize sales because this delivery does not involve a transfer of the 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 Group 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.

Royalties are recognized when:

a. It is probable that the economic benefits of a transaction will flow to the Group; and
b. The revenue can be measured reliably.

Royalties are recognized on an accrual basis in accordance with the substance of the contract.

If a contract meets the recognition criteria for sales of goods and the following conditions, royalties are recognized at the time of sale:

a. The amount of the royalties is fixed or the royalties are nonrefundable;
b. The contract is noncancelable;
c. The contract permits the licensee to exploit the assigned rights freely; and
d. The licensor has no remaining obligations to perform.

Allowance for doubtful accounts is provided on the basis of a periodic review of the collectability of receivables based on aging analysis, credit ratings and economic conditions.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Group 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 the impairment of receivables originated by the Group 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:

a. Significant financial difficulty of the debtor;
b. Accounts receivable becoming overdue; or
c. It becoming probable that the debtor will enter into bankruptcy or undergo financial reorganization.

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 Group's past experience of collecting payments and 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 the 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 collaterals 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.

**Construction Contracts**

Revenues on and costs of long-term construction contracts are recognized by the percentage-of-completion method, while revenues and costs of short-term construction contracts are recognized by the full-completion method. Under the percentage-of-completion method, the stage of completion of each contract is measured at the ratio of cumulative construction costs to total estimated contract costs.

Construction revenues and costs for the current year is the excess of cumulative construction revenue and costs, determined using the percentage-of-completion method, in excess of the cumulative construction revenue and costs recognized in prior years. Any estimated loss on a construction contract is recognized currently; any subsequent adjustment of this loss is recognized as income or loss in the year of adjustment.

Construction in progress is carried at cost plus estimated construction profit or less estimated losses. Installment payments or collections received from construction projects are credited to progressive billings. Upon completion of each project, these progressive billings are offset against construction in progress.

Construction expenses incurred under the full-completion method are included in construction in progress, while collections received from construction projects are credited to progressive billings. Upon completion of each project, the construction in progress and progressive billings are recognized as construction revenues and costs, respectively.

At year-end, the balances of construction in progress and progressive billings from construction of each project are netted out, and the result is classified as current asset or current liability.

**Inventories**

Inventories consist of materials and supplies, work-in-process, finished goods, merchandise, goods in transit and power generation facility held for sale. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made 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.

**Available-for-sale Financial Assets**

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. When the assets are subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of shareholders' equity. The accumulated gains or losses are recognized as earnings when the financial asset is derecognized from the balance sheet. A regular purchase or sale of financial assets is recognized and derecognized using trade date accounting.

The fair value of stocks listed on the Taiwan Stock Exchange or traded over the counter on the GreTai Securities Market ("GreTai") are their closing prices on the balance sheet date. For open-end funds, fair values are their net asset values on the balance sheet date. For bonds, fair values are the reference prices on GreTai on the balance sheet date. Fair values of financial instruments with no active market are estimated through valuation techniques incorporating estimates and assumptions that are consistent with those used by other market participants.

Cash dividends are recognized as investment income on the ex-dividend date but are accounted for as reductions of the original cost of investment if these dividends are declared on the investees' earnings before investment acquisition. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. After the receipt of stock dividends, the cost per share is recalculated on the basis of the new number of total shares held. For bond securities, the difference between the initially recognized carrying values and maturity values is amortized using the effective interest method. If the difference between the results of using the straight-line method and those of the

effective interest method is not material, the straight-line method can be used for amortization and subsequent differences are recognized as gain or loss.

An impairment loss is recognized on the balance sheet date if there are objective evidences that a financial asset is impaired, and this impairment loss is charged to the net income of the current period. An impairment loss for an equity instrument classified as available-for-sale can be reversed to the extent of the original carrying value and recognized as an adjustment adjustments to shareholders' equity. If the reversible amount of a debt instrument is clearly attributable to an event occurring after the impairment loss was recognized, this amount is recognized as income.

**Financial Assets Carried at Cost**

Investments with no quoted market prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks, are carried at their original cost. The costs of stocks sold are determined using the weighted-average method. If there is objective evidence of investment impairment, a loss is recognized, but a reversal of this impairment loss is not allowed. The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash and stock dividends arising from available-for-sale financial assets.

**Long-term Equity Investments**

The difference between the cost of the investment and the Group equity in the investee's net assets when an investment is acquired or when the equity method is first adopted, is amortized over five years. However, effective January 1, 2006, under the revised Statement of Financial Accounting Standards No. 5 - "Long-term Investments under the Equity Method," investment premiums, representing goodwill, are no longer being amortized, but the Corporation needs to make asset impairment tests regularly or if there are indications that goodwill is probably impaired. If the net fair value of an asset exceeds its investment cost, the excess is used to reduce the fair value of each of the noncurrent assets acquired (exclude non-equity-method financial assets, assets for disposal, deferred tax assets and prepaid pension costs or other pension payments), with any remaining excess recognized as extraordinary gain.

If an investee issues additional shares and the Group acquires these shares at a percentage different from its current equity in the investee, the resulting increase in the Corporation's equity in its investee's net assets is credited to capital surplus. Any decrease in the Group equity in the investee's net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings. The equity in the net income or net loss of investees that also have investments in the Corporation (reciprocal holdings) is computed using the treasury stock method. Upon the disposal of equity-method investments, the Corporation's shares in the capital surplus recognized by the investee, if any, will be included in current income in proportion to the investments sold. However, capital surplus from an investee's property disposal is transferred to retained earnings in proportion to the value of the investments sold. The Corporation accounts for its stock held by subsidiaries as treasury stock. Dividends that the Corporation distributes to its subsidiaries are debited to investment income and are credited to capital surplus - treasury stock transactions.

Profits from downstream transactions with an equity-method investee are eliminated in proportion to the Corporation's percentage of ownership in the investee; however, if the Group has control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Group's percentage of ownership in the investee. The deferred profits are realized through the subsequent sale of the related products to third parties.

Stock dividends received are recorded only as an increase in the number of shares held but not recognized as investment income. Cost or carrying value per share is recomputed on the basis of total shares after stock dividends are received.

For all stock investments, costs of investments sold are determined using the weighted moving-average method.

**Properties and Leased Assets**

Properties and leased assets are stated at cost less accumulated depreciation. Major additions, renewals and betterments are capitalized, while maintenance and repairs are charged to current expense.

Assets held under capital leases are initially recognized as assets of the Group at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments; the corresponding liability is included in the balance sheet as obligations under capital leases. The interest included in lease payments is expensed when paid.

Depreciation is computed using the straight-line method over useful lives estimated as follows: buildings, 5 to 60 years; machinery and equipment, 2 to 10 years; molding equipment, 2 to 10 years; transportation equipment, 3 to 10 years; office equipment, 2 to 10 years; miscellaneous equipment, 2 to 10 years; and leased assets, 3 to 40 years. Properties that - have reached their residual value but are still in use are depreciated over their newly estimated service lives.

Upon revaluation of properties, the resulting revaluation increment is recognized as part of the cost of the properties, and a reserve for land value increment tax is included in long-term liabilities, with the difference between revaluation increment and the land value increment tax credited to capital surplus.

Upon sale or other disposal of properties and leased assets, the related cost and accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to nonoperating income or expense.

**Intangible Assets**

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Patents, client relationships and patent rights (classified under other intangible assets) are amortized over 6 years, 4 years and 12 years, respectively.

Goodwill arising from a merger or the difference between the cost of the investment and the Group's equity in the investees' net assets is amortized over five years using the straight line method. Effective January 1, 2006, based on the newly revised Statement of Financial Accounting Standards (SFAS) No. 5 - "Long-Term Investments under the Equity Method," goodwill is no longer amortized and is instead assessed for impairment at least annually.

**Land Use Rights**

Land use rights are amortized over 50 years.

**Idle Assets**

The idle fixed assets reclassified to other assets are stated at the lower of carrying value or net realizable value and depreciated using the straight line method from January 1, 2006.

**Deferred Charges**

Deferred charges, consisting of computer software costs, royalty expenditures, issuance costs of bonds and office decoration expenditures are amortized using the straight-line method over 2 to 17 years.

**Asset Impairment**

An impairment loss should be recognized if the carrying amount of properties, goodwill, leased assets, idle assets, deferred expenses, equity-method investments and noncurrent assets classified as held for sale exceeds, as of the balance sheet date, their recoverable amount, and this impairment loss should be charged

to current income even if the asset is carried at a revalued amount. An impairment loss recognized in prior years can be reversed if there is a subsequent recovery in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, an impairment loss is reversed only to the extent that it does not increase the asset carrying amount that would have been determined had no impairment loss on the asset been recognized in prior years. In addition, reversal of impairment loss on goodwill is not allowed.

**Product Warranty Reserve**

The estimate of the related cost is based on historical experience about product service life and warranty period.

**Pension Costs**

The Parent Company and subsidiaries have two types of pension plans: Defined benefit and defined contribution.

Defined benefit pension costs of the Parent Company and its subsidiaries - Lite-On IT Corp., Silitech Technology Corp., Li Shin International Enterprise Corp., Logah Technology Co., Ltd., Lite-On Automotive Corp., Leotek Electronics Corp. and Philips & Lite-On Digital Solutions Corporation - are recognized on the basis of actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the period in which employees render services.

The prior service costs should be amortized on a straight-line basis over the average period from the plan effective or amendment date until the benefits become vested. When the benefits are already vested right after the introduction of, or changes to, a defined benefit plan, the Parent Company should recognize the prior service cost as expense immediately.

Curtailment or settlement gains or losses on the defined benefit plan are recognized as part of the net periodic pension cost for the year.

Some consolidated subsidiaries, which are mainly in investments, have either very few or even no staff. These subsidiaries have no pension plans and thus do not contribute to pension funds and recognize pension costs. Except for these companies, the consolidated subsidiaries all contribute to pension funds and recognize pension costs based on local government regulations.

**Treasury Stock**

The Parent Company accounts for the cost of reacquiring its outstanding stock as a deduction to arrive at shareholders' equity.

Upon disposal of the treasury stock, the sales proceeds in excess of the cost are accounted for as capital surplus - treasury stock. If the sales proceeds are less than the cost, the difference is accounted for as a reduction in the remaining balance of capital surplus - treasury stock. If the remaining balance of capital surplus - treasury stock is insufficient to cover the difference, the remainder is recorded as a reduction of retained earnings.

If treasury stock is retired, the weighted-average cost of the retired treasury stock is written off to offset the par value and the capital surplus premium, if any, of the stock retired. If the weighted-average cost written off exceeds the sum of both the par value and the capital surplus premium, the difference is accounted for as either a reduction of capital surplus - treasury stock or a reduction of retained earnings for any deficiency where capital surplus - treasury stock is insufficient to cover the difference. If the weighted-average cost written off is less than the sum of the par value and premium, if any, of the stock retired, the difference is accounted for as an increase in capital surplus - treasury stock of the same type.

Effective January 1, 2002, the Parent Company adopted Statement of Financial Accounting Standards (SFAS) No. 30 - "Accounting for Treasury Stocks." SFAS No. 30 requires that the shares of the Parent Company held by subsidiaries should be reclassified from investments in those subsidiaries to treasury stock. The reclassification amount was based on the carrying value of the subsidiaries' investments in the Parent Company as of January 1, 2002.

**Stock-based Compensation**

Employee stock option plans had a grant or amendment date on or after January 1, 2004. Because the Parent Company did not grant new options after 2008, the accounting treatment for employee stock options is still based on the interpretations issued by the Accounting Research and Development Foundation. The Group uses the intrinsic value method, under which compensation cost is recognized on a straight-line basis over the vesting year.

**Income Tax**

The inter-period allocation method is applied to income tax. Deferred tax assets are recognized for the tax effects of deductible temporary differences, loss carryforwards, investment tax credits, and deferred tax liabilities are recognized for the tax effects of taxable temporary differences. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. Deferred income tax assets or liabilities are classified as current or noncurrent in accordance with the nature of related assets or liabilities for financial reporting. But, if a deferred asset or liability cannot be related to an asset or liability in the financial statements, it is classified as current or noncurrent depending on the expected reversal date of the temporary difference.

Tax credits for certain purchases of equipment or technique, research and development, personnel training, and stock investments can be deducted from the current year's tax expense.

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

Income taxes (10%) on undistributed earnings are recorded as expense in the year the shareholders resolve to retain the earnings.

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

The ROC Statement of Financial Accounting Standards No. 14 - "The Effects of Changes in Foreign Exchange Rates" applies to foreign subsidiaries that use their local currencies as their functional currencies. The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities - year-end rates; shareholders' equity - historical rates; and income and expenses - average rate during the year. The resulting translation adjustments are recorded as a separate component of shareholders' equity.

Foreign-currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the spot rates of exchange in effect when the transactions occur.

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 (such as equity instruments) 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.

**Hedging Derivative Financial Instruments**

Hedging derivative financial instruments are measured at fair value. The changes in fair values of these instruments are debited or charged to either shareholders equity or current income depending on the hedged items.

**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.

c. Hedge of a net investment in a foreign operation: The portion of the gain or loss on hedging instruments that is determined to be an effective hedge is recognized in shareholders' equity but is recognized as gain or loss on foreign operation disposal.

The Parent Company and its subsidiaries use hedging to stabilize net interest income or expense and control market value risk. Cash flow hedge is used to reduce interest rate risk, while fair value hedge is used to reduce net present value risk of the hedged item.

**Reclassifications**

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

## 3. ACCOUNTING CHANGES

**Financial Instruments**

On January 1, 2011, the Parent Company and its subsidiaries 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 Parent Company and its subsidiaries 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 significant effect on the Parent Company and its subsidiaries.

**Operating Segments**

On January 1, 2011, the Parent Company and its subsidiaries adopted the newly issued SFAS No. 41 - "Operating Segments." The statement requires that segment information be disclosed on the basis of information about the components of the Group 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 Parent Company and its subsidiaries' chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20 - "Segment Reporting," and the Parent Company and its subsidiaries conformed to the disclosure requirement under SFAS No. 41 and provided the operating segment disclosure in the consolidated financial statements accordingly.

## 4. CASH

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Cash on hand | $ 10,300 | $ 10,415 |
| Checking deposits | 1,783,160 | 2,768,789 |
| Demand deposits | 21,017,052 | 22,226,441 |
| Time deposits | 37,779,565 | 31,509,738 |
| | $ 60,590,077 | $ 56,515,383 |

As of December 31, 2012 and 2011, the bank deposits overseas of the Parent Company were as follows:

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Czech - Prague (CZK35,557 thousand in 2012 and CZK54,254 thousand in 2011) | $ 54,577 | $ 82,564 |
| Germany - Nuremburg (EUR77 thousand) | 2,945 | 3,028 |
| Poland - Warsaw (PLN15 thousand in 2012 and PLN1,017 thousand in 2011) | 141 | 9,062 |
| | $ 57,663 | $ 94,654 |

## 5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Financial assets held for trading | | |
| Forward exchange contracts | $ 12,360 | $ 45,295 |
| Currency swap contracts | 663 | 66,289 |
| | $ 13,023 | $ 111,584 |
| Financial liabilities held for trading | | |
| Currency swap contracts | $ 21,333 | $ 23,922 |
| Forward exchange contracts | 13,857 | 8,573 |
| Interest rate swap contracts | 49 | 362 |
| Options - put | - | 9,417 |
| | $ 35,239 | $ 42,274 |

The subsidiaries' significant outstanding forward exchange contracts, currency swap contracts, interest rate swap contracts and options as of December 31, 2012 and 2011 were as follows:

| | Currency | Maturity | Amount (Thousands) |
|---|---|---|---|
| December 31, 2012 | | | |
| Lite-On IT Corp. | | | |
| Currency swap contracts | USD/NTD | January 7, 2013- January 28, 2013 | USD127,000/NTD3,696,738 |
| Forward exchange contracts | EUR/USD | January 3, 2013- January 17, 2013 | EUR 9,000/USD11,800 |
| Lite-On Automotive Corp. | | | |
| Forward exchange contracts | USD/JPY | February 20, 2013 | USD755/JPY60,000 |
| Leotek Electronic Corp. | | | |
| Currency swap contracts | USD/NTD | January 25, 2013 | USD 1,300/TWD37,805 |
| Forward exchange contracts | USD/NTD | January 25, 2013 | USD 2,000/TWD58,600 |
| Lite-On Automotive International (Cayman) Co., Ltd. | | | |
| Forward exchange contracts | USD/CNY | March 5, 2013 | USD 4,000/CNY25,108 |
| Lite-On Mobile Oyj (formerly: Perlos Oyj) | | | |
| Currency swap contracts | USD/EUR | January 7, 2013 | USD16,500/EUR12,577 |
| Currency swap contracts | JPY/USD | January 17, 2013 | JPY50,000/USD597 |
| Currency swap contracts | JPY/EUR | January 7, 2013 | JPY50,000/EUR464 |
| Currency swap contracts | CNY/USD | January 28, 2013 | CNY10,000/USD1,604 |
| Forward exchange contracts | USD/EUR | January 7, 2013 | USD1,700/EUR1,283 |
| Forward exchange contracts | USD/INR | January 17, 2013 | USD6,000/INR327,252 |
| Forward exchange contracts | USD/CNY | February 6, 2013 | USD9,000/CNY56,489 |
| Guangzhou Lite-On Mobile Electronic Components Co., Ltd. | | | |
| Forward exchange contracts | USD/CNY | January 18, 2013 | USD3,000/CNY18,842 |
| Lite-On Mobile India Private Limited. | | | |
| Forward exchange contracts | USD/INR | January 25, 2013 | USD1,000/INR 57,350 |
| Lite-On Singapore Pte. Ltd. | | | |
| Forward exchange contracts | EUR/USD | January 4, 2013 | EUR2,400/USD3,133 |
| Silitech Technology Corp. | | | |
| Currency swap contracts | USD/NTD | January 14, 2013 | USD24,000/NTD697,200 |
| Forward exchange contracts | USD/MYR | January 7, 2013 - March 19, 2013 | USD1,730/MYR5,299 |

| | Amount (Thousands) | Maturity | Interest Rate Paid | Interest Rates Received | Settlement Term |
|---|---|---|---|---|---|
| December 31, 2012 | | | | | |
| Lite-On Japan Ltd. | | | | | |
| Interest rate swap contracts | JPY 25,000 | February 4, 2008 - January 31, 2013 | 1.48% | Note | Quarterly |

| | Currency | Maturity | Amount (Thousands) |
|---|---|---|---|
| December 31, 2011 | | | |
| Lite-On IT Corp. | | | |
| Currency swap contracts | USD/NTD | January 5, 2012 - January 13, 2012 | USD79,000/NTD2,382,530 |
| Forward exchange contracts | EUR/USD | January 11, 2012 - February 8, 2012 | EUR15,200/USD19,844 |
| Leotek Electronic Corp. | | | |
| Forward exchange contracts | USD/NTD | January 30, 2012 | USD2,000/NTD60,320 |
| Lite-On Automotive International (Cayman) Co., Ltd. | | | |
| Forward exchange contracts | USD/NTD | January 17, 2012 | USD900/NTD27,241 |
| Lite-On Automotive Electronics (Guang Zhou) Co., Ltd. | | | |
| Forward exchange contracts | USD/CNY | January 9, 2012 | USD400/CNY2,542 |
| Forward exchange contracts | EUR/CNY | January 9, 2012 | EUR696/CNY5,932 |
| Lite-On Mobile Oyj (formerly: Perlos Oyj) | | | |
| Currency swap contracts | EUR/USD | January 11, 2012 | EUR2,000/USD2,678 |
| Currency swap contracts | JPY/EUR | January 11, 2012 | JPY140,000/EUR1,374 |
| Currency swap contracts | USD/EUR | January 11, 2012 | USD12,650/EUR9,449 |
| Currency swap contracts | JPY/USD | January 6, 2012 | JPY495,660/USD6,378 |
| Currency swap contracts | SEK/EUR | January 18, 2012 | SEK5,000/EUR540 |
| Currency swap contracts | HUF/EUR | January 18, 2012 | HUF250,000/EUR809 |
| Forward exchange contracts | USD/BRL | January 23, 2012 | USD1,500/BRL2,710 |
| Forward exchange contracts | USD/INR | January 17, 2012 | USD17,000/INR898,855 |
| Forward exchange contracts | EUR/CNY | February 21, 2012 | EUR3,000/CNY25,696 |
| Forward exchange contracts | USD/CNY | February 7, 2012 | USD20,000/CNY127,104 |
| Forward exchange contracts | JPY/USD | January 6, 2012 | JPY200,000/USD2,566 |
| Forward exchange contracts | USD/EUR | January 9, 2012 | USD700/EUR511 |

(Continued)

| | Currency | Maturity | Amount (Thousands) |
|---|---|---|---|
| Guangzhou Lite-On Mobile Electronic Components Co., Ltd. | | | |
| Forward exchange contracts | USD/CNY | January 17, 2012 | USD2,000/CNY12,688 |
| Lite-On Japan Ltd. | | | |
| Call option | JPY/USD | March 5, 2012 | JPY33,900/USD300 |
| Put option | JPY/USD | March 5, 2012 | JPY94,050/USD900 |
| Currency swap contracts | JPY/USD | March 5, 2012 | JPY33,990/USD300 |
| Lite-On Singapore Pte. Ltd. | | | |
| Forward exchange contracts | EUR/USD | January 5, 2012 | EUR2,400/USD3,221 |
| Forward exchange contracts | HUF/USD | January 5, 2012 | HUF384,000/USD1,691 |
| Forward exchange contracts | JPY/USD | January 5, 2012 | JPY55,000/USD707 |
| Silitech Technology Corp. | | | |
| Forward exchange contracts | USD/MYR | January 9, 2012 - February 24, 2012 | USD700/MYR2,220 |
| Currency swap contracts | USD/NTD | January 9, 2012 | USD28,000/NTD844,960 |
| Logah Technology Co., Ltd. | | | |
| Forward exchange contracts | USD/NTD | February 6, 2012 - February 24, 2012 | USD4,200/NTD126,834 |

(Concluded)

| | Amount (Thousands) | Maturity | Interest Rate Paid | Interest Rates Received | Settlement Term |
|---|---|---|---|---|---|
| December 31, 2011 | | | | | |
| Lite-On Japan Ltd. | | | | | |
| Interest rate swap contracts | JPY125,000 | February 4, 2008 - January 31, 2013 | 1.48% | Note | Quarterly |

Note: Based on the Taipei interbank offered rate (Tibor) for three month plus a margin of 0.35%.

