

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NON-CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

(With Independent Accountants' Audit Report Thereon)

Address: 5F., No.76, Ligong St., Beitou District, Taipei City 112, Taiwan

Telephone: 886-2-8143-9001

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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 balance sheets of Pegatron Corporation (the “Company”) as of December 31, 2013, December 31, 2012, and January 1, 2012, and the related statements of comprehensive income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express the audit report based on our audits. We did not audit the financial statements of certain investees accounted for under the equity method, in which the Company’s long-term equity investments amounted to NT\$ 22,241,985 thousand, NT\$ 22,108,686 thousand and NT\$ 18,953,837 thousand, representing 5.80%, 6.88% and 8.63% of total assets as of December 31, 2013, December 31, 2012, and January 1, 2012, respectively, and related investment income was NT\$ 1,697,446 thousand and NT\$ 2,091,600 thousand, representing 17.78% and 30.67% of net income before tax for the years ended December 31, 2013 and 2012, respectively. The financial statements of these investees 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, is 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 non-consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidences supporting the amounts and disclosures in the non-consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall non-consolidated financial statement presentation. We believe that our audits and the reports issued by other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013, December 31, 2012, and January 1, 2012, the results of its operations and its cash flows for the years then ended in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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

March 24, 2014

Note to Readers

The accompanying non-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 non-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
NON-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	
	Amount	%	Amount	%	Amount	%
ASSETS						
Current Assets:						
Cash and cash equivalents (Note 6(1))	\$ 19,170,052	5	12,006,919	4	6,815,955	3
Notes and accounts receivable, net (Note 6(3))	85,155,913	22	79,952,973	25	40,771,246	19
Accounts receivable, net—Related parties (Note 7)	133,504,038	35	112,235,263	35	70,676,143	32
Other receivables, net (Notes 6(3) and 7)	23,296,254	6	10,502,748	3	48,223	-
Inventories (Note 6(4))	21,985,422	6	12,018,150	4	9,252,961	4
Other financial assets—current (Note 6(8))	55,820	-	76,205	-	72,003	-
Other current assets (Note 6(8))	120,548	-	259,416	-	128,462	-
	<u>283,288,047</u>	<u>74</u>	<u>227,051,674</u>	<u>71</u>	<u>127,764,993</u>	<u>58</u>
Non-current assets:						
Investments accounted for using equity method (Note 6(5))	95,704,186	25	89,510,096	28	86,611,949	40
Property, plant and equipment (Notes 6(6), and 7)	4,444,544	1	4,473,252	1	4,633,015	2
Intangible assets (Note 6(7))	58,990	-	93,514	-	121,223	-
Deferred tax assets (Note 6(15))	173,059	-	65,781	-	287,835	-
Other financial assets—noncurrent (Note 6(8))	32,492	-	30,650	-	29,271	-
Other noncurrent assets (Note 6(8))	34,370	-	26,606	-	72,259	-
	<u>100,447,641</u>	<u>26</u>	<u>94,199,899</u>	<u>29</u>	<u>91,755,552</u>	<u>42</u>
TOTAL ASSETS	\$ 383,735,688	100	321,251,573	100	219,520,545	100

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NON-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 (Note 6(9))	\$ 18,628,125	6	6,359,760	2	6,176,100	3
Accounts payable	105,537,143	27	95,814,244	30	42,449,007	19
Accounts payable—Related parties (Note 7)	93,203,009	24	85,225,163	27	57,939,610	26
Other payables (Notes 6(17) and 7)	13,921,682	4	10,064,443	3	6,037,633	3
Current income tax liabilities	366,613	-	345,592	-	152,894	-
Provisions—current (Note 6(12))	62,923	-	59,239	-	35,190	-
Deferred revenue	504,324	-	117,938	-	46,338	-
Long-term loans payable—current portion (Note 6(10))	4,768,800	1	2,323,200	1	-	-
Other current liabilities (Note 7)	14,093,534	4	7,051,937	2	2,803,743	1
	<u>251,086,153</u>	<u>66</u>	<u>207,361,516</u>	<u>65</u>	<u>115,640,515</u>	<u>52</u>
Non-current liabilities:						
Financial liabilities at fair value through profit or loss	235,162	-	759,815	-	-	-
— noncurrent (Notes 6(2) and 6(11))						
Bonds payable (Note 6(11))	8,116,490	2	7,656,181	2	-	-
Long-term loans (Note 6(10))	16,746,400	4	9,292,800	3	12,110,000	6
Deferred tax liabilities (Note 6(15))	217,397	-	353,077	-	335,510	-
Other noncurrent liabilities (Note 6(14))	30,292	-	22,905	-	10,232	-
	<u>25,345,741</u>	<u>6</u>	<u>18,084,778</u>	<u>5</u>	<u>12,455,742</u>	<u>6</u>
Total Liabilities	<u>276,431,894</u>	<u>72</u>	<u>225,446,294</u>	<u>70</u>	<u>128,096,257</u>	<u>58</u>
EQUITY						
Share capital	<u>23,211,555</u>	<u>6</u>	<u>22,903,049</u>	<u>7</u>	<u>22,563,669</u>	<u>10</u>
Capital surplus:						
Capital surplus, premium on capital stock	61,420,285	16	60,393,247	19	60,393,247	28
Capital surplus, others (Note 6(16))	1,755,534	-	1,329,863	-	609,828	-
	<u>63,175,819</u>	<u>16</u>	<u>61,723,110</u>	<u>19</u>	<u>61,003,075</u>	<u>28</u>
Retained earnings:						
Legal reserve	2,458,117	1	1,847,737	1	1,836,601	1
Special reserve	3,280,485	1	734,859	-	4,327,629	2
Unappropriated retained earnings (Note 6(15))	15,405,350	4	12,422,970	4	2,458,391	1
	<u>21,143,952</u>	<u>6</u>	<u>15,005,566</u>	<u>5</u>	<u>8,622,621</u>	<u>4</u>
Other equity interest(Notes 6(16) and 6(17)):						
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	(241,370)	-	(497,698)	-	-	-
	<u>(210,136)</u>	<u>-</u>	<u>(3,807,652)</u>	<u>(1)</u>	<u>(746,283)</u>	<u>-</u>
Treasury stock	(17,396)	-	(18,794)	-	(18,794)	-
Total Equity	<u>107,303,794</u>	<u>28</u>	<u>95,805,279</u>	<u>30</u>	<u>91,424,288</u>	<u>42</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 383,735,688</u>	<u>100</u>	<u>321,251,573</u>	<u>100</u>	<u>219,520,545</u>	<u>100</u>

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NON-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 (Notes 6(19) and 7)	\$ 796,040,889	100	639,914,274	100
Less: Sales returns and allowances	1,816,161	-	1,044,720	-
Net sales	794,224,728	100	638,869,554	100
Cost of sales (Notes 6(4) and 7)	783,471,961	99	632,150,041	99
Gross profit	10,752,767	1	6,719,513	1
Unrealized (Realized) profit on intercompany transactions	(49,334)	-	44,894	-
Gross profit	10,802,101	1	6,674,619	1
Operating expenses (Note 7)				
Selling expenses	3,252,575	-	1,274,789	-
General and administrative expenses	1,995,092	-	1,525,095	-
Research and development expenses	5,265,356	1	4,790,984	1
	10,513,023	1	7,590,868	1
Results from operating activities	289,078	-	(916,249)	-
Non-operating income and expenses				
Other income (Notes 6(20) and 7)	438,071	-	442,161	-
Other gains and losses (Notes 6(6), 6(11) and 6(20))	514,234	-	703,467	-
Share of profit (loss) of associates and joint ventures accounted for under equity method (Note 6(5))	9,242,598	1	7,294,075	1
Financial costs (Note 6(20))	(917,669)	-	(674,045)	-
Other losses (Note 7)	(19,912)	-	(30,272)	-
	9,257,322	1	7,735,386	1
Profit before tax	9,546,400	1	6,819,137	1
Income tax expense (benefit) (Notes 6(15))	(8,096)	-	436,192	-
Profit for the year	9,554,496	1	6,382,945	1
Other comprehensive income (Note 6(16))				
Foreign currency translation differences—foreign operations	1,777,556	-	(1,134,150)	-
Defined benefit plan actuarial losses	(1,195)	-	-	-
Share of other comprehensive income of associates and joint ventures accounted for under equity method	1,572,974	-	(1,429,521)	-
Income tax relating to components of other comprehensive income	-	-	-	-
Other comprehensive income for the year, net of tax	3,349,335	-	(2,563,671)	-
Total comprehensive income for the year	\$ 12,903,831	1	3,819,274	1
Earnings per share, net of tax(Notes 6(18))				
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 non-consolidated financial statements.

