



2013 ANNUAL REPORT

PEGATRON
和 碩 聯 合 科 技

民國一〇二年度年報
股票代號 4938

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FOR MORE INFORMATION ABOUT PEGATRON

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This English version of the Pegatron Annual Report is a concise translation of the Mandarin version. This document is created for the sole purpose of the convenience for its non-Mandarin readers and is not an official document to represent the financial status of the Company per Taiwan laws.

Pegatron Corporation does not assure the accuracy of this translated document. Readers wishing to view the official audited version of Pegatron's financial reports can obtain a copy of the Pegatron Annual Report (Mandarin version) on the Pegatron Corporation website (www.pegatroncorp.com).

TABLE OF CONTENTS

1.	Letter to Shareholders	1
2.	Company Profile	4
2.1	Date of Incorporation.....	4
2.2	Company Milestones.....	4
3.	Corporate Governance	6
3.1	Organization Structure.....	6
3.2	Board of Directors, Supervisors and Management Team	9
3.3	Implementation of Corporate Governance	26
3.4	Information Regarding CPA Fees.....	42
3.5	Information on Change of CPA.....	43
3.6	Management Team Who Had Worked for the Independent Auditor	43
3.7	Status of Net Change in Shareholding and Shares Pledged.....	43
3.8	The Relation of the Top Ten Shareholders	44
3.9	Long-Term Investment Ownership.....	44
4.	Capital and Shares	45
4.1	Capital and Shares.....	45
4.2	Issuance of Corporate Bond.....	52
4.3	Preferred Shares	53
4.4	Issuance of Global Depository Receipts	54
4.5	Employee Stock Option.....	55
4.6	Restricted Employee Shares.....	57
4.7	New Shares Issuance in Connection with Mergers and Acquisitions.....	61
4.8	Financing Plan and Implementation	61
5.	Overview of Business Operation	62
5.1	Business Activities.....	62
5.2	Market and Sales Overview.....	69
5.3	Status of Employees.....	75
5.4	Expenditure on Environmental Protection	76
5.5	Employee Relations.....	76
5.6	Important Contracts.....	77
6.	Financial Information	79
6.1	Five-Year Financial Summary.....	79
6.2	Five-Year Financial Analysis.....	87
6.3	Audit Committee's Review Report.....	95
6.4	Consolidated Financial Statements	96
6.5	Non-Consolidated Financial Statements.....	96
6.6	Financial Difficulties.....	96

7.	Review of Financial Position, Management Performance and Risk Management...	97
7.1	Analysis of Financial Status.....	97
7.2	Analysis of Operating Results.....	98
7.3	Analysis of Cash Flow.....	99
7.4	Major Capital Expenditure.....	99
7.5	Investment Policy.....	99
7.6	Analysis of Risk Management.....	99
7.7	Other Major Risks.....	103
8.	Other Special Notes	104
8.1	Affiliated Companies.....	104
8.2	Private Placement Securities.....	109
8.3	The Shares of the Company Held or Disposed of by the Subsidiaries.....	109
8.4	Special Notes.....	109
8.5	Events with Significant Impacts	109

1. Letter to Shareholders

Dear Shareholders,

Looking back in 2013, global economy had been unpredictable as a result of factors such as QE tapering, gradual recovery of Eurozone economy, monetary easing policy launched by Japan, growth softness in China, etc. In 2013, electronics industry continued undergoing changes with portable and mobile devices clearly leading the growing path, while traditional PC industry facing vigorous challenges. Since consumers' demand and user experience towards electronics devices are changing, and technologies of computing and communication devices became highly integrated, which blurred the boundaries of each product segment, it has become a common pursuit for the industry to design and launch innovative products based on cross function collaboration between software and hardware technologies. By mastering industry trend adequately, continuous in-depth collaboration with customers and endeavoring efforts from employees, Pegatron has outshined its peers in 2013 and successfully positioned ourselves as one of the top DMS players globally. Along with the increasing manufacturing scale, Pegatron's profitability has also improved substantially in 2013.

Financial Performance

The consolidated revenue of 2013 reached NT\$949.8 billion, grew by 7.8% from NT\$881.2 billion in 2012 with gross margin of 4.8%. Profit attributable to Owners of the parent increased to NT\$9.6 billion from NT\$6.4 billion in the previous year. Consequently, earnings per share (EPS) reached NT\$4.16 in 2013. Though Computing segment remained as the product segment that generated the highest revenue, the difference in revenue contribution from Computing, Consumer Electronics, and Communication segments gradually diminished and became more balanced. Benefitting from new product launch, revenue from Consumer Electronics and Communication segments grew significantly on a year-over-year basis in 2013.

Technical Capability and Operating Highlights

Pegatron is renowned for its solid foundation of research and development in its core technologies such as computing, communication, video, optics, etc. With the Company's worldwide manufacturing and service sites, we are able to offer our core competence to customers at various locations and create more value-add to our customers by providing innovative services. In 2013, Pegatron successfully reached the goal of product diversification with Computing, Consumer Electronics and Communication segments each contributing around one third of the total revenue. A balanced product portfolio helped the Company secure its market position and weather through challenges in the industry. The next step will be to

streamline efficiency, quality control procedures, and management measures and improve capacity utilization. As manufacturing scale enlarges, Pegatron will increase investment in automation in order to reduce its reliance on labors.

Early 2013, Pegatron underwent an organization structure overhaul to reorganize the sales force and consolidate manufacturing facilities and R&D recourses. After operating for one year, its benefits could be easily observed from the following aspects: better collaboration between technical and operation groups, clearly defined directions for business units and improved communication and knowledge transfer among manufacturing sites. After overcoming the learning curve during organization restructure, the Company is well prepared for future business growth and to exceed the achievement we have made in the past few years.

Awards and Social Responsibility

Corporate sustainability and continuous improvement have always been the Company's long term commitment to the community. In 2013, Pegatron was awarded the "2013 Industrial Sustainable Excellence Award - Enterprise Class" by Industrial Development Bureau, Ministry of Economic Affairs, which highlighted the Company's outstanding R&D capabilities in green design and our resolution to implement corporate sustainability. Furthermore, as a corporate citizen, the Company continues to pay special attention to worsening global warming and strive to reduce carbon emission by incorporating eco-friendly design and green technology during the manufacturing, delivery and disposal processes, as well as implementing energy saving strategies during daily operation. In addition to stating the Company's philosophy of treasuring natural resources in our PUnCSR policy and demonstrating Pegatron's determination of carbon reduction, we have established a long-term goal of reducing 21% greenhouse gas emission per million of revenue by 2020 as compared to that of 2009. The Company issues Corporate Social Responsibility ("CSR") report every year to update the progress and achievement in economic, environmental and social aspects, which help improve transparency and enhance CSR management system. The report also serves as a communication platform to allow stakeholders understanding the implementation of various project associated with society, environment and occupational health & safety, as well as the goals the Company pursues.

Outlook

In 2014, in addition to balancing the development among three major product segments, Computing, Consumer Electronics and Communication, we will continue to integrate internal resources, elevate manufacturing quality, improve operating efficiency, as well as to cultivate core technologies amid the fast moving industry and apply core technologies in different fields where we can search for innovative service models and create a brand new market. The effort made in the past few years helped reinforce operation and improve profitability. The next step

is to enhance core technologies in order to pursue sustainable growth for the longer term. Despite volatile global economic conditions, continuous industry consolidation and rapid product evolution, we firmly believe that our experience and capabilities are further enhanced along with each challenge we encountered. Looking ahead in 2014, we uphold the same belief to excel ourselves, prepare for the next growth momentum and generate higher profitability to our shareholders.

On behalf of all employees of Pegatron, we would like to express our appreciation for the support of our shareholders. With your unwavering trust and confidence in Pegatron, we will continuously strive for better performance and growth, and share the fruitful result with all our shareholders, customers and employees.

Chairman T.H. Tung



President and CEO Jason Cheng



2.1 Company Profile

Date of Incorporation: June 2^{7th}, 2007

2.2 Company Milestones

June 2007	● Pegatron Corporation ("the Company") was incorporated with a paid-in capital of NT\$1 million.
Nov 2007	● Increased paid-in capital to NT\$50 million by capital injection
Jan 2008	● Increased paid-in capital to NT\$16,050 million by issuing 1,600,000,000 shares to inherit the DMS (design and manufacturing services) unit from Asustek Computer Inc ("Asustek").
Apr 2008	● Merged 100% owned subsidiary, Asusalpha Computer Inc., in order to streamline corporate resources.
Jun 2008	● Became the member of EICC (Electronic Industry Code of Conduct) ● Increased paid-in capital to NT\$18,846 million by issuing 279,628,141 shares in exchange for 100% ownership of Unihan Corporation with Asustek. After the share exchange, Unihan became the Company's wholly owned subsidiary.
Dec 2008	● The Company was awarded the Red Dot Award for its Just Draw It Power Management Device. ● The Company was awarded the world's first Energy using Product (EuP) certificate by DNV (DET NORSKE VERITAS).
Feb 2009	● Acquired Top Quark Limited for US\$6.04 million in order to provide more comprehensive services of communication products to customers.
Mar 2009	● The Company was awarded the iF Material Award in Germany for the application of bamboo and acetate fiber on computing products.
Apr 2009	● Completed the world's first Product Category Rule for Notebook PC products, which can be served as the key reference for Environmental Product Declaration (EPD) as officially announced on the website of Global TYPE III Environmental Product Declaration Network (GEDnet).
Jul 2009	● Acquired 100% shareholding of Powtek (Shanghai) Co., Ltd so as to conduct business in mainland China and expand the market share in China.
Oct 2009	● Assisted key customers received the world's first TYPE III Environmental Product Declaration for N51V series Notebook PC awarded by Environment and Development Foundation (EDF). ● Assisted key customers received the world first Carbon Footprint Certificate for N51V series Notebook PC awarded by DNV (DET NORSKE VERITAS). ● The Company was awarded the iF Design Award in China for Mini PC (Cape 7), Digital Photo Frame (Orbit), and light bulbs products.
Nov 2009	● Increased NT\$4,014 million through capitalization of profits and the paid-in capital amounted to NT\$22,861 million.
Dec 2009	● In order to streamline organization structure and reduce management cost, a key subsidiary, Protek (Shanghai) Limited, merged with another key subsidiary, North Tec Asia (Shanghai) Limited, and the former one is the surviving company. ● In order to expand business, a key subsidiary, Maintek Computer (Suzhou) Co., Ltd, increased capital of US\$34 million. ● Assisted customers achieving key environmental certifications such as EPEAT, EU Flower and Taiwan Green Market. For more than 55 products.
Jan 2010	● The Company's Board of Directors, acting on behalf of the Company's AGM pursuant to the Company Law, approved the merger with Pegatron International. Upon the completion of the merger, the Company is the surviving company.

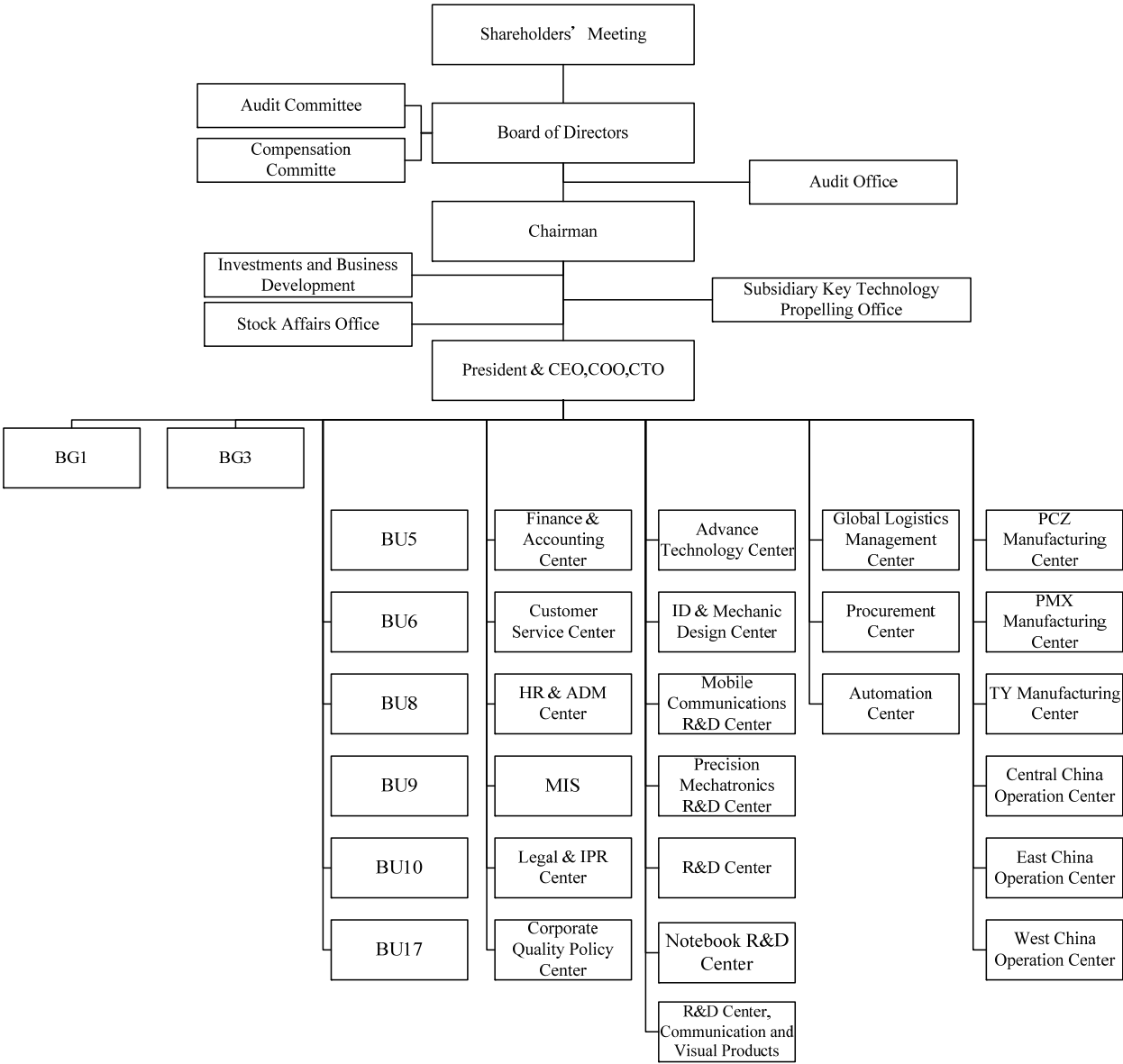
Mar 2010	• The Company's application for being a public company was approved. • The Company was awarded the German 2010 iF Material Award for the alloy of PLA and Recycled PC.
May 2010	• The Company was awarded the German 2010 iF Communication Design Gold Award, 2010 iF Communication Design Award and 2010 red dot Communication Design Award for the tea packaging design, Dao Cha, and Cubicphile the promotion material.
Jun 2010	• Approved the merger with Pegatron International by issuing 2,286,064 thousands shares after cancelling 2,286,054 thousands shares previously issued by Pegatron International. The paid-in capital amounted to NT\$22,861 million. • The Company was officially listed on the Taiwan Stock Exchange.
Aug 2010	• The Company issued GDRs on Luxemburg Stock Exchange
Sep 2010	• DNV (DET NORSKE VERITA) awarded the Company with A+ certification for the 2009 CSR Report based on Global Reporting Initiative G3 format.
Nov 2010	• The Company's Board of Directors approved the cancellation of 29,697,000 shares of treasury stock. Subsequently, the paid-in capital reduced to NT\$22,563,669 thousand dollars. • Assisted key customers received the world first PAS 2050 and ISO 14067-1 Carbon Footprint Certificate awarded by DNV (DET NORSKE VERITA). • The Company was awarded the German 2010 iF Product Design Award and the iF Product Design China for the Italia (frame-based notebook PC), the California (special production process notebook PC), Lucid (tablet PC), and the Joyoung Soymilk Maker.
Feb 2011	• The Company was awarded the German 2011 iF Material Award, iF Packaging Design Award and iF Communication Design Award for the Paper PP Alloy, Tea Giving and Bloom, respectively.
Jul 2011	• The Company was awarded the German Red Dot Award for Crease Light (Product Packaging Design).
Oct 2011	• The Company was awarded the German iF Communication Design Award for Present Perfect (Exhibition Visual Communication Design).
Nov 2011	• The Company was awarded for top 100 companies in Taiwan by 2011 Taiwan Companies Innovation Survey organized by Industrial Development Bureau, Ministry of Economic Affairs and cosponsored by Business Next Magazine.
Feb 2012	• The Company issued the Euro Convertible Bonds of US\$300 million on Singapore Stock Exchange.
Mar 2012	• The Company was awarded German Red Dot Product Design Award for New Age Ultrabook and Crease Light (Product Packaging Design).
Oct 2012	• The Company, being the first of its peers in the DMS (design, manufacturing & service) industry, was awarded the 2011 National Sustainable Development Award by National Council for Sustainable Development, Executive Yuan.
Dec 2012	• The Company was awarded German iF Communication Award for the exhibition display of "From Smart to Savvy" shown in 2012 Taipei Computex.
Jan 2013	• Issuance of 33,938,000 restricted employees shares and paid-in capital increased to NT\$22,903 million.
Jan 2013	• The Company's subsidiary "Casetek Holdings Limited" listed on Taiwan Stock Exchange.
Dec 2013	• The Company was awarded the 2013 Industrial Sustainable Excellence Award – Enterprise Class by Industrial Development Bureau, Ministry of Economic Affairs.
Dec 2013	• Merged 100% owned subsidiary, Unihan Corporation, in order to consolidate corporate resources, reduce operation cost and enhance operation efficiency.

