

**(English Translation of Financial Report Originally Issued in Chinese)**

**PEGATRON CORPORATION**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2012 AND 2011**

**(With Independent Accountants' Review Report)**

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

**Telephone: 886-2-8143-9001**

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**REVIEW REPORT OF INDEPENDENT ACCOUNTANTS**

**To the Board of Directors of  
Pegatron Corporation**

We have reviewed the accompanying balance sheets of Pegatron Corporation (the “Company”) as of September 30, 2012 and 2011, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express the review report based on our reviews. We did not review the financial statements of certain investees accounted for under the equity method, in which the Company’s long-term equity investments amounted to NT\$ 12,165,915 thousand, representing 4.28% of total assets as of September 30, 2012, and related investment income was NT\$ 1,262,584 thousand, representing 33.46% of net income before tax for the nine months ended September 30, 2012. The financial statements of these investees were reviewed 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.

Except as discussed in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 “Engagements to Review Financial Statements.” A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in Note 4 (d) to the financial statements, the long-term equity investments accounted for by the equity method of NT\$ 61,399,028 thousand and NT\$ 86,822,660 thousand as of September 30, 2012 and 2011, respectively, and the related investment income of NT\$ 268,692 thousand and NT\$ 925,322 thousand for the nine months ended September 30, 2012 and 2011, respectively, were recognized based on unreviewed financial statements of the investees.

Based on our reviews and the reports of other auditors, except for the effects of any adjustments that might have emerged had the financial statements of investees been reviewed by independent accountants, we are not aware of any material modifications that should be made to accompanying financial statements for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

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

October 25, 2012

**Note to Readers**

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

For the convenience of readers, the accountants' report and the accompanying 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. Also, please refer to the original Chinese version for certain disclosures not translated into English as they are not required under generally accepted accounting principles in the Republic of China.

**(English Translation of Financial Report Originally Issued in Chinese)**  
**Reviewed only, not audited in accordance with generally accepted auditing standards.**

**PEGATRON CORPORATION**

**BALANCE SHEETS**

**September 30, 2012 and 2011**

**(All Amounts Expressed in Thousands of New Taiwan Dollars)**

<b>ASSETS</b>	<b>September 30, 2012</b>		<b>September 30, 2011</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Current Assets:</b>				
Cash (Note (4)(a))	\$ 8,906,091	3	5,885,665	3
Notes receivable, net of allowance for uncollectible accounts – Non-related parties (Note (4)(b))	9,194	-	2,025	-
Accounts receivable, net of allowance for uncollectible accounts – Non-related parties (Note (4)(b))	69,980,586	25	33,212,253	15
Accounts receivable, net of allowance for uncollectible accounts – Related parties (Note (5))	104,127,826	37	76,998,997	35
Other receivables – Non-related parties	16,500	-	1,902	-
Other receivables – Related parties (Note (5))	20,288	-	5,942	-
Other financial assets – current (Note (6))	76,204	-	72,003	-
Inventories (Note (4)(c))	8,707,803	3	10,331,068	5
Other current assets (Note (5))	305,915	-	95,602	-
Deferred income tax assets – current (Note (4)(k))	153,490	-	273,858	-
	<u>192,303,897</u>	<u>68</u>	<u>126,879,315</u>	<u>58</u>
<b>Investments:</b>				
Long-term investments under the equity method (Note (4)(d))	87,204,803	31	86,822,660	40
<b>Other Financial Assets – Noncurrent (Note (6))</b>				
	<u>30,668</u>	<u>-</u>	<u>26,840</u>	<u>-</u>
<b>Property, Plant and Equipment, at cost :</b>				
Land	2,171,560	1	2,167,308	1
Buildings	1,917,986	-	1,886,473	1
Machinery and equipment	41,004	-	45,348	-
Warehousing equipment	600	-	600	-
Instrument equipment	151,173	-	136,007	-
Transportation equipment	21,150	-	23,832	-
Office equipment	2,718	-	3,951	-
Leased assets	6,003	-	8,067	-
Miscellaneous equipment	313,380	-	388,554	-
	<u>4,625,574</u>	<u>1</u>	<u>4,660,140</u>	<u>2</u>
Less: Accumulated depreciation	(763,481)	-	(716,488)	-
Construction in progress	-	-	2,286	-
Prepayment for equipment	51,199	-	-	-
	<u>3,913,292</u>	<u>1</u>	<u>3,945,938</u>	<u>2</u>
<b>Intangible Assets</b>				
	<u>80,568</u>	<u>-</u>	<u>132,549</u>	<u>-</u>
<b>Other Assets – others (Note (4)(e))</b>				
	<u>562,373</u>	<u>-</u>	<u>788,297</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b>\$ 284,095,601</b>	<b>100</b>	<b>218,595,599</b>	<b>100</b>

**The accompanying notes are an integral part of the financial statements.**  
**(With KPMG review report dated October 25, 2012.)**

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**PEGATRON CORPORATION**  
**BALANCE SHEETS (CONT'D)**

September 30, 2012 and 2011

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	September 30, 2012		September 30, 2011	
	Amount	%	Amount	%
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Short-term loans (Note (4)(f))	\$ 8,583,435	3	6,827,520	3
Notes and accounts payable – Non-related parties	77,104,248	27	37,006,439	17
Notes and accounts payable – Related parties (Note (5))	68,073,100	24	60,209,959	28
Income tax payable	347,501	-	152,893	-
Accrued expenses – Non-related parties	3,211,356	1	2,486,371	1
Accrued expenses – Related parties (Note (5))	696,867	-	5,126,699	2
Other payables – Related parties (Note (5))	5,859,000	2	-	-
Other current liabilities (Note (5))	6,243,889	3	2,863,975	1
	<u>170,119,396</u>	<u>60</u>	<u>114,673,856</u>	<u>52</u>
<b>Long-Term Loans:</b>				
Financial liabilities at fair value through profit or loss (Note (4)(g)and(i))	7,141	-	-	-
Long-term loans (Note (4)(h))	11,718,000	4	12,192,000	6
	<u>11,725,141</u>	<u>4</u>	<u>12,192,000</u>	<u>6</u>
<b>Other Liabilities:</b>				
Bonds payable (Note 4(i))	8,456,934	3	-	-
Refundable guarantee deposits	10,092	-	9,770	-
Deferred income tax liabilities – Noncurrent (Note (4)(k))	334,686	-	299,855	-
Other long-term liabilities(Note (5))	128,018	-	27,286	-
	<u>8,929,730</u>	<u>3</u>	<u>336,911</u>	<u>-</u>
<b>Total Liabilities</b>	<u>190,774,267</u>	<u>67</u>	<u>127,202,767</u>	<u>58</u>
<b>Stockholders' Equity(Note 4(i) and 4(l)):</b>				
<b>Common stock</b>	<u>22,563,669</u>	<u>8</u>	<u>22,563,669</u>	<u>10</u>
<b>Capital surplus</b>				
Premium on capital stock	60,393,247	22	60,393,247	28
Other	3,653,656	1	3,051,557	1
	<u>64,046,903</u>	<u>23</u>	<u>63,444,804</u>	<u>29</u>
<b>Retained earnings :</b>				
Legal reserve	1,847,737	-	1,836,601	1
Special reserve	734,859	-	4,327,629	2
Retained earnings (Accumulated deficits)	7,178,547	3	(830,749)	-
	<u>9,761,143</u>	<u>3</u>	<u>5,333,481</u>	<u>3</u>
<b>Other adjustments to stockholders' equity:</b>				
Cumulative translation adjustments	(3,179,646)	(1)	(321,643)	-
Unrecognized loss (gain) on pension cost	440	-	(16)	-
Unrealized gain on financial assets	147,619	-	391,331	-
Treasury stock	(18,794)	-	(18,794)	-
	<u>(3,050,381)</u>	<u>(1)</u>	<u>50,878</u>	<u>-</u>
<b>Total Stockholders' Equity</b>	<u>93,321,334</u>	<u>33</u>	<u>91,392,832</u>	<u>42</u>
<b>Commitments and Contingencies (Note (7))</b>				
<b>Significant Subsequent Events (Note (9))</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 284,095,601</u>	<u>100</u>	<u>218,595,599</u>	<u>100</u>

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**PEGATRON CORPORATION**  
**STATEMENTS OF INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**  
( All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data))

	For the Nine Months Ended September 30			
	2012		2011	
	Amount	%	Amount	%
<b>Operating revenues (Note (5))</b>	\$ 427,671,895	100	253,960,372	101
Less: Sales returns	433,760	-	1,618,896	1
Sales allowances	407,840	-	200,239	-
<b>Net sales</b>	426,830,295	100	252,141,237	100
<b>Cost of sales (Notes (4)(c) and (5))</b>	421,784,333	99	249,130,686	99
<b>Gross profit</b>	5,045,962	1	3,010,551	1
Less: Unrealized profit on intercompany transactions (Note (5))	(70,407)	-	(16,906)	-
	4,975,555	1	2,993,645	1
<b>Operating expenses (Notes (4)(l) and Note (5))</b>				
Selling expenses	1,616,847	-	1,214,499	-
General and administrative expenses	965,536	-	1,084,395	-
Research and development expenses	3,404,560	1	2,872,239	1
	5,986,943	1	5,171,133	1
<b>Loss from operations</b>	(1,011,388)	-	(2,177,488)	-
<b>Non-operating income</b>				
Interest income	21,602	-	13,990	-
Investment income under the equity method (Note (4)(d))	4,486,753	1	925,322	-
Gain on disposal of fixed assets (Note (4)(e) and (5))	477	-	108,439	-
Rental revenue (Note (5))	57,067	-	49,205	-
Reversal for impairment loss (Note (4)(e))	2,326	-	28,450	-
Gain on valuation of financial liability (Note (4)(g) and 4(i))	13,269	-	-	-
Gains on disposal of investments (Note (4)(d))	62,028	-	-	-
Others (Note (5))	913,757	-	679,749	-
	5,557,279	1	1,805,155	-
<b>Non-operating expenses</b>				
Interest expenses (Note (4)(i) and Note (5))	348,204	-	116,753	-
Foreign exchange loss, net	14,000	-	238,105	-
Others	410,190	-	169,493	-
	772,394	-	524,351	-
<b>Income (Loss) before income tax</b>	3,773,497	1	(896,684)	-
<b>Income tax expense (benefit) (Note (4)(k))</b>	321,050	-	(32,834)	-
<b>Net income (loss)</b>	<b>\$ 3,452,447</b>	<b>1</b>	<b>(863,850)</b>	<b>-</b>

