(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

(With Independent Accountants' Audit Report Thereon)

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(English Translation of Financial Report Originally Issued in Chinese)

AUDIT REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of

Pegatron Corporation

We have audited the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries (the "Group") as of December 31, 2013, December 31, 2012, and January 1, 2012, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express the audit report based on our audits. We did not audit the financial statements of certain consolidated subsidiaries with total assets of NT$75,535,915 thousand, NT$81,993,682 thousand and NT$77,443,109 thousand, representing 18.16%, 20.74% and 25.86% and net sales of NT$79,551,772 thousand and NT$104,792,707 thousand, representing 8.38% and 11.89% of the related consolidated total as of and for the years ended December 31, 2013 and 2012, respectively. Also, we did not audit the long-term investments in other companies of NT$963,555 thousand, NT$1,368,412 thousand and NT$2,453,051 thousand, representing 0.23%, 0.35% and 0.82% of consolidated total assets as of December 31, 2013, December 31, 2012, and January 1,2012, respectively, and the related investment income (loss) thereon of NT$(49,759) thousand and NT$62,586 thousand, representing (0.26)% and 0.44% of consolidated net income before tax for the years ended December 2013 and 2012, respectively. The financial statements of these subsidiaries and investees accounted for under the equity method were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, were based solely on the reports of other auditors.

We conducted our audits in accordance with "Regulation Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit 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 report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Consolidated Company as of December 31, 2013, December 31, 2012 and January 1 2012, and the results of their operations and their cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations as endorsed by the Financial Supervisory Commission.

We have also audited the non-consolidated financial statements of the Company as of and for the years ended December 31, 2013 and 2012 and have issued modified unqualified audit report thereon.

CPA: Ulyos Maa
Securities and Futures Commission,
Ministry of Finance, R.O.C. regulation
(88) Tai-Tsai-Jung (6) No. 18311

March 24, 2014

Notes to Readers

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

For the convenience of readers, the accountants' 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 accountants' report and financial statements shall prevail.

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013, DECEMBER 31, 2012, AND JANUARY 1, 2012
(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2013		December 31, 2012		January 1, 2012	
ASSETS	**Amount**	%	**Amount**	%	**Amount**	%
Current Assets:						
Cash and cash equivalents (Notes 6(1) and(26))	$ 74,261,306	18	59,424,124	15	49,587,260	17
Financial assets at fair value through profit or loss－current (Notes 6(2) and (26))	7,018,321	2	7,534,036	2	6,417,685	2
Available-for-sale financial assets－current (Notes 6(2) and (26))	431,458	-	505,919	-	498,317	-
Notes and accounts receivable, net (Note 6(3))	104,037,288	26	116,957,480	30	74,522,214	25
Accounts receivable, net－Related parties (Note 7)	198	-	5,766,184	1	9,702,080	3
Other receivables, net (Note 6(3))	29,198,019	7	15,793,738	4	2,184,857	1
Inventories (Note 6(4))	103,598,872	25	92,678,084	23	65,591,611	22
Non-current assets classified as held for sale, net (Note 6(5))	365,243	-	-	-	-	-
Other financial assets－current (Notes 6(10) and (26))	1,836,937	-	846,823	1	845,609	-
Other current assets (Note 6(10))	6,187,337	1	8,744,150	2	5,096,334	2
	326,934,979	79	308,250,538	78	214,445,967	72
Non-current assets:						
Available-for-sale financial assets－noncurrent (Notes 6(2) and (26))	1,156,550	-	1,283,328	-	588,297	-
Financial assets carried at cost－noncurrent (Notes 6(2) and (26))	539,645	-	498,134	-	531,122	-
Investments accounted for using equity method (Note 6(6))	1,187,753	-	1,607,697	-	2,703,438	1
Property, plant and equipment (Notes 6(7))	73,916,654	18	73,179,119	19	67,398,930	23
Investment property, net (Notes 6(8))	659,131	-	669,511	-	681,219	-
Intangible assets (Note 6(9))	1,969,832	1	2,770,545	1	3,278,425	1
Deferred tax assets (Note 6(18))	3,100,485	1	2,379,076	1	1,488,046	-
Prepayments on purchase of equipment	1,482,165	-	925,351	-	5,321,295	2
Other financial assets－noncurrent (Notes 6(10) and (26))	1,236,088	-	306,996	-	297,065	-
Long-term prepaid rents (Note 6(16))	3,645,795	1	3,385,492	1	2,673,871	1
Other noncurrent assets (Note 6(10))	66,447	-	98,952	-	99,558	-
	88,960,545	21	87,104,201	22	85,061,266	28
TOTAL ASSETS	**$ 415,895,524**	**100**	**395,354,739**	**100**	**299,507,233**	**100**

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONT'D)

DECEMBER 31, 2013, DECEMBER 31, 2012, AND JANUARY 1, 2012

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
LIABILITIES						
Current Liabilities:						
Short-term loans (Notes 6(11) and (26))	$ 23,014,478	6	19,613,159	5	22,773,366	8
Short-term notes and bills payable (Notes 6(12) and (26))	79,978	-	99,993	-	219,936	-
Financial liabilities at fair value through profit or loss－current (Notes 6(2) and (26))	7,443	-	69,084	-	102,583	-
Notes and accounts payable (Note 6(26))	158,190,860	38	171,833,654	44	97,543,134	33
Accounts payable－Related parties (Notes 6(26) and 7)	482,670	-	546,850	-	2,296,908	1
Accrued expenses (Notes 6(17), 6(26) and 7)	19,204,565	5	16,680,325	4	12,888,138	4
Other payables (Notes 6(17), 6(26) and 7)	5,765,144	1	5,202,976	1	7,793,539	3
Current income tax liabilities	3,377,651	-	3,672,048	1	1,862,250	1
Provisions－current (Note 6(15))	450,902	-	267,181	-	264,982	-
Deferred revenue	4,707,546	1	2,636,838	1	1,284,033	-
Long-term loans payable－current portion (Notes 6(13), 6(14) and 6(26))	9,019,299	2	8,850,852	2	913,849	-
Other current liabilities	14,972,328	4	8,630,159	2	3,603,104	1
	239,272,864	57	238,103,119	60	151,545,822	51
Non-current liabilities:						
Financial liabilities at fair value through profit or loss－noncurrent (Notes 6(2), 6(14) and 6(26))	235,162	-	759,815	-	-	-
Bonds payable (Notes 6(14) and 6(26))	8,116,490	2	7,656,181	2	1,404,707	1
Long-term loans (Notes 6(13) and 6(26))	20,591,684	5	18,988,171	5	27,353,419	9
Deferred tax liabilities (Note 6(18))	2,454,452	1	1,497,039	1	664,479	-
Other noncurrent liabilities (Note 6(17))	1,169,693	-	712,833	-	608,010	-
	32,567,481	8	29,614,039	8	30,030,615	10
Total Liabilities	271,840,345	65	267,717,158	68	181,576,437	61
Equity Attributable to Owners of the Company (Note 6(19))						
Share capital	23,211,555	6	22,903,049	6	22,563,669	7
Capital surplus:						
Capital surplus, premium on capital stock	61,420,285	15	60,393,247	15	60,393,247	20
Capital surplus, others	1,755,534	-	1,329,863	-	609,828	-
	63,175,819	15	61,723,110	15	61,003,075	20
Retained earnings:						
Legal reserve	2,458,117	-	1,847,737	1	1,836,601	1
Special reserve	3,280,485	1	734,859	-	4,327,629	1
Unappropriated retained earnings (Note 6(18))	15,405,350	4	12,422,970	3	2,458,391	1
	21,143,952	5	15,005,566	4	8,622,621	3
Other equity interest:						
Exchange differences on translation of foreign financial statements	(48,637)	-	(3,398,256)	(1)	(784,234)	-
Unrealized gains on available-for-sale financial assets	79,871	-	88,302	-	37,951	-
Deferred compensation cost arising from issuance of restricted stock (Note 6(20))	(241,370)	-	(497,698)	-	-	-
	(210,136)	-	(3,807,652)	(1)	(746,283)	-
Treasury stock	(17,396)	-	(18,794)	-	(18,794)	-
Equity attributable to owners of the parent	107,303,794	26	95,805,279	24	91,424,288	30
Non-controlling interests	36,751,385	9	31,832,302	8	26,506,508	9
Total Equity	144,055,179	35	127,637,581	32	117,930,796	39
TOTAL LIABILITIES AND EQUITY	**$ 415,895,524**	**100**	**395,354,739**	**100**	**299,507,233**	**100**

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Years ended December 31			
	2013		2012	
	Amount	%	Amount	%
Operating revenues (Note 6(23))	$ 953,561,313	100	884,212,767	100
Less: Sales returns and allowances	3,809,285	-	3,015,352	-
Net sales	949,752,028	100	881,197,415	100
Cost of sales (Notes 6(4) and 6(16))	904,235,309	95	844,165,031	96
Gross profit	45,516,719	5	37,032,384	4
Operating expenses (Note 6(16))				
Selling expenses	6,545,841	1	4,316,670	1
General and administrative expenses	11,450,715	1	8,448,501	1
Research and development expenses	11,943,411	1	12,055,625	1
	29,939,967	3	24,820,796	3
Results from operating activities	15,576,752	2	12,211,588	1
Non-operating income and expenses (Note 6(24))				
Other income	2,714,809	-	2,142,647	-
Other gains and losses	2,322,001	-	1,353,750	-
Financial costs	(1,301,253)	-	(1,301,901)	-
Share of (loss) profit of associates and joint ventures accounted for under equity method (Note 6(6))	(75,586)	-	59,484	-
Other losses	(206,851)	-	(286,371)	-
	3,453,120	-	1,967,609	-
Profit before tax	19,029,872	2	14,179,197	1
Income tax expense (Note 6(18))	4,782,625	-	3,843,016	-
Profit for the year	**14,247,247**	**2**	**10,336,181**	**1**
Other comprehensive income (Notes 6(17) and 6(19))				
Foreign currency translation differences－foreign operations	3,969,608	-	(2,988,136)	-
Unrealized (loss) gain on available-for-sale financial assets	(64,975)	-	82,165	-
Defined benefit plan acturial gain (loss)	32,318	-	(77,335)	-
Income tax relating to components of other comprehensive income	20,230	-	(5,679)	-
Other comprehensive income for the year, net of tax	3,916,721	-	(2,977,627)	-
Total comprehensive income for the year	**$ 18,163,968**	**2**	**7,358,554**	**1**
Profit attributable to				
Owners of the parent	$ 9,554,496	2	6,382,945	1
Non-controlling interests	4,692,751	-	3,953,236	-
	$ 14,247,247	2	10,336,181	1
Comprehensive income attributable to				
Owners of the parent	$ 12,903,831	1	3,819,274	-
Non-controlling interests	5,260,137	1	3,539,280	1
	$ 18,163,968	**2**	**7,358,554**	**1**
Earnings per share, net of tax (Note 6(22))				
Basic earnings per share	**$**	**4.16**		**2.83**
Diluted earnings per share	**$**	**3.74**		**2.43**

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

(English Translations of Financial Statements Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Expressed in Thousands of New Taiwan Dollars)

	Attributable to Owners of the Company															
					Retained earnings				Other adjustments to equity							
	Common stock	Advance receipts for share capital	Total	Capital surplus	Legal reserve	Special reserve	Retained earnings	Total	Foreign currency translation differences	Unrealized gains (losses) on available-for-sale financial assets	Others	Total	Treasury stock	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance, January 1, 2012	$ 22,563,669	-	22,563,669	61,003,075	1,836,601	4,327,629	2,458,391	8,622,621	(784,234)	37,951	-	(746,283)	(18,794)	91,424,288	26,506,508	117,930,796
Profit for the year	-	-	-	-	-	-	6,382,945	6,382,945	-	-	-	-	-	6,382,945	3,953,236	10,336,181
Other comprehensive income for the year	-	-	-	-	-	-	-	-	(2,614,022)	50,351	-	(2,563,671)	-	(2,563,671)	(413,956)	(2,977,627)
Total comprehensive income for the year	-	-	-	-	-	-	6,382,945	6,382,945	(2,614,022)	50,351 -	-	(2,563,671)	-	3,819,274	3,539,280	7,358,554
Appropriation and distribution of retained earnings																
Legal reserve	-	-	-	-	11,136	-	(11,136)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	(3,592,770)	3,592,770	-	-	-	-	-	-	-	-	-
Other changes in capital surplus																
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	127,197	-	-	-	-	-	-	-	-	-	127,197	(127,197)	-
Share-based payments	-	-	-	114,472	-	-	-	-	-	-	-	-	-	114,472	-	114,472
Compensation cost arising from restricted shares of stock	339,380	-	339,380	478,366	-	-	-	-	-	-	(497,698)	(497,698)	-	320,048	-	320,048
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,913,711	1,913,711
Balance, December 31, 2012	22,903,049	-	22,903,049	61,723,110	1,847,737	734,859	12,422,970	15,005,566	(3,398,256)	88,302	(497,698)	(3,807,652)	(18,794)	95,805,279	31,832,302	127,637,581
Profit for the period	-	-	-	-	-	-	9,554,496	9,554,496	-	-	-	-	-	9,554,496	4,692,751	14,247,247
Other comprehensive income for the period	-	-	-	-	-	-	8,147	8,147	3,349,619	(8,431)	-	3,341,188	-	3,349,335	567,386	3,916,721
Total comprehensive income for the period	-	-	-	-	-	-	9,562,643	9,562,643	3,349,619	(8,431)	-	3,341,188	-	12,903,831	5,260,137	18,163,968
Appropriation and distribution of retained earnings																
Legal reserve	-	-	-	-	610,380	-	(610,380)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	2,545,626	(2,545,626)	-	-	-	-	-	-	-	-	-
Common stock dividends	-	-	-	-	-	-	(3,435,457)	(3,435,457)	-	-	-	-	-	(3,435,457)	-	(3,435,457)
Other changes in capital surplus																
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	725,504	-	-	-	-	-	-	-	-	-	725,504	(608,841)	116,663
Disposal of the Company's share by its subsidiary recognized as treasury share transaction	-	-	-	1,955	-	-	-	-	-	-	-	-	2,178	4,133	-	4,133
Share-based payments	258,960	7,210	266,170	557,408	-	-	-	-	-	-	-	-	-	823,578	-	823,578
Expiration of restricted shares of stock issued to employees	(18,284)	-	(18,284)	19,064	-	-	-	-	-	-	-	-	(780)	-	-	-
Compensation cost arising from restricted shares of stock	60,620	-	60,620	148,778	-	-	11,200	11,200	-	-	256,328	256,328	-	476,926	-	476,926
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	267,787	267,787
Balance, December 31, 2013	**$ 23,204,345**	**7,210**	**23,211,555**	**63,175,819**	**2,458,117**	**3,280,485**	**15,405,350**	**21,143,952**	**(48,637)**	**79,871**	**(241,370)**	**(210,136)**	**(17,396)**	**107,303,794**	**36,751,385**	**144,055,179**

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2013	2012
Cash flows from operating activities:		
Profit before tax	$ 19,029,872	14,179,197
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	13,332,674	12,396,933
Amortization	592,146	682,957
Allowance (reversal of allowance) for uncollectable accounts	1,587,222	(47,910)
Net gain on financial assets or liabilities at fair value through profit or loss	(628,347)	(666,767)
Interest expense	817,030	997,496
Interest income	(879,927)	(753,803)
Amortization of discount on bonds payable	245,683	233,130
Amortization of issuance costs on bonds payable	12,787	11,537
Compensation cost arising from employee stock options	533,654	245,046
Loss (gain) on foreign currency exchange of bonds payable	212,436	(156,066)
Loss on redemption of bonds payable	6,065	-
Share of loss (profit) of associates and joint ventures accounted for under equity method	75,586	(59,484)
Loss (gain) on foreign currency exchange on long-term loans	688,088	(944,775)
Loss on disposal of property, plant and equipment	374,085	261,185
Property, plant and equipment charged to expenses	67,611	57,926
Gains on disposals of intangible assets	-	(64)
Impairment loss	173,619	508,555
Gain on disposal of investments	(34,927)	(3,982)
Loss (gain) on disposal of investments accounted for using equity method	2,166	(387,648)
Long-term prepaid rent charged to expenses	77,427	64,891
Amortization of difference between cost and net equity	-	1,114
	17,255,078	12,440,271
Change in operating assets and liabilities		
Change in operating assets		
Decrease (increase) in financial assets reported at fair value through profit or loss	609,294	(985,007)
Decrease (increase) in notes and accounts receivable	17,098,956	(38,454,773)
Increase in other accounts receivable	(13,373,882)	(13,563,015)
Increase in inventories	(10,920,788)	(27,095,945)
Increase in other financial assets	(990,114)	(1,214)
Decrease (increase) in other current assets	2,329,320	(3,901,493)
Decrease in other noncurrent assets	32,943	2,417
Total changes in operating assets	(5,214,271)	(83,999,030)
Change in operating liabilities		
Increase (decrease) in financial liabilities reported at fair value through profit or loss	7,345	(1,501)
Increase (decrease) in accounts payable	(13,706,974)	72,569,232
Increase in accured expense	2,431,232	3,701,624
Increase in other accounts payable	921,521	1,105,134
Increase in deferred revenue	2,461,035	1,352,805
Increase in provisions－current	183,721	2,199
Increase in other current liabilities	6,342,168	5,151,912
Increase in other non-current liabilities	95,422	106,227
Total changes in operating liabilities	(1,264,530)	83,987,632
Net changes in operating assets and liabilities	(6,478,801)	(11,398)
Cash provided by operating activities	29,806,149	26,608,070
Interest received	851,416	706,880
Dividend received	49,707	46,653
Interest paid	(711,288)	(911,037)
Income taxes paid	(4,925,480)	(1,866,170)
Net cash provided by operating activities	**25,070,504**	**24,584,396**

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
Cash flows from investing activities	**2013**	**2012**
Acquisition of available-for-sale financial assets	(87,040)	-
Proceeds from disposal of available-for-sale financial assets	278,836	123,455
Acquisition of financial assets at cost	(59,410)	(75,000)
Proceeds from disposal of financial assets at cost	10,468	-
Acquisition of investments accounted for using equity method	(30,271)	-
Proceeds from disposal of subsidiaries	300,217	662,186
Proceeds from capital reduction of investments accounted for using equity method	8,330	17,054
Acquisition of property, plant and equipment	(11,116,474)	(15,749,817)
Proceeds from disposal of property, plant and equipment	1,374,163	1,254,228
Increase in other financial assets	(929,092)	(9,931)
Acquisition of intangible assets	(80,788)	(249,087)
Proceeds from disposal of intangible assets	27	736
Increase in prepayments on purchase of equipment	(2,198,292)	(5,770,869)
Increase in long-term prepaid rents	(153,898)	(742,090)
Net cash used in investing activities	**(12,683,224)**	**(20,539,135)**
Cash flows from financing activities		
Increase (decrease) in short-term loans	3,401,319	(3,160,207)
Decrease in short-term notes and bills payable	(22,704)	(119,943)
Proceeds from issuance of bonds payable	-	8,835,640
Repayments of bonds	(1,513,281)	-
Proceeds from long-term loans	12,605,065	499,306
Repayments of long-term loans	(10,063,179)	(1,382,965)
Dividends paid	(5,736,566)	(2,175,416)
Employee stock options	762,661	1,862
Proceeds from sale of treasury shares	10,597	-
Proceeds from issuance of restricted stock	60,620	339,380
Change in non-controlling interests	2,356,179	3,872,596
Net cash provided by financing activities	**1,860,711**	**6,710,253**
Effect of exchange rate fluctuations on cash held	589,191	(918,650)
Net increase in cash and cash equivalents	14,837,182	9,836,864
Cash and cash equivalents, beginning of the year	59,424,124	49,587,260
Cash and cash equivalents, end of the year	**$ 74,261,306**	**59,424,124**

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 AND 2012

(Amounts Expressed in Thousands of New Taiwan Dollars,

Except for Per Share Information and Unless Otherwise Stated)

1. COMPANY HISTORY

Pegatron Corporation (the "Company") was established on June 27, 2007. The Company's registered office address is located at 5F., No.76, Ligong St., Beitou District, Taipei City 112, Taiwan. In order to enhance competitiveness and boost productivity, the Company resolved to absorb the OEM business from ASUSTek Computer Inc. on January 1, 2008 as part of the Company's business restructuring. On April 1, 2008, ASUSALPHA Computer Inc. was merged with the Company. The main activities of the Company are to produce, design and sell OEM business. In January 2010, pursuant to the resolutions of the respective board of directors, the Company merged with Pegatron International Investment Co., Ltd., effective June 10, 2010. As the surviving entity from this merger, the Company applied for initial public offering (IPO) to TSEC. The Company's shares were listed on TSEC on June 24, 2010.

In accordance with Article 19 of the Business Mergers and Acquisitions Act, the Company merged with its subsidiary, UNIHAN CORPORATION, pursuant to the resolutions of the board of directors in November, 2013.

The consolidated financial statements of the Company as of and for the year ended December 31, 2013 and 2012 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities.

2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements were authorized for issue by the Board of Directors on March 24, 2014.

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

(1) New standards and interpretations endorsed by the Financial Supervisory Commissions R.O.C. ("FSC") but not yet in effective

International Accounting Standards Board ("IASB") issued International Financial Reporting Standard 9 Financial instruments ("IFRS 9"), which is effective on January 1, 2013. Although this standard had been endorsed by the FSC; its effective date has not been announced. In accordance with the rules by the FSC, early adoption of this new standard is not permitted, and companies are required to conform to the guidance of the 2009 version of the International Accounting Standards 39 Financial instruments ("IAS 39"), for the purpose of preparing financial statements before the effective date of this new standard. The adoption of this new standard is expected to have significant impacts to the classification and measurement of financial instruments in the consolidated financial statements.