(English Translations of Financial Statements Originally Issued in Chinese)
PEGATRON CORPORATION
NON-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														
	Share capital				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		Treasury stock	Total equity
									financial assets	Others	Total				
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	
Profit for the period	-	-	-	-	-	6,382,945	6,382,945	-	-	-	-	-	-	6,382,945	
Other comprehensive income for the period	-	-	-	-	-	-	-	(2,614,022)	50,351	-	-	(2,563,671)	-	(2,563,671)	
Total comprehensive income for the period	-	-	-	-	-	6,382,945	6,382,945	(2,614,022)	50,351	-	-	(2,563,671)	-	3,819,274	
Appropriation and distribution of retained earnings (Note 1)															
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	
Share-based payments	-	-	-	114,472	-	-	-	-	-	-	-	-	-	114,472	
Compensation cost arising from employee stock options	339,380	-	339,380	478,366	-	-	-	-	-	-	(497,698)	(497,698)	-	320,048	
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	
Profit for the period	-	-	-	-	-	9,554,496	9,554,496	-	-	-	-	-	-	9,554,496	
Other comprehensive income for the period	-	-	-	-	-	8,147	8,147	3,349,619	(8,431)	-	-	3,341,188	-	3,349,335	
Total comprehensive income for the period	-	-	-	-	-	9,562,643	9,562,643	3,349,619	(8,431)	-	-	3,341,188	-	12,903,831	
Appropriation and distribution of retained earnings (Note 2)															
Legal reserve	-	-	-	-	610,380	(610,380)	-	-	-	-	-	-	-	-	
Special reserve	-	-	-	-	(2,545,626)	2,545,626	-	-	-	-	-	-	-	-	
Common stock cash dividends	-	-	-	-	-	(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	
Disposal of the Company's share by its subsidiary recognized as treasury share transaction	-	-	-	1,955	-	-	-	-	-	-	-	-	2,178	4,133	
Share-based payments	258,960	7,210	266,170	557,408	-	-	-	-	-	-	-	-	-	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	
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	

Note 1: The directors' and supervisors' remuneration of \$1,000 and employees' bonuses of \$12,100 for the year ended December 31, 2011 had been deducted from comprehensive income for the year ended December 31, 2011. Please refer to Note 6(16) for details of earning distribution.

Note 2: The directors' and supervisors' remuneration of \$29,000 and employees' bonuses of \$299,000 for the year ended December 31, 2012 had been deducted from comprehensive income for the year ended December 31, 2012. Please refer to Note 6(16) for details of earning distribution.

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR 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	\$ 9,546,400	6,819,137
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation	572,928	564,288
Amortization	51,141	78,741
Allowance for uncollectable accounts	31,280	12,037
Net gain on financial assets or liabilities at fair value through profit or loss	(534,768)	(502,955)
Interest expense	445,680	406,151
Interest income	(69,968)	(39,158)
Amortization of discount on bonds payable	245,201	227,840
Amortization of issuance costs on bonds payable	12,787	11,537
Compensation cost arising from employee stock options	508,571	179,563
Loss (gain) on foreign currency exchange of bonds payable	212,436	(156,066)
Share of profit of associates and joint ventures accounted for under equity method	(9,242,598)	(7,294,075)
Loss (gain) on foreign currency exchange on long-term loans	244,800	(494,000)
Loss on disposal of property, plant and equipment	17,389	29,647
Gains on disposals of intangible assets	-	(64)
Gain on disposal of investments accounted for using equity method	-	(62,028)
Reversal gain on property, plant and equipment	(3,878)	(4,127)
Unrealized loss (profits) on intercompany transactions	(49,334)	44,894
	<u>(7,558,333)</u>	<u>(6,997,775)</u>
Change in operating assets and liabilities		
Change in operating assets		
Increase in notes and accounts receivable	(23,043,667)	(80,752,885)
Increase in other accounts receivable	(12,153,839)	(10,454,234)
Increase in inventories	(9,953,266)	(2,765,189)
Decrease (increase) in other current assets	159,600	(127,198)
Decrease (increase) in other financial assets	41,113	(4,201)
Total changes in operating assets	<u>(44,950,059)</u>	<u>(94,103,707)</u>
Change in operating liabilities		
Increase in accounts payable	16,659,923	80,650,790
Increase (decrease) in other accounts payable	1,147,613	(2,045,161)
Increase in provisions — current	1,784	24,049
Increase (decrease) in deferred revenue	(19,729)	71,600
Increase in other current liabilities	6,762,488	4,248,194
Increase in other non-current liabilities	3,228	12,673
Total changes in operating liabilities	<u>24,555,307</u>	<u>82,962,145</u>
Net changes in operating assets and liabilities	<u>(20,394,752)</u>	<u>(11,141,562)</u>
Total changes in operating assets and liabilities	<u>(27,953,085)</u>	<u>(18,139,337)</u>
Cash used in operating activities	<u>(18,406,685)</u>	<u>(11,320,200)</u>
Interest received	61,154	38,867
Dividend received	2,475,281	2,260,957
Interest paid	(287,997)	(309,481)
Income taxes paid	(48,335)	(7,629)
Net cash used in operating activities	<u>(16,206,582)</u>	<u>(9,337,486)</u>

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE YEAR 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 investing activities		
Acquisition of investments accounted for using equity method	(561,165)	(589,451)
Proceeds from disposal of available-for-sale financial assets		
Proceeds from disposal of subsidiaries		
Proceeds from disposal of investments accounted for using equity method	-	305,082
Acquisition of property, plant and equipment	(438,505)	(312,698)
Proceeds from disposal of property, plant and equipment	2,323	11,184
Increase in other financial assets	(789)	(1,379)
Acquisition of intangible assets	(5,498)	(51,704)
Proceeds from disposal of intangible assets	-	736
Increase in prepayments on purchase of equipment		
Increase in long-term prepaid rents		
Net cash inflows from business combination	3,413,490	-
Net cash provided by (used in) investing activities	2,409,856	(638,230)
Cash flows from financing activities		
Increase in short-term loans	12,268,365	183,660
Decrease in short-term notes and bills payable		
Proceeds from issuance of bonds payable	-	8,835,640
Repayments of bonds		-
Proceeds from long-term loans	12,000,000	-
Repayments of long-term loans	(2,323,200)	-
Increase in other payables—related parties	1,643,250	5,808,000
Dividends paid	(3,435,457)	-
Employee stock options	746,281	-
Proceeds from issuance of restricted stock	60,620	339,380
Net cash provided by financing activities	20,959,859	15,166,680
Effect of exchange rate fluctuations on cash held		
Net increase in cash and cash equivalents	7,163,133	5,190,964
Cash and cash equivalents, beginning of the year	12,006,919	6,815,955
Cash and cash equivalents, end of the year	\$ 19,170,052	12,006,919

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO NON-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 UNIHAN CORPORATION, pursuant to the resolutions of the board of directors in November, 2013. Please refer to Note 6(5) for details.

2. APPROVAL DATE AND PROCEDURES OF THE NON-CONSOLIDATED FINANCIAL STATEMENTS

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

3. NEW 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 impacts to the classification and measurement of financial instruments in the non-consolidated financial statements.

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(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 non-consolidated financial statements were as follows:

<u>Issue date</u>	<u>New standards and amendments</u>	<u>Description</u>	<u>Effective date per IASB</u>
May 12, 2011	• IFRS 10 Consolidated Financial Statements	• 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
June 28, 2012	• 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		
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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

<u>Issue date</u>	<u>New standards and amendments</u>	<u>Description</u>	<u>Effective date per IASB</u>
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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently to all periods presented in the non-consolidated financial statements, and to the non-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 endorsed by the FSC”).

(1) Statement of compliance

These are the Company’s first annual non-consolidated financial statements prepared in accordance with the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(2) Basis of preparation

A. Basis of measurement

The non-consolidated financial 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) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- (c) 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 the Company is determined based on the primary economic environment in which the Company operates. The non-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) Foreign currency

A. Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of the Company 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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 Company'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 Company'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 Company 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 Company 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 planned 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.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

(4) 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.

(5) 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 Company 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.

(6) Financial instruments

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

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

A. Financial assets

The Company classifies financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

(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 Company 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.

Dividend income from investments is recognized when the shareholder's right to receive payment has been established (might be the ex-dividend date), and is included in non-operating income and expenses.

(b) 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.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

In accordance with Statement of International Accounting Standards No. 39 Financial instruments (“IAS 39”) 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.

(c) 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 Company on terms that the Company 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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 Company 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.

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

(d) Derecognition of financial assets

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

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 Company 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 Company 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 Company 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;

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 Company 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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 Company 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 Company 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 Company 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.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

(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 forecast transaction recognized as a non-financial assets or liabilities, the amount accumulated in other equity – effective portion of cash flow hedge gain (loss) and retained in other comprehensive income is reclassified to the initial cost of the non-financial asset or liability.

(7) 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.

(8) Investment in associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the

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Company 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 Company'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 Company, in the non-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 Company and an associate are eliminated to the extent of the Company'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 Company'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 Company has an obligation or has made payments on behalf of the investee.

(9) Subsidiaries

The subsidiaries in which the Company holds controlling interest are accounted for under equity method in the non-consolidated financial statements. Under equity method, the net income, other comprehensive income and equity in the non-consolidated financial statement are the same as those attributable to the owners of parent in the consolidated financial statements.

The changes in ownership of the subsidiaries are recognized as equity transaction.

(10) Interests in Joint Ventures

Jointly controlled entity is an entity which is established as a result of a contractual arrangement between the Company 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 Company uses equity method to account for the interest in jointly controlled entity.

(11) 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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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. Subsequent cost

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

C. 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.

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

Buildings	5-50 years
Plant and equipment	1-6 years
Instrument equipment	1-3 years
Miscellaneous equipment	1-15 years

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

(12) 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 Company 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 Company's non-consolidated balance sheets.

Payments made under operating lease (excluding insurance and maintenance expenses) are

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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 Company 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 (s).

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 Company 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 Company 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 Company's incremental borrowing rate. If the Company 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.