The subsidiaries entered into derivative contracts in 2012 and 2011 to manage exposures due to fluctuations of foreign exchange rates. The derivative contracts entered into by the subsidiaries did not meet the criteria for hedge accounting. Thus, the derivative contracts classified as financial assets or financial liabilities at fair value through profit or loss. The financial risk management objectives of the subsidiaries were to minimize risks due to changes in fair value or cash flows.

On derivative financial instruments, there were a net gain of $73,203 thousand in 2012 and a net loss of $25,777 thousand in 2011.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Listed stocks (domestic) | $ 10 | $ 9 |

## 7. ACCOUNTS RECEIVABLE, NET

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Accounts receivable | $ 45,123,260 | $ 46,111,378 |
| Less: Allowance for doubtful accounts | 323,320 | 270,049 |
| Allowance for sales returns and discounts | 774,156 | 371,835 |
| | $ 44,025,784 | $ 45,469,494 |

Movements of the allowances for doubtful accounts were as follows:

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Accounts Receivable | Overdue Receivable | Accounts Receivable | Overdue Receivable |
| Balance, beginning of year | $ 270,049 | $ 187,491 | $ 416,384 | $ 64,204 |
| Allowance for doubtful accounts | 50,833 | 10,176 | 29,615 | 17,428 |
| Reclassified | 18,115 | (18,115) | (164,797) | 164,797 |
| Amounts written off | (10,940) | - | (8,577) | (58,938) |
| Effect of exchange rate changes | (4,737) | (25,793) | (2,576) | - |
| | $ 323,320 | $ 153,759 | $ 270,049 | $ 187,491 |

Overdue receivables were classified under other assets; an allowance for doubtful accounts fully covered these receivables (please refer to Note 15).

The unexpired factored accounts receivable of the Parent Company and its subsidiaries as of December 31, 2012 and 2011 were as follows:

The Parent Company (2012: None)

| Factor | Receivables Sold | Amounts Collected | Advances Received at Year-end | Interest Rates for Advances Received (%) | Credit Line |
|---|---|---|---|---|---|
| December 31, 2011 | | | | | |
| Taishin International Bank | USD 1,766 | USD 1,766 | $ - | Note | $ 160,000 |

Philips & Lite-On Digital Solutions Corp.

| Factor | Receivables Sold | Amounts Collected | Advances Received at Year-end | Interest Rates for Advances Received (%) | Credit Line |
|---|---|---|---|---|---|
| December 31, 2012 | | | | | |
| Taishin International Bank | USD 7,244 | USD 7,311 | USD - | 0.17-0.19 | USD 8,500 |
| December 31, 2011 | | | | | |
| Taishin International Bank | USD 17,539 | USD 17,097 | USD - | 0.17-0.19 | USD 8,500 |

Silitech Technology Corp.

| Factor | Receivables Sold | Amounts Collected | Advances Received at Year-end | Interest Rates for Advances Received (%) | Credit Line |
|---|---|---|---|---|---|
| December 31, 2012 | | | | | |
| City Bank | EUR 976 | EUR 4,774 | EUR - | 1.47-1.81 | USD 30,000 |
| | USD 13,166 | USD 17,368 | USD - | 1.78-1.85 | |
| December 31, 2011 | | | | | |
| City Bank | EUR 22,770 | EUR 26,297 | EUR 3,798 | 1.63-2.08 | USD 30,000 |
| | USD 31,179 | USD 36,219 | USD 4,202 | 0.90-1.87 | USD 30,000 |
| | CNY - | CNY 3,967 | CNY - | 4.59 | USD 9,000 |

Note: According to advance received at the agreed-upon interest rate.

The above credit lines may be used on a revolving basis. As of December 31, 2012, the amount of factored accounts receivable of the Parent Company and its subsidiaries remaining in 2011 had been collected.

Factored accounts receivable of the Parent Company and its subsidiaries amounted to USD20,410 thousand and EUR976 thousand in 2012; and USD50,484 thousand and EUR22,770 thousand in 2011.

The Parent Company and its subsidiaries (Philips & Lite-On Digital Solutions Corp. and Silitech Technology Corp.) signed accounts receivable factoring contracts with banks. Under these contracts, the risks on the accounts receivable were transferred to the banks.

## 8. INVENTORIES, NET

| | December 31 2012 | December 31 2011 |
|---|---|---|
| Materials and supplies | $ 4,458,816 | $ 6,295,461 |
| Work in process | 2,616,363 | 3,174,499 |
| Finished goods | 10,135,010 | 11,253,071 |
| Merchandise | 1,520,250 | 3,623,498 |
| Goods in transit | 1,835,678 | 1,651,845 |
| Power generation facility held for sale | - | 1,661,010 |
| | $ 20,566,117 | $ 27,659,384 |

As of December 31, 2012 and 2011, the allowances for inventory devaluation were $1,487,365 thousand and $1,961,678 thousand, respectively. The costs of inventories recognized as cost of sales were $185,147,993 thousand in 2012 and $196,187,219 thousand in 2011, respectively.

Reversal of write-downs of inventories amounting to $474,313 thousand and the write-down of inventories to net realizable value amounting to 484,988 thousand were included in the cost of sales for 2012 and 2011, respectively.

## 9. CONSTRUCTION IN PROGRESS IN EXCESS OF PROGRESSIVE BILLINGS

| Item | Contract Cost | Cost Incurred to Date | Estimated Costs to Complete Construction | Construction in Progress | Progressive Billings | Percentage of Completion (%) | Estimated Completion Year | Gross Profit to Be Recognized |
|---|---|---|---|---|---|---|---|---|
| December 31, 2012 | | | | | | | | |
| Solar Power project | $593,697 | $514,691 | $ 42,033 | $547,916 | $475,389 | 80-100 | 2013 | $ 33,225 |
| December 31, 2011 | | | | | | | | |
| Solar Power project | $609,049 | $479,217 | $ 80,835 | $525,796 | $487,502 | 80-100 | 2012 | $ 46,579 |

## 10. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NONCURRENT

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Domestic quoted stocks | $ 903,036 | $ 1,898,092 |
| Mutual funds | 93,242 | 739,971 |
| Overseas quoted stocks | 35,957 | 145,291 |
| | $ 1,032,235 | $ 2,783,354 |

Some of the Group’s available-for-sale financial assets in 2012 were impaired. Thus, impairment losses were recognized as follows:

| | December 31 2012 |
|---|---|
| Solen AG (formerly Payom Solar AG) | $ 124,078 |
| Hannstar Display Corp. | 67,432 |
| | $ 191,510 |

## 11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Domestic and overseas unquoted common stocks | $ 811,573 | $ 1,050,019 |
| Emerging market stocks | 310,657 | 437,953 |
| | $ 1,122,230 | $ 1,487,972 |

The above stocks and funds had no quoted price in an active market or reliable fair values; thus, these investments were measured at cost.

Some of the Group's financial assets carried at cost - noncurrent in 2012 and 2011 were impaired. Thus, impairment losses were recognized as follows:

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Auria Solar, Inc. | $ 460,187 | $ 278,888 |
| Compound Solar Technology Co., Ltd | 10,000 | - |
| | $ 470,187 | $ 278,888 |

## 12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

| | December 31 | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| Long-term stock investments | Carrying Value | % of Owner-ship | Carrying Value | % of Owner-ship |
| Equity method | | | | |
| Listed | | | | |
| Lite-On Semiconductor Corp. | $ 1,505,228 | 20.45 | $ 1,571,097 | 20.45 |
| Jhen Vei Electronics Co., Ltd. | 88,055 | 17.12 | 117,285 | 17.12 |
| | 1,593,283 | | 1,688,382 | |
| Unlisted | | | | |
| Dragonjet Corporation | 1,000,448 | 29.74 | 965,811 | 29.74 |
| LiteStar JV Holding (BVI) Co., Ltd. | 697,387 | 26.72 | 765,534 | 30.00 |
| Epricrystal (Changzhou) Co., Ltd. | 137,021 | 4.71 | 125,756 | 5.00 |
| Lite-Space Technology Company Limited | 108,355 | 39.23 | 26,208 | 27.00 |
| Kompaktsolar GmbH | 14,303 | 51.00 | 14,274 | 51.00 |
| Canfield Ltd. | 3,893 | 33.33 | 4,143 | 33.33 |
| | 1,961,407 | | 1,901,726 | |
| | $ 3,554,690 | | $ 3,590,108 | |

Although Li Shin International Enterprise Corp. ("Li Shin") held less than 20% of the total voting shares of Jhen Vei Electronics Co., Ltd. ("Jhen Vei"), Li Shin's holding was still significantly higher than that of any other shareholder and was thus deemed to have significant influence over Jhen Vei's. As a result, Li Shin used the equity method to account for its investment in Jhen Vei.

Lite-On Electronic (Tianjin) Co., Ltd., a subsidiary of the Parent company, held less than 20% of the equity interest in Epricrystal (Changzhou) Co., Ltd. ("Epricrystal"), but an equity-method investee of the Parent company, LiteStar JV Holding (BVI) Co., Ltd., owned more than 20% interest of Epricrystal, enabling the Group to exercise significant influence. Thus, the Group accounted for this investment by the equity method.

In January 2011, Lite-On Green Technologies B.V. (LOGTBV), a subsidiary of the Parent company, signed a joint venture contract with Kompakt Betriebs and Verwaltungs GmbH, and formed the company named Kompaktsolar GmbH ("Kompak"). Under the contract, LOGTBV had no controlling interest over the financial, operating and personnel hiring policy decisions but owned 51%. Thus, the Group accounted for this investment by the equity method. LOGTBV was not included in the accompanying consolidated financial statements but the proportional consolidation method was applied to this investee.

No independent auditors audited the financial statements as of and for the years ended December 31, 2012 and 2011 of Canfield Ltd. ("Canfield"), an equity-method investee of Li Shin, and Lite-Space Technology Company Limited of Lite-On IT Corp. as of and for the years ended December 31, 2011. Management believed that had these investees' financial statements been audited, no significant adjustments would have been required for the consolidated financial statements.

The Parent Company's auditors did not audit the financial statements of LiteStar JV Holding (BVI) Co., Ltd., Epricrystal (Changzhou) Co., Ltd., Kompaktsolar GmbH, equity-method investees of Lite-On Semiconductor Corp.- Diodes, Inc. and Dynacard Co., Ltd. as of and for the years ended December 31, 2012 and 2011 and Lite-Space Technology Company Limited as of and for the year ended December 31, 2012. The financial statements of these investees accounted for by the equity method had been audited by other auditors.

The book values of the long-term equity-method investees whose financial statements had been audited by other auditors were $1,717,272 thousand and $1,660,650 thousand as of December 31, 2012 and 2011, respectively; the net investment results recognized were losses of $21,358 thousand and $14,520 thousand as of December 31, 2012 and 2011, respectively.

## 13. PROPERTIES

Accumulated depreciation consisted of the following:

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Buildings | $ 6,077,868 | $ 5,497,911 |
| Machinery and equipment | 22,975,196 | 19,943,057 |
| Transportation equipment | 72,274 | 75,512 |
| Office equipment | 1,914,199 | 1,957,342 |
| Leased equipment | 994,150 | 1,249,636 |
| Miscellaneous equipment | 2,232,967 | 3,549,938 |
| | $ 34,266,654 | $ 32,273,396 |

Depreciation expenses were $5,838,778 thousand in 2012 and $5,688,711 thousand in 2011.

Some of the Group's properties in 2012 and 2011 were impaired. Thus, impairment losses (reversal of impairment losses) were recognized as follows:

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Guangzhou Lite-On Mobile Electronic Components Co., Ltd. | $ 64,258 | $ 55,812 |
| Lite-On Mobile Indústria e Comércio de Plásticos Ltda. | 31,466 | - |
| Lite-On Green Technologies S.R.L. | 18,407 | - |
| Lite-On Mobile India Private Limited. | 8,146 | 16,310 |
| Beijing Lite-On Mobile Electronic and Telecommunication Components Co., Ltd. | 4,472 | 16,757 |
| Remeo Tetti PV1 S.R.L. | 2,328 | - |
| Lite-On Young Fast (Huizhou) Co., Ltd. | 2,142 | - |
| Lite-On Technology (Europe)B.V. | 258 | - |
| Shenzhen Lite-On Mobile Precision Molds Co., Ltd. | 127 | 1,460 |

(Continued)

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Perlos Precision Plastics Molding Limited Liability Company | $ (34,774) | $ - |
| Perlos Mexico Holding Corp. | - | 172,161 |
| Perlos Mexico, S.A. de C.V | - | 85,928 |
| Lite-On Electronic (Tianjin) Co., Ltd. | - | 32,430 |
| Lite-On Automotive Corp. | - | (2,417) |
| | $ 96,830 | $ 378,441 |

(Concluded)

## 14. INTANGIBLE ASSETS

a. Patents and other intangible assets

The Parent Company completed the purchase of some assets of the IrDA Department of Avago Technologies Limited. Based on Statement of Financial Accounting Standards (SFAS) No. 25 - "Business Combinations" and SFAS No. 37 - "Intangible Assets," goodwill is recognized as the sum of the acquisition cost plus other direct transaction costs minus the fair value of the identifiable net assets acquired. The calculation of goodwill generated as of December 31, 2009 was as follows:

| | | |
|---|---|---|
| Acquisition costs | | $ 708,863 |
| Fair value of identifiable assets acquired | | |
| Inventories | $ 59,278 | |
| Properties | 46,700 | |
| Patents | 27,134 | |
| Client relationships (recognized as other intangible assets) | 163,819 | 296,931 |
| Goodwill | | $ 411,932 |

As of the end of 2012 and 2011, the amounts of accumulated amortization of patents, which have an estimated service life of six years, were $16,959 thousand and $12,436 thousand, respectively, and those for client relationships, which have an estimated service life of four years, were $153,580 thousand and $112,626 thousand, respectively.

On April 10, 2006, Lite-On IT Corporation (LOITC) and Qisda Corp. ("Qisda") signed a contract, under which LOITC will obtain Qisda's subcontract and manufacturing business on optical storage devices, including related authorization on product manufacturing, technology, technology acquisition, patent rights, etc. for $1,226,855 thousand plus 13% equity in LOITC. This acquisition was in line with LOITC's long-term strategic relationship with Qisda to expand production scale and promote market share.

In their special meeting on November 15, 2007, however, LOITC's shareholders approved the board of directors' proposal of August 27, 2007 to cancel the plan to use LOITC's shares to make the payment and to negotiate instead with Qisda for a new payment mode (i.e., wholly pay in cash) and schedule. LOITC thus paid cash for its acquisition at these amounts: $2,695,878 thousand, recorded under intangible assets - patent rights; and $2,806,508 thousand, recorded under goodwill.

As of December 31, 2012 and 2011, the accumulated amortization for patent rights amounted to $1,460,267 thousand and $1,235,611 thousand, respectively.

b. Goodwill

The amortization period for goodwill resulting from the Parent Company's acquisition of Lite-On Enclosure Inc. in 2004 was approximately five years. However, under the Guidelines Governing the Preparation of Financial Reports, effective January 1, 2006, goodwill need no longer be amortized. As of December 31, 2012 and 2011, the carrying value of goodwill was $132,986 thousand.

Except for the goodwill generated through the acquisition of Lite-On Enclosure Inc. by the Parent Company for $132,986 thousand, the Parent Company's purchase of some assets of IrDA Department of Avago Technologies Limited for $411,932 thousand, and the goodwill carrying value of $2,806,508 thousand recognized by Lite-On IT Corp., resulted in differences between the acquisition costs of the Parent Company's investments in the subsidiaries and the acquisition costs of the subsidiaries' investments in other companies; the Company's proportionate share in the investees' equity are listed as follows:

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Lite-On Mobile Oyj (formerly Perlos Oyj) | $ 8,601,849 | $ 8,612,047 |
| Li Shin International Enterprise Corp. | 1,708,258 | 1,708,258 |
| Lite-On Automotive Corp. | 303,073 | 303,073 |
| Leotek Electronics Corp. | 220,170 | 219,424 |
| Others | 82,638 | 67,503 |
| | $ 10,915,988 | $ 10,910,305 |

From January 1, 2006, based on the revised of the Statement of Financial Accounting Standards No. 5 - "Long-term Investments under the Equity Method," goodwill should no longer be amortized but should be tested for impairment at regular intervals every year. For this test, the recoverable amount should be evaluated by the value in use of the tangible and intangible assets of the Parent Company and the subsidiaries' optical storage devices, and the projected cash flows during the period of the expected use of these devices should be considered. Some factors to consider in assessing value in use are past operating performance, future profit situation under normal operations, operating strategies, industrial development goals on CD-ROM drives, market prospects, etc. Net cash input and the number of residual assets should be estimated, and the value in use of these assets should be calculated net of their weighted average capital cost.

As of December 31, 2011, Lite-On IT Corp. had recognized an impairment loss of $453,533 thousand on its subsidiary, Philips & Lite-On Digital Solutions Germany GmbH, because the recoverable amount of goodwill was estimated to be less than its carrying amount. No other investment impairment loss was recognized by the Group as of December 31, 2012.