	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
<b>Earnings (Losses) per share (Note (4)(m))</b>				
<b>Primary earnings (losses) per share</b>	<b>\$ 1.67</b>	<b>1.53</b>	<b>(0.40)</b>	<b>(0.38)</b>
<b>Diluted earnings per share</b>	<b>\$ 1.59</b>	<b>1.45</b>		

Pro forma result assuming the Company's shares of stock held by its subsidiary do not count as treasury stock:

	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
<b>Net income (loss)</b>	<b>\$ 3,773,497</b>	<b>3,452,447</b>	<b>(896,684)</b>	<b>(863,850)</b>
<b>Earnings (Losses) per share (Note (4)(m))</b>	<b>\$ 1.67</b>	<b>1.53</b>	<b>(0.40)</b>	<b>(0.38)</b>
<b>Diluted earnings per share (Note 4(m))</b>	<b>\$ 1.59</b>	<b>1.45</b>		

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**PEGATRON CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 and 2011**  
(All Amount Expressed in Thousands of New Taiwan Dollars)

	<b>For the Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
<b>Net income (loss)</b>	\$ 3,452,447	(863,850)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	132,362	161,761
Amortization	341,913	353,372
Reversal of impairment loss	(2,326)	(28,450)
Reversal of allowance for uncollectible accounts	(493)	(9,845)
Provision (Reversal) for contingent service cost	55,359	(52,509)
Amortization of discount on bonds payable	44,971	-
Gain on foreign currency exchange on bonds payable	(82,383)	-
Amortization of issuance costs on bonds payable	8,341	-
Provision (Reversal) for inventory market price decline and obsolescence	83,820	(181,350)
Loss on physical inventory	-	238
Investment income under equity method	(4,486,753)	(925,322)
Cash dividend from investments under equity method	2,260,957	2,042,381
Loss (gain) on disposal and retirement of assets, net	21,056	(18,115)
Gain on disposal of long-term investments under the equity method	(62,028)	-
Gain on valuation of financial liabilities	(13,269)	-
Unrealized profits on intercompany transactions	70,407	16,906
Loss (gain) on foreign currency exchange on long-term loans	(392,000)	324,000
Employee compensation cost	102,676	174,180
Change in assets and liabilities:		
Notes and accounts receivable	(62,704,914)	(67,591,043)
Other receivables	13,481	32,801
Inventories	461,338	(2,882,021)
Other current assets	(349,103)	(23,449)
Deferred income tax assets and liabilities, net	124,321	(25,626)
Notes and accounts payable	44,783,184	62,843,718
Income tax payable	194,608	(413,168)
Accrued expenses	(2,080,959)	(2,664,613)
Other current liabilities	3,362,779	595,043
<b>Net cash used in operating activities</b>	<u>(14,660,208)</u>	<u>(9,134,961)</u>
<b>Cash flows from investing activities:</b>		
Decrease (Increase) in long-term investment under the equity method	(284,369)	146,879
Purchase of property, plant and equipment and intangible assets	(48,577)	(56,449)
Proceeds from disposal of assets, idle assets, deferred charges	12,417	711,319
Increase in deferred charges	(7,000)	(327,998)
Purchase of intangible assets	(18,363)	(23,829)
Decrease (Increase) in other financial assets	(5,598)	1,681
<b>Net cash provided by (used in) investing activities</b>	<u>(351,490)</u>	<u>451,603</u>
<b>Cash flows from financing activities:</b>		
Increase in short-term loans	2,407,335	4,162,320
Issuance of bonds payable	8,835,640	-
Increase in long-term loans	-	4,876,800
Increase in other accounts payable— Related parties	5,859,000	-
Decrease in other financial liabilities	(141)	(6,441)
Distribution of cash dividends	-	(3,271,731)
<b>Net cash provided by financing activities</b>	<u>17,101,834</u>	<u>5,760,948</u>
<b>Net increase (decrease) in cash</b>	2,090,136	(2,922,410)
<b>Cash, beginning of the period</b>	6,815,955	8,808,075
<b>Cash, end of the period</b>	<u><u>\$ 8,906,091</u></u>	<u><u>5,885,665</u></u>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest, excluding capitalized interest	<u>\$ 242,537</u>	<u>80,382</u>
Income tax	<u>\$ 2,121</u>	<u>407,362</u>
<b>Non-cash investing and financing</b>		
Reclassification of idle assets to fixed assets	<u><u>\$ 32,517</u></u>	<u><u>136,852</u></u>

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**RPEGATRON CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2012 AND 2011**

(Amounts Expressed in New Taiwan Dollars in Thousands,  
Except for Per Share Information and Unless Otherwise Stated)

**1. Organization and Business**

Pegatron Corporation (the “Company”) was established on June 27, 2007. 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.

As of September 30, 2012 and 2011, the Company had 5,261 and 4,990 employees, respectively.

**2. Summary of Significant Accounting Policies**

The Company’s financial statements were prepared in accordance with Guidelines Governing the Preparation of Financial Reports by Securities Issuers and generally accepted accounting principles of the Republic of China. The significant accounting policies and their measurement basis are as follows:

**a. Use of Estimates**

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

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**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**b. Foreign Currency Translation**

The Company records its transactions in New Taiwan dollars. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date, and the resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the reporting currency using the foreign exchange rates at the balance sheet date. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains or losses from such translation are reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange gains or losses from such translation are recorded as a separate component of stockholders' equity.

For long-term equity investments in foreign investees which are accounted for by the equity method, their foreign currency-denominated assets and liabilities are translated at spot rate on the balance sheet date; the components of their stockholders' equity are translated at the historical rate except for the beginning balance of retained earnings, which is translated using the spot rate at the beginning of the year. Income statement accounts are translated at the weighted-average rate of the year. Translation differences are accounted for as cumulative translation adjustments to stockholders' equity.

**c. Basis for Classifying Assets and Liabilities as Current or Non-current**

Unrestricted cash, cash equivalents, assets held for trading, or other assets that the Company will convert to cash or use within in a relatively short period of time - one year or one operating cycle, whichever is longer - are classified as current assets; other assets are classified as non-current assets. Debts due within one year or one operating cycle, whichever is longer, are classified as current liabilities; other liabilities are classified as non-current liabilities.

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**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**d. Asset Impairment**

The Company adopted Statement of Financial Accounting Standards No. 35 (SFAS 35) "Impairment of Assets." In accordance with SFAS 35, the Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit other than goodwill) may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

**e. Financial Instruments**

i. Financial assets or liabilities reported at fair value through profit or loss

Financial instruments are classified into this category if the purpose of acquisition is principally for selling or repurchasing in the near term. All financial instruments that does not meet the criteria for hedge accounting is classified under this category. Financial instruments are measured at fair value at initial recognition. Transaction cost is charged to current expense. Subsequent to initial recognition, changes in fair value are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized using trade date accounting.

ii. Notes and Account receivables, and other receivables

Notes and accounts receivable are rights resulting from the sale of goods or the rendering of services. Other receivables are receivables arising from non-operating activities.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

The asset impairment loss is determined based on difference between the asset's carrying amount and the present value of estimated future cash flows discounted by the financial asset's original effective interest rate. The carrying amount of the asset is reduced for impairment through the use of an allowance account. Impairment loss is recognized in profit or loss. In determining the amount of asset impairment, the collateralized financial asset and related insurance recoverable amount are included in calculating the present value of the estimated future cash flows.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized. The amount of the reversal is recognized in profit or loss.

iii. Compound financial instruments

Compound financial instruments issued by the Company comprise both financial liabilities and convertible notes that can be converted into share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized based on the excess of the fair value of the compound financial instrument as a whole over 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, unless it is designated at fair value through profit or loss. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

**f. Transfer of Financial Assets**

In accordance with Statement of Financial Accounting Standards No. 33 (SFAS 33) "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 the following conditions are met.

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- 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:
  - (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or
  - (2) the ability to unilaterally cause the holder to return specific rights to the accounts receivable.

An assignment of the Company's accounts receivable which has not been advanced is accounted under other accounts receivable.

**g. Inventories**

Inventories are carried at the lower of cost or net realizable value using a perpetual inventory basis. Cost is determined using the weighted-average method. According to SFAS 10, the cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period. The replacement cost of raw material is its net realizable value.

**h. Long-Term Equity Investments (Including Joint Ventures)**

Long-term equity investments in which the Company, directly or indirectly, owns 20% or more of the investee's voting shares, or less than 20% of the investee's voting shares but is able to exercise significant influence over the investee's operating and financial policies, are accounted for under the equity method.

Investment in joint ventures in which the Company has the ability to control is accounted for under the equity method.