(2) **New standards and interpretations not yet endorsed by the FSC**

The new standards and amendments issued by the IASB but are not yet endorsed by the FSC that may impact the consolidated financial statements were as follows:

Issue date	New standards and amendments	Description	Effective date per IASB
May 12, 2011 June 28, 2012	・IFRS 10 Consolidated Financial Statements ・IFRS 11 Joint Arrangements ・IFRS 12 Disclosure of Interests in Other Entities ・IAS 27 Separate Financial Statements ・IAS 28 Investment in Associates and Joint Ventures	・On May 12, 2011, the IASB issued a series of standards and amendments related to consolidation, joint arrangements, and investments. ・The new standards provide a single model in determining whether an entity has control over an investee (including special purpose entities), other than consolidation process, in which the original guidance and method applies. In addition, joint arrangements are separated into joint operations (concepts from joint controlled assets and joint controlled operations), and joint venture (concepts from jointly controlled entities), and removal of the proportionate consolidation method. ・On June 28, 2012, transition guidance was issued in connection with the amendments published on May 12, 2011 The adoption of the above standards will change the method of accounting of investees and disclosure for certain subsidiaries and associates.	January 1, 2013
May 12, 2011	・IFRS 13 Fair Value Measurement	・Replaces fair value measurement guidance in other standards, and consolidated as one single guidance	January 1, 2013
June 16, 2011	・IAS 1 Presentation of Financial Statements	・Items presented in other comprehensive income are conditioned that they are potentially reclassifiable to profit or loss subsequently.	July 1, 2012

Issue date	New standards and amendments	Description	Effective date per IASB
June 16, 2011	‧ IAS 9 Employee Benefits	‧ Eliminates the corridor method and eliminates the option to recognize changes in the net defined benefit liability (asset) into profit or loss. Also; it requires the immediate recognition of past service cost	January 1, 2013
November 19, 2013	‧ IFRS 9 Financial Instruments	‧ Under the amendments, which adopt more principle-based regulations, hedge accounting will focus more closely on risk management. The changes include conditions for achieving, continuing and discontinuing the adoption of hedge accounting. Other types of exposures may also qualify as hedged items. If the aforesaid standard is adopted, the number of transactions qualifying for hedge accounting would increase, and the valuation and presentation of related hedge instruments and hedged items would change.	Not yet determined
May 29, 2013	‧ IAS 36 Impairment of Assets	‧ The amendments effective on January 1, 2013 require the disclosure of recoverable amounts of cash generating units if the carrying amount of goodwill or intangible assets with indefinite useful life is significant. Also, the standard has been amended requiring the disclosure of impairment loss recognized (reversed) if an individual impairment loss (reversal) is material. ‧ Also, if recoverable amount is fair value less costs of disposal, the valuation techniques used to measure fair value less costs of disposal and the key assumptions used in the measurement of fair value are categorized within "Level 2" or "Level 3" of the fair value hierarchy.	January 1, 2014 or earlier

4. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and to the consolidated balance sheet as of January 1, 2012 in accordance with the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to as "IFRS as endorsed by the FSC").

(1) Statement of compliance

The accompanying consolidated annual financial statements have been prepared in accordance with the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to the Regulations) and IFRS as endorsed by the FSC.
These are the Group's first consolidated annual financial statements prepared under IFRS (endorsed by the FSC) for purposes of annual financial statements reporting, and IFRS 1 "First-time Adoption of International Financial Reporting Standards." An explanation of how the transition to IFRS has affected the reported financial position, financial performance, and cash flows of the Group is provided in Note 15.

(2) Basis of preparation

A. Basis of measurement

The consolidated financial (quarterly) statements have been prepared on the historical cost basis except for the following material items in the balance sheets:

(a) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;

(b) Available-for-sale financial assets are measured at fair value;

(c) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and

(d) The defined benefit asset is recognized as plan assets, plus unrecognized past service cost, less the present value of the defined benefit obligation.

B. Functional and presentation currency

The functional currency of each Group entities is determined based on the primary economic environment in which the entities operate. The Group consolidated financial statements are presented in New Taiwan Dollar, which is the Company's functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(3) Basis of consolidation

A. Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

B. Acquisition of non-controlling interests

Acquisition of non-controlling interests is accounted for as an equity transaction with owners. Under the aforesaid transaction, goodwill is not recognized.

C. Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

D. Business combination under common control

A business combination under common control is a transaction in which all of the combining entities are ultimately controlled by the same party, both before and after the combination, and the control is not transitory. These combinations often occur in re-organize group activities in which the direct ownership of subsidiaries changes but the ultimate parent remains the same. Business combinations under common control are accounted for in the consolidated accounts prospectively from the date the group obtains the ownership interest. Assets and liabilities are recognized upon consolidation at their carrying amount in the consolidated financial statements of owners of the Company. Any difference between the fair value of the consideration paid and the amounts at which the assets and liabilities are recorded is recognized directly in equity.

E. Losing control

When the Group loses control of a subsidiary it derecognizes the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognized in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

F. List of subsidiaries included in the consolidated financial statements:

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2013.12.31	2012.12.31	2012.01.01	
The Company	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	- %	100.00%	100.00%	Note A
UNIHAN AND ASUSPOWER INVESTMENT	ABILITY ENTERPRISE CO., LTD. (Ability(TW))	Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products and leasing	12.26%	12.31%	12.36%	Note B
Ability (TW)	ABILITY ENTERPRISE (BVI) CO., LTD. (ABILITY)	Investing activities	100.00%	100.00%	100.00%	Note B
Ability (TW)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%	100.00%	Note B
Ability (TW)	VIEWQUEST TECHNOLOGIES INTERNATIONAL INC.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%	100.00%	Note B
Ability (TW)	ASSOCIATION INTERNATIONAL LTD.	Investing activities	- %	- %	100.00%	Note B
Ability (TW)	VIEWQUEST TECHNOLOGIES (BVI) INC. (VQ(BVI))	Manufacturing and trading computer peripherals, digital cameras and electronic components	100.00%	100.00%	100.00%	Note B
Ability (TW)	Ability International Investment Co., Ltd.(ABILITY INVESTMENT)	Investing activities	100.00%	100.00%	100.00%	Note B
Ability (TW)	E-PIN OPTICAL INDUSTRY CO., LTD.(E-PIN)	Selling electronic components of optical products	53.01%	53.01%	53.01%	Note B
ABILITY	Ability Technology (Dongguan) Co., Ltd	Manufacturing and selling digital cameras	100.00%	100.00%	100.00%	Note B
ABILITY	Jiujiang Viewquest Electronics Inc.	Manufacturing and selling digital cameras	100.00%	100.00%	100.00%	Note B
VQ(BVI)	VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD.	Manufacturing and selling digital cameras	100.00%	100.00%	100.00%	Note B
E-PIN	E-PIN INTERNATIONAL TECH CO., LTD.	Manufacturing optical instruments	- %	- %	65.10%	Note B
E-PIN	E-PIN OPTICAL INDUSTRY CO., LTD.	Trading activities	100.00%	100.00%	100.00%	Note B
E-PIN	E-PIN OPTICAL INDUSTRY (M.) SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	100.00%	Note B

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2013.12.31	2012.12.31	2012.01.01	
E-PIN	ALL VISION TECHNOLOGY SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	100.00%	Note B
E-PIN	ALL VISION HOLDING LTD. (AV)	Investing activities	100.00%	100.00%	100.00%	Note B
AV	EVERLIGHT DEVELOPMENT CORPORATION (ED)	Investing activities	100.00%	100.00%	100.00%	Note B
AV	E-SKY HOLDING LTD. (ES)	Investing activities	73.04%	73.04%	73.04%	Note B
ED	WEIHAI E-SKY OPTICAL-ELECTRICAL CO., LTD.	Manufacturing and developing precision optical lenses	-	-	100.00%	Note B
ED	NANJING CHANGMING PHOTOELECTRIC TECHNOLOGY CO., LTD.	Manufacturing and developing precision optical lenses	55.45%	55.45%	55.45%	Note B
ES	ZHONGSHAN SANXIN PRECISION INDUSTRY CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	100.00%	100.00%	Note B
ES	NANJING E-PIN OPTOTECH CO., LTD.	Manufacturing and developing precision optical lenses	72.22%	72.22%	72.22%	Note B
UNIHAN	UNIHAN HOLDING LTD. (UNIHAN HOLDING)	Investing activities	100.00%	100.00%	100.00%	Note A
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDING)	Investing and trading activities	100.00%	100.00%	100.00%	
CASETEK HOLDING	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	100.00%	
CASETEK HOLDING	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00%	100.00%	100.00%	
CASETEK HOLDING	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDING)	Investing and trading activities	100.00%	100.00%	100.00%	
KAEDAR HOLDING	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00%	100.00%	100.00%	
CASETEK HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Trading activities	- %	100.00%	100.00%	Note C
CASETEK HOLDING	KAEDAR TRADING LTD.	Investing and trading activities	100.00%	100.00%	100.00%	

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2013.12.31	2012.12.31	2012.01.01	
CASETEK HOLDING	CORE-TEK (SHANGHAI) LIMITED	Researching and producing spare parts for notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00%	100.00%	100.00%	
UNIHAN, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	38.08%	38.08%	38.65%	Notes A and B
AZURE WAVE	EMINENT STAR CO., LTD. (EMINENT)	Investing activities	100.00%	100.00%	100.00%	Note B
EMINENT	HANNEX INTERNATIONAL LIMITED (HANNEX)	Investing activities	100.00%	100.00%	100.00%	Note B
HANNEX	SCIENTEK. NANJING CO., LTD.	Designing, manufacturing and selling computer products	100.00%	100.00%	100.00%	Note B
EMINENT	JADE TECHNOLOGIES LIMITED (JADE)	Investing activities	100.00%	100.00%	100.00%	Note B
EMINENT、JADE	AZUREWAVE TECHNOLOGY (SHENZHEN) CO., LTD.	Designing, researching and selling computer products	100.00%	100.00%	100.00%	Note B
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00%	100.00%	100.00%	Note B
AZURE WAVE	AZWAVE HOLDING (SAMOA) INC. (AZWAVE SAMOA)	Investing activities	100.00%	100.00%	100.00%	Note B
AZWAVE SAMOA	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and selling computer products	100.00%	100.00%	100.00%	Note B
AZWAVE SAMOA	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00%	100.00%	100.00%	Note B
AZWAVE SAMOA	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00%	100.00%	100.00%	Note B
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00%	100.00%	100.00%	Note B
UNIHAN	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	100.00%	100.00%	Note A
AMA PRECISION	AMA TECHNOLOGY CORPORATION	Trading computer peripherals	- %	100.00%	100.00%	
AMA PRECISION	AMA HOLDINGS LIMITED (AMA)	Investing activities	100.00%	100.00%	100.00%	

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2013.12.31	2012.12.31	2012.01.01	
AMA	METAL TRADINGS LTD.(METAL)	Trading activities	100.00%	100.00%	100.00%	
METAL	FENGSHUO TRADING (TONGZHOU) CO., LTD.	Trading activities	100.00%	100.00%	100.00%	
AMA	EXTECH LTD.	Trading electronic parts	90.51%	90.51%	90.51%	
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	100.00%	100.00%	100.00%	
AMA	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD	Manufacturing and selling new electronic parts and premium hardware	100.00%	100.00%	100.00%	
THE COMPANY	PEGATRON HOLLAND HOLDING B.V.(PHH) (previously known as ASUS HOLLAND HOLDING B.V.)	Investing activities	100.00%	100.00%	100.00%	
PHH	PEGATRON CZECH S.R.O.	Installing, repairing and selling electronic products	100.00%	100.00%	100.00%	
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00%	100.00%	100.00%	
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00%	100.00%	100.00%	
POWTEK	POWTEK (SHANGHAI) CO., LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00%	100.00%	100.00%	
PEGATRON HOLDING, KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing activities	100.00%	100.00%	100.00%	
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing and trading activities	100.00%	100.00%	100.00%	
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	100.00%	
PIOTEK HOLDING	PIOTEK (H.K) TRADING LIMITED	Trading activities	100.00%	100.00%	100.00%	
PEGATRON HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Trading activities	100.00%	- %	- %	Note C
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00%	100.00%	100.00%	

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2013.12.31	2012.12.31	2012.01.01	
ASLINK	ASLINK (H.K.) PRECISION CO., LIMITED	Investing and trading activities	- %	- %	100.00%	
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00%	100.00%	100.00%	
DIGITEK	DIGITEK (CHONGQING) LTD.	Manufacturing, developing, and selling GPS, computer electronic devices, and after-sales services	100.00%	100.00%	100.00%	
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%	100.00%	
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00%	100.00%	100.00%	
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00%	100.00%	100.00%	
PROTEK	PROTEK (SHANGHAI) LIMITED	Developing, manufacturing and selling GPS, new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	100.00%	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%	100.00%	
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	100.00%	
PEGATRON HOLDING	TOP QUARK LIMITED (TOP QUARK)	Investing activities	100.00%	100.00%	100.00%	
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00%	100.00%	100.00%	
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	100.00%	

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2013.12.31	2012.12.31	2012.01.01	
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	100.00%	
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	58.65%	58.65%	58.65%	
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Manufacturing and selling database storage and processing equipments	100.00%	100.00%	100.00%	
ASIAROCK	ASROCK EUROPE B.V.	Manufacturing and selling database service and trading electronic components	100.00%	100.00%	100.00%	
ASIAROCK	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%	100.00%	
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing and holding activities	100.00%	100.00%	100.00%	
Leader	Firstplace International Ltd. (Firstplace)	Investing and holding activities	100.00%	100.00%	100.00%	
Firstplace	ASROCK America., Inc.	Database service and trading electronic components	100.00%	100.00%	100.00%	
ASROCK	ASRock Rack Incorporation	Manufacturing and selling computer and related peripherals	70.63%	- %	- %	Note D
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, whole selling and retailing electronic components, and providing business management consultant service	39.00%	39.00%	39.00%	Note B
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00%	100.00%	100.00%	Note B
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Wholesaling contact lenses	61.52%	68.75%	84.45%	Note B

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2013.12.31	2012.12.31	2012.01.01	
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00%	100.00%	- %	Note B
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Manufacturing medical appliances	100.00%	100.00%	- %	Note B
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%	100.00%	Note B
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	100.00%	Note B
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	100.00%	100.00%	Note B
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	100.00%	Note B
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00%	- %	- %	Note B
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION (STARLINK)	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00%	100.00%	100.00%	
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED (CAYMAN) (CASETEK CAYMAN)	Investing activities	68.18%	74.39%	100.00%	
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00%	100.00%	100.00%	
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	Manufacturing and selling electronic components	100.00%	100.00%	100.00%	
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	100.00%	100.00%	
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	100.00%	100.00%	

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2013.12.31	2012.12.31	2012.01.01	
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Manufacturing and selling electronic components	100.00%	100.00%	100.00%	
RIH LI	RI PEI TRADING (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	- %	- %	Note E
CASETEK CAYMAN	RIH KUAN METAL CORPORATION (RIH KUAN)	Selling iron and aluminum products	100.00%	100.00%	100.00%	
CASETEK CAYMAN	APLUS PRECISION LIMITED (APLUS)	Investing and trading activities	100.00%	100.00%	100.00%	
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	100.00%	100.00%	
UNITED	AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	100.00%	100.00%	
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00%	100.00%	100.00%	
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00%	100.00%	100.00%	
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.(PCBR)	Maintenance service	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens Optics)	Developing, manufacturing and selling computer data projectors and related peripherals	56.52%	56.52%	56.52%	
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	100.00%	100.00%	

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2013.12.31	2012.12.31	2012.01.01	
Lumens Optics	Lumens Digital Image Inc.(SAMOA) (Lumens)	Investing activities	100.00%	100.00%	100.00%	
Lumens	Lumens (Suzhou) Digital Image Inc.	Developing, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	100.00%	100.00%	
Lumens Optics	Lumens Europe BVBA	Selling computer communication products and peripherals	- %	- %	100.00%	
Lumens Optics	Jie Xin Inc.	Manufacturing and wholesaling electronic parts	- %	- %	94.00%	
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%	100.00%	
The Company	ADVANSUS CORP.	Manufacturing computer peripherals	- %	- %	50.00%	
The Company	PEGATRON USA, INC.	Sales and repair service center in North America	100.00%	100.00%	100.00%	

Note A: In November 2013, pursuant to the resolutions of the board of directors, the Company had set December 31, 2013 as the effective date of the statutory merger with Unihan Corporation, with the Company as the surviving entity from the merger. The business combination had been approved by the Ministry of Economic Affairs, R.O.C. in February 7, 2014, and the legal procedure for the change in the registration had been completed.

Note B: As of December 31, 2013, AZURE WAVE TECHNOLOGY CORP., ABILITY ENTERPRISE CO., LTD. and KINSUS INTERCONNECT TECHNOLOGY CORP., were included in the consolidated financial statements even if the Group hold 38.08%, 12.26% and 39.00%, respectively, or less than 50% of their total issued shares because the Group has acquired more than 50% of voting shares of each of these entities and has the ability to excise control over their respective board of directors.

Note C: In order to restructure the Group's foreign investment structure, GRAND UPRIGHT TECHNOLOGY LIMITED's holding company has been changed from CASETEK HOLDINGS LIMITED to PEGATRON HOLDING LTD. in the second quarter of 2013.

Note D: In December, 2012, pursuant to the resolutions of the board of directors of ASROCK INCORPORATION ("ASROCK"), ASROCK has established and invested by acquiring the 100% equity ownership in ASRock Rack Incorporation ("ASRock Rack"), which is engaged in the server business. The registration process for the establishment of ASRock Rack was completed on January 29, 2013.

In addition, ASRock Rack increased its capital but ASROCK did not participate in the said capital increase of ASRock Rack according to its equity shareholding ratio so that equity ownership of ASROCK has decreased to 70.63%.

Note E: For the year ended December 31, 2013, the Group has established and invested by acquiring the 100% equity ownership in RI PEI TRADING (SHANGHAI) CO., LTD. in Mainland China through RIH LI INTERNATIONAL LIMITED..

G. Subsidiaries excluded from consolidation: None.

(4) Foreign currency

A. Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period adjusted for the effective interest and payments during the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the following accounts which are recognized in other comprehensive income:

- Available-for-sale equity investment;
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- Qualifying cash flow hedges to the extent the hedge is effective.

B. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Group's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and are presented in the exchange differences on translation of foreign financial statements in equity.

However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is

reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planed nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

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

An asset is classified as current when:

A. It is expected to be realized the asset, or intended to be sold or consumed, during the normal operating cycle;
B. It is held primarily for the purpose of trading;
C. It is expected to be realized within twelve months after the reporting period; or
D. The asset is cash and cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:
A. It is expected to be settled during the in its normal operating cycle;
B. It is held primarily for the purpose of trading;
C. The liability is due to be settled within twelve months after the reporting period; or
D. It does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Time deposits with maturity period of over three months are normally accounted under other financial assets. However, time deposits are accounted under cash and cash equivalents if they are held for the purpose of meeting short-term cash commitment rather than for investment or

other purpose, readily convertible to a known amount of cash and have an insignificant risk of change in value.

(7) Financial instruments

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

A. Financial assets

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

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

A financial asset is classified in this category if it is held-for-trading or is designated as such on initial recognition. Financial assets classified as held-for-trading if it is acquired principally for the purpose of selling in the short term. The Group designates financial assets, other than ones classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.
- Performance of the financial asset is evaluated on a fair value basis.
- Hybrid instrument contains one or more embedded derivatives.

At initial recognition, financial assets classified under this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend and interest income, are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

(b) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated available-for-sale or are not classified in any of the other categories of financial assets. At initial recognition, available-for-sale financial assets are recognized at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income,

and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and unrealized gains (losses) on available-for-sale financial assets in equity. When an available-for-sale investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, under other income. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in other income of profit or loss.

Interest income from investment in bond security is recognized in profit or loss, under other income.

(c) Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. At initial recognition, held-to-maturity financial assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

Interest income is recognized into profit or loss, under "other income." A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

(d) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables and other receivables. At initial recognition, these assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses, other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Interest income is recognized in profit or loss, under other income.

In accordance with Statement of International Accounting Standards No. 39 "Financial instruments Accounting for Transfers of Financial Assets and Extinguishments of Liabilities," a transfer of financial assets or a portion of a financial asset in which the transferor surrenders control over those financial assets is regarded as a sale to the extent that consideration in the transferred assets is received in exchange. The rights to accounts receivable are derecognized after deducting the estimated charges or losses in commercial dispute when all of the following conditions are met.

i. The rights to accounts receivable have been isolated from the transferor as they are put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.

ii. Each transferee has the right to pledge or exchange the rights to the accounts receivable, and no condition prevents the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.

iii. The transferor does not maintain effective control over the rights to the accounts receivable claims through either:

- An agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or
- The ability to unilaterally cause the holder to return specific rights to the accounts receivable.

Accounts receivable which are assigned but no receipt yet of cash advances are accounted for as other accounts receivable.

(e) Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a loss event) that occurred subsequent to the initial recognition of the asset and that a loss event (or events) has an impact on the future cash flows of the financial assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than the one suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate.

Such impairment loss is not reversible in subsequent periods.

The carrying amount of a financial asset is reduced for an impairment loss, except for trade receivables, in which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off against the allowance account. Any subsequent recovery from written off receivable is charged to the allowance account. Changes in the allowance accounts are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of impairment loss on a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost before the impairment loss was recognized at the reversal date.

Impairment losses recognized on available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in equity.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then impairment loss is reversed against profit or loss.

Impairment losses and recoveries are recognized in profit or loss, under "other gains and losses, net."

(f) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity account unrealized gains or losses from available for sale financial assets is reclassified to profit or loss, under "other gains and losses, net."

On partial derecognition of a financial assets, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity account unrealized gains or losses from available-for-sale financial assets is reclassified to profit or loss, under "other gains and losses, net."

B. Financial liabilities and equity instruments

(a) Classification of debt or equity instruments

Debt or equity instruments issued by the Group are classified as financial liabilities or equity instruments in accordance with the substance of the contractual agreement.

Equity instruments issued are recognized based on amount of consideration received less the direct issuance cost.

Compound financial instruments issued by the Group comprise convertible bonds payable that can be converted to share capital at the option of the holder, when the number of shares to be issued is fixed.

At initial recognition, the liability component of a compound financial instrument is recognized at fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially based on the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss, under

non-operating income and expense. On conversion, financial liability is reclassified to equity, without recognizing any gain or loss.

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

A financial liability is classified in this category if it is classified as held-for-trading or is designated as such on initial recognition. Financial liabilities are classified as held-for-trading if they are acquired principally for the purpose of selling in the short term. At initial recognition, the Group designates financial liabilities, as at fair value through profit or loss under one of the following situations:

i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses thereon on different basis;

ii. Performance of the financial liabilities is evaluated on a fair value basis;

iii. Hybrid instrument contains one or more embedded derivatives.

Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, which takes into account any interest expense, are recognized in profit or loss, under "non-operating income and expenses."

Financial liabilities at fair value through profit or loss is measured at cost if it sells borrowed unquoted equity investment whose fair value cannot be reliably measured and if it is to be delivered to the obligator of the equity investment. This type of financial instrument is classified as financial liabilities measured at cost.

Financial guarantee contract and loan commitments are classified as financial liabilities at fair value through profit or loss, any gains and losses thereon are recognized in profit or loss.

(c) Other financial liabilities

At initial recognition, financial liabilities not classified as held-for-trading, or designated as at fair value through profit or loss, which comprise of loans and borrowings, and trade and other payables, are measured at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in profit or loss, under finance cost.

(d) Derecognition of financial liabilities

A financial liability is derecognized when its contractual obligation has been discharged or cancelled or expires. The difference between the carrying amount of a financial

liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in "non-operating income and expenses."

(e) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when the Group has the legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(f) Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder of a loss it incurs because a specified debtor fails to pay on due date in accordance with the original or modified terms of a debt instrument.

At initial recognition, a financial guarantee contracts not classified as financial liabilities at fair value through profit or loss by the Company is recognized at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at the higher of (a) the amount of contractual obligation determined in accordance with IAS 37; or (b) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18.

C. Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate fluctuation exposures. At initial recognition, derivatives are recognized at fair value; and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, under "non-operating income and expenses."

When a derivative is designated as a hedging instrument, the timing for recognizing gain or loss is determined based on the nature of the hedging relationship. When the result of the valuation at fair value of a derivative instrument is positive, it is classified as a financial asset; otherwise, it is classified as a financial liability.

