

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2012 AND 2011**

**(With Independent Accountants' Audit Report Thereon)**

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

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

## TABLE OF CONTENTS

<b>Contents</b>	<b>Page</b>
COVER PAGE	1
TABLE OF CONTENTS	2
INDEPENDENT ACCOUNTANTS' AUDIT REPORT	3
CONSOLIDATED BALANCE SHEETS	4
CONSOLIDATED STATEMENTS OF INCOME	5
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	
(1) ORGANIZATION AND BUSINESS	8
(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	8~41
(3) REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES	41
(4) SUMMARY OF MAJOR ACCOUNTS	42~92
(5) RELATED-PARTY TRANSACTIONS	93~98
(6) PLEDGED ASSETS	98
(7) SIGNIFICANT COMMITMENTS AND CONTINGENCIES	99~100
(8) SIGNIFICANT CATASTROPHIC LOSSES	100
(9) SIGNIFICANT SUBSEQUENT EVENTS	100
(10) OTHERS	101
(11) BUSINESS SEGMENT FINANCIAL INFORMATION	101~104

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

**AUDIT REPORT OF INDEPENDENT ACCOUNTANTS**

**To the Board of Directors of**

**Pegatron Corporation**

We have audited the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries (the “Consolidated Company”) as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in stockholders’ equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Consolidated Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of certain consolidated subsidiaries with total assets of NT\$81,892,277 thousand and NT\$77,511,873 thousand, representing 20.92% and 25.87% and net sales of NT\$105,490,677 thousand and NT\$98,902,314 thousand, representing 11.96% and 16.49% of the related consolidated total as of and for the years ended December 31, 2012 and 2011, respectively. Also, we did not audit the long-term investments in other companies of NT\$1,368,412 thousand and NT\$2,212,854 thousand, representing 0.35% and 0.74% of consolidated total assets as of December 31, 2012 and 2011, respectively, and the related investment income thereon of NT\$62,586 thousand and NT\$99,769 thousand, representing 0.45% and 2.11% of consolidated net income before tax for the years ended December 2012 and 2011, respectively. The financial statements of these subsidiaries and investees accounted for under the equity method were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, were based solely on the reports of other auditors.

We conducted our audits in accordance with “Regulation Governing Auditing and Certification of Financial Statements by Certified Public Accountants” and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Consolidated Company as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and generally accepted accounting principles 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

March 21, 2013

#### **Note to Readers**

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

For the convenience of readers, the accountants' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' report and financial statements shall prevail. 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)  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2012 AND 2011**  
(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2012		December 31, 2011	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash (Note 4(1))	\$ 60,157,499	16	50,453,433	17
Financial assets reported at fair value through profit or loss — current (Note 4(2) and 4(18))	7,534,036	2	6,417,685	2
Available-for-sale financial assets — current (Note 4(2) and 4(18))	505,919	-	454,752	-
Notes receivable, net of allowance for uncollectible accounts (Note 4(3))	158,517	-	107,364	-
Accounts receivable, net of allowance for uncollectible accounts (Note 4(3))	116,744,902	30	74,487,890	25
Accounts receivable, net — Related parties (Note 5)	5,704,376	1	9,650,279	3
Other receivable — Non-related parties (Note 4(3))	13,320,282	3	2,206,862	1
Other receivable — Related parties (Note 5)	14,863	-	8,902	-
Other financial assets — current (Note 5 and 6)	113,449	-	108,521	-
Inventories (Notes 4(4))	92,678,084	24	65,716,440	22
Other current assets (Note 5)	7,407,338	2	5,030,018	2
Deferred income tax assets — current (Note 4(14))	1,810,250	-	1,251,515	-
	<u>306,149,515</u>	<u>78</u>	<u>215,893,661</u>	<u>72</u>
<b>Investments:</b>				
Long-term investments under the equity method (Note 4(5))	1,607,697	1	2,463,241	1
Available-for-sale financial assets — noncurrent (Note 4(2) and 4(18))	1,169,156	-	463,921	-
Financial assets carried at cost — noncurrent (Note 4(2) and 4(18))	647,321	-	740,309	-
	<u>3,424,174</u>	<u>1</u>	<u>3,667,471</u>	<u>1</u>
<b>Other financial assets — noncurrent (Note 6)</b>	<u>306,996</u>	<u>-</u>	<u>297,990</u>	<u>-</u>
<b>Property, Plant and Equipment, at cost (Note 4(7) and 6)</b>				
Land	4,385,872	1	4,423,075	1
Buildings	31,869,609	8	27,222,134	9
Machinery and equipment	55,474,394	14	52,479,094	18
Warehousing equipment	119,294	-	122,999	-
Instrument equipment	1,993,590	1	1,866,174	1
Transportation equipment	229,340	-	246,702	-
Office equipment	767,339	-	2,367,566	1
Miscellaneous equipment	16,471,398	4	12,076,404	4
	<u>111,310,836</u>	<u>28</u>	<u>100,804,148</u>	<u>34</u>
Less: Accumulated depreciation	(42,833,588)	(11)	(40,677,517)	(14)
Less: Accumulated impairment	(216,786)	-	(220,840)	-
Prepayments for equipment	3,552,280	1	10,552,189	4
	<u>71,812,742</u>	<u>18</u>	<u>70,457,980</u>	<u>24</u>
<b>Intangible Assets</b>				
Goodwill (Note 4(8))	1,855,246	1	1,898,499	1
Deferred pension costs	433	-	2,677	-
Land use rights (Note 4(8))	3,366,515	1	2,672,171	1
Other intangible assets (Note 4(8))	885,739	-	1,349,401	-
	<u>6,107,933</u>	<u>2</u>	<u>5,922,748</u>	<u>2</u>
<b>Other Assets</b>				
Deferred charges (Note 4(9))	1,856,023	1	2,075,803	1
Deferred income tax assets — noncurrent (Note 4(14))	524,438	-	170,112	-
Other assets — others (Note 4(7) and 4(9))	1,258,744	-	1,090,232	-
	<u>3,639,205</u>	<u>1</u>	<u>3,336,147</u>	<u>1</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 391,440,565</u></b>	<b><u>100</u></b>	<b><u>299,575,997</u></b>	<b><u>100</u></b>

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

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

## PEGATRON CORPORATION AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (CON'T)

DECEMBER 31, 2012 AND 2011

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2012		December 31, 2011	
	Amount	%	Amount	%
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Short-term loans (Note 4(10))	\$ 19,613,159	5	22,773,366	8
Short-term notes and bills payable	99,993	-	219,936	-
Financial liabilities at fair value through profit or loss — current (Note 4(2) and 4(18))	69,084	-	102,583	-
Notes payable	47,256	-	70,745	-
Accounts payable				
– Non-related parties	171,824,510	44	97,666,455	33
– Related parties (Note 5)	508,738	-	2,277,753	1
Income tax payable	3,673,139	1	1,868,242	1
Accrued expenses (Note 5)	19,269,811	5	13,366,177	4
Other financial liabilities — current (Note 5)	5,202,976	1	7,796,062	2
Long-term loans payable — current portion (Note 4(11), 4(12), and 4(18))	8,850,852	3	913,849	-
Other current liabilities (Note 4(14) and 5)	4,817,226	1	4,435,878	1
	<u>233,976,744</u>	<u>60</u>	<u>151,491,046</u>	<u>50</u>
<b>Long-Term Liabilities:</b>				
Financial liabilities at fair value through profit or loss — noncurrent (Notes 4(2), 4(11), and 4(18))	6,275	-	-	-
Bonds payable (Note 4(11) and 4(18))	8,403,406	2	1,404,707	1
Long-term loans (Note 4(12) and 4(18))	18,988,171	5	27,353,419	9
Refundable deposits	463,200	-	420,791	-
	<u>27,861,052</u>	<u>7</u>	<u>29,178,917</u>	<u>10</u>
<b>Other Liabilities:</b>				
Deferred income tax liabilities — noncurrent (Note 4(14))	1,496,832	-	656,090	-
Other liabilities — others (Note 4(13))	78,705	-	53,215	-
	<u>1,575,537</u>	<u>-</u>	<u>709,305</u>	<u>-</u>
<b>Total Liabilities</b>	<u>263,413,333</u>	<u>67</u>	<u>181,379,268</u>	<u>60</u>
<b>Stockholders' Equity: (Note 4(11) and 4(15))</b>				
<b>Common stock</b>	<u>22,903,049</u>	<u>6</u>	<u>22,563,669</u>	<u>8</u>
<b>Capital surplus</b>				
Premium on capital stock	60,393,247	16	60,393,247	20
Others	4,167,021	1	3,072,249	1
	<u>64,560,268</u>	<u>17</u>	<u>63,465,496</u>	<u>21</u>
<b>Retained earnings:</b>				
Legal reserve	1,847,737	-	1,836,601	1
Special reserve	734,859	-	4,327,629	1
Accumulated earnings	9,829,896	3	144,466	-
	<u>12,412,492</u>	<u>3</u>	<u>6,308,696</u>	<u>2</u>
<b>Other adjustments to stockholders' equity:</b>				
Cumulative translation adjustments	(3,400,838)	(1)	(784,234)	-
Unrecognized loss (gain) on pension cost	(1,717)	-	440	-
Unrealized gain on financial assets	122,071	-	48,936	-
Treasury stock	(18,794)	-	(18,794)	-
Deferred compensation arising from issuance of restricted stock	(497,698)	-	-	-
	<u>(3,796,976)</u>	<u>(1)</u>	<u>(753,652)</u>	<u>-</u>
<b>Total Parent Company's Equity</b>	<u>96,078,833</u>	<u>25</u>	<u>91,584,209</u>	<u>31</u>
<b>Minority interest</b>	<u>31,948,399</u>	<u>8</u>	<u>26,612,520</u>	<u>9</u>
<b>Total Stockholders' Equity</b>	<u>128,027,232</u>	<u>33</u>	<u>118,196,729</u>	<u>40</u>
<b>Commitments and Contingencies (Note 7)</b>				
<b>Significant Subsequent Events (Note 9)</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 391,440,565</u>	<u>100</u>	<u>299,575,997</u>	<u>100</u>

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

(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**  
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Years Ended December 31,			
	2012		2011	
	Amount	%	Amount	%
<b>Operating revenues (Note 5)</b>	\$ 884,910,736	100	607,194,959	101
Less: Sales returns and allowances	3,015,352	-	7,252,253	1
<b>Net sales</b>	881,895,384	100	599,942,706	100
<b>Cost of sales (Notes 4(4) and 5)</b>	839,425,989	95	572,945,920	96
<b>Gross profit</b>	42,469,395	5	26,996,786	4
<b>Operating expenses (Notes 5)</b>				
Selling expenses	10,863,306	1	9,284,262	1
General and administrative expenses	8,406,095	1	6,890,483	1
Research and development expenses	12,039,469	2	9,908,933	2
	31,308,870	4	26,083,678	4
<b>Income from operations</b>	11,160,525	1	913,108	-
<b>Non-operating income</b>				
Interest revenue	753,803	-	543,690	-
Investment income under the equity method (Note 4(5))	59,484	-	98,444	-
Dividend income	92,296	-	187,692	-
Gain on disposal of investments (Note 4(2) and 4(6))	127,103	-	840,181	-
Foreign exchange gain, net	930,512	-	1,675,222	-
Gain on valuation of financial asset (Note 4(2))	131,815	-	-	-
Gain on valuation of financial liability (Note 4(2) and 4(11))	46,133	-	-	-
Others (Note 4(7) and 5)	3,101,320	-	2,026,340	1
	5,242,466	-	5,371,569	1
<b>Non-operating expenses</b>				
Interest expense (Note 4(11))	1,064,717	-	602,855	-
Loss on disposal of fixed assets	170,522	-	-	-
Impairment loss (Note 4(2), 4(7) and 4(8))	508,555	-	71,684	-
Loss on valuation of financial asset (Note 4(2) and 4(7))	-	-	160,782	-
Loss on valuation of financial liability (Note 4(2))	-	-	89,842	-
Others (Note 4(5) and 5)	856,639	-	632,122	-
	2,600,433	-	1,557,285	-
<b>Income before income tax</b>	13,802,558	1	4,727,392	1
<b>Income tax expense (Note 4(14))</b>	3,824,925	-	1,422,230	-
<b>Consolidated net income</b>	<b>\$ 9,977,633</b>	<b>1</b>	<b>3,305,162</b>	<b>1</b>
<b>Income attributable to :</b>				
Shareholders of parent company	\$ 6,103,796	1	111,365	-
Minority interest income	3,873,837	-	3,193,797	1
	<b>\$ 9,977,633</b>	<b>1</b>	<b>3,305,162</b>	<b>1</b>
	<b>Before</b>	<b>After</b>	<b>Before</b>	<b>After</b>
	<b>Income Tax</b>	<b>Income Tax</b>	<b>Income Tax</b>	<b>Income Tax</b>
<b>Earnings per share attributable to parent company</b> (Note 4(17))				
<b>Primary earnings per share</b>	<b>\$ 2.90</b>	<b>2.71</b>	<b>0.03</b>	<b>0.05</b>
<b>Diluted earnings per share</b>	<b>\$ 2.72</b>	<b>2.53</b>	<b>0.03</b>	<b>0.05</b>

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

(English Translations of Financial Statements Originally Issued in Chinese)  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**  
(Expressed in Thousands of New Taiwan Dollars)

	Retained earnings					Other adjustments to stockholders' equity					Total	
	Common stock	Capital surplus	Legal reserve	Special reserve	Retained earnings (accumulated deficit)	Cumulative translation adjustments	Unrecognized loss (gain) on pension	Unrealized loss(gain) of financial assets	Deferred compensation	Treasury stock		Minority interest
Balance, January 1, 2011	\$ 22,563,669	63,145,448	1,215,457	-	8,253,605	(5,250,188)	(16)	922,576	-	(9,322)	25,776,270	116,617,499
Company shares held by investee	-	-	-	-	-	-	-	-	-	(9,472)	-	(9,472)
Compensation cost arising from employee stock options	-	49,513	-	-	-	-	-	-	-	-	-	49,513
Net income for the year ended December 31, 2011	-	-	-	-	111,365	-	-	-	-	-	3,193,797	3,305,162
Appropriations and distributions of 2010 earnings (Note 1):												
Legal reserve	-	-	621,144	-	(621,144)	-	-	-	-	-	-	-
Special reserve	-	-	-	4,327,629	(4,327,629)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(3,271,731)	-	-	-	-	-	-	(3,271,731)
Adjustment arising from long-term equity investments	-	121,024	-	-	-	1,986,855	456	(873,640)	-	-	-	1,234,695
Cumulative translation adjustments	-	-	-	-	-	2,479,099	-	-	-	-	533,777	3,012,876
Interest expense incurred from trust of shareholders of parent company	-	149,511	-	-	-	-	-	-	-	-	-	149,511
Cash dividends from minority interest	-	-	-	-	-	-	-	-	-	-	(2,603,205)	(2,603,205)
Capital increase in cash of minority interest	-	-	-	-	-	-	-	-	-	-	368,830	368,830
Effect of consolidation of minority interest	-	-	-	-	-	-	-	-	-	-	(656,949)	(656,949)
<b>Balance, December 31, 2011</b>	<b>\$ 22,563,669</b>	<b>63,465,496</b>	<b>1,836,601</b>	<b>4,327,629</b>	<b>144,466</b>	<b>(784,234)</b>	<b>440</b>	<b>48,936</b>	<b>-</b>	<b>(18,794)</b>	<b>26,612,520</b>	<b>118,196,729</b>
Balance, January 1, 2012	\$ 22,563,669	63,465,496	1,836,601	4,327,629	144,466	(784,234)	440	48,936	-	(18,794)	26,612,520	118,196,729
Issuance of restricted employee stock	339,380	478,366	-	-	-	-	-	-	(497,698)	-	-	320,048
Service cost recognized from granting convertible corporate bonds—stock option	-	329,225	-	-	-	-	-	-	-	-	-	329,225
Compensation cost arising from employee stock options	-	114,472	-	-	-	-	-	-	-	-	-	114,472
Net income for the year ended December 31, 2012	-	-	-	-	6,103,796	-	-	-	-	-	3,873,837	9,977,633
Appropriations and distributions of 2011 earnings (Note 2):												
Legal reserve	-	-	11,136	-	(11,136)	-	-	-	-	-	-	-
Special reserve	-	-	-	(3,592,770)	3,592,770	-	-	-	-	-	-	-
Adjustment arising from long-term equity investments	-	172,709	-	-	-	(1,482,454)	(2,157)	73,135	-	-	-	(1,238,767)
Cumulative translation adjustments	-	-	-	-	-	(1,134,150)	-	-	-	-	(271,397)	(1,405,547)
Cash dividends from minority interest	-	-	-	-	-	-	-	-	-	-	(2,175,417)	(2,175,417)
Capital increase in cash of minority interest	-	-	-	-	-	-	-	-	-	-	3,806,852	3,806,852
Effect of consolidation of minority interest	-	-	-	-	-	-	-	-	-	-	102,004	102,004
<b>Balance, December 31, 2012</b>	<b>\$ 22,903,049</b>	<b>64,560,268</b>	<b>1,847,737</b>	<b>734,859</b>	<b>9,829,896</b>	<b>(3,400,838)</b>	<b>(1,717)</b>	<b>122,071</b>	<b>(497,698)</b>	<b>(18,794)</b>	<b>31,948,399</b>	<b>128,027,232</b>

Note 1: The directors' and supervisors' remuneration of \$12,000 and employees' bonuses of \$127,000 for the year ended December 31, 2010 had been deducted from net income for the year ended December 31, 2010.

Note 2: The directors' and supervisors' remuneration of \$1,000 and employees' bonuses of \$12,100 for the year ended December 31, 2011 had been deducted from net income for the year ended December 31, 2011.