3. Corporate Governance

3.1 Organization Structure

3.1.1 Organization Chart

As of 2/28/2014



Department Functions

Department	Main Responsibilities
Board of Directors	Establishing corporate business guiding principles and goals
Audit Office	Auditing and evaluating the compliance of internal policies, procedures and operations based on governing regulations
President and CEO	Board resolutions execution and general corporate affairs
COO	Managing and coordinating manufacturing and resource planning
CTO	Managing RD resource and technology planning & integration
Investments & Business Development	Long term corporate investment planning and industry analysis
Stock Affairs Office	Coordinating board meetings, shareholders' meetings and stock affairs
Subsidiary Key Technology Propelling Office	Assisting subsidiaries developing key technology, and setting up internal policies, procedures and resource
Central China Operation Center	Central China operation planning and management
East China Operation Center	East China operation planning and management
West China Operation Center	West China operation planning and management
TY Manufacturing Center	Planning and management of manufacturing, QA, and engineering
PCZ Manufacturing Center	Operation planning and management in Europe
PMX Manufacturing Center	Operation planning and management in America
Procurement Center	Management of raw material and facility procurement, cost plan, procurement system plan for resource coordination
Corporate Quality Policy Center	Quality control and management in accordance to internal policies and customer requests
Global Logistics Management Center	Global logistics planning and management
Automation Center	Improving and implementing of automation system, automation equipment for manufacture
Customer Service Center	Global customer service operation and providing the most comprehensive and prompt support to local customers via support network
R&D Center	Conducting simulations and developing technology shared among each business unit
ID & Mechanic Design Center	Developing mechanical and industrial design and providing support to each business unit for technology needed for each project
Advance Technology Center	Focusing on development of advanced technologies and providing support to business units for relevant technology development
Notebook R&D Center	Developing technologies for NB products and providing support to business units for relevant technology development
Mobile Communications R&D Center	Developing technologies for handheld devices and providing support to business units for relevant technology development
R&D Center, Communication and Visual Products	Developing technologies for communication and visual products and providing support to business units for relevant technology development
Precision Mechatronics R&D Center	Developing technology for precision mechatronics, automation, optics and acoustics and providing support to business units for relevant technology development

Department	Main Responsibilities
HR & ADM Center	Corporate human resource administration, construction and maintenance, labor safety and health planning and execution
Finance & Accounting Center	Corporate finance, accounting and tax planning and execution
Legal & IPR Center	Corporate legal affairs, legal counseling, litigation, patents, licensing and other intellectual property management
MIS	Internal & external network system planning, integration and design
Business Group 1	Design, manufacturing and services of Notebook PCs
Business Group 3	Design, manufacturing and services of handheld devices and multimedia players
Business Unit 5	Design, manufacturing and services of main boards and systems for large size customers
Business Unit 6	Design, manufacturing and services of communication and visual products
Business Unit 8	Design, manufacturing and services of main boards and systems for small and medium size customers
Business Unit 9	Design, manufacturing and services of metal casings and mold for products
Business Unit 10	Design, manufacturing and services of industrial PCs
Business Unit 17	Design, manufacturing and services of server products

3.2 Board of Directors, Supervisors and Management Team Background Information

3.2.1 Introduction of Board of Directors and Supervisors

As of 02/28/2014

Title / Name	Date First Elected	Term (Years)	Date Elected (Note 1)	Shareholding when Elected		Current Shareholding (Note 2)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
				Shares	%	Shares	%	Shares	%	Shares	%		
Chairman T.H. Tung	05/18/2010	3	06/19/2013	91,717,309	4.00	92,217,309	3.97	16,181,277	0.70	-	-	Master degree in Computer and Communication Engineering, National Taipei University of Technology Deputy General Manager of Asustek Computer Inc ("Asus")	Chairman of Pegatron Corp. Chairman of Kinsus Interconnect Technology Corp. Director of Asrock Incorporation Managing Director of Ability Enterprise Co., Ltd. Chairman of Lumens Digital Optics Inc. Chairman of Asus Investment Co., Ltd. Chairman of Asustek Investment Co., Ltd. Chairman of Pegavision Corp. Director of Casetek Holdings Ltd. Director of AMA Holdings Ltd. Director of Asuspowers Investment Co., Ltd. Director of Magnificent Brightness Ltd. Chairman of Casetek Holdings Limited Director of Protek Global Holdings Ltd. Director of The Esilte Corporation Director of EZHi Technologies, Inc. Director of AzureWave Technologies, Inc. Director of Esilte Spectrum Corp. Director of The Alliance Cultural Foundation Director of Taiwan Public Television Service Chairman of Taipei Computer Association
Director Ted Hsu	05/18/2010	3	06/19/2013	56,153,713	2.45	56,353,713	2.43	13,146,829	0.57	-	-	EMBA, National Chiao Tung University Deputy General Manager of Asus	Deputy Chairman of Pegatron Corp. Chairman of Asrock Incorporation. Chairman of Asuspowers Investment Co., Ltd. Chairman of AzureWave Technologies, Inc. Chairman of eBizprise Inc. Director of Asuspowers Corp. Director of Asiarock Technology Ltd. Director of Advantech Co. Ltd Director of ASMedia Technology Inc.

Title / Name	Date First Elected	Term (Years)	Date Elected (Note 1)	Shareholding when Elected		Current Shareholding (Note 2)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
				Shares	%	Shares	%	Shares	%	Shares	%		
Director Jason Cheng	05/18/2010	3	06/19/2013	2,054,773	0.09	2,754,773	0.12	54,250	0.00	-	-	Master degree in Electrical Engineering, University of Southern California Deputy General Manager of Asus	Director and CEO of Pegatron Corp. Director of Alcor Micro Corp. Director of Asus Investment Ltd. Director of Asustek Investment Ltd. Director of AzureWave Technologies, Inc. Director of Pegatron Czech s.r.o. Chairman of Pegatron USA Director of Pegatron Logistic Service Inc.
Director K.C. Liu	05/18/2010	3	06/19/2013	161,490	0.01	161,490	0.01	-	-	-	-	Bachelor degree in Communication Engineering, National Chiao Tung University Founder of Advantech Corp	Chairman of Advantech Co. Ltd Chairman of Advantech foundation Chairman of Yan Hua Xing Ye Electronic(SHHQ) Chairman of Advantech Investment Fund - A Co., Ltd. (Advantech Fund - A) Chairman of Advansus Corporation Chairman of Advantech Technology (China) Company Ltd. (AKMC) Chairman of Shanghai Advantech Intelligent Services Co., Ltd. (AINS) Chairman of Xi'an Advantech Software Ltd. (AXA) Chairman of Advantech Intelligent Service (AiST) Chairman of ACA Digital Corporation Chairman of Advantech Japan Co.Ltd.(AJP) Director of AIDC Investment Corp. Chairman of K and M Investment Co., Ltd. Director of Advantech Europe B.V.(AEU) Director of Advantech Technology Co., Ltd.(ATC) Director of HK Advantech Technology Co., Ltd(HK) ATC) Director of Advantech Automation Corp.(BVI)(AAC(BVI)) Managing Director of Spring Foundation of NCTU

Title / Name	Date First Elected	Term (Years)	Date Elected (Note 1)	Shareholding when Elected		Current Shareholding (Note 2)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
				Shares	%	Shares	%	Shares	%	Shares	%		
Director C.I. Chia	05/18/2010	3	06/19/2013	20,186	0.00	90,186	0.00	-	-	-	-	BBA, National Taiwan University MBA, University of Wisconsin-Madison Vice President, Citibank, N.A. Taipei Branch President, Individual Financial Services Group, Bank SinoPac	Director of Yangtze Associates Independent Director of Ardentec Corporation
Director C.V. Chen	05/18/2010	3	06/19/2013	-	-	-	-	-	-	-	-	LL.B., National Taiwan University LL.M., University of British Columbia LL.M., Harvard Law School S.J.D., Harvard Law School Vice Chairman & Secretary-general and Director of Straits Exchange Foundation (SEF) President of The Red Cross Society of The Republic of China	Chairman and Managing Partner of Lee and Li Attorneys-At-Law Adjunct Professor of Law at National Chengchi University Director of Asia Cement Corporation Director of Novartis Taiwan
Independent Director C.B. Chang	05/18/2010	3	06/19/2013	-	-	-	-	-	-	-	-	B.S., Statistics, National Chengchi University Deputy General Manager of China Development Industrial Bank Manager of Far Eastern Textile Ltd.,	Honorary Chairman of Polytronic Technology Corp. Independent Director and Managing Director of Far Eastern International Bank Independent Director of Raydium Semiconductor Corp. Director of Topology Technology Inc. Independent Director of Sciencetech Corp. Supervisor of Dynapack International Technology Corp.

Title / Name	Date First Elected	Term (Years)	Date Elected (Note 1)	Shareholding when Elected		Current Shareholding (Note 2)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
				Shares	%	Shares	%	Shares	%	Shares	%		
Independent Director C. Lin	05/18/2010	3	06/19/2013	-	-	-	-	-	-	-	-	Master degree in Department of Public Finance, National Chengchi University Ph.D. Economics, University of Illinois Director General, Bureau of Finance, Taipei City Government Minister, Directorate General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. Minister of Finance of the R.O.C. Chairman of Vanguard International Semiconductor Corporation	Adjunct Professor of Economics at National Taiwan University Director of AIG Taiwan Insurance Co., Ltd. Director of TTY Biopharm Independent Director of Casetek Holdings Limited.
Independent Director C.S. Yen	05/18/2010	3	06/19/2013	-	-	-	-	-	-	-	-	Provincial Keelung Senior High School Country Manager of American Express Inc. Taiwan General Manager of the Grand Hotel Chairman of Taiwan Visitors Association Pacific Asia Travel Association (PATA) Young Presidents' Organization (YPO) Asia Conference. Chairman for Asia Pacific region of The Leading Hotels of The World	Group President of Landis Hotels and Resorts Director of NSFG Foundation Director of C. C. Social Welfare Foundation Director of Dwen An Social Welfare Foundation Director of Koo Foundation Sun Yat-Sen Cancer Center Director of Andrew T. Huang Medical Education Promotion Foundation Director of Lung Yingtai Cultural Foundation Director of Long Yen Foundation Director of T.T.Chao Cultural & Educational Foundation , Independent Director of Shinkong Insurance Co., Ltd. Director of Wistro Foundation

Title / Name	Date First Elected	Term (Years)	Date Elected (Note 1)	Shareholding when Elected		Current Shareholding (Note 2)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
				Shares	%	Shares	%	Shares	%	Shares	%		
Supervisor C.H. Tong (Note 3)	05/18/2010	3	05/18/2010	-	-	-	-			-	-	Bachelor degree in Mechanical Engineering, Waseda University, Japan Chairman of AVY Co., Ltd. Chairman of AVY Precision Technology Inc. Chairman of Ability Enterprise Co., Ltd. Chairman of Ashine Precision Co., Ltd.	Chairman of Abico Group Chairman of Ability I Venture Capital Corporation Director of Ability Enterprise Co., Ltd. Chairman of Ability Investment Co., Ltd. Director of HITI Digital, Inc. Director of GrandTech C.G. Systems Inc. Director of Chien Hwa Coaling Technology Do., Ltd. Independent directors of TPK Holding Co., Ltd.
Supervisor M.C. Chou (Note 3)	05/18/2010	3	05/18/2010	-	-	7,462,968	0.33	-	-	-	-	Master degree in Industrial Management, National Taiwan University of Science and Technology Head of Information Division of Asus Director of AmTRAN Technology	Chairman of Crystal Technology Venture Capital Investment Corp.
Supervisor I. L. Cheng (Note 3)	05/18/2010	3	05/18/2010	-	-	-	-	-	-	-	-	Bachelor degree in Accounting, National Chung Hsing University Bachelor degree in law from Chinese Culture University Certified Public Accountant Partner of Diwan Ernst & Young, Taiwan Director of ROC CPA Association Director of Taipei CPA Association A member of legal committee at Taipei CPA Association Director of Association for R&D of Corporate Organization ROC Supervisor of IFA(International Fiscal Association) ROC Director of The Foundation of Both Banks Peaceful Coexistence	Director of The Lin pen-Yuan Cultural and Educational Foundation Director of Lim Peck-Sui Cultural & Educational Foundation

Note 1: For better corporate governance, Pegatron established the Audit Committee to replace the supervisors on June 19, 2013.

Note 2: Current shareholding included the restricted employee shares granted in 2012 and 2013, which are under the custody of the Trust.

Note 3: Effective on June 19, 2013, Mr. C.H. Tong, Mr. M.C. Chou, and Mr. I.L. Cheng are relieved of their duties. The shareholding is updated to June 30, 2013, and their current positions are updated to February 28, 2013.