(13) Intangible assets

A. Other Intangible Assets

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

B. 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.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

C. 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, 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	3-5 years
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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.

(14) Impairment – Non-derivative financial assets

The Company 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 Company 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 Company 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 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.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

(15) Provisions

A provision is recognized if, as a result of a past event, the Company 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.

(16) 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.

(17) 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.

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The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of timber and paper products, transfer usually occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the port. Generally, the customer has no right of return for such products. For sales of livestock, transfers occur upon receipt by the customer.

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.

(18) 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 Company'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 Company'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 Company, 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 Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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 Company 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 Company 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.

(19) 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

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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.

(20) 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.

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

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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.

(21) Business combination

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 Company 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 achieved in batches, the Company 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 Company'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 non-consolidated accounts prospectively from the date the Company acquires the ownership interest. Assets and liabilities of the merged entities are recognized at their carrying amount in the non-consolidated financial statements.

(22) 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.

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(23) Operating segments

Please refer to the consolidated financial report for the year ended December 31, 2013 and 2012 for operating segments information.

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

The preparation of the non-consolidated financial statements in conformity with Regulations Governing the Preparation of Financial Reports 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 non-consolidated financial statements is included in the following notes:

(1) Note 6(13), Lease classification

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

(1) Note 6(3), Accounts receivable impairment evaluation

(2) Note 6(4), Inventories subsequent measurement

(3) Note 6(15), 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	\$ 160	160	50
Cash in banks	9,494,278	7,017,927	4,198,030
Time deposits	9,675,614	4,988,832	2,617,875
Cash and cash equivalents	\$ 19,170,052	12,006,919	6,815,955

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

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B. Refer to note 6(21) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

C. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

(2) Investment in financial assets and liabilities

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

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Financial assets carried at cost — noncurrent:			
Equity securities – common stock	\$ -	-	-
Non-current financial liabilities at fair value through profit or loss:			
Foreign convertible bonds — conversion options	\$ 1,262,770	1,262,770	-
Adjustments	(1,027,608)	(502,955)	-
	<u>\$ 235,162</u>	<u>759,815</u>	<u>-</u>

B. The aforementioned investments held by the Company 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 of fair value cannot be reasonably determined, therefore, the Company management determines the fair value cannot be measured reliably. As of December 31, 2013, the Company had accumulated impairment loss thereon of \$150,000.

As of December 31, 2013, the aforesaid financial assets were not pledged as collateral.

C. The convertible bond issued by the Company 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.” For the year ended December 31, 2013 and 2012, the Company recognized a gain on financial liability reported at fair value through profit or loss of \$534,768 and \$502,955 respectively. Please refer to Note 6(11) for details.

D. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

(3) Notes and accounts receivable, net

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Notes receivable	\$ 10	140	-
Accounts receivable	85,236,609	79,982,474	40,788,850
Other receivable	23,296,254	10,502,748	48,223
Less: Allowance for impairment	(80,706)	(29,641)	(17,604)
	<u>\$ 108,452,167</u>	<u>90,455,721</u>	<u>40,819,469</u>

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- A. Refer to Note 6(21) for the Company's notes receivable, accounts receivable and other receivable exposure to credit risk and currency risk.
- B. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.
- C. As of December 31, 2013 and 2012, the Company sold its accounts receivable without recourse as follows:

December 31, 2013						
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
SMBC	<u>\$ 7,701,648</u>	<u>USD 300,000,000</u>	<u>USD 258,401,191</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	<u>\$ 7,701,648</u>
ANZ(Note)	<u>\$ 38,746,500</u>	<u>USD 1,300,000,000</u>	<u>USD 523,000,000</u>	None	"	<u>\$ 38,746,500</u>
December 31, 2012						
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
SMBC	<u>\$ 7,068,485</u>	<u>USD 300,000,000</u>	<u>USD 243,405,143</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	<u>\$ 7,068,485</u>
ANZ(Note)	<u>\$ 26,136,000</u>	<u>USD 900,000,000</u>	<u>USD 540,000,000</u>	None	"	<u>\$ 26,136,000</u>

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.

For the years ended December 31, 2013 and 2012, the Company recognized a loss of \$ 221,482 and \$51,194 from the assignment of accounts receivable, which is accounted for under financial costs. Also, the difference of \$23,158,485 and \$10,454,400 between the amount of accounts receivable assigned and the amount advanced was accounted under other receivable as of December 31, 2013 and 2012, respectively.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

(4) Inventories

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Merchandise	\$ 22,092,811	11,806,401	7,486,732
Finished goods	31,981	11,812	254,019
Work in process	64,217	54,402	70,921
Raw materials	362,875	430,295	1,704,361
Subtotal	22,551,884	12,302,910	9,516,033
Less: Allowance for inventory market decline and obsolescence	(566,462)	(284,760)	(263,072)
Total	<u>\$ 21,985,422</u>	<u>12,018,150</u>	<u>9,252,961</u>

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

	<u>For the Years Ended December 31</u>	
	<u>2013</u>	<u>2012</u>
Cost of goods sold	\$ 783,162,313	631,959,689
Provision on inventory market price decline	149,065	21,688
Loss on disposal of inventory	18,935	17,469
Unamortized manufacturing expenses	141,763	151,017
(Loss) gain on physical inventory	(115)	178
	<u>\$ 783,471,961</u>	<u>632,150,041</u>

A. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

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

(5) Investments accounted for using equity method

The Company's financial information for equity-accounted investees at reporting date was as follows:

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1, 2012</u>
Subsidiary	<u>\$ 95,704,186</u>	<u>89,510,096</u>	<u>86,611,949</u>

A. Subsidiaries

Please refer to the consolidated financial report for the years ended December 31, 2013 and 2012.

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- B. In order to enhance resource efficiency, the Company sold all its equity ownership in ADVANSUS CORP. (“ADVANSUS”) to the other joint venture party for \$306,000 on January 5, 2012. The transfer of equity ownership was completed in June 2012, and a disposal gain of \$ 62,028 was recognized thereon.
- C. On November 19, 2012, Unihan Corporation’s shareholders resolved to offset Unihan Corporation’s accumulated deficits of \$1,322,043 via capital reduction. This resulted in a decrease in the Company’s equity investment in Unihan Corporation by \$1,903,863, divided into 132,204 thousand shares, according to the capital reduction ratio.
- D. For the years ended December 31, 2013 and 2012, the Company had participated in the capital increase of PEGATRON HOLDING LTD. and invested USD19,000 thousand (approximately \$561,165) and USD20,000 thousand (approximately \$587,600), respectively. In addition, the Company participated in the capital increase of ASUS HOLLAND HOLDING B.V. (renamed PEGATRON HOLLAND HOLDING B.V. in 2013) and invested EUR50 thousand (approximately \$1,851) for the year ended December 31, 2012.
- E. For the years ended December 31, 2013 and 2012, the Company received cash dividend of \$2,475,281 and \$2,260,957, respectively, from its investee companies accounted under equity method.
- F. For the years ended December 31, 2013 and 2012, the Company’s shares held by its subsidiaries are treated as treasury stock as described in Note 6(16).
- G. 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. on February 7, 2014, and the legal procedure for the change in the registration had been completed. On the effective date of the statutory merger, the details of identifiable assets acquired, the liabilities assumed, and equity-accounted investees merged were as follows:

	<u>December 31, 2013</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,413,490
Notes receivable, Accounts receivable and Other receivable	4,090,181
Inventories	14,005
Other financial assets and other current assets	64,910
NON-CURRENT ASSETS	
Financial assets carried at cost	-
Equity-accounted investees	8,659,762
Property, plant and equipment	182,899
Deferred tax assets	109,874
Other financial assets and other current assets	12,172

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	<u>December 31, 2013</u>
CURRENT LIABILITIES	
Accounts payable and Other payables	(1,765,327)
Provisions	(1,900)
Other current liabilities	(853,448)
NON-CURRENT LIABILITIES	
Other non-current liabilities	(6,437)
NET ASSETS	<u>13,920,181</u>
INVESTMENTS ACCOUNTED FOR USING EQUITY	(13,920,181)
METHOD-UNIHAN CORPORATION	
	<u>\$ -</u>

H. As of December 31, 2013 and 2012, the investments in aforesaid equity-accounted investees were not pledged as collateral.