Derivatives linked to investments in equity instruments that do not have a quoted market price in an active market and must be settled by delivery of unquoted equity instruments, are classified as financial assets, which are measured at amortized cost. These derivatives are classified as financial liabilities measured at cost.

Embedded derivatives are separated from the host contract and are accounted for separately when the economic characteristics and risk of the host contract and the

embedded derivatives are not closely related, and that the host contract is measured at fair value through profit or loss.

The Group designates its hedging instrument, including derivatives, embedded derivatives, and non-derivative instrument for a hedge of a foreign currency risk, as fair value hedge, cash flow hedge, or hedge of a net investment in a foreign operation. Foreign exchange risk of firm commitments are treated as a fair value hedge.

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, and whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk.

(a) Fair value hedge

Changes in the fair value of a hedging instruments designated and qualified as fair value hedges are recognized in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

Hedged financial instruments using an effective interest rate is amortized to profit or loss when hedge accounting is discontinued over the period to maturity.

(b) Cash flow hedge

When a derivative is designated as a cash flow hedge, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in equity, under effective portion of cash flow hedge gain (loss). Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss, under "non-operating income and expenses."

When the hedged item is recognized in profit or loss, the amount accumulated in equity and retained in other comprehensive income is reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss, and is presented in the same accounting caption with the hedged item recognized in the consolidated statement of comprehensive income.

For a cash flow hedge of a forecasted transaction recognized as a non-financial assets or liabilities, the amount accumulated in other equity – effective portion of cash flow

hedge gain (loss) in other comprehensive income is reclassified to the initial cost of the non-financial asset or liability.

(8) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The replacement cost of raw material is its net realizable value.

(9) Non-current assets held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are reclassified as held-for-sale or distribution. Immediately before classification as held-for-sale or distribution, the assets, or components of a disposal group, are re-assessed for impairment in accordance with the Group's accounting policies. Thereafter, generally the assets or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then the remaining balance of impairment loss is apportioned to assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which are assessed for impairment in accordance with the Group's accounting policies. Impairment losses on initial classification of noncurrent assets held-for-sale or distribution and subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Once classified as held-for-sale or distribution, intangible assets and property, plant and equipment are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

(10) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of investment includes transaction costs. The carrying amount of investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

The Group's share of the profit or loss and other comprehensive income of investments accounted for using equity method are included, after adjustments to align the said investees' accounting policies with those of the Group, in the consolidated financial statements from the date that significant influence commences until the date that significant influence ceases.

Unrealized profits resulting from the transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(11) Interests in Joint Ventures

Jointly controlled entity is an entity which is established as a result of a contractual arrangement between the Group and other joint venture partners to jointly control over its financial policy and operating policy. Consensus for all decisions must be obtained from both joint venture partners. The Group uses equity method to account for the interest in jointly controlled entity.

(12) Investment property

Investment property is a property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, and any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs.

Depreciation is provided over the estimated economic lives using the straight-line method. Land has an unlimited useful life and therefore is not depreciated. The estimated useful lives for the current and comparative years of significant items of investment properties are as follows:

Buildings	45-60 years

When the use of an investment property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(13) Property, plant and equipment

A. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that eligible for capitalization. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of the significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined based on the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized in profit or loss, under other gains and losses.

B. Reclassification to investment property

A property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment property.

C. Subsequent cost

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance is expensed as incurred.

D. Depreciation

Depreciation is calculated on the depreciable amount of an asset using the straight-line basis over its useful life. The depreciable amount of an asset is determined based on the cost less its residual value. Items of property, plant and equipment with the same useful

life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period is recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

Buildings	3-60 years
Plant and equipment	1-20 years
Instrument equipment	1-5 years
Office and other equipment	2-20 years
Miscellaneous equipment	1-25 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectation of useful life differs from the previous estimate, the change is accounted for as a change in an accounting estimate.

(14) Leased assets

A. Lessor

Leased asset under finance lease is recognized on a net basis as lease receivable. Initial direct costs incurred in negotiating and arranging an operating lease is added to the net investment of the leased asset. Finance income is allocated to each period during the lease term in order to produce a constant periodic rate of interest on the remaining balance of the receivable.

Lease income from operating lease is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

B. Lessee

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value and the present of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are accounted for operating leases and the lease assets are not recognized in the Group's consolidated balance sheets.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term in order to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent rent is recognized as expense in the periods in which they are incurred.

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease, which involves the following two criteria:

- The fulfillment of the arrangement is dependent on the use of a specific asset or assets; and
- The arrangement contains a right to use the asset.

At inception or on reassessment of the arrangement, if an arrangement contains a lease, that lease is classified as a finance lease or an operating lease. The Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payment reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Group's incremental borrowing rate. If the Group concludes for an operating lease that it is impracticable to separate the payment reliably, then treat all payments under the arrangement as lease payments, and disclose the situation accordingly.

Prepaid lease payments represent land use rights under operating lease arrangement and are expensed equally over 45 years to 50 years.

(15) Intangible assets

A. Goodwill

(a) Recognition

Goodwill arising from the acquisition of subsidiaries is recognized as intangible assets.

(b) Measurement

Goodwill is measured at its cost less impairment losses. Investments in associates are accounted for using the equity method. The carrying amount of the investment in associates includes goodwill, which kind of investment of impairment losses are recognized as a part of the carrying amount of the investment, not associated to goodwill and any other assets.

B. Other Intangible Assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

C. Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

D. Amortization

Depreciable amount of intangible asset is calculated based on the cost of an asset less its residual values.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with indefinite useful life, from the date when they are made available for use. The estimated useful lives of intangible assets for the current and comparative periods are as follows:

Computer software cost	1-5 years
Trademark rights	20 years
Patents	20 years
Customer relationship	3 years
Technology	3 years

The residual value, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually at each financial year-end. Any change thereof is accounted for as a change in accounting estimate.

(16) Impairment – Non-derivative financial assets

The Group assesses non-derivative financial assets for impairment (except for inventories, deferred income tax assets and employee benefits) at every reporting date, and estimates its recoverable amount.

If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for individual asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Such is deemed as an impairment loss, which is recognized immediately in profit or loss.

The Group assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the asset is increased to its recoverable amount by reversing an impairment loss.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use are required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination, from the acquisition date, is allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units.

If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, impairment loss is recognized and is allocated to reduce the carrying amount of each asset in the unit.

Reversal of an impairment loss for goodwill is prohibited.

(17) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and an outflow of economic benefits is possibly required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(18) Treasury stock

Repurchased shares are recognized as treasury shares (a contra-equity account) based on its repurchase price (including all directly accountable costs), net of tax. Gains on disposal of treasury shares are accounted for as Capital Reserve – Treasury Shares Transactions. Losses on disposal of treasury shares are offset against existing capital reserve arising from similar types of treasury shares. If the capital reserve is insufficient, such losses are charged to retained earnings. The carrying amount of treasury shares is calculated using the weighted average method for different types of repurchase.

If treasury shares are cancelled, Capital Reserve – Share Premiums and Share Capital are debited proportionately. Gains on cancellation of treasury shares are charged to capital reserves arising from similar types of treasury shares. Losses on cancellation of treasury shares are offset against existing capital reserves arising from similar types of treasury shares. If capital reserve is insufficient such losses are charged to retained earnings.

Company shares that are owned by the Company's subsidiaries are treated as treasury stock.

(19) Revenue

A. Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

B. Service

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(20) Employee benefits

A. Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

B. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted from the aforesaid discounted present value. The discount rate is the yield at the reporting date on (market yields of high quality corporate bonds or government bonds) bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

All actuarial gains and losses at 1 January, 2012, the date for the first time adoption of IFRS as endorsed by the FSC were recognized in retained earnings. All actuarial gains and losses

arising subsequently from defined benefit plans are recognized in other comprehensive income.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation and any related actuarial gains or losses and past service cost that had not previously been recognized.

C. Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(21) Share-based payment

The grant-date fair value of share-based payment awards granted to employee is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of award that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and settlement date. Any change in the fair value of the liability is recognized as personnel expenses in profit or loss.

(22) Income Taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses that are related to business combinations, expenses recognized in equity or other comprehensive income directly, and other related expenses, all current and deferred taxes are recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are not recognized for the following:

A. Assets and liabilities that are initially recognized from non-business combination transactions, with no effect on net income or taxable gains (losses).

B. Temporary differences arising from equity investments on subsidiaries or joint ventures, where there is a high probability that such temporary differences will not reverse.

C. Initial recognition of goodwill.

Deferred taxes are measured based on the statutory tax rate on the reporting date or the actual legislative tax rate during the year of expected asset realization or debt liquidation.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

A. if the entity has the legal right to settle tax assets and liabilities on a net basis; and

B. the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:

(a) levied by the same taxing authority; or

(b) levied by different taxing authorities, but where each such authority intend to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation; or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset is recognized for unused tax losses available for carry-forward, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits and deductible temporary differences are also re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized.

(23) Business combination

A. Acquisition after 1 January 2012 (inclusive)

For those business acquisitions after 1 January 2012 (inclusive), goodwill is measured at the consideration transferred less amounts of the identifiable assets acquired and the liabilities assumed (generally at fair value) at the acquisition date. If the amounts of net assets acquired or liabilities assumed exceeds the acquisition price, the Group shall re-assess whether it has

correctly identified all of the assets acquired and liabilities assumed, and recognize a gain for the excess. If the business combination is achieved in batches, the Group shall measure any non-controlling equity interest at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

In a business combination achieved in batches, the previously held equity interest in the acquiree at its acquisition-date fair value is re-measured and the resulting gain or loss, if any, is recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, provisional amounts for the items for which the accounting is incomplete are reported in the Group's financial statements. During the measurement period, the provisional amounts recognized are retrospectively adjusted at the acquisition date, or additional assets or liabilities are recognized to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date.

All transaction costs relating to business combination are recognized immediately as expenses when incurred, except for the issuance of debt or equity instruments.

Business combinations under common control are accounted for in the consolidated accounts prospectively from the date the Group acquires the ownership interest. Assets and liabilities of the merged entities are recognized at their carrying amount in the consolidated financial statements.

B. Acquisition before January 1, 2012

For those business acquisitions occurring prior to January 1, 2012, goodwill is recognized based on the Regulations Governing the Preparation of Financial Reports issued by Financial Supervisory Commission in 10 January 1999 and "financial accounting standards and interpretation issued by the Accounting Research and Development Foundation" (R.O.C. GAAP), which is former accounting principle.

(24) Earnings per share

Disclosures are made of basic and diluted earnings per share attributable to ordinary equity holders of the Company. The basic earnings per share is calculated based on the profit attributable to the ordinary shareholders of the Company divided by weighted average number of ordinary shares outstanding. The diluted earnings per share is calculated based on the profit attributable to ordinary shareholders of the Company, divided by weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as convertible notes and employee stock options.

(25) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may incur revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

5. MAJOR SOURCES OF SIGNIFICANT ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATION UNCERTAINTY

The preparation of the consolidated annual financial statements in conformity with IFRS endorsed by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Management continuously review the estimates and basic assumptions. Changes in accounting estimates are recognized in the period of change.

Information on critical judgments in applying accounting policies that have the most significant effect to the amounts recognized in the consolidated financial statements is included in the following notes:

(1) Note 6(8), Classification of investment property

(2) Note 6(16), Lease classification

Information on assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next year is included in the following notes:

(1) Note6(26), Accounts receivable impairment evaluation

(2) Note6(4), Inventories subsequent measurement

(3) Note6(26), Fair value measurement of financial assets carried at cost

(4) Note 6(7), 6(8) and 6(9), Key assumptions used in discounted cash flow projections

(5) Note 6(18), Utilization of tax losses

6. EXPLANATIONS TO SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand	$ 34,723	44,937	29,797
Cash in banks	24,818,649	25,258,294	20,112,793
Time deposits	49,196,726	34,062,813	28,854,170
Cash equivalents-RP Bonds	211,208	58,080	590,500
	$ 74,261,306	**59,424,124**	**49,587,260**

A. The above cash and cash equivalents were not pledged as collateral. Pledged time deposits were accounted for under other financial assets. Please refer to Notes 6(10) and 8 for details.

B. Refer to Note 6(26) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

(2) Investment in financial assets and liabilities

A. The components of financial assets and liabilities were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets at fair value through profit or loss－current:			
Held-for-trading			
Shares of stock of listed companies	$ 131,516	311,175	739,571
Beneficiary certificates	6,845,986	7,174,886	5,639,583
Corporate bonds	31,154	47,646	31,815
Foreign exchange swap contracts	5,721	58	135
Option exchange (long call)	3,240	-	4,496
Forward exchange contracts and others	704	271	2,085
	$ 7,018,321	**7,534,036**	**6,417,685**
Available-for-sale financial assets － current:			
Shares of stock of listed companies	$ 11,415	90,979	83,580
Shares of stock of overseas listed companies	420,043	414,940	414,737
	$ 431,458	**505,919**	**498,317**
Available-for-sale financial assets －noncurrent:			
Shares of stock of listed companies	$ 1,010,750	1,169,155	503,139
Equity securities － common stock	145,800	114,173	85,158
	$ 1,156,550	**1,283,328**	**588,297**

		December 31, 2013	December 31, 2012	January 1, 2012
Financial assets carried at cost － noncurrent:				
Equity securities – common stock	$	255,260	273,542	205,542
Equity securities – preferred stock		284,385	224,592	325,580
	$	**539,645**	**498,134**	**531,122**
Financial liabilities at fair value through profit or loss－current:				
Held-for-trading				
Foreign exchange swap contracts	$	-	-	1,367
Forward exchange contracts and others		7,443	98	232
		7,443	98	1,599
Designated as at fair value through profit or loss				
Domestic convertible bonds － put and call options		-	(1,578)	(1,578)
Valuation adjustments		-	70,564	102,562
		-	68,986	100,984
	$	**7,443**	**69,084**	**102,583**
Financial liabilities at fair value through profit or loss－noncurrent:				
Foreign convertible bonds － conversion options	$	1,262,770	1,262,770	-
Valuation adjustments		(1,027,608)	(502,955)	-
	$	**235,162**	**759,815**	**-**

(a) As of December 31, 2013 and 2012, the Group recognized a net gain on financial assets and liabilities reported at fair value through profit of $628,347 and $666,767, respectively.

(b) As of December 31, 2013 and 2012, the unrealized gain (loss) on available-for-sale financial assets amounted to $(64,975) and $82,165, respectively.

(c) The aforementioned investments held by the Group are measured at amortized cost at each reporting date given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined, therefore, the Group management determines the fair value cannot be measured reliably. The Group evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of $0 and $100,370 for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, and January 1, 2012 the Group had accumulated impairment loss of $401,088, $444,443 and $219,888, respectively.

(d) The Group reclassified its investment in ASMEDIA TECHNOLOGY INC. (ASMEDIA) from financial assets carried at cost － noncurrent to available-for-sale financial assets － current following ASMEDIA's approval for listing on Taiwan Stock Exchange on December 12, 2012. Also, in order to facilitate ASMEDIA's public offering, ASROCK has voluntarily deposited 600 thousand shares of ASMEDIA's stock for custody by the Taiwan Depository and Clearing Corporation where those shares cannot be sold. However, ASROCK can withdraw 50% of deposited shares after six months of ASMEDIA's public listing and can also withdraw the remaining deposited shares after one year of ASMEDIA's public listing.

(e) The convertible bond issued by the Group was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put option embedded in bonds payable were separated from bonds payable, and were recognized as "Financial liabilities at fair value through profit or loss." As of December 31, 2013 and 2012, the Group recognized a gain on financial liability reported at fair value through profit or loss of $534,768 and $534,953, respectively.

(f) Refer to Note 6(24) for further discussion on gains and losses on disposal of investments.

(g) Refer to Note 6(26) for the Group's information on financial instruments risk management.

(h) As of December 31, 2013, December 31, 2012 and January 1, 2012, the aforesaid financial assets were not pledged as collateral.

B. Fair value sensitivity analysis

If the equity price changes, and if the analysis is based on the same basis for both years and assuming that all other variables considered in the analysis remain the same, the impact of equity price change to other comprehensive income will be as follows:

	For the years ended December 31			
	2013		2012	
	After-Tax Comprehensive Income	After-Tax Profit (Loss)	After-Tax Comprehensive Income	After-Tax Profit (Loss)
Increase 3%	$ 47,640	210,260	53,619	226,011
Decrease 3%	$ (47,640)	(210,260)	(53,619)	(226,011)

C. Foreign equity investments

Significant foreign equity investments at the end of the each period were as follows:

	December 31, 2013		
	Foreign Currency	Exchange Rate	NTD
USD	$ 23,693	29.805	706,167

	December 31, 2012			January 1, 2012		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
USD	25,347	29.04	736,077	25,423	30.275	769,681

D. Derivative not used for hedging

The Group uses derivative financial instruments to hedge certain foreign exchange and interest risk the Group is exposed to, arising from its operating, financing and investing activities. Based on this policy, the Group holds derivative financial instruments for hedging purposes. Transactions that do not qualify for hedge accounting are presented as held-for-trading financial assets and financial liabilities:

Financial Assets	**December 31, 2013**		
	Notional Principal (thousands)		**Contract Period**
Derivative financial instruments not used for hedging			
Foreign exchange swap contracts	**USD**	**19,700**	2013.12~2014.01
Option exchange (long call)	**USD**	**6,000**	2013.09~2014.12
Forward exchange contract and others	**USD**	**5,000**	2013.11~2014.03

	December 31, 2012		
	Notional Principal (thousands)		**Contract Period**
Derivative financial instruments not used for hedging			
Foreign exchange swap contract	**USD**	**6,100**	2012.12~2013.01
Forward exchange contract and others	**USD**	**96,000**	2012.12~2013.01

	January 1, 2012		
	Notional Principal (thousands)		Contract Period
Derivative financial instruments not used for hedge			
Foreign exchange swap contract	USD	30,000	2011.12~2012.01
Forward exchange contract and others	USD	28,000	2011.12~2012.01
Option exchange (long call)	USD	950	2011.08~2012.02

Financial Liabilities

	December 31, 2013		
	Notional Principal (thousands)		Contract Period
Derivative financial instruments not used for hedging			
Forward exchange contract and others	USD	33,000	2013.11~2014.01

	December 31, 2012		
	Notional Principal (thousands)		Contract Period
Derivative financial instruments not used for hedging			
Forward exchange contract and others	USD	6,200	2012.11~2013.02

	January 1, 2012		
	Notional Principal (thousands)		Contract Period
Derivative financial instruments not used for hedge			
Forward exchange contract and others	USD	16,000	2011.12~2012.01
Foreign exchange swap contract	USD	950	2011.08~2012.02

(3) Notes and accounts receivable and other receivable, net

		December 31, 2013	December 31, 2012	January 1, 2012
Notes receivable	$	246,948	158,625	107,356
Accounts receivable		105,882,005	117,469,858	75,137,330
Other receivable		29,215,907	15,808,826	2,202,678
Less: Allowance for impairment		(2,109,553)	(686,091)	(740,293)
	$	**133,235,307**	**132,751,218**	**76,707,071**

A. Refer to Note 6(26) for the Group's notes receivable, accounts receivable and other receivable exposure to credit risk and currency risk.

B. As of December 31, 2013 and 2012, the Company sold its accounts receivable without recourse as follows:

December 31, 2013

Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
SMBC	**$ 7,701,648**	**USD 300,000,000**	**USD 258,401,191**	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	**$ 7,701,648**
ANZ (Note)	**$ 38,746,500**	**USD 1,300,000,000**	**USD 523,000,000**	None	"	**$ 38,746,500**

December 31, 2012

Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
SMBC	**$ 7,068,485**	**USD 300,000,000**	**USD 243,405,143**	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	**$ 7,068,485**
ANZ (Note)	**$ 26,136,000**	**USD 900,000,000**	**USD 540,000,000**	None	"	**$ 26,136,000**

Note: In October 2012, the Company signed a one year joint accounts receivable factoring agreement with ANZ Bank, Mizuho Bank, Bank of Nova Scotia, Bank of Communications, United Overseas Bank, and Bank of Tokyo-Mitsubishi UFJ where each bank will factor on pro-rata basis.

As of December 31, 2013 and 2012, the Company recognized a loss of $ 221,482 and $51,194 from the assignment of accounts receivable, which was-accounted under financial costs in the statement of comprehensive income. Also, the difference of $23,158,485 and $10,454,400 between the carrying value of factored accounts receivable–and the amount advanced was accounted for as other receivable as of December 31, 2013 and 2012, respectively.

C. As of December 31, 2013, December 31, 2012, and January 1, 2012, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

December 31, 2013

Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Derecognition Amount
Mega International Commercial Bank	$ 375,933	USD 30,000	$ 300	None	$ 375,933

December 31, 2012

Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Derecognition Amount
Mega International Commercial Bank	$ 494,667	USD 30,000	$ -	None	$ 494,667

January 1, 2012

Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Derecognition Amount
Mega International Commercial Bank	$ 757,753	USD 30,000	$ -	None	$ 757,753

(4) Inventories

		December 31, 2013	December 31, 2012	January 1, 2012
Merchandise	$	1,163,792	3,140,408	3,450,561
Finished goods		46,093,367	28,257,318	25,858,910
Work in process		18,962,416	14,276,124	7,408,034
Raw materials		43,175,517	52,539,079	33,370,900
Subtotal		109,395,092	98,212,929	70,088,405
Less: Allowance for inventory market decline and obsolescence		(5,796,220)	(5,534,845)	(4,496,794)
Total	$	**103,598,872**	**92,678,084**	**65,591,611**

For the years ended December 31, 2013 and 2012, the components of cost of goods sold were as follows:

	For the Years Ended December 31		
		2013	2012
Cost of goods sold	$	893,825,971	836,030,775
Provision on inventory market price decline		262,049	1,303,816
Loss on disposal of inventory		8,993,585	5,874,626
Unallocated manufacturing overhead		1,148,061	897,697
Loss on physical inventory		5,643	58,117
	$	**904,235,309**	**844,165,031**

As of December 31, 2013, December 31, 2012, and January 1, the aforesaid inventories were not pledged as collateral.

(5) Non-current assets classified as held for sale

		December 31, 2013
ASAP TECHNOLOGY (JIANGXI) CO., LTD.	$	365,243

As the Group intends to sell its equity ownership of ASAP TECHNOLOGY (JIANGXI) CO., LTD. within one year, the Group ceased to apply the equity method in the accounting of this investment, which is now measured at the lower of carrying amount or fair value.

(6) Investments accounted for using equity method

The Group's financial information for investments accounted for using equity method at reporting date was as follows:

		December 31, 2013	December 31, 2012	January 1, 2012
Associates	**$**	**1,187,753**	**1,607,697**	**2,703,438**

A. The fair value of investments in associates of the Group with carrying amount of $819,853 for which there are published price quotation amounted to $797,660 as of January 1, 2012.