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



(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**  
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31,	
	2012	2011
<b>Cash flows from operating activities:</b>		
<b>Consolidated net income</b>	\$ 9,977,633	3,305,162
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	10,665,478	8,448,496
Amortization	2,498,386	2,514,081
Allowance for uncollectible accounts	(68,023)	-
Loss on inventory market price decline, obsolescence, and impairment	1,038,050	1,007,142
Price adjustment and effect of exchange rate	-	249,590
Employee compensation cost	236,918	256,333
Amortization of discount on bonds payable	67,221	24,533
Gain on foreign currency exchange on bonds payable	(156,066)	-
Amortization of issuance costs on bonds payable	11,537	-
Loss (gain) on foreign currency exchange on long term loans	(944,775)	366,400
Investment income under equity method	(59,484)	(98,444)
Cash dividends from investments under equity method	46,653	139,460
Loss on disposal and retirement of assets	271,670	146,832
Gain on disposal of investments	(127,103)	(840,181)
Loss on disposal of fixed assets	170,522	-
Loss (gain) on valuation of financial assets and liabilities	(177,948)	250,624
Impairment loss	508,555	71,684
Amortization of difference between cost and net equity of investments under equity method	1,114	60,718
Amortization of premium on financial assets	-	1,490
<b>Change in assets and liabilities:</b>		
<b>Change in assets:</b>		
Financial assets reported at fair value through profit or loss	(985,007)	(200,903)
Notes and accounts receivable	(41,287,770)	(25,350,400)
Other accounts receivable	(11,856,612)	(336,123)
Inventories	(29,912,682)	(22,187,728)
Other current assets	(2,607,491)	(2,461,199)
Deferred income tax asset and liability	(72,167)	(446,290)
<b>Change in liabilities:</b>		
Financial liabilities reported at fair value through profit or loss	(1,500)	1,413
Notes and accounts payable	77,093,405	37,395,103
Income tax payable	1,810,889	(349,494)
Accrued expenses	6,262,371	3,718,958
Other financial liabilities — current	1,485,574	1,151,372
Other current liabilities	353,650	(197,369)
Other liabilities — others	11,399	(5,556)
<b>Net cash provided by operating activities</b>	<u>24,254,397</u>	<u>6,635,704</u>
<b>Cash flows from investing activities:</b>		
Acquisition of financial assets available-for-sale	-	(274,233)
Proceeds from disposal of financial assets available-for-sale	123,455	2,098,307
Acquisition of financial assets held-to-maturity	-	(334,868)
Proceeds from disposal of financial assets held-to-maturity	-	326,497
Acquisition of financial assets carried at cost	(75,000)	(451,592)
Proceeds from disposal of financial assets carried at cost	-	157,403
Proceeds from capital reduction of financial assets carried at cost	17,054	-
Purchase of long-term investments under the equity method	-	(688,566)
Proceeds from disposal of long-term investments under the equity method	533,101	117,505
Acquisition of subsidiaries	-	(4,828,216)
Purchase of property, plant and equipment	(20,260,913)	(15,921,966)
Proceeds from disposal of assets, idle assets, intangible assets and deferred charges	1,098,948	2,310,832
Increase in deferred charges	(1,047,687)	(1,286,607)
Purchase of intangible assets	(953,712)	(279,075)
Other financial assets — current	(4,927)	1,233,286
Other financial assets — noncurrent	33,322	(6,769)
Other financial assets — others	(395,879)	21,086
<b>Net cash used in investing activities</b>	<u>(20,932,238)</u>	<u>(17,806,976)</u>

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

(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**  
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31,	
	2012	2011
<b>Cash flows from financing activities:</b>		
Increase (Decrease) in short-term loans	(3,160,207)	7,836,286
Increase (Decrease) in short-term notes and bills payable	(119,943)	170,012
Increase (Decrease) in long-term loans	(883,659)	16,701,800
Issuance of bonds payable	8,835,640	-
Others payable — Related parties	-	(200,000)
Increase in guarantee deposits received	42,409	69,120
Dividend paid	(2,175,416)	(5,874,937)
Increase in cash capital (including minority equity )	3,872,596	368,830
Employee stock option	1,862	95,727
Repurchased treasury stock	-	(9,472)
Issuance of restricted stock to employees	339,380	-
<b>Net cash provided by financing activities</b>	<b>6,752,662</b>	<b>19,157,366</b>
<b>Foreign exchange rate effects</b>	<b>(370,755)</b>	<b>203,332</b>
<b>Net increase in cash</b>	<b>9,704,066</b>	<b>8,189,426</b>
<b>Cash, beginning of the year</b>	<b>50,453,433</b>	<b>42,264,007</b>
<b>Cash, end of the year</b>	<b>\$ 60,157,499</b>	<b>\$ 50,453,433</b>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the year for:</b>		
Interest	<b>\$ 911,037</b>	<b>508,546</b>
Income tax	<b>\$ 1,866,170</b>	<b>2,194,192</b>
<b>Non-cash investing and financing</b>		
Reclassification of current portion of long-term loans (including current portion of long-term accounts payable)	<b>\$ 8,850,852</b>	<b>913,849</b>
<b>Purchase of property and equipment with cash and other payables:</b>		
Property, plant and equipment	\$ 16,480,792	19,923,472
Add: Other payable, beginning of the year	4,943,219	468,686
Add: Balance of property, plant and equipment from subsidiary acquired	-	473,027
Less: Other payable, end of the year	(1,163,098)	(4,943,219)
<b>Cash paid</b>	<b>\$ 20,260,913</b>	<b>15,921,966</b>
<b>Cash received from disposal of equity investments in subsidiaries:</b>		
Proceeds of disposal of equity investments in subsidiaries	\$ 628,198	165,613
Less: cash decreased in subsidiaries	(95,097)	(48,108)
<b>Cash received</b>	<b>\$ 533,101</b>	<b>117,505</b>
<b>Cash paid from acquisition of subsidiaries:</b>		
Balance of cash from subsidiary acquired		1,653,198
Acquisition of non-monetary assets		11,357,182
Goodwill arising from acquisition		979,698
Liabilities assumed		(7,466,549)
Minority interest		(295,761)
Acquisition cost		6,227,768
Less: Price adjustment and effect of exchange rate		253,646
Less: Cash balance from consolidated subsidiary		(1,653,198)
<b>Cash paid from acquisition of subsidiaries</b>		<b>\$ 4,828,216</b>

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

(English Translation of Financial Report Originally Issued in Chinese)

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

(Amounts Expressed in Thousands of New Taiwan Dollars,  
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 December 31, 2012 and 2011, the Company and its subsidiaries (the “Consolidated Company”) had 177,948 and 112,318 employees, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**(1) Basis of consolidation**

- a. The consolidated financial statements include the Company and its controlled subsidiaries, in which the significant inter-company transactions were eliminated. As of December 31, 2012 and 2011, the consolidated subsidiaries were as follows:

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
The Company	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	100.00%	100.00%	The Company directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
UNIHAN AND ASUSPOWER INVESTMENT	ABILITY ENTERPRISE CO., LTD. (Ability(TW))	Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products and leasing	12.31%	12.36%	UNIHAN AND ASUSPOWER INVESTMENT has de facto control
Ability (TW)	ABILITY ENTERPRISE (BVI) CO., LTD. (ABILITY)	Investing activities	100.00%	100.00%	Ability (TW) directly owns over 50% of equity
Ability (TW)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%	Ability (TW) directly owns over 50% of equity
Ability (TW)	VIEWQUEST TECHNOLOGIES INTERNATIONAL INC.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%	Ability (TW) directly owns over 50% of equity
Ability (TW)	ASSOCIATION INTERNATIONAL LTD.	Investing activities	-	100.00%	Ability (TW) directly owns over 50% of equity
Ability (TW)	VIEWQUEST TECHNOLOGIES (BVI) INC. (VQ(BVI))	Manufacturing and trading computer peripherals, digital cameras and electronic components	100.00%	100.00%	Ability (TW) directly owns over 50% of equity
Ability (TW)	Ability International Investment Co., Ltd.(ABILITY INVESTMENT)	Investing activities	100.00%	100.00%	Ability (TW) directly owns over 50% of equity
Ability (TW)	E-PIN OPTICAL INDUSTRY CO. LTD.(E-PIN)	Selling electronic components of optical products	53.01%	53.01%	Ability (TW) directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
ABILITY	Ability Technology (Dongguan) Co., Ltd.	Manufacturing and selling digital cameras	100.00%	100.00%	ABILITY directly owns over 50% of equity
ABILITY	Jiujiang Viewquest Electronics Inc.	Manufacturing and selling digital cameras	100.00%	100.00%	ABILITY directly owns over 50% of equity
VQ(BVI)	VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD.	Manufacturing and selling digital cameras	100.00%	100.00%	VQ(BVI) directly owns over 50% of equity
E-PIN	E-PIN INTERNATIONAL TECH CO., LTD.	Manufacturing optical instruments	-	65.10%	E-PIN directly owns over 50% of equity
E-PIN	E-PIN OPTICAL INDUSTRY CO., LTD.	Trading activities	100.00%	100.00%	E-PIN directly owns over 50% of equity
E-PIN	E-PIN OPTICAL INDUSTRY (M.) SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	E-PIN directly owns over 50% of equity
E-PIN	ALL VISION TECHNOLOGY SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	E-PIN directly owns over 50% of equity
E-PIN	ALL VISION HOLDING LTD. (AV)	Investing activities	100.00%	100.00%	E-PIN directly owns over 50% of equity
AV	EVERLIGHT DEVELOPMENT CORPORATION (ED)	Investing activities	100.00%	100.00%	AV directly owns over 50% of equity
AV	E-SKY HOLDING LTD. (ES)	Investing activities	73.04%	73.04%	AV directly owns over 50% of equity
ED	WEIHAI E-SKY OPTICAL-ELECTRICAL CO., LTD.	Manufacturing and developing precision optical lenses	-	100.00%	ED directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
ED	NANJING CHANGMING PHOTOELECTRIC TECHNOLOGY CO., LTD.	Manufacturing and developing precision optical lenses	55.45%	55.45%	ED directly owns over 50% of equity
ES	ZHONGSHAN SANXIN PRECISION INDUSTRY CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	100.00%	ES directly owns over 50% of equity
ES	NANJING E-PIN OPTOTECH CO., LTD.	Manufacturing and developing precision optical lenses	72.22%	72.22%	ES directly owns over 50% of equity
UNIHAN	UNIHAN HOLDING LTD. (UNIHAN HOLDING)	Investing activities	100.00%	100.00%	UNIHAN directly owns over 50% of equity
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDINGS)	Investing and trading activities	100.00%	100.00%	UNIHAN HOLDING directly owns over 50% of equity
CASETEK HOLDINGS	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	CASETEK HOLDINGS directly owns over 50% of equity
CASETEK HOLDINGS	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00%	100.00%	CASETEK HOLDINGS directly owns over 50% of equity
CASETEK HOLDINGS	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDINGS)	Investing and trading activities	100.00%	100.00%	CASETEK HOLDINGS directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
KAEDAR HOLDINGS	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00%	100.00%	KAEDAR HOLDINGS directly owns over 50% of equity
CASETEK HOLDINGS	GRAND UPRIGHT TECHNOLOGY LIMITED	Trading activities	100.00%	100.00%	CASETEK HOLDINGS directly owns over 50% of equity
CASETEK HOLDINGS	KAEDAR TRADING LTD.	Investing and trading activities	100.00%	100.00%	CASETEK HOLDINGS directly owns over 50% of equity
CASETEK HOLDINGS	CORE-TEK (SHANGHAI) LIMITED	Researching and producing spare parts for notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00%	100.00%	CASETEK HOLDINGS directly owns over 50% of equity
UNIHAN, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	38.08%	38.65%	UNIHAN, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT has de facto control
AZURE WAVE	EMINENT STAR COMPANY LIMITED (EMINENT)	Investing activities	100.00%	100.00%	AZURE WAVE directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
EMINENT	HANNEX INTERNATIONAL LIMITED (HANNEX)	Investing activities	100.00%	100.00%	EMINENT directly owns over 50% of equity
HANNEX	SCIENTEK. NANJING CO., LTD.	Designing, manufacturing and selling computer products	100.00%	100.00%	HANNEX directly owns over 50% of equity
EMINENT	JADE TECHNOLOGIES LIMITED (JADE)	Investing activities	100.00%	100.00%	EMINENT directly owns over 50% of equity
EMINENT · JADE	AZUREWAVE TECHNOLOGY (SHENZHEN) CO., LTD.	Designing, researching and selling computer products	100.00%	100.00%	EMINENT · JADE directly and indirectly held 100% of equity
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00%	100.00%	AZURE WAVE directly owns over 50% of equity
AZURE WAVE	AZWAVE HOLDING (SAMOA) INC. (AZWAVE SAMOA)	Investing activities	100.00%	100.00%	AZURE WAVE directly owns over 50% of equity
AZWAVE SAMOA	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and selling computer products	100.00%	100.00%	AZWAVE SAMOA directly owns over 50% of equity
AZWAVE SAMOA	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00%	100.00%	AZWAVE SAMOA directly owns over 50% of equity
AZWAVE SAMOA	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00%	100.00%	AZWAVE SAMOA directly owns over 50% of equity



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00%	100.00%	AZURE WAVE directly owns over 50% of equity
UNIHAN	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	100.00%	UNIHAN directly owns over 50% of equity
AMA PRECISION	AMA TECHNOLOGY CORPORATION	Trading computer peripherals	100.00%	100.00%	AMA PRECISION directly owns over 50% of equity
AMA PRECISION	AMA HOLDINGS LIMITED (AMA)	Investing activities	100.00%	100.00%	AMA PRECISION directly owns over 50% of equity
AMA	METAL TRADINGS LTD.(METAL)	Trading activities	100.00%	100.00%	AMA directly owns over 50% of equity
METAL	FENGSHUO TRADING (TONGZHOU) CO., LTD.	Trading activities	100.00%	100.00%	METAL directly owns over 50% of equity
AMA	EXTECH LTD.	Trading electronic parts	90.51%	90.51%	AMA directly owns over 50% of equity
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	100.00%	100.00%	EXTECH LTD. directly owns over 50% of equity
AMA	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD	Manufacturing and selling new electronic parts and premium hardware	100.00%	100.00%	AMA directly owns over 50% of equity
THE COMPANY	ASUS HOLLAND HOLDING B.V.(AHH)	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
AHH	PEGATRON CZECH S.R.O.	Installing, repairing and selling electronic products	100.00%	100.00%	AHH directly owns over 50% of equity
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00%	100.00%	PEGATRON HOLDING directly owns over 50% of equity
POWTEK	POWTEK (SHANGHAI) CO., LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00%	100.00%	POWTEK directly owns over 50% of equity
PEGATRON HOLDING, KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing activities	100.00%	100.00%	PEGATRON HOLDING, KINSUS SAMOA directly and indirectly held 100% of equity
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing and trading activities	100.00%	100.00%	PIOTEK CAYMAN directly owns over 50% of equity
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	PIOTEK HOLDING directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
PIOTEK HOLDING	PIOTEK (H.K) TRADING LIMITED	Trading activities	100.00%	100.00%	PIOTEK HOLDING directly owns over 50% of equity
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00%	100.00%	PEGATRON HOLDING directly owns over 50% of equity
ASLINK	ASLINK (H.K.) PRECISION CO., LIMITED	Investing and trading activities	-	100.00%	ASLINK directly owns over 50% of equity
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00%	100.00%	PEGATRON HOLDING directly owns over 50% of equity
DIGITEK	DIGITEK (CHONGQING) LTD.	Manufacturing, developing, and selling GPS, computer electronic devices, and after-sales services	100.00%	100.00%	DIGITEK directly owns over 50% of equity
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%	PEGATRON HOLDING directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00%	100.00%	MAGNIFICENT directly owns over 50% of equity
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00%	100.00%	PEGATRON HOLDING directly owns over 50% of equity
PROTEK	PROTEK (SHANGHAI) LIMITED	Developing, manufacturing and selling GPS, new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	PROTEK directly owns over 50% of equity
PEGATRON HOLDING	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%	PEGATRON HOLDING directly owns over 50% of equity
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	COTEK directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
PEGATRON HOLDING	TOP QUARK LIMITED (TOP QUARK)	Investing activities	100.00%	100.00%	PEGATRON HOLDING directly owns over 50% of equity
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00%	100.00%	TOP QUARK directly owns over 50% of equity
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	58.65%	58.65%	ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT directly owns over 50% of equity
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Manufacturing and selling database storage and processing equipments	100.00%	100.00%	ASROCK directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
ASIAROCK	ASROCK EUROPE B.V.	Manufacturing and selling database service and trading electronic components	100.00%	100.00%	ASIAROCK directly owns over 50% of equity
ASIAROCK	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%	ASIAROCK directly owns over 50% of equity
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing and holding activities	100.00%	100.00%	ASROCK directly owns over 50% of equity
Leader	Firstplace International Ltd. (Firstplace)	Investing and holding activities	100.00%	100.00%	Leader directly owns over 50% of equity
Firstplace	ASROCK America., Inc.	Database service and trading electronic components	100.00%	100.00%	Firstplace directly owns over 50% of equity
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00%	100.00%	ASUSPOWER INVESTMENT AND ASUS INVESTMENT directly and indirectly held 100% of equity
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, wholeselling and retailing electronic components, and providing business management consultant service	39.00%	39.00%	The investors have de facto control
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00%	100.00%	KINSUS directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	68.75%	84.45%	KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT directly owns over 50% of equity
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00%	-	PEGAVISION CORPORATION directly owns over 50% of equity
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Manufacturing medical appliances	100.00%	-	PEGAVISION directly owns over 50% of equity
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%	KINSUS directly owns over 50% of equity
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	KINSUS directly owns over 50% of equity
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	100.00%	KINSUS SAMOA directly owns over 50% of equity
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	KINSUS CAYMAN directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION (STARLINK)	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	100.00%	ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT directly and indirectly held 100% of equity
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00%	100.00%	ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT directly and indirectly held 100% of equity
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED (CAYMAN) (CASETEK CAYMAN)	Investing activities	74.39%	100.00%	ASUSPOWER CORPORATION directly owns over 50% of equity
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00%	100.00%	CASETEK CAYMAN directly owns over 50% of equity
CASETEK CAYMAN	RIH KUAN METAL CORPORATION (RIH KUAN)	Selling iron and aluminum products	100.00%	100.00%	CASETEK CAYMAN directly owns over 50% of equity
CASETEK CAYMAN	APLUS PRECISION LIMITED (APLUS)	Investing and trading activities	100.00%	70.00%	CASETEK CAYMAN directly owns over 50% of equity