3.2.2 Professional Qualifications and Independence Analysis of the Board Directors and Supervisors

As of 02/28/2014

Criteria		Met One of the Following Professional Qualification Requirements with at Least Five Years Work Experience							Independence Criteria(Note)							Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10		
Name																
T.H. Tung		-	-				V							V	0	
Ted Hsu		-	-				V							V	0	
Jason Cheng		-	-				V							V	0	
K.C. Liu		-	-				V							V	0	
C.I. Chia		-	-				V							V	1	
C.V. Chen		V	V				V							V	0	
C.B. Chang		-	-				V							V	3	
C. Lin		V	-				V							V	1	
C.S. Yen		-	-				V							V	1	
C.H. Tong		-	-				V							V	1	
M.C. Chou		-	-				V							V	0	
I.L. Cheng		-	V				V							V	0	

Note 1: The independence criteria corresponding boxes are ticked to indicate whether the directors or supervisors had met any of the following conditions during the two years prior to being elected or during the term of office:

- Not an employee of the Company or any of its affiliates.
- Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
- Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
- Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
- Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
- Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
- Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- Not been a person of any conditions defined in Article 30 of the Company Law.
- Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

Note 2: Effective on June 19, 2013, Mr. C.H. Tong, Mr. M.C. Chou, and Mr. I.L. Cheng are relieved of their duties. The aforementioned information is updated to February 28, 2013.

3.2.3 Introduction of the Management Team

As of 02/28/2014

Title / Name	On-board Date	Current Shareholding (Note 5)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
		Shares	%	Shares	%	Shares	%		
Group CEO T.H. Tung	01/01/2008	92,217,309	3.97	16,181,277	0.70	-	-	Master degree in Computer and Communication Engineering, National Taipei University of Technology Deputy General Manager of Asus	Refer to Introduction of Board of Directors and Supervisors
Deputy Group CEO Ted Hsu	01/01/2008	56,353,713	2.43	13,146,829	0.57	-	-	EMBA, National Chiao Tung University Deputy General Manager of Asus	Refer to Introduction of Board of Directors and Supervisors
President and CEO Jason Cheng	01/01/2008	2,754,773	0.12	54,250	0.00	-	-	Master degree in Electrical Engineering, University of Southern California Deputy General Manager of Asus	Refer to Introduction of Board of Directors and Supervisors
Senior Vice President and Chief Technical Officer Hsu-Tien Tung (Note 1)	08/01/2008	323,836	0.01	-	-	-	-	Bachelor degree in Electrical Engineering National Taiwan University Associate Vice President of Asus	Director of Ability Enterprise Co., Ltd. Chairman of Top Quark Ltd. Director of Digitek (Chongqing) Ltd.
Senior Vice President Yen-Hsueh Su (Note 2)	02/01/2008	-	-	-	-	-	-	Master degree in Industrial Management Carnegie Mellon University Chief Investment Officer of Asus	Director of Kinsus Interconnect Technology Corp. Supervisor of Advantech Co. Ltd.
Senior Vice President and Chief Operating Officer Syh-Jang Liao	11/02/2012	791,856	0.03	6,093	0.00	-	-	Bachelor degree in Industrial and Business Management, Tatung Institute of Technology Senior Vice President of Unihan Corp.	Vice Chairman of Ability Enterprise Co., Ltd. President of Pegatron Japan Inc. Director of AMA Precision Inc.
Vice President Yean-Jen Shue	08/01/2008	444,432	0.02	4,175	0.00	-	-	Ph.D. Electrical Engineering University of Florida Associate Vice President of Asus	None

Title / Name	On-board Date	Current Shareholding (Note 5)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
		Shares	%	Shares	%	Shares	%		
Vice President Te-Tzu Yao	08/01/2008	488,109	0.02	1,000	0.00	-	-	M.S. Psychology, National Taiwan University MBA in International Management, Thunderbird, The American Graduate School of International Management Chief Staff, CEO Office, Asus Vice President of Material Management, Wistron Corp General Auditor, Chief Logistic Officer, AVP of Global Operation, Acer Inc	None
Vice President Kuo-Yen Teng	08/01/2008	404,309	0.02	2	0.00	-	-	College degree in Electronic Engineering National Taipei Institute of Technology Associate Vice President of Asus	None
Vice President Tsung-Jen Ku Lai	08/01/2008	562,278	0.02	6,991	0.00	-	-	Bachelor degree in Industrial Engineering Tunghai University Associate Vice President of Asus	None
Vice President En-Bair Chang	02/01/2008	405,213	0.02	128,669	0.01	-	-	Master degree in Industrial Design Pratt Institute Associate Vice President of Asus	Director of Kaedar Trading Ltd. Director of Kaedar Holdings Ltd. Director of Indeed Holdings Ltd. Director of Wilson Holdings Ltd. Chairman of AMA Precision Inc. Director of Indeed Shanghai Supervisor of Ability Enterprise Co. Ltd. Director of Casetek Holdings Ltd. Director of Ri Teng Computer Accessory (Shanghai) Co., Ltd. Director of Ri-Pro Precision Model(Shanghai)Co., Ltd.
Vice President Shih-Chi Hsu	08/01/2008	236,621	0.01	-	-	-	-	Bachelor degree in Mechanical Engineering National Taiwan Institute of Technology Associate Vice President of Asus	None
Vice President Ming-Tung Hsu	08/01/2008	302,624	0.01	8,219	0.00	-	-	College degree in Industrial Engineering National Taipei Institute of Technology Associate Vice President of Asus	None
Vice President Ying Chang (Note 3)	04/01/2010	-	-	-	-	-	-	Ph.D. Mechanical Engineering Chung Yuan Christian University Vice President of Liteon Technology Corp.	None

Title / Name	On-board Date	Current Shareholding (Note 5)		Spouse & Minor Shareholdings		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
		Shares	%	Shares	%	Shares	%		
Vice President Kuang-Chih Cheng	08/01/2008	258,946	0.01	5,324	0.00	-	-	Master degree in Computer Science and Information Engineering Tamkang University Associate Vice President of Asus	None
Vice President Tian-Bao Chang	08/01/2008	493,101	0.02	-	-	-	-	College degree in Transportation Management Chungyu Institute of Technology Senior Manager of Asus	Director of Protek (Shanghai) Ltd. Director of Powtek (Shanghai) Co., Ltd. Director of Runtop (Shanghai) Co., Ltd. Director of Core-Tek (Shanghai) Ltd.
Vice President Chih-Hsiung Chen	07/01/2010	625,609	0.03	-	-	-	-	Master in Electrical Engineering Tufts University Vice President of Asus	None
Vice President Pei-Chin Wang	10/03/2011	355,949	0.02	-	-	-	-	Master degree in Electrical Engineering, National Taiwan University Vice President of Asus	None
Chief Financial Officer Chiu-Tan Lin	02/01/2008	262,475	0.01	-	-	-	-	Master degree in Business Administration Tunghai University Deputy Chief Investment Officer of Asus	Chairman of Starlink Electronics Corp. Supervisor of Powtek (Shanghai) Co., Ltd. Supervisor of Digitek (Chongqing) Ltd. Supervisor of Speedtech Corp. Ltd
Vice President Hsi-Wen Lee	08/01/2012	246,390	0.01	-	-	-	-	Master degree in Mechanical Engineering, National Taiwan University Senior Manager of Asus	None
Vice President Chung Yu Huang	11/02/2012	245,630	0.01	-	-	-	-	Ph. D. Electrical Engineering, University of Southern California Associate Vice President of Asus	None
Senior Vice President Chin-Kuo Tsai (Note 4)	08/01/2008	-	-	-	-	-	-	Bachelor degree in Transportation Engineering and Management National Chiao Tung University Chief of Staff of Asus	None

Note 1: Mr. Hsu-Tien Tung new position effective on 01/01/2013.

Note 2: Ms. Yen-Hsueh Su resigned from her position effective on 12/31/2013.

Note 3: Mr. Ying Chang resigned from his position effective on 10/31/2013.

Note 4: Mr. Chin-Kuo Tsai resigned from his position effective on 02/28/2013.

Note 5: Current shareholding included the restricted employee shares granted in 2012 and 2013, which are under the custody of the Trust.

3.2.4 Remuneration of Directors, Supervisors, the President, and Vice President

3.2.4.1 Remuneration of Directors

Unit: NT\$ thousands; Shares

Title/ Name	Remuneration										Ratio of total remuneration (A+B+C+D) to net income (%)		Relevant remuneration received by directors who are also employees						Ratio of total compensation (A+B+C+D+E+F+G) to net income(%)		Compensation paid to directors from an invested company other than the company's subsidiary	
	Base Compensation(A)		Severance Pay(B)		Bonus to Directors(C) (Note)		Allowances(D)		Ratio of total remuneration (A+B+C+D) to net income (%)		Salary, Bonuses and Allowances (E)		Severance Pay (F)		Profit Sharing- Employee Bonus (G)			Exercisable Employee Stock Options (H)		Number of Restricted Employee Shares(I)		
	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	Cash	Stock	The company	Companies in the financial report	The company	Companies in the financial report		
Chairman																						
T.H. Tung																						
Director																						
Ted Hsu																						
Director																						
Jason Cheng																						
Director																						
K.C. Liu																						
Director																						
C.I. Chia																						
Director	0	2,090	0	0	82,000	99,318	0	6	29,621	0	0	8,200	0	0	0	0	1,400,000	1,400,000	1.25%	1.46%	167	
C.V. Chen																						
Independent																						
Director																						
C.B. Chang																						
Independent																						
Director																						
C. Lin																						
Independent																						
Director																						
C.S. Yen																						

Note 1: Number of restricted employees shares included the shares granted in 2012 and 2013, which are under the custody of the Trust.

Bracket	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company	Companies in the financial report	The company	Companies in the financial report
Below NT\$ 2,000,000				
NT\$2,000,000(Included) ~ NT\$5,000,000(Excluded)				
NT\$5,000,000 (Included)~ NT\$10,000,000(Excluded)	Ted Hsu Jason Cheng K.C. Liu C.I. Chia C.V. Chen	Ted Hsu Jason Cheng K.C. Liu C.I. Chia C.V. Chen	K.C. Liu C.I. Chia C.V. Chen	K.C. Liu C.I. Chia C.V. Chen
NT\$10,000,000(Included) ~ NT\$15,000,000(Excluded)	C.B. Chang C. Lin C.S. Yen	C.B. Chang C.S. Yen	C.B. Chang C. Lin C.S. Yen	C.B. Chang C.S. Yen
NT\$15,000,000 (Included)~ NT\$30,000,000(Excluded)	T.H. Tung	T.H. Tung C. Lin	T.H. Tung Ted Hsu Jason Cheng	Ted Hsu Jason Cheng C. Lin
NT\$30,000,000 (Included)~ NT\$50,000,000(Excluded)				T.H. Tung
NT\$50,000,000(Included) ~ NT\$100,000,000(Excluded)				
Over NT\$100,000,000				
Total				

3.2.4.2 Remuneration of Supervisors

Unit: NT\$ thousands

Title/Name	Remuneration						Ratio of total remuneration (A+B+C) to net income(%)		Compensation paid to directors from an invested company other than the company's subsidiary
	Base Compensation(A)		Bonus to Supervisor(B) (Note)		Allowances(C)				
	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	
Supervisor C.H. Tong	0	0	3,000	3,000	0	12	0.03%	0.03%	No
Supervisor M.C. Chou									
Supervisor I. L. Cheng									

Bracket	Name of Supervisors	
	Total of (A+B+C)	
	The company	Companies in the financial report
Below NT\$ 2,000,000	C.H. Tong, M.C. Chou, I.L. Cheng	C.H. Tong, M.C. Chou, I.L. Cheng
NT\$2,000,000(Included) ~ NT\$5,000,000(Excluded)		
NT\$5,000,000 (Included)~ NT\$10,000,000(Excluded)		
NT\$10,000,000 (Included)~ NT\$15,000,000(Excluded)		
NT\$15,000,000(Included) ~ NT\$30,000,000(Excluded)		
NT\$30,000,000 (Included)~ NT\$50,000,000(Excluded)		
NT\$50,000,000(Included) ~ NT\$100,000,000(Excluded)		
Over NT\$100,000,000		
Total		

3.2.4.3 Remuneration of the President and Vice President

Unit: NT\$ thousands; Shares

Title/Name	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C)	Profit Sharing- Employee Bonus (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Exercisable Employee Stock Options		Number of Restricted Employee Shares		Compensation paid to the president and vice president from an invested company other than the company's subsidiary
	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	Stock	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	
Group CEO T.H. Tung																
Deputy Group CEO Ted Hsu																
President and CEO Jason Cheng																
Sr. Vice President and Chief Technical Officer Hsu-Tien Tung (Note 1)																
Senior Vice President and Chief Operating Officer Syh-Jang Liao	69,973	75,949	0	0	35,330	35,666	30,113	0	30,113	0	1.42%	0	0	5,830,000	5,830,000	427
Sr. Vice President Yen-Hsueh Su (Note 2)																
Vice President Yean-Jen Shue																
Vice President Te-Tzu Yao																
Vice President Tsung-Jen Ku Lai																
Vice President Kuo-Yen Teng																
Vice President En-Bair Chang																
Vice President Shih-Chi Hsu																

Title/Name	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C)	Profit Sharing- Employee Bonus (D)			Ratio of total compensation (A+B+C+D) to net income (%)		Exercisable Employee Stock Options		Number of Restricted Employee Shares		Compensation paid to the president and vice president from an invested company other than the company's subsidiary
	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	Cash	Stock	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	
Vice President Kuang-Chi Cheng															
Vice President Tian-Bao Chang															
Vice President Ming-Tung Hsu															
Vice President Ying Chang (Note 3)															
Vice President Chin-Hsiung Chen	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above
Vice President Pei-Chin Wang															
Vice President Chung Yu Huang															
Vice President Hsi-Wen Lee															
Sr. Vice President Chin-Kuo Tsai (Note 4)															

Note 1: Mr. Hsu-Tien Tung new position effective on 01/01/2013.

Note 2: Ms. Yen-Hsueh Su resigned from her position effective on 12/31/2013.

Note 3: Mr. Ying Chang resigned from his position effective on 10/31/2013.

Note 4: Mr. Chin-Kuo Tsai resigned from his position effective on 02/28/2013.

Note 5: Number of restricted employee shares included the shares granted in 2012 and 2013 are under the custody of the Trust.