Unrealized profits/losses on intercompany transactions are eliminated and deferred. Gains and losses resulting from transactions involving depreciable assets are recognized ratably over their economic lives, while those from other assets are recognized immediately.

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Cost and gains or losses on partial disposition of long-term equity investments are determined by the weighted-average method. Capital surplus from partial disposition of such investments is reduced by the percentage sold, with gains and losses included in current earnings.

The change in the carrying value of long-term equity investment as a result of the change in percentage of equity ownership due to disproportionate subscription to additional shares issued by the investee company is charged against capital surplus. When the balance of capital surplus arising from long-term equity investments is insufficient, the difference is charged against retained earnings.

**i. Property, Plant, and Equipment, Rental Assets, Idle Assets, and Depreciation**

Property, plant, and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. Interest expense incurred up to the time when the asset is ready for its intended use is capitalized as part of the acquisition cost. Major additions, improvements, and replacements are capitalized.

Depreciation is provided over the estimated economic lives using the straight-line method. Assets still in use at the end of their estimated useful lives are continuously depreciated based on their estimated remaining useful lives and estimated salvage values. Economic lives of major property and equipment are as follows:

Buildings	5 to 50 years
Machinery and equipment	1 to 6 years
Warehousing equipment	8 years
Instrument equipment	3 years
Transportation equipment	5 years
Office equipment	5 years
Leased assets	3 years
Miscellaneous equipment	3 to 15 years

Gain and loss on disposal of properties are recorded as non-operating income or loss.

Rental assets and idle fixed assets, which are not used for operating purposes, are classified as other assets.

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**j. Intangible Assets**

According to the Statement of Financial Accounting Standard No. 37 (SFAS 37) “Intangible Assets,” intangible assets are initially stated at cost, except for the government grant which is stated at fair value. Intangible assets with finite life are measured at cost plus the revaluation increment arising from the revaluation in accordance with the laws, less any accumulated amortization and any impairment losses.

The amortizable amount of intangible assets with definite lives is determined after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are made available for use. The economic useful lives of intangible assets are as follows:

Computer software cost	1 to 5 years
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The residual value, amortization period, and amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Any changes thereof are accounted for as changes in accounting estimates.

**k. Deferred Charges**

The costs of renovation project and office decorations are deferred and amortized equally over 3 years, and the costs of molds and fixtures are deferred and amortized equally over 1 to 2 years.

**l. Pension Plan**

In accordance with the “Labor Pension Act,” that prescribes a defined contribution plan, the Company contributes monthly to the Labor Pension Fund at the rate of 6% of the employees' monthly wages. These contributions are accrued and recognized as pension expense in the period when the service is rendered.

**m. Warranty Reserve**

For products under warranty, warranty costs are accrued based on the past record of the cost of returns for repair, failure rate and warranty period. Warranty costs are accounted for as current expenses when the sales are recognized.

**n. Revenue and Cost Recognition**

Revenue is recognized when title to the product and the risks and rewards of ownership are transferred to the customer; otherwise revenue recognition is deferred until these criteria are met. The related cost and expenses are recognized as the revenue is recognized. The expenses are recognized on accrual basis. Also, allowances for sales returns and discounts are estimated based on historical experience. Such allowances are recognized in the same period in which sales are made.

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**o. Classification of Capital and Operating Expenditures**

Expenditures that benefit the Company in future years are capitalized, while immaterial expenditures or those with no future benefits are treated as current expense or loss when incurred.

**p. Share-based payment transactions**

The Company adopted SFAS No. 39, "Share-based Payment," for share-based payment arrangements with a grant date on or after January 1, 2008, and Interpretations (92) 070, 071 and 072 issued by ROC Accounting Research and Development Foundations (ARDF) for employee stock options that were granted before January 1, 2008.

- i. An equity-settled share-based payment transaction is measured based on the fair value of the award at grant date, and is recognized as expenses over the vesting period with a corresponding increase in equity. The vesting period is estimated based on the vesting conditions under the share-based payment arrangement. Vesting conditions include service conditions and performance conditions (including market conditions). In estimating the fair value of an equity-settled share-based award, only the effect of market conditions is taken into consideration.
- ii. A cash-settled share-based payment transaction is measured at the balance sheet date and the settlement date based on the fair value of the stock option as of those dates and is recorded as a liability incurred for the goods and services received. Changes in fair values are recognized in profit or loss for the period.
- iii. The fair value of employee stock options and similar instruments at grant date is estimated using the Black-Scholes option-pricing model, taking into account the exercise price, the current market price of the underlying shares, management's best estimate of the expected term, the expected volatility, the expected dividends, and the risk-free interest rate.

**q. Employee Bonuses and Remuneration to Directors and Supervisors**

Appropriations for employee bonuses and remuneration to directors and supervisors are accounted for in accordance with Interpretation (96) 052 issued by the ROC Accounting Research and Development Foundation. According to this Interpretation, the Company estimates the amount of employee bonuses and remuneration to directors and supervisors and recognizes it as expenses in the period when services are rendered. The differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized in profit or loss.



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**r. Commitments and Contingencies**

If loss from a commitment or contingency is deemed highly likely and the amount can be reasonably estimated, then such loss is immediately recognized. Otherwise only the nature of such loss is disclosed in the notes to the financial statements.

**s. Income Tax**

In accordance with Statement of Financial Accounting Standards No. 22 (SFAS 22) "Income Taxes," income taxes are accounted for using the asset and liability method. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, loss carry forwards and investment tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly. The Company recalculates deferred income tax liabilities and deferred income tax assets based on newly modified effective tax rate, and reports the difference between newly calculated amount and the originally calculated one as current expense or benefit when the new tax rate is announced. Adjustments to prior years' income taxes are reported as current income taxes.

Deferred income tax assets or liabilities are classified as current and non-current in accordance with the nature of the related assets and liabilities or the length of time to their reversal.

Income taxes credits from purchase of equipment, technical research and development, and personnel training are recognized by the flow-through method.

The 10% surtax on undistributed earnings of the Company is reported as current expense on the date when the stockholders declared not to distribute the earnings during their annual meeting.

**t. Earnings per Share ("EPS")**

Earnings per share of common stock is determined based on net income available to common stockholders divided by the weighted-average number of outstanding shares of common stock. The effect on earnings per share from an increase in capital stock through the distribution of stock dividends from unappropriated earnings, capital surplus, or employee stock bonuses approved in the annual stockholders' meetings held before and in 2008 is computed retroactively.

Diluted EPS is calculated by dividing net income by the weighted-average number of common shares used in the basic EPS calculation plus the number of common shares that would be issued assuming all potentially dilutive common shares are converted and outstanding. The employee bonus appropriated after 1 January, 2008 are potentially dilutive common shares. If a dilutive effect does not exist, only basic EPS is disclosed; otherwise, diluted EPS is disclosed in addition to the basic EPS.

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**u. Spin-Off Transactions**

Spin-off transactions are accounted for under Interpretation (91) 128 issued by the ROC Accounting Research and Development Foundation. Under this Interpretation, if a transferor company and a transferee company are affiliated and the spin-off transaction arise from group reorganization, the assets and liabilities are recognized by the transferee based on the book value of the assets and liabilities of the transferor company without recognizing any transfer gain/loss. However, if the book value of the assets exceeds their fair value, the excess is recognized as impairment loss before the transfer of these assets.

**v. Treasury Stock**

As the Company purchased its outstanding shares, the Company adopted Financial Accounting Standard No. 30 "Accounting for Treasury Stock" in the accounting of treasury shares of stock, which are stated at cost. When treasury stock is sold, the excess of the proceeds from sale over the book value of treasury stock is recorded as capital surplus-treasury stock transaction. If the disposal price is lower than the book value, the difference is offset against capital surplus resulting from other treasury stock transactions, and any deficiency is debited to retained earnings. The carrying amount of treasury stock is calculated by using the weighted-average method according to the same class of treasury stock.

When treasury stock is cancelled, "capital surplus-premium on capital stock" is debited proportionately according to the equity shareholding ratio. If the book value of the treasury stock exceeds the sum of par value and premium on capital stock, the difference is offset against capital surplus arising from similar treasury stock transactions, and any deficiency is charged against retained earnings. If the book value is less than the total par value and premium on stock, the difference is added to capital surplus arising from treasury stock transaction of the same category.

In accordance with Financial Accounting Standard No. 30 "Accounting for Treasury Stock," the Company's shares of stock held by its subsidiaries are deemed as treasury stock when recognizing investment income (loss) and when preparing the financial statements.

**w. Operating Segments**

As segment information is already disclosed in the consolidated financial statements, it need not be presented in the individual or stand-alone financial statements.

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**x. Business Combinations**

According to SFAS No.25 “Business Combination,” the equity of the acquiring corporation in a business acquisition in cash is valued either at the fair value of the assets contributed or at the fair value of the property acquired, whichever is more objectively evident. All identified assets acquired and liability assumed in a business combination, whether or not shown in the financial statements of the acquired corporation, are measured based on their fair value at the acquisition date.

The period for the allocation of acquisition price may not exceed one year after the date of acquisition. If the Company cannot get further information to identify and determine the fair value of assets acquired and liability assumed, the period for the allocation of the acquisition price is consummated.

**3. Reasons for and Effect of Accounting Changes:**

Effective from January 1, 2011, the Company adopted the third revision of SFAS No. 34 “Financial Instrument Recognition and Measurement” on the recognition, subsequent measurement and impairment testing of originated loans and receivables and on trouble debt restructuring and modification of debt agreement commencing from January 1, 2011. The adoption of this amended accounting principle disclosed no significant influences on profit or loss for the nine months ended September 30, 2011.