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00%	100.00%	CASETEK CAYMAN directly owns over 50% of equity
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	100.00%	APLUS directly owns over 50% of equity
UNITED	AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	100.00%	UNITED directly owns over 50% of equity
RIH LI	GLOBAL EXPERT LIMITED	Trading activities	-	-	RIH LI directly owns over 50% of equity
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	Manufacturing and selling electronic components	100.00%	100.00%	RIH LI directly owns over 50% of equity
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	100.00%	RIH LI directly owns over 50% of equity
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	100.00%	RIH LI directly owns over 50% of equity
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Manufacturing and selling electronic components	100.00%	100.00%	RIH LI directly owns over 50% of equity
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%	ASUS INVESTMENT directly owns over 50% of equity

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

## PEGATRON CORPORATION AND ITS SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00%	100.00%	ASUSPOWER INVESTMENT directly owns over 50% of equity
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.(PCBR)	Maintenance service	100.00%	100.00%	PTSI directly owns over 50% of equity
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	100.00%	ASUSPOWER INVESTMENT directly owns over 50% of equity
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00%	100.00%	ASUSPOWER INVESTMENT directly owns over 50% of equity
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00%	100.00%	ASUSPOWER INVESTMENT directly owns over 50% of equity
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens Optics)	Developing, manufacturing and selling computer data projectors and related peripherals	56.52%	56.52%	ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT directly owns over 50% of equity
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	100.00%	Lumens Optics directly owns over 50% of equity
Lumens Optics	Lumens Digital Image Inc.(SAMOA) (Lumens)	Investing activities	100.00%	100.00%	Lumens Optics directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.12.31	2011.12.31	
Lumens	Lumens (Suzhou) Digital Image Inc.	Developing, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	100.00%	Lumens directly owns over 50% of equity
Lumens Optics	Lumens Europe BVBA	Selling computer communication products and peripherals	-	100.00%	Lumens Optics directly owns over 50% of equity
Lumens Optics	Jie Xin Inc.	Manufacturing and wholesaling electronic parts	-	94.00%	Lumens Optics directly owns over 50% of equity
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%	ASUS INVESTMENT directly owns over 50% of equity
The Company	ADVANSUS CORP.	Manufacturing computer peripherals	-	50.00%	The Company directly owns over 50% of equity
The Company	PEGATRON USA, INC.	Sales and repair service center in North America	100.00%	100.00%	The Company directly owns over 50% of equity

b. Increases or decreases in the number of consolidated subsidiaries as of December 31, 2012 were as follows:

1. In January 2011, ASUSPOWER CORPORATION acquired 100% equity ownership of CASETEK HOLDING LIMITED (CAYMAN) for USD 95,000 thousand. Following its acquisition of the equity ownership for USD 201,205 thousand, ASUSPOWER CORPORATION obtained control over RIH LI INTERNATIONAL LIMITED (SAMOA) and its subsidiaries GLOBAL EXPERT LIMITED, RI-TENG SHANGHAI and RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD. through CASETEK HOLDING LIMITED (CAYMAN).

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

2. For the year ended December 31, 2011, ASUSPOWER INVESTMENT CO., LTD., ASUS INVESTMENT CO., LTD. and ASUSTEK INVESTMENT CO., LTD. has established and invested USD 5,000 thousand, USD 10,000 thousand, NT\$300,000 thousand and USD 1,000 thousand in SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LTD. and RI-MING (SHANGHAI) CO., LTD. in Mainland China and RI-KUAN METAL CORPORATION and MEGA MERIT LIMITED in Taiwan through ASUSPOWER CORPORATION, respectively. ASUSPOWER INVESTMENT CO., LTD., ASUS INVESTMENT CO., LTD. and ASUSTEK INVESTMENT CO., LTD. thus acquired 100% equity ownership of the aforesaid newly established subsidiaries.
3. Due to organization restructuring, ASUS INVESTMENT CO., LTD. sold its 7.55% equity ownership of AHH to the Company in December 2011. Thus, the Company held 100% equity ownership of AHH as of December 31, 2011.
4. For the year ended December 31, 2011, ASUSPOWER INVESTMENT CO., LTD. has invested and established PEGATRON LOGISTIC SERVICES INC. for USD 1,000, and directly owned 100% of its equity.
5. In April 2011, CASETEK HOLDINGS LIMITED (“CASETEK HOLDINGS”) acquired ownership of another 19% of total issued shares of APLUS from AVY PRECISION TECHNOLOGY INC. for USD 10,281 thousand, which increased its total equity ownership in APLUS to 70%. Also, CASETEK HOLDINGS sold its equity ownership of APLUS at book value to CASETEK HOLDINGS LIMITED (CAYMAN), a subsidiary of the Company, due to the Group’s organizational restructuring in June 2011. In November 2011, CASETEK HOLDINGS LIMITED (CAYMAN) acquired the remaining 30% of equity ownership in APLUS from AVY PRECISION TECHNOLOGY INC. APLUS becomes a wholly owned subsidiary of CASETEK HOLDINGS LIMITED (CAYMAN) following the acquisition.
6. For the year ended December 31, 2011, the Company has established and invested DIGITEK (CHONGQING) LTD. In Mainland China through DIGITEK GLOBAL HOLDINGS LIMITED. The Company acquired 100% equity ownership of DIGITEK (CHONGQING) LTD. For USD 10,000 thousand.
7. GLOBAL EXPERT LIMITED was excluded from the consolidated financial statements as it was liquidated in November 2011.
8. ASLINK (H.K.) PRECISION CO., LTD. was excluded from the consolidated financial statements as it was liquidated in February 2012.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

9. For the year ended December 31, 2011, Ability (TW) acquired the 52.24% and 0.77% equity ownership of E-PIN from non-related parties and related parties for \$366,664 and \$2,549, respectively. Following the acquisition, Ability (TW) obtained a significant control over E-PIN OPTICAL INDUSTRY CO., LTD. and its subsidiaries.
10. Ability (TW) invested NT\$40,000 in exchange for an 80% equity ownership of a newly established company named, NOENA CORPORATION (NOENA). In April 2011, Ability (TW) has sold its entire equity ownership in NOENA CORPORATION to a non-related party. Furthermore, Ability (TW) invested and acquired 100% of the equity ownership of Jiuqing Viewquest Electronics Inc. through a third party.
11. Lumen Europe BVBA was excluded from the consolidated financial statements as it was liquidated in 2012.
12. Due to business consideration, Jie Xin Inc. has undertaken a liquidation process for the year ended December 31, 2012 and was excluded from the consolidated financial statements following its liquidation in December 2012.
13. For the year ended December 31, 2012, the Consolidated Company disposed all equity ownership in ADVANSUS CORP. Please refer to Note 4(6) for details of the disposal.
14. For the year ended December 31, 2011, Ability (TW) has invested and established VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. in Mainland China through VIEWQUEST TECHNOLOGIES (BVI) INC. Ability (TW) acquired 100% equity ownership of VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. for USD 3,300 thousand. Moreover, Ability (TW) has increased its equity investment in VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. by USD 8,829 for the year ended December 31, 2012.
15. E-PIN INTERNATIONAL TECH CO., LTD. was excluded from the consolidated financial statements as it was liquidated in April 2012.
16. WEIHAI E-SKY OPTICAL ELECTRICAL CO., LTD. was excluded from the consolidated financial statements as it was liquidated in August 2012.
17. In September 2012, ASSOCIATION INTERNATIONAL LTD. (ASSOCIATION) has completed its liquidation process. Ability (TW) has recognized a loss from disposal of investment of \$6,883 based on the difference between the book value of the investment in ASSOCIATION and the amount remitted. ASSOCIATION was excluded from the consolidated financial statements as it was liquidated in September 2012.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

18. In March 2012, PEGAVISION CORPORATION has invested and established PEGAVISION HOLDINGS CORPORATION for USD 120 thousand and directly owned 100% equity of the aforesaid subsidiary.
19. In July 2012, PEGAVISION CORPORATION has undergone a capital reduction and capital increment of \$180,000. As KINSUS INVESTMENT and ASUSPOWER INVESTMENT did not participate in the capital increase of PEGAVISION CORPORATION according to their equity holding percentages, the equity ownership of KINSUS INVESTMENT and ASUSPOWER INVESTMENT have decreased from 56.67% and 27.78% to 53.83% and 13.89%, respectively. Also, ASUSTEK INVESTMENT has acquired 12.50% equity ownership of PEGAVISION CORPORATION by participating in its capital increase. In October 2012, PEGAVISION CORPORATION increased its capital by \$60,000. As KINSUS INVESTMENT, ASUSPOWER INVESTMENT and ASUSTEK INVESTMENT did not participate in this capital increase of PEGAVISION CORPORATION according to their equity holding percentages, the equity ownership of KINSUS INVESTMENT, ASUSPOWER INVESTMENT and ASUSTEK INVESTMENT in PEGAVISION CORPORATION have decreased from 53.83%, 13.89% and 12.50% to 46.14%, 11.90% and 10.71%, respectively.
20. In December 2012, KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS) has invested and established PEGAVISION (SHANGHAI) LIMITED in Mainland China through PEGAVISION HOLDINGS CORPORATION. KINSUS acquired 100% equity ownership of PEGAVISION (SHANGHAI) LIMITED for USD 100 thousand.

According to SFAS No. 7 "Consolidated Financial Statements," if the Consolidated Company has the ability to control the entities described above, those entities are treated as subsidiaries and are included in the consolidation financial statements.

- c. The entities in which the Company owns less than 50% of the voting shares but were included in the consolidated financial statements were as follows:

AZURE WAVE TECHNOLOGY CORP., ABILITY ENTERPRISE CO., LTD. and KINSUS INTERCONNECT TECHNOLOGY CORP., were included in the consolidated financial statements even if the Consolidated Company holds 38.08%, 12.31% and 39.00%, respectively, or less than 50% of their total issued shares because the Consolidated Company has acquired more than 50% of voting shares of each of these entities and has the ability to excise control over their respective board of directors.

- d. Subsidiaries excluded from consolidation: None.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

e. Refer to Note 4(11) for related information on convertible bonds and new shares issued by subsidiaries.

**(2) Use of Estimates**

The preparation of the accompanying consolidated 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 financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

**(3) Foreign Currency and Financial Report 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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**(4) 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 noncurrent liabilities.

**(5) Assets Impairment**

The Consolidated Company adopted Statement of Financial Accounting Standards No. 35 (SFAS 35) “Impairment of Assets.” In accordance with SFAS 35, the Consolidated 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 recoverable amount of the asset is estimated and impairment loss is recognized for an asset whose carrying value is higher than the recoverable amount.

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

Goodwill and intangible assets that have indefinite lives or that is not yet available for use annually are assessed for impairment and impairment loss is recognized if the carrying value exceeds the recoverable amount. The loss is first recorded against the goodwill allocated to the CGU, with any remaining loss allocated to other assets on a pro rata basis proportionate to their carrying amounts. The write-down of goodwill is not reversed in subsequent periods under any circumstances.

**(6) Cash and Cash Equivalents**

Cash and cash equivalents are cash, bank deposit, and highly liquid short-term investment which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes resulting from fluctuations in interest rates.



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**(7) Financial Instruments**

a. Financial assets 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.

b. Available-for-sale financial assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Available-for-sale financial assets are subsequently measured at fair value, and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized in earnings. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

c. Held-to-maturity financial assets

Held-to-maturity financial assets are financial instruments that the Consolidated Company has the positive intention and ability to hold to maturity. At initial recognition, held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, held-to-maturity financial assets are carried at amortized cost. Profit or loss is recognized when these financial assets are derecognized, impaired, or amortized. Acquisition or sale of these financial assets is measured using trade-date accounting.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

d. Financial assets carried at cost

Investments in equity securities without reliable market prices, including emerging and other unlisted shares of stock, are measured at cost. If objective evidence of impairment exists, impairment loss is recognized thereon, which is not reversed in subsequent periods.

e. 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 Consolidated 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.

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.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

f. Financial 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 do not meet the criteria for hedge accounting are 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.

g. Short-term notes payable

Short-term notes payable are carried at their present value, and discounts on notes payable are treated as contra accounts to short-term notes payable.

h. Compound financial instruments

Compound financial instruments issued by the Consolidated 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.

**(8) 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.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

- 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 Consolidated Company's accounts receivable which has not been advanced is accounted under other accounts receivable.

**(9) 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.

**(10) Long-Term Investments at Equity (Including Joint Ventures)**

Long-term equity investments in which the Consolidated 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 a joint venture in which the Company has the ability to control is accounted for under the equity method.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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.

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.

**(11) 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	3 to 60 years
Machinery and equipment	1 to 10 years
Warehousing equipment	5 to 15 years
Instrument equipment	3 to 5 years
Transportation equipment	3 to 20 years
Office equipment	3 to 20 years
Miscellaneous equipment	1 to 25 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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(12) Intangible Assets

According to the Statement of Financial Accounting Standard No. 37 (SFAS 37) "Intangible Assets," intangible assets are 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 10 years
Trademark rights	5 to 20 years
Patents	5 to 20 years
Land use rights	45 to 50 years
Customer relationship	3 years
Technology	3 years
Development	5 years

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life are evaluated at least at each financial year end. Any changes thereof are accounted for as changes in accounting estimates.

Under the purchase method, the excess of acquisition costs over the fair value of identifiable assets acquired is recorded as goodwill. Goodwill is measured at its cost less the impairment losses.

The Consolidated Company evaluates intangible assets periodically for impairment in accordance with the statement of Financial Accounting Standards No. 35 (SFAS 35) "Impairment of Assets."

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

**(13) Deferred Charges**

The costs of renovation project, molds, fixtures and office decorations are deferred and amortized equally over 3 months to 10 years.

**(14) Pension Plan**

Domestic public companies in the Republic of China, have adopted SFAS No.18 “Accounting for Pensions” as the basis of accounting for its defined benefits pension plan. Net periodic pension cost recognized in accordance with SFAS No. 18, includes the current service cost, amortization of net transition asset or obligation, prior service cost and amortization of unrecognized gain (loss) on pension plan on straight-line basis over the expected average remaining service period of the employees in accordance with the rules set by the SFB. Under this plan, these entities contribute monthly an amount equal to certain percentage of gross salary to a pension fund, which is deposited into a designated depository account with the Bank of Taiwan.

Pursuant to the Labor Pension Act, domestic private companies in the Republic of China, contribute an amount equal to 6% of gross salary of each employee to the Council of Labor Affairs. These contributions are accrued and recognized as pension expense during the period when the service is rendered.

The Consolidated Company adopted a defined contribution pension plan according to the regulations of their respective jurisdiction and recognize pension contributions as current expenses when the service is rendered. According to the regulations of the Peoples Republic of China government, the subsidiaries in mainland China contribute basic retirement insurance fees equal to the legal percentages of employee’s salary and recognize these fees as current expenses on accrual basis.

Other overseas subsidiaries contribute pension costs periodically on the basis of the local labor law of each subsidiary’s registered jurisdiction.

**(15) 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.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

**(16) 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.

**(17) Classification of Capital and Operating Expenditures**

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

**(18) Share-based payment transactions**

The Consolidated 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.

- a. 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.
- b. 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.
- c. 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.



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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

- d. Company shares of stock award to employees subject to certain restrictions is an equity-settled share-based payment transaction, which 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. Employees receiving restricted stock awards are not limited to the right to receive dividends, and need not return receipt of dividends as they resign within the vesting period. However, upon the Company's declaration of dividend, dividends expected to be received by employees resigning within the vesting period are estimated based on grant-date fair value and are recognized as a compensation cost.
- e. According to SFAS No. 39 "Share-based Payment", this accounting standard need not be applied retroactively to the share-based payments that were granted before January 1, 2008; however, the pro forma net income and net income per share should be disclosed.

**(19) 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 employee bonuses and remuneration to directors and supervisors are estimated and recognized as expenses in the year 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.

**(20) Treasury Stock**

As the Consolidated Company purchased its outstanding shares, the Consolidated 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.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

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.

**(21) 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 Consolidated 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. 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 Consolidated Company is reported as current expense on the date when the stockholders declared not to distribute the earnings during their annual meeting.

The income tax is reported individually by each consolidated entity with the relevant jurisdiction and is not reported on a consolidated basis. The consolidated income tax expense is the aggregate amount of income tax expenses for all consolidated entities.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

**(22) 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.

**(23) 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.

**(24) 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.

**(25) Business Combinations**

According to SFAS No. 25 “Business Combination,” the equity of the acquiring corporation in a business combination acquired 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.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

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

**(26) Operating Segments**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance for which discrete financial information is available.

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

Effective from January 1, 2011, the Consolidated 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 the consolidated income for the year ended December 31, 2011.