## 15. OTHER ASSETS

a. Leased assets, net (operating lease)

Leotek Electronics Corp. and Li Shin International Enterprise leased out their land, buildings and office equipment as follows:

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Cost | | |
| Land | $ 37,767 | $ 37,767 |
| Buildings | 91,248 | 92,853 |
| | 129,015 | 130,620 |
| Less: Accumulated depreciation | 17,621 | 16,777 |
| | $ 111,394 | $ 113,843 |

b. Idle assets, net

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Cost | | |
| Land | $ 4,117 | $ - |
| Buildings | 136,232 | 142,682 |
| Machinery and equipment | 370,982 | 312,531 |
| Molding equipment | 119,196 | - |
| Office equipment | 15,116 | 12,695 |
| Miscellaneous equipment | 23,786 | 134,702 |
| | 669,429 | 602,610 |
| Less: Accumulated impairment losses | 149,476 | 160,967 |
| Accumulated depreciation | 316,720 | 306,105 |
| | $ 203,233 | $ 135,538 |

The change in accumulated impairment losses was as follows:

| | **2012** | **2011** |
|---|---|---|
| Balance, beginning of year | $ 160,967 | $ 203,227 |
| Impairment losses(reversal of impairment losses) | (8,094) | 27,502 |
| Disposals | - | (69,762) |
| Cumulative translation adjustment | (3,397) | - |
| Balance, end of year | $ 149,476 | $ 160,967 |

c. Overdue receivables

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Overdue receivables | $ 153,759 | $ 187,491 |
| Less: Allowance for doubtful accounts | 153,759 | 187,491 |
| | $ - | $ - |

## 16. SHORT-TERM LOANS

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Unsecured bank loans - interest: 0.76%-1.86% in 2012 and 0.86%-8.24% in 2011 | $ 7,010,394 | $ 4,737,488 |

## 17. LONG-TERM BANK LOANS (INCLUDING CURRENT PORTION)

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Parent Company | $ 15,700,000 | $ 15,700,000 |
| Lite-On Mobile Pte. Ltd. | 6,969,605 | 6,053,601 |
| Silitech Technology Corp. | 1,005,000 | 1,809,000 |
| Lite-On Japan Ltd. | 489,890 | 602,923 |
| Silitech Technology (Su Zhou) Co., Ltd. | 203,307 | 302,913 |
| | 24,367,802 | 24,468,437 |
| Less: Current portion of long-term bank loans | 4,411,168 | 1,173,473 |
| | $ 19,956,634 | $ 23,294,964 |

a. As of December 31, 2012 and 2011 the Parent Company had four long-term bank loans with contract terms between September 23, 2008 and October 19, 2016. The floating interest rate (1.518% to1.694% and 1.48% to 1.661% as of December 31, 2012 and 2011, respectively) payable monthly or quarterly. These loans should be repaid in three, five or eight installments or at lump sum on loan maturity.

   On September 23, 2008, the Parent Company signed the contract for a five-year syndicated loan with Citibank and 14 other financial institutions, and on May 16, 2011 changed the contract period to seven years from 2008. The repayment period is between September 23, 2008 and September 22, 2015. The credit line is NT$15 billion, consisting of:

   1) NT$12 billion, which is a refinancing of existing credit lines to improve financial structure and which should be used as a medium-term loan but may not be used on a revolving basis; and

   2) NT$3 billion, which is for supporting operations and may be used on a revolving basis.

   The principal of this syndication loan should be repaid in five semiannual installments from September 23, 2013, and the interest rate is the 90-day Taiwan subprime commercial paper interest rate plus 55 points.

   Under the syndicated loan agreement, the Parent Company should maintain certain financial ratios based on the most recent semiannual or annual consolidated financial statements. As of December 31, 2012 and 2011, the Parent Company was in compliance with all of the loan covenants.

b. Lite-On Mobile Pte. Ltd. had a syndicated loan with Citibank, with a contract term from April 29, 2011 to April 29, 2016. The floating interest rates were 0.908% to 1.0968% and 1.625% to 2.2% as of December 31, 2012 and 2011, respectively; principal repayable from April 29, 2014 in five semiannual installments.

This contract is a five-year syndicated loan of US$200 million and was signed with Citibank and 14 other financial institutions (the endorsements and guarantees were provided by the Parent Company). As of December 31, 2012 and 2011, Lite-On Mobile Pte. Ltd. had used all of the credit line of the syndicated loan.

c. Silitech Technology Co., Ltd. entered into a NT$3 billion syndicated loan with Taiwan Landbank, with a contract term from March 16, 2009 to March 16, 2014. This loan was obtained for the purpose of supporting operations and consummating the acquisition. As of December 31, 2012 and 2011, Silitech Technology Corporation had used NT$2.01 billion of the credit line of the syndicated loan, with interest rates of 1.7061% and 1.6712%, respectively, and principal repayable from December 16, 2011 in 10 quarterly installments.

d. As of December 31, 2012, Lite-On Japan Ltd. had 23 long-term bank loans, with contract terms from January 18, 2007 to February 29, 2016, with interest rate of 1.06% to 1.75% and principal repayable on specified due dates.

   As of December 31, 2011, Lite-On Japan Ltd. had 18 long-term bank loans, with contract terms from January 18, 2007 to February 29, 2016, with interest rate of 1.16% to 1.75% and principal repayable on specified due dates.

e. Silitech Technology (Su Zhou) Co., Ltd. entered into a US$10 million long-term bank loan with Taipei Fubon Bank, with contract term from August 27, 2010 to August 27, 2013. The floating interest rates were 1.0615% and 1.26806% as of December 31, 2012 and 2011, respectively; principal is amortized semiannually and repaid at US$3,000 thousand for each of the first two installments and at US$4,000 thousand on the third repayment. As of December 31, 2012 and 2011, Silitech Technology (Su Zhou) Co., Ltd. had used all of the credit line of the loan.

## 18. OBLIGATIONS UNDER CAPITAL LEASES

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Guangzhou Lite-On Mobile Electronic Components Co., Ltd. | $ 291,839 | $ 355,986 |
| Lite-On Mobile Oyj (formerly Perlos Oyj) | 1,470 | 2,048 |
| Lite-On Mobile Sweden AB | 918 | 1,612 |
| Parent Company | 453 | 826 |
| Beijing Lite-On Mobile Electronic and Telecommunication Components Co., Ltd. | - | 40,064 |
| Lite-On Mobile India Private Limited. | - | 290 |
| | 294,680 | 400,826 |
| Less: Current portion of long-term capital lease liabilities | 62,381 | 84,360 |
| | $ 232,299 | $ 316,466 |

a. Guangzhou Lite-On Mobile Electronic Components Co., Ltd. leased buildings, machinery and equipment under capital leases valid from January 1, 2007 to December 31, 2016. The terms of these leases were between 3 and 10 years, with 7.11% interest rate. The building, machinery and equipment can be bought at a bargain purchase price at the end of the lease term.

b. Lite-On Mobile Oyj (formerly Perlos Oyj) leased machinery and equipment under capital leases valid from July 1, 2009 to September 30, 2015. The terms of these leases were between three and four years, with 5.00% interest rate.

c. Lite-On Mobile Sweden AB leased machinery and equipment under capital leases valid from January 1, 2009 to January 15, 2013. The terms of these leases were between two and four years, with 3.63% to 7.66% interest rate.

d. The Parent Company leased machinery and equipment under capital leases valid from September 1, 2009 to June 1, 2013. The terms of these leases were between 3 and 5 years, with 15.6% interest rate. The payments of these leases were between $42 thousand and $120 thousand. The ownership of the leased assets will be transferred to the Parent Company at the end of the lease term.

e. Beijing Lite-On Mobile Electronic and Telecommunication Components Co., Ltd. leased buildings under capital leases valid from January 1, 2003 to December 31, 2012. Thesane leases were for 10 years, with 4.24% interest rate.

f. Lite-On Mobile India Private Limited leased machinery and equipment under capital leases valid from September 15, 2009 to April 18, 2013. The terms of these leases were between three and five years, with 10.24% interest rate. In September 2012, Lite-On Mobile India Private Limited fully repaid this loan before the end of the mature date.

## 19. PENSION PLAN

The Parent Company, Lite-On IT Corp., Silitech Technology Corp., Lite-On Automotive Corp., Li Shin International Enterprise Corp., Logah Technology Co., Ltd., Leotek Electronics Corp. and Philips & Lite-On Digital Solutions Corp. have pension plans for all regular employees, which provide benefits based on length of service and average basic pay for the six months before retirement.

The Parent Company, Lite-On IT Corp., Silitech Technology Corp., Lite-On Automotive Corp., Li Shin International Enterprise Corp., Logah Technology Co., Ltd., Leotek Electronics Corp. and Philips & Lite-On Digital Solutions Corp. contribute monthly an amount equal to 2%, 3%, 2.5%, 2%, 2%, 4%, 2% and 3%, respectively, of salaries and wages to a pension fund, which is administered by the employees' pension fund committees and deposited in the Bank of Taiwan in the committee's name.

Other information on the defined benefit plan is summarized as follows:

a. Components of net pension costs:

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Service cost | $ 19,313 | $ 17,819 |
| Interest cost | 20,449 | 23,019 |
| Expected return on plan assets | (18,982) | (21,700) |
| Amortization of unrecognized net loss (gain) | 1,183 | (9,622) |
| Curtailment gain | (18,118) | - |
| Amortization of unrecognized net transition obligation | 1,297 | 1,297 |
| Net pension costs | $ 5,142 | $ 10,813 |

b. Reconciliation of the fund status of the plan and accrued pension cost:

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Benefit obligation | | |
| Vested benefit obligation | $ (357,487) | $ (220,277) |
| Non-vested benefit obligation | (618,678) | (593,708) |
| Accumulated benefit obligation | (976,165) | (813,985) |
| Additional benefits based on future salaries | (385,889) | (354,444) |
| Projected benefit obligation | (1,362,054) | (1,168,429) |
| Fair value of plan assets | 1,092,620 | 1,087,028 |
| Funded status | (269,434) | (81,401) |
| Unrecognized net transition obligation (asset) | 6,723 | (613) |
| Unrecognized net loss (gain) | 123,073 | (28,120) |
| Contribution of accrued pension cost | (18,616) | (24,335) |
| Additional liability | (17,329) | (8,699) |
| Accrued pension cost | $ (175,583) | $ (143,168) |

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| c. Actuarial assumptions: | | |
| Discount rate used in determining present values | 1.30%-3.56% | 1.60%-5.25% |
| Future salary increase rate | 2.00%-5.00% | 2.00%-3.50% |
| Expected rate of return on plan assets | 1.30%-3.69% | 1.60%-2.25% |
| d. Contributions to the fund | $ 21,506 | $ 22,298 |
| e. Payments from the fund | $ 20,374 | $ 22,699 |

Based on the Labor Pension Act (the "Act"), the rate of monthly contributions by the Parent Company and subsidiaries - Lite-On IT Corp., Silitech Technology Corp., Lite-On Automotive Corp., Li Shin International Enterprise Corp., Logah Technology Co., Ltd., Leotek Electronics Corp., Lite-On Integrated Services Inc. and Philips & Lite-On Digital Solutions Corp. - to employees' individual pension accounts is at 6% of monthly wages and salaries. For these contributions, the Parent Company and subsidiaries recognized pension costs of $180,706 thousand in 2012 and $166,422 thousand in 2011.

Some consolidated entities, which are mainly in investments, have either very few or even no staff. These companies have no pension plans and thus do not contribute to pension funds and do not recognize pension costs.

Except for these companies, the remaining companies all contribute to pension funds and recognize pension costs based on local government regulations. The pension expenses recognized were $444,244 thousand in 2012 and $361,783 thousand for 2011.

## 20. SHAREHOLDERS' EQUITY

On September 25, 1996, the Parent Company issued 4,900 thousand units of global depositary receipts (GDRs) on the London Stock Exchange. These GDRs represented 49,000 thousand common shares of the Parent Company.

On April 3, 1995, GVC Corp. issued 5,000 units of GDRs on the London Stock Exchange. These GDRs represented 25,000 thousand common shares of GVC Corp., which were assumed by the Corporation as a result of a merger, with the Parent Company as the survivor entity. As of November 4, 2002, the outstanding GDRs were 7,627 thousand units, or 38,136 thousand common shares of GVC Corp. For merger purposes, these GDRs were exchanged for the Parent Company's 1,478 thousand marketable equity securities, which represented the Parent Company's 14,781 thousand common shares.

As of December 31, 2012, the outstanding marketable equity securities were 5,201 thousand units, representing 52,006 thousand common shares of the Parent Company. The rights and obligation of security holders are the same as those of common shareholders, except for voting rights. As of December 31, 2012, the unredeemed GDRs amounted to 984 thousand units.

**Employee Stock Option Plans**

In December 2007, there was a grant of 30,000 options to qualified employees of the Parent Company and its subsidiaries. Each option entitles the holder to subscribe for one thousand common shares of the Parent Company when exercisable. The options granted are valid for 6 years and exercisable at certain percentages after the second, the third, and the fourth anniversary year from the grant date. The options were granted at an exercise price equal to the closing price of the Parent Company's common shares listed on the Taiwan Stock Exchange on the grant date. For distributing cash dividends and stock dividends and for capital reduction (besides writing off treasury stocks), the exercise price and the number of options are adjusted accordingly.

Other information on the employee stock option plans is as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | **Number of Options** | **Weighted-average Exercise Price (NT$)** | **Number of Options** | **Weighted-average Exercise Price (NT$)** |
| Balance, beginning of year | 19,819 | $38.0 | 20,655 | $41.4 |
| Options forfeited | (1,329) | 35.5-38.0 | (836) | 38.0-41.4 |
| Options exercised | (766) | 35.5-38.0 | - | 38.0-41.4 |
| Balance, end of year | 17,724 | 35.5 | 19,819 | 38.0 |
| Weighted-average fair value of options granted (in thousands) | $ 16.964 | | $ 16.964 | |

The weighted-average remaining lives of the outstanding and exercisable options as of December 31, 2012 and 2011 were one and two years, respectively.

Compensation cost recognized under the intrinsic value method was $0 thousand for the years ended December 31, 2012 and 2011, respectively. Had the Parent Company recognized compensation cost based on the fair value method using the binomial option pricing model, the assumptions and pro forma result of the Parent Company for 2012 and 2011 would have been as follows:

| | **Years Ended December 31** | |
|---|---|---|
| | **2012** | **2011** |
| Assumptions | | |
| Risk-free interest rate | 2.5101% | 2.5101% |
| Expected life | 1 year | 2 year |
| Expected volatility | 40.07% | 40.07% |
| Expected dividend yield | 7.07% | 7.07% |
| Net income | | |
| As reported | $ 7,534,860 thousand | $ 7,225,925 thousand |
| Pro forma | $ 7,534,860 thousand | $ 7,194,117 thousand |
| Basic after income tax earnings per share (New Taiwan dollars) | | |
| As reported | $3.33 | $3.21 |
| Pro forma | $3.33 | $3.19 |
| Diluted after income tax earnings per share (New Taiwan dollars) | | |
| As reported | $3.28 | $3.15 |
| Pro forma | $3.28 | $3.13 |

**Capital Surplus**

Under the Company Law, capital surplus from long-term investments under the equity method may not be used for any purpose. However, capital surplus may be used to offset a deficit. In addition, the capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds, capital surplus from merger, and treasury stock transactions) can be capitalized, which however is limited to a certain percentage of the Parent Company's paid-in capital.

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

**Appropriation of Earnings and Dividend Policy**

To ensure the availability of cash for the Parent Company's present and future expansion plans and to meet shareholders' cash flow requirements, the Parent Company prefers to distribute more stock dividends. In principle, cash dividends are limited to 10% of total dividends distributed.

The Parent Company's Articles of Incorporation provide that the annual net income, less any deficit, and 10% legal reserve as well as special reserve equal to the debit balances of the shareholders' equity accounts, together with the distributable unappropriated earnings of prior years, can be retained partially on the basis of operating requirements. The remainder should be distributed as follows:

a. Bonus to employees: At least 1%.
b. Bonus to directors: 1.5% or less
c. Others, as dividends.

If the bonus to employees is in the form of shares, it may be distributed to the employees' subsidiaries. The requirements and the method of distribution of these share bonuses are based on resolutions passed by the board of directors.

The bonus to employees and the remuneration to directors recognized were estimated on the basis of net income at 14.18% and 0.82%, respectively, for 2012, and 13.8% and 0.9%, respectively, for 2011. Material differences between these estimates and the amounts proposed by the Board of Directors in the following year are adjusted in the year of the proposal. If the actual amounts subsequently resolved by shareholders differ from the proposed amounts, the differences are recorded in the year of the shareholders' resolution as a change in accounting estimate. If stock bonuses are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting.

These appropriations should be resolved by the shareholders in the following year and given effect to in the financial statements of that year.

On June 19, 2012 and June 22, 2011, the shareholders of the Parent Company resolved the appropriation of earnings and dividend per share in 2011 and 2010, respectively, as follows:

| | Appropriation of Earnings | | Dividend Per Share (Dollars) | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Legal reserve | $ 722,592 | $ 898,646 | $ | $ - |
| Stock dividends | 113,972 | 112,711 | 0.05 | 0.05 |
| Cash dividends | 5,174,335 | 6,469,637 | 2.27 | 2.87 |

The sharing with employees of profits of $819,420 thousand in cash and $156,080 thousand in stock as well as the remuneration to directors of $61,420 thousand for 2011 was approved in the shareholders' meeting of Parent Company on June 19, 2012. The amount of the stock bonus to employees of 4,421 thousand shares was determined at the closing price of the Parent Company's common shares (after considering the effect of dividends) of the day immediately preceding the shareholders' meeting. The resolved amounts of the profit sharing to employees and bonus to directors were consistent with the resolutions of meeting of the Board of Directors of Parent Company held on April 25, 2012 and same amount had been charged against earnings of 2011.

The appropriation of the earnings for 2011 was approved by the Financial Supervisory Commission, Executive Yuan, ROC. The board of directors approved August 13, 2012 as the date of distributing stock dividends and cash dividends.

The appropriation of the 2012 earnings was proposed in the meeting of the Parent Company's Board of Directors held on March 29, 2013. The appropriations and dividends per share were as follows:

| | Appropriation of Earnings | Dividend Per Share (Dollars) |
|---|---|---|
| | 2012 | 2012 |
| Legal reserve | $ 753,486 | |
| Special capital reserve | 689,913 | |
| Cash dividends | 5,400,265 | $2.35 |
| Stock dividends | 114,899 | 0.05 |

The Parent Company's Board of Directors also resolved to appropriate profit sharing to employees of $897,799 thousand in cash and $171,010 in stock as well as the remuneration to directors of $61,420 for 2012. There was no significant difference between the Board's proposed amounts and the amounts charged against the 2012 earnings.

The proposed appropriation of earnings, profit sharing to employees and bonus to directors for 2012 will be presented to the shareholders at their meeting on June 19, 2013 (expected). Related information may be accessed through the Market Observation Post System through the Web site of the Taiwan Stock Exchange.

Under the regulations of the Securities and Futures Bureau, the Parent Company should appropriate a special reserve equivalent to the debit balances, as of the balance sheet date, in the shareholders' equity account, except for treasury stock and deficit. The special reserve will be distributable when the debit balances in the shareholders' equity are reversed.

Under the regulations of the Securities and Futures Bureau and the Financial Supervisory Commission under the Executive Yuan of the ROC, the companies listed on the Taiwan Stock Exchange Corporation (TSEC) and the GreTai Securities Market (GTSM) should have a special reserve to which an amount equal to the book value in excess of the market value of treasury shares held by subsidiaries should be transferred from unappropriated earnings at the proportion owned by the Parent Company. This special reserve may be reversed to the extent of the decrease in the net debit balance. If the market value of the stock rises thereafter, the TSEC/GTSM listed companies can reverse the special reserve to as much as the amount of reversal of valuation on the basis of the proportionate share (please refer to Note 21).

Under the Integrated Income Tax System, which took effect on January 1, 1998, ROC resident shareholders are allowed a tax credit for the income tax paid by the Parent Company on earnings generated since January 1, 1998. An imputation credit account (ICA) is maintained by the Parent Company for such income tax and the tax credit allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the ICA balance on the dividend distribution date.