Bracket	Name of President and Vice President	
	The company	Companies in the financial report
Below NT\$ 2,000,000	Chin-Kuo Tsai	Chin-Kuo Tsai
NT\$2,000,000(Included)~ NT\$5,000,000(Excluded)	Tsung-Jen Ku Lai Ming-Tung Shu En-Bair Chang His-Wen Lee Yean-Jen Shue Ying Chang	Tsung-Jen Ku Lai His-Wen Lee Ying Chang
	T.H. Tung Ted Hsu Kuang-Chi Cheng Kuo-Yen Teng Tian-Bao Chang Shih-Chi Hsu Hsu-Tien Tung Yen-Hsueh Su Te-Tzu Yao Chih-Hsiung Chen Pei-Chin Wang Syh-Jang Liao Chung-Yu Huang	T.H. Tung Ted Hsu Kuang-Chi Cheng Ming-Tung Shu Kuo-Yen Teng En-Bair Chang Tian-Bao Chang Shih-Chi Hsu Hsu-Tien Tung Yean-Jen Shue Yen-Hsueh Su Te-Tzu Yao Chih-Hsiung Chen Pei-Chin Wang Syh-Jang Liao Chung-Yu Huang
NT\$5,000,000(Included) ~ NT\$10,000,000(Excluded)		
NT\$10,000,000(Included) ~ NT\$15,000,000(Excluded)		
NT\$15,000,000(Included) ~ NT\$30,000,000(Excluded)	Jason Cheng	Jason Cheng
NT\$30,000,000(Included) ~ NT\$50,000,000(Excluded)		
NT\$50,000,000(Included)~NT\$100,000,000(Excluded)		
Over NT\$100,000,000		
Total		

3.2.4.4 Employee Profit Sharing Granted to Management Team

Unit: NT\$ thousands

Title	Name	Stock (Fair Market Value)	Cash	Total	Ratio of Total Amount to Net Income (%)
Group CEO	T.H. Tung	0	31,613	31,613	0.33%
Deputy Group CEO	Ted Hsu				
President and CEO	Jason Cheng				
Senior Vice President and Chief Technical Officer	Hsu-Tien Tung (Note 1)				
Senior Vice President and Chief Operating Officer	Syh-Jang Liao				
Vice President	Ming-Tung Hsu				
Vice President	Kuang-Chih Cheng				
Senior Vice President	Yen-Hsueh Su (Note 2)				
Vice President	Kuo-Yen Teng				
Vice President	Tsung-Jen Ku Lai				
Vice President	Te-Tzu Yao				
Vice President	Shih-Chi Hsu				
Vice President	Yean-Jen Shue				
Vice President	En-Bair Chang				
Vice President	Tian-Bao Chang				
Vice President	Chih-Hsiung Chen				
Vice President	Ying Chang (Note 3)				
Vice President	Pei-Chin Wang				
Chief Financial Officer	Chiu-Tan Lin				
Vice President	Chung Yu Huang				
Vice President	Hsi-Wen Lee				
Senior Vice President	Chin-Kuo Tsai (Note 4)				

Note 1: Mr. Hsu-Tien Tung new position effective on 01/01/2013.

Note 2: Ms. Yen-Hsueh Su resigned from her position effective on 12/31/2013.

Note 3: Mr. Ying Chang resigned from his position effective on 10/31/2013.

Note 4: Mr. Chin-Kuo Tsai resigned from his position effective on 02/28/2013.

3.2.4.5 Compare and state the ratio of total remuneration paid to the Company's Directors, Supervisors, President and Vice Presidents by the company and the companies in the consolidated financial statements to net income in the past two years. Please also describe the policy, criteria, packages and rules relating to the remuneration, as well as its relation to business performance and future risks.

Total remuneration paid by the Company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, supervisors, presidents and vice presidents of the Company are as follows:

Net Income of year 2012: NT\$ 6,382,945 thousand dollars

Net Income of year 2013: NT\$ 9,554,496 thousand dollars

NT\$ thousands; %

Year	Total remuneration paid to directors, supervisors, presidents and vice presidents		Ratio of total remuneration paid to directors, supervisors, presidents and vice presidents to net income (%)	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
2012	143,251	158,410	2.24%	2.48%
2013	220,416	254,049	2.31%	2.66%

The ratio of remuneration paid to directors, supervisors, presidents and vice presidents of the Company and the companies in the consolidated financial statements in the last two years to the net income was 2.24% and 2.48% in 2012 and 2.31% and 2.66% in 2013, respectively.

Pursuant to Article 14-6 of Securities and Exchange Act, our Board of Directors approved the establishment of Compensation Committee, appointment of committee members and related internal regulations on August 25, 2011. Before the establishment of Compensation Committee, remuneration to directors and supervisors was appropriated according to the Articles of Incorporation and the approval of shareholders at the annual shareholders' meeting after proposed by the Board of Directors. Remuneration to the president and vice presidents includes salary, bonus, employee profit sharing, etc., and is decided upon the responsibility of each individual role with reference to the salary level per industry average. Factors such as industry outlook and business performance of the company are also taken into consideration when determining remuneration amounts. Since the establishment of Compensation Committee, members of the committee shall exercise the utmost good faith and perform the following duties:

- a. Prescribe and periodically conduct performance review and remuneration policy, system, standards, and structure for directors, supervisors and managerial officers.

- b. Periodically evaluate and prescribe the remuneration of directors, supervisors, and managerial officers.

Remuneration and dividend distribution of directors, supervisors, and managerial officers shall be proposed by the Compensation committee to Board of Directors for resolution.

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors

A total of 6 (A) meetings of the Board of Directors were held in 2013. The directors' attendance status is as follows:

Title	Name	Attendance in person (B)	By Proxy	Attendance rate (%) 【B/A】	Remarks
Chairman	T.H. Tung	6	0	100.0%	Pegatron's 3 rd Board of Directors was elected at Pegatron's 2013 Annual Shareholders' Meeting. All directors continue in office. The tenure of new session is from 19 th June, 2013 to 18 th June, 2016.
Director	Ted Hsu	6	0	100.0%	
Director	Jason Cheng	6	0	100.0%	
Director	K.C. Liu	3	1	50.0%	
Director	C.I. Chia	6	0	100.0%	
Director	C.V. Chen	3	2	50.0%	
Independent Director	C. Lin	5	0	83.3%	
Independent Director	C.S. Yen	5	0	83.3%	
Independent Director	C.B. Chang	5	0	83.3%	

Remarks:

1. If there are the circumstances referred to in Article 14-3 of Securities and Exchange Act and resolutions of the directors' meetings objected to by Independent Directors or subject to qualified opinion and recorded or declared in writing, the dates of meetings, sessions, contents of motions, all independents' opinion and the Company's response to independent directors' opinion should be specified: None
2. If there is Directors' avoidance of motions in conflict of interest, the Directors' names, contents of motions, causes for avoidance and voting should be specified: None
3. Measures taken to strengthen the functionality of the Board: The Board complies with the "Rules Governing the Conduct of Board Meetings" which has been established according to statutory regulations. Chief Internal Audit and Chief Financial Officer also report to the Board regarding the status of internal audit and finance and relevant reports are provided to the directors for their reference.

3.3.2 Audit Committee and Supervisors

Audit Committee

A total of 2 (A) meetings of the audit committee were held in 2013. The independent directors' attendance status is as follows:

Title	Name	Attendance in person (B)	By Proxy	Attendance rate (%) 【B/A】	Remarks
Independent Director	C. Lin	2	0	100%	Pegatron's 2013 Annual Shareholders' Meeting approved to establish Audit Committee to replace Supervisors.
Independent Director	C.B. Chang	2	0	100%	
Independent Director	C.S. Yen	1	1	50%	

Remarks:

1. There were no circumstances referred to in Article 14-5 of Securities and Exchange resolution which was not approved by the Audit Committee but was approved by two thirds or more of all directors in 2013.
2. There were no recusals of independent directors due to conflicts of interests in 2013.
3. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2013: None

Supervisors

A total of 6 meetings of the supervisors (BOD meetings) were held in 2013. There are 3(A) meetings hold in supervisors' tenure. The supervisors' attendance status is as follows:

Title	Name	Attendance in person (B)	Attendance rate (%) 【B/A】	Remarks
Supervisor	C.H. Tong	3	100.0%	Pegatron's 2013 Annual Shareholders' Meeting approved to establish Audit Committee to replace Supervisors.
Supervisor	M.C. Chou	3	100.0%	
Supervisor	I.L. Cheng	3	100.0%	

Remarks:

1. Composition and responsibilities of supervisors:

- (1) Communications between supervisors and the Company's employees and shareholders (e.g. the communication channels and methods, etc.): If necessary, supervisors can be reached by telephone, fax, or email for communications.
- (2) Communications between supervisors and the Company's Chief Internal Auditor and CPA (e.g. the items, methods and results of the audits of corporate finance or operations, etc.): Supervisors hold meetings with Chief Internal Audit on periodic basis to review auditing report, and CPA will be consulted whenever necessary.

2. If a supervisor expresses an opinion during a meeting of the Board of Directors, the dates of meetings, sessions, contents of motions, resolutions of the directors' meetings and the Company's response to supervisor's opinion should be specified:

None

3.3.3 Corporate Governance Implementation Status and Deviations from “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies

Item	Implementation Status	Non-implementation and its reason(s)
1.Shareholding Structure & Shareholders’ Rights (1) Method of handling shareholder suggestions or complaints (2) The Company’s possession of a list of major shareholders and a list of ultimate owners of these major shareholders (3) Risk management mechanism and “firewall” between the Company and its affiliates	The Company has designated departments to handle shareholder suggestions or complaints. Shall any legal issues involved our legal department and outside counsel will be handling the issues. The Company maintains a good relationship with major shareholders and keeps an updated list of the major shareholders. The Company has established appropriate internal policies and assigned designated personnel to handle risk management mechanism and “firewall” between the Company and its affiliates.	None
2.Composition and Responsibilities of the Board of Directors (1) Independent Directors (2) Regular evaluation of CPAs’ independence	Mr. C.B. Chang, Mr. C. Lin and Mr. C.S. Yen are the independent directors of the Company. CPA’s independence is reviewed regularly.	None
3.Communication channel with stakeholders	The Company has designated departments to communicate with stakeholders on a case by case basis. Furthermore, the contact information providing access to the Company’s spokesperson and relevant departments is available on the Market Observation Post System (“MOPS”) website.	None
4.Information Disclosure (1) Establishment of a corporate website to disclose information regarding the Company’s finance, business and corporate governance status (2) Other information disclosure channels (e.g., maintaining an English-language website,	Information regarding the Company’s finance, business and corporate governance status can be found on MOPS. The company has designated persons to handle information collection and disclosure as required by laws and regulations of	None

Item	Implementation Status	Non-implementation and its reason(s)
appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference)	Taiwan. The Company has designated spokespersons as required by relevant regulations. Information regarding Investor conference is disclosed on the corporate website as well as Market Observation Posting System. Please refer to 3.3.4 for Status of Compensation Committee	
5. Operations of the Company's Nomination Committee, Compensation Committee, or other committees of the Board of Directors		None
6. If the Company has established corporate governance principles based on "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies", please describe any discrepancy between the principles and their implementation:	The Company has not established corporate governance principles based on "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies". However, relevant internal policies and internal control systems are being implemented and the results are deemed satisfactory. 7. Other important information to facilitate better understanding of the Company's corporate governance practices (e.g., employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors): (1) Status of employee rights and employee wellness: Employee rights and wellness are stated in internal policies as required by relevant regulations. (2) Status of investor relations, supplier relations and rights of stakeholders: Please refer to the "Corporate Social Responsibility" available on the corporate website. (3) The Company maintains a positive relationship with its customers. (4) The Company's directors and supervisors perform sufficient supervision by inspecting the Company's business operation from time to time and establishing internal control, auditing and evaluation procedures. (5) The Company has purchased D&O insurance for its directors and supervisors.	
8. If the Company has implemented a self-evaluation on corporate governance or has authorized any other professional organization to conduct such an evaluation, the evaluation results, major deficiencies or suggestions, and improvements are stated as follows: None		

3.3.4 Status of Compensation Committee:

Pursuant to Article 14-6 of Securities and Exchange Act, listed companies shall establish a compensation committee. In 2013, after the election of new session of directors, the Compensation Committee was comprised of three independent directors, Dr. C. Lin, Mr. C. B. Chang and Mr. C.S. Yen. Dr. C. Lin is the Chairman of the Compensation Committee. The Compensation Committee Charter is available on Market Observation Post System of Taiwan Stock Exchange.

Title (Note 1)	Criteria	Met One of the Following Professional Qualification Requirements with at Least Five Years Work Experience			Independence Criteria(Note 2)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director	Remarks (Note 3)	
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10			
Name																	
Independent Director	C. Lin	V	-	V												1	
Independent Director	C. B. Chang	-	-													3	
Independent Director	C.S. Yen	-	-													0	-

Note1: Please specify the titles of directors, independent directors or others.

Note2: The independence criteria corresponding boxes are ticked to indicate whether the directors or supervisors had met any of the following conditions during the two years prior to being elected or during the term of office:

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Article 30 of Company Act shall not apply.

Note3: If members of the committee are also serving as Board directors, please specify if the Company complies with Item 5, Article 6 of "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is listed on the Stock Exchange or Traded over the Counter".

The tenure of second session of Compensation committee is from 20th June, 2013 to 18th June, 2016.

A total of 4 (A) meetings of the Compensation Committee were held in 2013. The status of attendance is as follows:

1. The Compensation Committee comprised of 3 members.
2. The tenure of office is from 2013/06/20 to 2016/6/18. The committee convened 4 meetings in 2013.

Title	Position	Name	Attendance in person (B)	By Proxy	Attendance rate (%) [B/A]	Remarks
Chairman	Independent Director	C. Lin	3	0	75	The members of first session and second session of compensation committee. Period of the post will be the same as that of third session of the Board of Directors.
Member	Independent Director	C. B. Chang	3	0	75	
Member	Independent Director	C.S. Yen	1	1	50	The member of second session of compensation committee. Period of the post will be the same as that of third session of the Board of Directors. Two meetings were held during the tenure in 2013.
Member	Director	C. I. Chia	2	0	100	The member of first session of compensation committee. The tenure ceased when the third session of Board of Directors were elected. Two meetings were held during the tenure in 2013.

Other Information to be disclosed:

1. If Board of Directors did not adopt or revise the proposal made by the Compensation Committee, please specify the date, session, agendas and resolutions of the Board of Directors meeting and how the Company handled the proposal made by the Compensation Committee (If amount of the compensation approved by the Board of Directors is higher than that proposed by the Compensation Committee, please specify the reasons and differences in proposals.)
None.
2. If any members of the Compensation Committee were against or reserve their opinions towards the resolutions, please specify the date, session, agendas, opinions of all members and how the opinions are handled.
None.