Effective from January 1, 2011, the Consolidated 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 year ended December 31, 2011.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. Summary of Major Accounts

(1) Cash and Cash Equivalents

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Cash on hand	\$ 44,937	29,797
Demand deposits	25,258,294	20,216,877
Time deposits	34,796,188	29,616,259
Cash equivalents — RP Bonds	58,080	590,500
Total	<u>\$ 60,157,499</u>	<u>50,453,433</u>

a. The aforesaid RP Bonds cover a redemption period from December 20, 2012 to March 20, 2014 and January 2, 2012 to February 2, 2012 and bear interest at annual rate of 1.50% and 0.62%~0.63%, respectively.

b. The aforesaid cash and cash equivalents were not pledged as collateral. Pledged time deposits were accounted for under other financial assets.

(2) Financial Instruments

The components of financial instruments were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Financial assets reported at fair value through profit or loss — current:		
Financial assets held-for-trading — current		
Stock of listed companies	\$ 311,175	739,571
Beneficiary certificates	7,174,886	5,639,583
Forward exchange contracts and others	271	2,085
Foreign exchange swap contracts	58	135
Option exchange	-	4,496
Corporate bonds	47,646	31,815
	<u>\$ 7,534,036</u>	<u>6,417,685</u>
	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Available-for-sale financial assets — current:		
Stock of listed companies	\$ 90,979	40,015
Stock of overseas listed companies	414,940	414,737
Total	<u>\$ 505,919</u>	<u>454,752</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Available-for-sale financial assets — noncurrent:		
Stock of listed companies	<u>\$ 1,169,156</u>	<u>463,921</u>
Financial assets carried at cost — noncurrent:		
Equity securities – common stock	\$ 422,729	414,729
Equity securities – preferred stock	224,592	325,580
	<u>\$ 647,321</u>	<u>740,309</u>
Financial liabilities reported at fair value through profit or loss — current:		
Financial liabilities held-for-trading — current		
Foreign exchange swap contracts	\$ -	1,367
Forward exchange contracts	98	232
Sub-total	<u>\$ 98</u>	<u>1,599</u>
Financial liabilities reported at fair value through profit or loss — current:		
Domestic convertible bonds — put and call options	\$ (1,578)	(1,578)
Adjustments	70,564	102,562
Sub-total	<u>68,986</u>	<u>100,984</u>
Total	<u>\$ 69,084</u>	<u>102,583</u>
	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Financial liabilities reported at fair value through profit or loss — noncurrent:		
Financial liabilities held-for-trading — noncurrent		
Foreign convertible bonds — put and call options	\$ 20,410	-
Adjustments	(14,135)	-
Total	<u>\$ 6,275</u>	<u>-</u>

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

- a. For the years ended December 31, 2012 and 2011, the Consolidated Company recognized a net gain (loss) on financial assets reported at fair value through profit or loss of \$131,815 and \$(160,782), respectively.
- b. For the years ended December 31, 2012 and 2011, the unrealized gain (loss) on available-for-sale financial assets amounted to \$113,473 and \$(1,216,141), respectively. Also, the Consolidated Company sold its equity ownership in AVY PRECISION TECHNOLOGY INC. (“AVY PRECISION”), which resulted in the Consolidated Company holding less than 20% equity shares of AVY PRECISION so that the Consolidated Company ceased significant control of AVY PRECISION. Therefore, the Consolidated Company has reclassified its equity investment in AVY PRECISION to available-for-sale financial assets — noncurrent. Please refer to Note 4(5) for details.
- c. The investments in equity securities held by the Consolidated Company with no quoted price from active market and the fair value cannot be measured reliably, were reported as financial assets carried at cost — noncurrent. The Consolidated Company evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of \$100,370 and \$21,435 for the years ended December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, the Consolidated Company had accumulated impairment loss of \$309,155 and 212,042, respectively. Also, since May 2012, the Consolidated Company has ceased significant control of YOFREE TECHNOLOGY CO., LTD. Therefore, the Consolidated Company has reclassified its equity investment in YOFREE TECHNOLOGY CO., LTD. to financial assets carried at cost. Please refer to Note 4(5) for further details.
- d. The Consolidated Company’s investments in Ralink, accounted under available-for-sale financial asset — noncurrent, was transferred to investments in MediaTek Inc. as MediaTek Inc. acquired Ralink via shares swap in October 2012. The Consolidated Company recognized the cost of the transferred stock as the fair value of the investments in Ralink on the effective date of stock conversion and recognized the accumulated unrealized gain of \$338,716 as current profit.
- e. For the year ended December 31, 2011, the Consolidated Company sold for USD 18,904 thousand to a third party all of its equity ownership in Atheros Communications Inc. of 443,741 shares at USD 42.6 per share and recognized a gain thereon of \$331,781.
- f. During the first quarter of 2011, KINSUS sold all of its equity ownership in KINMAC SOLAR CO., LTD., of 10,711 thousand shares to WIN Semiconductors Corporation and 50 thousand shares to a third party, totaling 10,761 thousand shares at \$11 per share, for a total selling price of \$118,015, net of securities transaction tax.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

g. In accordance with SFAS No. 34 “Financial Instruments: Recognition and Measurement” and SFAS No. 36 “Financial Instruments: Disclosure and Presentation,” ASROCK INCORPORATION (ASROCK) reclassified its investment in ASMEDIA TECHNOLOGY INC. (ASMEDIA) from financial assets carried at cost — noncurrent to available-for-sale financial assets — current following ASMEDIA’s approval of listing on Taiwan Stock Exchange on December 12, 2012. For the year ended December 31, 2012, ASROCK has recognized unrealized gain of \$30,979 on available-for-sale financial asset — current.

Also, in order to cooperate with ASMEDIA’s public offering, ASROCK has voluntarily deposited 600 thousand shares of ASMEDIA’s stock for custody by the Taiwan Depository and Clearing Corporation where those shares cannot be sold. However, ASROCK can withdraw 50% of deposited shares after six months of ASMEDIA’s public listing and can also withdraw the remaining deposited shares after one year of ASMEDIA’s public listing.

h. The Company separately accounts for the equity components and liability components of the overseas convertible corporate bonds in accordance with SFAS 36. Please refer to Note 4(11) for details.

i. As of December 31, 2012 and 2011, the components of financial derivatives of Ability (TW) and GLOBAL EXPERT LIMITED were as follows:

	December 31, 2012		
	Book Value	Notional Principal (thousands)	Maturity Date/ Contract Period
Derivative financial assets not for hedge			
Foreign exchange swap contracts	\$ 58	USD 6,100	2012.12~2013.01
Forward exchange contract	\$ 271	USD 96,000	2012.12~2013.01
Forward exchange contract (sell)	\$ (98)	USD 6,200	2012.11~2013.02
	December 31, 2011		
	Book Value	Notional Principal (thousands)	Maturity Date/ Contract Period
Derivative financial assets not for hedge			
Foreign exchange swap contracts	\$ 135	USD 30,000	2011.12~2012.01
Forward exchange contract	\$ 2,085	USD 28,000	2011.12~2012.01
Option exchange (long call)	\$ 4,496	USD 950	2011.08~2012.02
Forward exchange contract (sell)	\$ (232)	USD 16,000	2011.12~2012.01
Foreign exchange swap contracts	\$ (1,367)	USD 950	2011.08~2012.02



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Ability (TW) entered into derivative contracts during the years ended December 31, 2012 and 2011 to manage exposures due to the fluctuations of exchange rate and interest rate. However, no hedge accounting was adopted as these derivatives do not meet the criteria for hedge accounting.

Furthermore, please refer to Note 4(18) for the risk management of the Consolidated Company.

- j. The convertible bond issued by Ability (TW) was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put options embedded in bonds payable were separated from bonds payable, and were recognized as "Financial assets or liabilities at fair value through profit or loss" in accordance with SFAS No.34. For the years ended December 31, 2012 and 2011, Ability (TW) recognized a gain (loss) on financial liability reported at fair value through profit or loss of \$31,998 and \$(89,842), respectively. Please refer to Note 4(11) for the main terms and conditions of the 1<sup>st</sup> unsecured domestic convertible bonds issued by Ability (TW).

(3) Notes and Accounts Receivable

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Notes receivable	\$ 158,517	107,364
Less: Allowance for uncollectible accounts	-	-
Net	<u>158,517</u>	<u>107,364</u>
Accounts receivable	117,531,666	75,339,944
Less: Allowance for uncollectible accounts	(670,895)	(757,685)
Less: Allowance for sales returns and discounts	(115,869)	(94,369)
Net	<u>116,744,902</u>	<u>74,487,890</u>
Total	<u><b>\$ 116,903,419</b></u>	<u><b>74,595,254</b></u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- a. As of December 31, 2012, the Company sold its accounts receivable without recourse as follows:

December 31, 2012							
<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	<u>\$ 7,104,133</u>	<u>USD 300,000,000</u>	<u>USD 243,405,143</u>	0.8937%~ 0.9112%	None	The accounts receivable factoring is without recourse but the sellers still bears the risks except for eligible obligor's insolvency.	<u>\$ 7,104,133</u>
ANZ(Note)	<u>\$ 26,185,725</u>	<u>USD 900,000,000</u>	<u>USD 540,000,000</u>	0.90%	None	"	<u>\$ 26,185,725</u>

For the year ended December 31, 2012, the Company recognized a loss of \$ 51,194 from the assignment of accounts receivable, which is accounted for under financial expenses. Also, the difference of \$10,464,025 between the amount of accounts receivable assigned and the advanced is accounted under other receivable.

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

- b. As of December 31, 2012 and 2011, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

<u>Purchaser</u>	<u>Amount derecognized</u>		<u>Credit advanced</u>		<u>Collateral</u>	<u>Credit (thousands)</u>	
	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>		<u>December 31, 2012</u>	<u>December 31, 2011</u>
Mega International Commercial Bank	<u>\$ 494,667</u>	<u>757,753</u>	<u>-</u>	<u>-</u>	None	<u>USD 30,000</u>	<u>USD 30,000</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Inventories

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Merchandise	\$ 3,140,408	3,450,561
Less: Allowance for inventory market decline and obsolescence	(106,713)	(103,710)
Sub-total	<u>3,033,695</u>	<u>3,346,851</u>
Finished goods	27,630,465	24,246,122
Less: Allowance for inventory market decline and obsolescence	(1,150,865)	(1,058,396)
Sub-total	<u>26,479,600</u>	<u>23,187,726</u>
Work in process	14,276,124	7,425,363
Less: Allowance for inventory market decline and obsolescence	(1,638,387)	(881,151)
Sub-total	<u>12,637,737</u>	<u>6,544,212</u>
Raw materials	52,539,079	33,483,652
Less: Allowance for inventory market decline and obsolescence	(2,638,880)	(2,471,768)
Sub-total	<u>49,900,199</u>	<u>31,011,884</u>
Inventory-in-transit	626,853	1,625,767
Total	<u><u>\$ 92,678,084</u></u>	<u><u>65,716,440</u></u>

For years ended December 31, 2012 and 2011, the components of cost of goods sold were as follows:

	<u>For the Years Ended December 31</u>	
	<u>2012</u>	<u>2011</u>
Cost of goods sold	\$ 830,304,268	570,585,475
Provision of inventory market price decline	1,038,050	1,007,142
Loss on disposal of inventory	5,874,626	2,725,527
Idle capacity	1,100,637	308,801
Others	1,108,408	(1,681,025)
	<u><u>\$ 839,425,989</u></u>	<u><u>572,945,920</u></u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(5) Long-Term Equity Investments

Name of Investee Company	December 31, 2012		December 31, 2011	
	Equity Holding	Book Value	Equity Holding	Book Value
INDEED HOLDINGS LTD.	49.00%	\$ 719,746	49.00%	772,946
AVY PRECISION TECHNOLOGY INC.	- %	-	20.25%	800,532
ASAP TECHNOLOGY (JIANGXI) CO., LTD.	25.00%	294,346	25.00%	229,550
WILSON HOLDINGS LTD.	49.00%	151,533	49.00%	163,358
EVER PINE INTERNATIONAL LTD. (BVI)	34.65%	46,758	34.65%	80,793
WISE INVESTMENT LTD.	48.78%	44,008	48.78%	39,920
SHIN-EI YORKEY INTERNATIONAL LTD. (BVI)	50.00%	17,538	50.00%	12,286
ZHANGJIAGANG DONGBU HIGH TECHNOLOGY METAL PRODUCTS CO., LTD.	20.00%	43,744	20.00%	47,109
E-PACKING HOLDING LTD.	30.00%	290,024	30.00%	302,194
YOFREE TECHNOLOGY CO., LTD.	- %	-	17.50%	13,439
Sub-total		1,607,697		2,462,127
Add: Fair value adjustment for identifiable assets		-		1,114
Total		<u>\$ 1,607,697</u>		<u>2,463,241</u>

- a. For the years ended December 31, 2012 and 2011, the Consolidated Company recognized investment income under equity method of \$59,484 and \$98,444, respectively, based on the investees' financial statements which were audited by independent accountants.
- b. For the years ended December 31, 2012 and 2011, the Consolidated Company held less than 50% equity shares of SHIN-EI YORKEY INTERNATIONAL LTD. (BVI) and had no significant control thereof thus SHIN-EI YORKEY INTERNATIONAL LTD. (BVI) was excluded from the consolidated financial statements.
- c. AVY PRECISION TECHNOLOGY INC. ("AVY PRECISION"), a subsidiary of ABILITY ENTERPRISE CO., LTD. ("Ability (TW)"), had swapped its equity shares with AZURE WAVE TECHNOLOGIES, INC. ("AZURE WAVE"), which resulted in a difference between acquisition cost and fair value of the identifiable long-term investment. Since the Consolidated Company has the ability to control Ability (TW), such difference of \$1,114 as of December 31, 2011 was adjusted using the equity method of accounting based on the percentage of ownership of the Consolidated Company, in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 25 "Business Combinations."

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

- d. In October 2012, the Consolidated Company sold its equity ownership in AVY PRECISION, which resulted in the Consolidated Company holding less than 20% equity shares of AVY PRECISION so that the Consolidated Company ceased significant control of AVY PRECISION. Therefore, the Consolidated Company has reclassified its equity investment in AVY PRECISION to available-for-sale financial assets — noncurrent.
- e. In May 2012, YOFREE TECHNOLOGY CO., LTD. (“YOFREE”) has elected a new set of member of the Board of Directors. Following the election, AZURE WAVE was not elected as YOFREE’s director nor supervisor, and lost its significant influence over YOFREE. Therefore, AZURE WAVE has reclassified its equity investment in YOFREE to financial assets carried at cost — noncurrent.
- f. The Consolidated Company invested USD 1,200 thousand in PENTAX VQ CO., LTD. through ASSOCIATION INTERNATIONAL LTD. (“ASSOCIATION”), which was approved by the Investment Commission of the Ministry of Economic Affairs. During the first quarter of 2011, the ASSOCIATION was liquidated and the liquidation proceeds of USD 1,432 thousand were remitted to the Consolidated Company. A loss of USD 63 thousand was recognized based on the difference between the book value of the investment in ASSOCIATION and amount remitted.
- g. In July 2011, eBizprise Inc. has undergone a capital reduction and capital increase. As the Consolidated Company did not participate in the capital increase of eBizprise Inc. according to its equity holding percentage, the equity ownership of the Consolidated Company has been reduced from 31.76% to 12.93%. Consequently, the Consolidated Company lost its ability to exercise control of eBizprise Inc. Therefore, the equity investment in eBizprise Inc. has been reclassified to financial assets carried at cost. In December 2011, the Consolidated Company has disposed its equity investment in eBizprise Inc. at original acquisition cost.
- h. For the years ended December 31, 2012 and 2011, the Consolidated Company received cash dividends of \$46,653 and \$139,460, respectively, from its investee companies accounted under equity method.

**(6) Joint Venture Investment**

The Company had equity investment in ADVANSUS CORP., which is a joint venture entity. As of December 31, 2011, the issued capital of ADVANSUS CORP. amounted to \$360,000, of which 50% was held by the Company as of the same date. The financial accounts of ADVANSUS CORP., which were included in the Company’s consolidated financial statements, were as follows:

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>December 31, 2011</u>	
Current Assets	\$	411,541
Non-current Assets		11,417
Current Liabilities		179,889

  

	<u>For the Year Ended</u> <u>December 31, 2011</u>	
Revenues	\$	1,447,598
Expenses		1,416,366

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.

(7) Property, Plant and Equipment, Idle Assets, and Rental Assets

a. Property, plant and equipment

- (a) Based on the results of its evaluation of the recoverability of property, plant and equipment, the Consolidated Company recognized a reversal of impairment loss on assets amounting to \$112,579 and \$29,519 for the years ended December 31, 2012 and 2011, respectively.
- (b) In order to construct operational headquarter and research and development center, ABILITY ENTERPRISE CO., LTD. (“Ability(TW)”) participated in Xinzhuang land auction and acquired a parcel of land worth \$2,468,329 which was accounted under land. The legal process for the registration of this land has been completed. On May 5, 2011, pursuant to the resolutions of the board of directors, Ability(TW) sold 50% of the aforesaid land for \$1,239,706 for the purpose of joint development with builder and recognized a gain thereon of \$5,532, which was recorded as other income.
- (c) On November 6, 2011, the factory of CASETEK HOLDINGS LTD. (CAYMAN) and its subsidiaries (“CASETEK CAYMAN”) in Suzhou had a fire accident. The carrying value of the damaged assets amounted to RMB\$11,211,256 (NT\$51,142), of which RMB\$10,150,451 (NT\$46,163) was recognized as a loss in 2011. In April, 2012, the insurance claim of RMB\$7,500,000 (NT\$35,102) has been confirmed. Therefore, a gain of RMB\$6,439,195 (NT\$30,137) was recognized thereon and accounted for as other income for the year ended December 31, 2012. The subsidiary has improved the damage caused by the fire accident, so there is no critical impact to the subsidiary’s operating activity.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

- (d) On December 17, 2011, the dust collecting equipment of CASETEK CAYMAN and its subsidiaries in Shanghai had a small gas explosion. Based on the result of the preliminary assessment by the Consolidated Company, a loss of \$28,197 was recognized and accounted for under catastrophic loss for the year ended December 31, 2011. In November 2012, the Consolidated Company's claim for damages of RMB\$ 4,001,000 (NT\$18,726) has been confirmed by the insurance company and was accounted for as other income for the year ended December 31, 2012. As improvement was made of the damage caused by the explosion, it is no longer expected to have any critical impact to the operating activity of the subsidiary concerned.
- (e) In order to expand the business and factories, RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. ("RI-TENG") signed with a non-related party (original petitioner) an agreement to purchase land use right and the existing building for RMB\$285,000. Under this agreement, the original petitioner is responsible for acquiring the land use right from the landlord and constructing a factory that conforms to the requirement of RI-TENG's.