Effective from January 1, 2011, the Company adopted SFAS No. 41 “Operating Segments.” In accordance with SFAS No. 41, information is disclosed to enable users of the Company’s financial statements to evaluate the nature and financial effects of the business activities in which the Company engages and the economic environment in which it operates. Accordingly, the Company determines and presents operating segments based on the information that internally is provided to the chief operating decision maker. This new accounting Standard superseded SFAS No. 20 “Segment Reporting.” The adoption of this accounting standard did not have any cumulative effect for the nine months ended September 30, 2011.

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**4. Summary of Major Accounts:**

**a. Cash**

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Cash on hand	\$ 110	50
Demand deposits	837,666	1,102,124
Time deposits	2,100,000	2,050,000
Foreign currency deposits	4,122,730	1,096,715
Foreign currency time deposits	1,845,585	1,636,776
Total	<u>\$ 8,906,091</u>	<u>5,885,665</u>

**b. Notes and Accounts Receivable — Non-related parties**

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Notes receivable	\$ 9,285	2,045
Less: Allowance for uncollectible accounts	(91)	(20)
Net	<u>9,194</u>	<u>2,025</u>
Accounts receivable	70,041,032	33,245,991
Less: Allowance for uncollectible accounts	(17,020)	(33,738)
Less: Allowance for sales returns and discounts	(43,426)	-
Net	<u>69,980,586</u>	<u>33,212,253</u>
Total	<u>\$ 69,989,780</u>	<u>33,214,278</u>

An assignment of the Company's accounts receivable is generally be treated as sales as the derecognition criteria of SFAS 33 are met for the accounts receivable transferred. As of September 30, 2012, the assigned accounts receivable which met the derecognition criteria were as follows:

<u>September 30, 2012</u>							
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Range of Interest Rate</u>	<u>Collateral</u>	<u>Significant Transferring Terms</u>	<u>Derecognition Amount</u>
SMBC	\$8,490,563	USD 300,000,000	USD 289,829,771	0.9181%~0.9281%	None	The accounts receivable factoring is without recourse but the sellers still bears the risks except for eligible obligor's insolvency.	<u>\$ 8,490,563</u>

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For the nine months ended September 30, 2012, the Company recognized a loss of \$ 8,792 from the assignment of accounts receivable, which is accounted for under financial expenses. Also, as of September 30, 2012, has been advanced in full.

**c. Inventories**

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Merchandise (including inventory-in-transit)	\$ 7,507,761	8,286,098
Less: Allowance for inventory market decline and obsolescence	(178,330)	(158,409)
Sub-total	<u>7,329,431</u>	<u>8,127,689</u>
Finished goods	106,023	279,825
Less: Allowance for inventory market decline and obsolescence	(5,115)	(4,460)
Sub-total	<u>100,908</u>	<u>275,365</u>
Work in process	75,879	117,985
Less: Allowance for inventory market decline and obsolescence	(18,195)	(21,364)
Sub-total	<u>57,684</u>	<u>96,621</u>
Raw materials (including inventory-in-transit)	1,363,334	1,915,534
Less: Allowance for inventory market decline and obsolescence	(143,554)	(84,141)
Sub-total	<u>1,219,780</u>	<u>1,831,393</u>
Total	<u>\$ 8,707,803</u>	<u>10,331,068</u>

For the nine months ended September 30, 2012 and 2011, the components of cost of goods sold were as follows:

	<u>For the Nine Months Ended September 30</u>	
	<u>2012</u>	<u>2011</u>
Cost of goods sold	\$ 421,700,513	249,311,798
Loss on inventory obsolescence	1,697	5,207
Provision (Reversal) for inventory market price decline	82,123	(186,557)
Loss on physical inventory	-	238
	<u>\$ 421,784,333</u>	<u>249,130,686</u>

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For the nine months ended September 30, 2011, the conditions that previously caused inventories to be written down below cost had disappeared due to the disposal of related inventories, so that the related allowance for loss on decline in the value of inventories was reversed, which resulted in a reversal gain on inventory valuation allowance.

**d. Long-Term Equity Investments**

Name of Investee Company	September 30, 2012			September 30, 2011		
	Equity Holding	Book Value	Original Investment	Equity Holding	Book Value	Original Investment
PEGATRON HOLDING LTD.	100.00%	\$ 28,666,774	24,825,750	100.00%	29,426,568	24,238,150
UNIHAN CORPORATION	100.00%	13,128,268	12,098,279	100.00%	11,657,407	12,098,279
ASUSPOWER INVESTMENT CO., LTD.	100.00%	13,739,220	13,033,429	100.00%	14,200,257	13,033,429
ASUS INVESTMENT CO., LTD.	100.00%	15,290,400	16,184,982	100.00%	15,417,641	16,184,982
ASUSTEK INVESTMENT CO., LTD.	100.00%	14,395,690	14,593,543	100.00%	14,361,128	14,593,543
ADVANSUS CORP.	- %	-	-	50.00%	239,732	166,364
ASUS HOLLAND HOLDING B.V.	100.00%	1,966,992	1,278,287	92.45%	1,502,661	1,153,501
PEGATRON USA, INC.	100.00%	17,459	16,085	100.00%	17,266	16,085
		<u>\$ 87,204,803</u>			<u>86,822,660</u>	

- i. The investment income (loss) recognized under the equity method amounted to \$4,486,753 and \$925,322 for the nine months ended September 30, 2012 and 2011, respectively. Part of the long-term investments accounted for under the equity method of \$61,399,028 and \$86,822,660 and the related investment gain of \$268,692 and \$925,322, respectively, were recognized based on the investees' financial statements, which were not reviewed by an independent accountant.
- ii. For the nine months ended September 30, 2012, the Company had participated in the capital increase of PEGATRON HOLDING LTD. and invested US\$20,000 thousand (approximately NT\$587,600).
- iii. For the purpose of organization restructuring, the Company acquired 7.55% equity ownership of ASUS HOLLAND HOLDING (B.V.) (AHH) from ASUS INVESTMENT CO., LTD. for \$122,935 which is equal to the carrying value of ASUS INVESTMENT CO., LTD.'s long-term investment in AHH. Following such acquisition, the Company participated in the capital increase of AHH and invested EUR\$ 50 thousand (approximately NT\$1,851) for the nine months ended September 30, 2012.
- iv. 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 NT\$ 62,028 was recognized thereon.

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- v. ADVANSUS CORP. is a joint venture entity of the Company, which held the assets and liabilities of ADVANSUS CORP. as follows:

	<b>September 30, 2011</b>	
Current Assets	\$	471,548
Non-current Assets		11,551
Current Liabilities		243,367

	<b>For the Nine Months Ended September 30, 2011</b>	
Revenues	\$	1,181,848
Expenses		1,153,938

- vi. For the nine months ended September 30, 2012 and 2011, the Company received cash dividend of \$2,260,957 and \$2,042,381, respectively, from its investee companies accounted under equity method.
- vii. For the nine months ended September 30, 2012 and 2011, the Company's shares held by its subsidiaries are treated as treasury stock in accordance with ROC SFAS 30 as described in Note 4(m).
- viii. Investees, in which the Company has controlling interest over their operation, are included in the Company's consolidated financial statements, except for ADVANSUS CORP.

**e. Idle Assets**

- (i) In accordance with Statement of Financial Accounting Standards No. 35 (SFAS 35) "Accounting for Asset Impairment," the Company performed asset impairment test by comparing the recoverable amount with the carrying value of idle assets. Based on the results of such assessment, the Company recognized provisions for impairment loss of \$5,711 and \$8,038 as of September 30, 2012 and 2011, respectively.
- (ii) For the nine months ended September 30, 2012 and 2011, the Company recognized a gain from impairment recovery of \$2,326 and \$28,450, respectively, and a gain on disposal of idle assets of \$19 and \$107,964, respectively.

**f. Short-Term Loans**

<b>Nature of the loan</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>
Credit loan	\$ 8,583,435	6,827,520
Range of interest rate	0.72%~1.40%	0.45%~1.38%

The Company issued promissory notes as guarantee for part of credit loan facility. The majority of this credit facility was used jointly by the Company and Unihan Corporation.

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**g. Financial Liabilities Reported at Fair Value Through Profit or Loss**

	<b>September 30, 2012</b>
Financial liabilities — put and call options embedded in overseas convertible bonds	<b>\$ 7,141</b>

- (i) For the nine months ended September 30, 2012, the Company recognized a gain of \$13,269 on valuation of financial liabilities reported at fair value through profit or loss.
- (ii) The Company separately accounts for the equity and liability components of overseas convertible corporate bonds in accordance with SFAS 36. Please refer to Note 4(i) for details of bonds payable.

**h. Long-Term Loans**

<b>Creditor</b>	<b>Types of Debt</b>	<b>Credit Line</b>	<b>Repayment Schedule</b>	<b>September 30, 2012</b>	<b>September 30, 2011</b>
Citibank Taiwan and 14 other banks	Credit loan	<b>USD 400,000,000</b>	2010.10.25~2015.10.25 This loan is payable in 5 semi-annual installments, commencing October 25, 2013.	<b>\$ 11,718,000</b> <b>USD 400,000,000</b>	<b>12,192,000</b> <b>USD 400,000,000</b>

For the nine months ended September 30, 2012 and 2011, long-term loans bore interest at average rates ranging from 1.00% ~ 2.33% and 1.07% ~2.33%, respectively. According to the syndicated loan agreement, during the loan repayment periods, the Company must comply with certain financial covenants based on its audited consolidated financial statements as of the balance sheet date (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 expense): 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.