(6) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2013 and 2012 were as follows:

	<u>Land</u>	<u>Building and construction</u>	<u>Machinery and equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Total</u>
Cost or deemed cost:						
Balance on January 1, 2013	\$ 2,233,032	2,345,796	48,766	149,384	863,519	5,640,497
Additions	-	18,161	18,161	9,652	23,208	51,021
Disposals and obsolescence	-	(74,613)	(18,182)	(21,884)	(618,546)	(733,225)
Reclassifications	-	-	-	905	325,229	326,134
Acquisition from business combination	-	-	-	176,598	136,291	312,889
Balance on December 31, 2013	<u>\$ 2,233,032</u>	<u>2,271,183</u>	<u>48,745</u>	<u>314,655</u>	<u>729,701</u>	<u>5,597,316</u>
Balance on 1 January 2012	\$ 2,233,032	2,400,639	75,181	146,286	926,306	5,781,444
Additions	-	3,020	2,957	47,375	24,606	77,958
Disposals and obsolescence	-	(57,863)	(29,270)	(44,372)	(450,671)	(582,176)
Reclassifications	-	-	(102)	95	363,278	363,271
Balance on December 31, 2012	<u>\$ 2,233,032</u>	<u>2,345,796</u>	<u>48,766</u>	<u>149,384</u>	<u>863,519</u>	<u>5,640,497</u>
Depreciation and impairment loss :						
Balance on January 1, 2013	\$ -	630,226	37,498	60,296	439,224	1,167,244
Depreciation for the period	-	77,135	4,188	47,202	444,403	572,928
Reversal of impairment loss	-	-	(3,088)	-	(790)	(3,878)
Disposals and obsolescence	-	(74,353)	(15,418)	(21,133)	(602,608)	(713,512)
Acquisition from business combination	-	-	-	67,633	62,357	129,990
Balance on December 31, 2013	<u>\$ -</u>	<u>633,008</u>	<u>23,180</u>	<u>153,998</u>	<u>342,586</u>	<u>1,152,772</u>
Balance on January 1, 2012	\$ -	603,751	59,295	43,348	442,035	1,148,429
Depreciation for the period	-	84,298	6,788	45,599	427,603	564,288
Reversal of impairment loss	-	-	(3,495)	-	(632)	(4,127)
Reclassifications	-	-	(57)	-	57	-
Disposals and obsolescence	-	(57,822)	(25,033)	(28,651)	(429,839)	(541,345)
Balance on December 31, 2012	<u>\$ -</u>	<u>630,227</u>	<u>37,498</u>	<u>60,296</u>	<u>439,224</u>	<u>1,167,245</u>
Carrying amounts :						
Balance on December 31, 2013	<u>\$ 2,233,032</u>	<u>1,638,175</u>	<u>25,565</u>	<u>160,657</u>	<u>387,115</u>	<u>4,444,544</u>
Balance on December 31, 2012	<u>\$ 2,233,032</u>	<u>1,715,569</u>	<u>11,268</u>	<u>89,088</u>	<u>424,295</u>	<u>4,473,252</u>
Balance on January 1, 2012	<u>\$ 2,233,032</u>	<u>1,796,888</u>	<u>15,886</u>	<u>102,938</u>	<u>484,271</u>	<u>4,633,015</u>

A. Based on the results of its evaluation of the recoverability of property, plant and equipment, the Company recognized impairment reversal gains as follows:

	<u>For the Years Ended December 31</u>	
	<u>2013</u>	<u>2012</u>
Reversal of impairment loss	<u>\$ 3,878</u>	<u>4,127</u>

B. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

C. As of December 31, 2013, December 31, 2012 and January 1, 2012, the property, plant and equipment were not pledged as collateral.

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(7) Intangible assets

The intangible assets of the Company consisted of computer software. The components of the costs of intangible assets, amortization, and impairment loss thereon of the years ended December 31, 2013 and 2012 were as follows :

Costs:		
Balance on January 1, 2013	\$	310,061
Additions		5,498
Disposals		(220,066)
Acquisition from business combination		17,508
Balance on December 31, 2013	<u>\$</u>	<u>113,001</u>
Balance on January 1, 2012	\$	314,139
Additions		51,704
Disposals		(55,782)
Balance on December 31, 2012	<u>\$</u>	<u>310,061</u>
Amortization and Impairment Loss:		
Balance on January 1, 2013	\$	216,547
Amortization for the period		51,141
Disposals		(220,066)
Acquisition from business combination		6,389
Balance on December 31, 2013	<u>\$</u>	<u>54,011</u>
Balance on January 1, 2012	\$	192,916
Amortization for the period		78,741
Disposals		(55,110)
Balance on December 31, 2012	<u>\$</u>	<u>216,547</u>
Carrying value:		
Balance on December 31, 2013	<u>\$</u>	<u>58,990</u>
Balance on December 31, 2012	<u>\$</u>	<u>93,514</u>
Balance on January 1, 2012	<u>\$</u>	<u>121,223</u>

- A. The amortization of intangible assets and impairment losses are respectively included in the statement of comprehensive income. Please refer to Note 12 for details.
- B. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

(8) Other financial assets and other assets

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Other financial assets — current	\$ 55,820	76,205	72,003
Other financial assets — noncurrent	32,492	30,650	29,271
Other current assets	120,548	259,416	128,462
Other noncurrent assets	34,370	26,606	72,259
	<u>\$ 243,230</u>	<u>392,877</u>	<u>301,995</u>

- 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.

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- B. Other current assets consisted of prepayments, temporary payments for traveling and others.
- C. Other noncurrent assets consisted of prepayments for business facilities.
- D. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

(9) Short-term loans

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Unsecured bank loans	\$ 18,628,125	6,359,760	6,176,100
Unused credit line	\$ 22,455,863	24,336,109	19,406,885
Interest rate	0.82%~0.95%	0.72%~1.40%	0.70%~1.56%

The Company's promissory notes were pledged as a guarantee for the Company's credit loan facility. In addition, the Company shared most of its credit line with its subsidiary, UNIHAN CORPORATION for the years ended December 31, 2013 and 2012.

(10) Long-term loans

<u>December 31, 2013</u>				
	<u>Currency</u>	<u>Interest rate</u>	<u>Expiration</u>	<u>Amount</u>
Unsecured bank loans	USD	0.8775%~1.7442%	2010.10~2015.10	\$ 9,537,600
Unsecured bank loans	NTD	1.5789%~1.6074%	2013.09~2018.09	12,000,000
Total				21,537,600
Less : Arrangement fee				(22,400)
Less : Current portion				(4,768,800)
Total				<u>\$ 16,746,400</u>
Unused credit line				<u>\$ -</u>

<u>December 31, 2012</u>				
	<u>Currency</u>	<u>Interest rate</u>	<u>Expiration</u>	<u>Amount</u>
Unsecured bank loans	USD	0.9086%~2.3256%	2010.10~2015.10	\$ 11,616,000
Less : Current portion				(2,323,200)
Total				<u>\$ 9,292,800</u>
Unused credit line				<u>\$ -</u>

<u>January 1, 2012</u>				
	<u>Currency</u>	<u>Interest rate</u>	<u>Expiration</u>	<u>Amount</u>
Unsecured bank loans	USD	1.0647%~2.3256%	2010.10~2015.10	\$ 12,110,000
Less : Current portion				-
Total				<u>\$ 12,110,000</u>
Unused credit line				<u>\$ -</u>

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A. Securities for bank loans

The Company's promissory notes were pledged as a guarantee for the Company's credit loan facility.

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 and 2012.

(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 Company.

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(11) Bonds payable

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

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Convertible bonds issued	\$ 8,874,000	8,874,000
Unamortized discounted on bonds payable	(824,809)	(1,056,299)
Bonds payable, end of the period	8,049,191	7,817,701
Foreign currency valuation, end of the period	67,299	(161,520)
Bonds payable, net	<u>\$ 8,116,490</u>	<u>7,656,181</u>
Embedded derivative –conversion options, accounted under financial liabilities at fair value through profit or loss	<u>\$ 235,162</u>	<u>759,815</u>
	<u>For the Years Ended</u>	<u>December 31</u>
	<u>2013</u>	<u>2012</u>
Embedded derivative instruments –conversion options, accounted under other gains and losses	<u>\$ (534,768)</u>	<u>(502,955)</u>
Interest expense	<u>\$ 381,313</u>	<u>348,073</u>

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

<u>Item</u>	<u>1st overseas unsecured convertible bonds issued in 2012</u>
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.

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<u>Item</u>	<u>1st overseas unsecured convertible bonds issued in 2012</u>
7. Redemption at the option of the Company	<p>(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).</p> <p>(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.</p> <p>(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.</p>
8. Redemption at the option of the Holder	<p>(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.</p> <p>(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.</p> <p>(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.</p>
9. Conversion	<p>(1) Conversion period</p> <p>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</p>

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<u>Item</u>	<u>1st overseas unsecured convertible bonds issued in 2012</u>
	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.

(12) Provisions

	<u>Allowance for sales returns and discounts</u>
Balance on January 1, 2013	\$ 59,239
Provisions made during the period	1,784
Acquisition from business combination	1,900
Balance on December 31, 2013	<u>\$ 62,923</u>
Balance on January 1, 2012	\$ 35,190
Provisions made during the period	24,049
Balance on December 31, 2012	<u>\$ 59,239</u>

A. 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.

B. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

(13) Operating leases

A. Lessee

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

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	December 31, 2013	December 31, 2012	January 1, 2012
Less than one year	\$ 106,094	37,280	81,229
Between one and five years	107,076	2,769	29,562
	<u>\$ 213,170</u>	<u>40,049</u>	<u>110,791</u>

The Company lease a number of office, warehouse, factory facilities and parking lots under operating leases. The leases typically run for a period of 1 to 4 years, with an option to renew the lease after that date. Also, lease obligations payable of UNIHAN CORPORATION, the dissolved company, was included in the above lease commitments as of December 31, 2013.

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	\$ 573	730
Operating expenses	95,024	91,265
	<u>\$ 95,597</u>	<u>91,995</u>

(14) 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
Total present value of obligations	\$ 25,267	17,960	13,910
Fair value of plan assets	(7,305)	(6,070)	(5,044)
Deficit in the plan	<u>\$ 17,962</u>	<u>11,890</u>	<u>8,866</u>

The Company makes defined benefit plans 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 Company 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.