3.3.5 Implementation of Social Responsibility

Item	Implementation Status	Non-implementation and its reason(s)
1. Exercising Corporate Governance (1) The Company establishes corporate social responsibility policy or system and its implementation status. (2) The Company sets up a unit exclusively or concurrently dedicated to be in charge of proposing and implementing corporate social responsibility policies. (3) The Company organizes training and promotes awareness of business ethics for directors, supervisors and employees, and should incorporate the foregoing into its employee performance appraisal system to establish a clear and effective reward and discipline system	We established a management system called PureCSR management system. The purpose of the system is to overlook the Company's corporate social responsibility, environmental and occupational health, and safety issues. Based on the management system, CSR, environmental, safety, and health related duties can be implemented. Not only we set up objectives and targets, but also perform internal & external audit with corrective and preventive actions, and convene management review meeting. Our PureCSR policy is as followings: 1. Abide by all environmental protection, labor, safety and health laws. 2. Conserve natural resources, and actively prevent pollution. 3. Reduce environmental impact and safety risks. 4. Fulfill customer requirements and become a green enterprise. 5. Enable company-wide promotion of corporate social responsibility. 6. Encourage full participation from employees and conduct continuous improvement. We have convened PureCSR committee with the members of ESH, HR&ADM, CQPC, Procurement, Customer service, Industrial Design, Chairman Office, each BU/FU and CSR members in each site on bi-weekly basis to discuss each member's progress on CSR related issues We have established relevant management policies and procedures, including "Business Ethics and Code of Conduct" and "Giving Gifts and Treatment Management Procedure". We also formulated employee code of conduct and established "Business Ethics Website" to provide guidelines to all employees.	None

Item	Implementation Status	Non-implementation and its reason(s)
2. Fostering a Sustainable Environment (1) The Company endeavors in to utilize all resources more efficiently and use renewable materials which have a low impact on the environment to improve sustainability of natural resources (2) The Company establishes proper environment management system based on the characteristics of the industry (3) A designated department or personnel for environment management and maintain the environment management system (4) Monitoring the impact of climate change on the Company's business operations and establishing corporate strategies on energy conservation and carbon and greenhouse gas reduction	We put environmental protection into considerations when using materials, production and wastes management. We hope to successfully apply this concept to consumer electronics products in order to eliminate the impacts on our environment. We have adopted an adequate environmental management system, ISO 14001, which is certified by a third party periodically. We have set up the environmental management unit to coordinate the overall plan for regular operation and waste statistics, and help other units to implement waste reduction and recycling. We enthusiastically confronted the environmental challenge of climate change and global warming. In addition to internal implementation of energy saving programs and organization's greenhouse gas (GHG) inventory, we have investigated all significant emission sources and conducted the reduction project to decrease the GHG emissions according to the results of internal and external inventory verifications. We performed inventory, internal and external verification and obtained the verification statement of ISO 14064-1 for GHG emissions verification by the third party every year, and planned corporate energy saving target and project to fulfill our low carbon production commitment towards a long-term target of sustainability.	None

Item	Implementation Status	Non-implementation and its reason(s)
3. Preserving Public Welfare (1) The Company follows relevant labor laws, respects internationally recognized human rights principal, protects employees' rights, ensures a non-discrimination hiring policy, and establishes appropriate management policies and procedures (2) The Company provides safe and healthy working environment to employees and organizes training on safety and health management to employees periodically (3) The Company establishes a periodical communication mechanism to employees and notifies employees significant changes that may impact company operation in a proper manner. (4) The Company publishes its consumer rights and interests policy and provide a clear and effective procedure for accepting consumer complaints (5) Relations between the Company and suppliers and jointly promoting corporate social responsibility	As a corporate citizen and one of EICC members, we comply with international labor standards, environmental & safety laws, ethics and confidentiality requirements by EICC Code of Conduct. We also introduce management system to make sure the compliance of all operations. Besides, we issued adequate management and standard operating procedures to protect the interests and rights of the employees. We have implemented OHSAS 18001 (OH&S management system) to create a safe and healthy work environment through daily inspections, audit and annual training programs. We have established multiple communication channels including i-PEGA BOX and employee hotlines. There are also opinion mailboxes and grievance mechanism in place in each plant to effectively solve employees' problems. Employees can choose different channels depending on their needs. In order to ensure our employees knowing the company's operating status and directions, "Jason's Talk", a letter from our CEO, Jason Cheng, has been published periodically every year. This will help our employees to have in-depth understandings of the company's decision making processes. We are a design, manufacturing and service (DMS) company, and do not direct contact with consumers. We are a member of EICC (Electronic Industry Citizenship Coalition, EICC), and follow its code of conduct. In addition, we also promote EICC to our supply chain to make sure our suppliers being responsible for the environmental protection, labor rights, and health and safety when production.	None

Item	Implementation Status	Non-implementation and its reason(s)
(6) The Company may, through commercial activities, non-cash property endowments, volunteering services or other free professional services, participate in event held by charities or local community for community development	Pegatron has hired people with intellectual disability to work in our bakery shop over a long period of time. In 2013, we continuously donate materials & goods and devote in community care. Also, we proactively invite NPO to participate in our events and annual parties every year.	None
4. Enhancing Information Disclosure (1) How the Company discloses information regarding corporate social responsibility (2) The Company prepares corporate social responsibility report and discloses implementation status of corporate social responsibility	http://www.pegatroncorp.com/sustainability/csrReport.php We publish CSR report on annual basis and it contains chapters including corporate governance, social, economic and environmental performances. It is disclosed on our corporate website (http://www.pegatroncorp.com/sustainability/csrReport.php)	None
5. If the Company established any guideline of corporate social responsibility in accordance with "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM-Listed Companies" and please state the implementation status of the guideline and any reasons for non-implementation: As a member of EICC (Electronic Industry Citizenship Coalition), we follow the code of conduct established by EICC, which includes labor standard, health, safety, environment, management system and business ethics. In terms of implementation, systematic management approach is adopted and any inconsistencies will be corrected to ensure continuous improvement on the operation of the system. 6. Other material information that helps to understand the operation of corporate social responsibility: We proactively participate in corporate social responsibility activities concerning employees, communities, disadvantaged minorities, and charities. Also, we provide donations, community cleaning services, and cooperate with NPOs, e.g. Children Are Us Foundation. 7. Please provide further description for company product or corporate social responsibility report which is certified by relevant organization: The core business of Pegatron is ODM/EMS business, any certification regarding the products will be carried by customers themselves and will assist customers whenever necessary. We have assisted customers in receiving certification and award such as TYPE III environmental certification and carbon footprint certification, EPEAT golden award, EU Flower, Taiwan environmental label, CECC, Energy Star, etc.		

3.3.6 Guideline for Corporate Business Conduct and Its Implementation:

To pursue sustainable corporate development and to implement corporate social responsibilities, the Company established the Business Ethic Guidelines and Business Gifts and Entertainment Policy as the highest guiding principles. All employees should embrace and practice these standards in their daily operation. Meanwhile, the website to promote Business Ethic and the whistleblower mailbox were also established for employees to report any misconduct that may violate Business Ethic Guideline where relevant. Upon receiving the reporting, specialized personnel will be assigned immediately to handle each reported case.

Implementation of Corporate Integrity

Item	Implementation Status	Non-implementation and its reasons(s)
1. Ethical Corporate Management Policy (1) The Company clearly specifies ethical corporate management in their policies and external documents. The Board of Directors and the management level shall commit to enforce such policies rigorously and thoroughly. (2) The status of establishing ethical corporate management best practice principle comprehensive programs to forestall unethical conduct ("prevention program"), including operational procedures, guidelines, and training. (3) Any specification on business activities which may at a higher risk of being involved in an unethical conduct and its prevention on unethical conducts for offering and acceptance of bribery and illegal political donations.	The Company established Code of Business Ethic and Business Gifts and Entertainment Policy. All employees are required to follow these guiding principles with integrity, confidentiality and respect. To prevent unethical conduct, the Company designated a specific area on the company website to promote business ethic, and clearly stated the procedures for offering and acceptance of presents/hospitality. The Company established whistleblower system for employees to report any violations of business ethic and relevant department will handle the matter immediately.	None

Item	Implementation Status	Non-implementation and its reasons(s)
2. Implementation of Ethical Corporate Management (1) The Company shall avoid any interaction with parties whom have records of unethical conduct and stipulate clause of ethical business conduct in the contract. (2) The Company set up an unit exclusively or concurrently dedicated to be in charge of implementation and handling auditing from the Board of Directors. (3) The Company established policy on prevention of conflict of interests and provide appropriate reporting channel. (4) The effectiveness of accounting system, internal control system and internal auditing system.	The Company requires all venders to sign "Statement of Integrity" regarding all transactions, contracts and orders. The statement explicitly stated that any violation of the principles will receive penalties and potential criminal charges. The Human Resource Department and the Audit Department will jointly promote and implement ethical corporate management. The Company has established guiding principles for employee behavior, and promoting awareness of conflict of interests. The Company has established effective internal control system and other relevant management systems.	None
3. The Company established the reporting channel and penalties for violation of ethical business conduct and the operation status of the reporting system.	The Company has established a whistleblower mailbox for violation of any unethical business conduct. For employees involved during the investigation, the Company will provide protection to the involved employees against any unfair treatment or retaliation. False accusation and non-reporting of any violation of ethical business conduct will be penalized depending on the severity of the conditions. Managerial personnel failed to report the violations or react according to the internal regulations will also be penalized.	None
4. Information Disclosure (1) The Company discloses information regarding ethical business conduct via website	The Company has set up a designated area on the corporate website to promote ethical business conduct and implement measures such as declarations of ethical business conduct made by management team and the emphasis on disciplines and honor.	None

Item	Implementation Status	Non-implementation and its reasons(s)
(2) The Company adapts alternative measures for information disclosure (ie. Establishing English website, designated personnel to collect and disclose information on the corporate website)	Ethical business conduct website is updated from time to time.	
5. If the Company established any guideline of ethical business conduct in accordance with "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" and please state the implementation status of the guideline and any reasons for non-implementation. The Company has established guidelines for employees' behavior, which includes comprehensive internal control system and other guiding principles. The guidelines are implemented and deemed adequately effective.		
6. Other information that helps to understand the operation of ethical business conduct and its implementation. (ie. Declarations, trainings and conventions held with vendor to promote ethical business conduct) The Company invites vendors to attend conventions regarding ethical business conduct and publicly state the determination to strictly follow the guidelines for the purpose of creating a respectful and ethical society, fulfilling our duties for corporate social responsibility and winning trust and respect from our partners and the public.		

3.3.7 Corporate Governance Guideline and Regulations:

The Company has not established corporate governance principles.

3.3.8 Other Important Information Regarding Corporate Governance: None

3.3.9 Internal Control System:

- Declaration of internal control: Please refer to page 39.
- If the Company is requested by the SEC to retain CPA's service for examining internal control system, the Independent Auditor's Report must be disclosed: None

Pegatron Corporation
Statement of Internal Control System

Date: March 24, 2014

Based on the findings of self-assessment, Pegatron Corporation states the following with regard to its internal control system in 2013:

1. Pegatron is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and management. The aim of the internal control system is to provide reasonable assurance to operating effectiveness and efficiency (including profitability, performance and safeguarding of assets), reliability of financial reporting and compliance of applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishing the aforementioned three objectives. Moreover, the effectiveness of an internal control system may be subject to changes of environmental or circumstances. Nevertheless, the internal control system of Pegatron contains self-monitoring mechanism and Pegatron takes corrective actions whenever a deficiency is identified.
3. Pegatron evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control System by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five components of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several items. Please refer to the Regulations for details.
4. Pegatron has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, Pegatron believes that, as of December 31, 2013, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency, reliability of financial reporting, and compliance with the applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will be integral part of Pegatron's Annual Report for the year 2013 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on March 24, 2014 with zero of eight attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Pegatron Corporation

H.T. Tung
Chairman



Jason Cheng
President and Chief Executive Officer



3.3.10 The penalties delivered to the Company and the staffs of the Company, or the penalties delivered by the Company to the staffs for violations of internal control system, the major nonconformity, and the corrective action in the most recent years and up to the date of the annual report printed: None

3.3.11 Major Resolutions of Shareholders' Meeting and Board Meetings

3.3.11.1 Major Resolutions of Shareholders' Meeting:

Pegatron's 2013 Annual Shareholder Meeting was held in Taipei on June 19, 2013. At the meeting, shareholders presented in person or by proxy approved the following resolutions:

- (1) The 2012 Business Report and Financial Statements
- (2) The proposal of 2012 Earning Distribution
- (3) Amendment to the Company's Articles of Incorporation
- (4) Amendment to the Procedures for Acquisition or Disposal of Assets
- (5) Amendment to the Procedures for Lending Funds and Endorsement & Guarantee.
- (6) Election of Nine Directors (including three Independent Directors)
- (7) Release the prohibition on Directors from participation in competitive business

3.3.11.2 Major Resolutions of Board Meetings

Date	Major resolutions
01.31.2013	1. Approved subsidiary "Pegatron Holding Ltd" acquiring Grand Upright Technology Limited 2. Approved the endorsement for Grand Upright Technology Limited's credit line with bank
03.21.2013	1. Approved 2012 business report and financial statements 2. Approved earnings distribution of 2012 3. Approved the amendments of Articles of Incorporation 4. Approved the Article of Audit Committee 5. Approved the scheduling of 2013 Annual Shareholders' Meeting 6. Approved to hold the election for the third session of Board of Directors (including Independent Directors) of the Company 7. Approved the list of nominated candidates of directors 8. Approved the cancellation of restricted employee shares which was bought back by the Company
05.08.2013	1. Approved 2013Q1 consolidated financial report 2. Approved the list of candidates of new session directors 3. Approved the proposal for releasing the prohibition on directors from participation in competitive business 4. Approved the updated scheduling of 2013 Annual Shareholder's meeting 5. Approved the amendment to Rules of Procedure for Board of Directors Meetings 6. Approved the amendment to Procedures for Lending Funds and Endorsement & Guarantee 7. Approved the amendment to Procedures for Acquisition or Disposal of Assets 8. Approved the endorsement for Asuspowers Corporation's credit line with bank 9. Approved to increase the credit line for factoring AR from Client 1 and Client 2
06.20.2013	1. The board of directors elected Mr. TH Tung as Chairperson 2. The board of directors elected Mr. Ted Hsu as Vice Chairperson 3. Approved the appointment of members of second session compensation committee

	4. Approved the appointment of members of first session audit committee 5. Approved an indirect investment of USD49,000,000 in China 6. Approved the Long-term credit loan in NTD supported by bank group
08.12.2013	1. Approved 2013Q2 consolidated financial report 2. Approved the record date of dividend distribution 3. Approved the list of employees eligible for the restricted employee shares and the total amount is 6062000 shares
11.11.2013	1. Approved 2013Q3 consolidated financial report 2. Approved the Merge of Pegatron Corporation and UniHan Corporation 3. Approved the endorsement for subsidiary's transactions
01.23.2014	1. Approved the endorsement for Grand Upright Technology Limited's credit line with bank 2. Approved the endorsement for Kaedar Trading Ltd's credit line with bank
03.07.2014	1. Approved the disposal of shares of Casetek Holdings Limited with volume no more than 35,000,000 shares
03.24.2014	1. Approved 2013 business report and financial statements 2. Approved the endorsement for Starlink Electronics Corp's credit line with bank 3. Approved the endorsement for Asuspowers Corporation's credit line with bank 4. Approved the amendment to Procedures for Acquisition or Disposal of Assets 5. Approved an indirect investment of US\$49,000,000 in China 6. Approved to apply for permission to issue 40,000,000 units of restricted employee shares in 2014 7. Approved the scheduling of 2014 Annual Shareholders' Meeting

3.3.12 Major Issues of Record or Written Statement Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors from January 1, 2013 to March 28, 2014: None.

3.3.13 Resignation or Dismissal of Personnel Involved in the Company : None

3.4 CPA Fees

CPA Firm	CPA		Auditing Period	Note
KPMG	Ulyos K.J. Maa	Charlotte W.W. Lin	Jan 1, 2013 ~ Dec 31, 2013	

Unit: NTD

Items of CPAs fee Amount Bracket		Auditing Fees	Non-Auditing Fees	Total
1	Below 2,000 thousand		V	
2	2,000 thousand (included) ~ 4,000 thousand(excluded)			
3	4,000 thousand (included) ~ 6,000 thousand(excluded)			
4	6,000 thousand (included) ~ 8,000 thousand(excluded)	V		
5	8,000 thousand (included) ~ 10,000 thousand(excluded)			V
6	Over 10,000 thousand (included)			

Service Items included in the CPA fees

Unit: NT\$ thousands

CPA Firm	CPA	Fees	Non-Auditing Fees					Auditing Period	Note
			System Design	Industrial and commercial registration	HR	Others	Total		
KPMG	Ulyos K.J. Maa Charlotte W.W. Lin	7,550	0	196	0	1,782	1,978	2013/1/1~2013/12/31	Non-auditing services include transfer pricing, merger, ECB and RS.