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



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As of June 30, 2012 and 2011, the Company was in compliance with the loan covenants mentioned above except for the debt ratio based on the Company's financial statements as of June 30, 2012. The Company has notified the syndicated banks through the lead arranger and applied for waiver of such breach of covenant, and the waiver was agreed by the majority decision. Therefore, the loan was still accounted for under long-term loans according to the repayment schedule of the original syndicated loan agreement.

The Company's promissory notes were pledged as a guarantee for the credit loan facility as of September 30, 2012 and 2011.

**i. Bonds Payable**

	<b>September 30, 2012</b>	<b>Collateral</b>
Overseas convertible bonds payable	\$ 8,874,000	None
Less: Discount on bonds payable	(331,820)	
Less: Foreign currency valuation, end of the period	(85,246)	
Net	<u>8,456,934</u>	
Less: Current portion of bonds payable	-	
Total	<u><b>\$ 8,456,934</b></u>	

As of September 30, 2012, the offering information on the unsecured convertible bonds was as follows:

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

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<b>Item</b>	<b>First overseas unsecured convertible bonds issued in 2012</b>
	<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  Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, each Holder of the Bonds will have the right at anytime during the conversion period commencing March 18, 2012 (the 41st day following the Closing Date) and ending at the close of business on January 27, 2017 (the 10th day prior to the Maturity Date), to convert their bonds.</p> <p>(2) Conversion price  The conversion price will be 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.</p> <p>(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 = US\$1.00) divided by the conversion price on the conversion date.</p>

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The Company separately accounts overseas convertible corporate bonds into the equity components and liability components. The equity components are accounted for under capital surplus and the liability components are accounted for under financial liabilities reported at fair value through profit or loss or bonds payable in accordance with SFAS 36. As of September 30, 2012, information on the aforesaid convertible bonds were as follows:

<u>First overseas unsecured convertible bonds issued in 2012</u>	<u>September 30, 2012</u>
Total issue price	\$ 8,874,000
Discount on bonds payable	(301,801)
Discount on bonds payable — transaction cost	(30,019)
Accumulated converted amount	-
Accumulated redeemed amount	-
Bonds payable, end of the period	8,542,180
Less: Valuation of bonds payable	(85,246)
Less: Current portion of bonds payable	-
Bonds payable, net, end of the period	<u>\$ 8,456,934</u>
Equity components — capital surplus on stock options	<u>\$ 329,225</u>
Liability components — financial liabilities (put and call options) reported at fair value through profit or loss	<u>\$ 7,141</u>
Liability components — gain on valuation	<u>\$ (13,269)</u>
Interest expense	<u>\$ 132,217</u>

**j. Pension Plan**

For the nine months ended September 30, 2012 and 2011, the pension costs for the defined contribution pension plan of the Company amounted to \$139,246 and \$127,999, respectively.

**k. Income Tax**

- (i) The Company is subject to statutory income tax rate of 17% for both the nine months ended September 30, 2012 and 2011. The Company also complies with the Basic Income Tax Act when calculating its income tax.
- (ii) For the nine months ended September 30, 2012 and 2011, the components of income tax expense (benefit) were as follows:

	<u>For the Nine Months Ended September 30</u>	
	<u>2012</u>	<u>2011</u>
Current income tax benefit	\$ -	(7,208)
Deferred income tax expense (benefit)	124,321	(25,626)
10% surtax on undistributed earnings	184,650	-
Underestimated income tax from previous years	12,079	-
Income tax expense (benefit)	<u>\$ 321,050</u>	<u>(32,834)</u>

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

	<b>For the Nine Months Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
Unrealized exchange gain (loss)	\$ 2,752	(179,665)
Reversal (Provision) of allowance for loss on inventory market decline and obsolescence	(13,961)	31,714
Unrealized profits on sales	(11,969)	(2,874)
Amortization of employee benefits	13	13
Gain on (provision) reversal of warranty reserve	(9,411)	35,147
Allowance for sales return and discount	(7,382)	-
Unrealized compensation loss	(23,450)	-
Investment tax credits	280,976	273,124
Unrealized expenses and foreign exchange gain on bonds payable	146	-
Gain on reversal of impairment loss on assets	395	4,836
Loss carry-forward	-	-
Reversal of valuation on allowance for deferred tax assets	(93,788)	(187,921)
Deferred income tax expense (benefit)	<b>\$ 124,321</b>	<b>(25,626)</b>

(iii) The income tax calculated on pretax financial income at a statutory income tax rate was reconciled with the income tax expense (benefit) as reported in the accompanying financial statements for the nine months ended September 30, 2012 and 2011 as follows:

	<b>For the Nine Months Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
Income tax calculated on pre-tax financial income (loss) at statutory tax rate	\$ 641,494	(152,436)
Permanent differences	(767,903)	(125,133)
10% surtax on undistributed earnings	184,650	-
Investment tax credits	187,188	85,203
Undeductible loss carry-forward	63,543	166,721
Underestimated income tax from previous years	12,078	-
Others	-	(7,209)
Income tax expense (benefit)	<b>\$ 321,050</b>	<b>(32,834)</b>

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(iv) As of September 30, 2012 and 2011, the temporary differences, loss carry-forwards and income tax credits and the related income tax effect thereof resulting in deferred income tax assets (liabilities) were as follows:

<b>Temporary differences of deferred income tax assets (liabilities) —current</b>	<b>September 30, 2012</b>		<b>September 30, 2011</b>	
	<b>Amount</b>	<b>Income Tax Effect</b>	<b>Amount</b>	<b>Income Tax Effect</b>
Unrealized foreign exchange loss: deductible	\$ 393,353	66,870	355,318	60,404
Allowance for loss on inventory market decline and obsolescence: deductible	345,195	58,683	268,374	45,624
Unrealized sales return and sales discount: deductible	43,426	7,382	-	-
Unrealized compensation loss: taxable	137,942	23,450	-	-
Deferred employee benefits for tax: deductible	25	4	100	17
Warranty reserve: deductible	101,698	17,289	99,101	16,847
Unrealized intercompany profits: deductible	128,018	21,763	27,287	4,639
Unused balance of investment tax credits: deductible	-	227,683	-	484,788
Valuation allowance		(269,634)		(338,461)
Net deferred income tax assets — current		<b>\$ 153,490</b>		<b>273,858</b>

<b>Temporary differences of deferred income tax assets (liabilities) —noncurrent</b>				
Unrealized impairment loss on assets: deductible	\$ 5,711	971	8,038	1,367
Deferred employee benefits for tax: deductible	-	-	25	4
Unrealized interest expenses on bonds payable: deductible	87,245	14,832	-	-
Unrealized foreign exchange gain on bonds payable: taxable	(88,109)	(14,978)	-	-
Unrealized gain on foreign investments including cumulative translation adjustments: taxable	(1,325,062)	(225,261)	(1,123,388)	(190,976)
Reserve for foreign investment losses: taxable	(648,527)	(110,250)	(648,527)	(110,250)
Net deferred income tax liabilities — noncurrent		<b>\$ (334,686)</b>		<b>(299,855)</b>

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- (v) The Company's tax returns through 2009 have been assessed and approved by the Tax Authority. However, the tax return for 2008 is still under review.
- (vi) In accordance with Statute for Industrial Innovation, the Company is allowed to avail of tax credit from R&D expenditures, but this tax credit cannot exceed 30% of the business income tax payable in a given year. Pursuant to Statute for Upgrading Industries, the Company can credit up to 50% of the amount of funds invested for R&D expenditures against the amount of business income tax payable within five years commencing from the year subsequent to the tax credit application, however, such limit for the tax credit application shall not apply to the final year. The Company was granted investment tax credits from funds invested in equipment for automation of production, equipment for pollution control, R&D and personnel training, and newly emerging, important and strategic industries which are deemed tax credit under the statute. As of September 30, 2012, unused investment tax credits which may be applied to offset against income tax payable in the future were as follows:

Year of occurrence	Unused investment tax credits	Year of expiration
2009	\$ 227,683	2013

- (vii) Due to the increase in its investments in new equipment, the Company was granted several income tax exemptions for its manufacturing and sales of "motherboard" out of the new equipment purchased from the proceeds of capital increase. As of September 30, 2012, the details of the five year income tax exemption period were as follows:

Description	Exemption
Eleventh capital increase used for investment in new equipment.	04/30/2007 ~ 04/29/2012

- (viii) Stockholders' imputation tax credit account and tax rate:

Undistributed earnings:	September 30, 2012	September 30, 2011
Accumulated in 1997 and prior years	\$ -	-
Accumulated in 1998 and thereafter	7,178,547	(830,749)
Total	\$ 7,178,547	(830,749)
Stockholders' imputation tax credit account	\$ 211,594	3,448
	<b>2012 (Expected)</b>	<b>2011 (Actual)</b>
Expected or actual deductible tax ratio	5.46%	0.09%

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**I. Stockholders' Equity**

(i) Capital Stock

As of January 1, 2010, authorized capital of the Company amounted to \$25,000,000 and the total outstanding capital amounted to \$22,860,539, divided into 2,286,054 thousand shares with par value of \$10 per share.

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 is June 1, 2010. Following the spin-off, the Company merged with Pegatron Investment. The Company issued 10 thousands new shares, resulting in additional capital of \$100. Thereafter, the total outstanding capital amounted to \$22,860,639, divided into 2,286,064 thousand shares with par value of \$10 per share.

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares of stock valued at \$296,970. As of September 30, 2012 and 2011, the authorized capital of the Company consisted of 3,000,000 and 2,500,000 thousand shares, respectively, with par value of \$10 per share, and its outstanding capital both consisted of 2,256,367 thousand shares of stock.