Under the Company Law, appropriation of earnings to legal reserve shall be made until the legal reserve equals the Corporation's paid-in capital. Legal reserve may be used to offset deficit. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

In 2012 and 2011, the movements of unrealized gain or loss on the Parent Company's financial instruments were as follows:

| | **Recognized in Shareholders' Equity** | **Equity-method Investments Recognized in Shareholders' Equity** | **Total** |
|---|---|---|---|
| Year ended December 31, 2012 | | | |
| Balance, beginning of year | $ (38,540) | $ (334,051) | $ (372,591) |
| Increase (decrease) in 2012 | 271,510 | (280,660) | (9,150) |
| Transferred to profit or loss | (295,694) | - | (295,694) |
| Balance, end of year | $ (62,724) | $ (614,711) | $ (677,435) |
| Year ended December 31, 2011 | | | |
| Balance, beginning of year | $ 1,097,107 | $ 332,886 | $ 1,429,993 |
| Decrease in 2011 | (1,041,168) | (666,937) | (1,708,105) |
| Transferred to profit or loss | (94,479) | - | (94,479) |
| Balance, end of year | $ (38,540) | $ (334,051) | $ (372,591) |

## 21. TREASURY STOCK (COMMON STOCK)

**Unit: In Thousand Shares**

| Reason for Repurchase | Beginning of Year | Changes in Fiscal Year: Increase | Changes in Fiscal Year: Decrease | End of Year |
|---|---|---|---|---|
| 2012 | | | | |
| Parent Company's shares held by direct and indirect subsidiaries reclassified from long-term stock investments to treasury stock | 27,840 | 139 | - | 27,979 |
| For transfer to employees | 30,565 | - | 30,565 | - |
| | 58,405 | 139 | 30,565 | 27,979 |
| 2011 | | | | |
| Parent Company's shares held by direct and indirect subsidiaries reclassified from long-term stock investments to treasury stock | 27,701 | 139 | - | 27,840 |
| For transfer to employees | 30,565 | - | - | 30,565 |
| | 58,266 | 139 | - | 58,405 |

At the end of 2012 and 2011, the Parent Company transferred $1,104,073 thousand from available-for-sale financial assets of direct and indirect subsidiaries to treasury stock proportionate to its ownership. Both the carrying value and market value of this treasury stock were $1,094,958 thousand in 2012 and $1,013,359 thousand in 2011.

In their meeting on August 27, 2008, the Parent Company's Board of Directors approved a plan to repurchase up to 30,000 thousand shares listed on the Taiwan Stock Exchange (TSE) between September 28, 2008 and October 27, 2008, with the buyback price ranging from NT$20.48 to NT$43.60. On October 28, 2008, the Parent Company's Board of Directors approved the repurchase of up to 40,000 thousand shares listed on the TSE between October 29, 2008 and December 28, 2008, with the buyback price ranging from NT$13.00 to NT$37.10. The Parent Company bought back a total of 30,565 thousand shares during the repurchase periods and retired all these shares in January 2012.

Under the Securities and Exchange Law, the maximum number of treasury stock purchased should not exceed 10% of the Parent Company's total outstanding shares, and the aggregate purchase cost should not exceed the sum of retained earnings, additional paid-in capital in excess of par value and realized capital surplus. The treasury stock cannot be pledged or exercise shareholders' rights. Treasury stock should be reissued within three years from the reacquisition date. Shares not transferred within the time limit will be deemed unissued, and the Parent Company should register with the authorities the change in the number of shares.

Under the Securities and Exchange Law, the Parent Company shall neither pledge treasury stock nor exercise shareholders' rights on these shares, such as rights to dividends and to vote. The subsidiaries holding treasury stock, however, retain shareholders' rights, except the rights to participate in any share issuance for cash and to vote.

## 22. INCOME TAX

a. Reconciliation of income tax expense based on income before income tax at the statutory rate and income tax expense was as follows:

| | 2012 | 2011 |
|---|---|---|
| Income tax expense on income before income tax using the statutory rate | $ 3,384,882 | $ 3,853,554 |
| Deduct tax effects of: | | |
| Permanent differences | (690,992) | (803,087) |
| Temporary differences | (53,806) | 385,319 |
| Unappropriated earnings tax rate (10%) | 225,469 | 190,647 |
| Less: Investment tax credits | (237,316) | (384,806) |
| Loss carryforwards (used) | 80,625 | (4,486) |
| Income tax expense - current | $ 2,708,862 | $ 3,237,141 |

b. The components of income tax expense are shown below:

| | 2012 | 2011 |
|---|---|---|
| Income tax expense - current | $ 2,708,862 | $ 3,237,141 |
| Deferred income tax | 53,806 | (385,319) |
| Prior year's adjustment | (311,158) | (100,145) |
| Income tax expense | $ 2,451,510 | $ 2,751,677 |

c. The components of deferred income tax assets and liabilities were as follows:

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Current | | |
| Deferred income tax assets | | |
| Unrealized sales return and allowance | $ 165,334 | $ 76,462 |
| Allowance for loss on inventories | 161,854 | 210,972 |
| Investment tax credits | 153,535 | 180,021 |
| Accrued warranty expense | 127,404 | 159,255 |
| Unrealized sales profit | 106,797 | 58,556 |
| Loss carryforwards | 103,388 | 29,796 |
| Foreign exchange loss, net | 36,740 | 55,422 |
| Excess allowance for doubtful accounts | 19,156 | 12,800 |
| Unrealized loss on financial instruments | 1,483 | - |
| Others | 296,616 | 203,945 |
| | 1,172,307 | 987,229 |
| Valuation allowance | (58,638) | (35,561) |
| | 1,113,669 | 951,668 |
| Deferred income tax liabilities | | |
| Unrealized gain on financial instruments | (3,361) | - |
| Deferred income tax assets, net | $ 1,110,308 | $ 951,668 |

(Continued)

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Noncurrent | | |
| Deferred income tax assets | | |
| Accumulated equity in the net loss of investees | $ 879,975 | $ 543,620 |
| Impairment loss on financial and fixed assets | 572,053 | 446,181 |
| Loss carryforwards | 391,063 | 472,889 |
| Excess provisions for pension costs | 83,136 | 57,151 |
| Excess allowance for doubtful accounts | 42,552 | 53,200 |
| Cumulative translation adjustments | 9,208 | - |
| Investment tax credit | 1,598 | 288,362 |
| Unrealized loss on financial instruments | - | 82,294 |
| Others | 1,061 | 120,882 |
| | 1,980,646 | 2,064,579 |
| Valuation allowance | (914,937) | (1,152,680) |
| | 1,065,709 | 911,899 |
| Deferred income tax liabilities | | |
| Accumulated equity in the net gain of foreign investees | (1,587,279) | (1,315,078) |
| Unrealized amortization of goodwill | (301,814) | (254,411) |
| Others | (19,864) | (90,032) |
| | (1,908,957) | (1,659,521) |
| Deferred income tax liabilities, net | $ (843,248) | $ (747,622) |

The income tax rate used by the Parent Company and its subsidiaries in recognizing deferred income tax was 17% in 2012 and 2011. The income tax rate of other subsidiaries used in recognizing deferred income tax was based on legal tax rate.

Income tax returns through 2010 have been examined by the tax authorities. The Parent Company disagreed with the tax authorities' assessment of its 2007 to 2010 tax returns and had applied for a reexamination. Nevertheless, the Parent Company made a provision for the income tax assessed.

d. The information on investment tax credit is as follows:

| Legislation | Deduction Item | Tax Credit Amount | Unused Tax Credits Ending Balance | Expiry Year |
|---|---|---|---|---|
| Statute for Upgrading Industries | Research and development cost and professional training expenses | $ 159,247 | $ - | 2012 |
| | Research and development cost and professional training expenses | 195,663 | 153,267 | 2013 |
| | | $ 354,910 | $ 153,267 | |

The integrated income tax information is as follows:

| | December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Balance of the imputation credit account | | |
| The Parent Company | $ 494,075 | $ 514,845 |

The estimated and actual creditable tax ratios of the Parent Company for the distribution of earnings of 2012 and 2011, respectively, were 4.94% and 5.43%, respectively.

The unappropriated earnings as of December 31, 2012 and 2011 did not include earnings generated up to December 31, 1997.

## 23. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSE

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Included in Cost of Sales | Included in Operating Expenses | Total | Included in Cost of Sales | Included in Operating Expenses | Total |
| Employment | | | | | | |
| Salary | $ 10,152,943 | $ 8,358,435 | $ 18,511,378 | $ 10,354,612 | $ 9,546,449 | $ 19,901,061 |
| Insurance | 853,144 | 658,632 | 1,511,776 | 788,835 | 660,775 | 1,449,610 |
| Pension | 285,939 | 344,153 | 630,092 | 239,968 | 299,050 | 539,018 |
| Others | 1,004,334 | 620,676 | 1,625,010 | 1,111,337 | 615,041 | 1,726,378 |
| | 12,296,360 | 9,981,896 | 22,278,256 | 12,494,752 | 11,121,315 | 23,616,067 |
| Depreciation | 5,119,985 | 718,793 | 5,838,778 | 4,828,167 | 860,544 | 5,688,711 |
| Amortization | 645,394 | 713,814 | 1,359,208 | 490,755 | 803,967 | 1,294,722 |
| | $ 18,061,739 | $ 11,414,503 | $ 29,476,242 | $ 17,813,674 | $ 12,785,826 | $ 30,599,500 |

Depreciation expenses for idle assets and assets leased to others of $11,459 thousand and $4,583 thousand, respectively, (included in nonoperating expenses - other expenses), were not included in the above depreciation expenses as of the years ended December 31, 2012 and 2011.

## 24. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per share (EPS) were as follows:

| | Amounts (Numerator) | | Shares (Denominator) | Earnings Per Share (Dollars) | |
|---|---|---|---|---|---|
| | Pretax | After-tax | (Thousands) | Pretax | After-tax |
| 2012 | | | | | |
| Basic consolidated EPS | | | | | |
| Consolidated net income | $ 7,589,031 | $ 7,534,860 | 2,264,519 | $ 3.35 | $ 3.33 |
| The effect of potential common stock with dilutive effect | | | | | |
| Bonus to employees | - | - | 34,171 | | |
| Common stock-based compensation | - | - | - | | |
| Diluted consolidated EPS | | | | | |
| Net income of common shareholders plus the effect of potential common stock | $ 7,589,031 | $ 7,534,860 | 2,298,690 | $ 3.30 | $ 3.28 |
| Pro forma information on the assumption that the Parent Company's shares held by its direct and indirect subsidiaries were not treated as treasury stocks | | | | | |
| Basic consolidated EPS | | | | | |
| Consolidated net income | $ 7,644,884 | $ 7,590,713 | 2,292,498 | $ 3.33 | $ 3.31 |
| Effect of potential common stock with dilutive effect | | | | | |
| Bonus to employees | - | - | 34,171 | | |
| Common stock-based compensation | - | - | - | | |
| Diluted consolidated EPS | | | | | |
| Net income of common shareholders plus the effect of potential common stock | $ 7,644,884 | $ 7,590,713 | 2,326,669 | $ 3.29 | $ 3.26 |

(Continued)

| | Amounts (Numerator) | | Shares (Denominator) | Earnings Per Share (Dollars) | |
|---|---|---|---|---|---|
| | Pretax | After-tax | (Thousands) | Pretax | After-tax |
| 2011 | | | | | |
| Basic consolidated EPS | | | | | |
| Consolidated net income | $ 7,535,173 | $ 7,225,925 | 2,254,414 | $ 3.34 | $ 3.21 |
| The effect of potential common stock with dilutive effect | | | | | |
| Bonus to employees | - | - | 41,042 | | |
| Common stock-based compensation | - | - | - | | |
| Diluted consolidated EPS | | | | | |
| Net income of common shareholders plus the effect of potential common stock | $ 7,535,173 | $ 7,225,925 | 2,295,456 | $ 3.28 | $ 3.15 |
| Pro forma information on the assumption that the Parent Company's shares held by its direct and indirect subsidiaries were not treated as treasury stocks | | | | | |
| Basic consolidated EPS | | | | | |
| Consolidated net income | $ 7,605,456 | $ 7,296,208 | 2,282,254 | $ 3.33 | $ 3.20 |
| Effect of potential common stock with dilutive effect | | | | | |
| Bonus to employees | - | - | 41,042 | | |
| Common stock-based compensation | - | - | - | | |
| Diluted consolidated EPS | | | | | |
| Net income of common shareholders plus the effect of potential common stock | $ 7,605,456 | $ 7,296,208 | 2,323,296 | $ 3.27 | $ 3.14 |

(Concluded)

If the Parent Company presumes that the partial amount of the bonus to employees will be settled in shares, these potential shares should be included in the weighted average number of shares outstanding in calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus to employees by the closing price (after consideration of the dilutive effect of dividends) of the common shares on the balance sheet date. The dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the shares for employee bonuses are resolved in the shareholders' meeting in the following year.

At the end of 2012 and 2011, the stock-based compensation exercise price was greater than the average price of the shares, the number of common shares outstanding decreased and earnings per share increased, and these developments had an anti-dilutive effect; thus, these shares were not included in the calculation of diluted EPS.

The average number of shares outstanding for EPS calculation was adjusted retroactively for the issuance of stock dividends. Thus, in 2011, basic and diluted EPS before tax decreased from NT$3.36 to NT$3.34 and from NT$3.30 to NT$3.28, respectively, and basic and diluted EPS after tax decreased from NT$3.22 to NT$3.21 and from NT$3.16 to NT $3.15, respectively.

## 25. RELATED-PARTY TRANSACTIONS

Significant transactions with related parties are summarized below and in the accompanying Tables 1 and 2:

a. The price of the Parent Company's and subsidiaries' sales to Lite-On Semiconductor Corp. in 2012 and 2011 was calculated at cost plus specific profit. Except for these sales, the sales terms between the Parent Company and its related parties were normal.

b. The cost of the Parent Company's and subsidiaries' purchases from Lite-On Semiconductor Corp. in 2012 and 2011 was based on cost plus specific profit. Except for these purchases, the purchase terms between the Parent Company and its related parties were normal.

c. Operating lease contracts with related parties were based on market prices and made under normal terms in 2012 and 2011.

d. Compensation of directors, supervisors and management personnel:

| | Years Ended December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Bonus | $ 490,746 | $ 480,391 |
| Salaries | 172,346 | 200,610 |
| Incentives | 61,996 | 68,715 |
| Special compensation | 6,599 | 7,393 |
| | $ 731,687 | $ 757,109 |

## 26. MORTGAGED OR PLEDGED ASSETS - NONCURRENT

| | December 31 | |
|---|---|---|
| | **2012** | **2011** |
| Mortgaged or pledged assets - noncurrent | | |
| Time deposits | $ 90,880 | $ 94,607 |
| Demand deposits | 11,680 | 13,500 |
| | $ 102,560 | $ 108,107 |

Mortgaged or pledged assets - noncurrent included the guarantee deposits of Lite-On IT Corporation, Logah Electronics (Su Zhou) Co., Ltd. and Lippo Electronics (Su Zhou) Co., Ltd. provided to a supplier and the export customs agency for shipment clearance in advance of customs duty payments.

## 27. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

a. On September 8, 2010, INPRO II Licensing Sarl (INPRO) filed a lawsuit with the Superior Court of California in the County of San Francisco and charged the Parent Company with breach of contract. INPRO alleged that the Parent Company incurred a debt on patent rights obtained from Hitachi Limited. INPRO also claimed it had assumed Hitachi's rights to payments for patent use. The Parent Company dismissed INPRO's claims and filed a lawsuit against INPRO, alleging that the Parent Company had no patent obligations. As of March 29, 2013, the date the board of directors approved the financial statements and authorized the issue of these statements, this case was still under litigation. Thus, the Parent Company could not determine the possible results and impact of this case.

b. In October 2009, the U.S. Department of Justice (DOJ) announced that it would make antitrust investigations of CD-ROM factories. Lite-On IT Corp. ("Lite-On IT") received an investigation notice from the DOJ. Lite-ON IT stated it would cooperate with the DOJ in the investigation. This case was still in the preliminary stage, and Lite-On IT could not estimate the outcome of the case or range of possible loss as of March 29, 2013, the date the board of directors approved the accompanying financial statements and authorized the issue of these statements.

c. In October 2009, CMP Consulting Service, Inc. and KI, Inc. filed an antitrust group lawsuit against Lite-On IT and its subsidiaries - Philips & Lite-On Digital Solutions Corporation, Philips & Lite-On Digital Solutions USA, Inc. and other companies with related businesses - with a court in California. Also in October 2009, Aaron Deshaw also filed an antitrust lawsuit against Lite-On IT and the foregoing subsidiaries with a court in Oregon. In 2010, Aaron Wagner, The Stereo Shop, David Carney, Jr. Tina Corse, Cynthia R. Rall and Richard R. Rall also filed an antitrust group lawsuit against Lite-On IT and its subsidiaries - Philips & Lite-On Digital Solutions Corporation, Philips & Lite-On Digital Solutions USA, Inc. and other companies with related businesses. Lite-On IT assigned lawyers to deal with these lawsuits. In 2012, although the outcome of the proceedings had not been determined, Lite-On IT accrued a reasonable amount in case of a loss on this lawsuit. Lite-On IT will continue to recognize the losses based upon reasonable estimation of the lawsuit quarterly until the settlement of this lawsuit.

d. In April 2010, petitioner Carlos Fogelman filed a motion for authorization to institute class action antitrust proceedings against Lite-On IT and the foregoing subsidiaries before the Superior Court of Quebec in the district of Montreal. In June 2010, the Fanshawe College of Applied Arts and Technology filed a statement of claim in Ontario. In September 2010, Neil Godfrey filed a statement of claim with the Superior Court of British Columbia. All plaintiffs filed the antitrust group lawsuit against Lite-On IT Corporation and its subsidiaries - Philips & Lite-On Digital Solutions USA, Inc. and other companies with related businesses. Lite-On IT assigned lawyers as its representative in these lawsuits. These cases were still in the preliminary, stage, and Lite-On IT could not estimate the outcome of the case or amount of possible loss as of March 29, 2013, the date the board of directors approved the accompanying financial statements and authorized the issue of these statements.

e. In April 2011, Orinda Intellectual Properties USA Holding Group, Inc. instituted class action proceedings against Lite-On IT Corp., Lite-On Americans, Inc. and other companies with related businesses, with the United States District Court for the Northern District of California, alleging infringement of a single patent on Blue-ray discs. On September 9, 2011, FastVDO, LLC filed a complaint with the U.S. District Court for the District of Delaware against Lite-On Sales & Distribution Inc. and other companies with related business, alleging that the defendants infringed its patent. Lite-On IT assigned lawyers as its representative in these lawsuits. In October 2012, FastVDO, LLC negotiated a settlement agreement, under which claims and counterclaims were dismissed without prejudice. The judge entered the dismissal order ("Stipulated Motion for Dismissal without Prejudice Order"). However, the other cases were still in the preliminary stage, and Lite-On IT could not estimate the outcome of the case or amount of possible loss as of March 29, 2013, the date the board of directors approved the accompanying financial statements and authorized the issue of these statements.

f. The European Commission issued a Statement of Objection to some CD-ROM factories to make antitrust investigations in the third quarter of 2012. When Lite-On IT Corp. ("Lite-On IT") received in July 2012 the investigation notice from the European Commission, it stated that it would cooperate with the European Commission in the investigation. Lite-On IT has assigned lawyers to deal with the lawsuits. As of March 29, 2013, the date the board of directors approved the accompanying financial statements and authorized the issue of these statements, these cases were still in the preliminary stage, and Lite-On IT could not estimate the outcome of the case or amount of possible loss.

## 28. SIGNIFICANT SUBSEQUENT EVENTS

Considering the industry development trend and future strategic direction as well as the need to continue improving operating efficiency and core competencies, the Parent Company's board of directors passed a resolution on January 30, 2013 to merge with Lite-On IT Corporation ("Lite-On IT"). The Parent Company launched a tender offer through a wholly owned subsidiary in Taiwan, Baoyuan Corp. ("Baoyuan"), to acquire all, or a major part of, the outstanding common shares of Lite-On IT. The public tender offer period was from January 31, 2013 to March 15, 2013, and price per share was fixed at NT$32.75. After completion of the public tender offer, the Parent Company had a short-form merger with Baoyuan. The Parent Company was the survivor entity. The board of directors resolved March 25, 2013 as the merger effective date. After that, the Parent Company will issue redeemable preferred shares as consideration to exchange back all of remainder shares of Lite-On IT held by minority shareholders. Lite-On IT will become the Parent Company's wholly-owned subsidiary.