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The Company'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	\$ 17,960	13,910
Current service costs and interest	2,688	2,281
Actuarial losses (gain)	1,160	1,769
Liabilities assumed from business combination	3,459	-
Defined benefit obligation, December 31	<u>\$ 25,267</u>	<u>17,960</u>

(c) Movements of defined benefit plan assets

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

	For the Years Ended December 31	
	2013	2012
Fair value of plan assets, January 1	\$ 6,070	5,044
Benefits paid by the plan	669	985
Expected return on plan assets	106	88
Actuarial losses (gain)	(35)	(47)
Others	495	-
Fair value of plan assets, December 31	<u>\$ 7,305</u>	<u>6,070</u>

(d) Expenses recognized in profit or loss

The Company'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	\$ 2,419	2,038
Interest on obligation	269	243
Expected return on plan assets	(106)	(88)
	<u>\$ 2,582</u>	<u>2,193</u>
Operating Expense	<u>\$ 2,582</u>	<u>2,193</u>
Actual return on plan assets	<u>\$ 71</u>	<u>41</u>

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

The Company'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, 2013	\$ -	-
Recognized during the period	(1,195)	-
Cumulative amount, December 31, 2013	<u>\$ (1,195)</u>	<u>-</u>

(f) Actuarial assumptions

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

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

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	\$ 25,267	17,960	13,910
Fair value of plan assets	(7,305)	(6,070)	(5,044)
Deficit in the plan	<u>\$ 17,962</u>	<u>11,890</u>	<u>8,866</u>
Experience adjustments arising on plan liabilities	<u>\$ 521</u>	<u>1,605</u>	-
Experience adjustments arising on plan assets	<u>\$ 35</u>	<u>47</u>	-

The Company expected \$669 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 Company's management makes judgments and estimates in determining certain 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 Company's defined benefit obligation had a present value of \$25,267. An increase (decrease) of 0.5% in future salary increase rate would have

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(decreased) increased the present value of the defined benefit obligation by \$(3,077) and \$3,536, respectively.

B. Defined contribution plans

The Company 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 Company'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 \$199,159 and \$187,117, respectively.

(15) Taxes

A. The components of income tax expense (benefit) for the years ended December 31, 2013 and 2012 were as follows:

	For the Years Ended December 31	
	2013	2012
Current income tax expense		
Currently incurred	\$ 11,128	184,648
Adjustment to prior year's income tax charged to current income tax	(152,308)	11,923
Deferred tax expense		
The origination and reversal of temporary differences	133,084	239,621
Income tax expense (benefit)	<u>\$ (8,096)</u>	<u>436,192</u>

B. Income tax calculated 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	\$ 9,546,400	6,819,137
Income tax on pre-tax financial income calculated at the domestic rate	1,622,888	1,159,253
Permanents differences	(1,252,612)	(906,251)
Change of unrecognized temporary differences	(318,630)	(333,742)
Prior years income tax adjustment	(152,308)	11,923
10% surtax on undistributed earnings	-	369,300
Others	92,566	135,709
Income tax expense	<u>\$ (8,096)</u>	<u>436,192</u>

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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 Company 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:

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
The aggregate temporary differences associated with investments in subsidiaries	\$ <u>7,764,950</u>	<u>5,890,654</u>	<u>3,927,464</u>
Unrecognized deferred tax liabilities	\$ <u>1,320,041</u>	<u>1,001,411</u>	<u>667,669</u>

(b) 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:

	<u>Gain on foreign</u> <u>investments</u>	<u>Convertible</u> <u>bonds</u>	<u>Others</u>	<u>Total</u>
Deferred tax liabilities:				
Balance, January 1, 2013	\$ 225,261	26,531	101,285	353,077
Recognized in profit	-	(34,395)	(101,285)	(135,680)
Balance, December 31, 2013	\$ <u>225,261</u>	<u>(7,864)</u>	-	<u>217,397</u>
Balance, January 1, 2012	225,261	-	110,249	335,510
Recognized in loss (profit)	-	26,531	(8,964)	17,567
Balance, December 31, 2012	\$ <u>225,261</u>	<u>26,531</u>	<u>101,285</u>	<u>353,077</u>
	<u>Gain on</u> <u>valuation of</u> <u>inventory</u>	<u>Convertible</u> <u>bonds</u>	<u>Others</u>	<u>Total</u>
Deferred tax assets:				
Balance, January 1, 2013	\$ 48,409	20,439	(3,067)	65,781
Recognized in profit (loss)	25,341	23,139	(51,076)	(2,596)
Arising from business combination	-	-	109,874	109,874
Balance, December 31, 2013	\$ <u>73,750</u>	<u>43,578</u>	<u>55,731</u>	<u>173,059</u>
Balance, January 1, 2012	44,722	-	243,113	287,835
Recognized in profit (loss)	3,687	20,439	(246,180)	(222,054)
Balance, December 31, 2012	\$ <u>48,409</u>	<u>20,439</u>	<u>(3,067)</u>	<u>65,781</u>

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D. Income tax

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.

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

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Stockholders' imputation tax credit account \$	<u>664,702</u>	<u>545,432</u>	<u>3,448</u>
	<u>2013 (Expect)</u>	<u>2012 (Actual)</u>	
Tax deduction ratio for earnings distributable to R.O.C. residents	<u>4.61%</u>	<u>4.49%</u>	

There were no retained earnings accumulated in 1997 and prior years, which were not appropriated.

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

Please refer to Note 6(5) for the Company's assets acquired and liabilities assumed from the merger with Unihan Corporation effective from December 31, 2013.

(16) 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 year ended December 31, 2013 and 2012 were as follows:

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

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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 of stock, 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 for 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:

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(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
	<u>\$ 63,175,819</u>	<u>61,723,110</u>	<u>61,003,075</u>

In accordance with Amended Companies Act 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

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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 is set aside as legal reserve, until it is equal to share capital. If the Company incurred profit for the year, the meeting of shareholders decides 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

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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 yet 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:

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

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)
	<u>\$ 12,100</u>	<u>13,100</u>	<u>(1,000)</u>

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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 :			
— Company	1,777,556	-	-
—Subsidiaries	1,572,063	-	-
Unrealized gains (losses) on available-for-sale financial assets :			
—Subsidiaries	-	(8,431)	-
Other equity			
—Company	-	-	256,328
Balance, December 31, 2013	<u>\$ (48,637)</u>	<u>79,871</u>	<u>(241,370)</u>
Balance, January 1, 2012	\$ (784,234)	37,951	-
Exchange differences on translation of foreign financial statements , net of tax :			
—Company	(1,134,150)	-	-
—Subsidiaries	(1,479,872)	-	-
Unrealized gains (losses) on available-for-sale financial assets :			
—Subsidiaries	-	50,351	-
Other equity :			
—Company	-	-	(497,698)
Balance, December 31, 2012	<u>\$ (3,398,256)</u>	<u>88,302</u>	<u>(497,698)</u>

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(17) 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 of stock 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

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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.

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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	For the Years Ended December 31	
	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

	For the Years Ended December 31	
	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	For the Years Ended December 31	
	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%	

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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 Company 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 Company 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	

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	Issued in 2012	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
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	

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

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	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	<u>\$ 508,571</u>	<u>179,563</u>

(18) 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	\$ <u>9,554,496</u>	<u>6,382,945</u>
Weighted-average number of ordinary shares	<u>2,296,456</u>	<u>2,255,780</u>
	<u>\$ 4.16</u>	<u>2.83</u>
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	<u>(5,844)</u>	<u>(370,121)</u>
Profit attributable to ordinary shareholders (diluted)	<u>\$ 9,548,652</u>	<u>6,012,824</u>

	For the Years 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	<u>222,596</u>	<u>193,234</u>
Weighted-average number of ordinary shares (diluted)	<u>2,554,043</u>	<u>2,473,700</u>
	<u>\$ 3.74</u>	<u>2.43</u>

(19) Revenue

	For the Years Ended December 31	
	2013	2012
Sale of goods	\$ 785,304,870	626,857,632
Others	<u>8,919,858</u>	<u>12,011,922</u>
	<u>\$ 794,224,728</u>	<u>638,869,554</u>

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(20) Non-operation income and expenses

A. Other income

	For the Years Ended December 31	
	2013	2012
Interest income	\$ 69,968	39,158
Rental income	92,409	82,816
Technical service income	139,651	232,370
Other income	136,043	87,817
	<u>\$ 438,071</u>	<u>442,161</u>

B. Other gains and losses

	For the years Ended December 31	
	2013	2012
Loss on disposal of property, plant and equipment	\$ (149)	(1,122)
Gain on disposal of investments accounted for using equity method	-	62,028
Foreign exchange gains (losses)	(25,234)	135,479
Gain on reversal of impairment loss	3,878	4,127
Net gains on evaluation of financial assets (liabilities) measured at fair value through profit or loss	535,739	502,955
	<u>\$ 514,234</u>	<u>703,467</u>

C. Finance costs

	For the Years Ended December 31	
	2013	2012
Interest expenses	\$ 690,881	618,112
Finance expense – bank fees	226,788	55,933
	<u>\$ 917,669</u>	<u>674,045</u>

(21) Financial instruments

A. Categories of financial instruments

(a) Financial assets

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets carried at cost	\$ -	-	-
Loans and receivables:			
Cash and cash equivalent	19,170,052	12,006,919	6,815,955
Notes receivable, Accounts receivable and Other receivable	241,956,205	202,690,984	111,495,612
Other financial assets	88,312	106,855	101,274
Subtotal	<u>261,214,569</u>	<u>214,804,758</u>	<u>118,412,841</u>
Total	<u>\$ 261,214,569</u>	<u>214,804,758</u>	<u>118,412,841</u>

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(b) Financial liabilities

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Financial liabilities at fair value through profit or loss			
Financial liabilities at fair value through profit or loss, designated as upon initial recognition	\$ 235,162	759,815	-
Financial liabilities at amortised cost			
Short-term borrowings	18,628,125	6,359,760	6,176,100
Payable	212,661,834	191,103,850	106,426,250
Bonds payable	8,116,490	7,656,181	-
Long-term borrowings (including current portion)	21,515,200	11,616,000	12,110,000
Guarantee deposit (recognized in other noncurrent liabilities)	12,330	11,014	10,232
Subtotal	<u>260,933,979</u>	<u>216,746,805</u>	<u>124,722,582</u>
Total	<u>\$ 261,169,141</u>	<u>217,506,620</u>	<u>124,722,582</u>

B. Credit risk

(a) Exposure to credit risk

The carrying amount of financial assets represents the Company's maximum credit exposure. As of December 31, 2013, December 31, 2012, and January 1, 2012, the maximum exposures to credit risk amounted to \$261,214,569, \$214,804,758, and \$118,412,841, respectively.