3.5 Information on Change of CPA: None

3.6 If the chairman, president, and financial or accounting manager of the Company who had worked for the independent auditor or the related party in the most recent year, the name, title, and the term with the independent auditor or the related party must be disclosed:

None.

3.7 Information on Net Change in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Department Heads and Shareholders of 10% Shareholding or More:

3.7.1 Information on Net Change in Shareholding

Unit: Share

Title	2013		01/01/2014-03/28/2014	
	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman and Group CEO T.H. Tung	-	-	-	-
Director and Deputy Group CEO Ted Hsu	-	-	-	-
Director and President and CEO Jason Cheng	-	-	-	-
Director K.C. Liu	-	-	-	-
Director C.I. Chia	70,000	-	-	-
Director C.V. Chen	-	-	-	-
Independent Director C.B. Chang	-	-	-	-
Independent Director C. Lin	-	-	-	-
Independent Director C.S. Yen	-	-	-	-
Supervisor C.H. Tong	-	-	-	-
Supervisor M.C. Chou	-	-	-	-
Supervisor I. L. Cheng	-	-	-	-
Shareholder of 10% shareholding or more Asustek Computer Inc.	(103,017,000)	-	-	-

Note1: Net changes in shareholding included the restricted employee shares granted in 2012 and 2013 which are under the custody of the Trust.

Note 2: Effective on June 19, 2013, Mr. C.H. Tong, Mr. M.C. Chou, and Mr. I.L. Cheng were relieved of their duties.

3.7.2 Information of Shares Transferred: None.

3.7.3 Information of Equity Pledged: None

3.8 The Relations of the Top Ten Shareholders as Defined in the Finance Standard Article 6:

As of 10/7/2013

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders		Remarks %
	Shares	%	Shares	%	Shares	%	Name	Relation	
Asustek Computer Inc. (Representative: Jonney Shih)	448,506,484	19.33	-	-	-	-	Jonney Shih	Chairman of Asustek Computer Inc.	-
T.H.Tung	91,717,309	3.95	16,181,277	0.70	-	-	-	-	-
Nan Shan Life Insurance Company, Ltd.	82,224,000	3.54	-	-	-	-	-	-	-
Jonney Shih	67,032,290	2.89	-	-	-	-	Asustek Computer Inc.	Chairman	-
Cathay Life Insurance Co.,Ltd.	65,469,000	2.82	-	-	-	-	-	-	-
Ted Hsu	56,153,713	2.42	13,146,829	0.57	-	-	-	-	-
GDR – Pegatron Corporation	53,795,205	2.32	-	-	-	-	-	-	-
Citi (Taiwan) Bank in custody for Government of Singapore Investment Corporation	52,280,610	2.25	-	-	-	-	-	-	-
Standard Chartered Bank in custody for Infinity Grow International Limited.	39,467,000	1.70	-	-	-	-	-	-	-
Standard Chartered Bank in custody for Vanguard Emerging Markets Stock Index Fund	34,484,897	1.49	-	-	-	-	-	-	-

3.9 Long-Term Investment Ownership

Unit: thousand shares; %; As of 12/31/2013

Long-Term Investment	Ownership by Pegatron (1)		Direct/Indirect Ownership by Directors and Management (2)		Total Ownership (1)+(2)	
	Shares	%	Shares	%	Shares	%
Asustek Investment Co., Ltd.	946,278	100.00	0	0	946,278	100.00
Asuspower Investment Co., Ltd.	932,845	100.00	0	0	932,845	100.00
Asus Investment Co., Ltd.	979,255	100.00	0	0	979,255	100.00
AMA Precision Inc.	33,500	100.00	0	0	33,500	100.00
Pegatron USA, Inc.	50	100.00	0	0	50	100.00
Pegatron Holland Holding B.V.	—	100.00	0	0	—	100.00
Pegatron Holding Ltd.	698,906	100.00	0	0	698,906	100.00
UniHan Holding Ltd.	189,110	100.00	0	0	189,110	100.00
AzureWave Technologies, Inc.	35,750	27.53	13,697	10.55	49,447	38.08
Ability Enterprise Co., Ltd	55,236	12.26	11	0	55,247	12.26

4. Capital and Shares

4.1 Capital and Shares

4.1.1 Type of Stock

As of 3/28/2014

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Share	2,320,804,519	179,195,481	2,500,000,000	Listed

4.1.2 Share Capital

As of 3/28/2014

Month/ Year	Par Value (NTD)	Authorized Capital		Paid-in Capital		Remark		
		Shares (1,000)	Amount (NT\$1,000)	Shares (1,000)	Amount (NT\$1,000)	Sources of Capital	Capital Increased by Assets Other than Cash	Date of Approval and Document No.
01/2013	10	2,500,000	25,000,000	2,290,305	22,903,049	Issuing restricted employee shares of NT\$339,380 thousands		Note 1
04/2013	10	2,500,000	25,000,000	2,290,140	22,901,399	Cancellation of restricted employee shares NT\$1,650 thousand	-	Note 2
10/2013	10	2,500,000	25,000,000	2,316,096	23,160,958	Issuing restricted employee shares of NT\$ 60,620 thousand, cancellation of restricted employee shares NT\$10,941 thousand, and issuing of Employee Stock Option NT\$ 209,880 thousand	-	Note 3
12/2013	10	2,500,000	25,000,000	2,320,435	23,204,345	Cancellation of restricted employee shares NT\$5,693 thousand and issuing of Employee Stock Option NT\$49,080 thousand	-	Note 4
03/2014	10	2,500,000	25,000,000	2,320,805	23,208,045	Cancellation of restricted employee shares NT\$3,510 thousand and issuing of Employee Stock Option NT\$7,210 thousand	-	Note 5

Note 1: 01/08/2013 Jin So Son Tzi No. 10201003050

Note 2: 04/08/2013 Jin So Son Tzi No. 10201061480.

Note 3: 10/02/2013 Jin So Son Tzi No. 10201200190.

Note 4: 12/03/2013 Jin So Son Tzi No. 10201242600

Note 5: 03/04/2014 Jin So Son Tzi No. 10301035460

4.1.3 Information for Shelf Registration: None**4.1.4 Composition of Shareholders**

As of 10/7/2013; Units: share

Item	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	6	15	457	138,634	835	139,947
Shareholding (shares)	23	187,362,622	681,446,258	686,323,809	764,761,128	2,319,893,840
Percentage	0.00	8.08	29.37	29.59	32.96	100.00

4.1.5 Shareholding Distribution Status**Common Share (The par value for each share is NT\$10)**

As of 10/7/2013

Class of Shareholding (Unit : Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	80,147	23,317,276	1.01
1,000 ~ 5,000	47,620	99,803,083	4.30
5,001 ~ 10,000	6,292	47,382,203	2.04
10,001 ~ 15,000	1,895	23,552,945	1.02
15,001 ~ 20,000	1,040	18,861,260	0.81
20,001 ~ 30,000	958	23,996,855	1.03
30,001 ~ 50,000	708	28,086,289	1.21
50,001 ~ 100,000	490	34,361,084	1.48
100,001 ~ 200,000	241	34,333,728	1.48
200,001 ~ 400,000	195	55,995,543	2.41
400,001 ~ 600,000	91	45,712,812	1.97
600,001 ~ 800,000	35	24,585,466	1.06
800,001 ~ 1,000,000	49	44,406,568	1.91
over 1,000,001	186	1,815,498,728	78.27
Total	139,947	2,319,893,840	100.00

Preferred Share: The Company did not issue any preferred share.

4.1.6 List of Major Shareholder

As of 10/7/2013

Shareholder's Name	Shareholding	
	Shares	Percentage
Asustek Computer Inc. (Representative: Jonney Shih)	448,506,484	19.33
T.H.Tung	91,717,309	3.95
Nan Shan Life Insurance Company, Ltd.	82,224,000	3.54
Jonney Shih	67,032,290	2.89
Cathay Life Insurance Co, Ltd.	65,469,000	2.82
Ted Hsu	56,153,713	2.42
GDR – Pegatron Corporation	53,795,205	2.32
Citi (Taiwan) Bank in custody for Government of Singapore Investment Corporation	52,280,610	2.25
Standard Chartered Bank in custody for Infinity Grow International Limited.	39,467,000	1.70
Standard Chartered Bank in custody for Vanguard Emerging Markets Stock Index Fund	34,484,897	1.49

4.1.7 Market Price, Net Worth, Earnings and Dividends Per Common Share

Unit: NT\$, except for weighted average shares and return on investment ratios

Item	2012	2013	01/01/2014- 03/28/2014
Market Price per Share (Note 1)			
Highest Market Price	48.1	55.4	44.40
Lowest Market Price	32.4	33.85	37.80
Average Market Price	39.27	43.79	40.98
Net Worth per Share (Note 2)			
Before Distribution	41.95	46.24	-
After Distribution	40.45	Undistributed	-
Earnings per Share			
Weighted Average Shares (thousand shares)	2,255,780	2,296,456	-
Diluted Earnings Per Share (Note 3)	2.71	4.16	-
Dividends per Share			
Cash Dividends	1.5	Undistributed	-
Stock Dividend			
• Dividends from Retained Earnings	-	-	-
• Dividends from Capital Surplus	-	-	-
Accumulated Undistributed Dividends (Note 4)	-	-	-
Return on Investment			
Price / Earnings Ratio (Note 5)	14.49	10.53	-
Price / Dividend Ratio (Note 6)	26.18	Undistributed	-
Cash Dividend Yield Rate (Note 7)	3.82%	Undistributed	-

Note 1: Listed the highest and the lowest market price per share in every year and the average market price were calculated based on the trading amount and volume.

Note 2: Based on the shares issued for the year end and resolution for stock distribution in the shareholders' meeting the next year.

Note 3: If the stock dividend is to be adjusted retroactively, earning per share before and after the adjustment shall

be listed.

Note 4: Pursuant to regulations of security issuance, the undistributed dividend can be accumulated till the year with retained earnings. However, the accumulated undistributed dividend shall be disclosed.

Note 5: Price / Earnings Ratio = Average Market Price / Earnings per Share

Note 6: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share

Note 7: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

4.1.8 Dividend Policy and Execution Status

4.1.8.1 Dividend Policy Stipulated in the Company's Articles of Incorporation

Article 28 of the Company's Articles of Incorporation provides that when it is determined that the Company has earnings for a fiscal year, the earnings shall be appropriated to profit-seeking enterprise tax payable first, and make up the losses of previous years. Then, the Company shall provide 10% of the remaining earnings as the Legal Reserve, unless such Legal Reserve has amounted to the total capital, and then set aside the special reserve in accordance with the requirements under the laws and regulations or of the competent authorities.

Should there be any residual, it shall be distributed according to the following sequences:

- At least 10% of the remaining earnings shall be allocated as employee bonus, which may be paid in cash or in the form of shares. Where the employee bonus is distributed in the form of shares, qualified employees of the subordinate companies may be included. The qualification shall be determined by the Board of Directors.
- At most 1% of the remaining earnings shall be allocated as directors' remuneration.
- Any remaining earnings, together with any accumulated undistributed earnings of previous years, may then be distributed or kept in accordance with a proposal for the distribution of earnings made by the Board of Directors and duly approved by a resolution at a shareholders' meeting.

The dividend distribution of the Company will be coordinated with the surplus of that year based on the principle of stabilization. Due to rapid change of the industry where the Company is in and considering the future financing requirement as well as the long term business plan, the Company adopts a balanced dividend policy. If the Company would set aside cash dividend, it would be at least ten percent (10%) of the total dividend in the shareholders bonus to be distributed under Article 28 of the Company's Articles of Incorporation.

4.1.8.2 Proposed Dividend Distribution

The Board approved the proposal for 2013 dividend distribution at its meeting on May 8, 2014. The proposal will become effective according to the relevant regulations, upon the approval of shareholders at the Annual Shareholders' Meeting on June 18, 2014.

Unit: NT\$

Items	Amount	
	Subtotal	Total
Unappropriated Earnings of Previous Years (ROC GAAP)		3,238,432,227
Add: Conversion Effect of the First Time Adoption of IFRS		2,593,074,476
Beginning Retained Earnings (IFRS)		5,831,506,703
Add: Other Comprehensive Income for the Period		8,147,113
Compensation Cost Arising from Restricted Employee Shares		11,200,450
Special Reserve Reverse		3,280,484,779
Net Profit After Tax		9,554,495,457
Distributable Net Profit		18,685,834,502
Minus: 10% Legal Reserve		(955,449,546)
Minus: Cash Dividend		(6,497,216,653)
Unappropriated Retained Earnings		11,233,168,303
Items	Amount	
	Subtotal	Total
Note:		
Employees' Cash Bonus		870,000,000
Compensation of Directors		85,000,000

4.1.9 Impact to 2013 Business Performance and EPS resulting from Stock Dividend

Distribution: Not Applicable.

4.1.10 Bonus to Employees and Remuneration to Director and Supervisor:

4.1.10.1 Dividend to employees and remuneration to directors stipulated in the Company's Articles of Incorporation

Article 28 of the Company' Articles of Incorporation provides that when it is determined that the Company has earnings for a fiscal year, the earnings shall be appropriated to profit-seeking enterprise tax payable first, and make up the losses of previous years. Then, the Company shall provide 10% of the remaining earnings as the Legal Reserve, unless such Legal Reserve has amounted to the total capital, and then set aside the special reserve in accordance with the requirements under the laws and regulations or of the competent authorities.

Should there be any residual, it shall be distributed according to the following sequences:

- At least 10% of the remaining earnings shall be allocated as employee bonus, which may be paid in cash or in the form of shares. Where the employee bonus is distributed in the form of shares, qualified employees of the subordinate companies may be included. The qualification shall be determined by the Board of Directors.
- At most 1% of the remaining earnings shall be allocated as directors' remuneration.

4.1.10.2 Accounting treatment applied to the difference between actual and estimated dividend to employees and remuneration to directors and supervisors

Shall there be any difference between the actual amount of dividend approved by Annual Shareholders' Meeting and that of the estimation, it will be deemed as the changes in accounting estimates and will be recognized in the profit and loss account of the distributing year.

4.1.10.3 Dividend distribution to employees in 2013 resolved by the Board of Directors

a. Proposed distribution of cash / stock dividend to employees and remuneration to directors and supervisors.

	Amount (NT\$)
Employees' Cash Bonus	870,000,000
Compensation of Directors	85,000,000

b. Proposed stock dividend to employees and its ratio to total net income and total dividend to employees:

No stock dividend was distributed in 2013.

c. Earnings per share including the proposed stock dividend to employees and remuneration to directors and supervisors:

No stock dividend was distributed in 2013.

4.1.10.4 Distribution of cash / stock dividend to employees and remuneration to directors and supervisors in 2012 resolved by the Annual Shareholders Meeting on Jun. 19, 2013.

	Amount (NT\$)
Employees' Cash Bonus	299,000,000
Compensation of Directors	29,000,000

Above cash bonus and compensation, being approved by the Board, has been expensed under the Company's 2012 income statements. There is no difference between the amounts approved in the shareholders' meeting and those of the estimation recognized in the financial statements.