## 29. ADDITIONAL DISCLOSURES

a. Following are the additional disclosures required by the Securities and Futures Bureau for the Parent Company and its investees:

   1) Financing provided: Note 2 to the financial statements

   2) Endorsement/guarantee provided: Note 2 to the financial statements

   3) Marketable securities held: Note 2 to the financial statements

   4) Marketable securities acquired and disposed of at costs or prices of at least $100 million or 20% of the capital stock: Note 2 to the financial statements

   5) Acquisition of individual real estates at costs of at least $100 million or 20% of the capital stock: Note 2 to the financial statements

   6) Disposition of individual real estates at least $100 million or 20% of the capital stock: Note 2 to the financial statements

   7) Total purchase from or sale to related parties amounting to at least $100 million or 20% of the capital stock: Note 2 to the financial statements

   8) Receivables from related parties amounting to at least $100 million or 20% of the capital stock: Note 2 to the financial statements

   9) Names, locations, and related information of investees on which the Parent Company exercises significant influence: Note 2 to the financial statements

   10) Derivative financial transactions: Note 30 to the financial statements

b. Investment in Mainland China

   1) Investment in Mainland China: Note 2 to the financial statements

c. Significant direct or indirect transactions with the investee, prices, payment terms, and unrealized gain or loss: Note 2 to the financial statements.

## 30. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

| | December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| | | Fair Value | | | Fair Value | |
| | Carrying Amount | Quoted Market | Estimate Based on Valuation Techniques | Carrying Amount | Quoted Market | Estimate Based on Valuation Techniques |
| Nonderivative financial instruments | | | | | | |
| Assets | | | | | | |
| Available-for-sale financial assets - current | $ 10 | $ 10 | $ - | $ 9 | $ 9 | $ - |
| Available-for-sale financial assets - noncurrent | 1,032,235 | 1,032,235 | - | 2,783,354 | 2,783,354 | - |
| Financial assets carried at cost - noncurrent | 1,122,230 | - | - | 1,487,972 | - | - |
| Liabilities | | | | | | |
| Current portion of long-term bank loans | 4,411,168 | - | 4,411,168 | 1,173,473 | - | 1,173,473 |
| Current portion of obligations under capital leases | 62,381 | - | 62,381 | 84,360 | - | 84,360 |
| Long-term bank loans, net of current portion | 19,956,634 | - | 19,956,634 | 23,294,964 | - | 23,294,964 |
| Obligations under capital leases, net of current portion | 232,299 | - | 232,299 | 316,466 | - | 316,466 |
| Derivative financial instruments | | | | | | |
| Lite-On Technology Corp. | | | | | | |
| Derivative financial liability for hedging - noncurrent | | | | | | |
| Interest rate swap | 101,563 | - | 101,563 | 165,225 | - | 165,225 |
| Lite-On IT Corp. | | | | | | |
| 1) Financial assets at fair value through profit or loss - current | | | | | | |
| Forward exchange contracts | - | - | - | 6,531 | - | 6,531 |
| Cross currency swaps | 340 | - | 340 | - | - | - |
| 2) Financial liabilities at fair value through profit or loss - current | | | | | | |
| Cross currency swaps | 3,874 | - | 3,874 | 10,380 | - | 10,380 |
| Forward exchange contracts | 3,208 | - | 3,208 | - | - | - |
| Philips & Lite-On Digital Solutions Corp. | | | | | | |
| 1) Financial assets at fair value through profit or loss - current | | | | | | |
| Cross currency swap | 80 | - | 80 | - | - | - |

(Continued)

| | December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| | | Fair Value | | | Fair Value | |
| | **Carrying Amount** | **Quoted Market** | **Estimate Based on Valuation Techniques** | **Carrying Amount** | **Quoted Market** | **Estimate Based on Valuation Techniques** |
| 2) Financial liabilities at fair value through profit or loss - current | | | | | | |
| Cross currency swap | $ 1,049 | $ - | $ 1,049 | $ 5,320 | $ - | $ 5,320 |
| Logah Technology Corp. | | | | | | |
| Financial liabilities at fair value through profit or loss - current | | | | | | |
| Forward exchange contracts | - | - | - | 292 | - | 292 |
| Leotek Electronics Corp. | | | | | | |
| Financial liabilities at fair value through profit or loss - current | | | | | | |
| Forward exchange contracts | 305 | - | 305 | 255 | - | 255 |
| Cross currency swaps | 705 | - | 705 | - | - | - |
| Silitech Technology Corp. | | | | | | |
| Financial liabilities at fair value through profit or loss - current | | | | | | |
| Forward exchange contracts | - | - | - | 84 | - | 84 |
| Cross currency swaps | 357 | - | 357 | 2,793 | - | 2,793 |
| Silitech Technology Corp. Sdn. Bhd. | | | | | | |
| Financial liabilities at fair value through profit or loss - current | | | | | | |
| Forward exchange contracts | 81 | - | 81 | - | - | - |
| Lite-On Mobile Oyj (formerly: Perlos Oyj) | | | | | | |
| 1) Financial assets at fair value through profit or loss - current | | | | | | |
| Cross currency swap | 243 | - | 243 | 56,859 | - | 56,859 |
| 2) Financial liabilities at fair value through profit or loss - current | | | | | | |
| Forward exchange contracts | 3,225 | - | 3,225 | 7,809 | - | 7,809 |
| Cross currency swap | 15,348 | - | 15,348 | 5,429 | - | 5,429 |

(Continued)

| | December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| | | Fair Value | | | Fair Value | |
| | **Carrying Amount** | **Quoted Market** | **Estimate Based on Valuation Techniques** | **Carrying Amount** | **Quoted Market** | **Estimate Based on Valuation Techniques** |
| Lite-On Mobile India Privated Limited | | | | | | |
| 1) Financial assets at fair value through profit or loss - current | | | | | | |
| Forward exchange contracts | $ 323 | $ - | $ 323 | $ - | $ - | $ - |
| 2) Financial liabilities at fair value through profit or loss - current | | | | | | |
| Forward exchange contracts | 2,444 | - | 2,444 | - | - | - |
| Guangzhou Lite-OnMobile Electronic Components Co., Ltd. | | | | | | |
| Financial assets at fair value through profit or loss - current Forward exchange contracts | 1,213 | - | 1,213 | 268 | - | 268 |
| Lite-On Singapore Pte. Ltd. | | | | | | |
| 1) Financial assets at fair value through profit or loss - current | | | | | | |
| Forward exchange contracts | - | - | - | 6,852 | - | 6,852 |
| 2) Financial liabilities at fair value through profit or loss - current | | | | | | |
| Forward exchange contracts | 2,842 | - | 2,842 | - | - | - |
| Lite-On Automotive International (Cayman) Corp. | | | | | | |
| 1) Financial assets at fair value through profit or loss - current Forward exchange contracts | - | - | - | 173 | - | 173 |
| 2) Financial liabilities at fair value through profit or loss - current | | | | | | |
| Forward exchange contracts | 1,752 | | 1,752 | - | - | - |

(Continued)

| | December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | |
| | | Fair Value | | | Fair Value | |
| | **Carrying Amount** | **Quoted Market** | **Estimate Based on Valuation Techniques** | **Carrying Amount** | **Quoted Market** | **Estimate Based on Valuation Techniques** |
| Lite-On Automotive Corp. | | | | | | |
| 1) Financial assets at fair value through profit or loss - current | | | | | | |
| Forward exchange contracts | $ 3,544 | $ - | $ 3,544 | $ - | $ - | $ - |
| Lite-On Automotive Electronics (Guangzhou) Corp. | | | | | | |
| 1) Financial assets at fair value through profit or loss - current | | | | | | |
| Forward exchange contracts | - | - | - | 1,597 | - | 1,597 |
| 2) Financial liabilities at fair value through profit or loss - current | | | | | | |
| Forward exchange contracts | - | - | - | 133 | - | 133 |
| Lite-On Japan Ltd. | | | | | | |
| 1) Financial assets at fair value through profit or loss - current | | | | | | |
| Cross currency swap | - | - | - | 9,430 | - | 9,430 |
| 2) Financial liabilities at fair value through profit or loss - current | | | | | | |
| Option-put | - | - | - | 9,417 | - | 9,417 |
| Interest rate swap | 49 | - | 49 | 362 | - | 362 |

(Concluded)

b. Methods and assumptions used in the determination of fair values of financial instruments

1) The carrying amounts of the following short-term financial instruments approximate their fair values because of their short maturities: Cash and cash equivalents, notes receivable, accounts receivable, accounts receivables from related parties, other receivable from related parties, other financial assets - current, short-term loans, notes and accounts payable, accrued expenses, accounts payables to related parties, other payable to related parties.

2) The carrying amounts of the refundable deposits and guarantee deposits received approximate their fair values due to the amount which will be received in the future approaches to the book value.

3) Fair values of the available-for-sale assets are based on their quoted prices in an active market. 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.

4) Financial assets carried at cost have no fair values because these are investments in unlisted stocks with no quoted market prices and determining their fair value entails an unreasonably high cost.

5) Fair value of long-term loans (included current portion of long-term debts) is estimated using the present value of future cash flows. The rate for long-term debts with interests of our company are all floating rate, its book value is the fair market value.

6) The fair value of finance lease receivables is estimated using the present value of future cash flows discounted by prevailing interest rates after taking into account risk premiums.

c. As of December 31, 2012 and 2011, financial assets exposed to fair value risk from interest rate fluctuation amounted to $37,870,445 thousand and $31,604,345 thousand, respectively, and financial liabilities amounted to $3,196,765 thousand and $400,826 thousand, respectively; financial assets exposed to cash flow risk from interest rate fluctuation amounted to $21,028,732 thousand and $22,239,941 thousand, respectively, and financial liabilities exposed to cash flow risk from interest rate fluctuation amounted to $28,476,111 thousand and $29,205,925 thousand, respectively.

d. The Parent Company recognized the increase of $271,510 thousand and decrease of $1,041,168 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets on December 31, 2012 and 2011, respectively.

e. Financial risks

1) Market risk. The derivative financial instruments categorized as financial assets at fair value through profit or loss are mainly used to hedge exchange rate fluctuations of non-functional foreign currency-dominated stocks and sales. The market risk is not significant due to the gain or loss on derivatives will offset by the gain or loss on the exchange rate fluctuations of hedged items. The available-for-sale financial assets held by the cooperation and its subsidiaries are listed stocks. Thus, price fluctuations in the open market would result in changes in fair values of these stocks.

2) Credit risk. Credit risk represents the potential loss that would be incurred by the Parent Company and its subsidiaries if the counter-parties or other parties breach the financial instrument contracts. Thus, contracts with positive fair values on the balance sheet date are evaluated for credit risk. In addition, since the counter-parties to derivative financial transactions are reputable financial institutions, management believes its exposure to default by counter-parties is low.

3) Liquidity risk. For long-term equity-method investments and financial assets carried at cost, the Parent Company and its subsidiaries keep liquidity reserves, which are available on a short term. Additionally, the contracted forward rate is decided on the contract starting dates. Thus, the cash flow risk on forward contracts is low.

4) Cash flow hedge. The Parent Company's liabilities with floating interest rate might be affected by changes in the market rate. Thus, future cash flows on those liabilities might fluctuate, exposing the Parent Company to cash flow risk. To hedge against this risk, the Parent Company entered into an interest rate swap contract with a bank to change the rate on its liabilities from floating to fixed. The cash flow hedge operating are deemed sufficient. As December 31, 2012 and 2011, the unrealized losses recognized in shareholders' equity were amounted to $101,563 thousand and $165,225 thousand, respectively. Other information on the cash flow hedge transactions is summarized below.

| Financial Instruments | Date | Nominal Principal | Float Rate | Fixed Rate | Settlement Date | Due Date |
|---|---|---|---|---|---|---|
| Lite-On Technology Corp. | | | | | | |
| Interest rate swap | December 31, 2012 | $ 6,000,000 | Note | 1.895% | Quarterly | 2015.9.23 |
| Interest rate swap | December 31, 2011 | 6,000,000 | Note | 1.895% | Quarterly | 2015.9.23 |

Note: Based on the average rate for 90-day notes in Taiwan's secondary market.

| Hedged Items | Designated Hedging Instruments: Financial Instruments Designated | Fair Value, December 31: 2012 | Fair Value, December 31: 2011 | Expected Period of Cash Flows | Expected Period of Realizing Gains or Losses |
|---|---|---|---|---|---|
| Medium- and long-term loans | Interest rate swap | $ (101,563) | $ (165,225) | 2008-2015 | 2008-2015 |

## 31. SEGMENT INFORMATION

Segment information is provided to the Group's chief operating decision maker for allocating resources to the segments and assessing their performance. The information focuses on every type of products sold or services provided. The Group's segment information disclosed in accordance with Statement of Financial Accounting Standards No. 41 - "Operating Segments" is as follows:

a. Optoelectronics and Network: Designs and mass-manufactures of phone camera modules;

b. System Integration: Provides well-recognized integrated system solutions for the consumer electronics markets;

c. Optical Storage: Manufactures and sells CD-ROM, CD-RW, and DVD-ROM as well as more advanced products.

The Group also had other operating segments that did not exceed the quantitative threshold. These segments mainly engage in the LED Transit Modules, Automotive Electronics, and renewable energy and efficiency related technologies and products.

The Group uses net profit as the measurement for segment profit and the basis of performance assessment. There was no material inconsistency between the accounting policies of the operating segment and the accounting policies described in Note 2.

The Group's operating segment information is as follows:

a. Industry financial information

| | Foundry | IT Products | Photoelectric | Others | Elimination | Total |
|---|---|---|---|---|---|---|
| 2012 | | | | | | |
| Sales from external customers | $ 68,369,257 | $ 84,671,825 | $ 50,462,897 | $ 12,543,031 | $ - | $ 216,047,010 |
| Sales among segments | 1,395,417 | 2,251,655 | 8,276 | 275,674 | (3,931,022) | - |
| Operating profit (loss) | 2,988,461 | 6,210,560 | 2,672,385 | (2,351,528) | - | 9,519,878 |
| Segment assets | 58,826,223 | 48,517,842 | 40,218,184 | 49,513,970 | (1,878,053) | 195,198,166 |
| 2011 | | | | | | |
| Sales from external customers | 69,193,782 | 87,760,960 | 61,258,454 | 12,306,897 | - | 230,520,093 |
| Sales among segments | 1,341,163 | 2,282,747 | 21,786 | 332,880 | (3,978,576) | - |
| Operating profit (loss) | 4,103,787 | 5,422,044 | 2,827,458 | (2,631,514) | - | 9,721,775 |
| Segment assets | 66,613,079 | 45,686,717 | 45,015,821 | 49,143,635 | (2,398,266) | 204,060,986 |

b. Geographic information

| | Sales to Other Than Consolidated Entities | | Non-current Assets | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Asia | $ 156,544,176 | $ 154,903,644 | $ 53,541,586 | $ 57,368,325 |
| United States | 23,806,841 | 27,978,551 | 467, 530 | 751,759 |
| Europe | 20,539,434 | 27,332,288 | 2,252,862 | 1,106,351 |
| Others | 15,156,559 | 20,305,610 | 105,250 | 113,646 |
| | $ 216,047,010 | $ 230,520,093 | $ 56,367,228 | $ 59,340,081 |

The geographic information is presented by billing regions. Noncurrent assets include properties, intangible assets and other assets.

c. Production information

The Group mainly engages in manufacturing optoelectronics and network, system integration, optical storage, LED transit modules, automotive electronics, renewable energy and efficiency-related technologies and products, etc.

d. Major customers representing at least 10% of gross sales

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Amount | % | Amount | % |
| Customer A | $ 26,355,806 | 12 | $ 29,256,995 | 13 |

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

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

**(In Thousands of New Taiwan Dollars, Except Exchange Rate)**

| | December 31 | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Foreign Currencies | Exchange Rate | Foreign Currencies | Exchange Rate |
| Financial assets | | | | |
| Monetary items | | | | |
| CNY | $ 7,207,969 | 4.6722 | $ 6,197,811 | 4.8044 |
| JPY | 2,007,618 | 0.3364 | 3,201,028 | 0.3903 |
| USD | 1,726,192 | 29.0400 | 2,406,629 | 30.2680 |
| THB | 370,358 | 0.9506 | 509,548 | 0.9609 |
| HKD | 190,306 | 3.7464 | 214,211 | 3.8956 |
| EUR | 51,370 | 38.4780 | 129,898 | 39.1668 |

(Continued)

| | December 31 | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Foreign Currencies | Exchange Rate | Foreign Currencies | Exchange Rate |
| Nonmonetary items | | | | |
| CNY | $ 6,725 | 4.6722 | $ 5,661 | 4.8044 |
| JPY | 4,554 | 0.3364 | 55,944 | 0.3903 |
| USD | 40,332 | 29.0400 | 141,784 | 30.2680 |
| HKD | 5,900 | 3.7464 | 54,050 | 3.8956 |
| EUR | 960 | 38.4780 | 17,490 | 39.1668 |
| Investments accounted for by the equity method | | | | |
| CNY | 29,327 | 4.6722 | 26,175 | 4.8044 |
| USD | 24,015 | 29.0400 | 25,292 | 30.2680 |
| EUR | 372 | 38.4780 | 370 | 39.1668 |
| Financial liabilities | | | | |
| Monetary items | | | | |
| CNY | 3,768,259 | 4.6722 | 3,861,125 | 4.8044 |
| JPY | 1,075,705 | 0.3364 | 1,948,319 | 0.3903 |
| USD | 2,107,333 | 29.0400 | 8,689,211 | 30.2680 |
| THB | 193,477 | 0.9506 | 143,239 | 0.9609 |
| HKD | 20,200 | 3.7464 | 130,549 | 3.8956 |
| EUR | 70,961 | 38.4780 | 174,281 | 39.1668 |
| Nonmonetary items | | | | |
| JPY | 146 | 0.3364 | 51,531 | 0.3903 |
| USD | 3,512 | 29.0400 | 12,907 | 30.2680 |
| EUR | - | 38.4780 | 131 | 39.1668 |

(Concluded)

## 33. PRE-DISCLOSURE OF THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

According to the Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Corporation is required to disclose a plan for the adoption of the International Financial Reporting Standards (IFRSs) in the consolidated financial statements, 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 for the consolidated financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the IFRSs, International Accounting Standards (IASs), interpretations and related guidance translated by Accounting Research and Development Foundation (ARDF) and issued by the FSC. Following this road map, the Parent Company and its subsidiaries established a task force to monitor and execute the IFRSs adoption plan. The important plan items, responsible divisions and plan progress are listed as follows:

| Contents of Plan | Responsible Department | Status of Execution |
|---|---|---|
| 1) Establish the IFRSs task force. | Finance, system integration, human resource, operation, sales and internal audit | Completed |

(Continued)

| Contents of Plan | Responsible Department | Status of Execution |
|---|---|---|
| 2) Set up a work plan for IFRS adoption. | Finance | Completed |
| 3) Complete the identification of GAAP differences and impact of IFRS adoption. | Finance | Completed |
| 4) Complete the identification of consolidated entities under the IFRSs. | Finance | Completed |
| 5) Complete the assessment of the applicability of the IFRS 1 - "First-time Adoption of International Financial Reporting Standards" (IFRS 1). | Finance | Completed |
| 6) Complete the evaluation, configuration and testing of the IT systems. | Finance, system integration, human resource, operation, sales and internal audit | Completed |
| 7) Complete the modification of the relevant internal controls. | Finance, system integration, human resource, operation, sales and internal audit | Completed |
| 8) Determine the IFRS accounting policies to be applied. | Finance | Completed |
| 9) Determine how to apply IFRS 1. | Finance | Completed |
| 10) Complete the preparation of the opening date balance sheet under IFRSs. | Finance | Completed |
| 11) Prepare quarterly comparative financial information under IFRSs for 2012. | Finance | For quarterly |
| 12) Complete the modification of the relevant internal controls (including the financial reporting procedure and related information technology). | Finance, system integration, human resource, operation, sales and internal audit | In progress |

(Concluded)

b. As of December 31, 2012, based on the Group's assessment, the significant differences between the Group's current accounting policies under R.O.C. GAAP and the ones under IFRSs are stated as follows:

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

| Item | ROC GAAP Amount | Effect of Transition to IFRSs | IFRSs Amount | Note |
|---|---|---|---|---|
| Cash | $ 56,515,383 | $ (3,633,137) | $ 52,882,246 | a) |
| Accounts receivable, net | 45,469,494 | 372,114 | 45,841,608 | b) |
| Accounts receivable - related parties, net | 1,099 | 62,555 | 63,654 | b) |
| Other financial assets - current | 1,575,370 | 3,633,137 | 5,208,507 | a) |
| Prepayments | 4,024,067 | 647,799 | 4,671,866 | h), i), j) and n) |
| Deferred income tax assets - current | 951,668 | (951,668) | - | c) |
| Available-for-sale financial assets - noncurrent | 2,783,354 | 1,487,972 | 4,271,326 | f) |
| Financial assets carried at cost - noncurrent | 1,487,972 | (1,487,972) | - | f) |
| Investments accounted for by the equity method | 3,590,108 | (159,579) | 3,430,529 | l) and p) |
| Properties | 39,985,995 | (1,099,418) | 38,886,577 | e), h), j) and m) |
| Intangible assets | 16,408,099 | (98,305) | 16,309,794 | h), i) and m) |
| Assets leased to others, net | 113,843 | (113,843) | - | e) |
| Idle assets, net | 135,538 | (135,538) | - | e) |
| Deferred expense, net | 2,273,596 | (2,273,596) | - | h) |
| Deferred income tax assets | - | 725,254 | 725,254 | c), d), n), o) and p) |
| Long-term prepayments | - | 3,172,954 | 3,172,954 | h), i), j), m) and n) |
| Other | 28,745,400 | - | 28,745,400 | |
| Total | $ 204,060,986 | $ 148,729 | $ 204,209,715 | |
| Accrued expenses | $ 11,139,255 | $ 242,660 | $ 11,381,915 | o) |
| Other current liabilities | 6,549,962 | 434,669 | 6,984,631 | b) |
| Obligations under capital leases - noncurrent | 316,466 | 4,441 | 320,907 | m) |
| Reserve for land value increment tax | 239,693 | (239,693) | - | g) |
| Accrued pension liabilities | 143,168 | 81,378 | 224,546 | n) |
| Deferred income tax liabilities | 747,622 | (713) | 746,909 | d), g) and n) |
| Deferred credits | 84,143 | (84,143) | - | l) |
| Other | 95,762,315 | - | 95,762,315 | |
| Total liabilities | 114,982,624 | 438,599 | 115,421,223 | |
| Capital surplus | 27,759,251 | (907,070) | 26,852,181 | p) and q) |
| Unappropriated earnings | 11,729,938 | 662,992 | 12,392,930 | m), n), o), p), q) and r) |
| Net loss not recognized as pension cost | (17,182) | 17,182 | - | r) |
| Unrealized loss on financial instruments | (372,591) | 230,587 | (142,004) | k) |
| Treasury stock | (1,857,643) | (230,587) | (2,088,230) | k) |
| Other | 31,685,449 | - | 31,685,449 | |
| Noncontrolling interests | 20,151,140 | (62,974) | 20,088,166 | n) and o) |
| Total shareholders' equity | 89,078,362 | (289,870) | 88,788,492 | |
| Total | $ 204,060,986 | $ 148,729 | $ 204,209,715 | |

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

| Item | ROC GAAP Amount | Effect of Transition to IFRSs | IFRSs Amount | Note |
|---|---|---|---|---|
| Cash and cash equivalents | $ 60,590,077 | $ (9,365,207) | $ 51,224,870 | a) |
| Accounts receivable, net | 44,025,784 | 774,156 | 44,799,940 | b) |
| Other financial assets - current | 2,321,847 | 9,365,207 | 11,687,054 | a) |
| Prepayments | 3,863,172 | 555,946 | 4,419,118 | h), i) and j) |
| Deferred income tax assets - current | 1,110,308 | (1,110,308) | - | c) and n) |
| Available-for-sale financial assets - noncurrent | 1,032,235 | 1,122,230 | 2,154,465 | f) |
| Financial assets carried at cost - noncurrent | 1,122,230 | (1,122,230) | - | f) |
| Investments accounted for by the equity method | 3,554,690 | (45,908) | 3,508,782 | p) |
| Properties | 37,475,790 | 221,951 | 37,697,741 | e), h), j) and m) |
| Intangible assets | 16,095,958 | (62,383) | 16,033,575 | h), i), m) and n) |
| Leased assets, net | 111,394 | (111,394) | - | e) |
| Idle assets, net | 203,233 | (203,233) | - | e) |
| Deferred expenses, net | 2,067,016 | (2,067,016) | - | h) |
| Deferred income tax assets | - | 1,515,761 | 1,515,761 | c), d), n), o) and p) |
| Long-term prepayments | - | 1,674,608 | 1,674,608 | h), i), j) and n) |
| Other | 21,624,432 | - | 21,624,432 | |
| Total | $ 195,198,166 | $ 1,142,180 | $ 196,340,346 | |
| Accrued expenses | $ 10,563,304 | $ 248,578 | $ 10,811,882 | n) and o) |
| Other current liabilities | 5,581,677 | 772,145 | 6,353,822 | b) and n) |
| Obligations under capital leases - noncurrent | 232,299 | 417 | 232,716 | m) |
| Reserve for land value increment tax | 239,693 | (239,693) | - | g) |
| Accrued pension liabilities | 175,583 | 131,476 | 307,059 | n) |
| Deferred income tax liabilities | 843,248 | 626,949 | 1,470,197 | d), g) and n) |
| Other | 87,743,359 | - | 87,743,359 | |
| Total liabilities | 105,379,163 | 1,539,872 | 106,919,035 | |
| Capital surplus | 27,504,826 | (766,840) | 26,737,986 | p), q) and s) |
| Unappropriated earnings | 13,253,899 | 415,818 | 13,669,717 | m), n), o), p), q), r) and s) |
| Foreign currency translation reserve | 126,009 | 1,760 | 127,769 | m), n), o) and p) |
| Net loss not recognized as pension cost | (29,536) | 29,536 | - | r) |
| Unrealized loss on financial instruments | (677,435) | 230,587 | (446,848) | k) |
| Treasury stock | (1,104,073) | (230,587) | (1,334,660) | k) |
| Other | 30,706,336 | - | 30,706,336 | |
| Noncontrolling interests | 20,038,977 | (77,966) | 19,961,011 | m), n), o) and p) |
| Total shareholders’ equity | 89,819,003 | (397,692) | 89,421,311 | |
| Total | $ 195,198,166 | $ 1,142,180 | $ 196,340,346 | |

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

| Item | ROC GAAP Amount | Effect of Transition to IFRSs | IFRSs Amount | Note |
|---|---|---|---|---|
| Net sales | $ 216,047,010 | $ - | $ 216,047,010 | l) |
| Cost of sales | (185,419,313) | (69,700) | (185,489,013) | l), n), o) and t) |
| Gross profit | 30,627,697 | (69,700) | 30,557,997 | |
| Operating expenses | (19,735,700) | 70,453 | (19,665,247) | m), n) o) and t) |
| Operating income | 10,891,997 | 753 | 10,892,750 | |
| Nonoperating gains and loss | | | | |
| Gain on disposal of investments, net | 585,557 | (132,093) | 453,464 | q) and s) |
| Investment income recognized under the equity method, net | 15,217 | 2,501 | 17,718 | p) |
| Other | 478,617 | 3,113 | 481,730 | |
| Total nonoperating expenses and losses | 1,079,391 | (126,479) | 952,912 | |
| Income before income tax | 11,971,388 | (125,726) | 11,845,662 | |
| Income tax | (2,451,510) | (2,687) | (2,454,197) | n), o) and p) |
| Consolidated net income | $ 9,519,878 | $ (128,413) | 9,391,465 | |
| Exchange differences on translating foreign operations | | | (1,497,791) | |
| Actuarial loss from defined benefit pension | | | (76,037) | n) |
| Unrealized gain on financial instruments | | | (304,844) | |
| Cash flow hedges | | | 63,662 | |
| Total comprehensive income for the period | | | $ 7,576,455 | |

4) Exemptions from IFRS 1

IFRS 1 - "First-time Adoption of International Financial Reporting Standards" establishes the procedures for the preparation of consolidated financial statements by the Group as a first-time user of IFRSs. Under IFRS 1, the Group is required to determine the accounting policies under IFRSs and retrospectively apply those accounting policies in its opening balance sheet at the date of transition to IFRSs (January 1, 2012; the transition date) and to make selections from among optional exemptions and mandatory exceptions provided under IFRS 1. The main optional exemptions the Group adopted are summarized as follows:

Business combinations

The Group elected not to apply IFRS 3 - "Business Combinations" to business combinations made before the date of transition to IFRSs. Thus the carrying amount of goodwill arising from past business combinations in the opening IFRS consolidated balance sheet is its carrying amount based on ROC GAAP as of December 31, 2011.

This exemption applies to the Group's past investments in its associates.

Share-based payment transactions

The Group elected to use the exemption from the retrospective application of IFRS 2 - "Share-based Payment" on all equity instruments that were granted and vested before the date of transition to IFRSs.

Cost recognition

The Group elected to measure properties and intangible properties at cost, not at market price, at the date of transition to IFRS.

Employee benefits

The Group elected to recognize all cumulative actuarial gains and losses relating to employee benefits in retained earnings at the date of transition to IFRSs.

The effects of applying the foregoing optional exemptions on the Group are stated under the following section "5. Notes to the reconciliation of the significant differences."

5) Significant differences between ROC GAAP and IFRSs

As of December 31, 2012, based on the Group's assessment, the significant differences between the Group's current accounting policies under ROC GAAP and the ones under IFRSs are stated as follows:

a) Bank deposits with original maturity more than three months

Under ROC GAAP, the term "cash and cash equivalents" used in the financial statements includes cash on hand, demand deposits, check deposits, time deposits that are cancelable but without any loss of principal and negotiable certificates of deposit that are readily salable without any loss of principal. However, under IFRSs, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. An investment normally qualifies as a cash equivalent only when it has a short maturity of three months or less from the date of acquisition. Thus, some certificates of deposit the Group held that had maturities of more than three months from the date of investment have been reclassified to other financial assets.

As of December 31, 2012 and January 1, 2012, the amounts reclassified to other financial assets - current were $9,365,207 thousand and $3,633,137 thousand, respectively.

b) Allowance for sales returns and discounts

Under ROC GAAP, provisions for estimated sales returns and discounts are recognized as a reduction of revenue in the period the related revenue is recognized on the basis of historical experience. Allowance for sales returns and discounts is recorded as a deduction from accounts receivable. Under IFRSs, the allowance for sales returns and discounts is a present obligation arising from past events and with uncertain timing of settlement and is thus reclassified to provisions (classified under other current liabilities).

As of December 31, 2012 and January 1, 2012, the amounts reclassified from allowance for sales returns and discounts to provisions were $774,156 thousand and $434,669 thousand, respectively.

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

Under ROC GAAP, valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. Under IFRSs, deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits against which the deductible temporary differences can be used; thus, a valuation allowance account is not needed.

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

As of December 31, 2012 and January 1, 2012, the amounts reclassified from deferred income tax assets - current to deferred income tax assets - noncurrent were $1,112,774 thousand and $951,668 thousand, respectively.

d) Offsetting between deferred tax assets/liabilities

Under ROC GAAP, deferred current tax assets - current should be offset against deferred tax liability - current under the same taxable entity. The same rule applies to deferred tax asset/liability - noncurrent. Under IFRSs, an entity is eligible to offset tax assets against tax liabilities generated from the same taxable entity only (a) if the entity has a legally enforceable right to make this offset and (b) the deferred tax assets and liabilities relate to income taxes levied by the same tax authorities on either the same taxable entity or different taxable entities that intend either to settle current tax liabilities and assets on a net basis or to realize the assets and settle the liabilities simultaneously.

As of December 31, 2012 and January 1, 2012, the offset amounts of the Group's deferred tax assets and deferred tax liabilities were $387,146 thousand and $240,519 thousand, respectively.

e) Classification of leased assets and idle assets

Under ROC GAAP, leased assets and idle assets are classified under other assets and idle assets. Under IFRSs, the aforementioned items are classified as properties in accordance with their nature. Leased assets are mainly dormitories leased to employees and factories leased to suppliers. Based on IAS 40 - "Investment Property," the dormitories leased to employees and factories leased to suppliers are not considered investment properties since they cannot be sold separately and comprise only an insignificant portion of the plant.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from leased assets and idle assets to properties were $314,627 thousand and $249,381 thousand, respectively.

f) Financial assets carried at cost

Under Regulations Governing the Preparation of Financial Reports by Securities Issuers, the non-publicly traded stocks or stocks that are not traded in the Emerging Stock Market and pertaining to an investment in which the investor has no significant influence on the investee should be measured as financial assets carried at cost.

Under IFRSs, the financial instruments designated as at fair value through other comprehensive income and financial assets carried at cost should be classified as at fair value through profit or loss.

As of December 31, 2012 and January 1, 2012, the Group's financial assets carried at cost reclassified to available for sale financial assets amounted to $1,122,230 thousand and $1,487,972 thousand, respectively.

g) Reserve for land value increment tax

Based on the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, land revaluation surplus is classified as reserve for land value increment tax and recorded under other liabilities. Under IFRSs, the Group reclassified land value increment tax to deferred income tax liabilities. As of December 31, 2012 and January 1, 2012, the amount reclassified from land value increment tax to deferred income tax liabilities was $239,693 thousand.

h) Classification of deferred expenses

Under ROC GAAP, deferred expenses are recorded under other assets. Under IFRSs, the Group reclassified deferred expenses to prepaid expenses, properties, intangible assets, and long-term prepaid expenses in accordance with their nature.

As of December 31, 2012, the Group had reclassified deferred expenses of $17,618 thousand, $1,189,471 thousand, $516,087 thousand, and $343,840 thousand to prepaid expenses; properties; intangible assets; and long-term prepaid expenses, respectively.

As of January 1, 2012, the Group's deferred expenses of $12,858 thousand, $1,296,031 thousand, $598,025 thousand, and $366,682 thousand had been reclassified to prepaid expenses; properties; intangible assets; and long-term prepaid expenses, respectively.

i) Land use rights

Under ROC GAAP, land use rights are classified as intangible asset. Under IFRSs, based on their nature, a land use right is classified as prepayment in accordance with International Accounting Standard (IAS) No. 17 - "Leases."

As of December 31, 2012, the Group's land use rights reclassified to prepayments and long-term prepayments amounted to $464,918 thousand and $107,601 thousand, respectively.

As of January 1, 2012, the Group's land use rights reclassified to prepayments and long-term prepayments amounted to $585,852 thousand and $110,569 thousand, respectively.

j) Classification of the prepayments for equipment

Under ROC GAAP, the prepayments for equipment are usually recorded under fixed assets. Under IFRSs, prepayments for equipment are usually recorded under prepayments or long-term prepayments.

As of December 31, 2012, on the basis of the nature of the prepayments for equipment, the Group reclassified prepayments for equipment to prepayments and long-term prepayments of $73,410 thousand and $1,236,480 thousand, respectively.

As of January 1, 2012, on the basis of the nature of the prepayments for equipment, the Group reclassified prepayments for equipment to prepayments and long-term prepayments of $48,426 thousand and $2,631,249 thousand, respectively.

k) Treasury stock

Under ROC GAAP on the accounting for treasury stocks, effective January 1, 2002, the Group accounted for its shares held by its subsidiary as treasury stock when it recognized the investment income at the market price. The difference in carrying value and market value of this treasury stock was recorded as unrealized loss on available-for-sale financial assets. Under IFRSs, treasury shares are recognized immediately at the time when treasury shares are acquired by subsidiaries.

As of December 31, 2012 and January 1, 2012, the Group's unrealized loss of $230,587 thousand on available-for-sale financial assets was reclassified to treasury stock.

l) Investments in associates - unrealized profits from downstream transactions

Under ROC GAAP, unrealized profits from downstream transactions are adjusted in proportion to unrealized gross profit and deferred credits. Under IFRSs, unrealized profits from downstream transactions are recorded under investments in associates.

As of January 1, 2012, the Group's deferred credits reclassified to investments accounted for by the equity method amounted to $84,143 thousand, respectively.

m) Capitalization of lease payments

Under ROC GAAP, lease payments are recorded as rental expense in the period the lessee actually uses the item leased. Under IFRSs, they should be capitalized as part of asset acquisition cost.

As of December 31, 2012, the IFRS-based adjustment resulted in increases in properties by $27,744 thousand and unappropriated earnings by $15,138 thousand.

As of January 1, 2012, the IFRS-based adjustment resulted in increases in properties by $34,845 thousand and unappropriated earnings by $33,084 thousand.

The depreciation expense for the years ended December 31, 2012 was adjusted for an increase of $1,745 thousand (recorded as operating expenses).

n) Employee benefits

The Group had previously applied actuarial valuation to its defined benefit obligations and recognized the related pension cost and retirement benefit obligation in conformity with ROC GAAP. Under IFRSs, the group should carry out actuarial valuation on defined benefit obligations in accordance with IAS No. 19 - "Employee Benefits." The Group has opted to recognize actuarial gains and losses as other comprehensive income immediately in full in the period in which they occur. The subsequent reclassification to earnings is not permitted.

At the transition date, the Group performed the actuarial valuation under IAS No. 19 - "Employee Benefits" and recognized the valuation difference directly as retained earnings under IFRS 1. As of December 31, 2012, the IFRS-based adjustments resulted in (a) increases in deferred income tax assets by $13,245 thousand and accrued pension liabilities by $131,476 thousand; and (b) decreases in long-term prepayments by $15,413 thousand; unappropriated earnings by $79,141 thousand and noncontrolling interests by $42,876 thousand.

As of January 1, 2012, the IFRS-based adjustments resulted in (a) increases in deferred income tax assets by $7,624 thousand; long-term prepayments by $46,252 thousand; and accrued pension liabilities by $81,378 thousand; and (b) a decrease in unappropriated earnings by $3,104 thousand.

For the year ended December 31, 2012, IFRS adoption resulted in a decrease of $11,571 thousand ($9,730 thousand recorded as cost of sales and $1,841 thousand recorded as operating expenses) in salary expenses and an increase of $1,434 thousand in income tax.

o) Employee benefits - short-term accumulated compensated absences

Under ROC GAAP, there are no specific requirements for recognizing accumulated compensated absences at the end of reporting periods. Companies usually recognize the related costs when the employees actually go on leave. Under IFRSs, the expected cost of short-term accumulated compensated absences should be recognized as the employees render services that increase their entitlement to these compensated absences.

As of December 31, 2012, the IFRS-based evaluation adjustment resulted in an increase of accrued expenses by $248,303 thousand. This adjustment also resulted in decreases in unappropriated earnings by $187,443 thousand and noncontrolling interests by $50,875 thousand.

The evaluation adjustments as of January 1, 2012, resulted in increases in deferred income tax assets by $6,471 thousand and accrued expenses by $256,609 thousand. Other results were decreases of $179,786 thousand in unappropriated earnings and $70,352 thousand in noncontrolling interests.

For the year ended December 31, 2012, the salary expenses were adjusted for an increase of $9,073 thousand (resulting in a decrease of $14,820 thousand in cost of sales and an increase of $23,893 thousand in operating expenses). The income tax was also adjusted for an increase of $1,277 thousand.

p) Investments accounted for using the equity method

The Group has evaluated significant differences between current accounting policies and IFRSs for the Group's associates and joint ventures accounted for by the equity method. The significant difference is mainly due to the adjustment to employee benefits and leases.

As of December 31, 2012, the adoption of IFRS resulted in an increase of $175,012 thousand in unappropriated earnings. Another result was decreases of $49,346 thousand in investments accounted for by the equity method and $255,568 thousand in capital surplus.

As of January 1, 2012, the differences mentioned above resulted in an increase in unappropriated earnings by $91,583 thousand. In addition, the adjustment resulted in decreases of $75,436 thousand in investments accounted for by the equity method and of $168,671 thousand in capital surplus.

For the year ended December 31, 2012, the IFRS-based adjustments resulted in increases of $2,501 thousand in investment income recognized under the equity method. The income tax was adjusted for a decrease of $24 thousand.

q. Accounting treatment of the Parent Company for increases in carrying values of equity-method investments due to not subscribing proportionally to the additional shares issued by the investees and relevant adjustment of capital surplus - long-term equity investment.

Under ROC GAAP, if an investee issues new shares and an investor does not buy new shares proportionately, the investor's ownership percentage and its interest in net assets of the investment will change. The resulting difference should be used to adjust the capital surplus and long-term equity investment accounts.