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 Pegatron common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines." As of September 30, 2012, the Company has listed, in total, 9,877 thousand units of GDR on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 shares, the Company has listed Company shares totaling 49,386 thousand shares. Major terms and conditions for GDRs were as follows:

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1. 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 Depository Shares – Voting Rights,” as such provisions may be amended from time to time to comply with applicable ROC law.

2. 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.

(ii) Share-based payment transactions – employee stock option plan

1. Information on equity-settled share-based payment transaction as of September 30, 2012 were as follows:

	<b>For the Nine Months Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
Grant date	04/02/2012	07/01/2011
Thousand units granted	8,053	40,679
Contractual life	3 years	3 years
Vesting period	2 years	2 years
Actual turnover rate of employees	5.72%	17.91%
Estimated future turnover rate of employees	19.01%	16.28%

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



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2. 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:

	<b>For the Nine Months Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
Exercise price (Note)	\$ 44.85	30
Current market price	44.85	30
Expected dividend yield rate (Note)	- %	- %
Expected volatility	44.41%	37.0531%
Risk-free interest rate	0.95%	1.0838%
Expected life of the option	3 years	3 years

Note: After the issuance of the employee stock option, 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.

3. The components of employee stock option plan and the weighted-average exercise price were as follows:

A. For the nine months ended September 30, 2012

	<b>Issued in 2012</b>	
	<b>Number of Exercisable Thousand Shares</b>	<b>Weighted-average Exercise Price</b>
Balance, beginning of the period	-	\$ -
Granted	8,053	44.85
Exercised	-	-
Forfeited	439	-
Expired	-	-
Balance, end of the period	<b>7,614</b>	44.85
Exercisable, end of the period	<b>7,614</b>	
Weighted-average fair value of options granted	<b>13.8</b>	
Exercise price of share option outstanding, end of the period	<b>44.85</b>	
Remaining contractual life	<b>1.75</b>	
Expenses incurred in share-based payment transactions	<b>14,698</b>	

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	<b>Issued in 2011</b>	
	<b>Number of Exercisable Thousand Shares</b>	<b>Weighted-average Exercise Price</b>
Balance, beginning of the period	37,648	\$ 28.38
Granted	-	-
Exercised	-	-
Forfeited	3,751	-
Expired	-	-
Balance, end of the period	<b>33,897</b>	28.38
Exercisable, end of the period	<b>33,897</b>	
Weighted-average fair value of options granted	<b>7.9</b>	
Exercise price of share option outstanding, end of the period	<b>28.38</b>	
Remaining contractual life	<b>0.75</b>	
Expenses incurred in share-based payment transactions	<b>74,044</b>	

B. For the nine months ended September 30, 2011

	<b>Issued in 2011</b>	
	<b>Number of Exercisable Thousand Shares</b>	<b>Weighted-average Exercise Price</b>
Balance, beginning of the period	-	\$ -
Granted	40,679	28.38
Exercised	-	-
Forfeited	1,770	-
Expired	-	-
Balance, end of the period	<b>38,909</b>	28.38
Exercisable, end of the period	<b>38,909</b>	
Weighted-average fair value of options granted	<b>7.9</b>	
Exercise price of share option outstanding, end of the period	<b>28.38</b>	
Remaining contractual life	<b>1.75</b>	
Expenses incurred in share-based payment transactions	<b>24,688</b>	

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(iii) Share-based payment transactions — stock appreciation rights plan

1. Information on cash-settled share-based payment transaction as of September 30, 2012 were as follows:

	<u>Stock Appreciation Right</u>
Grant date	04/02/2012
Vesting condition	EPS performance target
Exercise period	07/01/2013~06/30/2014
Vesting period	1.25 years
Actual turnover rate of employees	7.55%
Estimated future turnover rate of employees	8.97%

In order to encourage employees to stay and bring strength to the Company, the Board of Directors resolved and issued 30,000,000 units of Employee Stock Appreciation Rights on March 19, 2012. The Company will provide payments of 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.

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

	<u>Stock Appreciation Rights</u>
Valuation date	09/28/2012
Base price	44.85
Expected volatility	40.12%
Risk-free interest rate	1.355%
Expected life of the option	2.244 years
Remaining life of the option	1.753 years

3. The components of stock appreciation rights plan and the weighted-average exercise price as of September 30, 2012 were as follows:

	<u>Number of Exercisable Thousand Shares</u>
Balance, beginning of the period	-
Granted	22,214
Exercised	-
Forfeited	1,483
Expired	-
Balance, end of the period	<u>20,731</u>
Exercisable, end of the period	<u>20,731</u>
Weighted-average fair value of options granted	<u>1.7226</u>

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The expenses incurred in cash-settled share-based payment transaction amounted to \$13,933 for the nine months ended September 30, 2012.

(iv) Legal reserve and capital surplus

According to the ROC Company Law, as amended in January 2012 and the Company's Articles of Incorporation, a company shall first set aside 10% of its net income as legal reserve. Where the balance of such legal reserve reaches an amount that is equal to the paid-in capital, the appropriation to legal reserve is discontinued. Where a company incurs no loss, it may, pursuant to a resolution to be adopted by a shareholders' meeting distribute its legal reserve by issuing new shares or by cash. Where legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed.

In accordance with the ROC Company Law, as amended in January 2012, capital surplus is initially used to cover accumulated deficit and the balance, if any, can be distributed as dividends in cash or shares. The realized capital surplus includes donation and premium derived from the issuance of capital stock in excess of par value. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, when capital reserve is capitalized, the combined amount of any portions capitalized in any one year can not exceed 10 % of paid-in capital.

Dividends yield by the trust of the shareholders of parent company were distributed to the employees of the Company as bonuses. These bonuses both amounted to \$409,917 as of September 30, 2012 and 2011, which were credited to capital surplus — others.

(v) Treasury Stock

1. In accordance with Securities and Exchange Act, the number of treasury shares shall not exceed ten percent of the total number of issued and outstanding common shares of the Company. Also, the total amount of treasury shares issued may not exceed the amount of retained earnings plus premium on capital stock plus realized capital reserve. The repurchased shares shall not exceed the amount of retained earnings plus premium on capital stock plus realized capital reserve. The repurchased shares held by the Company amounted to \$1,006,862, divided into 29,697 thousand shares as of December 31, 2010 which conformed to Securities and Exchange Act. The number of shares the Company can repurchase from the active market is limited to up to 228,605 thousand shares amounting to \$66,221,050 which is calculated according to financial reports for the latest accounting period prior to a resolution of a meeting of the board of directors.

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2. In accordance with Securities and Exchange Act, treasury shares cannot be pledged. Also, treasury shares do not bear the shareholder's right prior to being sold to third parties.
3. As of September 30, 2012, the Company's shares held by its subsidiaries were 1,700 thousand shares amounting to \$64,855 at fair value.

(vi) Earnings Distribution and Dividend Policy

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:

1. No less than 10% as employees' bonuses which are distributable in cash or shares of stock. In the event that the employee bonus is distributed in the form of shares of stock, employees qualifying for such distribution may include the employees of subsidiaries of the Company who meet certain specific requirements. Such qualified employees and distribution ratio are decided by the Board of Directors.
2. Up to 1% as remuneration to directors and supervisors.
3. The remaining earnings, if any, are 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.

On June 27, 2012 and June 24, 2011, the Company's shareholders' meetings resolved to appropriate the 2011 and 2010 earnings. Except for the appropriation for 2011 directors' and supervisors' remuneration which is yet to be resolved by the shareholders, these earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

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	<b>2011</b>	<b>2010</b>
Common stock dividends per share (dollars)		
-Cash	\$ -	1.45
Employee bonus – cash	\$ 12,100	127,000
Remuneration to directors and supervisors	-	12,000
Total	\$ 12,100	139,000

The approved earnings distribution for 2010 agreed with those accrued and reflected in the financial statements for the year ended December 31, 2010. The approved earnings distributions for 2011 were as follows:

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

The difference between the actual amounts of earnings distribution for 2011 and those recognized in the financial statements 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 under a change in accounting estimate and charged to profit or loss.

For the nine months ended September 2011, the Company did not estimate and recognize employee bonuses and directors' and supervisors' remuneration due to the net loss after tax incurred for such period.

For the nine months ended September 30, 2012, employee bonuses of \$316,000 and directors' and supervisors' remuneration of \$29,000 were estimated and recognized as current expenses. 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.