B. As of December 31, 2013 and 2012, the Group's share of profit (loss) of the associates were as follows:

	For the Years Ended December 31	
	2013	**2012**
The Group's share of profit (loss) of the associates	$ **(75,586)**	**59,484**

C. The financial information of associates in which the Group has equity investments was as follows (before adjustment for the Group's proportionate share):

	December 31, 2013	**December 31, 2012**	**January 1, 2012**
Total assets	$ **3,660,948**	**7,821,731**	**14,231,742**
Total liabilities	$ **713,371**	**3,253,917**	**5,752,611**

	For the Years Ended December 31	
	2013	**2012**
Income	$ **2,744,042**	**5,277,891**
Net income	$ **190,775**	**182,519**

D. The investee of Ability (TW), SHIN-EI YORKEY INTERNATIONAL LTD. (BVI), was liquidated in June 2013. As the result, Ability (TW) had recognized the difference between proceeds received and the carrying amount of the investment of $2,166, as a loss on disposal of investment.

E. In October 2012, the Group sold its equity ownership in AVY PRECISION, which resulted in the Group holding less than 20% equity shares of AVY PRECISION so that the Group ceased significant control of AVY PRECISION. Therefore, the Group has reclassified its equity investment in AVY PRECISION to available-for-sale financial assets — noncurrent. Please refer to Note 6(2) for details.

F. In May 2012, YOFREE TECHNOLOGY CO., LTD. ("YOFREE") has elected a new set of members of the Board of Directors. Following the election, AZURE WAVE was not elected as YOFREE's director nor supervisor, and lost its significant influence over YOFREE. Therefore, AZURE WAVE has reclassified its equity investment in YOFREE to financial assets carried at cost — noncurrent.

G. In October 2013, pursuant to the resolutions of the respective board of directors, the Group participated in the capital increase of ALTASEC TECHNOLOGY CO. ("ALTASE") amounted to $21,000. Thus, the Group held 30% equity ownership of ALTASE as of December 31, 2013.

H. As of December 31, 2013, December 2012, and January 1, the aforesaid investments accounted for using equity method were not pledged as collateral.

(7) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group as of December 31, 2013 and 2012 were as follows:

		Land	Buildings	Machinery and equipment	Instrument equipment	Other facilities	Construction in progress	Total
Cost or deemed cost:								
Balance on January 1, 2013	$	4,456,971	33,340,181	58,606,847	2,003,597	22,651,012	2,651,923	123,710,531
Additions		89,885	4,279,990	2,631,070	164,224	3,818,468	1,769,453	12,753,090
Disposals and obsolescence		-	(473,419)	(7,907,622)	(623,238)	(2,763,971)	(464)	(11,768,714)
Reclassifications		684,640	597,759	1,707,701	(84)	735,582	(3,971,663)	(249,065)
Interest expense capitalization		-	-	-	-	-	2,135	2,135
Effect of movements in exchange rates		2,187	1,541,536	2,515,039	86,020	961,924	147,196	5,253,902
Balance on December 31, 2013	**$**	**5,233,683**	**39,286,047**	**57,553,035**	**1,630,519**	**25,400,015**	**598,580**	**129,701,879**
Balance on 1 January 2012	$	4,470,930	28,264,417	53,294,092	1,783,524	19,796,154	5,287,852	112,896,969
Additions		28,835	2,069,128	4,125,460	551,045	2,772,702	6,202,552	15,749,722
Disposals and obsolescence		(1,993)	(76,536)	(5,147,910)	(278,075)	(2,042,157)	(79,371)	(7,626,042)
Reclassifications		(18,977)	3,929,908	7,840,822	-	2,782,624	(8,577,242)	5,957,135
Interest expense capitalization		-	-	-	-	-	25,616	25,616
Other		(23,963)	(22,428)	(11,276)	-	(8,748)	-	(66,415)
Effect of movements in exchange rates		2,139	(824,308)	(1,494,341)	(52,992)	(649,563)	(207,484)	(3,226,549)
Balance on December 31, 2012	**$**	**4,456,971**	**33,340,181**	**58,606,847**	**2,003,597**	**22,651,012**	**2,651,923**	**123,710,531**
Depreciation and impairment loss：								
Balance on January 1, 2013	$	50,054	7,312,711	29,252,786	995,922	12,919,939	-	50,531,412
Depreciation for the period		-	2,084,862	6,371,488	321,327	4,544,617	-	13,322,294
Reversal of impairment loss		-	(6,359)	(143,673)	(587)	(17,916)	-	(168,535)
Reclassifications		-	2,905	(448)	998	(42,067)	-	(38,612)
Disposals and obsolescence		-	(362,054)	(6,626,977)	(568,422)	(2,463,013)	-	(10,020,466)
Effect of movements in exchange rates		-	345,720	1,185,229	43,906	584,277	-	2,159,132
Balance on December 31, 2013	**$**	**50,054**	**9,377,785**	**30,038,405**	**793,144**	**15,525,837**	**-**	**55,785,225**
Balance on January 1, 2012	$	-	5,862,341	27,289,294	930,412	11,415,992	-	45,498,039
Depreciation for the period		-	1,706,396	6,421,282	306,598	3,950,949	-	12,385,225
Reversal of impairment loss		50,054	184	380,278	1,197	(23,528)	-	408,185
Reclassification		-	(51,080)	12,597	-	(123,289)	-	(161,772)
Disposals and obsolescence		-	(76,396)	(3,972,659)	(211,158)	(1,850,416)	-	(6,110,629)
Other		-	(2,305)	(10,823)	-	(6,243)	-	(19,371)
Effect of movements in exchange rates		-	(126,429)	(867,183)	(31,127)	(443,526)	-	(1,468,265)
Balance on December 31, 2012	**$**	**50,054**	**7,312,711**	**29,252,786**	**995,922**	**12,919,939**	**-**	**50,531,412**

		Land	Buildings	Machinery and equipment	Instrument equipment	Other facilities	Construction in progress	Total
Carrying amounts：								
Balance on December 31, 2013	$	5,183,629	29,908,262	27,514,630	837,375	9,874,178	598,580	73,916,654
Balance on December 31, 2012	$	4,406,917	26,027,470	29,354,061	1,007,675	9,731,073	2,651,923	73,179,119
Balance on January 1, 2012	$	4,470,930	22,402,076	26,004,798	853,112	8,380,162	5,287,852	67,398,930

A. Based on the results of its evaluation of the recoverability of property, plant and equipment, the Group recognized impairment loss (reversal gain) as follows:

	For the Years Ended December 31	
	2013	2012
Impairment loss (Reversal gain)	(168,535)	408,185

B. In order to expand the business and factories, RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. ("RI-TENG") signed with a non-related party (original petitioner) an agreement to purchase land use right and the existing building for CNY$285,000. Under this agreement, the original petitioner is responsible for acquiring the land use right from the landlord and constructing a factory that conforms to the requirement of RI-TENG's. However, in order to facilitate the acquisition of the land use right, the board of directors of RI-TENG resolved on December 13, 2011 to restructure the agreement so that the contracting parties will involve the original petitioner, the landlord and the Group and the total contract amount was amended to CNY$382,811.

   On January 18, 2012, a tripartite contract was signed, under which, the three parties agreed not to revoke, cancel, or early terminate the contract or do other activities that will make the contract invalid. The original petitioner is responsible for the process of transferring the ownership of the factory to the Group. Also, when the Group pays the total contract amount to the landlord, the original petitioner will return the prepaid amount to the Group. On April 10, 2012, RI-TENG has settled the payment under the tripartite contract, obtained the right to use the premises and completed the process to transfer the land use right in May, 2012.

C. KINSUS INTERCONNECT TECHNOLOGY CORP. ("KINSUS") purchased a farm land in the name of KINSUS's chairman instead of KINSUS, due to the restriction imposed by the local government. As of December 31, 2013, the registration procedures were not completed.

D. Please refer to Note 6(24) for details of the capitalization of interest expenses and gain and loss on disposal of property, plant and equipment.

E. Please refer to Note 8 for details of the property, plant and equipment pledged as collateral.

(8) Investment property

		Land	Buildings	Total
Cost or deemed cost:				
Balance as of January 1, 2013	$	**281,945**	**539,483**	**821,428**
Balance as of December 31, 2013	$	**281,945**	**539,483**	**821,428**
Balance as of January 1, 2012	$	**281,945**	**539,483**	**821,428**
Balance as of December 31, 2012	$	**281,945**	**539,483**	**821,428**
Depreciation and impairment loss：				
Balance as of January 1, 2013	$	9,617	142,300	151,917
Depreciation for the period		-	10,380	10,380
Balance as of December 31, 2013	$	**9,617**	**152,680**	**162,297**
Balance as of January 1, 2012	$	9,617	130,592	140,209
Depreciation for the period		-	11,708	11,708
Balance as of December 31, 2012	$	**9,617**	**142,300**	**151,917**
Carrying amount：				
Balance as of December 31, 2013	$	**272,328**	**386,803**	**659,131**
Balance as of December 31, 2012	$	**272,328**	**397,183**	**669,511**
Balance as of January 1, 2012	$	**272,328**	**408,891**	**681,219**

A. Rental income and direct operating expenses arising from investment property that generate rental income were as follows:

		For the years ended December 31	
		2013	2012
Rental income	$	**25,356**	**22,152**
Direct operating expenses arising from investment property that generate rental income	$	**10,380**	**11,708**

B. As of December 31, 2013, December 31, 2012, and January, 2012, the fair value of investment property of the Group was $888,531, $932,807, and $847,721, respectively. The fair value of investment property was evaluated based on the recent market transaction on arm's length terms.

C. As of December 31, 2013, December 21, 2012, and January 1, 2012, the aforesaid investment properties were not pledged as collateral.

(9) Intangible assets

The costs of intangible assets, amortization, and impairment loss of the Group for the years ended December 31, 2013 and 2012 were as follows:

		Goodwill	Customer relationship	Technology	Others	Total
Costs:						
Balance on January 1, 2013	$	1,855,246	348,824	746,848	1,095,816	4,046,734
Additions		-	-	-	80,788	80,788
Disposals		-	-	-	(13,115)	(13,115)
Reclassifications		-	-	-	9,553	9,553
Effect of movement in exchange rate		26,782	9,189	19,674	17,971	73,616
Balance on December 31, 2013	**$**	**1,882,028**	**358,013**	**766,522**	**1,191,013**	**4,197,576**

	Goodwill	Customer relationship	Technology	Others	Total
Balance on January 1, 2012	$ 1,898,499	363,659	778,610	1,003,375	4,044,143
Additions	-	-	-	249,087	249,087
Reclassifications	-	-	-	7,891	7,891
Disposals	-	-	-	(140,333)	(140,333)
Effect of movement in exchange rates	(43,253)	(14,835)	(31,762)	(24,204)	(114,054)
Balance on December 31, 2012	**$ 1,855,246**	**348,824**	**746,848**	**1,095,816**	**4,046,734**
Amortization and Impairment Loss:					
Balance on January 1, 2013	$ -	232,549	497,899	545,741	1,276,189
Amortization for the period	-	118,908	254,588	218,650	592,146
Impairment loss	342,154	-	-	-	342,154
Disposals	-	-	-	(13,088)	(13,088)
Effect of movement in exchange rates	-	6,556	14,035	9,752	30,343
Balance on December 31, 2013	**$ 342,154**	**358,013**	**766,522**	**761,055**	**2,227,744**
Balance on January 1, 2012	$ -	121,220	259,537	384,961	765,718
Amortization for the period	-	118,276	253,234	311,447	682,957
Disposals	-	-	-	(139,661)	(139,661)
Effect of movement in exchange rates	-	(6,947)	(14,872)	(11,006)	(32,825)
Balance on December 31, 2012	**$ -**	**232,549**	**497,899**	**545,741**	**1,276,189**
Carrying value:					
Balance on December 31, 2013	**$ 1,539,874**	**-**	**-**	**429,958**	**1,969,832**
Balance on December 31, 2012	**$ 1,855,246**	**116,275**	**248,949**	**550,075**	**2,770,545**
Balance on January 1, 2012	**$ 1,898,499**	**242,439**	**519,073**	**618,414**	**3,278,425**

A. The amortization of intangible assets were respectively recognized in the statement of comprehensive income as follows:

	For the Years Ended December 31	
	2013	**2012**
Operating costs	$ 308,838	354,189
Operating expenses	283,308	328,768
	$ 592,146	**682,957**

B. Goodwill impairment

For the purpose of impairment testing, goodwill was allocated to the Group's cash-generating units, such as facilities, consumer electronic and others, as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Mechanics	$ 999,462	973,810	1,015,223
Consumer electronic	538,890	879,914	881,754
Others	1,522	1,522	1,522
	$ 1,539,874	**1,855,246**	**1,898,499**

At the end of each reporting period, the Group assess whether there is any indication of impairment loss on goodwill. In 2013, impairment loss recognized on good will amounted to $342,154. As of December 31, 2012 and January 1, 2012, the impairment testing was performed and the result thereof disclosed no impairment loss on goodwill. The key assumptions used in determining the value in use by each cash-generating unit were as follows:

(a) The recoverable amount of the metal casing factory cash-generating unit was based on value in use. Key assumptions used in calculating the recoverable amount were as follows:

i. Management had projected cash flow based on a five-year financial budget which was extrapolated from historical operating results and future operating plan.

ii. Pre-tax discount rate used in calculating the value in use was determined from weighted average cost of capital (WACC) of the Company.

(b) The recoverable amount of the digital camera cash-generating unit was based on value in use. Key assumptions used in calculating the recoverable amount were as follows:

i. Management had projected cash flow based on a five-year financial budget which was extrapolated from future operating plan.

ii. Projected revenue and gross profit ratio were extrapolated from management's forecast based on past operating results and future marketing development trends.

iii. Pre-tax discount rate used in calculating the value in use was determined from weighted average cost of capital (WACC) of the Company.

C. For the years ended December 31, 2013 and 2012, the Group has not noted any indication of potential impairment loss based on the impairment testing performed.

(10) Other financial assets and other assets

Other current assets noncurrent assets were as follows:

		December 31, 2013	**December 31, 2012**	**January 1, 2012**
Other financial assets－current	$	1,836,937	846,823	845,609
Other financial assets－noncurrent		1,236,088	306,996	297,065
Other current assets		6,187,337	8,744,150	5,096,334
Other noncurrent assets		66,447	98,952	99,558
	$	**9,326,809**	**9,996,921**	**6,338,566**

A. Other financial assets consisted of time deposits with maturity period of over three months, restricted time deposits and guarantee deposit paid. Please refer to Note 8 for details.

B. Other current assets consisted of temporary payments, current tax asset and others.

C. Other noncurrent assets consisted of long-term prepaid expenses and others.

(11) Short-term loans

	December 31, 2013	December 31, 2012	January 1, 2012
Letters of credits	$ -	-	468,600
Unsecured bank loans	22,774,478	19,338,311	22,236,323
Secured bank loans	240,000	274,848	68,443
Total	**$ 23,014,478**	**19,613,159**	**22,773,366**
Unused credit line	**$ 54,587,755**	**42,891,715**	**53,665,056**
Interest rate	**0.65%~5.38%**	**0.16%~6.56%**	**0.05%~6.53%**

Please refer to Note 8 for details of the related assets pledged as collateral.

(12) Short-term notes and bills payable

Short-term notes and bills payable were as follows:

	December 31, 2013		
	Acceptance institution	Interest rate	Amount
Commercial paper payable	China Bills Finance Corporation	0.68%	$ $80,000
Less：Discount on short-term notes and bills payable			(22)
Total			$ $79,978

	December 31, 2012		
	Acceptance institution	Interest rate	Amount
Commercial paper payable	China Bills Finance Corporation	1.05%	$ 100,000
Less：Discount on short-term notes and bills payable			(7)
Total			$ $99,993

	January 1, 2012		
	Acceptance institution	Interest rate	Amount
Commercial paper payable	International Bills Finance Corporation	0.87%	$ 80,000
	Dah Chung Bills Finance Corporation	0.85%	80,000
	Mega Bills Finance Corporation	0.89%	60,000
			220,000
Less：Discount on short-term notes and bills payable			(64)
Total			$ 219,936

(13) Long -term loans

	December 31, 2013	
	Currency	Amount
Secured bank loans	NTD	$ 503,911
Secured bank loans	USD	358,946
Unsecured bank loans	NTD	12,050,493
Unsecured bank loans	USD	16,720,033
		29,633,383
Less：Fees		(22,400)
Less：Current portion		(9,019,299)
Total		**$ 20,591,684**
Unused credit line		**$ 10,136,543**
Interest rate		**0.74%~2.54%**
Expiration		**2006.12~2018.09**

	December 31, 2012		January 1, 2012	
	Currency	Amount	Currency	Amount
Secured bank loans	NTD	$ 505,910	NTD	90,160
Secured bank loans	USD	558,722	USD	1,322,664
Unsecured bank loans	NTD	40,000	NTD	395,424
Unsecured bank loans	USD	25,298,778	USD	26,459,020
		26,403,410		28,267,268
Less：Current portion		(7,415,239)		(913,849)
Total		**$ 18,988,171**		**27,353,419**
Unused credit line		**$ 9,445,760**		**10,894,317**
Interest rate		**0.91%~2.60%**		**0.79%~3.88%**
Expiration		**2006.12~2017.04**		**2005.01~2019.06**

A. Securities for bank loans

The Group's promissory notes were pledged as a guarantee for the Group's credit loan facility. Please refer to Note 8 for details of the related assets pledged as collateral.

B. Loan covenants

(a) According to the Company's credit loan facility agreement with the banks, during the loan repayment periods, the Company must comply with certain financial covenants based on its audited annual and semi-annual consolidated financial statements (June 30 and December 31) as follows:

i. Current ratio (current assets/current liabilities): should not be less than 100%.

ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.

iii. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

iv. Tangible net assets (stockholders' equity, including minority shareholders) - intangible assets): should not be less than $90,000,000.

v. Factoring line of accounts receivable factoring/ net book value of accounts receivable before derecognition: less than 50%

If the aforesaid covenants are breached, the syndicate banks will, depending on the circumstances, based on the majority decision of the syndicate banks to either suspend the subsequent credit usage or demand an immediate repayment.

The Company was in compliance with the above financial covenants as of December 31, 2013.

(b) On August 01, 2013, the Company signed a syndicated loan agreement with a total credit line of $12,000,000. According to the agreement, the Company must comply with the following financial covenants:

i. Current ratio (current assets/current liabilities): should not be less than 100%.

ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 80%.

iii. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than $90,000,000.

iv. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

Compliance with the aforesaid financial covenants is determined on the reviewed quarterly consolidated financial statements (March 31, June 30 and September 30) and audited annual (December 31) stand alone and consolidated financial statements of the Group.

If the aforesaid covenants are breached, the syndicate banks will, depending on the circumstances, based on the majority decision of the syndicate banks to either suspend the subsequent credit usage or demand an immediate repayment.

The Company was in compliance with the above financial covenants as of December 31, 2013.

(c) On April 7, 2011, PROTEK (SHANGHAI) LTD., signed a syndicated loan agreement with a total credit line of USD 200,000 thousand. The financial covenants of this credit line were as follows:

i. Current ratio (current assets/current liabilities): should not be less than 100%.

ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not

be higher than 50% (total total liabilities include short-term loans, short-term notes payable, rents payable, current portion of long-term loans, current portion of bonds payable, long-term loans and bonds payable).

iii. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

iv. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than NT$90,000,000.

Compliance with the above-mentioned financial covenants is determined based on the annual and semi-annual consolidated financial statements (June 30 and December 31) audited by independent auditors as provided by the guarantor, the Company. Also, the management of the Company-guarantor is normally required to issue management representation letters that contain, among other things, the calculations and results of their evaluation of compliance with the above-mentioned financial covenants in the annual and semi-annual audited of financial statements. PROTEK (SHANGHAI) LTD. was in compliance with the above financial covenants as of December 31, 2013.

(d) The Company provided endorsement guarantee for CASETEK CAYMAN to obtain a long-term loan from The Shanghai Commercial & Savings Bank, Ltd., DBS, Taiwan Cooperative Bank and Mega International Commercial Bank. As of December 31, 2013, the entire endorsement guarantee has been terminated except for the long-term loan obtained from Mega International Commercial Bank where CASETEK CAYMAN became the endorsement guarantee provider.

(14) Bonds payable

A. The Company's overseas unsecured convertible bonds were as follows:

		December 31, 2013	December 31, 2012
Convertible bonds issued	$	8,874,000	8,874,000
Unamortized discounted on bonds payable		(824,809)	(1,056,299)
Bonds payable, end of the year		8,049,191	7,817,701
Foreign currency valuation, end of the year		67,299	(161,520)
Bonds payable, net	$	**8,116,490**	**7,656,181**
Embedded derivative –conversion options, accounted under financial liabilities at fair value through profit or loss	$	**235,162**	**759,815**

		For the Years Ended December 31	
		2013	2012
Embedded derivative instruments –conversion options, accounted under other gains and losses	$	(534,768)	(502,955)
Interest expense	$	381,313	348,073

The offering information on the unsecured convertible bonds were as follows:

Item	1st overseas unsecured convertible bonds issued in 2012
1. Offering amount	USD 300 million with each unit valued at USD 200 thousand.
2. Issue date	February 6, 2012
3. Listing place	Singapore Exchange Securities Trading Limited (the "SGX-ST")
4. Interest	The Bonds will not bear any interest.
5. Issue period	5 years, commencing from February 6, 2012 and matured on February 6, 2017.
6. Settlement	Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on Maturity Date at an amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.
7. Redemption at the option of the Company	(1) The Company may redeem the Bonds, in whole but not in part, at the early redemption amount at any time on or after February 6, 2015 if the closing price of the common shares on TWSE (translated into U.S. Dollars at the fixing rate at 11:00 a.m. Taipei time as quoted by Taipei Forex Inc.) on each trading day during a period of 20 consecutive trading dates exceeds at least 125% of the quotient of the early redemption amount divided by the number of shares to be issued upon conversion of USD 200,000 principal amount of Bonds on the applicable trading day based on the conversion price then in effect (translated into U.S. Dollars at the fixed exchange rate of NT$29.761 = USD 1.00). (2) If more than 90% in principal amount of the Bonds originally outstanding has been redeemed, repurchased and cancelled or converted, the Company has the right to redeem all but not portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.

Item	1st overseas unsecured convertible bonds issued in 2012
	(3) The Bonds may be redeemed, in whole but not in part, if the affect of change in the tax laws of ROC will increase the Company's tax liability, interest expense or related cost from the Bonds. Holders may elect not to have their bonds redeemed with no entitlement to any additional amount of reimbursement of additional tax.
8. Redemption at the option of the Holder	(1) Each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds on February 6, 2015 at a redemption price equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis. (2) In the event that the Company's common shares ceased to be listed or admitted to trading on the TWSE, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis. (3) In the event of change of control occurs with respect to the Company, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount.
9. Conversion	(1) Conversion period Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, each Holder of the Bonds will have the right at any time during the conversion period commencing March 18, 2012 (the 41st day following the Closing Date) and ending at the close of business on January 27, 2017 (the 10th day prior to the Maturity Date), to convert their bonds. (2) Conversion price The conversion price was NT$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012. However, upon the issuance of restricted Company shares of stock to employees, the conversion price has been adjusted to NT$40.11 per share effective October 7, 2013. (3) Conversion to common shares Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT$29.761 = USD 1.00) divided by the conversion price on the conversion date.