However, in order to facilitate the acquisition of the land use right, the board of directors of RI-TENG resolved on December 13, 2011 to restructure the agreement so that the contracting parties will involve the original petitioner, the landlord and the Consolidated Company and the total contract amount was amended to RMB\$382,811.

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

- (f) For the years ended December 31, 2012 and 2011, Ability(TW) capitalized interest expense of \$25,616 and \$6,373, respectively.
- (g) Please refer to Note 6 for details of the property, plant, and equipment pledged as collateral.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

b. Rental assets

(a) As of December 31, 2012 and 2011, the components of rental assets were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Land	\$ 302,323	286,573
Buildings	711,127	579,063
Less: Accumulated depreciation	(169,311)	(130,497)
Less: Accumulated impairment	(12,030)	(12,030)
Add: Fair value adjustment for identifiable assets	4,949	6,279
	<u>\$ 837,058</u>	<u>729,388</u>

(b) In accordance with SFAS 25, as the Consolidated Company has the ability to control Ability (TW) through a share swap, the difference between the acquisition cost and the fair value of the rental assets was adjusted based on the Consolidated Company's percentage of ownership. As of December 31, 2012 and 2011, the fair value adjustment for identifiable assets amounted to \$4,949 and \$6,279, respectively.

c. Idle assets

(a) As of December 31, 2012 and 2011, the components of idle assets were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Land	\$ 14,694	39,978
Buildings	290,023	205,845
Machinery and others	3,388,138	1,206,743
Less: Accumulated depreciation	(2,782,121)	(933,482)
Less: Accumulated impairment	(569,409)	(314,505)
	<u>\$ 341,325</u>	<u>204,579</u>

(b) As these idle assets were not used in operation, the Consolidated Company revalued these assets based on the recoverable amount. For the years ended December 31, 2012 and 2011, an impairment loss of \$295,606 and a gain from impairment loss recovery of \$28,450, respectively, was recognized for these idle assets.

(8) Intangible assets

a. Goodwill is assessed periodically for impairment in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets." For the year ended December 2011, an impairment loss of \$49,180 was recognized. As of December 31, 2012 and 2011, the carrying value of goodwill amounted to \$1,855,246 and \$1,898,499, respectively.



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- b. 'Land use rights' are rights granted to the Consolidated Company to use government-owned land. These rights were paid in lump sum, which was capitalized and amortized equally over their useful lives. As of December 31, 2012 and 2011, the unamortized amount of land use rights was \$3,366,515 and \$2,672,171, respectively.
- c. Identifiable intangible assets from customer relationships, technology and developments are amortized equally over 3 to 5 years based on their respective expected economic benefits. As of December 31, 2012 and 2011, the unamortized amount was \$609,004 and \$1,100,375, respectively.
- d. For the year ended December 31, 2011, the Consolidated Company acquired 100% ownership of RIH LI for \$6,000,000 (with equivalent amount of USD 201,205 thousand) with an equity premium of USD 120,763 thousand. On January 19, 2011, the Consolidated Company made a down payment of \$3,000,000 following the authority's approval of the transaction and deposit the remaining \$3,000,000 in three annual installments in accordance with the installment payment schedule stated in the contract. In order to meet the demands of the Consolidated Company and the original seller, they renegotiated the terms of payments, under which, the Consolidated Company is required to make an advance payment, with the cost of capital calculated using a discount rate of 2%. On August 31, 2011, the Consolidated Company made an advance payment of \$2,919,773.

In accordance with SFAS No. 25 "Business Combinations," the Consolidated Company allocates the acquisition costs to the assets acquired and liabilities assumed based upon their fair values at the acquisition date within one year after the date of acquisition. The excess of the acquisition price over the fair value of identifiable net assets acquired is recognized as goodwill.

As of December 31, 2012, the acquisition price which was determined based on the report of independent appraiser was allocated as follows:

	(unit: USD thousand)	
Acquisition price	\$	201,205
Less: Fair value of identifiable net assets		
- Current assets		212,588
- Current liabilities		(196,143)
- Fixed assets		98,783
- Other identifiable net assets		659
- Other identifiable net liabilities		(5,309)
- Intangible assets with definite useful lives		57,094
Sub-total		167,672
Goodwill	\$	<u>33,533</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

e. Supplementary Pro Forma Information for Business Combinations

For the year ended December 31, 2011, the Consolidated Company acquired 100% equity ownership of RIH LI INTERNATIONAL LIMITED and 53.01% equity ownership of E-PIN OPTICAL INDUSTRY CO., LTD. These investees were included in the consolidated financial statements from the date when the Consolidated Company's control over these investees commences. The supplementary pro forma information as if the business combination occurred on January 1, 2011 was as follows:

	<b>For the Year Ended December 31, 2011</b>
Consolidated net sales	<b>\$ 601,354,770</b>
Consolidated net income before tax	<b>\$ 4,193,120</b>
Consolidated net income	<b>\$ 2,762,198</b>
Pro forma primary losses per share	<b>\$ 0.03</b>

(9) Other Assets – Others

This consisted of deferred charges arising from capitalized costs of small molds, fixtures and office decorations, which are amortized equally over 3 months to 10 years. As of December 31, 2012 and 2011, the unamortized amount of deferred charges was \$1,856,023 and \$2,075,803, respectively.

Also included in this account is a farm land that KINSUS INTERCONNECT TECHNOLOGY CORP. (“KINSUS”) purchased in the name of KINSUS's chairman instead of KINSUS, due to the restriction imposed by the local government. Before KINSUS can have the ownership title to this-farmland as well as complete the registration procedures, the land is temporarily recorded as other assets. As of December 31, 2012 and 2011, the carrying value of this farmland was both \$30,784.

(10) Short - Term Loans

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Credit loans	\$ 19,338,311	22,704,923
Collateralized loans	274,848	68,443
	<b>\$ 19,613,159</b>	<b>22,773,366</b>
Range of interest rate	<b>0.16% ~ 6.56%</b>	<b>0.05% ~ 6.53%</b>

The Consolidated Company issued promissory notes as guarantee for part of credit loan facility. Please refer to Note 6 for details of the related assets pledged as collateral.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(11) Bonds Payable

	December 31, 2012	December 31, 2011	Collateral
Overseas convertible bonds payable	\$ 8,874,000	-	None
Less: Discount on overseas bonds payable	(309,074)	-	
Less: Foreign currency valuation, end of the period	(161,520)	-	
Net	8,403,406	-	
Less: Current portion of bonds payable	-	-	
Sub-total	8,403,406	-	
Domestic convertible bonds payable	1,500,000	1,500,000	None
Less: Discount on domestic bonds payable	(64,387)	(95,293)	
Net	1,435,613	1,404,707	
Less: Current portion of bonds payable	(1,435,613)	-	
Sub-total	-	1,404,707	
Total	<u>\$ 8,403,406</u>	<u>1,404,707</u>	

- a. As of December 31, 2012, the offering information on the unsecured convertible bonds were as follows:

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Item	1 <sup>st</sup> overseas unsecured convertible bonds issued in 2012
	<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 was NT\$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012. However, upon the issuance of restricted Company shares of stock to employees, the conversion price has been adjusted to NT\$41.66 per share effective December 20, 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 = USD 1.00) divided by the conversion price on the conversion date.</p>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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 December 31, 2012, information on the aforesaid convertible bonds were as follows:

<u>1<sup>st</sup> overseas unsecured convertible bonds issued in 2012</u>	<u>December 31, 2012</u>
Total issue price	\$ 8,874,000
Discount on bonds payable	(282,252)
Discount on bonds payable — transaction cost	(26,822)
Accumulated converted amount	-
Accumulated redeemed amount	-
Bonds payable, end of the period	8,564,926
Less: Valuation of bonds payable	(161,520)
Less: Current portion of bonds payable	-
Bonds payable, net, end of the period	<u>\$ 8,403,406</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>\$ 6,275</u>
Liability components — gain on valuation	<u>\$ (14,135)</u>
Interest expense	<u>\$ 182,163</u>

b. The key terms and conditions of the 1<sup>st</sup> unsecured domestic convertible bonds of the consolidated subsidiary, ABILITY ENTERPRISE CO., LTD. (“Ability (TW)”), were as follows:

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

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

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

- (c) The conversion price will be adjusted based on the terms of the conversion plan, and will be reset based on the prescribed formula upon the occurrence of certain events that will have a dilutive effect on the bondholders' rights. The conversion price was originally set at \$60. As Ability (TW) distributes cash dividend on August 1, 2010, September 6, 2011 and August 14, 2012, the exercise price was adjusted from \$60 to \$55.7 and \$55.7 to \$50.7, respectively, on the effective dates. As of August 14, 2012, the exercise price was adjusted from \$50.7 to \$47.4 on the effective date.
  - (d) After 3 years from issue date (Feb 6<sup>th</sup>, 2013), the bondholders shall have the right at such bondholders' option to require Ability (TW) to redeem all or some of the convertible bonds at a price equal to 100% of the principal amount plus interest at the rate of 0.3% per annum, payable annually.
  - (e) Ability (TW) may purchase the outstanding bonds at face value under the following conditions: (i) the closing price of the shares for a period of 30 consecutive trading days is above 130% of the conversion price and (ii) the amount of the outstanding bonds is less than 10% of the initial issuance amount of convertible bonds, from the day after the first month of issuance of the bonds to 40 days prior to the maturity date.
  - (f) Under the terms of the convertible bonds, the convertible bonds of Ability (TW) which are repurchased, redeemed, or converted to common shares will be retired and cannot be sold or re-issued.
- c. In accordance with SFAS No. 36, convertible bonds are initially treated as compound financial instruments, of which the equity and liability components are separately accounted for. As of March 31, 2012, the issuance of convertible bonds resulted in a "capital surplus – stock option" of \$153,508. In addition, the fair value of call options and put options embedded in bonds payable was separated from bonds payable, and was recognized as "Financial assets or liabilities at fair value through profit or loss" in accordance with SFAS No. 34. The effective annual interest rate of the bonds ranges from 2.122% to 2.263%.
- d. As of December 31, 2012, the convertible bonds of Ability (TW) have not yet been converted into common shares nor repurchased.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(12) Long - Term Loans

Creditor	Usage and redemption duration	December 31, 2012	December 31, 2011
Citibank Taiwan and 14 other participating financial institutions (Note A)	2010.10.25~2015.10.25, payable in 5 semi-annual installments, commencing from October 25, 2013.	\$ 11,616,000	12,110,000
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2006.12.08 ~2013.12.08, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	4,840	10,091
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2009.06.23 ~2014.06.23, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	32,670	56,766
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2009.07.23 ~2014.07.23, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	9,528	15,611
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2009.11.23~2014.10.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	105,270	164,620
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2010.07.22~2015.07.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	103,818	147,591
The Shanghai Commercial & Savings Bank, Ltd. — International Financial Service Branch	2010.12.24~2014.12.24, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	84,699	151,375
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.03.11~2015.03.10, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	108,899	151,375

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Creditor	Usage and redemption duration	December 31, 2012	December 31, 2011
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.11.29~2015.11.28, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	121,000	151,375
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.07.01~2015.06.30, payable in 12 quarterly installments, commencing from the date of borrowing.	242,000	302,750
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.01.24~2016.01.24, payable in 12 quarterly installments, commencing from the date of borrowing (with a two year grace period).	15,000	15,000
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.10.04~2016.07.15, payable in 11 quarterly installments commencing from the 25 <sup>th</sup> month of borrowing.	51,160	51,160
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2012.01.18~2017.01.15, payable in 12 quarterly installments, commencing from the date of borrowing (with a two year grace period).	15,000	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2012.04.30~2017.04.15, payable in 12 quarterly installments, commencing from the date of borrowing (with a two year grace period).	30,000	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2012.06.29~2017.04.15, payable in 16 quarterly installments, commencing from the date of borrowing (with a one year grace period).	20,000	-
The Shanghai Commercial & Savings Bank, Ltd. — International Financial Service Branch	2010.04.20~2013.04.19, payable in 8 quarterly installments, commencing from May 20, 2011. As of June 2011, redeeming method has changed to 8 quarterly installments, commencing from September 21, 2011.	14,520	45,413
E.Sun Bank	101.03.12~104.03.11, interest is payable in 12 quarterly installments and principal is payable on maturity.	145,199	-
Mega International Commercial Bank — Lan-Ya Branch	2005.01.31~2012.01.31, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period).	-	5,639



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Creditor	Usage and redemption duration	December 31, 2012	December 31, 2011
Mega International Commercial Bank — Lan-Ya Branch	2009.12.16~2016.12.15, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period).	171,916	224,035
Mega International Commercial Bank — Lan-Ya Branch	2010.10.28 ~2015.10.27, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	130,680	317,887
Mega International Commercial Bank — Lan-Ya Branch	2010.10.28~2015.10.27, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period).	246,840	121,100
Mega International Commercial Bank — Lan-Ya Branch	2010.12.20~2015.12.20, payable in 20 quarterly installments, commencing from the date of borrowing.	609,840	847,695
Mega International Commercial Bank — Lan-Ya Branch	2011.02.14~2016.02.13, payable in 20 quarterly installments, commencing from the date of borrowing.	377,520	514,671
Mega International Commercial Bank — Lan-Ya Branch	2011.03.11~2016.03.10, payable in 20 quarterly installments, commencing from the date of borrowing.	261,360	363,299
Mega International Commercial Bank — Lan-Ya Branch	2011.04.07~2014.04.07, payable in 8 quarterly installments, commencing from the date of borrowing (with a one year grace period).	7,500	10,000
Mega International Commercial Bank — Lan-Ya Branch	2011.08.15~2014.08.15, payable in 8 quarterly installments, commencing from the date of borrowing (with a one year grace period).	12,250	14,000
Mega International Commercial Bank (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,452,000	1,513,750
Mega International Commercial Bank (Note D)	2011.10.12~2016.10.12, payable in 8 quarterly installments of USD 5,000, commencing from January 2015.	1,161,600	1,211,000
The Land Bank of Taiwan — Chung - Li Branch	2011.12.23~2016.12.23, payable in 60 monthly installments, commencing from the date of borrowing.	110,391	151,375

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>Creditor</u>	<u>Usage and redemption duration</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
The Land Bank of Taiwan — Chung - Li Branch	2010.12.24~2015.12.24, payable in 60 monthly installments, commencing from the date of borrowing.	88,143	121,766
The Land Bank of Taiwan — Chung - Li Branch	2011.03.14~2014.03.13, interest is payable in 36 monthly installments and principal is payable on maturity date, commencing from the date of borrowing.	290,400	302,750
The Land Bank of Taiwan — Chung - Li Branch	2011.11.28~2016.11.27, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	127,455	151,375
The Land Bank of Taiwan — Chung - Li Branch	2011.07.04~2016.07.03, interest is payable monthly and principal is payable in quarterly installments from the 13 <sup>th</sup> month, commencing from the date of borrowing.	254,912	302,750
Taipei Fubon Banks	2012.01.31~2015.01.31, payable in 9 quarterly installments, commencing from January 31, 2013. The repayment schedule is 10% for first 8 installments, and the remaining amount is payable on maturity date.	385,000	-
Hua Nan Bank and 6 other banks	2009.08.31~2014.08.31, payable in 6 semi-annual installments, commencing from August 31, 2011. The repayment schedule is 10% for first 4 installments, 15% for the following 2 installments and the remaining amount is payable on maturity date.	-	360,000
The Shanghai Commercial & Savings Bank, Ltd. — Tian - Mu Branch	2009.06.23~2019.06.23, payable in equal monthly installment.	-	29,591
The Shanghai Commercial & Savings Bank, Ltd. — Tian - Mu Branch	2010.09.07~2013.09.07, payable in equal monthly installment.	-	5,833
The Shanghai Commercial & Saving Bank, Ltd. (Note D)	2010.09.21~2015.09.20 payable in 10 quarterly installments of USD 3,500, commencing from April 2013.	1,016,400	1,059,625

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Creditor	Usage and redemption duration	December 31, 2012	December 31, 2011
ANZ (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,452,000	1,513,750
DBS (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,452,000	1,513,750
DBS (Note D)	2011.11.17~2016.11.16, payable in 6 installments. The repayment schedule is 15% for the 30 <sup>th</sup> and 33 <sup>rd</sup> month, 17.5% for the 42 <sup>nd</sup> , 48 <sup>th</sup> , 54 <sup>th</sup> and 60 <sup>th</sup> month, commencing from the date of borrowing .	1,161,600	1,211,000
Taiwan Cooperative Bank OBU Branch (Note D)	2011.10.13~2016.10.13, payable in 4 semi-annual installments of USD 12,500, commencing from April 2015.	1,452,000	1,513,750
HSBC (Taiwan) (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,452,000	1,513,750
Taishin Bank — Jianpei Branch	2012.12.20~2015.12.20, payable in 36 monthly installments via annuity method, commencing from the date of borrowing	10,000	-
Total		26,403,410	28,267,268
Less: Current portion		(7,415,239)	(913,849)
		<b>\$ 18,988,171</b>	<b>27,353,419</b>
Range of interest rate		<b>0.91%~2.60%</b>	<b>0.79%~3.88%</b>

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

- Current ratio (current assets/current liabilities): should not be less than 100%.
- Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.
- Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.
- Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

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

The Company was in compliance with the above financial covenants as of December 31, 2012 and 2011. The Company's promissory notes were pledged as a guarantee for the credit loan facility.