**m. Earnings per Share (EPS)**

For the nine months ended September 30, 2012 and 2011, the primary earnings per share, diluted earnings per share and the retroactively adjusted primary and diluted earnings per share were computed as follows:

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(Note: shares in thousands)

	<b>For the Nine Months Ended September 30</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Before income tax</b>	<b>After income tax</b>	<b>Before income tax</b>	<b>After income tax</b>
Net income (loss)	\$ 3,773,497	3,452,447	<u>(896,684)</u>	<u>(863,850)</u>
Effect of potentially dilutive common shares	<u>132,217</u>	<u>109,740</u>		
Diluted net income	<u><b>\$ 3,905,714</b></u>	<u><b>3,562,187</b></u>		
Weighted-average common shares outstanding	2,254,667	2,254,667	<u><b>2,256,367</b></u>	<u><b>2,256,367</b></u>
Potentially dilutive common shares	<u>202,618</u>	<u>202,618</u>		
Diluted shares	<u><b>2,457,285</b></u>	<u><b>2,457,285</b></u>		
Primary earnings (losses) per share	<u><b>\$ 1.67</b></u>	<u><b>1.53</b></u>	<u><b>(0.40)</b></u>	<u><b>(0.38)</b></u>
Diluted earnings per share	<u><b>\$ 1.59</b></u>	<u><b>1.45</b></u>		

Pro forma result from assuming the Company's shares held by its subsidiaries do not count as treasury stock

	<b>For the Nine Months Ended September 30</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Before income tax</b>	<b>After income tax</b>	<b>Before income tax</b>	<b>After income tax</b>
Net income (loss)	\$ 3,773,497	3,452,447	<u>(896,684)</u>	<u>(863,850)</u>
Effect of potentially dilutive common shares	<u>132,217</u>	<u>109,740</u>		
Diluted net income	<u><b>\$ 3,905,714</b></u>	<u><b>3,562,187</b></u>		
Weighted-average common shares outstanding	2,256,367	2,256,367	<u><b>2,256,367</b></u>	<u><b>2,256,367</b></u>
Potentially dilutive common shares	<u>202,618</u>	<u>202,618</u>		
Diluted shares	<u><b>2,458,985</b></u>	<u><b>2,458,985</b></u>		
Primary earnings (losses) per share	<u><b>\$ 1.67</b></u>	<u><b>1.53</b></u>	<u><b>(0.40)</b></u>	<u><b>(0.38)</b></u>
Diluted earnings per share	<u><b>\$ 1.59</b></u>	<u><b>1.45</b></u>		

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**n. Financial Instruments**

(i) Fair value of financial instruments

The fair value of short-term financial instruments is determined by their face value on balance sheet date. As this type of financial instrument has a short maturity period, the face value is adopted as a reasonable basis for establishing its fair value. This method is applied to cash, accounts receivable, accounts payable, short-term loans, and other payables.

As of September 30, 2012 and 2011, except for the financial assets and liabilities described above, the Company's other financial assets and liabilities were as follows:

<b>Financial Liabilities</b>	<b>September 30, 2012</b>		<b>September 30, 2011</b>	
	<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>
Financial liabilities report at fair value through profit or loss – Noncurrent	\$ 7,141	7,141	-	-
Long-term loans	20,301,435	20,301,435	19,019,520	19,019,520
Bonds payable	8,456,934	8,456,934	-	-

(ii) Methods and assumptions used by the Company to evaluate the fair value of financial instruments were as follows:

1. The fair market value of long-term loans is determined by the present value of future cash flow. As the present value derived by using interest rate in discounting future cash flow is close to the book value, the book value is adopted as the fair market value.
2. The fair market value of bonds payable is determined by the present value of future cash flow. The discount rate adopted calculating the said present value is estimated based on similar corporate bond's market interest rate.
3. The fair value of derivative financial instruments, which are reported at fair value through profit or loss and traded in active markets, is based on quoted market prices. If the financial instruments are not traded in an active market, then the fair value is determined by using valuation techniques, under which, the estimates and assumptions used are consistent with prevailing market conditions.



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(iii) Financial risks

1. Market risk

The Company's purchases and sales are denominated mainly in US dollars. Consequently, it is exposed to the current and future foreign currency fluctuation risk that arises from cash flows of foreign currency assets and liabilities. However, this risk may be regarded as insignificant, because foreign currency losses from sales are subsequently offset by foreign currency gain from purchases.

2. Credit risk

The primary potential credit risk is from financial instruments like cash, equity securities, and accounts receivable. However, the Company deposits cash in different financial institutions. Also, 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 only transacted with approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Company would transfer the risk by acquiring guarantees or transacting by L/C. In compliance with the Company's customer credit 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 periodically evaluates the customers' financial positions and the possibility of collecting trade receivables. Thus, management is not expecting any significant issue on credit risk.

3. Liquidity risk

The capital and working funds of the Company are sufficient to meet its entire contractual obligations; therefore, management is not expecting any significant issue on liquidity risk.

4. Cash flow and 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.

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(iv) Financial Instruments with Off-Balance Sheet Credit Risk:

As of September 30, 2012 and 2011, guarantees and endorsements provided by the Company for bank loans obtained by related parties, were discussed in Note 5.

**o. Others**

The Company's significant foreign financial assets and liabilities were as follows:

	September 30, 2012			September 30, 2011		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<b>Financial Assets</b>						
<u>Monetary Items</u>						
USD	\$6,144,893	29.295	10,014,640	3,697,516	30.48	112,700,288
<u>Long-term Equity Investments</u>						
USD	979,151	29.295	28,684,233	966,005	30.48	29,443,834
EUR	51,913	38.89	1,966,992	36,466	41.23	1,502,661
<b>Financial Liabilities</b>						
<u>Monetary Items</u>						
USD	5,973,800	29.295	175,002,471	3,987,662	30.48	121,543,938

**5. Related-Party Transactions**

a. Names and relationships of related parties with the Company

Name of Related Party	Relationship with the Company
ASUSTEK COMPUTER INC. (ASUSTeK)	An investor company accounting its investment in the Company under the equity method
ASKEY COMPUTER CORP.(ASKEY)	An investee company accounted for under the equity method by ASUSTeK Computer Inc.
ASUS TECHNOLOGY INC.	//
ASMEDIA TECHNOLOGY INC.	//
ASUSTEK COMPUTER (SHANGHAI) CO., LTD.	//
ASUS COMPUTER (SHANGHAI) CO., LTD.	//
SHINEWAVE INTERNATIONAL INC.	//
UNIMAX ELECTRONICS INC.	//
ASUS COMPUTER INTERNATIONAL (ACI)	//
ASHINE TECHNOLOGY (SUZHOU) LTD.	//
ASKEY TECHNOLOGY (JIANG SU) LTD.	//
POWTEK (SHANGHAI) CO., LTD. (POWTEK)	An investee company accounted for under the equity method

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<u>Name of Related Party</u>	<u>Relationship with the Company</u>
ADVANSUS CORP. (ADVANSUS)	An investee company which ceased to be accounted for under the equity method effective January 1, 2012.
ASROCK INC.	An investee company accounted for under the equity method
ABILITY ENTERPRISE CO., LTD.	"
PEGA INTERNATIONAL LTD.	"
UNIHAN CORPORATION (UNIHAN)	"
AMA PRECISION INC.	"
STARLINK ELECTRONICS CORP.	"
ASFLY TRAVEL SERVICE LTD.	"
AZUREWAVE TECHNOLOGIES INC.	"
PROTEK (SHANGHAI) LTD. (PROTEK)	"
SHANGHAI INDEED TECHNOGLY CO., LTD. (SHANGHAI INDEED)	"
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	"
MAINTEK COMPUTER (SUZHOU) CO., LTD. (MAINTEK)	"
BROADTEK COMPUTER (SUZHOU) CO., LTD. (BROADTEK)	"
CASETEK COMPUTER (SUZHOU) CO., LTD. (CASETEK)	"
AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD. (AVY)	"
CORE-TEK (SHANGHAI) LTD.	"
PEGAVISION CORP.	"
RUNTOP(SHANGHAI) CO., LTD. (RUNTOP)	"
HOLD JUMPER PACKING (SUZHOU) CO., LTD.	"
HOLD JUMPER PACKING (SHANGHAI) CO., LTD.	"
SUZHOU DELUXE PACKING PRODUCTION CO., LTD.	"
COTEK ELECTRONICS (SUZHOU) CO., LTD.	"
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	"
RI-KUAN METAL CORP.	"
GREEN PACKING LIMITED	"
DIGITEK (CHONGQING) LTD.	"

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<u>Name of Related Party</u>	<u>Relationship with the Company</u>
PEGATRON SERVICOS DE INFORMATICA LTDA. (PCBR)	An investee company accounted for under the equity method
KAEDAR TRADING LTD.	//
ASUSPOWER CORP. (ASUSPOWER)	//
PEGATRON CZECH S.R.O (PCZ)	//
PEGATRON JAPAN INC. (PCJ)	//
PEGATRON MEXICO, S.A. DE C.V.(PCM)	//
PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	//
PEGATRON LOGISTIC SERVICE INC.	//
PEGATRON USA, INC.	//
BLACKROCK MARYLAND INT'L CORP.	//
VIEWQUEST TECHNOLOGIES (BVI) INC.	//
UNITED NEW LIMITED	//
MEGA MERIT LIMITED	//
ASIAROCK TECHNOLOGY LTD.	//

b. Significant Transactions with Related Parties

(i) Sales

<u>Name of Related Party</u>	<u>For the Nine Months Ended September 30</u>					
	<u>2012</u>			<u>2011</u>		
	<u>Amount</u>	<u>% of Net Sales</u>	<u>The collection term</u>	<u>Amount</u>	<u>% of Net Sales</u>	<u>The collection term</u>
ASUSTeK	\$ 104,826,245	24.56	Open account 60 days	119,727,268	47.48	Open account 60 days
PCZ	5,025,965	1.18	120 days from receipt of goods	3,203,421	1.27	120 days from receipt of goods
POWTEK	3,045,265	0.71	45 days from receipt of goods	2,990,034	1.19	45 days from receipt of goods
Others	291,101	0.07	30~90 days from receipt of goods Open account 30~90 days	644,702	0.26	30~90 days from receipt of goods Open account 30~90 days
Total	<u>\$ 113,188,576</u>	<u>26.52</u>		<u>126,565,425</u>	<u>50.20</u>	

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The collection term with third-party customer is L/C, T/T or 7 to 120 days from receipt of goods.

For the nine months ended September 30, 2012 and 2011, the Company adjusted the double recording of sales to and purchases from related parties, which amounted to \$365,260,939 and \$218,782,626, respectively.