B. Details of ABILITY ENTERPRISE CO., LTD.'s ("Ability (TW)") unsecured domestic convertible bonds were as follows:

		December 31, 2012	January 1, 2012
Convertible bonds issued	$	1,500,000	1,500,000
Unamortized discounted on bonds payable		(64,387)	(95,293)
Corporate bonds issued balance at period end		1,435,613	1,404,707
Less: Bonds payable－current portion or redemption		(1,435,613)	-
	$	**-**	**1,404,707**

As of December 31, 2013, the offering information on the unsecured convertible bonds were as follows:

(a) Ability (TW) issued the 1st unsecured domestic convertible bonds of NT$1,500 million with each bond having coupon rate of 0%, an issue price of 100.2% over par value, and maturing in 5 years (During Feb 6th, 2010 to Feb 6th, 2015). These convertible bonds are payable in full at par on maturity date and are listed on Over-the-Counter Market on February 8th, 2010.

(b) After 30 days from issue date (March 7th, 2010) and 10 days prior to maturity date (January 27th, 2015), the bondholders can exercise their rights to convert the bonds into Ability (TW)'s common stock. Under the terms of the convertible bonds, the rights and obligations of the new shares converted from convertible bonds are the same as the issued and outstanding common stock.

(c) The conversion price will be adjusted based on the terms of the conversion plan, and will be reset based on the prescribed formula upon the occurrence of certain events that will have a dilutive effect on the bondholders' rights. The conversion price was originally set at $60. As Ability (TW) distributes cash dividend on August 1, 2010, September 6, 2011 and August 14, 2012, the exercise price was adjusted from $60 to $55.7 and $55.7 to $50.7, respectively, on the effective dates. As of August 14, 2012, the exercise price was adjusted from $50.7 to $47.4 on the effective date.

(d) After 3 years from issue date (Feb 6th, 2013), the bondholders shall have the right at such bondholders' option to require Ability (TW) to redeem all or some of the convertible bonds at a price equal to 100% of the principal amount plus interest at the rate of 0.3% per annum, payable annually.

(e) Ability (TW) may purchase the outstanding bonds at face value under the following conditions: (i) the closing price of the shares for a period of 30 consecutive trading days is above 130% of the conversion price and (ii) the amount of the outstanding bonds is less than 10% of the initial issuance amount of convertible bonds, from the day after the first month of issuance of the bonds to 40 days prior to the maturity date.

(f) Under the terms of the convertible bonds, the convertible bonds of Ability (TW) which are repurchased, redeemed, or converted to common shares will be retired and cannot be sold or re-issued.

In accordance with IAS 32, convertible bonds are initially treated as compound financial instruments, of which the equity and liability components are separately accounted for. As of March 31, 2012, the issuance of convertible bonds resulted in a "capital surplus－stock option" of $153,508. In addition, the fair value of call options and put options embedded in bonds payable was separated from bonds payable, and was recognized as "Financial assets or liabilities at fair value through profit or loss" in accordance with IAS 39. The effective annual interest rate of the bonds ranges from 2.122% to 2.263%.

C. In February and March 2013, Ability (TW) have redeemed all convertible bonds with face value of $1,500 million and recognized a redemption loss of $6,065. For the year ended December 31, 2012, ABILITY ENTERPRISE CO., LTD. has recognized a gain on valuation of convertible bonds of $31,998.

(15) Provisions

		Warranties	Allowance for sales returns and discounts	Total
Balance on January 1, 2013	$	151,312	115,869	267,181
Provisions made during the year		81,076	122,392	203,468
Provisions used during the year		(665)	(22,816)	(23,481)
Provisions reversed during the period		-	(3,011)	(3,011)
Effect of movements in exchange rates		943	5,802	6,745
Balance on December 31, 2013	**$**	**232,666**	**218,236**	**450,902**
Balance on January 1, 2012	$	170,614	94,368	264,982
Provisions made during the year		26,842	53,418	80,260
Provisions used during the year		(44,622)	(31,550)	(76,172)
Effect of movements in exchange rates		(1,522)	(367)	(1,889)
Balance on December 31, 2012	**$**	**151,312**	**115,869**	**267,181**

A. Warranties

Warranties of Ability (TW) are recognized when the expected benefits to be derived by Ability (TW) from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

B. Allowance for sales return and discounts

Allowances for sales returns and discounts are estimated based on historical experience. Such allowances are recognized as sales revenue deduction in the same period in which sales are made.

(16) Operating leases

A. Leasee

At the end of reporting year, the lease commitments were as follows:

		December 31, 2013	December 31, 2012	January 1, 2012
Less than one year	$	573,933	723,386	449,803
Between one and five years		977,246	1,343,746	621,402
More than five years		114,071	123,914	143,854
	$	**1,662,250**	**2,191,046**	**1,215,059**

The Group lease a number of office, warehouse, factory facilities and staff dormitories under operating leases. The leases typically run for a period of 1 to 14 years, with an option to renew the lease after that date.

For the years ended December 31, 2013 and 2012, expenses recognized in profit or loss in respect of operating leases were as follows:

	For the Years Ended December 31		
		2013	2012
Cost of sales	$	1,094,521	736,665
Operating expenses		483,555	405,436
	$	**1,578,076**	**1,142,101**

B. Long-term prepaid rents

		December 31, 2013	December 31, 2012	January 1, 2012
Long-term prepaid rents	**$**	**3,645,795**	**3,385,492**	**2,673,871**

(a) Long-term prepaid rents represent land use rights under operating lease arrangement is expensed equally over 45 to 50 years.

(b) Please refer to Note 8 for details of the aforesaid land use rights pledged as collateral.

(17) Employee benefits

A. Defined benefit plans

The Company's defined benefit obligations and fair value of plan assets were as follows:

		December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligations	$	361,929	386,547	305,577
Fair value of plan assets		(184,115)	(167,839)	(155,077)
Deficit in the plan	$	**177,814**	**218,708**	150,500

The Group makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provide pension for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for six months prior to retirement.

(a) Composition of plan assets

The Group set aside pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund and such funds are managed by the Labor Pension Fund Supervisory Committee. Under these regulations, the minimum earnings from these pension funds shall not be less than the earnings from two-year time deposits with the interest rates offered by local banks.

The Group's contributions to the pension funds were deposited with Bank of Taiwan. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

(b) Movements in present value of the defined benefit obligations

The movements in the present value of the defined benefit obligations for the years ended December 31, 2013 and 2012 were as follows:

		For the Years Ended December 31	
		2013	2012
Defined benefit obligation, January 1	$	386,547	305,577
Benefits paid by the plan		(5,250)	(6,284)
Current service costs and interest		13,955	9,828
Actuarial (gain) losses		(33,633)	75,270
Others		310	2,156
Defined benefit obligation, December 31	$	**361,929**	**386,547**

(c) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the years ended December 31, 2013 and 2012 were as follows:

	For the Years Ended December 31		
		2013	2012
Fair value of plan assets, January 1	$	167,839	155,077
Contributions made		14,159	18,336
Benefits paid by the plan		-	(6,284)
Expected return on plan assets		2,937	2,775
Actuarial losses		(1,315)	(2,065)
Others		495	-
Fair value of plan assets, December 31	$	**184,115**	**167,839**

(d) Expenses recognized in profit or loss

The Group's pension expenses recognized in profit or loss for the years ended December 31, 2013 and 2012 were as follows:

	For the Years Ended December 31		
		2013	2012
Current service cost	$	8,162	4,486
Interest on obligation		5,793	5,342
Expected return on plan assets		(2,937)	(5,461)
Others		(268)	42
	$	**10,750**	**4,409**
Operating Cost	$	951	83
Operating Expense		9,799	4,326
	$	**10,750**	**4,409**
Actual return on plan assets	$	**1,622**	**710**

(e) Actuarial gains and losses recognized in other comprehensive income

The Group's actuarial gains and losses recognized in other comprehensive income for the years ended December 31, 2013 and 2012, were as follows:

	For the Years Ended December 31		
		2013	2012
Cumulative amount, January 1	$	156,217	78,882
Recognized during the year		(32,318)	77,335
Cumulative amount, December 31	$	**123,899**	**156,217**

(f) Actuarial assumptions

The following were the key actuarial assumptions at the reporting date:

	2013	2012
Discount rate on December 31	1.875%~2.00%	1.50%~1.625%
Expected return on plan assets on January 1	2.00%	1.50%~3.00%
Future salary increases	1.50%~3.00%	1.75%~3.00%

The expected long-term rate of return was based on the portfolio as a whole and not on the sum of the returns on individual asset categories. Also, such return was based exclusively on historical returns, without adjustments.

(g) Experience adjustments based on historical information

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligation	$ 361,929	386,547	305,577
Fair value of plan assets	(184,115)	(167,839)	(155,077)
Deficit in the plan	**$ 177,814**	**218,708**	**150,500**
Experience adjustments arising on plan liabilities	**$ 35,387**	**77,262**	**-**
Experience adjustments arising on plan assets	**$ 1,315**	**2,065**	**-**

The Group expected $14,159 worth of contributions to be paid to its benefit plans within a year starting from the reporting date of December 31, 2013.

(h) In determining the present value of the defined benefit obligation, the Group management makes judgments and estimates to decide relative actuarial assumptions on the balance sheet date, which includes employee turnover rate and future salary changes. Changes in actuarial assumptions will impact the amount of defined benefit obligation.

As of December 31, 2013, the Group defined benefit obligation had a present value of $361,929. An increase (decrease) of 0.5% in future salary increase rate would have (decrease) increase the present value of the defined benefit obligation by $(33,984) and $38,463, respectively.

B. Defined contribution plans

The Group contributes an amount at the rate of 6% of the employee's monthly wages to the Labor Pension personal account with the Bureau of the Labor Insurance and Council of Labor Affairs in R.O.C. in accordance with the provisions of the Labor Pension Act. The Group's contributions to the Bureau of the Labor Insurance and Social Security Bureau for the employees' pension benefits require no further payment of additional legal or constructive obligations.

The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2013 and 2012 amounted to $2,908,063 and $2,207,191, respectively.

(18) Income Tax

A. The income tax expense for the years ended December 31, 2013 and 2012 was calculated as follows:

		For the Years Ended December 31	
		2013	2012
Current income tax expense			
Current period incurred	$	4,641,680	3,597,177
Prior years income tax adjustment		(72,201)	289,684
Deferred tax expense			
The origination and reversal of temporary differences		213,146	(43,845)
Income tax expense	**$**	**4,782,625**	**3,843,016**

B. Income tax on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2013 and 2012 as follows :

		For the Years Ended December 31	
		2013	2012
Profit before income tax	$	19,029,872	14,179,197
Income tax on pre-tax financial income calculated at the domestic rates applicable to profits in the country concerned		6,886,813	4,669,187
Permanent differences		(1,120,123)	(1,969,078)
Changes in unrecognized temporary differences		(1,502,077)	(938,807)
Prior years income tax adjustment		(72,201)	289,684
10% surtax on undistributed earnings		168,358	545,268
Investment tax credits		92,573	418,877
Others		329,282	827,885
Income tax expense	**$**	**4,782,625**	**3,843,016**

C. Deferred tax assets and liabilities

(a) Unrecognized deferred tax liabilities

As of December 31, 2013, December 31, 2012 and January 1, 2012, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax liabilities as the Group has the ability to control the reversal of these temporary differences which are not expected to reverse in the foreseeable future. The related amounts were as follows:

		December 31, 2013	December 31, 2012	January 1, 2012
The aggregate temporary differences associated with investments in subsidiaries	$	**36,970,496**	**30,389,407**	**25,117,813**
Unrecognized deferred tax liabilities	$	**6,284,984**	**5,166,199**	**4,270,028**

(b) Unrecognized deferred tax assets

		December 31, 2013	December 31, 2012	January 1, 2012
Deductible temporary differences	$	505,159	776,101	1,170,334
Tax losses		759,460	871,810	520,213
	$	**1,264,619**	**1,647,911**	**1,690,547**

The ROC Income Tax Act allows the carry forward of net losses, as assessed by the tax authorities, to offset against taxable income over a period of ten years for local tax reporting purposes. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

As of December 31, 2013, the Group had not recognized the prior years' loss carry-forwards as deferred tax assets, and the expiry years thereof were as follows:

Company Name	Year of occurrence		Unused balance	Expiry year
KINSUS and its subsidiaries	2010~2013	$	2,843,095	2015~2022
ABILITY (TW) and its subsidiaries	2009~2012		699,597	Note
AZUREWAVE and its subsidiaries	2012~2013		255,077	2022~2023
AMA PRECISION	2009~2012		146,466	2019~2022
STARLINK	2004~2007		101,185	2014~2017
		$	**4,045,420**	

Note: In accordance with its local income tax act.

(c) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2013 and 2012, were as follows:

		Gain on foreign investments	Others	Total
Deferred tax liabilities:				
Balance, January 1,2013	$	1,319,415	177,624	1,497,039
Recognized in loss (profit)		821,038	83,405	904,443
Recognized in comprehensive income		(2,405)	19,205	16,800
Exchange differences on translation		36,170	-	36,170
Balance, December 31,2013	**$**	**2,174,218**	**280,234**	**2,454,452**

		Gain on foreign investments	Others	Total
Balance, January 1,2012	$	462,794	201,685	664,479
Recognized in loss (profit)		866,369	(13,454)	852,915
Recognized in comprehensive income		11,713	(10,607)	1,106
Exchange differences on translation		(21,461)	-	(21,461)
Balance, December 31,2012	**$**	**1,319,415**	**177,624**	**1,497,039**

		Provision for Contingent Service Cost	Gain on valuation of inventory	Unrealized expenses	Others	Total
Deferred tax assets:						
Balance, January 1,2013	$	515,584	973,016	881,988	8,488	2,379,076
Recognized in profit (loss)		380,812	(31,280)	170,577	171,188	691,297
Recognized in comprehensive income		-	-	(2,442)	(988)	(3,430)
Exchange differences on translation		-	32,029	-	1,513	33,542
Balance, December 31,2013	**$**	**896,396**	**973,765**	**1,050,123**	**180,201**	**3,100,485**
Balance, January 1,2012	$	196,633	584,835	331,642	374,936	1,488,046
Recognized in profit (loss)		318,951	399,056	545,088	(366,335)	896,760
Recognized in comprehensive income		-	-	5,509	1,276	6,785
Exchange differences on translation		-	(10,875)	(251)	(1,389)	(12,515)
Balance, December 31,2012	**$**	**515,584**	**973,016**	**881,988**	**8,488**	**2,379,076**

D. Income tax

(a) The Company's income tax returns through 2011 have been assessed and approved by the Tax Authority. However, the income tax return for 2008 is still under review by the Tax Authority.

(b) The Group have income tax returns approved by the Tax Authority as follows:

Years of Approval	Company Name
2012	ASFLY TRAVEL SERVICE LTD., HUA-YUAN INVESTMENT LTD. and PEGA INTERNATIONAL LTD.
2011	UNIHAN, ABILITY (TW), AMA PRECISION, ASROCK, PEGAVISION CORPORATION, PEGAVISION, ASUSPOWER INVESTMENT, ASUS INVESTMENT, ASUSTEK INVESTMENT, STARLINK , LUMENS OPTICS, RIH KUAN, AZURE WAVE, EZWAVE and AZURE LIGHTING TECHNOLOGIES, INC.
2010	KINSUS LIGHTING TECHNOLOGIES, INC.

E. Five year income tax exemption period

The investments of KINSUS INTERCONNECT TECHNOLOGY CORP. for its establishment and expansion conform to "the Regulations Regarding Awards for Newly Emerging and Strategic Industries Under Manufacturing and Technical Service Industries."

As approved by the Tax Authority, the Group is eligible for five-year income tax exemption, the details of which were as follows:

Approving Office	Approval document number	Tax exemption period
Industrial Development Bureau	10005112010	01/01/2013~12/31/2017

F. Stockholders' imputation tax credit account and tax rate:

	December 31, 2013	December 31, 2012	January 1, 2012
Stockholders' imputation tax credit account	$ **1,310,701**	**545,432**	**3,448**

	2013 (Expect)	2012 (Actual)
Tax deduction ratio for earnings distributable to R.O.C. residents	**10.69%**	**4.49%**

All of the Company's earnings generated for the period up to December 31, 1997 have been appropriated.

The aforesaid imputation tax related information was prepared in accordance with Decree No.10204562810 issued by Taxation Administration, Ministry of Finance, R.O.C. on October 17, 2013.

(19) Capital and reserves

As of December 31, 2013, December 31, 2012, and January 1, 2012, the authorized capital of the Company consisted of 30,000,000, 30,000,000 and 25,000,000 thousand shares, respectively, with par value of $10 per share, and its outstanding capital consisted of 2,320,435 thousand shares, 2,290,305 thousand shares and 2,256,367 thousand shares of stock, respectively.

The movements in ordinary shares of stock outstanding for the years ended December 31, 2013 and 2012 were as follows:

	For the Years Ended December 31	
Ordinary Shares (In thousands of shares)	2013	2012
Beginning balance, January 1	2,290,305	2,256,367
Expiration of restricted stock to employee	4,234	33,938
Exercise of employee stock options	25,896	-
Ending balance, December 31	**2,320,435**	**2,290,305**

A. Nominal ordinary shares

In order to enhance own-brand business and boost productivity, the board of directors of ASUSTeK Computer Inc. ("ASUSTek") resolved on December 11, 2009 but revised it on January 1, 2010, to spin-off or cede its OEM group (Pegatron Corporation (the "Company")) to Pegatron International Investment Co., Ltd. ("Pegatron Investment"), which is being held by ASUSTeK. Pegatron Investment will issue new shares to ASUSTeK and all shareholders of ASUSTek, for which, ASUSTek and all other shareholders of ASUSTek will acquire 25% ownership and 75% ownership, respectively, of the equity of Pegatron Investment. The record date of this spin-off was June 1, 2010. Following the spin-off, the Company merged with Pegatron Investment. The Company issued 10 thousands new shares, resulting in additional capital of $100. Thereafter, the total outstanding capital amounted to $22,860,639, divided into 2,286,064 thousand shares with par value of $10 per share.

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares of stock valued at $296,970. In 2012, the Company had issued 33,938 thousand shares of restricted Company shares of stock to employees, of which 1,828 thousand shares were retired in 2013. Also, the Company issued 6,062 thousand shares of restricted Company shares of stock to employees in 2013. New common shares of stock totaling 26,617 thousand shares were issued from the exercise of employee stock options, of which 721 thousand shares were accounted under advance receipts instead of share capital as the registration procedures were yet to be completed. As of December 31, 2013 and 2012, the authorized capital of the Company both consisted of 3,000,000 thousand shares, with par value of $10 per share, and its outstanding capital consisted of 2,320,435 thousand common shares of stock and 2,290,305 thousand common shares of stock, respectively.

As of December 31, 2013, the restricted Company shares of stock issued to employees have expired and of which 78 thousand shares have not been retired.

B. Global depositary receipts

ASUSTeK GDR holders who surrender their ASUSTeK GDRs on or after the Effective Date of Spin-off and Merger in Taiwan will receive new ASUSTeK GDRs and the Company's entitlement. The Company's entitlement represents the rights to receive 60,819,026 of the Company's common shares in Taiwan.

The Company may issue new GDRs with no more than 60,819,020 of the Company's common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines." As of December 31, 2013, the Company has listed, in total, 5,964 thousand units of GDR on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed Company shares totaling 29,818 thousand shares of stock. Major terms and conditions for GDRs were as follows:

(a) Voting Rights

Holders of GDRs may exercise voting rights with respect to the common shares in the manner set out in "Terms and Conditions of the Global Depositary Shares – Voting Rights," as such provisions may be amended from time to time to comply with applicable ROC law.

(b) Dividend Distributions, Pre-emptive Rights, and Other Rights

Holders of GDRs have same rights on dividend distribution and share distribution as the Company's existing common shareholders.

C. Capital surplus

The components of the capital surplus were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
From issuance of share capital	$ 61,420,285	60,393,247	60,393,247
From treasury stock-transactions	86,924	84,969	84,969
Gain or loss on disposal of subsidiary share options	918,130	192,626	65,429
Employee share options	31,007	163,985	49,513
Restricted stock to employees	309,556	478,366	-
Other	409,917	409,917	409,917
	$ 63,175,819	**61,723,110**	**61,003,075**

In accordance with Amended Companies Act of 2012, realized capital reserves can only be capitalized or distributed as cash dividends after offsetting against losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with Securities Offering and Issuance Guidelines, the amount of capital reserves that can be capitalized shall not exceed 10 percent of the actual share capital amount.

D. Retained earnings

The Company's Articles of Incorporation require that after-tax earnings shall first be offset against any deficit, and 10% of the balance shall be set aside as legal reserve. The appropriation for legal reserve is discontinued when the balance of the legal reserve equals the total authorized capital. Aside from the aforesaid legal reserve, the Company may, under its Articles of Incorporation or as required by the government, appropriate for special reserve. The remaining balance of the earnings, if any, is distributed as follows:

(a) Legal reserve

No less than 10% as employees' bonuses which are distributable in cash or shares of stock. In the event that the employee bonus is distributed in the form of shares of stock,

employees qualifying for such distribution may include the employees of subsidiaries of the Company who meet certain specific requirements. Such qualified employees and distribution ratio are decided by the Board of Directors.

(b) Up to 1% as remuneration to directors and supervisors.

(c) The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

Pursuant to the Regulations of Securities and Futures Bureau Commission, a special reserve is set aside from the current year's net income after tax and prior year's unappropriated earnings at an amount equal to the debit balance of contra accounts in the shareholders' equity such as the unrealized loss on financial instruments and cumulative translation adjustments. When the debit balance of any of these contra accounts in the shareholders' equity is reversed, the related special reserve can be reversed.

In order to bring about stability in the payment of dividends, the Company distributes dividends depending on the level of earnings of each year. The Company is facing a rapidly changing industrial environment. In consideration of the Company's long-term operating plan and funding needs, the Company adopts a stable dividends policy. Therefore, the Company distributes cash dividends of at least 10% of the aggregate dividends, if the distributions include cash dividends.

(a) Legal reserve

In accordance with the Amended Companies Act 2012, 10 percent of net income should be set aside as legal reserve, until it is equal to share capital. If the Company incurred profit for the year, the meeting of shareholders shall decide on the distribution of the statutory earnings reserve either by issuing new shares or by paying cash, of up to 25 percent of the actual share capital.

(b) Special reserve

In accordance with Permit No. 1010012865 as issued by the Financial Supervisory Commission on 6 April 2012, a special reserve equal to the contra account of other shareholders' equity is appropriated from current and prior period earnings. When the debit balance of any of the contra accounts in the shareholders' equity is reversed, the related special reserve can be reversed. The subsequent reversals of the contra accounts in shareholders' equity shall qualify for additional distributions.