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

- a. Current ratio (current assets/current liabilities): should not be less than 100%.
- b. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50% (total total liabilities include short-term loans, short-term notes payable, rents payable, current portion of long-term loans, current portion of bonds payable, long-term loans and bonds payable).
- c. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.
- d. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than NT\$90,000,000.

Compliance with the above-mentioned financial covenants is determined based on the annual and semi-annual consolidated financial statements (June 30 and December 31) audited by independent auditors provided by the guarantor, the Company. Also, management representation letters which include the calculations and results of the above-mentioned financial covenants are normally issued by the management of the Company-guarantor in connection with such audit. PROTEK (SHANGHAI) LTD. was in compliance with the above financial covenants as of December 31, 2012 and 2011.

Note C: The consolidated subsidiary, E-Pin Optical Industry Co., Ltd., signed a syndicated loan agreement on August 14, 2009 with a total credit line of NT\$600,000. The components of this credit line were as follows:

- I. Credit type A: Term loan with a credit line of NT\$400,000 available in multiple drawings.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

II. Credit type B: Revolving loan with a credit line of NT\$200,000 available in multiple drawings.

According to the agreement, debtor of credit type A must complete drawing of the loan within 6 months of the contract date, and the unused credit line will be cancelled. Debtor of credit type B can draw and pay each loan within 90 to 180 days. However the due date of each loan cannot go beyond the term of the loan. Also, debtor must comply with the following financial covenants:

- a. Current ratio (current assets/current liabilities): should not be less than 100%.
- b. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 125%.
- c. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$1,000,000.
- d. Interest coverage ratio (EBITDA/interest expenses): should not be less than 200%.

Compliance with the aforesaid financial covenants is determined based on the audited annual and semi-annual consolidated financial statements (June 30 and December 31). Based on its 2011 annual consolidated financial statements, E-Pin Optical Industry Co., Ltd. failed to comply with the aforesaid financial covenants on interest coverage ratio and current ratio, as determined by the majority decision of the syndicate banks. However, E-Pin Optical Industry Co., Ltd. had obtained additional financing under the long-term financing facilities agreement that was concluded with Taipei Fubon Bank before December 31, 2011. The proceeds from this new long-term loan were used to settle the syndicated loan on January 31, 2012 so that the new loan is still accounted for under long-term loans.

Note D: The Company provided endorsement guarantee for CASETEK HOLDINGS LTD. (CAYMAN) and its subsidiary ("CASETEK CAYMAN") to obtain the long-term loan from The Shanghai Commercial & Savings Bank, Ltd., DBS, Taiwan Cooperative Bank and Mega International Commercial Bank. As of December 31, 2012, the entire endorsement guarantee has been terminated except for the long-term loan obtained from Mega International Commercial Bank where CASETEK HOLDINGS LTD. (CAYMAN) became the endorsement guarantee provider.

Please refer to Note 6 for details of the related assets pledged as collateral.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(13) Pension Plan

The Consolidated Company's domestic public listed subsidiaries have established an employee non-contributory defined benefit pension plan covering all regular employees. According to this plan, payments of pension benefits are based on the employee's of service years and average monthly salary during the six months before the employee's retirement. Each employee earns two months' salary for the first 15 years of service and one month's salary for each service year starting from the sixteenth year. According to the retirement plan, the payments of retirement benefits are the responsibility of the Company. Under the Labor Pension Act (the "Act"), effective July 1, 2005, employees of the Company (who were hired prior to July 1, 2005) may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standard Law. Employees who are hired by the Company after July 1, 2005, shall comply with the provisions of this Act. For employees subject to this Act, the Company contributes monthly to the employees' individual pension accounts an amount equal to not less than 6% of the employees' monthly wage and deposits it in a personal retirement benefit account with Bank of Taiwan. However, if there are provisions of the Act which are not yet included in the existing retirement plans of domestic subsidiaries, those domestic subsidiaries still need to comply with those provisions of the Act.

Beginning July 1, 2005, pursuant to the newly effective ROC Labor Pension Act, the Company and its domestic subsidiaries make a monthly contribution at a rate of no less than 6% of the employee's monthly wages to the employee's individual pension fund account at the ROC Bureau of Labor Insurance.

Each foreign consolidated entity contributes to the employee's pension fund in accordance with the respective jurisdiction.

For the years ended December 31, 2012 and 2011, the pension costs and related information were as follows:

	<u>2012</u>	<u>2011</u>
Balance of pension fund - ending	\$ 167,464	149,454
Current pension expenses:		
Defined benefit pension plan	7,982	16,433
Defined contribution pension plan	2,273,652	1,448,996

a. The actuarial assumptions used in pension costs calculation were as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	1.75%~1.88%	2.00%
Future salary increase rate	1.88% ~3.00%	1.50% ~ 3.00%
Estimated long-term rate of return on pension fund	1.50%~1.88%	2.00%

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

b. As of December 31, 2012 and 2011, of the funded status was reconciled with accrued pension liability per books as follows:

	As of December 31,	
	2012	2011
Benefit obligation		
Vested benefit obligation	\$ (25,897)	(16,536)
Non-vested benefit obligation	(179,568)	(135,650)
Accumulated benefit obligation	(205,465)	(152,186)
Effect of future salary increase	(161,114)	(126,839)
Estimated benefit obligation	(366,579)	(279,025)
Fair value of pension fund assets	167,838	150,033
Funded status	(198,741)	(128,992)
Unrecognized net transitional benefit obligation	3,843	3,665
Unrecognized gain on pension fund	212,936	134,215
Additional pension liability	(33,718)	(18,216)
Prepaid pension cost	(24,325)	(18,872)
Accrued pension liability	<u>\$ (40,005)</u>	<u>(28,200)</u>

As of December 31, 2012 and 2011, the Consolidated Company's vested benefit obligation under the Consolidated Company's pension plan was \$25,897 and \$16,536, respectively.

c. The Company's pension information under the defined benefit plan was as follows:

	2012	20101
Service cost	\$ 4,089	2,305
Interest cost	3,969	8,016
Estimated return on pension fund assets	(1,805)	(2,464)
Amortization of unrecognized net transitional benefit obligation	1,729	8,576
Net periodic pension cost	<u>\$ 7,982</u>	<u>16,433</u>

(14) Income Tax

- (i) The Company and its domestic subsidiaries are subject to statutory income tax rate of 17% for both the years ended December 31, 2012 and 2011. The Company and its domestic subsidiaries also complies with the Basic Income Tax Act when calculating their income tax.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(ii) For the years ended December 31, 2012 and 2011, the components of income tax expense were as follows:

	For the Years Ended December 31	
	2012	2011
Current income tax expense	\$ 3,062,139	1,644,771
Deferred income tax benefit	(72,166)	(429,460)
10% surtax on undistributed earnings	545,268	203,674
Prior years income tax adjustment	289,684	3,245
Income tax expense	<u>\$ 3,824,925</u>	<u>1,422,230</u>

The components of deferred income tax benefit were as follows:

	For the Years Ended December 31	
	2012	2011
Unrealized exchange gain (loss)	\$ 22,711	(290,526)
Provision of allowance for loss on inventory market decline and obsolescence	(380,275)	(280,887)
Realized profits on sales	(90,936)	(45,243)
Provision of warranty reserve	(318,951)	(77,746)
Reversal (Provision) of allowance for loss on uncollectible accounts	21,338	(35,740)
Unrealized allowance for sales discount	(13,692)	(2,335)
Investment tax credits	502,359	400,619
Provision (Reversal) of impairment loss on assets	(74,815)	11,375
Loss carry-forward	112,518	(383,160)
Unrealized foreign investment income	894,594	188,351
Valuation on allowance for deferred tax assets	(294,837)	337,221
Unrealized expenses	(423,288)	(207,594)
Others	(28,892)	(43,795)
Deferred income tax benefit	<u>\$ (72,166)</u>	<u>(429,460)</u>



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (iii) The income tax calculated on pretax financial income at a statutory income tax rate was reconciled with the income tax expense as reported in the accompanying financial statements for the years ended December 31, 2012 and 2011 as follows:

	For the Years Ended December 31	
	2012	2011
Income tax calculated on pre-tax financial income at statutory tax rate	\$ 4,637,399	1,405,382
Permanent differences	(2,714,369)	(974,027)
Tax-exempt income	(193,516)	(15,364)
Investment tax credits	61,755	253,967
Adjustment to prior year's income tax	289,684	3,245
Loss carry-forward	170,419	103,640
Effect on deferred tax of the change in statutory tax rate	32,330	(46,999)
Others	995,955	488,712
10% surtax on undistributed earnings	545,268	203,674
Income tax expense	<u>\$ 3,824,925</u>	<u>1,422,230</u>

- (iv) As of December 31, 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:

Temporary differences of deferred income tax assets — current	December 31, 2012		December 31, 2011	
	Amount	Income Tax Effect	Amount	Income Tax Effect
Unrealized foreign exchange gain: deductible	\$ 174,330	47,798	414,786	70,514
Allowance for loss on inventory market decline and obsolescence: deductible	4,614,652	1,003,690	3,926,921	626,114
Unrealized intercompany profit: deductible	586,277	116,331	149,383	25,395
Warranty reserve: deductible	723,920	123,066	548,698	93,278
Unrealized expenses: deductible	2,998,797	577,240	1,015,006	153,952
Unused balance of investment tax credits: deductible	-	480,636	-	585,664
Loss carry-forward: deductible	20,153	6,046	1,295,166	215,731
Allowance for uncollectible accounts: deductible	201,593	34,365	244,774	41,557
Unrealized sales discount: deductible	120,943	20,001	38,248	6,309

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	December 31, 2012		December 31, 2011	
	Amount	Income Tax Effect	Amount	Income Tax Effect
<b>Temporary differences of deferred income tax assets — current</b>				
Depreciation of assets: taxable	(58,247)	(11,067)	(78,002)	(14,840)
Others	95,414	16,860	273,537	51,465
Valuation on allowance		(604,716)		(603,624)
Net deferred income tax assets — current		<b>\$ 1,810,250</b>		<b>1,251,515</b>
<b>Temporary differences of deferred income tax assets — noncurrent</b>				
Unrealized impairment loss on assets: deductible	\$ 662,751	111,680	220,740	36,164
Amortization of employee benefits: deductible	1,800	306	6,068	1,706
Recognition of gain on foreign investments: deductible	122,239	44,880	500,482	85,082
Unused balance of investment tax credits: deductible	-	84,576	-	481,906
Loss carry-forward: deductible	2,790,222	589,886	2,600,623	492,719
Allowance for loss on inventory market decline and obsolescence: deductible	49,163	8,358	23,417	5,659
Pension over the limited amount: deductible	12,292	2,090	12,292	2,090
Recognition of loss on allowance for uncollectible accounts: deductible	30,003	5,100	70,386	19,246
Depreciation of assets: deductible	960,188	94,847	22,323	5,302
Warranty reserve: deductible	2,028,424	392,518	826,841	103,355
Interest expense of bonds payable: deductible	58,153	9,886	52,863	8,986
Others	107,198	18,200	399,073	61,715
Valuation on allowance		(837,889)		(1,133,818)
Net deferred income tax assets — noncurrent		<b>\$ 524,438</b>		<b>170,112</b>
<b>Temporary differences of deferred income tax liabilities — current</b>				
Others	\$ (1,129)	(207)	(168)	(54)
Net deferred income tax liabilities — current		<b>\$ (207)</b>		<b>(54)</b>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<b>Temporary differences of deferred income tax liabilities - noncurrent</b>	<b>Amount</b>	<b>Income Tax Effect</b>	<b>Amount</b>	<b>Income Tax Effect</b>
Unrealized impairment loss on assets: deductible	\$ 3,911	665	8,038	1,366
Recognition of gain on foreign investments: taxable	(9,504,353)	(1,319,415)	(2,411,812)	(465,023)
Reserve for overseas investment loss: taxable	(962,758)	(163,669)	(1,015,494)	(172,634)
Others	(84,784)	(14,413)	(97,225)	(19,799)
Net deferred income tax liabilities— noncurrent		<b><u><u>\$ (1,496,832)</u></u></b>		<b><u><u>(656,090)</u></u></b>

(v) Income Tax

- a. The Company's income tax returns through 2010 have been assessed and approved by the Tax Authority. However, the tax return for 2008 is still under review.
- b. The income tax returns of UNIHAN, Ability (TW), Lumens Digital Optics Inc., KINSUS, AZUREWAVE and its subsidiaries EZWAVE Technologies, Inc. and AZURE Lighting Technologies, Inc. through 2010 have been assessed and approved by the Tax Authority.
- c. The income tax returns of ASROCK INCORPORATION (ASROCK) through 2008 have been assessed and approved by the Tax Authority. Also, ASROCK had estimated and recognized additional tax payable arising from its 2009 income tax returns, in which ASROCK had a different understanding with the National Taxation Bureau of Taipei on the timing for recognizing employee bonus for research and development tax credit. On January 2, 2012, National Taxation Bureau of Taipei had assessed again and approved ASROCK's 2009 income tax returns, and ASROCK had paid additional tax expense of \$15,699 thereon.
- d. According to the Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises, Ability Technology (Dongguan) Co., Ltd. is exempted from enterprise income tax for the first two profit-making years and subject to enterprise income tax at a rate reduced by 50% for the third year through the fifth year with year 2008 as its first tax exempt year. For the years ended December 31, 2012 and 2011, Ability Technology (Dongguan) Co., Ltd. recognized tax expenses of \$8,154 and \$505, respectively.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

e. The income tax returns of AMA PRECISION through 2010 have been assessed and approved by the Tax Authority. However, AMA PRECISION disagreed with the result of the tax authorities' examinations of its investment tax credits as reported in its 2008 income tax return. AMA PRECISION has estimated and accrued the related income tax liability and filed a formal appeal for reexamination to the tax authority. In February 2011, National Taxation Bureau had undertaken its first reexamination of AMA PRECISION's 2008 income tax return and approved it in April 2011. AMA PRECISION had paid additional tax expense thereon of \$9,203.

(vi) As of December 31, 2012, according to ROC Income Tax Act, unused investment tax credits which may be applied to offset against income tax in the future are as follows:

<u>Company Name</u>	<u>Year of occurrence</u>	<u>Unused balance</u>	<u>Expiry year</u>
The Company	2009~2011	\$ 249,624	2011~2013
UNIHAN	2011	10,848	2011
KINSUS	2009~2011	273,321	2013~2015
ABILITY	2011	27,213	2013
AMA PRECISION	2009	4,206	2013
		<u>\$ 565,212</u>	

(vii) As of December 31, 2012, according to ROC Income Tax Act, unused loss carry-forward which may be applied to offset against income tax in the future are as follows:

<u>Company Name</u>	<u>Year of occurrence</u>	<u>Unused balance</u>	<u>Expiry year</u>
STARLINK	2004~2007	\$ 124,375	2014~2017
KINSUS and its subsidiaries	2009~2012	314,024	2019~2022
AMA PRECISION and its subsidiaries	2009~2012	146,543	2019~2022
PCM	2010~2011	20,153	2015~2016(Note)
PCBR	2011	37,821	2016 (Note)
CASETEK CAYMAN	2011~2012	976,352	2016~2017(Note)
PEGATRON HOLDING and its subsidiaries	2012	185,076	2017(Note)
Ability (TW) and its subsidiaries	2005~2012	862,405	2015~2022
AZUREWAVE and its subsidiaries	2011~2012	143,626	2021~2022
		<u>\$ 2,810,375</u>	

Note: In accordance with its local income tax act.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(viii) Five year income tax exemption period

- a. 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 its capital increase. As of December 31, 2012, the five year income tax exemption periods were as follows:

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

- b. The investments of KINSUS INTERCONNECT TECHNOLOGY CORP. for its establishment and expansion conform to “the Regulations Regarding Awards for Newly Emerging and Strategic Industries Under Manufacturing and Technical Service Industries.” As approved by the Tax Authority, the Consolidated Company is eligible for five-year income tax exemption, the details of which were as follows:

<u>Item</u>	<u>Approving Office</u>	<u>Approval document number</u>	<u>Tax exemption period</u>
1	Industrial Development Bureau	09605034400	08/31/2007~08/30/2012
2	Industrial Development Bureau	09805018460	09/30/2008~09/29/2013
3	Industrial Development Bureau	10005112010	01/01/2013~12/31/2017

(ix) Stockholders' imputation tax credit account and tax rate:

<u>Accumulated earnings:</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Accumulated in 1997 and prior years	\$ -	-
Accumulated in 1998 and thereafter	9,829,896	144,466
Total	<u>\$ 9,829,896</u>	<u>144,466</u>
Stockholders' imputation tax credit account	<u>\$ 211,593</u>	<u>3,448</u>
	<u>2012 (Expected)</u>	<u>2011 (Actual)</u>
Expected or actual deductible tax ratio	<u>5.67%</u>	<u>0.09%</u>

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

(15) Stockholders' Equity

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

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares of stock valued at \$296,970. In 2012, the Company had issued 33,938 thousand shares of restricted Company shares of stock to employees. As of December 31, 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 consisted of 2,290,305 thousand shares and 2,256,367 thousand shares of stock, respectively.