Under IFRSs, any equity changes in the invested associates without the loss of significant influence on the associates will be recognized as a deemed acquisition or a deemed disposal of the shares in the invested associates. Any equity changes in the invested subsidiaries without losing significant control over the subsidiaries will be deemed equity transactions. In addition, in accordance with the "Q&A on the Adoption of IFRSs" issued by the Taiwan Stock

Exchange, capital surplus not covered by the IFRSs, the ROC Company Law and the relevant legal interpretations of the Ministry of Economic Affairs, ROC should be adjusted accordingly at the date of transition to IFRSs.

As of December 31, 2012, the foregoing adjustments resulted in a decrease of $651,137 thousand in the Parent Company's capital surplus - long term investments and an increase of $651,137 thousand in unappropriated earnings.

As of January 1, 2012, the foregoing adjustments resulted in a decrease of $738,398 thousand in the Parent Company's capital surplus - long term investments and an increase of $738,398 thousand in unappropriated earnings.

In addition, gain on disposal of investments was adjusted for an increase of $14,100 thousand for the years ended December 31, 2012.

r) Employee benefits - minimum pension liability to be recognized

Under ROC GAAP, the minimum pension liability should be should be recognized as such in the balance sheet; if the accrued pension liability is lower than this minimum, any shortfall should be recorded.

Under the IFRSs, there is no requirement for recognizing minimum pension liability.

As of December 31, 2012, net loss not recognized as pension cost was adjusted for an increase of $29,536 thousand and unappropriated earnings for a decrease of $29,536 thousand.

As of January 1, 2012, net loss not recognized as pension cost was adjusted for an increase of $17,182 thousand and unappropriated earnings for a decrease of $17,182 thousand.

s) Disposal of partial shares without losing significant influence on the investee

Under ROC GAAP, if the stock ownership percentage changes during the year, the investor company should recognize investment gains or losses in proportion to the actual stock ownership percentage on the disposition date.

Under IFRSs, disposal of the shares of subsidiaries without losing significant control over the subsidiaries is deemed an equity transaction.

As of December 31, 2012, the IFRS-based adjustments resulted in an increase of $146,193 thousand in the Parent Company's capital surplus - long term investments under the equity method and a decrease of $146,193 thousand in the gain on disposal of investments.

t) The reclassification of line items in the consolidated statement of comprehensive income

Under IFRSs, based on the nature of operating transactions, a repair and warranty expense of $94,250 was reclassified to cost of sales.

c. The Group's foregoing assessment is based on the 2010 version of IFRSs translated by the ARDF and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers issued by FSC on December 22, 2011. However, the assessment result may change as 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. Actual results may differ from these assessments.

**TABLE 1**

# LITE-ON TECHNOLOGY CORPORATION AND SUBSIDIARIES

**RELATED-PARTY TRANSACTIONS**
**DECEMBER 31, 2012 AND 2011**
**(In Thousands of New Taiwan Dollars)**

| Related Party | Nature of Relationship (Notes 1 and 5) | Receivable from Related Parties: Accounts Receivable Amount | Accounts Receivable % (Note 2) | Other Receivable Amount | Other Receivable % (Note 2) | Total | Payable to Related Parties: Accounts Payable Amount | Accounts Payable % (Note 2) | Other Payable Amount | Other Payable % (Note 2) | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| December 31, 2012 | | | | | | | | | | | |
| Lite-On Semiconductor Corp. | a | $ 82,892 | 97 | $ 1,945 | 2 | $ 84,837 | $ 98,061 | 62 | $ 38 | - | $ 98,099 |
| Silpert Travel Service Co., Ltd. | d | - | - | 236 | - | 236 | - | - | 7,006 | 5 | 7,006 |
| Chi Mei Mold Co., Ltd. | c | - | - | - | - | - | 20,176 | 13 | 13,129 | 8 | 33,305 |
| Lite-Space Technology Company Limited | b | - | - | - | - | - | 14,516 | 9 | - | - | 14,516 |
| Other related parties (Note 3) | | 529 | 1 | 50 | - | 579 | 5,170 | 3 | - | - | 5,170 |
| | | $ 83,421 | 98 | $ 2,231 | 2 | $ 85,652 | $ 137,923 | 87 | $ 20,173 | 13 | $ 158,096 |
| December 31, 2011 | | | | | | | | | | | |
| Co Tech Copper Foil Corp. | e | $ 746 | 36 | $ - | - | $ 746 | $ - | - | $ - | - | $ - |
| Lite-On Semiconductor Corp. | a | 353 | 17 | 955 | 47 | 1,308 | 266,987 | 74 | - | - | 266,987 |
| Chi Mei Mold Co., Ltd. | c | - | - | - | - | - | 44,348 | 12 | 37,654 | 10 | 82,002 |
| Silpert Travel Service Co., Ltd. | d | - | - | - | - | - | - | - | 5,404 | 2 | 5,404 |
| Other related parties (Note 4) | | - | - | - | - | - | 6,173 | 2 | - | - | 6,173 |
| | | $ 1,099 | 53 | $ 955 | 47 | $ 2,054 | $ 317,508 | 88 | $ 43,058 | 12 | $ 360,566 |

Note 1: a. Equity-method investee.
b. An investee of an equity-method subsidiary.
c. An investee of an equity-method subsidiary is its chairman.
d. Its chairman is a relative of the Parent Company's chairman.
e. The Parent Company's chairman is its director

Note 2: Percentage of specific account balance.

Note 3: Other Related Parties including:

a. An investee of an equity-method subsidiary: Jhen Vei Electronic (Shenzhen) Co., Ltd. and Jhen Vei Electronic (Wujian) Co., Ltd.
b. The Parent Company's chairman is its director: Co Tech Copper Foil Corp.

Note 4: An investee of an equity-method subsidiary: Jhen Vei Electronic (Shenzhen) Co., Ltd.

Note 5: Significant intercompany transactions have already been eliminated.

TABLE 2

## LITE-ON TECHNOLOGY CORPORATION AND SUBSIDIARIES

**RELATED-PARTY TRANSACTIONS**
**YEARS ENDED DECEMBER 31, 2012 AND 2011**
**(In Thousands of New Taiwan Dollars)**

| Related Party | Nature of Relationship (Notes 1 and 7) | Sales (Note 2) | | Purchases (Note 2) | | Rental Revenue | Other Revenue | Rental Expense | Other Expense (Note 4) | Property Transaction | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Amount | % (Note 3) | Amount | % (Note 3) | | | | | Book Value | Proceeds | Disposal Gain (Loss) | Cost |
| 2012 | | | | | | | | | | | | | |
| Lite-On Semiconductor Corp. | a | $ 259,521 | - | $ 2,806,542 | 2 | $ - | $ 3,598 | $ - | $ - | $ - | $ - | $ - | $ - |
| Lite-On Cultural Foundation | d | 91 | - | - | - | 344 | 46 | - | 1,413 | - | - | - | - |
| Chi Mei Machinery Corp. | b | - | - | 38,208 | - | - | 920 | - | 12,073 | - | - | - | - |
| Silpert Travel Service Co., Ltd. | c | - | - | - | - | 57 | - | - | 109,951 | - | - | - | - |
| Actron Technology Corp. | e | - | - | - | - | - | 540 | - | - | - | - | - | - |
| Lite-Space Technology Company Limited. | f | - | - | 244,302 | - | - | - | - | - | - | - | - | - |
| Other related parties (Note 5) | | 3,024 | - | 4,569 | - | - | - | - | - | - | - | - | - |
| | | $ 262,636 | - | $ 3,093,621 | 2 | $ 401 | $ 5,104 | $ - | $ 123,437 | $ - | $ - | $ - | $ - |
| 2011 | | | | | | | | | | | | | |
| Lite-On Semiconductor Corp. | a | $ 65,356 | - | $ 2,776,066 | 1 | $ - | $ 3,508 | $ - | $ - | $ - | $ - | $ - | $ - |
| Lite-On Cultural Foundation | d | 115 | - | - | - | 344 | 47 | - | 7,466 | - | - | - | - |
| Chi Mei Machinery Corp. | b | - | - | 75,060 | - | - | 914 | - | 28,568 | - | - | - | - |
| Silpert Travel Service Co., Ltd. | c | - | - | - | - | 57 | - | - | 106,642 | - | - | - | - |
| Actron Technology Corp. | e | - | - | - | - | - | 563 | - | - | - | - | - | - |
| Other related parties (Note 6) | | 3,025 | - | 45,425 | - | - | - | - | - | - | - | - | - |
| | | $ 68,496 | - | $ 2,896,551 | 1 | $ 401 | $ 5,032 | $ - | $ 142,676 | $ - | $ - | $ - | $ - |

Note 1:
a. Equity-method investee.
b. An investee of an equity-method subsidiary is its chairman.
c. Its chairman is a relative of the Parent Company's chairman.
d. The Parent Company is its main contributor.
e. The Parent Company's chairman is its director.
f. An investee of an equity-method subsidiary.

Note 2: Except for transactions disclosed in Note 25, the sales prices and payment terms to related parties were not significantly different from those of sales to third parties.

Note 3: Percentage of specific account balance.

Note 4: Mainly included travel fees and repair expenses.

Note 5: Other related parties including:

a. An investee of an equity-method subsidiary: Jhen Vei Electronic (Shenzhen) Co., Ltd.
b. The Parent Company's chairman is its director: Co Tech Copper Foil Corp.

(Continued)

Note 6: Other related parties including:

a. An investee of an equity-method subsidiary: Jhen Vei Electronic Co., Ltd., Jhen Vei Electronic (Wujian) Co., Ltd. and Jhen Vei Electronic (Shenzhen) Co., Ltd.
b. The Parent Company's chairman is its director: Co Tech Copper Foil Corp.

Note 7: Significant intercompany transactions between the entities of consolidation have already been eliminated

(Concluded)

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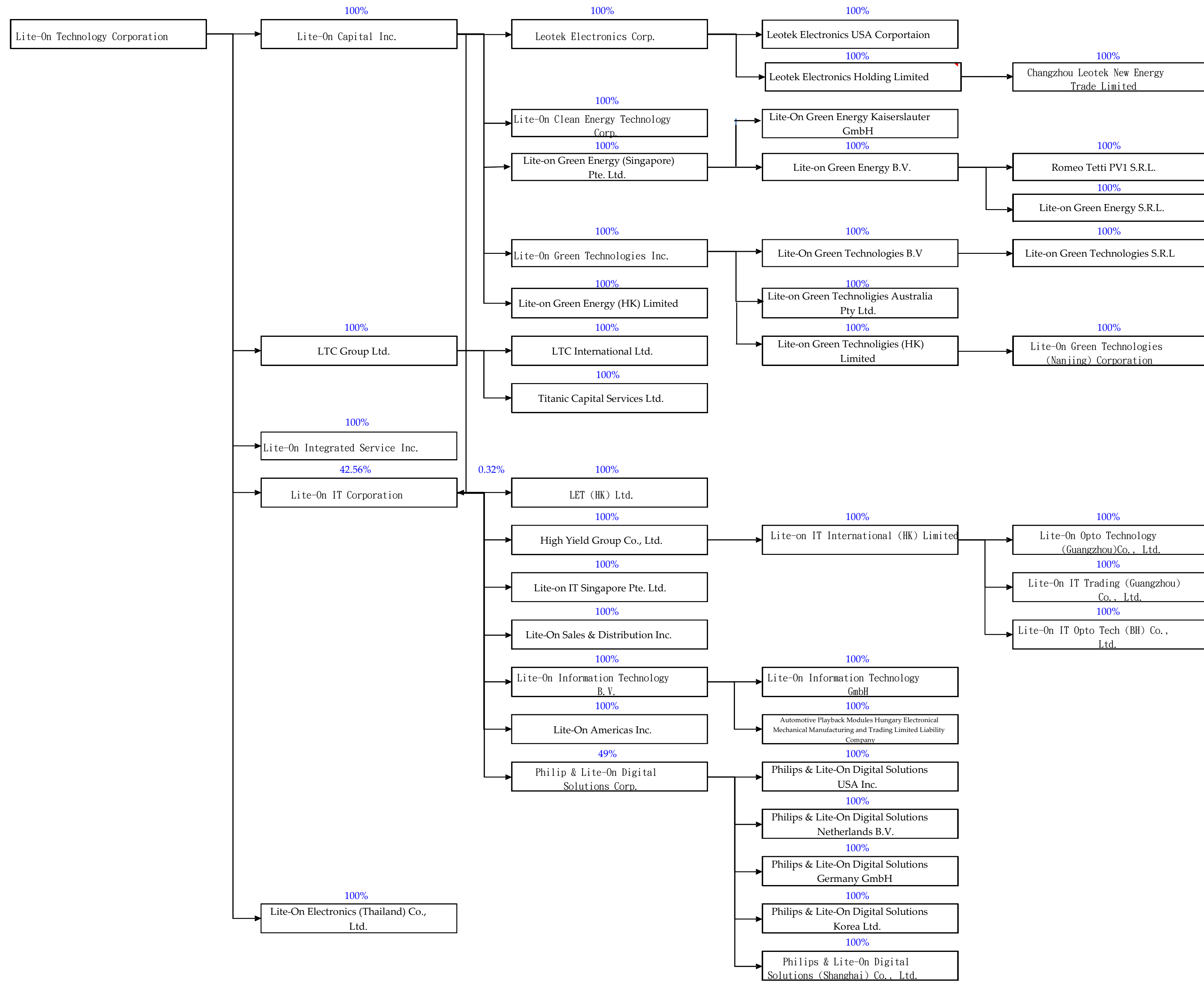
TABLE 3

# LITE-ON TECHNOLOGY CORPORATION AND SUBSIDIARIES

**INTERCOMPANY RELATIONSHIPS AND PERCENTAGES OF OWNERSHIP**
**YEARS ENDED DECEMBER 31, 2012 AND 2011**

December 31, 2012

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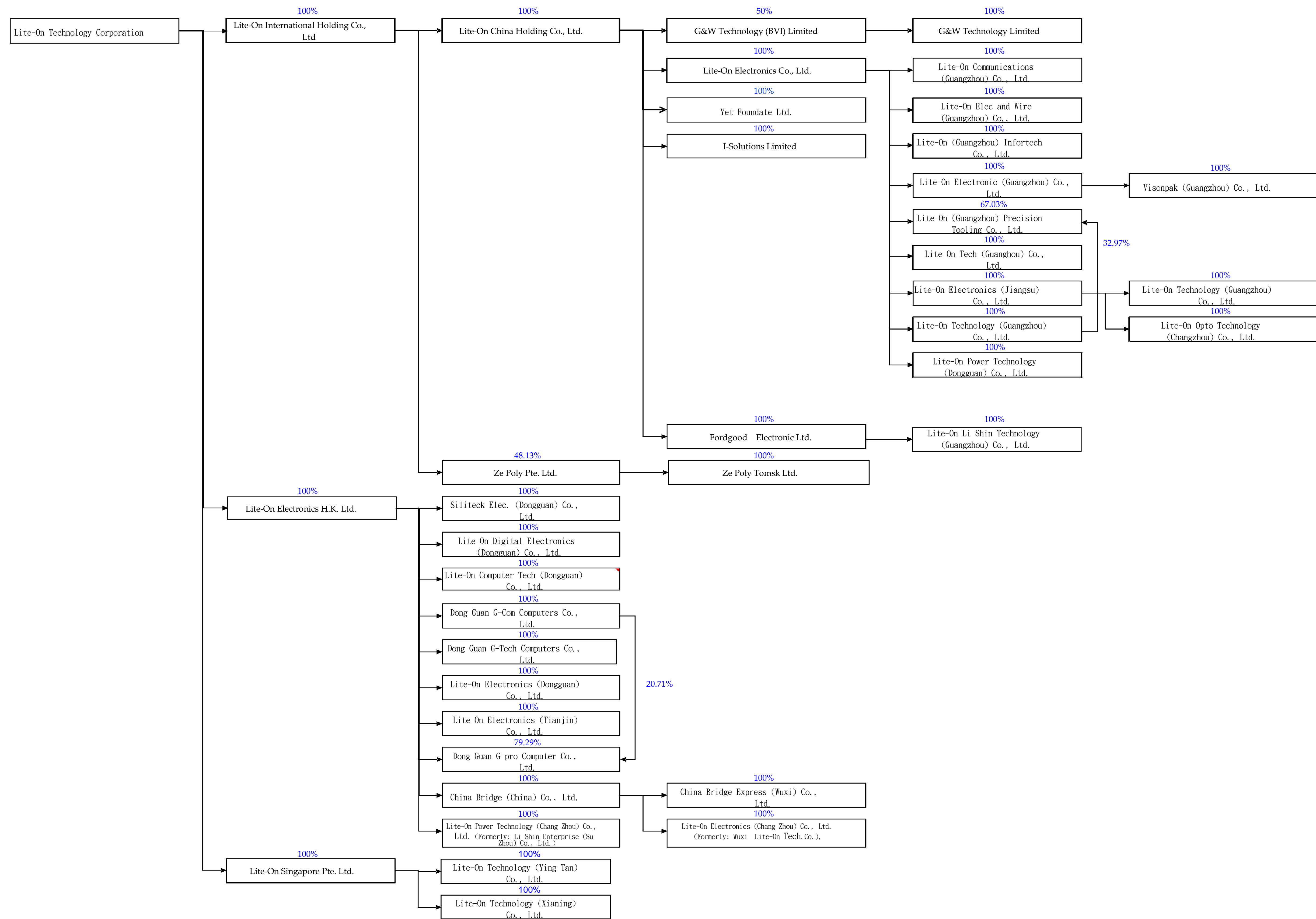


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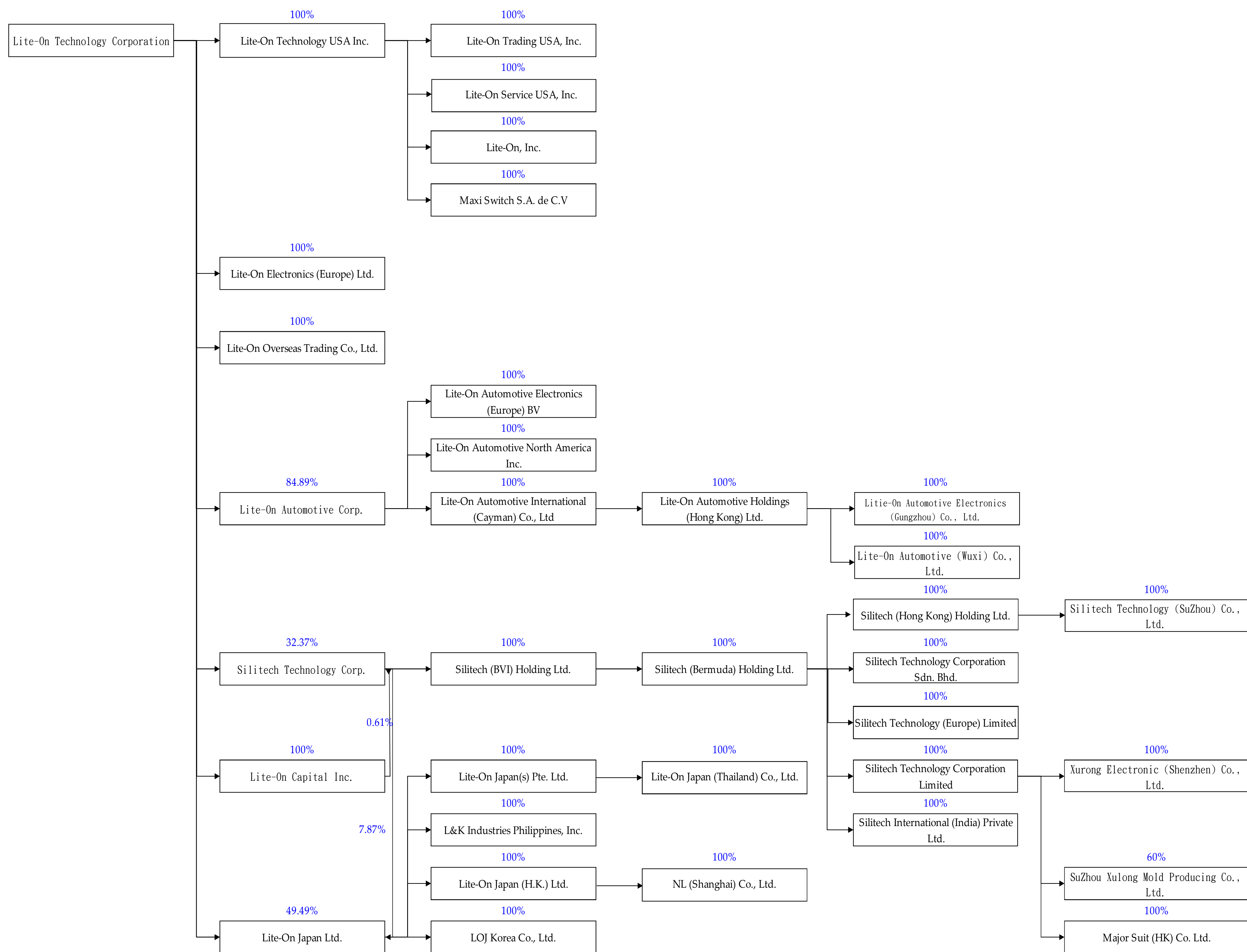