(c) Earnings Distribution

For the years ended December 31, 2013 and 2012, employee bonuses of $870,000 and $299,000, and directors' and supervisors' remuneration of $85,000 and $29,000,

respectively, were estimated and recognized as current expense. These amounts were calculated using the Company's net profit for the years ended December 31, 2013 and 2012, and were determined according to the earnings allocation method, priority and factor for employee benefits and key management personnel compensation as stated under the Articles of Association. These benefits were charged to profit or loss under operating costs or operating expenses for the years ended December 31, 2013 and 2012. The earnings distribution for the year ended December 31, 2013 has not been approved through shareholders' meeting. Related information can be accessed from the Market Observation Post System on the web site. Management is expecting that the differences between the amounts which are yet to be approved in the shareholders' meeting and those recognized in the financial statements, if any, will be treated as changes in accounting estimates and charged to profit or loss.

On June 19, 2013 and June 27, 2012, the Company's shareholders' meeting resolved to appropriate the 2012 and 2011 earnings. These earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

	2012	2011
Common stock dividends per share (dollars)		
—Cash	**$ 1.50**	-
Employee bonus — cash	$ 299,000	12,100
Remuneration to directors and supervisors	29,000	-
Total	**$ 328,000**	**12,100**

The 2012 earnings approved for distribution agreed with those accrued in the financial statements for the year ended December 31, 2012.

The actual 2011 earnings distributions and those recognized in the financial report for 2011 were as follows:

	Actual distribution approved by the shareholders'	Distribution recognized in the financial report	Difference
Employee bonus — cash	$ 12,100	12,100	-
Remuneration of directors and supervisors	-	1,000	(1,000)
	$ 12,100	**13,100**	**(1,000)**

The difference between the actual amounts of earnings distribution for 2011 and those recognized in the financial statements for 2011 was due mainly to the board of directors' resolution to change the amount of directors' and supervisors' remuneration to $0. Such

difference was accounted for as a change in accounting estimate and charged to profit or loss in 2012.

Related information of distributions of employee bonus and remuneration to directors and supervisors can be accessed from the Market Observation Post System on the web site.

E. Treasury stock

Company shares of stock that are owned by the Company's subsidiaries are treated as treasury stock. As of December 31, 2013, the Company's shares held by its subsidiaries were 1,503 thousand shares amounting to $57,715 at fair value.

F. Other equity accounts

	Exchange differences on translation of foreign financial statements	Available-for-sale investments	Deferred compensation arising from issuance of restricted stock
Balance, January 1, 2013	$ (3,398,256)	88,302	(497,698)
Exchange differences on translation of foreign financial statements , net of tax：			
─ Group	3,318,952	-	-
─Associates	30,667	-	-
Unrealized gains (losses) on available-for-sale financial assets：			
─Group	-	(8,431)	-
Other equity			
─Group	-	-	256,328
Balance, December 31, 2013	**$ (48,637)**	**79,871**	**(241,370)**
Balance, January 1, 2012	$ (784,234)	37,951	-
Exchange differences on translation of foreign financial statements , net of tax：			
─Group	(2,609,309)	-	-
─Associates	(4,713)	-	-
Unrealized gains (losses) on available-for-sale financial assets：			
─Group	-	50,351	(497,698)
Balance, December 31, 2012	**$ (3,398,256)**	**88,302**	**(497,698)**

(20) Share-based payment

Information on share-based payment transaction as of December 31, 2013 were as follows:

Equity-settled share-based payment

Restricted stock to employee	**Issued in**	
	2013	**2012**
Thousand units granted	6,062	34,167
Contractual life	3 years	3 years
Vesting period	Note A	Note A
Actual turnover rate of employees	1.88%	6.89%
Estimated future turnover rate for each or the three years of employees	10.94% , 25.07%, 33.76%	14.28%, 22.84%, 28.85%

Employee stock option	**Issued in**	
	2012	**2011**
Thousand units granted	8,053	40,679
Contractual life	3 years	3 years
Vesting period	2 years	2 years
Actual turnover rate of employees	17.77%	23.70%
Estimated future turnover rate of employees	19.01%	19.88%

Cash-settled share-based payment

Stock appreciation rights plan	**Issued in 2012**
Thousand units granted	Note B
Contractual life	07/01/2013~06/30/2014
Vesting period	1.25 years
Actual turnover rate of employees	8.27%
Estimated future turnover rate of employees	8.97%

Note A: Employees are entitled to receive 40%, 30%, and 30% of the restricted stock in the first, second and third year, respectively, of their service.

Note B: The option will be granted only if the earnings per share target is reached.

On April 14, 2011, the Company obtained the approval from the Financial Supervisory Commission and issued 50,000 units of Employee Stock Options with an exercisable right of 1,000 shares of the Company's common shares per unit. For these employee stock options, the Company will issue its own new common shares on settlement, and the exercise price of all stock options shall be equal to the closing price of the Company's common stock at grant date. The expected life of the stock options is estimated to be 3 years, and stock option granted to an employee is not transferable to any person. If the exercise period expires, the employee forfeits his/her right to exercise the option and purchase the shares. Except for the forfeiture of vested

options, all stock options shall vest from the second year of the grant date, and the employees should exercise the right to apply for shares against the stock option vested in them pursuant to the stock option plan.

On October 19, 2012, the Company obtained the approval from the Financial Supervisory Commission to issue restricted Company shares of stock to employees for up to a limited number of 40,000 thousand shares. On grant date of November 9, 2012, the Board of Directors approved the list of eligible employees and resolved to issue 34,167 thousand shares effective December 20, 2012. The actual number of newly issued shares was 33,938 thousand shares with a par value of $10 per share. The procedure for the registration of change of capital stock has been completed. Unless the vesting conditions have elapsed, the restricted shares of stock may not be sold, pledged, transferred, hypothecated or otherwise disposed. Holders of restricted shares of stock are entitled to rights as the Company's existing common shareholders except for the fact that restricted shares of stock are held by the trust and have vesting conditions. Also, the Company bears the right to buy back the restricted shares of stock at the issuance price and to cancel all restricted shares of stock issued to any employee who fails to comply with the vesting condition without returning the distributed dividend.

On August 12, 2013, pursuant to the resolutions of its board of directors, the Company issued 6,062 thousand shares of restricted shares of stock to employees with par value of $10 per share. These were unissued shares whose total number is limited to up to 40,000 thousand shares of stock approved by the Financial Supervisory Commission for purposes of issuing restricted Company shares of stock to employees on October 19,2012. The effective date of this capital increase was September 12, 2013. The legal procedure for the change in the registration of capital stock has been completed. Unless the vesting conditions have lapsed, the restricted shares of stock may not be sold, pledged, transferred, hypothecated or otherwise disposed. Holders of restricted shares of stock are entitled to rights as the Company's existing common shareholders except for the fact that restricted shares of stock are held by the trust and have vesting conditions. Also, the Company bears the right to buy back the restricted shares of stock at the issuance price and to cancel all restricted shares of stock issued to any employee who fails to comply with the vesting condition without returning the distributed dividend.

In order to encourage employees to stay and contribute their skills to the Company, the Board of Directors resolved on March 19, 2012 to issue 30,000,000 units of Employee Stock Appreciation Rights. The Company will pay the stock appreciation rights as employee bonus in cash based on the difference between the base price and the settlement price of the stock appreciation right where the base price on settlement of the right is the closing price of the Company's common stock on grant date, and the settlement price is the closing price of the Company's common share on exercise date.

The previously recognized compensation cost was reversed because the stock appreciation right fails to meet the vesting condition on December 31, 2013.

A. Determining the fair value of equity instruments granted

The Company adopted the Black-Scholes model to calculate the fair value of the stock option at grant date, and the assumptions adopted in this valuation model were as follows:

Equity-settled share-based payment

Restricted stock to employee	Issued in	
	2013	2012
Fair value at grant date	08/12/2013	11/09/2012
Share price at grant date	$ 45.20	39.45
Exercise price (Note A)	10.00	10.00
Expected life of the option	3 years	3 years
Current market price	45.20	39.45
Expected volatility	32.68%	38.49%
Expected dividend yield rate (Note A)	- %	- %
Risk-free interest rate	(Note C)	(Note B)

Employee stock option	Issued in	
	2012	2011
Fair value at grant date	04/02/2012	07/01/2011
Share price at grant date	44.85	30.00
Exercise price (Note A)	44.85	30.00
Expected life of the option	3 years	3 years
Current market price	44.85	30.00
Expected volatility	44.41%	37.0531%
Expected dividend yield rate (Note A)	-%	-%
Risk-free interest rate	0.95%	1.0838%

Cash-settled share-based payment

Restricted stock to employee	Issued in
	2012
Fair value at grant date	04/02/2012
Share price at grant date	N/A
Exercise price (Note A)	N/A
Expected life of the option	07/01/2013~06/30/2014
Current market price	-
Expected volatility	40.12%
Expected dividend yield rate (Note A)	- %
Risk-free interest rate	1.355%

Note A: After the issuance of the employee stock options, if the Company increases its capital through the surplus and/or capital reserve, the exercise price will be adjusted

accordingly. Therefore, the expected dividend yield rate is excluded in calculating the fair value of the stock option.

Note B: The risk-free interest rate is 0.6953% for the 1st year, 0.7363% for the 2nd year, and 0.7873% for the 3rd year.

Note C: The risk-free interest rate is 0.5997% for the 1st year, 0.7167% for the 2nd year, and 0.8764% for the 3rd year.

B. Restricted stock to employee

For the year ended December 31, 2012, the Group issued restricted shares of stock to employees of 33,938 thousand shares, which resulted in a capital surplus － restricted employee stock of $478,366. Also, for the year ended December 31, 2013, 1,906 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of $19,064, of which 78 thousand shares have not been retired. Also, for the year ended December 31, 2013, the Company issued restricted shares of stock to employees of 6,062 thousand shares, which resulted in a capital surplus － restricted employee shares of stock of $112,511. As of December 31, 2013 and December 31, 2012, the Company has deferred compensation cost arising from issuance of restricted stock of $241,370 and 497,698, respectively

For the year ended December 31, 2013, the Group recognized salary cost of $11,200 from the distribution of cash dividends to estimated non-vesting restricted shares of stock distributed to employees from prior period earnings. Such salary cost was accounted under retained earnings as it remained to be unrealized.

C. Employee stock options

Information on aforesaid employee stock options was as follows:

(a) For the year ended December 31, 2013

	Issued in 2012	
	Number of Exercisable Thousand Shares	**Weighted-average Exercise Price**
Balance, beginning of the period	7,389	$ 44.33
Granted	-	-
Exercised	-	-
Forfeited	888	-
Expired	-	-
Balance, end of the period	**6,501**	42.67
Exercisable, end of the period	**0**	
Weighted-average fair value of options granted	**13.8**	
Exercise price of share option outstanding, end of the period	**42.67**	
Remaining contractual life	**1.25**	
Expenses incurred on share-based payment transactions	**33,501**	

	Issued in 2011	
	Number of Exercisable Thousand Shares	**Weighted-average Exercise Price**
Balance, beginning of the period	32,909	$ 28.11
Granted	-	-
Exercised	26,617	28.04
Forfeited	1,242	-
Expired	-	-
Balance, end of the period	**5,050**	27.06
Exercisable, end of the period	**4,787**	
Weighted-average fair value of options granted	**7.9**	
Exercise price of share option outstanding, end of the period	**27.06**	
Remaining contractual life	**0.50**	
Expenses incurred on share-based payment transactions	**43,796**	

(b) For the year ended December 31, 2012

	Issued in 2012	
	Number of Exercisable Thousand Shares	**Weighted-average Exercise Price**
Balance, beginning of the period	-	$ -
Granted	8,053	44.85
Exercised	-	-
Forfeited	664	-
Expired	-	-
Balance, end of the period	**7,389**	44.33
Exercisable, end of the period	**7,389**	
Weighted-average fair value of options granted	**13.8**	
Exercise price of share option outstanding, end of the period	**44.85**	
Remaining contractual life	**2.25**	
Expenses incurred on share-based payment transactions	**22,016**	

	Issued in 2011		
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price	
Balance, beginning of the period	37,648	$	28.38
Granted	-		-
Exercised	-		-
Forfeited	4,379		-
Expired	-		-
Balance, end of the period	**32,909**		28.11
Exercisable, end of the period	**32,909**		
Weighted-average fair value of options granted	**7.9**		
Exercise price of share option outstanding, end of the period	**28.38**		
Remaining contractual life	**1.50**		
Expenses incurred on share-based payment transactions	**92,456**		

D. Expenses resulted from share-based payments

The Group incurred expenses from share-based payments transactions for the years ended December 31, 2013 and 2012 as follows:

	For the Years Ended December 31		
		2013	2012
Expenses resulting from issuance of restricted stock to employees	$	431,274	65,091
Expenses arising from granting of employee share options		77,297	114,472
Total	**$**	**508,571**	**179,563**

(21) Subsidiary's share-based payments

A. For the years ended December 31, 2013 and 2012, Ability (TW) has share-based payment transactions as follows:

Types	Grant date		Thousand units granted	Contractual life	Vesting period
The first batch of employee stock options	12/27/2007	$	10,000	7 years	2 years
The second batch of employee stock options	10/13/2008		9,500	7 years	2 years

The aforementioned share-based payment transactions are equity transactions.

B. Information on share-based payment transactions were as follows:

The first batch of employee stock options	For the Years Ended December 31			
	2013		2012	
	Quantity of stock option (thousand shares)	Weighted-average exercise price	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	5,079	$ 32.6	5,079	34.9
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at the end of the period	**5,079**	29.9	**5,079**	32.6
Exercisable at the end of the period	**5,079**	29.9	**3,079**	32.6

The second batch of employee stock options	For the Years Ended December 31			
	2013		2012	
	Quantity of stock option (thousand shares)	Weighted-average exercise price	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	2,992	$ 16.4	4,888	17.6
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	(157)	16.4	(213)	17.6
Exercised	(1,481)	15.0	(1,683)	16.4
Forfeited	(86)	-	-	-
Outstanding at the end of the period	**1,268**	15.0	**2,992**	16.4
Exercisable at the end of the period	**1,268**	15.0	**1,092**	16.4

C. For the years ended December 31, 2013 and 2012, the weighted-average exercise price of stock option on the date of exercise amounted to $24.52 and $27.80 per share, respectively.

D. As of the balance sheet date, the expiration date and exercise price of outstanding employee stock options were as follows:

		December 31, 2013		December 31, 2012	
Grant date	Expiration date	Thousand units granted	Exercise price (dollar)	Thousand units granted	Exercise prices (dollars)
12/27/2007	12/27/2014	5,079	$ 29.90	5,079	32.60
10/13/2008	10/13/2015	1,268	15.00	2,992	16.40

		January 1, 2012	
Grant date	Expiration date	Thousand units granted	Exercise price (dollar)
12/27/2007	12/27/2014	5,079	$ 34.90
10/13/2008	10/13/2015	4,888	17.60

E. The Black-Scholes Option Valuation Model was adopted to estimate the fair value of employee stock options on the date of grant.

Types	Grand date	Stock Price	Exercise Price	Volatility factors of the expected market price	Weighted-average expected life of the options	Dividend yields	Risk-free interest rate	Fair value per unit
The first batch of employee stock options	2007.12.27	$52.80	52.80	39.87%	5.10 years	-%	2.54%	20.6025 dollars

F. The Trinomial Tree Option Valuation Model was adopted to estimate the fair value of employee stock options on the date of grant.

Types	Grand date	Stock Price	Exercise Price	Volatility factors of the expected market price	Weighted-average expected life of the options	Dividend yields	Risk-free interest rate	Fair value per unit
The second batch of employee stock options	2008.10.13	$22.20	22.20	43.11% (Note)	7 years	-%	2.2101%	8.88 dollars

Note: Volatility factors of the expected market price were based on the yearly standard deviations from past three years' (commencing from the measurement date) return rate on stock price.

G. The expenses resulting from the share-based payment transactions were as follows:

	For the Years Ended December 31	
	2013	2012
Equity-settled	$ **1,774**	**14,666**

(22) Earnings per share

The basic earnings per share and diluted earnings per shares were calculated as follows:

	For the Years Ended December 31	
	2013	2012
Basic earnings per share		
Profit attributable to ordinary shareholders	$ **9,554,496**	**6,382,945**
Weighted-average number of ordinary shares	2,296,456	2,255,780
	$ **4.16**	**2.83**
Diluted earnings per share		
Profit attributable to ordinary shareholders	$ 9,554,496	6,382,945
Effect of potentially dilutive ordinary shares		
Conversion of convertible bonds	(5,844)	(370,121)
Profit attributable to ordinary shareholders (diluted)	$ **9,548,652**	**6,012,824**

	For the Year Ended December 31	
	2013	2012
Weighted-average number of ordinary shares	2,296,456	2,255,780
Effect of potentially dilutive ordinary shares		
Employee stock bonus	25,329	15,324
Employee stock option	9,662	9,362
Conversion of convertible bonds	222,596	193,234
Weighted-average number of ordinary shares (diluted)	2,554,043	2,473,700
	$ **3.74**	**2.43**

(23) Revenue

	For the Years Ended December 31	
	2013	2012
Sale of goods	$ 939,195,371	875,563,710
Others	10,556,657	5,633,705
	$ **949,752,028**	**881,197,415**

(24) Non-operating income and expenses

A. Other income

	For the Year Ended December 31	
	2013	2012
Interest income	$ 879,927	753,803
Subsidy income	762,344	238,124
Rental income	257,503	206,000
Technical service income	435,010	448,358
Other income	380,025	496,362
	$ **2,714,809**	**2,142,647**

B. Other gains and losses

	For the Years Ended December 31	
	2013	2012
Gain on reversal of uncollectable account	$ 39,280	43,918
Loss on disposal of property, plant and equipment	(318,025)	(170,522)
Gain on disposal of investments	32,761	391,630
Foreign exchange gains	2,113,257	930,512
Impairment loss	(173,619)	(508,555)
Net gains on evaluation of financial assets (liabilities) measured at fair value through profit or loss	628,347	666,767
	$ **2,322,001**	**1,353,750**

C. Finance costs

	For the Years Ended December 31	
	2013	2012
Interest expenses	$ 1,064,848	1,256,242
Interest expenses capitalization	(2,135)	(25,616)
Finance expense – bank fees	238,540	71,275
	$ 1,301,253	**1,301,901**
Capitalization rate	**2.198%**	**2.198%**

(25) Reclassification of other comprehensive income

	For the Years Ended December 31	
	2013	2012
Net fair value change in available-for-sale financial assets recognized in:		
Other comprehensive income	$ (99,429)	78,183
Profit or loss	34,454	3,982
Net fair value change recognized in other comprehensive income	**$ (64,975)**	**82,165**

(26) Financial instruments

A. Categories of financial instruments

(a) Financial assets

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets at fair value through profit or loss:			
Held-for-trading	$ 7,018,321	7,534,036	6,417,685
Available-for-sale financial assets	1,588,008	1,789,247	1,086,614
Financial assets carried at cost	539,645	498,134	531,122
Loans and receivables:			
Cash and cash equivalents	74,261,306	59,424,124	49,587,260
Notes receivable, Accounts receivable and Other receivable	133,235,505	138,517,402	86,409,151
Other financial assets	3,073,025	1,153,819	1,142,674
Subtotal	210,569,836	199,095,345	137,139,085
Total	**$ 219,715,810**	**208,916,762**	**145,174,506**

(b) Financial liabilities

		December 31, 2013	December 31, 2012	January 1, 2012
Financial liabilities at fair value through profit or loss:				
Held-for-trading	$	7,443	98	1,599
Financial liabilities at fair value through profit or loss, designated as upon initial recognition		235,162	828,801	100,984
Subtotal		242,605	828,899	102,583
Financial liabilities at amortised cost:				
Short-term borrowings		23,014,478	19,613,159	22,773,366
Short-term notes and bills payable		79,978	99,993	219,936
Payable		183,643,239	194,263,805	120,521,719
Current tax liabilities		3,377,651	3,672,048	1,862,250
Bonds payable (including current portion)		8,116,490	9,091,794	1,404,707
Long-term borrowings (including current portion)		29,610,983	26,403,410	28,267,268
Guarantee deposit (recognized in other noncurrent liabilities)		542,290	463,200	420,792
Subtotal		248,385,109	253,607,409	175,470,038
Total	**$**	**248,627,714**	**254,436,308**	**175,572,621**

B. Credit risk

(a) Exposure to credit risk

The carrying amount of financial assets represents the Group's maximum credit exposure. As of December 31, 2013, December 31, 2012, and January 1, 2012, the maximum exposures to credit risk amounted to $219,715,810, $208,916,762, and $145,174,506, respectively.

As of December 31, 2013, December 31, 2012, and January 1, 2012, accounts receivable from the Grooup's top three customers amounted to $98,762,845, $89,273,125, and $26,188,297, respectively.

(b) Impairment losses

Aging analysis of the receivables on the balance sheet date were as follows:

		December 31, 2013	December 31, 2012	January 1, 2012
Current (not past due)	$	127,662,246	134,515,898	83,729,293
Past due 0 - 30 days		5,321,893	3,968,670	2,703,911
Past due 31 - 120 days		316,448	214,737	164,352
Past due 121 - 365 days		1,704,750	69,365	132,209
Past due more than 1 year		339,721	434,823	416,679
	$	**135,345,058**	**139,203,493**	**87,149,444**

The movement in the allowance for impairment with respect to the receivables during the period was as follows:

		Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2013	$	66,928	619,163	686,091
Impairment loss		17,537	1,569,685	1,587,222
Written off unrecoverable amount		(15,089)	(160,395)	(175,484)
Foreign exchange loss		1,720	10,004	11,724
Balance on December 31, 2013	**$**	**71,096**	**2,038,457**	**2,109,553**
Balance on January 1, 2012	$	69,133	671,160	740,293
Reversal of impairment loss		-	(47,910)	(47,910)
Foreign exchange gain		(2,205)	(4,087)	(6,292)
Balance on December 31, 2012	**$**	**66,928**	**619,163**	**686,091**

Based on historical default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due. Also, the payment term of the receivables from related parties depend on the Group's capital movement, and there's no penalty interest due for late payment. The Group's management believes that there's no significant change on the credit quality of the aforesaid receivables which are past due but not impaired, thus they assess the receivables can be recovered. In addition, the Group does not hold any collateral and of other credit enhancement to mitigate the credit risk of the foresaid receivables.

Allowance for bad debts or accumulated impairment are the accounts used to record bad debt expense or impairment loss. If the Group believes the related receivables cannot be recovered, the carrying amount of the financial assets will be reduced through the allowance for bad debts accounts and accumulated impairment.

C. Liquidity risk

The following are the contractual maturities of financial liabilities, excluding estimated interest payment and the impact of netting agreements.