As of September 30, 2012 and 2011, unrealized profits on intercompany transactions were \$128,018 and \$27,286, respectively.

(ii) Purchases

Name of Related Party	For the Nine Months Ended September 30					
	2012			2011		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$ 82,927,417	19.74	Open account 60 days	91,479,138	36.52	Open account 60 days
PROTEK	51,862,550	12.35	Open account 60 days	34,196,664	13.65	90 days from receipt of goods
MAINTEK (Note)	(1,408,816)	(0.34)	Open account 60 days	(5,204,811)	(2.08)	Open account 60 days
Others	5,431,052	1.30	30~90 days from receipt of goods Open account 30~120 days	7,666,350	3.06	30~90 days from receipt of goods Open account 30~120 days
Total	<u>\$ 138,812,203</u>	<u>33.05</u>		<u>128,137,341</u>	<u>51.15</u>	

Note: The Company sells raw materials to overseas factories for fabrication and buys back the finished goods for selling purposes. In order to avoid double recording of sales, the revenues and cost of goods sold are written off in proportion to the repurchase ratio. As the purchase amount is less than the sales amount, the net balance becomes a negative amount.

The purchase term with third-party vendors is 90 days from receipt of goods or open account 30 to 90 days.

For the nine months ended September 30, 2012 and 2011, the Company purchased raw materials from vendors through ASUSTek.

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(ii) Others

	<b>For the Nine Months Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
<u>After-sales warranty repair expense paid to:</u>		
PCZ	\$ 48,415	38,920
PTSI	38,195	80,575
PCJ	12,578	11,844
ASUS COMPUTER (SHANGHAI) CO., LTD.	21,256	268
Others	1,532	307
<b>Total</b>	<b>\$ 121,976</b>	<b>131,914</b>

<u>(2) Processing fee paid to:</u>		
ASUSPOWER	\$ 186,070	1,074,691
PCM	117,073	116,041
RUNTOP	-	24,252
<b>Total</b>	<b>\$ 303,143</b>	<b>1,214,984</b>

<u>(3) Other income from:</u>		
ASUSTeK	\$ 131,622	370,415
UNIHAN	23,323	21,867
PCJ	13,391	20,157
Others	7,938	16,729
<b>Total</b>	<b>\$ 176,274</b>	<b>429,168</b>

(4) For the nine months ended September 30, 2012 and 2011, the Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, professional service fee, etc, aggregating to \$120,109 and \$81,865, respectively.

(5) For the nine months ended September 30, 2012 and 2011, the Company incurred other related party transactions recorded as rental revenue, amounting to \$43,565 and \$41,400, respectively.

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- (6) For the nine months ended September 30, 2012, the Company sold for \$8,656 to other related party fixed assets with carrying value of \$8,099, which resulted in gain on disposal of fixed assets of \$557.
- (7) For the nine months ended September 30, 2012 and 2011, the Company had other related party transactions recorded as non-operating expense amounting to \$17,704 and \$7,353 respectively.
- (iv) Accounts receivable (payable)

	September 30, 2012		September 30, 2011	
	Amount	%	Amount	%
<u>Accounts Receivable:</u>				
PROTEK	\$ 76,412,008	43.87	60,688,358	55.05
MAINTEK	10,543,265	6.05	4,341,363	3.94
DIGITEK (CHONGQING)	9,827,995	5.64	537,249	0.49
ASUSTeK	3,534,366	2.03	8,958,140	8.13
PCZ	2,713,152	1.56	1,846,265	1.67
POWTEK	919,176	0.53	442,111	0.40
Others	177,864	0.10	185,511	0.16
Total	<b>\$ 104,127,826</b>	<b>59.78</b>	<b>76,998,997</b>	<b>69.84</b>
<u>Other Receivables:</u>				
UNIHAN	\$ 17,073	46.41	3,219	41.04
ASUSTeK	2,252	6.12	1,901	24.24
AMA PRECISION INC.	319	0.87	324	4.13
Others	644	1.75	498	6.34
Total	<b>\$ 20,288</b>	<b>55.15</b>	<b>5,942</b>	<b>75.75</b>
<u>Notes and Accounts Payable:</u>				
PROTEK	\$ 59,443,419	40.95	56,457,912	58.07
DIGITEK (CHONGQING)	6,873,467	4.73	-	-
CASETEK	548,480	0.38	601,866	0.62
SHANGHAI INDEED	486,739	0.34	750,000	0.77
ASKEY	322,093	0.22	815,445	0.84
BROADTEK	216,511	0.15	311,306	0.32
RI-TENG	17,403	0.01	589,811	0.61
Others	164,988	0.11	683,619	0.70
Total	<b>\$ 68,073,100</b>	<b>46.89</b>	<b>60,209,959</b>	<b>61.93</b>

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	<u>September 30, 2012</u>		<u>September 30, 2011</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Accrued Expenses:</u>				
PCM	\$ 411,842	10.54	412,827	5.42
PROTEK	138,033	3.53	460,784	6.05
ASUSPOWER	40,914	1.05	3,217,237	42.22
ASUSTeK	4,349	0.11	983,815	12.91
Others	101,729	2.60	52,036	0.67
Total	<u>\$ 696,867</u>	<u>17.83</u>	<u>5,126,699</u>	<u>67.27</u>

Other related party transactions accounted for as other assets or liabilities in balance sheets were as follows:

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
<u>Assets:</u>		
Prepayments	\$ 24,482	1,832
Temporary payments	694	1,315
	<u>\$ 25,176</u>	<u>3,147</u>
<u>Liabilities:</u>		
Temporary receivables	<u>\$ 41,099</u>	<u>78,956</u>

(v) Endorsement Guarantee

As of September 30, 2012 and 2011, the Company provided endorsement guarantee for bank loans obtained by related parties as follows:

<u>Name of Related Party Guaranteed</u>	<u>Amount of Guarantee (thousands)</u>	
	<u>September 30, 2012</u>	<u>September 30, 2011</u>
ASUSPOWER	<u>USD 104,686</u>	<u>USD 80,000</u>
PCZ	<u>USD 10,000</u>	<u>USD 10,000</u>
UNITED NEW LIMITED	<u>USD -</u>	<u>USD 10,000</u>
BROADTEK	<u>USD 49,000</u>	<u>USD 49,000</u>
PROTEK	<u>USD 200,000</u>	<u>USD 200,000</u>
AVY	<u>USD -</u>	<u>USD 24,500</u>



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(vi) Financing

As of September 30, 2012, the details of financing provided by a related party to the Company were as follows:

	<b>For the Nine Months Ended September 30, 2012</b>			
	<b>The Highest Balance</b>	<b>Ending Balance</b>	<b>Annual Interest</b>	<b>Interest Expense</b>
ASUSPOWER	\$ (5,976,000)	(5,859,000)	0.404%~0.458%	6,862

**6. Pledged Assets**

As of September 30, 2012 and 2011, pledged assets were as follows:

Asset	September 30		Purpose of pledge
	2012	2011	
Restricted deposits (accounted under other financial assets — Current)	\$ 76,204	72,003	Deposits for customs duties and provisional seizure
Refundable deposits (accounted under other financial assets — Noncurrent)	30,668	26,840	Deposits for performance guarantee
	<b>\$ 106,872</b>	<b>98,843</b>	

**7. Significant Commitments And Contingencies (Excluding Related-Party Transactions)**

- (a) As of September 30, 2012 and 2011, the Company had unused letters of credit of both EUR\$ 267 thousand and US\$1,000 thousand.
- (b) As of September 30, 2012 and 2011, the Company had promissory notes and certificate of deposit obtained for business purpose of \$11,537 and \$10,816, respectively.
- (c) Rental expense and future lease commitments arising from operating lease agreements were as follows:

	Future lease commitments				
	For the Nine Months ended September 30, 2012	2013	2014	2015	2016
Rent expense	\$ 67,240	58,334	3,528	22	-

**8. Significant Catastrophic Losses: None.**

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**9. Significant Subsequent Events:**

In order to attract, remain and motivate key employees and advance the best interests of the Company and the shareholders, the Company's Shareholders' meeting resolved to issue restricted employee stocks for total numbers of 40,000,000 shares, with a par value of \$10 per share on June 27, 2012. Such resolution becomes effective on October 19, 2012 when the approval of Financial Supervisory Commission was obtained. However, the list of eligible employees has not yet been proposed by the Chairman and been sent to the Board of Directors for approval.

**10. Others**

- a. Personnel, depreciation, and amortization expense incurred, categorized as operating cost or expense, were as follows:

Categorized as Nature	For the Nine Months Ended September 30, 2012			For the Nine Months Ended September 30, 2011		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salary expense	590,020	3,083,280	3,673,300	533,889	2,717,136	3,251,025
Health and labor	42,842	193,499	236,341	38,450	177,824	216,274
Insurance expense						
Pension expense	23,887	116,064	139,951	23,065	110,251	133,316
Other expense	46,075	179,964	226,039	29,058	109,903	138,961
Depreciation expense (Note A)	15,450	111,601	127,051	32,881	118,998	151,879
Amortization expense	244,543	97,370	341,913	178,890	174,482	353,372

Note A: For the nine months ended September 30, 2012 and 2011, the Company recognized depreciation expense (accounted for under non-operating expense), excluding those of rental assets and idle-assets of \$5,311 and \$9,882, respectively.

- b. Certain accounts in the financial statements as of and for the nine months ended September 30, 2011, were reclassified to conform to the presentation adopted in the financial statements as of and for the nine months ended September 30, 2012. .

**11. Segment Information**

As segment information is disclosed in the Company's consolidated financial statements, the Company need not present such information in its stand-alone or individual financial statements.