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 December 31, 2012, the Company has listed, in total, 9,769 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 48,844 thousand shares. Major terms and conditions for GDRs were as follows:

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(a) Voting Rights

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

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

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

b. Share-based payment transactions — employee stock option plan

1. Information on equity-settled share-based payment transaction as of December 31, 2012 were as follows:

Employee stock option	For the Years Ended December 31	
	2012	2011
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	8.96%	20.48%
Estimated future turnover rate of employees	19.01%	19.88%

Restricted stock to employee	For the Year Ended December 31	
	2012	
Grant date	11/09/2012	
Thousand units granted	34,167	
Contractual life	3 years	
Vesting period	Note	
Actual turnover rate of employees	0.19%	
Estimated future turnover rate of employees	14.28%, 22.84%, 28.85%	

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

own new common shares on settlement, and the exercise price of all stock options shall be equal to the closing price of the Company's common stock at grant date. The expected life of the stock options is estimated to be 3 years, and stock option granted to an employee is not transferable to any person. If the exercise period expires, the employee forfeits his/her right to exercise the option and purchase the shares. Except for the forfeiture of vested options, all stock options shall vest from the second year of the grant date, and the employees should exercise the right to apply for shares against the stock option vested in them pursuant to the stock option plan.

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

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:

Employee stock option	For the Years Ended December 31	
	2012	2011
Exercise price (Note A)	\$ 44.85	30
Current market price	44.85	30
Expected dividend yield rate (Note A)	- %	- %
Expected volatility	44.41%	37.0531%
Risk-free interest rate	0.95%	1.0838%
Expected life of the option	3 years	3 years



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Restricted stock to employee	For the Year Ended December 31	
	2012	
Exercise price (Note A)	\$	10.00
Current market price		39.45
Expected dividend yield rate (Note A)	-	%
Expected volatility		38.49%
Risk-free interest rate		Note B
Expected life of the option		3 years

Note A: 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.

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

3. The components of employee stock option plan and the weighted-average exercise price as of December 31, 2012 were as follows:

A. For the year ended December 31, 2012

	Issued in 2012	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	-	\$ -
Granted	8,053	44.85
Exercised	-	-
Forfeited	664	-
Expired	-	-
Balance, end of the period	<u>7,389</u>	44.85
Exercisable, end of the period	<u>7,389</u>	
Weighted-average fair value of options granted	<u>13.8</u>	
Exercise price of share option outstanding, end of the period	<u>44.85</u>	
Remaining contractual life	<u>1.25</u>	
Expenses incurred in share-based payment transactions	<u>22,016</u>	

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<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	4,739	-
Expired	-	-
Balance, end of the period	<b>32,909</b>	28.38
Exercisable, end of the period	<b>32,909</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>0.50</b>	
Expenses incurred in share-based payment transactions	<b>92,456</b>	

B. For the year ended December 31, 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	3,031	-
Expired	-	-
Balance, end of the period	<b>37,648</b>	28.38
Exercisable, end of the period	<b>37,648</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>1.50</b>	
Expenses incurred in share-based payment transactions	<b>49,513</b>	

4. For the year ended December 31, 2012, the Company issued restricted shares of stock to employees of 33,938 thousand shares, which resulted in a capital surplus — restricted employee stock of \$478,366 and salary expense of \$65,091. Also, as of December 31, 2012, deferred compensation arising from issuance of restricted stock of \$497,698 was accounted for under other adjustments to shareholders' equity.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

c. Share-based payment transactions — stock appreciation rights plan

Information on cash-settled share-based payment transaction as of December 31, 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	8.27%
Estimated future turnover rate of employees	8.97%

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

The previously recognized compensation cost was reversed due to the award fails to meet the vesting condition on December 31, 2012.

d. 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.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

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 for the years ended December 31, 2012 and 2011, which were credited to capital surplus — others. Also, the Company issued restricted shares of stock to employees, which resulted in capital surplus — restricted employee stock of \$478,366 for the year ended December 31, 2012.

e. Treasury Stock

- (a) 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.
- (b) 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.
- (c) As of December 31, 2012, the Company's shares held by its subsidiaries were 1,700 thousand shares amounting to \$63,835 at fair value.

f. 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:

- (a) 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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (b) Up to 1% as remuneration to directors and supervisors.
- (c) The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

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

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

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:

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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:

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

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 year ended December 31, 2012, employee bonuses of \$299,000 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.

The earnings distribution for the year ended December 31, 2012 has not been approved through shareholders' meeting. Related information can be accessed from the Market Observation Post System on the web site.

(16) Employee Stock Option

a. The details of the first batch of employee stock options of the ABILITY ENTERPRISE CO., LTD. ("Ability(TW)") in 2007 were as follows:

(a) On November 20, 2007, pursuant to the resolutions of its board of directors, Ability(TW) had issued employee stock options covering a total number of 19,500 units. Each unit bears an option to subscribe for one thousand share of Ability(TW)'s common stock. Therefore, 10,000 thousand shares of new common stock were issued from the exercise of 10,000 units of employee stock option. Following the issuance of employee stock options, any event, such as additional change to common stock of Ability(TW), distributions of cash dividends, and occurrence of merger and acquisition will result in adjustments in the price of the stock options. The employee stock options cover a

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

contractual life of 7 years, and are exercisable in accordance with certain schedules as prescribed by the plan starting 2 years from the date of grant. As of December 31, 2012 and 2011, the weighted-average expected life of the employee stock options was 2.24 years and 3.24 years, respectively.

- (b) The number and weighted-average exercise price of the first batch of employee stock options issued in 2007 were as follows:

	For the Years Ended December 31			
	2012		2011	
	Quantity of stock option (thousand shares)	Weighted-average exercise price	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	5,079	\$ 34.9	6,678	38.3
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	-	-	(1,599)	38.3
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>5,079</u>	32.6	<u>5,079</u>	34.9
Exercisable at the end of the period	<u>3,079</u>	32.6	<u>3,079</u>	34.9

- (c) For the employee stock options of Ability(TW) granted between January 1, 2004 and December 31, 2007, Ability(TW) recognized compensation cost using the fair value method. Pro forma information on net income and earnings using the fair value method were as follows:

	For the Years Ended December 31	
	2012	2011
Net income		
Net income	\$ 1,348,899	1,089,319
Pro forma net income	1,340,771	1,070,918
Basic earnings per share		
Earnings per share	3.02 dollars	2.45 dollars
Pro forma earnings per share	3.00 dollars	2.40 dollars
Diluted earnings per share		
Earnings per share	2.78 dollars	2.30 dollars
Pro forma earnings per share	2.77 dollars	2.26 dollars

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (d) The Black-Scholes Option Valuation Model was adopted to estimate the fair value of employee stock options on the date of grant. The assumptions used in this valuation model were as follows:

	<u>November 20, 2007</u>
Dividend yield	0.00%
Volatility factors of the expected market	39.87%
Risk-free interest rate	2.54%
Weighted-average expected life of the options	5.10 years
Stock options granted	10,000 thousand shares
Weighted-average fair value (per share)	20.6025 dollars

- b. The details of the second batch of employee stock option of the Ability(TW) in 2007 were as follows:

- (a) On November 20, 2007, pursuant to resolutions of its board of directors, Ability(TW) had issued employee stock options covering a total number of 19,500 units. The second batch of employee stock option 9,500 units was issued on October 13, 2008. Each unit bears an option to subscribe for one shares of Ability(TW)'s common stock at an exercise price of \$22.2 per share. As of December 31, 2012 and 2011, the weighted-average expected life of the employee stock options was 2.75 years and 3.75 years, respectively.

- (b) The number and weighted-average exercise price of the second batch of employee stock options issued in 2007 were as follows:

	<b>For the Years Ended December 31</b>			
	<u>2012</u>		<u>2011</u>	
	<u>Quantity of stock option (thousand shares)</u>	<u>Weighted- average exercise price</u>	<u>Quantity of stock option (thousand shares)</u>	<u>Weighted- average exercise price</u>
Outstanding at the beginning of the period	4,888	\$ 17.6	6,802	19.3
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	(213)	17.6	(470)	19.3
Exercised	(1,683)	16.4	(1,444)	17.6
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>2,992</u>	16.4	<u>4,888</u>	17.6
Exercisable at the end of the period	<u>1,092</u>	16.4	<u>1,088</u>	17.6



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (c) The Trinomial Tree Option Valuation Model was adopted by the Ability (TW) to estimate the fair value of employee stock options. The related information was as follows:

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

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

- (d) The expenses resulting from the share-based payment transactions were as follows:

	For the Years Ended December 31	
	2012	2011
Equity transaction	\$ 6,538	11,810

- c. The relevant registration processes for changes of capital resulting from the exercise of employee stock options and conversion of convertible bonds should be completed within at least each quarter when those changes occur. As of December 31, 2012, Ability (TW) increased its capital by \$16,450 due to the exercise of employee stock options.

(17) Earnings per Share (EPS)

For the years ended December 31, 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:

(Note: shares in thousands)

	For the Years Ended December 31			
	2012		2011	
	Before income tax	After income tax	Before income tax	After income tax
Net income	\$ 6,541,353	6,103,796	58,514	111,365
Effect of potentially dilutive common shares	182,163	151,195	-	-
Diluted net income	\$ 6,723,516	6,254,991	58,514	111,365

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

For the Years Ended December 31

	2012		2011	
	Before income tax	After income tax	Before income tax	After income tax
Weighted-average common shares outstanding	2,255,780	2,255,780	2,255,192	2,255,192
Potentially dilutive common shares	217,920	217,920	7,981	7,981
Diluted shares	<b>2,473,700</b>	<b>2,473,700</b>	<b>2,263,173</b>	<b>2,263,173</b>
Primary earnings per share	<b>\$ 2.90</b>	<b>2.71</b>	<b>0.03</b>	<b>0.05</b>
Diluted earnings per share	<b>\$ 2.72</b>	<b>2.53</b>	<b>0.03</b>	<b>0.05</b>

(18) Financial Instruments

a. 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 instruments has a short maturity period, the carrying value is adopted as reasonable basis for establishing its fair value. This method is applied to cash, accounts receivable, accounts payable, other receivables, other receivables — related parties, other financial assets, other financial liabilities, short-term loans, and accrued expenses.

As of December 31, 2012 and 2011, except for those financial assets and liabilities described above, the Consolidated Company's other financial assets and liabilities were as follows:

Non-Financial Instruments	December 31, 2012		December 31, 2011	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets				
Financial asset reported at fair value through profit or loss — current	\$ 7,534,036	7,534,036	6,417,685	6,417,685
Available-for-sale financial asset — current	505,919	505,919	454,752	454,752
Available-for-sale financial asset — noncurrent	1,169,156	1,169,156	463,921	463,921
Financial assets carried at cost — noncurrent	647,321	-	740,309	-

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Non-Financial Instruments	December 31, 2012		December 31, 2011	
	Book Value	Fair Value	Book Value	Fair Value
<b>Financial Liabilities</b>				
Financial liability reported at fair value through profit or loss — current	\$ 69,084	69,084	102,583	102,583
Financial liability reported at fair value through profit or loss — noncurrent	6,275	6,275	-	-
Bonds payable (including current portion)	9,839,019	9,910,906	1,404,707	1,485,000
Long-term loans (including current portion)	26,403,410	26,403,410	28,267,268	28,267,268

**Financial Instruments**

**Financial Assets**

Foreign exchange swap contracts	\$ 58	58	135	135
Forward exchange contracts	271	271	2,085	2,085
Option exchange	-	-	4,496	4,496

Financial Instruments	December 31, 2012		December 31, 2011	
	Book Value	Fair Value	Book Value	Fair Value
<b>Financial Liabilities</b>				
Foreign exchange swap contracts	\$ 98	98	232	232
Interest swap contracts	-	-	1,367	1,367
Embedded derivatives — convertible bonds	75,261	75,261	100,984	100,984

b. Methods and assumptions used by the Consolidated Company to evaluate the fair value of financial instruments were as follows:

- (a) The fair value of financial instruments, which are carried 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.
- (b) Financial assets carried at cost, are measured at carrying value, as their market price is difficult to determine, due to lack of objective evidences, in practice.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

- (c) The fair value of call options and put options embedded in the convertible bonds, which were issued after January 1<sup>st</sup>, 2006, is determined by their fair market value.
  - (d) The fair market value of long-term loans is determined by the present value of future cash flow. As the value derived by using floating interest rate in discounting is close to the book value, the book value is adopted as the fair market value.
  - (e) The fair value of the derivatives traded in active markets is determined by their carrying value, which approximates market value on the balance sheet date. If the derivatives are not traded in active markets, then the fair value is determined by using valuation techniques, under which the estimates and assumptions used are consistent with prevailing market conditions.
- c. Gain (Loss) recognized from changes in the fair values of financial assets, which were estimated by using valuation techniques, amounted to \$131,815 and \$(160,782), for the years ended December 31, 2012 and 2011, respectively.
- d. Gain (Loss) recognized from changes in the fair values of financial liabilities, which were estimated by using valuation techniques, amounted to \$46,133 and \$(89,842), for the years ended December 31, 2012 and 2011, respectively.
- e. Information on financial risks
- (a) Market risk

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

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

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

(b) Credit risk

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

The primary potential credit risk is from financial instruments like cash, equity securities, and accounts receivable. Also, the Consolidated Company deposits cash in different financial institutions. The Consolidated 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 Consolidated Company transacted only with the approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Consolidated Company would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Consolidated Company believes that there is no significant credit risk. Under its customer credibility evaluation policies, the Consolidated 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 Consolidated Company are concentrated in the high-tech computer industry. As the customers of the Consolidated Company have good credits and profit records, the Consolidated Company evaluates the financial conditions of these customers continually to reduce credit risk from accounts receivable. Moreover, the Consolidated Company also periodically evaluates the customers' financial positions and the possibility of collecting trade receivables. Thus, management is not expecting any significant issue on credit risk.

(c) Liquidity risk

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

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

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

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

(d) Cash flow risk arising from variation in interest rates

The Consolidated 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.

f. Financial risk control and hedging strategy

ABILITY ENTERPRISE CO., LTD. ("Ability (TW)") adopted overall risk management and control system to identify all the risks, including market risk, credit risk and operational risk, so that Ability (TW)'s management is not expecting any significant issue on doubtful accounts.

The Chief Financial Officer is mainly responsible for the financial risk control. Ability (TW) adopts the following strategies to control financial risks:

- (1) Ability (TW) undertakes derivative financial instruments to manage cash flow risk, fair value risk and other risks arising from fluctuations in prices, interest rates and foreign exchange rates.
- (2) To hedge cash flow fair value risk arising from fluctuations in exchange rates, Ability(TW) undertakes derivative financial instruments such as forward exchange contracts to manage import and export transactions denominated in foreign currencies.
- (3) To mitigate price risk, Ability (TW) sets a stop-loss point on derivatives to limit potential loss.
- (4) Derivative counterparties are limited to international financial institutions with high-credit-quality. Ability (TW) has policies that limit the amount of credit exposure to any financial institution.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(5) Ability (TW) has sufficient working capital on hand to avoid liquidity risk arising from insufficient funds and to fulfill contractual obligations.

Ability (TW) believes that the financial risk management strategies discussed above can effectively reduce Ability (TW)'s major risks.

g. Financial Instruments with Off-Balance-Sheet Credit Risk:

As of December 31, 2012 and 2011, guarantee and endorsements for bank loans were provided by the Consolidated Company for related parties, as discussed in Note 5.

(19) Others

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

	December 31, 2012			December 31, 2011		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<b>Financial Assets</b>						
Monetary Items						
USD	\$5,065,430	29.04	147,100,087	3,055,948	30.275	92,518,826
RMB	2,142,166	4.6202	9,897,235	1,648,237	4.8049	7,919,614
Long-term Equity Investments						
USD	42,204	29.04	1,225,599	44,020	30.275	1,332,691
<b>Financial Liabilities</b>						
Monetary Items						
USD	7,391,468	29.04	214,648,231	4,421,720	30.275	133,867,573
RMB	2,752,959	4.6202	12,719,221	1,676,068	4.8049	8,053,339

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

5. Related-Party Transactions

(1) Names and Relationships of Related Parties with the Consolidated Company

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
ASUSTEK COMPUTER INC. (ASUSTeK)	An investor company accounting its investment in the Company under the equity method
ASUS COMPUTER INTERNATIONAL	An investee company accounted for under the equity method by ASUSTeK Computer Inc. (Note1)
ASKEY COMPUTER CORP.	"
ASUS TECHNOLOGY INC.	"
ASMEDIA TECHNOLOGY INC.	"
ASUSTEK COMPUTER (SHANGHAI) CO., LTD. (ASUSTEK COMPUTER (SHANGHAI))	"
ASUS COMPUTER (SHANGHAI) CO., LTD. (ASUS COMPUTER (SHANGHAI))	"
SHINEWAVE INTERNATIONAL INC.	"
ENERTRONIX, INC.	"
AAEON TECHNOLOGY INC.	"
EMES (SUZHOU) CO., LTD.	"
ASKEY TECHNOLOGY (JIANG SU) LTD. (ASKEY TECHNOLOGY)	"
UNIMAX ELECTRONICS INC.	"
ASHINE PRECISION CO., LTD.	An investee company accounted for under the equity method (Note2)
AVY PRECISION TECHNOLOGY INC. (AVY PRECISION)	An investee company accounted for under the equity method (Note3)
AVY CO., LTD.	"
DONGGUAN AVY PRECISION METAL COMPONENTS CO., LTD. (DONGGUAN AVY)	"
DONGGUAN CHENGGUANGP PRECISION HARDWARE CO., LTD.	"
AVY PRECISION METAL COMPONENTS (SUZHOU) CO., LTD.	An investee company accounted for under the equity method
SHANGHAI INDEED TECHNOLOGY CO., LTD. (SHANGHAI INDEED)	"



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
GING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	An investee company accounted for under the equity method
HOLD JUMPER PACKING (SUZHOU) CO., LTD.	"
HOLD JUMPER PACKING (SHANGHAI) CO., LTD.	"
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	"
SUZHOU DELUXE PACKING PRODUCTION CO., LTD.	"
BLACKROCK MARYLAND INTERNATIONAL CORP.	"
GREEN PACKING LTD.	"
SHINE TRADE INTERNATIONAL LTD.	"
YORKEY OPTICAL TECHNOLOGY LTD. (SAMOA)	"
TAISHIBA INTERNATIONAL CO., LTD	An affiliate of Ability Enterprise Co., Ltd.
All directors, supervisors, general manager and vice president	The Consolidated Company management

Note 1: As ASUSTek COMPUTER INC. ("ASUSTEK") ceased control of the Company effective May 31, 2010, ASUSTEK's subsidiaries and the Company's subsidiaries became non-related parties as of the said date.