		Carrying amount	Contractual cash flows	Within 1 year	1-2 years	More than 2 years
December 31, 2013						
Non-derivative financial liabilities						
Secured bank loans	$	1,102,857	1,102,857	492,685	198,983	411,189
Unsecured bank loans		51,545,004	51,545,004	31,541,092	6,765,613	13,238,299
Unsecured convertible bonds		8,116,490	8,116,490	-	8,116,490	-
Non-interest bearing liabilities		187,100,868	187,100,868	187,100,868	-	-
Derivative financial liabilities						
Overseas and domestic convertible bonds—conversion options		235,162	235,162	-	235,162	-
Forward exchange contract — outflow		7,443	7,443	7,443	-	-
	$	**248,107,824**	**248,107,824**	**219,142,088**	**15,316,248**	**13,649,488**

	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	More than 2 years
December 31, 2012					
Non-derivative financial liabilities					
Secured bank loans	$ 1,339,480	1,339,480	652,339	382,253	304,888
Unsecured bank loans	44,677,089	44,677,089	26,376,059	8,916,997	9,384,033
Unsecured convertible bonds	9,091,794	9,091,794	1,435,613	-	7,656,181
Non-interest bearing liabilities	198,035,846	198,035,846	198,035,846	-	-
Derivative financial liabilities					
Overseas and domestic convertible bonds—conversion options	828,801	828,801	68,986	-	759,815
Forward exchange contract — outflow	98	98	98	-	-
	$ 253,973,108	**253,973,108**	**226,568,941**	**9,299,250**	**18,104,917**
January 1, 2012					
Non-derivative financial liabilities					
Secured bank loans	$ 1,481,267	1,481,267	298,285	438,603	744,379
Unsecured bank loans	49,559,367	49,559,367	23,388,930	7,143,215	19,027,222
Unsecured convertible bonds	1,404,707	1,404,707	-	1,404,707	-
Non-interest bearing liabilities	122,603,905	122,603,905	122,603,905	-	-
Derivative financial liabilities					
Overseas and domestic convertible bonds—conversion options	100,984	100,984	100,984	-	-
Forward exchange contract — outflow	1,599	1,599	1,599	-	-
	$ 175,151,829	**175,151,829**	**146,393,703**	**8,986,525**	**19,771,601**

The liquidity of the aforesaid bank loans does not include interest expense on cash outflow. The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

D. Currency risk

(a) Currency risk exposure

The Group's exposures to significant currency risk were those from its foreign currency denominated financial assets and liabilities as follows:

(Unit: Foreign currency/NTD in Thousands)

	December 31, 2013			December 31,2012		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial assets						
Monetary items						
USD:NTD	$ 8,165,674	29.805	243,377,914	8,392,007	29.04	243,703,883
USD:CNY	5,361,939	6.0969	159,812,592	4,960,352	6.2855	144,048,622
Financial liabilities						
Monetary items						
USD:NTD	8,405,776	29.805	250,534,154	8,177,451	29.04	237,473,177
USD:CNY	7,461,939	6.0969	222,403,092	7,247,028	6.2855	210,453,693
JPY: CNY	837	0.058	238	329,405	0.073	110,812

	January 1, 2012		
	Foreign Currency	Exchange Rate	NTD
Financial assets			
Monetary items			
USD:NTD	5,169,519	30.275	156,507,188
USD:CNY	3,348,088	6.3009	101,363,364
Financial liabilities			
Monetary items			
USD:NTD	5,259,683	30.275	159,236,903
USD:CNY	4,808,911	6.3009	145,589,781
JPY: CNY	2,595,338	0.081	1,013,739

(b) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, available-for-sale financial assets, loans, accounts payable, bonds payable and other payables that are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Group's functional currency as of December 31, 2013 and 2012 would have decreased the after-tax net income by $611,251 and $594,285, respectively. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for both periods.

E. Interest rate analysis

The interest risk exposure from financial assets and liabilities has been disclosed in the note of liquidity risk management.

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date.

For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date. The Group's internal management

reported the increases/decreases in the interest rates and the exposure to changes in interest rates of 1% is considered by management to be a reasonable change of interest rate.

If the interest rate increases / decreases by 1%, the Group's net income will decrease /increase by $107,283 and $197,546 for the years ended December 31, 2013 and 2012, respectively, assuming all other variable factors remain constant. This is mainly due to the Group's variable rate borrowing.

F. Fair value of financial instruments

(a) Fair value and carrying amount

The Group considers the carrying amounts of its financial assets and financial liabilities measured at amortized cost as a reasonable approximation of fair value.

(b) Valuation techniques and assumptions used in fair value determination

The Group uses the following methods in determining the fair value of its financial assets and liabilities:

- The fair value of financial assets and liabilities traded in active markets is based on quoted market prices. These include corporate bonds from listed entities, agency bonds, listed stocks and government bonds.
- The fair value of derivative instruments is based on quoted prices. When quoted prices are unavailable, the fair value of non-option derivative is determined based on the discounted cash flow analysis calculated based on the applicable yield curve through the expected life of the derivative instruments. The fair value of option derivatives is determined using option pricing models.
- The fair value of stock of unlisted company is determined using market method, under which market price is extrapolated from similar stock of a listed company.
- For all other financial assets and financial liabilities, the fair value is determined using a discounted cash flow analysis of expected future cash flows.

(c) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by the levels in the fair value hierarchy. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
December 31, 2013				
Financial assets designated as at fair value through profit or loss				
Derivative financial assets	$ -	9,665	-	9,665
Held-for-trading non-derivative financial assets	7,008,656	-	-	7,008,656
Available-for-sale financial assets				
Stock of listed companies	1,022,165	-	-	1,022,165
Equity investment－common stock	-	145,800	-	145,800
Stock of overseas listed companies	-	420,043	-	420,043
	$ 8,030,821	**575,508**	**-**	**8,606,329**
Financial liabilities designated as at fair value through profit or loss				
Derivative financial liabilities	$ -	7,443	-	7,443
Overseas convertible bonds	-	235,162	-	235,162
	$ -	**242,605**	**-**	**242,605**
December 31, 2012				
Financial assets designated as at fair value through profit or loss				
Derivative financial assets	$ -	329	-	329
Held-for-trading non-derivative financial assets	7,533,707	-	-	7,533,707
Available-for-sale financial assets				
Stock of listed companies	1,260,134	-	-	1,260,134
Equity investment－common share	-	114,173	-	114,173
Stock of overseas listed companies	-	414,940	-	414,940
	$ 8,793,841	**529,442**	**-**	**9,323,283**
Financial liabilities designated as at fair value through profit or loss				
Derivative financial assets	$ -	98	-	98
Domestic convertible bonds	-	68,986	-	68,986
Overseas convertible bonds	-	759,815	-	759,815
	$ -	**828,899**	**-**	**828,899**
January 1, 2012				
Financial assets designated as at fair value through profit or loss				
Derivative financial assets	$ -	6,716	-	6,716
Held-for-trading non-derivative financial assets	6,410,969	-	-	6,410,969
Available-for-sale financial assets				
Stock of listed companies	586,719	-	-	586,719
Equity investment－common share	-	85,158	-	85,158
Stock of overseas listed companies	-	414,737	-	414,737
	$ 6,997,688	**506,611**	**-**	**7,504,299**
Financial liabilities designated as at fair value through profit or loss				
Derivative financial assets	$ -	1,599	-	1,599
Domestic convertible bonds	-	100,984	-	100,984
	$ -	**102,583**	**-**	**102,583**

There have been no transfers from each level for the years ended December 31, 2013 and 2012.

(27) Financial risk management

A. Overview

The nature and the extent of the Group's risks arising from financial instruments, which include credit risk, liquidity risk and market risk, are discussed below. Also, the Group's objectives, policies and procedures of measuring and managing risks are discussed below.

For more quantitative information about the financial instruments, please refer to the other related notes of the notes to the financial statements.

B. Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has deputized managements of core business departments for developing and monitoring the Group's risk management policies. Management reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Internal Audit Department oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures and exception management, the results of which are reported to the Board of Directors.

C. Credit risk

Credit risk means the potential loss of the Group if the counterparty involved in that transaction defaults. Since the Group's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, management believes that there is no significant credit risk from these transactions.

The primary potential credit risk is from financial instruments like cash, equity securities, and accounts receivable. Also, the Group deposits cash in different financial institutions. The Group manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk on cash and equity securities.

The Group transacted only with the approved third parties with good financial conditions and

reputation. For those customers with poor financial situation, the Group would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Group believes that there is no significant credit risk.

(a) Accounts receivables and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current deteriorating economic circumstances.

Under its customer credibility evaluation policies, the Group evaluates the customer's credibility and collectability of notes and account receivables regularly before doing business. Thus, management is not expecting any significant uncollectible accounts.

The major customers of the Group are concentrated in the high-tech computer industry. As the customers of the Group have good credits and profit records, the Group evaluates the financial conditions of these customers continually to reduce credit risk from accounts receivable. Moreover, the Group also periodically evaluates the customers' financial positions and the possibility of collecting trade receivables. Thus, management is not expecting any significant issue on credit risk.

The Group establishes an impairment allowance that represents its estimate of incurred losses in respect of trade receivables. The two components of this impairment allowance are specific loss component that relates to individually significant exposure and collective loss component which the loss was incurred but not identified. The collective component is based on historical payment experience of similar financial assets.

(b) Investment

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Group's finance department. As the Group deals with the banks and other external parties with good credit standing and financial institutions, corporate organization and government agencies which are graded above investment level, management believes that the Group do not have compliance issues and no significant credit risk.

(c) Guarantee

The Group's policies were prepared in accordance with Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies.

D. Liquidity risk

Liquidity risk is a risk that the Group is unable to meet the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as much as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The capital and working funds of the Group are sufficient to meet its entire contractual obligations and non-hedging forward exchange contracts; therefore, management is not expecting any significant issue on liquidity risk.

The funds and marketable securities investments held by the Group have publicly quoted prices and could be sold at approximate market price. In the case of foreign currency swap contracts, management believes that the cash flow risk is not significant because contracted foreign currency exchange rates are fixed.

Equity investments recorded as financial assets carried at cost do not have reliable market prices and are expected to have liquidity risk.

E. Market risk

Market risk is a risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(a) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the New Taiwan Dollars (NTD), US Dollars (USD) and Chinese Yuan (CNY). The currencies used in these transactions are denominated in NTD, EUR, USD, and CNY.

The Group's foreign currency denominated purchases and sales are denominated mainly in US dollars. This exposes the Group to the current and future foreign exchange fluctuation risk that arises from cash flows of foreign currency assets and liabilities. However, the risks may be regarded as insignificant, because foreign currency losses from sales are subsequently offset by the foreign currency gain from purchases. In addition, the Group conducts foreign exchange activities on spot market in order to manage its foreign exchange risks.

The interest is denominated in the same currency as borrowings. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying

operations of the Group. This provides an economic hedge without derivatives being entered into, and therefore, hedge accounting is not applied in these circumstances.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(b) Interest rate risk

The Group's interest rate risk arises from short-term and long-term loans bearing floating interest rates. Future cash flow will be affected by a change in market interest rate.

(c) Price floating rick on equity instruments

The equity securities held by the Group are classified as financial assets measured at fair value through profit or loss and available-for-sale financial assets. As these assets are measured at fair value, the Group is exposed to the market price fluctuation risk in the equity securities market.

The Group's investment portfolios of equity instruments are reviewed regularly by management, and significant investment decision is approved by the Board of Directors.

(28) Capital management

The Board's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, non-redeemable preference shares, retained earnings and non-controlling interests of the Group. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Group use the liability-to-equity ratio, debt-to-equity ratio and other financial ratio to maintain an optimal capital structure and raise returns on equity.

The Group's debt to equity ratios at the balance sheet date were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Total liabilities	$ 271,840,345	267,717,158	181,576,437
Less: cash and cash equivalents	74,261,306	59,424,124	49,587,260
Net debt	**$ 197,579,039**	**208,293,034**	**131,989,177**
Total capital (Note)	**$ 341,634,218**	**335,930,615**	**249,919,973**
Debt to equity ratio	**57.83%**	**62.00%**	**52.81%**

Note: Total capital includes share capital, capital surplus, retained earnings, other equity and non-controlling interest and net debt.

Management believes that there were no changes in the Group's approach to capital management for the year ended December 31, 2013.

7. RELATED PARTY TRANSATIONS

(1) The ultimate parent company

A. On April 29, 2013, the entity ("A Company") in which the Group has significant influence has disposed a portion its share holding in the Company which resulted in losing its significant influence over the Company. Therefore, A Company has become non-related parties as of the said date.

B. The Company is the ultimate parent company of the Group.

(2) Significant Transactions with related parties

A. Sale of Goods and Services to Related Parties

The amounts of significant sales transactions and outstanding balances between the Group and related parties were as follows:

	Sales		Receivables from Related Parties		
	2013	2012	December 31, 2013	December 31, 2012	January 1, 2012
Entity with significant influence over the Group	$ 21,942,101	135,693,193	-	5,695,594	9,646,625
Others	172,690	207,447	198	70,590	55,455
	$ 22,114,791	**135,900,640**	**198**	**5,766,184**	**9,702,080**

Prices charged for sales transactions with entity with significant influence over the Company ("A Company") and associates were not significantly different from those of non-related parties. The average sales term for notes and accounts receivables pertaining to such sales transactions ranged from one to three months. In addition, accounts receivables and accounts payables resulted from sales and purchase transactions between the Group and the A Company, who has the legal right to set-off, are offset and presented as a net amount on the balance sheet dates according to the agreements. Receivables from related parties were not secured with collaterals, and did not require provisions for bad debt expenses.

B. Purchase of Goods from Related Parties

The amounts of significant purchase transactions and outstanding balances between the Group and related parties were as follows:

	Purchases		Payables to Related Parties		
	2013	2012	December 31, 2013	December 31, 2012	January 1, 2012
Entity with significant influence over the Group	$ 17,046,948	102,904,941	-	-	-
Others	1,772,502	5,856,277	482,670	546,850	2,296,908
	$ 18,819,450	**108,761,218**	**482,670**	**546,850**	**2,296,908**

There were no significant differences between the terms and pricing of purchase transactions with related enterprises and those carried out with other normal vendors. The average payment period for notes and accounts payable pertaining to such purchase transactions ranged from one to four months, which is similar to that of other normal vendors.

C. Warranty repair expense paid to Related Parties

	For the Years Ended December 31	
	2013	2012
Others	$ 13,414	33,858

D. Other income and expenses from Related Parties

	For the Years Ended December 31	
	2013	2012
Entity with significant influence over the Group	$ (60,661)	581,714
Others	1,988	10,621
	$ (58,673)	592,235

E. Rental revenue

For the years ended December 31, 2013 and 2012, the Group incurred other related party transactions of $5,590 and $15,365, respectively, which were accounted for as rental revenue.

F. Other related party transactions recorded as expenses

For the years ended December 31, 2013 and 2012, the Group incurred other related party transactions recorded as expenses such as rental expense, royalty payment, storage expense, and professional service fee, etc, aggregating to $4,840 and $21,732, respectively.

G. Purchase and sales of real estate property and other assets

For the year ended December 31, 2012, molds purchased from other related parties amounted to $97,858.

H. Other related party transactions accounted for as assets and liabilities in the balance sheet

	December 31, 2013	December 31, 2012	January 1, 2012
Other receivable			
Entity with significant influence over the Group	$ -	14,628	435
Others	234	235	18,669
	$ 234	14,863	19,104
Accrued Expenses			
Entity with significant influence over the Group	$ -	34,185	396,680
Others	-	8,501	10,524
	$ -	42,686	407,204
Other payable			
Others	$ -	292	320
Other financial liabilities — current			
Others	$ 1,794	29	3,641

(3) Key management personnel compensation:

	For the Years Ended December 31	
	2013	2012
Short-term employee benefits	$ 637,555	462,156
Post-employment benefits	5,097	5,564
Share-based payments	66,080	1,232
	$ 708,732	**468,952**

Please refer to Notes 6(20) and 6(21) for further explanations related to share-based payment transactions.

8. Pledged Assets

As of December 31, 2013 and 2012, pledged assets were as follows:

Asset	Purpose of pledge	December 31, 2013	December 31, 2012	January 1, 2012
Other financial asset	Customs duty guarantee, collateral, rental deposits, travel agency guarantee, etc.	$ 75,151	133,055	111,049
Property, plant and equipment	Bank loans	1,988,922	2,039,763	939,363
Long-term prepaid rentals	Bank loans	11,957	11,585	12,344
Refundable deposits	Customs duty guarantee, custom deposits, batch declaration guarantee, and deposits for performance guarantee	33,705	31,352	32,327
		$ 2,111,735	**2,215,755**	**1,095,083**

9. Significant Commitments And Contingencies

(1) Major commitments and contingencies were as follows:

A. Unused standby letters of credit

	December 31, 2013	December 31, 2012	January 1, 2012
NTD	$ -	5,510	6,753
EUR	2,558	2,558	3,927
JPY	1,569,171	4,003,161	4,808,946
USD	15,417	18,880	26,654

B. Promissory notes and certificates of deposit obtained for business purpose were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
NTD	**$ 20,105**	**17,297**	**17,332**

C. As of December 31, 2013, December 31, 2012, and January 1, 2012, the significant contracts for purchase of properties by the Group amounted to $4,393,035, $8,822,652 and $29,520,477, of which $1,950,522, $5,198,394 and $16,974,382, respectively, were unpaid.

D. As of December 31, 2013, December 31, 2012, and January 1, 2012, the Group provided endorsement guarantee for bank loans obtained by the related parties, including Group entities, amounting to $24,353,209, $20,090,019 and $22,320,790, respectively.

E. As of December 31, 2013, AZURE WAVE TECHNOLOGIES INC. issued a tariff guarantee of $7,000 to the bank for the purpose of importing goods.

(2) Significant contingent liability: None.

10. LOSSES DUE TO MAJOR DISASTERS: None.

11. SUBSEQUENT EVENTS: None

12. OTHER

(1) The employee benefits, depreciation, depletion and amortization expenses categorized by function, were as follows:

	For the Year Ended December 31,2013			For the Year Ended December 31,2012		
By item	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	$ 33,540,108	13,611,850	47,151,958	27,364,313	12,276,304	39,640,617
Health and labor insurance	2,776,504	884,338	3,660,842	1,545,234	664,343	2,209,577
Pension	2,305,213	613,600	2,918,813	1,597,714	613,886	2,211,600
Others	2,126,054	745,095	2,871,149	1,788,775	620,498	2,409,273
Depreciation	11,397,935	1,924,359	13,322,294	10,568,869	1,816,356	12,385,225
Amortization	308,838	283,308	592,146	354,189	328,768	682,957

Above depreciations did not include depreciation in investment property which was accounted under non-operating expense as follows:

	For the Years Ended December 31	
	2013	**2012**
Depreciation in investment property	**$ 10,380**	**11,708**

(2) Certain accounts in the consolidated financial statements as of and for the periods ended December 31, 2012, and January 1, 2012, were reclassified to conform to the presentation adopted in the consolidated financial statements as of and for the year ended December 31, 2013.

13. SEGMENT INFORMATION

(1) General Information

The Group's operating segments required to be disclosed are categorized as DMS (Design, Manufacturing and Service) and Strategic Investment Group. DMS's main operating activities are designing and manufacturing computer, communication and consumer electronics' end products, and providing after-sales service. Strategic Investment Group is DMS's upstream and downstream supply chain, strategic investments and other related investments arms. The chief operating decision maker's main responsibility is to integrate strategy that creates operating synergy throughout the supply chain and to allocate the profit from the operating result. The Group assess performance of the segments based on the segments' profit, and report the amounts of revenues based on the financial information used to prepare the consolidated financial statements.

(2) Reportable segment profit or loss, segment assets, segment liabilities, and their measurement and reconciliations

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes profit before taxation, excluding any extraordinary activity and foreign exchange gain or losses, because taxation, extraordinary activity and foreign exchange gain or losses are managed on a group basis, and hence they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that in the report used by the chief operating decision maker.

The operating segment accounting policies are similar to the ones described in Note 4 "significant accounting policies" except for the recognition and measurement of pension cost, which is on a cash basis. The Group treated intersegment sales and transfers as third-party transactions. They are measured at market price.

The Group's operating segment information and reconciliation were as follows:

For the Year Ended December 31, 2013		DMS	Strategic Investment Group	Adjustment and eliminations	Total
Revenue：					
Revenue from external customers	$	858,250,084	91,501,944	-	949,752,028
Intersegment revenues		530,944	20,294,169	(20,825,113)	-
Total revenue	$	**858,781,028**	**111,796,113**	**(20,825,113)**	**949,752,028**
Share of profit of associates and joint ventures accounted for using equity method	$	**5,224,406**	**2,299,738**	**(7,599,730)**	**(75,586)**
Other significant non-monetary items:					
Goodwill	**$**	**-**	**1,042,450**	**497,424**	**1,539,874**
Reportable segment profit or loss	**$**	**10,577,564**	**16,066,148**	**(7,613,840)**	**19,029,872**
Assets:					
Investments accounted for using equity method	**$**	**43,754,617**	**70,283,430**	**(112,850,294)**	**1,187,753**
Reportable segment assets	**$**	**342,465,112**	**186,307,238**	**(112,876,826)**	**415,895,524**
Reportable segment liabilities	**$**	**235,161,318**	**37,202,982**	**(523,955)**	**271,840,345**

For the Year Ended December 31, 2012		DMS	Strategic Investment Group	Adjustment and eliminations	Total
Revenue：					
Revenue from external customers	$	764,548,543	116,648,872	-	881,197,415
Intersegment revenues		2,812,412	13,788,664	(16,601,076)	-
Total revenue	$	**767,360,955**	**130,437,536**	**(16,601,076)**	**881,197,415**
Share of profit of associates and joint ventures accounted for using equity method	$	**3,180,749**	**5,118,571**	**(8,239,836)**	**59,484**
Other significant non-monetary items:					
Goodwill	**$**	**-**	**1,015,733**	**839,513**	**1,855,246**
Reportable segment profit or loss	$	**7,253,068**	**15,241,807**	**(8,315,678)**	**14,179,197**
Assets:					
Investments accounted for using equity method	$	**39,017,848**	**60,426,870**	**(97,837,021)**	**1,607,697**
Reportable segment assets	$	**321,512,378**	**180,855,833**	**(107,013,472)**	**395,354,739**
Reportable segment liabilities	$	**225,736,494**	**51,946,951**	**(9,966,287)**	**267,717,158**

(3) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

A. External Sales

Region	2013	2012
Taiwan	$ 319,248,545	321,136,984
USA	322,771,406	277,286,295
Japan	50,341,544	85,788,009
Ireland	138,964,961	38,901,325
China	5,625,166	42,565,408
Others	112,800,406	115,519,394
Total	**$ 949,752,028**	**881,197,415**

B. Non-current assets

Region	December 31, 2013	December 31, 2012	January 1, 2012
Taiwan	$ 17,718,849	15,088,745	12,930,508
China	61,939,554	62,801,826	59,381,613
Others	1,274,110	1,590,149	5,539,743
Total	**$ 80,492,513**	**79,480,720**	**77,851,864**

Non-current assets include property, plant and equipment, investment property, intangible assets, and other non-current assets, excluding financial instruments, deferred tax assets, pension fund assets, and rights arising from an insurance contract (non-current).