4.1.11 Buyback of Common Stock

As of 03/28/2014

Treasury stocks in Batches	1st Batch
Purpose of Buy-back	For shareholders' interest
Timeframe of Buy-back	7/12/2010 ~ 9/10/2010
Price range	NT\$21.8 ~ 41
Class, quantity of shares bought back	Common shares 29,697,000 shares
Value in NT\$ of bought-back shares	NT\$1,007,716,609
Shares sold/transferred	29,697,000 shares
Accumulated number of company shares held	0
Percentage of total company shares held (%)	0

4.2 Issuance of Corporate Bond

4.2.1 Corporate Bond:

As of 03/28/2014

Issuance	1 st Tranche of Euro Convertible Bond
Issuing Date	02/06/2012
Denomination	US\$200,000
Issuance Location	Singapore Stock Exchange
Offering Price	100% of the principal amount of the bonds
Total Amount	US\$300,000,000
Coupon Rate	0%
Tenure	5 years. Maturity: 02/06/2017
Guarantor	None
Trustee	Citicorp International Limited
Underwriter	Overseas Underwriter: Citigroup Global Markets Ltd. DBS Bank Ltd. Domestic Underwriter: Fubon Securities Co., Ltd.
Legal Counsel	Baker & McKenzie
Auditor	KPMG
Repayment	Unless previously redeemed, repurchased and cancelled or converted, the bonds will be redeemed by the issuer on the maturity date at an amount equal to the principal amount of the bonds plus a gross yield of 1.5% per annum, calculated on a semi-annual basis.
Outstanding	US\$300,000,000
Redemption or Early Repayment Clause	(1) The Issuer has the option to call, in whole but not in part at the Early Redemption Amount any time after 3 years from the Issue Date and prior to the Maturity Date, if the closing price of the Common Shares on the TWSE, translated into U.S. dollars at the then prevailing exchange rate (using the fixing rate at 11:00am, expressed as the number of NT dollars per one US dollar, quoted by Taipei Forex Inc. on the day), for a period of 20 consecutive trading days is at least 125% of the Early Redemption Amount divided by the Conversion Ratio, defined to be the principal amount of Bonds divided by the Conversion Price at that time (2) The Issuer may redeem the outstanding Bonds, in whole but not in part, at the Early Redemption Amount in the event that more than 90% in principal amount of the Bonds have been redeemed, repurchased and cancelled, or converted. (3) The Issuer may redeem the outstanding Bonds, in whole but not in part, at the Early Redemption Amount in the event of changes in the ROC taxation, which results in increase of tax obligation or the necessity to pay additional interest expense or increase of additional costs to the Issuer. Bondholders may elect not to have their bonds redeemed but with no entitlement to any additional amounts or reimbursement of additional tax.

Covenants	None
Credit Rating	None
Other Rights of Bondholders	Each bondholder will have the right to convert the Bonds into the newly issued Common Shares during conversion period
Dilution Effects and other Adverse Effects on Existing Shareholders	The funding is used to support the company's operation and business development, which shall benefit shareholders' equity in the long term.
Custodian	None

4.2.2 Convertible Bond:

Issuance		1 st Tranche of Euro Convertible Bond	
Date		2013	As of 03/28/2014
Market Price per unit (US\$)	Max.	136.366	119.489
	Min.	109.574	112.126
	Average	118.864	115.373
Conversion Price		NT\$40.11 per share	NT\$40.11 per share
Issuance Date & Conversion Price at Issuance		Issuance Date: 02/06/2012 Conversion Price at Issuance: NT\$42.11 per share	
Conversion		Newly-issued common shares	

4.2.3 Exchangeable Bond: None.

4.2.4 Shelf Registration Bond: None.

4.2.5 Bond with Stock Option: None.

4.3 Preferred Shares (with stock option): None.

4.4 Issuance of Global Depository Receipts:

As of 03/28/2014

Item		Date of Issuance	August 9, 2010
Date of issuance (Process)			08/09/2010
Location and Issuance and Trade			Luxemburg Stock Exchange
Total Amount			Non applicable
Unit Price (in NT\$ per GDS)			NT\$37.70
Total Issuance			12,163,804
Source of Common Stock Registration			One GDS stands to five common share of Pegatron
Total Marketable Security Shares Recognized			Stands for 60,819,020 common shares of Pegatron
Rights and Obligations of GDR Holders			Same as those of common share holders (See Deposit Agreement and Custody Agreement for Details)
Trustee			Non applicable
GDR Institute			Citibank N.A.
Depository Institute			Citibank Taiwan Limited
Outstanding GDSs (as of December 31, 2013)			5,963,532 GDSs
Issuance and Expense Amortization throughout the Issuance Period			Annual listing fees and accountant fees were borne by Pegatron
GDR Agreement and Depository Agreement			See Deposit Agreement and Custody Agreement for Details
Market Price per unit (US\$)	2013	Max.	US\$9.048
		Min.	US\$5.785
		Average	US\$7.353
	As of March 28, 2014	Max.	US\$7.207
		Min.	US\$6.271
		Average	US\$6.697

4.5 Employee Stock Option

4.5.1 Issuance of Employee Stock Option

As of 02/28/2014

Employee Stock Option Granted	First Grant of 2011	Second Grant of 2011
Approval Date by the Authority	2011/4/14	
Grant Date	2011/7/1	2012/4/2
Number of Options Granted	41,577 units(Note1)	8,423 units(Note1)
Percentage of Shares Exercisable to Outstanding Common Shares (%)	1.79178	0.36299
Option Duration	3 years	
Vesting Schedule	From the second anniversary of the grant date, except that all or partial options revoked by the company, 100% vested options can be exercised without conditions	
Shares Exercised	27,708,000 shares	0
Value of Shares Exercised	NT\$775,803,780	0
Shares Unexercised	13,869,000 shares	8,423,000 shares
Adjusted Exercise Price Per Share	NT\$ 27.06	NT\$42.67
Percentage of Shares Unexercised to Outstanding Common Shares (%)	0.59769	0.36299
Impact on Shareholders' Equity	Dilution to Shareholders' Equity is limited	

Note 1: One unit is equivalent to one thousand Pegatron common shares

Note 2: Pegatron issued ordinary shares to employees who exercised employee stock option

4.5.2 Listing of Executives and the Top 10 Employees Receiving Employee Stock Options:

As of 2/28/2014; Unit: Shares; %; NT\$

Position	Title	Name (Note 1)	Number of Options Granted	% of Shares Exercisable to outstanding Common Shares	Exercised				Unexercised			
					Shares Exercised	Exercise Price Per Share (Note 3)	Value of Shares Exercised	% of Shares Exercised to Outstanding Common Shares	Shares Unexercised	Adjusted Grant Price Per Share (Note 4)	Value of Shares Unexercised	% of Shares Unexercised to Outstanding Common Shares
Employee	Senior Director	Chao-Huang Lin (Note 2)	1,470,000	0.06	457,000 and 20,000	28.11 and 27.06	12,846,270 and 541,200	0.02	155,000 and 838,000	27.06 and 42.67	4,194,300 and 35,757,460	0.04
	Senior Director	Kuan-Yu Chang										
	Project Deputy Director	Hsin-Hsiu Tsai										
	Director	Chin-Chuan Tsai										
	Deputy Director	Wen-Hsin Chen										
	Deputy Director	Wen-Lin Huang										
	Director	Wen-His Tsao										
	Senior Manager	Wen-Pin Hung										
	Director	Shih-Feng Liu										
	Director	Te-Tai Lee										
	Senior Director	Chien-Ju Lin										
	Director	Jen-Shian Lin										
	Director	Chih-Chung Chen										
	Senior Director	An-Chu Hsiao										
	Technical Director	Shih-Chin Liao										

Note 1: Top 10 employee obtaining employee stock options based on the 1st and 2nd grant of 2011. Employees who granted the same number of options are being listed.

Note 2: Employees retired from his position.

Note 3: As of Sep 13, 2013, Exercised Price Per Share has been adjusted from 28.11 to 27.06 due to issuance of Restricted Employee Shares in 2013 and distribution of cash dividends.

Note 4: Unexercised Adjusted Grant Price Per Share for the 1st and 2nd Grant of 2011 are NT\$27.06 and NT\$42.67 respectively.

4.6 Restricted Employee Shares

4.6.1 Issuance of Restricted Employee Shares

As of 02/28/2014

Type of Restricted Shares	First Grant	Second Grant
Approval Date by the Authority	2012/10/19	
Grant Date	2012/12/20	2013/09/12
Number of Restricted Employee Shares Granted	33,938,000	6,062,000
Price of Issuance	NT\$ 10	
Percentage of Restricted Employee Shares to Outstanding Common Shares	1.46%	0.26%
Conditions for Exercise of Restricted Employee Shares	a. Upon the first anniversary of receiving the restricted stocks, employees can exercise 40% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct. b. Upon the second anniversary of receiving the restricted stocks, employees can exercise 30% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct. c. Upon the second anniversary of receiving the restricted stocks, employees can exercise the remaining 30% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct.	
Limitations to the Rights of Restricted Employee Shares	a. Before fulfilling the vesting conditions, the restricted shares under the custody shall not be sold, pledged, transferred, and gave as gifts to others or any other means of disposal. b. Voting rights: To be conducted by the Trust in accordance with the relevant laws and regulations.	
Custody of Restricted Employee Shares	A total of 19,150,000 shares delivered to the Trust	A total of 5,897,000 shares delivered to the Trust
Procedures for Non-Compliance of the Conditions	The Company can buy back and cancel all restricted stocks from any employee whom received restricted stocks but fail to comply with the conditions.	
Number of Restricted Employee Shares Bought Back	2,038,416 (Note 1)	165,000 (Note 1)
Number of Restricted Employee Shares Free from Custody	12,749,584	-

Number of Restricted Employee Shares under Custody	19,150,000	5,897,000
Number of Restricted Employee Shares under Custody to Outstanding Common Shares (%)	0.83%	0.25%
Impact on Shareholders' Equity	A. Potential expense: The number of restricted stocks proposed at 2012 Annual General Shareholders' Meeting is 40,000,000 shares at NT\$10 as issuance price. The Company shall evaluate the fair value of the stocks on the issuance date and accrue relevant cost over the issuance period. The potential expense incurred is estimated at NT\$737,736 thousands. In accordance with the conditions for exercising restricted stocks set forth in the preceding paragraph, the annually expensed amount was NT\$65,091 thousands and NT\$431,274 thousands in 2012 and 2013. The annually expensed amount is estimated at NT\$176,847 thousands, NT\$58,680 thousands and NT\$5,844 thousands in 2014, 2015, and 2016 respectively. B. Potential impact to dilution of earnings per share (EPS) and other factors that may affect shareholder's equity: Potential dilution of EPS based on the existing outstanding ordinary shares of 2,320,804,519 shares, is estimated at NT\$0.03, NT\$0.19, NT\$0.08, NT\$0.03 and NT\$0 in 2012, 2013, 2014, 2015, and 2016 respectively. Since the potential impact to EPS is limited, we do not expect any material impact to shareholders' equity.	

Note 1 : Public filings made regarding shares to bought back from employees.

4.6.2 Information on Name of Managers and Top 10 Employees obtaining Restricted Employee Shares

As of 2/28/2014; Unit: Shares; %; NT\$

Position	Title	Name	Number of Restricted Shares	Number of Restricted Employee Shares to Outstanding Common Shares	Free from the Trust			Under the Trust			
					Number of Restricted Employee Shares Free from Custody	Price of Issuance	Total Amount of Issuance	Number of Restricted Employee Shares under Custody	Price of Issuance	Total Amount of Issuance	Number of Restricted Employee Shares under Custody to Outstanding Common Shares (%)
Manager	Group CEO	T.H. Tung									
	Deputy Group CEO	Ted Hsu									
	President and CEO	Jason Cheng									
	Chief Financial Officer	Chiu-Tan Lin									
	Sr. Vice President and Chief Technical Officer	Hsu-Tien Tung									
	Sr. Vice President	Yen-Hsueh Su (Note 2)									
	Vice President	Yean-Jen Shue									
	Vice President	Te-Tzu Yao									
	Vice President	Kuo-Yen Teng									
	Vice President	Tsung-Jen Ku Lai									
	Vice President	En-Bair Chang									
	Sr. Vice President	Chin-Kuo Tsai (Note 2)	6,070,000	0.26	2,080,000	10	20,800,000	3,630,000	10	36,300,000	0.16
	Vice President	Shih-Chi Hsu									
	Vice President	Kuang-Chih Cheng									
	Vice President	Tian-Bao Chang									
	Vice President	Ming-Tung Hsu									
	Vice President	Ying Chang (Note 2)									
	Vice President	Chih-Hsiung Chen									
	Vice President	Pei-Chin Wang									
	Vice President	Hsi-Wen Lee									
Vice President	Chung-Yu Huang										
	Sr. Vice President and Chief Operation Officer	Shy-Jang Liao									

Position	Title	Name	Number of Restricted Shares	Number of Restricted Employee Shares to Outstanding Common Shares	Free from the Trust				Under the Trust			
					Number of Restricted Employee Shares Free from Custody	Price of Issuance	Total Amount of Issuance	Number of Restricted Employee Shares Free from Custody to Outstanding Common Shares (%)	Number of Restricted Employee Shares under Custody	Price of Issuance	Total Amount of Issuance	Number of Restricted Employee Shares under Custody to Outstanding Common Shares (%)
Employee	Associate Vice President	Wei-Pang Lee	3,740,000	0.16	1,212,000	10	12,120,000	0.05	2,528,000	10	25,280,000	0.11
	Associate Vice President	Yi-Hsin Lee										
	Associate Vice President	Pei-Chen Wu										
	Associate Vice President	Kun-Shih Lee										
	Associate Vice President	Yu-Heng Lu										
	Associate Vice President	Ching-Ru Wu										
	Associate Vice President	Kuo-Jung Hsu										
	Senior Director	Ye-Yu Jou										
	Associate Vice President	Hsin-Cheng Chen										
	Associate Vice President	Chieh-Tsung Chen										
	Associate Vice President	Hsiang-Chieh Huang										
	Associate Vice President	Shyh-Hen Hwang										
	Associate Vice President	Ting-Pang Huang										
	Associate Vice President	Chieh-Hen Huang										
	Associate Vice President	Ying-Liang Kuo										
	Associate Vice President	Shing-Jung Kuo										
	Associate Vice President	Cheng-Yu Feng										
	Senior Director	Li-Ling Chao										
	Associate Vice President	I-Sheng Tsai										
	Associate Vice President	Hsiu-Yu Pan										

Note 1: Top 10 employee obtaining restricted employee shares based on the 1st and 2nd grant of 2012. Employees who granted the same number of options are being listed.

Note 2: Manager's resigned from his position.

4.7 Status of New Shares Issuance in connection with Mergers and Acquisitions:

Not Applicable

4.8 Financing Plan and Implementation

Up to the last quarter before the printing of the financial statements, outstanding issuance or marketable security subscription or the completed equity issuance or subs marketable security without success: Not Applicable.