As of December 31, 2013, December 31, 2012, and January 1, 2012, accounts receivable from the Company's top three customers amounted to \$127,407,751, \$129,576,532, and \$73,850,488, respectively.

(b) Impairment losses

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

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Not past due	\$ 236,007,515	201,007,198	110,909,747
Past due 0 - 30 days	4,278,284	1,520,459	533,856
Past due 31 - 120 days	246,285	186,965	55,776
Past due 121 - 365 days	1,482,773	1,623	11,933
Past due more than 1 year	22,054	4,380	1,904
	<u>\$ 242,036,911</u>	<u>202,720,625</u>	<u>111,513,216</u>

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

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	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2013	\$ -	29,641	29,641
Impairment loss	-	31,280	31,280
Written off unrecoverable amount	-	(2,732)	(2,732)
Acquisition from business combination	-	22,517	22,517
Balance on December 31, 2013	<u>\$ -</u>	<u>80,706</u>	<u>80,706</u>
Balance on January 1, 2012	\$ -	17,604	17,604
Impairment loss	-	12,037	12,037
Balance on December 31, 2012	<u>\$ -</u>	<u>29,641</u>	<u>29,641</u>

Based on historical default rates, the Company 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 Company's capital movement, and there's no penalty interest due for late payment. The Company'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 Company 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 Company 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.

No accounts receivable and its allowance were offset as of December 31, 2013 and 2012.

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					
Unsecured bank loans	\$ 40,165,725	40,165,725	23,396,925	4,768,800	12,000,000
Unsecured domestic bonds	8,116,490	8,116,490	-	8,116,490	-
Non-interest bearing liabilities	213,028,447	213,028,447	213,028,447	-	-
Derivative financial liabilities	235,162	235,162	-	235,162	-
	<u>\$261,545,824</u>	<u>261,545,824</u>	<u>236,425,372</u>	<u>13,120,452</u>	<u>12,000,000</u>

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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
December 31, 2012					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 17,975,760	17,975,760	8,682,960	4,646,400	4,646,400
Unsecured domestic bonds	7,656,181	7,656,181	-	-	7,656,181
Non-interest bearing liabilities	191,449,442	191,449,442	191,449,442	-	-
Derivative financial liabilities	759,815	759,815	-	-	759,815
	<u>\$217,841,198</u>	<u>217,841,198</u>	<u>200,132,402</u>	<u>4,646,400</u>	<u>13,062,396</u>
January 1, 2012					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 18,286,100	18,286,100	6,176,100	2,422,000	9,688,000
Non-interest bearing liabilities	106,579,144	106,579,144	106,579,144	-	-
	<u>\$124,865,244</u>	<u>124,865,244</u>	<u>112,755,244</u>	<u>2,422,000</u>	<u>9,688,000</u>

The liquidity of the aforesaid bank loans does not include interest expense on cash outflow. The Company 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 Company'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)

	<u>December 31, 2013</u>			<u>December 31, 2012</u>		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
Financial assets						
Monetary items						
USD	\$ 7,682,705	29.805	228,983,023	6,976,283	29.04	202,591,258
Financial liabilities						
Monetary items						
USD	7,939,846	29.805	236,647,110	7,173,487	29.04	208,318,062
January 1, 2012						
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>			
Financial assets						
Monetary items						
USD	3,853,347	30.275	116,660,080			
Financial liabilities						
Monetary items						
USD	4,042,144	30.275	122,375,910			

(b) Sensitivity analysis

The Company'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, accounts payable, bonds payable and other payables that

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are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Company's functional currency as of December 31, 2013 and 2012 would have decreased the after-tax net income by \$76,641 and \$57,268, respectively. 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 Company'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 Company's net income will decrease /increase by \$190,945 and \$96,413 for the years ended December 31, 2013 and 2012, respectively, assuming all other variable factors remain constant. This is mainly due to the Company's variable rate borrowing.

F. Fair value of financial instruments

(a) Fair value and carrying amount

The Company 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 Company 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.
- 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.

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(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).

December 31, 2013	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Financial liabilities designated as at fair value through profit or loss				
Overseas convertible bonds	\$ -	235,162	-	235,162

December 31, 2012	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Financial liabilities designated as at fair value through profit or loss				
Overseas convertible bonds	\$ -	759,815	-	759,815

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

(22) Financial risk management

A. Overview

The nature and the extent of the Company's risks arising from financial instruments, which include credit risk, liquidity risk and market risk, are discussed below. Also, the Company'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 Company's risk management policies. Management reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks

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faced by the Company, 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 Company's activities. The Company, 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 Company's Internal Audit Department oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. 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 Company if the counterparty involved in that transaction defaults. The primary potential credit risk is from financial instruments like cash, equity securities, and accounts receivable. Also, the Company deposits cash in different financial institutions. The Company 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 Company transacted only with the approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Company would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Company believes that there is no significant credit risk.

(a) Accounts receivables and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company'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 Company 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 Company are concentrated in the high-tech computer industry. As the customers of the Company have good credits and profit records, the Company evaluates the financial conditions of these customers continually to reduce credit risk from accounts receivable. Moreover, the Company also periodically evaluates

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the customers' financial positions and the possibility of collecting trade receivables. Thus, management is not expecting any significant issue on credit risk.

The Company 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 Company's finance department. As the Company 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 Company do not have compliance issues and no significant credit risk.

(c) The Company'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 Company is unable to meet the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation.

The funds and marketable securities investments held by the Company have publicly quoted prices and could be sold at approximate market price.

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 Company'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 functional currency of the Company is the New Taiwan Dollars (NTD).The

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Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency. The currencies used in these transactions are denominated in NTD, EUR, and USD.

The Company's foreign currency denominated purchases and sales are denominated mainly in US dollars. This exposes the Company 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 Company 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 Company. 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 Company 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 Company'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 risk on equity instruments

The equity securities held by the Company 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 Company is exposed to the market price fluctuation risk in the equity securities market.

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

(23) 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 Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

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

	December 31, 2013	December 31, 2012	January 1, 2012
Total liabilities	\$ 276,431,894	225,446,294	128,096,257
Less: cash and cash equivalents	19,170,052	12,006,919	6,815,955
Net debt	<u>\$ 257,261,842</u>	<u>213,439,375</u>	<u>121,280,302</u>
Total capital (Note)	<u>\$ 364,565,636</u>	<u>309,244,654</u>	<u>212,704,590</u>
Debt to equity ratio	<u>70.57%</u>	<u>69.02%</u>	<u>57.02%</u>

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 Company's approach to capital management for the year ended December 31, 2013.

(24) Non-cash transactions of investment and financing activity

For the year ended December 31, 2013, non-cash transactions of investment and financing activity of the Company were as follows:

- A. Short-form merges with Unihan Corporation, a wholly owned subsidiary of the Company.
Please refer to Note 6(5) for details.

7. RELATED PARTY TRANSACTIONS

(1) List of subsidiaries :

Subsidiary	Shareholding ratio		
	2013.12.31	2012.12.31	2012.01.01
UNIHAN CORPORATION (UNIHAN) (Note)	- %	100.00%	100.00%
ABILITY ENTERPRISE CO., LTD. (Ability(TW))	12.26%	12.31%	12.36%
UNIHAN HOLIDNG LTD.	100.00%	100.00%	100.00%
AZUREWAVE TECHNOLOGY (SHENZHEN) CO., LTD.	38.08%	38.08%	38.65%
AMA PRECISION INC.(AMA PRECISION)	100.00%	100.00%	100.00%
PEGATRON HOLLAND HOLDING B.V. (PHH) (previously known as ASUS HOLLAND HOLDING B.V.)	100.00%	100.00%	100.00%
PEGATRON HOLDING LTD. (PEGATRON HOLDING)	100.00%	100.00%	100.00%
ASUSPOWER INVESTMENT CO., LTD.	100.00%	100.00%	100.00%
ASUS INVESTMENT CO., LTD.	100.00%	100.00%	100.00%
ASUSTEK INVESTMENT CO., LTD.	100.00%	100.00%	100.00%
PEGATRON USA, INC.	100.00%	100.00%	100.00%

Note: Unihan Corporation was merged with the Company and Unihan Corporation was dissolved from the merger, which resulted in elimination of assets and liabilities from related parties transactions on the effective date of the merger.