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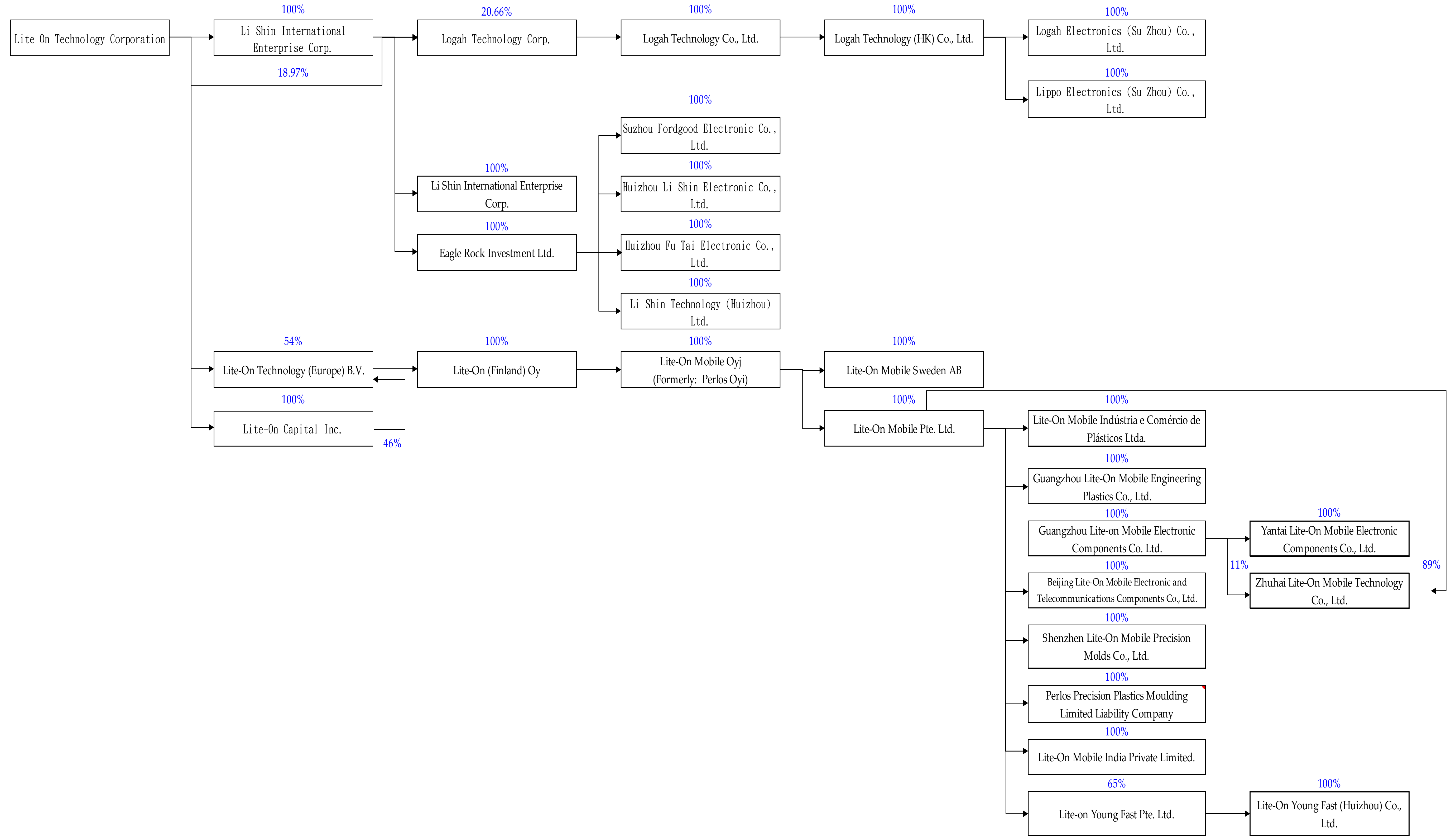


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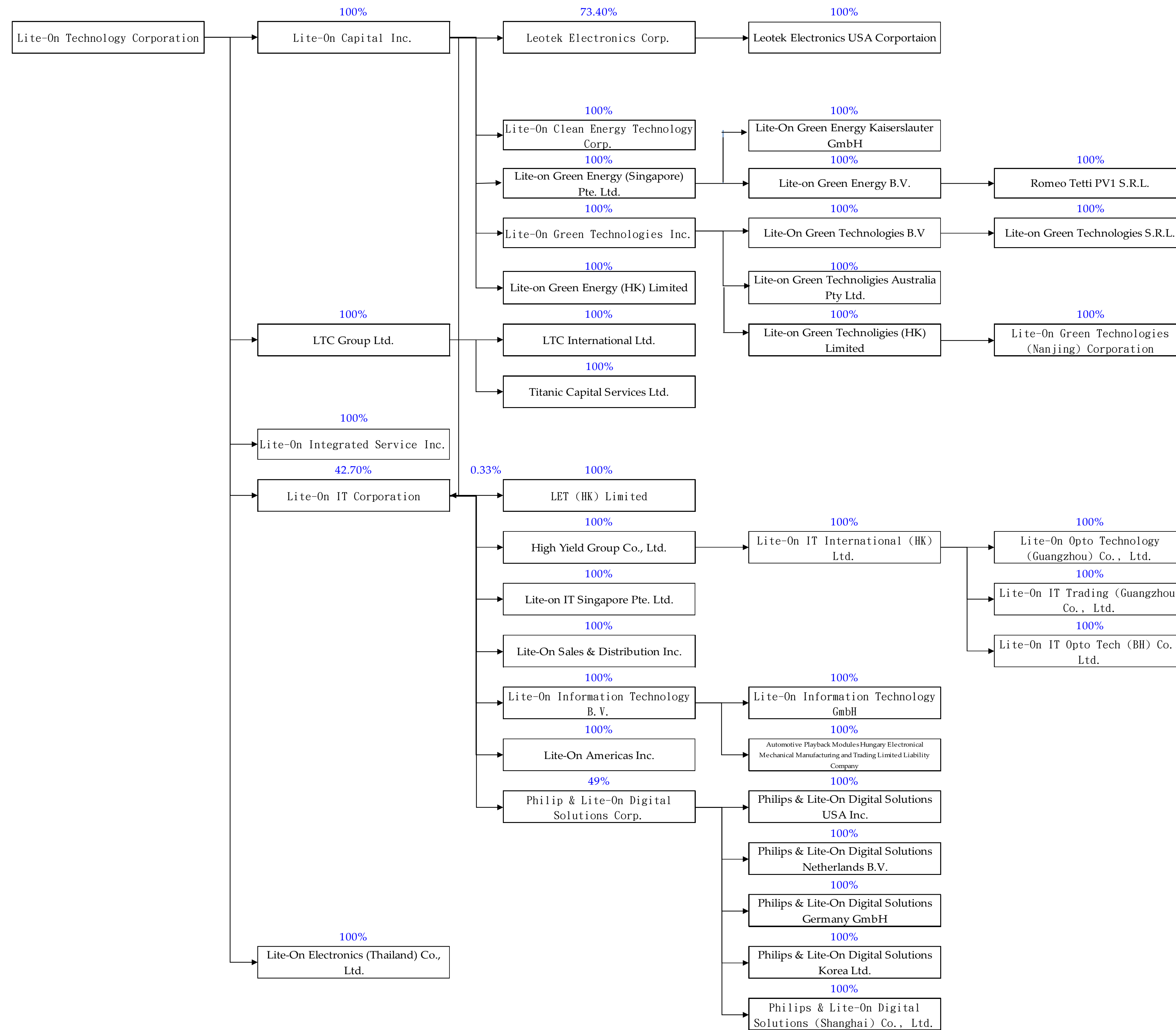
December 31, 2011

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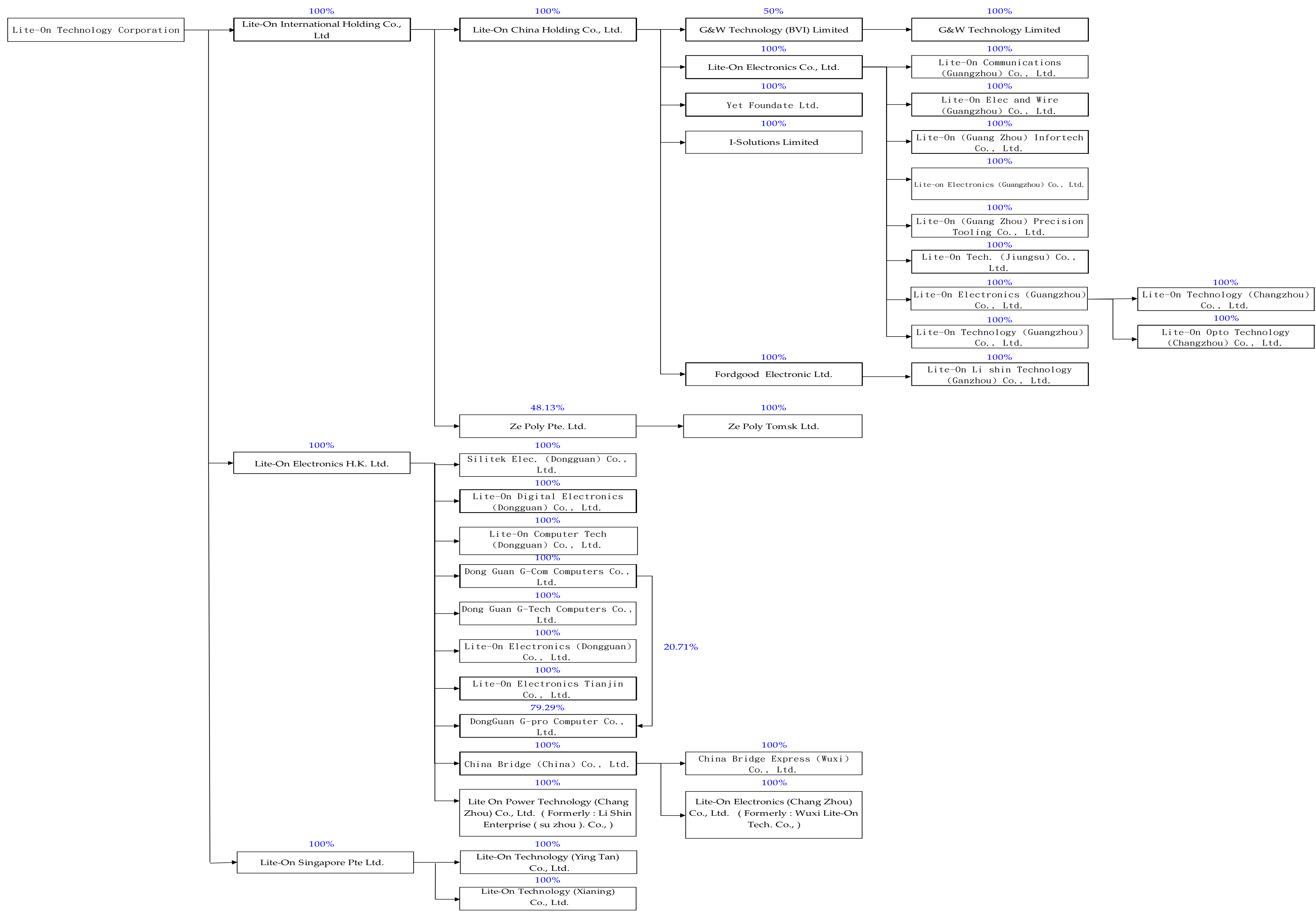


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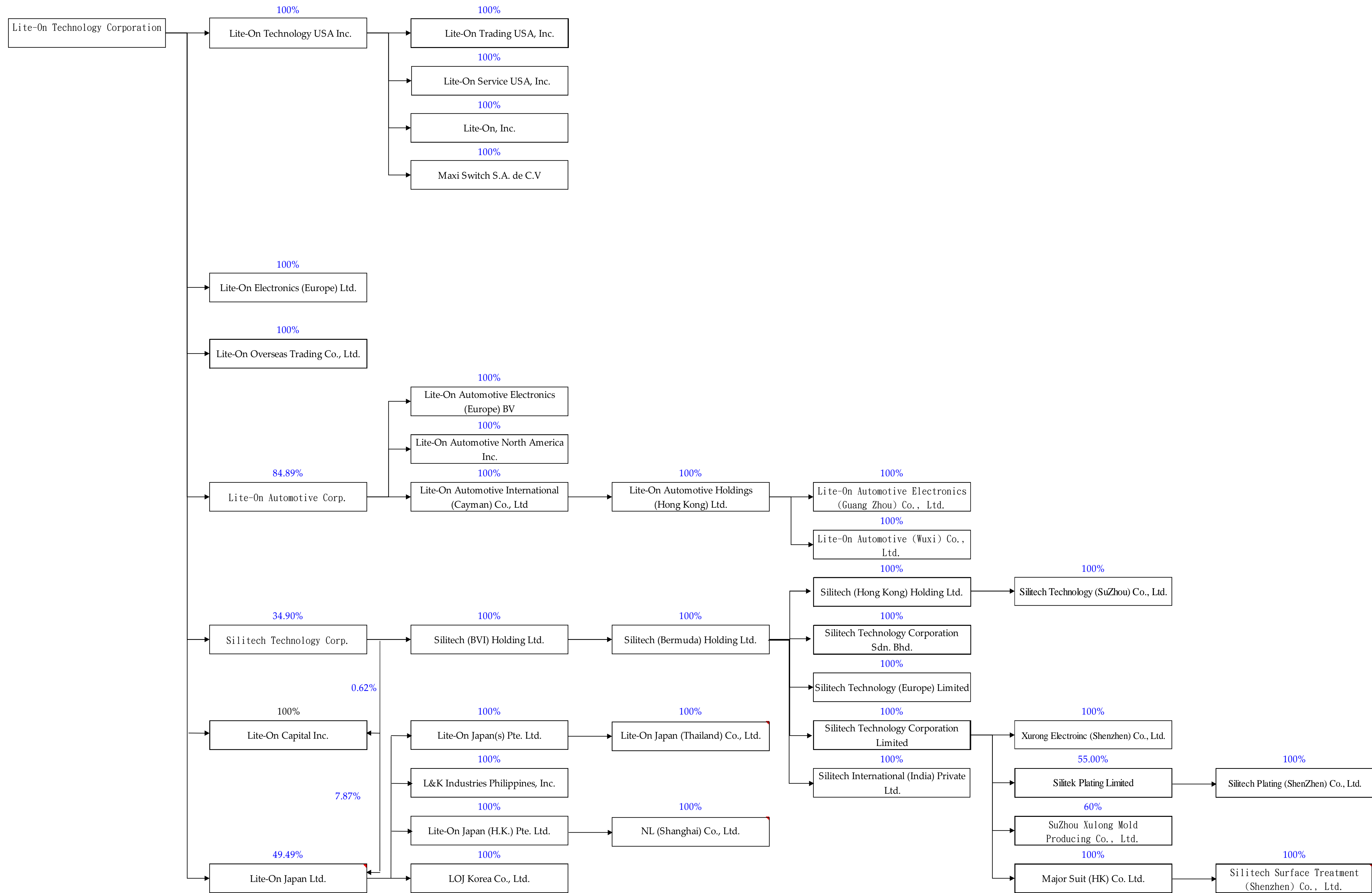


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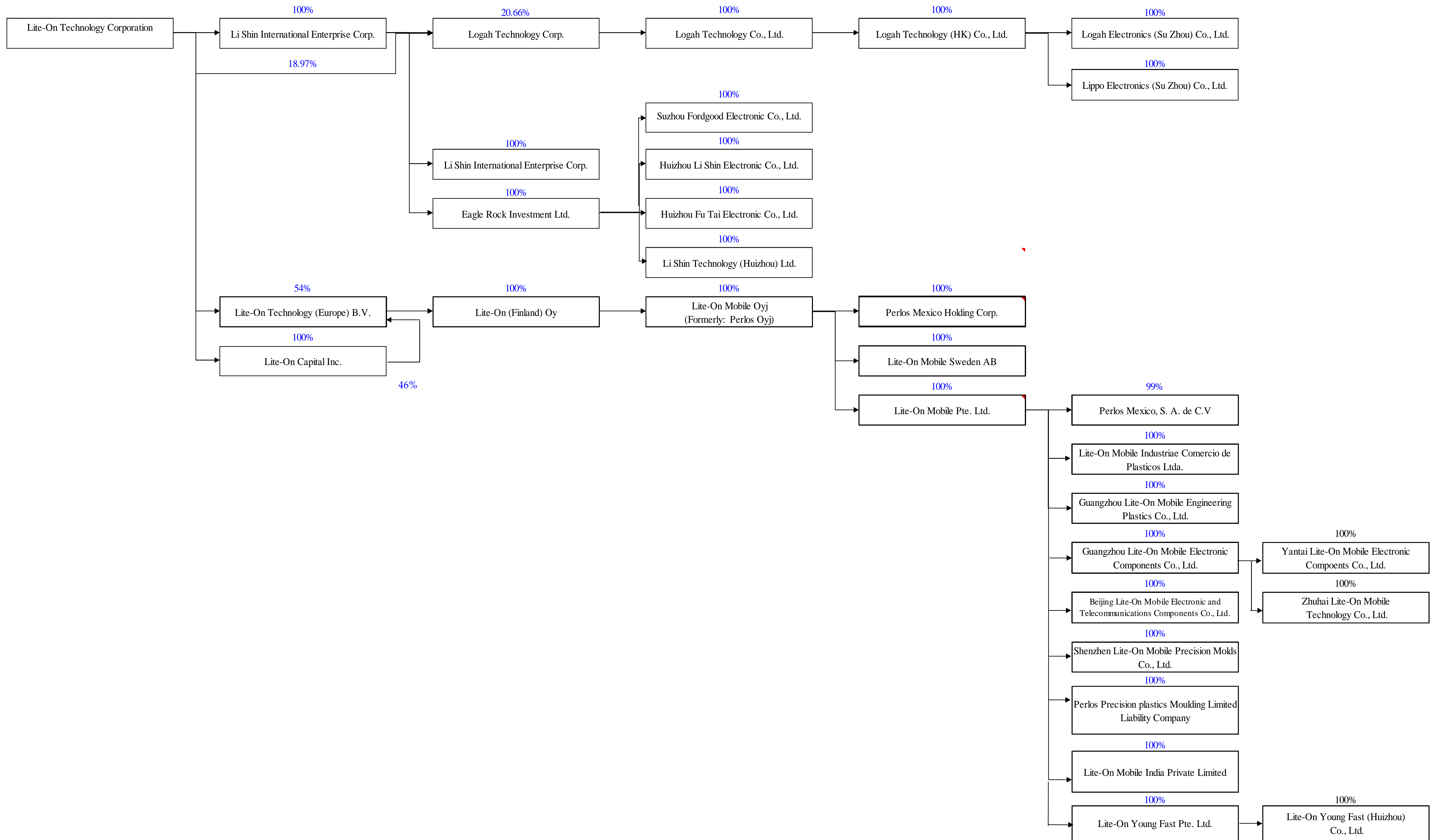


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