Note 2: On September 1, 2012, AVY PRECISION TECHNOLOGY INC. ("AVY PRECISION") merged with ASHINE PRECISION CO., LTD. ("ASHINE") with AVY PRECISION as the surviving entity from the merger.

Note 3: In October 2012, Ability (TW) sold its equity ownership of AVY PRECISION, which resulted in Ability (TW) holding less than 20% equity shares of AVY PRECISION so that Ability (TW) ceased significant control of AVY PRECISION. As there is no evidence of the Consolidated Company's significant relationship with AVY PRECISION and its subsidiaries, the Consolidated Company and AVY PRECISION and its subsidiaries became non-related parties following the disposal date.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Significant Transactions with Related Parties

a. Sales

Name of Related Party	For the Years Ended December 31					
	2012			2011		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTeK	\$ 135,693,193	15.39	Open account 60 days	170,276,412	28.39	Open account 60 days
Others	33,633	-	30~90 days from receipt of goods Open account 30~90 days	25,300	-	30~90 days from receipt of goods Open account 30~90 days
Total	<u>\$ 135,726,826</u>	<u>15.39</u>		<u>170,301,712</u>	<u>28.39</u>	

The prices and sales terms mentioned above are the same as general sales terms.

b. Purchases

Name of Related Party	For the Years Ended December 31					
	2012			2011		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$ 102,904,941	12.37	Open account 60 days	125,965,080	21.73	Open account 60 days
Others	5,587,401	0.67	30~90 days from receipt of goods Open account 30~120 days	6,169,061	1.06	30~90 days from receipt of goods Open account 30~120 days
Total	<u>\$ 108,492,342</u>	<u>13.04</u>		<u>132,134,141</u>	<u>22.79</u>	

The prices and purchase term are the same as general purchase terms.

For year ended December 31, 2012 and 2011, the Company purchased raw materials from vendors through ASUSTek.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

c. Others

	For the Years Ended December 31	
	2012	2011
(a) After-sales warranty repair expense paid to :		
ASUS COMPUTER (SHANGHAI)	\$ 33,857	1,245
Others	1	138
Total	<u>\$ 33,858</u>	<u>1,383</u>
(b) Other income from:		
ASUSTeK	\$ 581,933	527,415
Others	10,621	5,122
Total	<u>\$ 592,554</u>	<u>532,537</u>

(c) For the years ended December 31, 2012 and 2011, the Consolidated Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, and professional service fee, etc, amounting to \$18,955 and \$18,334 respectively.

(d) Promotion expenses

	For the Year Ended December 31, 2011
ASUSTEK	<u>\$ 4,344</u>

The ASUSTEK provided services to the Consolidated Company for selling the products, and charged related expenses.

d. Property Transactions

(a) Purchase of properties

For the years ended December 31, 2012 and 2011, properties purchased from other related parties amounted to \$97,858 and \$121,993, respectively.

(b) Equity transactions

For the year ended December 31, 2011, the Consolidated Company sold its equity ownership of NOEA CORPORATION to AVY PRECISION for \$38,042 and recognized a loss on disposal of investment for \$44.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) Rental revenue

For the years ended December 31, 2012 and 2011, the Consolidated Company incurred other related party transactions of \$25,229 and \$28,442, respectively, which were accounted as rental revenue.

e. Accounts Receivable (Payable)

	December 31, 2012		December 31, 2011	
	Amount	%	Amount	%
<b>Accounts Receivable:</b>				
ASUSTeK	\$ 5,695,594	4.63	9,646,625	11.45
Others	8,782	-	3,654	-
Total	<u>\$ 5,704,376</u>	<u>4.63</u>	<u>9,650,279</u>	<u>11.45</u>
<b>Other Receivable:</b>				
ASUSTeK	\$ 14,628	0.11	435	0.02
GREEN PACKING	235	-	-	-
SHANGHAI INDEED	-	-	6,254	0.28
DONGGUAN AVY	-	-	1,455	0.07
Others	-	-	758	0.03
Total	<u>\$ 14,863</u>	<u>0.11</u>	<u>8,902</u>	<u>0.40</u>
<b>Accounts Payable:</b>				
SHANGHAI INDEED	\$ 381,484	0.22	778,663	0.78
HOLD JUMPER PACKING (SUZHOU)	53,483	0.03	54,862	0.05
GREEN PACKING	37,729	0.02	35,996	0.04
ASKEY TECHNOLOGY	17,740	0.01	534,352	0.53
AVY PRECISION	-	-	518,036	0.52
Others	18,410	0.01	355,844	0.36
Total	<u>\$ 508,846</u>	<u>0.29</u>	<u>2,277,753</u>	<u>2.28</u>
<b>Accrued Expenses:</b>				
ASUSTeK	\$ 34,185	0.18	396,680	2.97
Others	8,217	0.04	10,524	0.08
Total	<u>\$ 42,402</u>	<u>0.22</u>	<u>407,204</u>	<u>3.05</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Other related party transactions accounted for as assets and liabilities in the balance sheet were as follows:

<b>Assets:</b>	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Temporary payments	\$ -	534
<b>Liabilities:</b>		
Other financial liabilities — current	\$ 292	320
Other current liabilities	29	3,641
	<b>\$ 321</b>	<b>3,961</b>

f. Remuneration

For the years ended December 31, 2012 and 2011, the total remuneration paid to the members of Board of Directors and Supervisors and of Executive management were as follow:

	<b>2012</b>	<b>2011</b>
Salary and Bonus (including Board of Directors' remuneration)	\$ 354,623	389,742
Professional fees	108	201
Employee Bonus	105,158	151,513
Total	<b>\$ 459,889</b>	<b>541,456</b>

6. Pledged Assets

As of December 31, 2012 and 2011, pledged assets were as follows:

<b>Asset</b>	<b>December 31</b>		<b>Purpose of pledge</b>
	<b>2012</b>	<b>2011</b>	
Restricted deposit	\$ 133,055	111,049	Customs duty guarantee, collateral, rental deposits, travel agency guarantee, etc.
Property, plant and equipment	2,039,763	939,363	Bank loans
Land use rights	11,585	-	Bank loans
Refundable deposits	31,352	32,327	Customs duty guarantee, custom deposits, batch declaration guarantee, and deposits for performance guarantee
	<b>\$ 2,215,755</b>	<b>1,082,739</b>	

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(1) As of December 31, 2012 and 2011, major commitments and contingencies were as follows:

<u>Unused standby letters of credit</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
NTD	\$ 5,510	6,753
EUR	2,558	3,927
JPY	4,003,161	4,808,946
USD	18,880	26,654

(2) As of December 31, 2012 and 2011, promissory notes and certificate of deposit obtained for business purpose amounted to \$17,297 and \$17,332, respectively.

(3) Future lease commitments from the lease of buildings under the operating lease agreements were as follows:

<u>Year</u>	<u>Future lease commitments</u>				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Future lease commitments	<u>\$ 723,386</u>	<u>582,701</u>	<u>401,006</u>	<u>223,803</u>	<u>136,236</u>

The present value of the future lease commitments of CASETEK HOLDINGS LTD. (CAYMAN) and its subsidiaries ("CASETEK CAYMAN"), which was estimated using the average loan interest rate of 2.896% in 2012 as the discounting rate, was as follows:

<u>Duration</u>	<u>Amount</u>	<u>Present Value</u>
01/01/2018~01/31/2025	<u>\$ 123,914</u>	<u>110,159</u>

(4) As of December 31, 2012 and 2011, the significant contracts for purchase of properties by the Consolidated Company amounted to \$8,822,652 and \$29,520,477, of which \$5,198,394 and \$16,974,382, respectively, were unpaid.

(5) The promissory notes issued for bank loans were as follows:

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Jointly issued with VQ (BVI)	<u>USD 10,000</u>	<u>USD 10,000</u>
Jointly issued with E-PIN	<u>NTD 700,000</u>	<u>NTD 700,000</u>

(6) For details of ABILITY ENTERPRISE CO., LTD.'s construction contract for the construction of its operational headquarter and research and development center in Xinzhuang, please refer to Note 4(7).

(7) As of December 31, 2012, AZURE WAVE TECHNOLOGIES INC. issued a tariff guarantee of \$7,000 to the bank for the purpose of importing goods.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

- (8) ASUSPOWER INVESTMENT CO., LTD. has undertaken an administrative remedy due to the disagreement with Tax Authority in determining the nature of the equity transactions in 2006 and 2007. However, ASUSPOWER INVESTMENT CO., LTD. has accrued the income taxes due thereon.
- (9) For the year ended December 31, 2012, CASETEK CAYMAN have a trade dispute with MEICOM INDUSTRIES CORP. MEICOM INDUSTRIES CORP. and filed a claim for payment and property protection to the court. On August 6, 2012, the Shanghai Songjiang District People's Court has adjudicated to freeze CASETEK HOLDINGS's demand deposit of RMB\$31,361 (NT\$144,897) for six months. In December 2012, CASETEK CAYMAN paid the claim and the court's order to freeze its demand deposit was lifted. CASETEK HOLDINGS incurred no loss thereon, and thus management believe that this case will have no significant impact on CASETEK HOLDINGS' financial activities.

**8. SIGNIFICANT CATASTROPHIC LOSSES: None.**

**9. SIGNIFICANT SUBSEQUENT EVENTS:**

- (1) In compliance with relevant guidelines for the initial public offering, CASETEK CAYMAN's board of directors approved a resolution on December 12, 2012 for the issuance of 24,000 thousand new shares with 10% to be retained for employees to purchase. Pursuant to the approval of Financial Supervisory Commission on January 2, 2013, CASETEK CAYMAN completed its issuance of new shares at share price of \$90 per share with par value of \$10 per share on January 23, 2013, and the effective date of this capital increase was January 24, 2013. As of the financial report date, the procedure for the registration of change in capital stock has been completed. Also, CASETEK CAYMAN's shares were listed on TSEC on January 24, 2013.
- (2) In consideration of its operating capital utilization, CASETEK CAYMAN had paid off the undue long-term loan from Taiwan Cooperative Bank of USD 50,000 (NT\$ 1,452,000) in advance in February 2013.
- (3) As of February 6, 2013, the outstanding balance of Ability (TW)'s 1<sup>st</sup> unsecured domestic convertible bonds amounted to \$24,300, representing 1.62% of the total initial issuance amount of NT\$1,500 million, which was less than 10% of the initial issuance amount. Under the terms of the convertible bonds, Ability (TW) may repurchase all of the outstanding bonds at face value within five business days from the record date of repurchase. Ability (TW) had undergone the repurchase process from February 6, 2013 and set the record date of repurchase as April 1, 2013, and the termination date as April 2, 2013. For all the holders who have not requested for redemption before the record date, Ability (TW) will convert all of the unredeemed bonds.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

10. OTHERS

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

Categorized as Nature	For the Year Ended December 31, 2012			For the Year Ended December 31, 2011		
	Operating Cost	Operating Cost	Operating Cost	Operating Cost	Operating Expense	Total
Personnel expense						
Salary expense	27,233,880	12,375,802	39,609,682	17,560,050	9,010,159	26,570,209
Health and labor insurance expense	1,497,865	666,685	2,164,550	824,880	551,833	1,376,713
Pension expense	1,657,898	623,736	2,281,634	994,344	471,085	1,465,429
Other expense	2,192,181	646,876	2,839,057	1,154,658	460,534	1,615,192
Depreciation expense (Note A)	9,234,414	1,333,549	10,567,963	7,221,782	1,205,067	8,426,849
Amortization expense	1,575,188	923,198	2,498,386	1,473,142	1,040,939	2,514,081

Note A: For the years ended December 31, 2012 and 2011, the Consolidated Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle-assets of \$97,515 and \$21,647, respectively

- (2) Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2011, were reclassified to conform to the presentation adopted in the consolidated financial statements as of and for the year ended December 31, 2012.

11. BUSINESS SEGMENT FINANCIAL INFORMATION

- (1) General Information

The Consolidated Company identifies the entity's operating segments based on the decision of the chief operating decision maker and perform quantitative threshold testing in accordance with SFAS No. 41 "Operating Segments."

For the years ended December 31, 2012 and 2011, operating segments required to be disclosed are categorized as DMS (Design, Manufacturing and Service) and Strategic Investment Group. DMS's main operating activities are designing and manufacturing computer, communication and consumer electronics' end products, and providing after-sales service. Strategic Investment Group is DMS's upstream and downstream supply chain, strategic investments and other related investments arms. The chief operating decision maker's main responsibility is to integrate



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

strategy that creates operating synergy throughout the supply chain and to allocate the profit from the operating result. The Consolidated Company assess performance of the segments based on the segments' profit, and report the amounts of revenues based on the financial information used to prepare the consolidated financial statements.

<b>For the Year Ended December 31, 2012</b>	<b>DMS</b>	<b>Strategic Investment Group</b>	<b>Adjustment and eliminations</b>	<b>Total</b>
External Revenue	\$ 766,406,767	115,488,617	-	881,895,384
Intra-Group Revenue	1,652,157	13,788,665	(15,440,822)	-
Total segment revenue	<b>\$ 768,058,924</b>	<b>129,277,282</b>	<b>(15,440,822)</b>	<b>881,895,384</b>
Segment profit (loss)	<b>\$ 6,980,211</b>	<b>15,138,025</b>	<b>(8,315,678)</b>	<b>13,802,558</b>
Other significant non-monetary items:				
Investment income (loss) under equity method	<b>3,158,883</b>	<b>5,140,437</b>	<b>(8,239,836)</b>	<b>59,484</b>
Asset				
Long-term investment under equity method	<b>\$ 39,004,666</b>	<b>60,440,052</b>	<b>(97,837,021)</b>	<b>1,607,697</b>
Segment assets	<b>\$ 317,779,521</b>	<b>182,654,596</b>	<b>(108,993,552)</b>	<b>391,440,565</b>
Other significant non-monetary items:				
Goodwill	-	<b>1,015,733</b>	<b>839,513</b>	<b>1,855,246</b>
Segment liabilities	<b>\$ 221,700,689</b>	<b>53,659,010</b>	<b>(11,946,366)</b>	<b>263,413,333</b>
<b>For the Year Ended December 31, 2011</b>	<b>DMS</b>	<b>Strategic Investment Group</b>	<b>Adjustment and eliminations</b>	<b>Total</b>
External Revenue	\$ 453,636,342	146,306,364	-	599,942,706
Intra-Group Revenue	46,929,465	11,694,900	(58,624,365)	-
Total segment revenue	<b>\$ 500,565,807</b>	<b>158,001,264</b>	<b>(58,624,365)</b>	<b>599,942,706</b>
Segment profit (loss)	<b>\$ 63,089</b>	<b>6,603,540</b>	<b>(1,939,237)</b>	<b>4,727,392</b>
Other significant non-monetary items:				
Investment income (loss) under equity method	<b>1,989,701</b>	<b>(94,972)</b>	<b>(1,796,285)</b>	<b>98,444</b>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<b>For the Year Ended December 31, 2011</b>	<b>DMS</b>	<b>Strategic Investment Group</b>	<b>Adjustment and eliminations</b>	<b>Total</b>
Asset				
Long-term investment under equity method	\$ 39,401,686	57,659,663	(94,598,108)	2,463,241
Segment assets	<u>\$ 227,604,810</u>	<u>176,421,238</u>	<u>(104,450,051)</u>	<u>299,575,997</u>
Other significant non-monetary items				
Goodwill	-	1,058,865	839,634	1,898,499
Segment liabilities	<u>\$ 136,020,602</u>	<u>55,968,061</u>	<u>(10,609,395)</u>	<u>181,379,268</u>

As of December 31, 2012, ADVANSUS CORP. was excluded from the consolidated financial statements due to disposal of the Company's entire equity ownership thereof.

(2) Industrial Information

a. Geographic information

(a) External Sales

<b>Region</b>	<b>2012</b>	<b>2011</b>
Taiwan	\$ 320,844,533	242,873,453
China	43,555,829	52,244,102
USA	277,826,295	127,999,962
Japan	85,788,008	86,382,723
Others	154,420,719	90,442,466
Total	<u>\$ 881,895,384</u>	<u>599,942,706</u>

(b) Non-current assets

<b>Region</b>	<b>2012</b>	<b>2011</b>
Taiwan	\$ 15,929,085	13,868,216
China	63,822,771	60,434,117
Others	1,590,149	5,539,743
Total	<u>\$ 81,342,005</u>	<u>79,842,076</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

b. Major Customer

Customers with revenues exceeding 10% of the total revenues in 2012 and 2011 were as follows:

<u>Customer</u>	<u>2012</u>	<u>2011</u>
A	\$ 135,833,324	170,276,412
B	54,300,490	55,951,280
C	243,042,779	72,526,182
	<u>\$ 433,176,593</u>	<u>298,753,874</u>