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(2) The ultimate parent company

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

B. The Company is the ultimate parent company.

(3) 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 Company 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 Company	\$ 21,311,808	132,338,189	-	4,746,542	9,116,587
Subsidiaries	7,255,389	10,988,795	133,504,038	107,486,595	61,556,555
Other related parties	748	18,021	-	2,126	3,001
	<u>\$ 28,567,945</u>	<u>143,345,005</u>	<u>133,504,038</u>	<u>112,235,263</u>	<u>70,676,143</u>

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 Company 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 Company 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 Company	\$ 17,046,948	102,904,941	-	-	-
Subsidiaries	168,974,930	99,603,091	92,726,651	84,789,243	56,557,291
Others	1,603,358	3,925,332	476,358	435,920	1,382,319
	<u>\$ 187,625,236</u>	<u>206,433,364</u>	<u>93,203,009</u>	<u>85,225,163</u>	<u>57,939,610</u>

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.

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C. Warranty repair expense paid to Related Parties

	For the Years Ended December 31	
	2013	2012
Subsidiaries	\$ 234,105	134,884
Others	12,817	33,858
	\$ 246,922	168,742

D. Other income and expenses from Related Parties

	For the Years Ended December 31	
	2013	2012
Entity with significant influence \$ over the Company	(60,913)	492,519
Subsidiaries	37,728	9,942
Others	2,003	1,491
	\$ (21,182)	503,952

E. Rental revenue

For the years ended December 31, 2013 and 2012, the Company incurred other related party transactions of \$62,063 and \$64,081, 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 Company incurred other related party transactions recorded as expenses such as rental expense, royalty payment, storage expense, and professional service fee, etc, aggregating to \$379,504 and \$518,692 respectively.

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

For the years ended December 31, 2013 and 2012, molds purchased from other related parties amounted to \$4,643 and \$3,309, respectively.

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 \$ Company	-	174	287
Subsidiaries	36,307	28,200	9,555
Others	234	-	-
	\$ 36,541	28,374	9,842

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	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Other payable			
Entity with significant influence over the Company	-	34,181	396,675
Subsidiaries	714,872	478,001	3,182,149
Others	-	8,217	9,275
	<u>\$ 714,872</u>	<u>520,399</u>	<u>3,588,099</u>
Other financial liabilities – current			
Entity with significant influence over the Company	-	2,798	31
Subsidiaries	261,402	84,412	23,734
Others	1,794	29	762
	<u>\$ 236,196</u>	<u>87,239</u>	<u>24,527</u>

I. Borrowings from related parties

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Subsidiaries	\$ 7,451,250	5,808,000	-
Interest rate	0.2691%~0.2733%	0.311%~0.468%	-

J. Key management personnel compensation:

	<u>For the Years Ended December 31</u>	
	<u>2013</u>	<u>2012</u>
Short-term employee benefits	\$ 121,357	89,601
Post-employment benefits	2,277	2,214
Share-based payments	65,931	-
	<u>\$ 189,565</u>	<u>91,815</u>

Please refer to Notes 6(17) for further explanations related to share-based payment transactions.

8. Pledged Assets

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

<u>Asset</u>	<u>Purpose of pledge</u>	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Other financial asset	Deposits for customs duties and provisional seizure	\$ 55,820	76,205	72,003
Refundable deposits	Deposits for performance guarantee	32,492	30,650	29,271
		<u>\$ 88,312</u>	<u>106,855</u>	<u>101,274</u>

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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
EUR	2,540	267	267
USD	-	1,000	1,000

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	11,537	11,537

(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:

By item	For the year ended December 31, 2013			For the year ended December 31, 2012		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit						
Salary	\$ 971,365	5,325,035	6,296,400	869,479	4,400,499	5,268,978
Health and labor insurance	71,674	290,956	362,630	62,777	254,605	317,382
Pension	36,525	165,216	201,741	31,978	157,332	189,310
Others	91,856	327,092	418,948	76,918	258,512	335,430
Depreciation	368,065	204,863	572,928	312,541	251,747	564,288
Amortization	41,721	9,420	51,141	57,431	21,310	78,741

(2) Pro Forma Information for Business Combination

The Company had set December 31, 2013 as the effective date of the statutory merger with Unihan Corporation. For Comparison purposes, the supplementary pro forma balance sheet and statements of comprehensive income were presented as follows, as if the business combination occurred on comparative reporting dates:

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A. Pro forma balance sheet

	<u>December 31, 2012</u>	<u>January 1, 2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 17,124,766	9,776,084
Notes receivable, Accounts receivable and Other receivable	221,110,774	133,895,797
Inventories	15,896,240	13,963,651
Other financial assets and other current assets	416,485	178,577
NON-CURRENT ASSETS		
Financial assets carried at cost	-	-
Equity-accounted investees	85,405,146	84,685,464
Property, plant and equipment	4,669,566	4,935,920
Intangible assets	100,467	129,307
Deferred tax assets	214,462	600,553
Other financial assets and other noncurrent assets	84,413	143,795
CURRENT LIABILITIES		
Short-term borrowings	(12,458,160)	(10,111,850)
Long-term borrowings, current portion	(2,323,200)	-
Accounts payable and Other payables	(207,930,705)	(130,297,527)
Provisions and other current liabilities	(8,411,141)	(3,868,760)
NON-CURRENT LIABILITIES		
Bonds payable	(7,656,181)	-
Long-term borrowings	(9,292,800)	(12,110,000)
Non-current financial liabilities at fair value through profit or loss	(759,815)	-
Other non-current liabilities	(385,038)	(496,723)
NET ASSETS	<u><u>\$ 95,805,279</u></u>	<u><u>91,424,288</u></u>

B. Pro forma statements of comprehensive income

	<u>For the Years Ended December 31</u>	
	<u>2013</u>	<u>2012</u>
Pro forma net sales	<u>\$ 846,200,493</u>	<u>755,696,809</u>
Pro forma net income before tax	<u>\$ 10,003,203</u>	<u>7,215,760</u>
Pro forma net income	<u>\$ 9,554,496</u>	<u>6,382,945</u>
Pro forma primary earnings per share	<u>\$ 4.16</u>	<u>2.83</u>

(3) Certain accounts in the non-consolidated financial statements as of and for the year ended December 31, 2012, were reclassified to conform to the presentation adopted in the non-consolidated financial statements as of and for the year ended December 31, 2013.

13. SEGMENT INFORMATION

Please refer to the consolidated financial report for the year ended December 31, 2013 and 2012.

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

The non-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 Company's first annual non-consolidated financial statements prepared in accordance with the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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

In preparing the first financial reports in 2012 under IFRS as endorsed by the FSC, the Company 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 as endorsed by the FSC has affected the reported financial position, financial performance, and cash flows of the Company 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	\$ 12,006,919	-	12,006,919	6,815,955	-	6,815,955
Notes receivable, Accounts receivable and Other receivable	202,631,745	59,239	202,690,984	111,460,422	35,190	111,495,612
Inventories	12,018,150	-	12,018,150	9,252,961	-	9,252,961
Other current assets	369,734	(34,113)	333,621	477,735	(277,270)	200,465
Total Current Assets	227,026,548	25,126	227,051,674	128,007,073	(242,080)	127,764,993
Equity-accounted investees	89,819,986	(309,890)	89,510,096	86,765,900	(153,951)	86,611,949
Property, plant and equipment	3,832,043	641,209	4,473,252	3,991,815	641,200	4,633,015
Intangible assets	93,947	(433)	93,514	121,223	-	121,223
Deferred tax assets	21,105	44,676	65,781	1,366	286,469	287,835
Other non-current assets	698,465	(641,209)	57,256	742,730	(641,200)	101,530
Total Non-current Assets	94,465,546	(265,647)	94,199,899	91,623,034	132,518	91,755,552
TOTAL ASSETS	\$ 321,492,094	(240,521)	321,251,573	219,630,107	(109,562)	219,520,545
LIABILITIES						
Short-term loans	\$ 6,359,760	-	6,359,760	6,176,100	-	6,176,100
Accounts payable and Other payables	191,159,655	(55,805)	191,103,850	106,399,809	26,441	106,426,250
Current tax liabilities	345,592	-	345,592	152,894	-	152,894
Long-term liabilities, current portion	2,323,200	-	2,323,200	-	-	-
Other current liabilities	7,051,937	177,177	7,229,114	2,803,743	81,528	2,885,271
Total current liabilities	207,240,144	121,372	207,361,516	115,532,546	107,969	115,640,515
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	-	-	-
Long-term borrowings	9,292,800	-	9,292,800	12,110,000	-	12,110,000
Deferred tax liabilities	353,077	-	353,077	335,510	-	335,510
Other non-current liabilities	117,560	(94,655)	22,905	67,843	(57,611)	10,232
Total Non-current Liabilities	18,173,118	(88,340)	18,084,778	12,513,353	(57,611)	12,455,742
TOTAL LIABILITIES	225,413,262	33,032	225,446,294	128,045,899	50,358	128,096,257