(4) Major Customer

Major customers from DMS in 2013 and 2012 were as follows:

Customer	2013	2012
A	$ 390,919,709	243,042,779
B	109,115,869	135,833,324
C	23,365,840	54,300,490
	$ 523,401,418	**433,176,593**

14. FIRST-TIME ADOPTION OF IFRS ENDORESED BY THE FSC

The consolidated financial statements as of and for the year ended December 31, 2012 were prepared in conformity with generally accepted accounting principles of the Republic of China. As mentioned in Note 4(1), these are the Group's first consolidated annual financial statements prepared under the revised Guidelines Governing the Preparation of Financial Reports by Securities Issuers, IFRS (endorsed by the FSC), and IFRS 1 "First-time Adoption of International Financial Reporting Standards."

For comparison purposes, the accounting policies discussed in Note 4 have been applied to comparative consolidated annual financial statements for the year ended December 31, 2012, consolidated balance sheets as of December 31 and the consolidated balance sheets as of January 01, 2012, first IFRSs adoption date.

In preparing the first financial reports in 2012 under IFRS as endorsed by the FSC, the Group regarded the amounts in the financial reports under R.O.C. GAAP as the initial point for adjustments. An explanation of how the transition to IFRS has affected the reported financial position, financial performance, and cash flows of the Group is provided in the following statements and notes.

(1) Reconciliation of balance sheet

	December 31, 2012			January 1, 2012		
	ROC GAAP	**Adjustments**	**IFRSs**	**ROC GAAP**	**Adjustments**	**IFRSs**
ASSETS						
Cash and cash equivalents	$ 60,157,499	(733,375)	59,424,124	50,453,433	(866,173)	49,587,260
Other investments	8,039,955	-	8,039,955	6,872,437	43,565	6,916,002
Notes receivable, accounts receivable and other receivable	138,406,349	111,053	138,517,402	86,461,297	(52,146)	86,409,151
Inventories	92,678,084	-	92,678,084	65,716,440	(124,829)	65,591,611
Other current assets	10,680,768	(1,089,795)	9,590,973	6,390,054	(448,111)	5,941,943
Total Current Assets	309,962,655	(1,712,117)	308,250,538	215,893,661	(1,447,694)	214,445,967
Other investments	1,816,477	(35,015)	1,781,462	1,204,230	(84,811)	1,119,419
Investments accounted for using equity method	1,607,697	-	1,607,697	2,463,241	240,197	2,703,438
Property, plant and equipment	71,812,742	1,366,377	73,179,119	70,457,980	(3,059,050)	67,398,930
Investment property	-	669,511	669,511	-	681,219	681,219
Intangible assets	6,107,933	(3,337,388)	2,770,545	5,922,748	(2,644,323)	3,278,425
Deferred tax assets	524,438	1,854,638	2,379,076	170,112	1,317,934	1,488,046
Other non-current assets	3,421,763	1,295,028	4,716,791	3,464,025	4,927,764	8,391,789
Total Non-current Assets	85,291,050	1,813,151	87,104,201	83,682,336	1,378,930	85,061,266
TOTAL ASSETS	**$ 395,253,705**	**101,034**	**395,354,739**	**299,575,997**	**(68,764)**	**299,507,233**
LIABILITIES						
Short-term loans	$ 19,613,159	-	19,613,159	22,773,366	-	22,773,366
Short-term notes and bills payable	99,993	-	99,993	219,936	-	219,936
Current financial liabilities at fair value through profit or loss	69,084	-	69,084	102,583	-	102,583
Notes payable, accounts payable and other payables	196,853,291	(2,589,486)	194,263,805	121,177,192	(655,473)	120,521,719
Current tax liabilities	3,673,139	(1,091)	3,672,048	1,868,242	(5,992)	1,862,250
Long-term liabilities, current portion	8,850,852	-	8,850,852	913,849	-	913,849
Other current liabilities	8,630,366	2,903,812	11,534,178	4,435,878	716,241	5,152,119
Total current liabilities	237,789,884	313,235	238,103,119	151,491,046	54,776	151,545,822

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	December 31, 2012			January 1, 2012		
	ROC GAAP	Adjustments	IFRSs	ROC GAAP	Adjustments	IFRSs
Non-current financial liabilities at fair value through profit or loss	6,275	753,540	759,815	-	-	-
Bonds payable	8,403,406	(747,225)	7,656,181	1,404,707	-	1,404,707
Long-term borrowings	18,988,171	-	18,988,171	27,353,419	-	27,353,419
Deferred tax liabilities	1,496,832	207	1,497,039	656,090	8,389	664,479
Other non-current liabilities	541,905	170,928	712,833	474,006	134,004	608,010
Total Non-current Liabilities	29,436,589	177,450	29,614,039	29,888,222	142,393	30,030,615
TOTAL LIABILITIES	267,226,473	490,685	267,717,158	181,379,268	197,169	181,576,437
EQUITY ATTRIBUTABLE TO OWNERS OF PARENT						
Share capital	22,903,049	-	22,903,049	22,563,669	-	22,563,669
Capital surplus	64,560,268	(2,837,158)	61,723,110	63,465,496	(2,462,421)	61,003,075
Retained earnings						
Legal reserve	1,847,737	-	1,847,737	1,836,601	-	1,836,601
Special reserve	734,859	-	734,859	4,327,629	-	4,327,629
Unappropriated retained earnings	9,829,896	2,593,074	12,422,970	144,466	2,313,925	2,458,391
Other equity interest	(3,778,182)	(29,470)	(3,807,652)	(734,859)	(11,424)	(746,283)
Treasury shares	(18,794)	-	(18,794)	(18,794)	-	(18,794)
Total equity attributable to owners of the parent	96,078,833	(273,554)	95,805,279	91,584,208	(159,920)	91,424,288
Non-controlling interests	31,948,399	(116,097)	31,832,302	26,612,521	(106,013)	26,506,508
Total equity	128,027,232	(389,651)	127,637,581	118,196,729	(265,933)	117,930,796
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 395,253,705**	**101,034**	**395,354,739**	**299,575,997**	**(68,764)**	**299,507,233**

(2) Reconciliation of its statement of comprehensive income

	For the Year Ended December 31, 2012		
	ROC GAAP	Adjustments	IFRSs
Operating revenue	$ 881,895,384	(697,969)	881,197,415
Operating costs	(839,425,989)	(4,739,042)	(844,165,031)
Gross profit	42,469,395	(5,437,011)	37,032,384
Selling expenses	(10,863,306)	6,546,636	(4,316,670)
General and administrative expenses	(8,406,095)	(42,406)	(8,448,501)
Research and development expenses	(12,039,469)	(16,156)	(12,055,625)
Total operating expenses	(31,308,870)	6,488,074	(24,820,796)
Income from operations	11,160,525	1,051,063	12,211,588
Non-operating income and expenses：			
Other income	3,778,668	(1,636,021)	2,142,647
Other gains and losses	725,237	628,513	1,353,750
Finance costs	(1,135,992)	(165,909)	(1,301,901)
Share of profit (loss) of associates and joint ventures accounted for using equity method	59,484	-	59,484
Other losses	(785,364)	498,993	(286,371)
	2,642,033	(674,424)	1,967,609
Profit before tax	13,802,558	376,639	14,179,197
Tax expense	(3,824,925)	(18,091)	(3,843,016)
Profit	9,977,633	358,548	10,336,181
Other comprehensive income：			
Foreign currency translation differences － foreign operations	(2,991,825)	3,689	(2,988,136)
Net change in fair value of available-for-sale financial assets	115,922	(33,757)	82,165
Defined benefit plan actuarial losses	-	(77,335)	(77,335)
Income tax relating to components of other comprehensive income	-	5,679	5,679
Other comprehensive income, net of tax	(2,875,903)	(101,724)	(2,977,627)
Comprehensive income	$ **7,101,730**	**256,824**	**7,358,554**
Profit, attributable to：			
Owners of the Company	$ 6,103,796	279,149	6,382,945
Non-controlling interests	3,873,837	79,399	3,953,236
Profit	**$ 9,977,633**	**358,548**	**10,336,181**
Comprehensive income attributable to：			
Owners of the Company	$ 3,560,327	258,947	3,819,274
Non-controlling interests	3,541,403	(2,123)	3,539,280
Comprehensive income	**$ 7,101,730**	**256,824**	**7,358,554**
Earnings per share			
Basic earnings per share	**$ 2.71**	**0.12**	**2.83**
Diluted earnings per share	**$ 2.53**	**(0.10)**	**2.43**

(3) Significant reconciliation of its cash flows statement

Under R.O.C. GAAP, the time deposit of $733,375 and $866,173, was classified under cash and cash equivalents in the consolidated statement of cash flows on December 31, 2012 and January 1, 2012. Under IFRS, however, the time deposit or investment with an initial maturity of more than three months does not qualify as cash equivalents. Under IFRS, such time deposit was reclassified as other financial asset and reported under the cash flows from operating activities.

There was no other significant difference in consolidated statement of cash flows between IFRS (endorsed by the FSC) and R.O.C. GAAP, aside from the difference described above.

(4) Notes to significant reconciliation

A. Allowance for sales returns and discounts

Under R.O.C. GAAP, provisions for estimated sales returns and discounts are recorded in the same period in which sales are made, based on historical experience. Allowance for sales returns and discounts is recorded as a deduction from accounts receivable. Under IFRS as endorsed by the FSC, the allowance for sales returns and discounts is deemed as a present obligation with uncertain timing and amount that arises from past events and is therefore reclassified as provisions.

The effects to IFRS financial statements of this GAAP difference were as follows:

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Increase in accounts receivable	$	115,869	94,368
Increase in provisions (accounted for under other liabilities)		(115,869)	(94,368)
Retained earnings adjustments	**$**	**-**	**-**

B. Interests in Joint Ventures

Under R.O.C. GAAP, the Group recognized its interest in a jointly controlled entity using proportionate method. Under IFRS as endorsed by the FSC, the Group accounts for its investment in the joint venture using the equity method instead of proportionate method. As of January 1, 2012, the Group reclassified into "Equity-accounted investees" account the carrying amounts of jointly controlled entity's net assets and liabilities amounting to $243,069.

C. Financial assets carried at cost

Under the IFRS as endorsed by the FSC, when the fair value of investments in equity instruments can be reliably measured, such investment are reclassified from "financial assets carried at cost" to "available-for-sale financial assets" account. Subsequent to IFRS

conversion date, these investments are measured at fair value.

The effects to IFRS financial statements of this GAAP difference were as follows:

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Decrease in financial assets at cost	$	(360,954)	(209,187)
Increase in available-for-sale financial assets		324,003	207,956
Increase in unrealized losses on available-for-sale financial assets		36,951	10,984
Decrease in non-controlling interests		-	(9,753)
Retained earnings adjustments	**$**	**-**	**-**

D. Rental assets and idle assets

Under R.O.C. GAAP, rental assets and idle assets are classified under other noncurrent assets. Under the IFRS as endorsed by the FSC, the aforementioned items are reclassified as property, plant and equipment and investment property according to their nature. The rental asset is also classified as an investment property if it is held to earn rentals and can be sold or leased out separately under a finance lease. When a portion of the rental assets and idle assets could not be sold or leased out separately under a finance lease, the entire property is classified as investment property only if the portion of the property held for own use is insignificant.

The effects to IFRS financial statements of this GAAP difference were as follows:

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Decrease in rental assets and idle assets (accounted for under other non-current assets)	$	(1,178,384)	(933,966)
Increase in property, plant and equipment		508,873	252,747
Increase in investment property, net		669,511	681,219
Retained earnings adjustments	**$**	**-**	**-**

E. Prepayments for business facilities

Under R.O.C GAAP, prepayments on purchase of equipment are accounted for under property, plant and equipment and other non-current assets. Under the IFRS as endorsed by the FSC, such prepayments are reclassified as other noncurrent assets and property, plant and equipment.

The effects to IFRS financial statements of this GAAP difference were as follows:

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Decrease in property, plant and equipment	$	(883,527)	(5,321,295)
Increase in other noncurrent assets		883,527	5,321,295
Retained earnings adjustments	**$**	**-**	**-**

F. Land use rights

Under R.O.C GAAP, prepaid lease payment involving land use rights under operating lease arrangement is accounted for under intangible assets. Under the IFRS as endorsed by the FSC, such prepayments is treated simply as a prepaid rental so that it is reclassified to "long-term prepaid rents" account.

The effects to IFRS financial statements of this GAAP difference were as follows:

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Decrease in intangible assets	$	(3,385,492)	(2,673,871)
Increase in long-term prepaid rents (accounted for under other noncurrent assets)		3,385,492	2,673,871
Retained earnings adjustments	**$**	**-**	**-**

G. Warranties and repair cost

Under R.O.C GAAP, the DMS segment issues warranties that the customer pays for, warranty liabilities and the related repair cost were estimated in the same period in which goods are sold. These warranty liabilities paid by the customers are recognized as warranty liabilities. Under the IFRS as endorsed by the FSC, warranty reserve is treated as a "deferred revenue" when sales is made. When the warranty expires, the deferred revenue becomes earned revenue and recognized as sales revenue.

Because there was no specific regulation under R.O.C GAAP, Ability (TW) recognized its warranty cost and expense under cost of sales or operating expense according to its nature.

Under the IFRS endorsed by FSC, warranty cost and expense related to inventory manufacturing are reclassified as cost of sales.

The effects to IFRS financial statements of this GAAP difference were as follows:

		For Year Ended December 31, 2012
Consolidated comprehensive income statement		
Decrease in operating revenue	$	1,203,099
Increase in cost of sales		5,357,502
Decrease in selling expenses		(6,560,601)
Adjustments before income tax	**$**	**-**

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Decrease in accrued expenses	$	2,788,150	1,454,647
Increase in deferred revenue (accounted for under other current liabilities)		(2,636,838)	(1,284,033)
Increase in provisions (accounted for under other current liabilities)		(151,312)	(170,614)
Retained earnings adjustments	**$**	**-**	**-**

H. Provisions for employee benefits

(a) Compensated absences benefit

Under the IFRS as endorsed by the FSC, the Group accrues the obligation for paid absences if the obligation both relates to employees' past services and accumulates (i.e. can be carried forward to a future period).

The effects to IFRS financial statements of this GAAP difference were as follows:

		For Year Ended December 31, 2012
Consolidated comprehensive income statement		
Increase in cost of sales	$	13,437
Increase in selling expenses		2,908
Increase in administrative expenses		6,048
Increase in research and development expenses		11,993
Adjustments before income tax		34,386
Decrease in tax expense		(4,620)
Adjustments after income tax	**$**	**29,766**

		For Year Ended December 31, 2012
Attributable to		
Owners of the parent	$	22,623
Non-controlling interests		7,143
Adjustments before income tax	$	**29,766**

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Increase in deferred tax assets	$	25,411	24,602
Increase in accrued expenses		(196,841)	(183,367)
Decrease in non-controlling interests		27,900	37,492
Retained earnings adjustments	$	**(143,530)**	**(121,273)**

(b) Share-based payments

Under R.O.C GAAP, the Group adopted SFAS No. 39, "Share-based Payment," for share-based payment arrangements with a grant date on or after January 1, 2008, and Interpretations (92) 070, 071 and 072 of the ARDF for employee share options that were granted before January 1, 2008. Under the IFRS as endorsed by the FSC, the Group will avail of the exemption allowed under IFRS 1 for employee share options that were granted before January 1, 2008 so that these options will no longer be fair valued retrospectively; however, the Group shall nevertheless disclose the information required by paragraphs 44 and 45 of IFRS 2.

The effects to IFRS financial statements of this GAAP difference were as follows:

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Increase in deferred tax assets	$	19	19
Increase in capital surplus		(1,018)	(113)
(Increase) decrease in non-controlling interests		(17)	82
Retained earnings adjustments	$	**(1,016)**	**(12)**

I. Employee benefits —defined benefit pension plan

(a) Under R.O.C. GAAP, an actuarial valuation is made of the Group's defined benefit obligation and the related pension cost and accrued pension liabilities, and net periodic pension costs are accounted for under the corridor approach. Under the IFRS as endorsed by the FSC, the aforementioned obligation shall be recognized as deduction of retained earnings, and actuarial gain or loss shall be recognized as other comprehensive income in the statement of comprehensive income.

(b) Under R.O.C. GAAP, unrecognized net transition assets (obligations) are amortized to pension cost on the straight-line basis over the average remaining service period of those employees who are still in service and expected to receive pension benefits. Under IFRS as endorsed by the FSC, under IAS No. 19, there is no such similar requirement as R.O.C. GAAP. Therefore, the unrecognized net transition obligation and related amounts are recognized directly to retained earnings at the date of transition to IFRSs.

(c) Under R.O.C. GAAP, the minimum pension liability is recognized if accumulated pension benefits exceed the fair market value of its pension plan assets. Under IFRS as endorsed by the FSC, there is no requirement for recognizing minimum pension liability in accordance with IAS 19.

The effects to IFRS financial statements of this GAAP difference were as follows:

		For Year Ended December 31, 2012
Consolidated comprehensive income statement		
Decrease in selling expenses	$	(2,930)
Decrease in administrative expenses		(36,358)
Decrease in research and development expenses		(4,163)
Adjustments before income tax		(43,451)
Increase in tax expense		1,101
Adjustments after income tax	**$**	**(42,350)**

		For Year Ended December 31, 2012
Attributable to		
Owners of the parent	$	(17,109)
Non-controlling interests		(25,241)
Adjustments before income tax	$	**(42,350)**

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Decrease in other non-current assets	$	(24,208)	(2,543)
Increase in deferred tax assets		22,280	12,973
Decrease in current income tax liabilities		1,091	-
Increase in other non-current liabilities		(170,928)	(134,003)
(Increase) decrease in unrecognized loss on pension fund (other equity)		(4,111)	439
Increase in non-controlling interests		116,204	81,522
Retained earnings adjustments	$	**(59,672)**	**(41,612)**

J. Classifications of deferred income tax asset/liability and valuation allowance

Under R.O.C. GAAP, deferred income tax assets or liabilities are classified as current or non-current according to the classification of related assets or liabilities. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as either current or non-current based on the expected length of time before it is realized or settled. Under IFRS as endorsed by the FSC, a deferred tax asset or liability is classified as non-current asset or liability.

In addition, under R.O.C. 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 IFRS as endorsed by the FSC, deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits and the valuation allowance account is no longer used.

Deferred tax assets and liabilities may be offset against each other only if the entity have ~~has~~ the legal right to settle tax assets and liabilities on a net basis, and the deferred tax assets and liabilities are taxed by the same taxing authority.

The effects of this GAAP difference are as follows:

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Decrease in deferred income tax assets— current (other current assets)	$	(1,810,250)	(1,251,515)
Increase in deferred income tax assets		1,810,250	1,261,778
Decrease in deferred income tax liabilities— current (other current liabilities)		207	55
Increase in deferred income tax liabilities		(207)	(10,318)
Retained earnings adjustments	**$**	**-**	**-**

K. Deferred gross profit

Under R.O.C. GAAP, deferred income tax assets or liabilities arising from intergroup sales can be recognized using the tax rates of buyer or seller. The Group originally adopted the seller's tax rates. Under the IFRS as endorsed by the FSC, temporary differences are determined by comparing the carrying amount of assets and liabilities and their tax basis in the consolidated financial statements, therefore, deferred income tax assets or liabilities from unrealized profit or loss are calculated using the buyer's tax rate.

The effects to IFRS financial statements of this GAAP difference were as follows:

		For Year Ended December 31, 2012
Consolidated comprehensive income statement		
Decrease in tax expense	**$**	**(23,813)**

		For Year Ended December 31, 2012
Attributable to		
Owners of the parent	$	(20,278)
Non-controlling interests		(3,535)
Adjustments before income tax	$	**(23,813)**

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
(Decrease) increase in deferred income tax assets	$	(3,323)	20,490
Decrease (increase) in non-controlling interest		2,312	(5,847)
Adjustments before income tax	$	**(5,635)**	**14,643**

L. Capital surplus－ long-term equity investment not subscribing proportionately

Under R.O.C. GAAP, if an associate or 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 is adjusted to the capital surplus or retained earnings. Under the IFRS as endorsed by the FSC, if the percentage of ownership is changed due to disproportionate subscription in the capital increase of the investee, the capital surplus arising from long-term equity investment is recalculated retrospectively, and such change adjusted to retained earnings.

The effects to IFRS financial statements of this GAAP difference were as follows:

		December 31, 2012	January 1, 2012
Consolidated balance sheets			
Reduction on capital surplus	$	2,459,495	2,481,205
Retained earnings adjustments	**$**	**2,459,495**	**2,481,205**

M. Overseas convertible bonds payable

Under R.O.C. GAAP, if the conversion price of the overseas convertible bonds payable is expressed in New Taiwan Dollars, and the bonds payable is convertible to NTD only at fixed foreign currency in NTD exchange rate, the conversion option is classified as an equity component. Under IFRS as endorsed by the FSC, the conversion option does not conform to the definition of equity component; therefore, the conversion option being treated as liability component is initially recognized as "derivative financial liabilities." The valuation gain or loss resulting from changes in fair values is recognized in profit or loss.

The effects to IFRS financial statements of this GAAP difference were as follows:

		For Year Ended December 31, 2012
Consolidated comprehensive income statement		
Increase in other gains and losses	$	488,820
Decrease in finance costs		(165,909)
Adjustments before income tax	**$**	**322,911**

		December 31, 2012
Consolidated balance sheets		
Increase in financial liabilities at fair value through profit or loss－ noncurrent	$	(753,540)
Decrease in bonds payables		747,225
Reduction on capital surplus		329,226
Retained earnings adjustments	**$**	**322,911**

N. Loss of significant influence on associates

Under IFRS as endorsed by the FSC, the Group should reassess the associates' residual investments at fair value, and gain or loss on disposal of investment due to loss of significant influence on its subsidiaries.

The effects to IFRS financial statements of this GAAP difference were as follows:

		For the year ended December 31, 2012
Consolidated comprehensive income statement		
Decrease in other gains and losses	**$**	**139,693**
Attributable to：		
Owners of the company	$	17,251
Non-controlling interests		122,442
Adjustments before tax	**$**	**139,693**

		December 31, 2012
Consolidated balance sheets		
Decrease in capital surplus	$	21,095
Increase in other equity interest		(3,844)
Retained earnings adjustments	**$**	**17,251**

O. Repair expense, Indemnity income and Indemnity losses

Under IFRS as endorsed by FSC, compensation gain or loss is reclassified to "Sales revenue" and "Cost of sales" account according to its nature.

The effects to IFRS financial statements of this GAAP difference were as follows:

		For Year Ended December 31, 2012
Consolidated comprehensive income statement		
Increase in sales revenue	$	(505,130)
Decrease in cost of goods sold		(631,898)
Decrease in other income		1,636,021
Decrease in other losses		(498,993)
Adjustments before income tax	**$**	**-**

P. The effects to retained earnings of the GAAP differences described above are as follows :

		December 31, 2012	January 1, 2012
Employee benefits liabilities	$	(143,530)	(121,273)
Employee benefits, post-employment benefit plan		(59,672)	(41,612)
Deferred sales profit		(5,635)	14,643
Capital surplus		2,459,495	2,481,205
Overseas convertible bonds		322,911	-
Others		19,505	(19,038)
Increase in retained earnings	**$**	**2,593,074**	**2,313,925**