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	December 31, 2012				January 1, 2012	
	ROC GAAP	Adjustments	ROC GAAP	Adjustments	ROC GAAP	Adjustments
EQUITY ATTRIBUTABLE TO OWNERS OF PARENT						
Share capital	22,903,049	-	22,903,049	22,563,669	-	22,563,669
Capital surplus	64,560,267	(2,837,157)	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	<u>96,078,832</u>	<u>(273,553)</u>	<u>95,805,279</u>	<u>91,584,208</u>	<u>(159,920)</u>	<u>91,424,288</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 321,492,094	(240,521)	321,251,573	219,630,107	(109,562)	219,520,545

(2) Reconciliation of its statement of comprehensive income

	For the Year Ended December 31, 2012		
	ROC GAAP	Adjustments	IFRSs
Operating revenue	\$ 638,698,954	170,600	638,869,554
Operating costs	(631,839,940)	(310,101)	(632,150,041)
Gross profit	<u>6,859,014</u>	<u>(139,501)</u>	<u>6,719,513</u>
Unrealized profit on intercompany transactions	(44,894)	-	(44,894)
Selling expenses	(2,216,456)	941,667	(1,274,789)
General and administrative expenses	(1,533,257)	8,162	(1,525,095)
Research and development expenses	(4,784,643)	(6,341)	(4,790,984)
Total operating expenses	<u>(8,534,356)</u>	<u>943,488</u>	<u>(7,590,868)</u>
Income from operations	<u>(1,720,236)</u>	<u>803,987</u>	<u>(916,249)</u>
Non-operating income and expenses :			
Other income	1,695,394	(1,253,233)	442,161
Other gains and losses	214,647	488,820	703,467
Finance costs	(508,136)	(165,909)	(674,045)
Share of profit (loss) of associates and joint ventures accounted for using equity method	7,341,563	(47,488)	7,294,075
Other losses	<u>(481,880)</u>	<u>451,608</u>	<u>(30,272)</u>
Profit before tax	<u>8,261,588</u>	<u>(526,202)</u>	<u>7,735,386</u>
Tax expense	6,541,352	277,785	6,819,137
Profit	<u>(437,556)</u>	<u>1,364</u>	<u>(436,192)</u>
Profit	<u>6,103,796</u>	<u>279,149</u>	<u>6,382,945</u>
Other comprehensive income :			
Foreign currency translation differences — foreign operations	(1,134,150)	-	(1,134,150)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(1,409,319)	(20,202)	(1,429,521)
Other comprehensive income, net of tax	<u>(2,543,469)</u>	<u>(20,202)</u>	<u>(2,563,671)</u>
Comprehensive income	\$ 3,560,327	258,947	3,819,274
Earnings per share			
Basic earnings per share	<u>\$ 2.71</u>	<u>0.12</u>	<u>2.83</u>
Diluted earnings per share	<u>\$ 2.53</u>	<u>(0.10)</u>	<u>2.43</u>

(3) Significant reconciliation of its cash flows statement

There was no significant difference in the non-consolidated statement of cash flows between IFRS (endorsed by the FSC) and R.O.C. GAAP, as of December 31 and January 1, 2012.

(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

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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:

	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Balance sheets		
Increase in accounts receivable	\$ 59,239	35,190
Increase in provisions (accounted for under other liabilities)	(59,239)	(35,190)
Retained earnings adjustments	<u>\$ -</u>	<u>-</u>

B. Interests in Joint Ventures

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

C. 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. 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:

	<u>For Year Ended</u> <u>December 31, 2012</u>
Statement of comprehensive income	
Increase in cost of sales	\$ 5,076
Increase in selling expenses	293
Increase in general and administrative expenses	1,008
Increase in research and development expenses	581
Decrease in other losses	(6,958)
Adjustments before income tax	<u>\$ -</u>

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	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Balance sheets		
Decrease in rental assets and idle assets (accounted for under other non-current assets)	\$ (320,423)	(357,588)
Increase in property, plant and equipment	320,423	357,588
Retained earnings adjustments	<u>\$ -</u>	<u>-</u>

D. Prepayments for business facilities and deferred expense

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

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

	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Balance sheets		
Increase in property, plant and equipment	\$ 320,786	283,612
Decrease in other assets	(320,786)	(283,612)
Retained earnings adjustments	<u>\$ -</u>	<u>-</u>

E. 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.

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

	<u>For Year Ended December 31, 2012</u>
Statement of comprehensive income	
Decrease in operating revenue	\$ 71,599
Increase in cost of sales	870,434
Decrease in Selling expenses	(942,033)
Adjustments before income tax	<u>\$ -</u>

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	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Balance sheets		
Decrease in other payables	\$ 117,938	46,338
Increase in deferred revenue (accounted for under other current liabilities)	(117,938)	(46,338)
Retained earnings adjustments	<u>\$ -</u>	<u>-</u>

F. Provisions for employee benefits — Compensated absences benefit

Under R.O.C GAAP, there were no related regulations about accumulated compensated absences benefit. Under the IFRS as endorsed by the FSC, the Company 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 of this GAAP difference in the IFRS financial statements were as follows:

	<u>For Year Ended</u> <u>December 31, 2012</u>
Statements of comprehensive income	
Increase in cost of sales	\$ 975
Increase in selling expenses	73
Increase in administrative expenses	1,216
Increase in research and development expenses	5,760
Adjustments before income tax	<u>8,024</u>
Decrease in Tax expense	(1,364)
Adjustments after income tax	<u>\$ 6,660</u>

	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Balance sheets		
Increase in deferred tax assets	\$ 10,563	9,199
Increase in other payable	(62,133)	(54,109)
Retained earnings adjustments	<u>\$ (51,570)</u>	<u>(44,910)</u>

G. Employee benefits — defined benefit pension plan

(a) Under R.O.C. GAAP, an actuarial valuation is made of the Company'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.

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- (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 ROC 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 are as follows:

	For Year Ended December 31, 2012
Statement of comprehensive income	
Increase in administrative expenses	\$ 6,466
Adjustments before income tax	6,466
Income tax expense	-
Adjustments after income tax	<u>\$ 6,466</u>
	December 31, 2012
Balance sheets	
Decrease in investments accounted for using equity method	\$ (2,408)
Decrease in deferred pension cost (intangible assets)	(433)
Increase in accrued pension liabilities (other noncurrent liabilities)	(7,849)
Decrease in unrecognized loss on pension fund (other equity)	2,408
Retained earnings adjustments	<u>\$ (8,282)</u>

H. 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.

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Deferred tax assets and liabilities may be offset against each other only if the entity 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 to IFRS financial statements of this GAAP difference are as follows:

	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Balance sheets		
Decrease in deferred income tax assets — current (other current assets)	\$ (34,113)	(277,270)
Increase in Deferred income tax assets	34,113	277,270
Retained earnings adjustments	<u>\$ -</u>	<u>-</u>

I. 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 are as follows:

	<u>December 31,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Balance sheets		
Reduction on capital surplus	\$ 2,507,931	2,462,421
Retained earnings adjustments	<u>\$ 2,507,931</u>	<u>2,462,421</u>

J. 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 are as follows:

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	<u>For Year Ended December 31, 2012</u>	
Statement of comprehensive income		
Increase in other gains and losses	\$	488,820
Decrease in finance costs		(165,909)
Adjustments before income tax	\$	<u>322,911</u>
		<u>December 31, 2012</u>
Balance sheets		
Increase in financial liabilities at fair value through profit or loss – noncurrent	\$	(753,540)
Decrease in bonds payables		747,225
Decrease in capital surplus		329,226
Retained earnings adjustments	\$	<u>322,911</u>

K. Repair expense, Indemnity income and Indemnity losses

Under R.O.C GAAP, there were no related regulations about 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 of this GAAP difference to the IFRS financial statements are as follows:

	<u>For Year Ended December 31, 2012</u>	
Statement of comprehensive income		
Increase in sales revenue	\$	(242,199)
Decrease in cost of goods sold		(566,384)
Decrease in other income		1,253,233
Decrease in other losses		(444,650)
Adjustments before income tax	\$	<u>-</u>

L. Deferred credits – gain on intercompany accounts

Under R.O.C. GAAP, unrealized gains and losses on downstream transactions should be deferred and recognized as deferred credits – gain on intercompany accounts. Under IFRS as endorsed by the FSC, deferred credits – gains on intercompany accounts are reclassified as investment accounted for using equity method.

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

	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Balance sheets		
Decrease in investment accounted for using equity method	\$ (102,504)	(57,611)
Decrease in deferred credits – gain on intercompany accounts	102,504	57,611
Retained earnings adjustments	\$ -	-

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M. Investment accounted for using equity method

The adjustments applied to IFRS financial statements due to the difference between GAAP and IFRS of long-term equity investments subscribing proportionately are summarized as follows:

	For Year Ended December 31, 2012	
	December 31, 2012	January 1, 2012
Statement of comprehensive income		
Decrease in share of other comprehensive income of associates and joint ventures accounted for using equity method	\$ (47,488)	
Balance sheets		
Decrease in Investment accounted for using equity method	\$ (204,978)	(115,010)
Increase in other equity	27,062	11,424
Retained earnings adjustments	\$ (177,916)	(103,586)

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

	December 31, 2012	January 1, 2012
Employee benefits liabilities	\$ (51,570)	(44,910)
Employee benefits, post-employment benefit plan	(8,282)	-
Overseas convertible bonds	322,911	-
Capital surplus	2,507,931	2,462,421
Investment accounted for using equity method	(177,916)	(103,586)
Increase (decrease) in retained earnings	\$ 2,593,074	2,313,925