5. Overview of Business Operation

5.1 Business Activities

5.1.1 Business Scope

5.1.1.1 Operating Scope

The Company offers a wide range of electronics products in computing, communications and consumer electronics segments, including Notebook PCs, Desktop PCs, Tablets, Mobile Internet Devices (MID), Motherboards, VGA Cards, Cable Modems, Set-top Boxes, Smartphones, Game Consoles, MP3s, E-Readers etc. The Company also engages in development, design and manufacturing of peripherals and components of the above-mentioned products. In addition to the well diversified product portfolio, the Company also places great emphasis on development of both software and hardware technologies to provide customers with total solutions and high value-added services.

5.1.1.2 Breakdown of Sales by Major Products

Unit: NT\$ thousands; %

Year Major Product	2012		2013	
	Amount	%	Amount	%
3C Products	767,360,955	87.08	858,781,028	90.42
Other	113,836,460	12.92	90,971,000	9.58
Total	881,197,415	100.00	949,752,028	100.00

5.1.1.3 Product Lines

Computing Product

- a. Notebook PCs
- b. DeskTop PCs
- c. Motherboards
- d. VGA Cards
- e. Mobile Internet Devices (MID)

Communication Product

- a. Cable Modems
- b. Set-top boxes
- c. Smartphones
- d. Switches

Consumer Electronics Product

- a. Tablets
- b. Game consoles
- c. LCD TVs
- d. E-readers

- e. Multimedia Players (MP3)

5.1.1.4 Product (Service) Development

- a. Researching lamination methods to provide high visibility and low reflection under sunlight for glass panels used in automobiles. Visible with AG/AR and increased safety designs for impact protection. Also increased process yields during production..
- b. Supporting new ultra-light and slim systems using next generation Intel CPUs for corporate and industrial PC-like applications. Also pairing with Nvidia graphics technology targets high performance-oriented users .
- c. Designing larger and lighter touch screens for PCs are planned using specially-designed material to replace current heavy and expensive glass materials.
- d. Tightly integrating latest releases of Android and Windows across various Intel & ARM SOC (system on chip) platforms provides the best solution in fast-growing Tablet PC markets.
- e. Preparing for AMD's next generation platforms (Carrizo & other low power designs), that have advantages of high efficiency, low power consumption, and low design cost.
- f. Developing the next generation satellite gateway box with smart router features for home media centers. The box will support full band satellite capture with decoding 8 channels, decode 4K2KP60 HEVC, transcode 4 720P H.264 video, connect with client devices through MoCA2.0 LAN, integrate 1TB HDD storage for whole home PVR applications, and support Dual Band Concurrent AC1900 Wi-Fi smart AP router, with dual core 10K DMIPS CPU power.

5.1.2 Industry Overview

5.1.2.1 Progress and Development of the Industry

a. Computing Industry

In 2013, while global economy is recovering slowly, limited consumer spending and continuous cannibalization of smartphones and tablets have negatively affected consumers' demand in PC related products. In addition, launch of new operating system in 2012 did not boost the demand as previous anticipated due to major changes in user interface and longer learning curve for users. According to IDC, the total volume of PC (including notebook PCs and desktop PCs) shipped in 2013 maintained at around 300 million units, declined by around 10% on year-over-year (YoY) basis, which declined consecutively for the second year. Commercial models notebook PCs declined slightly by around 4.2%, while that of consumer models declined by more than 10%. As the support of Windows XP will expire in 2014, it is expected that PC replacement cycle will likely pick up starting from the developed

market. Though brand companies launched 2 in 1 convertible models and Chromebook PCs with an attempt to boost consumer demand in notebook PCs, the PC market may continue to decline by single digit as the market is inevitably affected by global economy, lack of revolutionary innovation in product design, and cannibalization of tablets and smartphones. In 2015, PC market is expected to resume growth though the annual growth rate is likely to be below 1% from 2015 to 2017.

b. Communication Industry

According to IDC, the worldwide volume of smartphone shipped in 2013 was around 1 billion with 39.2% growth YoY. The market share of smartphone reached 55.2% out of total volume of phones and successfully exceeded the volume of feature phone for the first time. IDC further estimated that the worldwide volume of smartphone may reach 1.2 billion units in 2014 with 19.3% growth YoY, and grow further to 1.7 billion units in 2018 with compound annual growth rate of 11.5%. In terms of market demand, since high end smartphone has reached major market share in the developed countries such as North America and Europe, the market has therefore gradually saturated. In 2014, even though growth of smartphone is expected to slowdown, emerging markets such as India and Brazil will be driving the growth momentum. As a result of different clientele to drive the growth, brand companies and service providers are likely to adopt low price strategy and the average selling price for smartphone will therefore be lower than before.

c. Consumer Electronics Industry

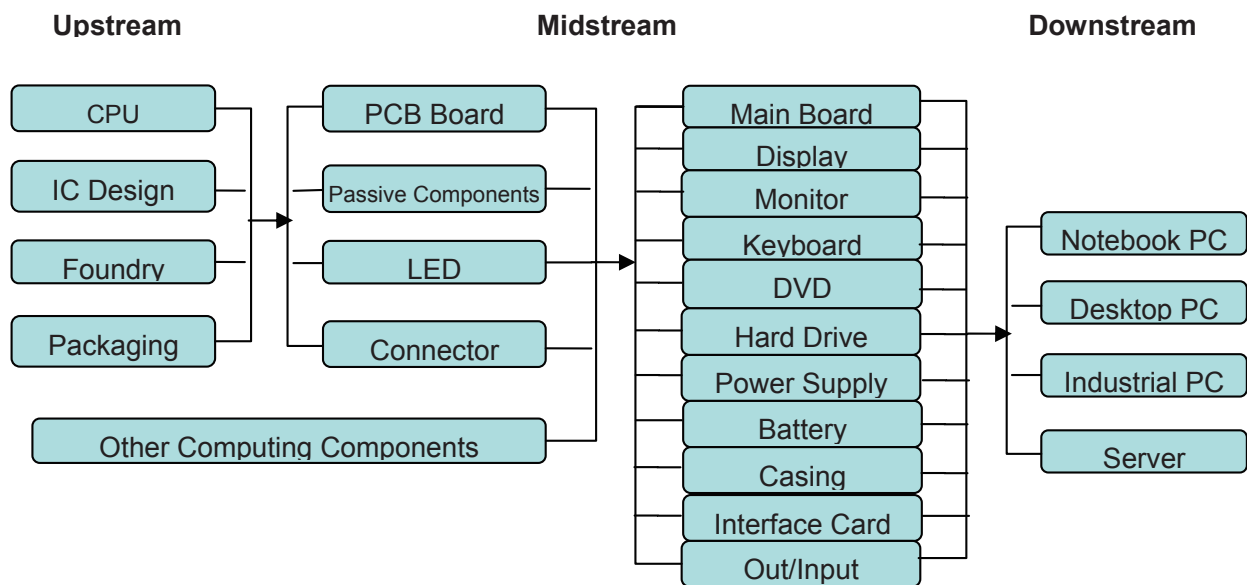
The consumer electronics market covers a broad range of products and Pegatron manufactures products such as tablets, e-readers, game consoles, LCD TVs, multimedia players, etc. where tablets and game consoles are the major revenue contributors in consumer electronics segment.

According to IDC, the total volume of tablets in 2013 was around 220 million units, grew by 51.6% YoY. After the substantial growth of tablets in 2013, IDC estimated that the total volume of tablets is likely to be around 260 million units in 2014. Though tablets for commercial purpose will continue growing, the growth of consumer models is limited by the slowdown of innovations in hardware design. Therefore, the growth of tablets is likely to be 19.4% YoY growth in 2014 from 51.6% in 2013. As tablets are gradually stepping into maturity, stable growth in the next two to three years is highly anticipated.

Benefitting from launch of Xbox One by Microsoft and PS4 by Sony in the fourth quarter of 2013, its declining trend since 2009 has finally ceased and replaced with

slight growth. According to IDC, the total volume of game consoles shipped in 2013 was around 35 million units, grew by 5.8% from the previous year. In 2014, as the devices will be rolling out to different regions, the growth momentum is likely to carry on, while the removal of prohibition against sales of game consoles by government in China is another factor to further boost its sales. IDC estimated that total volume of game consoles is likely to grow by 20.8% YoY in 2014 and stable growth is expected in the next two to three years.

5.1.2.2 Correlation of the Upper-stream, Mid-stream and Down-stream of the Industry



After decades of development of the computing industry in Taiwan, the relationships among upstream, midstream and downstream sectors have become highly correlated. While it is evident that bigger suppliers are expanding over the years, it has been difficult for smaller suppliers to survive in the industry.

5.1.2.3 Trends of Product Development

Consumers are paying more attention to the function of mobility. Among computing, communication or consumer electronics products, consumers are constantly looking for products lighter in weight and slimmer in size with longer battery life.

Global notebook PC market has matured since 2012 and the trend of rapid growth is unlikely to be seen again, while the growing popularity of mobile devices further fuelled the decline of notebook PC market in the past two years. To stimulate consumers' demand, brand companies launched products with convertible features but yet failed to push up the demand cycle. The market generally expects that replacement cycle of

notebook PCs still exists, however, without innovative design and revolutionary breakthrough, the demand is likely to remain flattish.

As for tablets, the market is dominating by major operating platform providers such as Apple, Google, and Microsoft. Since growth of mobile device is highly anticipated, not only do the above mentioned three platform providers are developing its own eco system, other brand companies also participated in the competition by launching products with various sizes and pricing ranges. In 2013, more and more brand companies launched 7 inch tablets. As the market gradually saturated with smaller size tablets, brand companies moved towards the development of tablets with specific purposes. While the size of tablets is getting smaller, the screen size for smartphones is getting bigger. If the trend continued, it is expected that the boundaries of these two products will gradually become blurry.

5.1.2.4 Market Competition

As the integration of function among computing, consumer electronics, and communication products continues, the circumstances of the ODM/EMS market will also change in Taiwan. It has become crucial for ODM/EMS companies to obtain orders from international brand customers by providing value added services, enhancing capabilities in software and hardware design, progressing vertical integration, and providing total solution services.

The manufacturing of notebook PCs and desktop PCs is outsourced to ODM/EMS companies and a majority of these companies' resources are focused on global logistics as well as cost reduction. While economies of scale and comprehensive vertical integration are considered two important elements, DMS service (design, manufacturing and services) is also another key successful factor to secure customer' orders.

5.1.3 Research and Development

5.1.3.1 Research and Development Expense in Recent Year

Unit: NT\$ thousands; %

Items	2012	2013
R&D Expense (A)	12,055,625	11,943,411
Net Revenue (B)	881,197,415	949,752,028
(A)/(B) %	1.37	1.26

5.1.3.2 Research and Development Accomplishments in the Recent Year

Year	Achievement in Research and Development
2013	1. Developed rear seat DVD-player and Tablet models that has been approved for Mass Production (MP) and New Product Introduction (NPI), and phased in for production. 2. Developed AIO models that support new Windows 8.1 OS. Larger models can support capacitive touch with excellent touch functionality. 3. Designed a first of its kind using Intel's latest Bay-trial platform has been mass-produced successfully. This model is introduced with Android OS (IAFW version) which is co-designed by Pegatron and Intel. This features powerful, high-end audio components to meet home theater PC market trend. 4. Developed long transmission (200m) mini-Bluetooth wireless microphones and has smoothly entered production in Jan-2014. There are specific designs that provide very high quality audio recording for video equipment or cameras. 5. Developed prototypes with highly sensitive infrared light-guided surfaces and integrated slim covers using IMF molding technology. This excellent performance challenges touch sensitivity and thinness specifications in the eBook market. 6. Notebook PCs equipped with the latest Broadwell platform chipsets will be in mass production in the second half of 2014. Highlighting high efficiency and low power consumption technologies that maximize performance but maintains thin, light, and convertibility for 2-in-1 devices. For AMD, Kaveri & Beema platform has been produced with the advantages of high efficiency and low design cost. 7. Developed new-generation smart TVs with enhanced user interfaces and air gesture recognition. Integrated new human-machine interaction technologies, such as Wi-Fi 802.11ac and Near Field Communication, for achieving more diversified user experiences.

5.1.4 Long Term and Short Term Business Development Plans

5.1.4.1 Short Term Business Development Plan

- a. To increase market competitiveness and pursue higher annual revenue growth by lean operation management and effective manufacturing process.
- b. To improve the efficiency of logistic management by reducing logistic cost and shortening product delivery time.
- c. Based on the product mix to approach different markets with different strategies.

For mainstream products, the aim is to increase value-added services and versatility of the products with industrial design and new technologies, so as to become the market leader by developing leading products with innovative technology and expertise in the market. As for low cost products, the Company endeavors to provide products with lower manufacturing cost to fulfill consumers' needs.

- d. To strengthen the relationship with existing customers, provide total solutions to customers and increase DMS market shares.

5.1.4.2 Long Term Business Development Plan

The Company intends to enhance product mix and strengthen the factors that drive revenue growth. The development plan includes the following strategies:

a. Customer Service Strategy

- To strengthen the customer relationship and provide services in product planning, research and development, and manufacturing.
- To complete the deployment of global sales network and provide comprehensive after sales services to customers.

b. Manufacturing Strategy

- To continuously to promote the LSS project and improve the quality and efficiency at all level
- To enhance vertical as well as horizontal integration and streamline group resources in related components, products, and services.

c. Product Development Strategy

- To focus on talent development especially in R&D and industrial design sectors and to enhance the Company's R&D capabilities.
- To proactively develop material and technologies that are environmentally friendly and that comply with green product and other relevant environmental protection regulations.

5.2 Market and Sales Overview

5.2.1 Market Analysis

5.2.1.1 Sales (Service) Regions

Unit: NT\$ thousands; %

		2012		2013	
		Amount	%	Amount	%
Domestic		321,136,984	36.44	319,248,545	33.61
Export	Asia	128,353,417	14.57	55,966,710	5.89
	Europe	38,901,325	4.41	138,964,961	14.63
	America	277,286,295	31.47	322,771,406	33.98
	Others	115,519,394	13.11	112,800,406	11.89
	Subtotal	560,060,431	63.56	630,503,483	66.39
Total		881,197,415	100.00	949,752,028	100.00

5.2.1.2 Market Share

In 2013, the top five notebook PC ODM/EMS companies accounted for 141 million units of shipment, around 79% of total global shipment volume. This included 43.1 million units from Quanta, 39.2 million units from Compal, 24.1 million units from Wistron, 14.0 million units from Pegatron and 20.7 million units from Inventec. According to Digitimes' estimation, 2014 will be a challenging year for notebook PC market brand companies may consider consolidating orders to a few ODM/EMS suppliers. Therefore, some suppliers may expect slight growth year-over-year, while others anticipate further decline.

5.2.1.3 Market Demand, Supply and Growth

In order to expand market shares, customers depend more on suppliers to shorten the time to market for computing, consumer electronics and communication products, while suppliers are also developing and offering more service categories. Currently, more international brand customers outsource products to ODM/EMS companies, whom, apart from manufacturing, can also provide extended services for logistics and after sale services. With capabilities in cost control, advantages in manufacturing skills, production flexibility, and experience in logistics, innovative research, marketing and management, ODM/EMS companies in Taiwan have the competitive edge in the industry. In addition, with highly vertical integrated capabilities, efficient product design and production flexibilities, ODM/EMS companies in Taiwan can provide services to customers that differ from other EMS and OEM companies located elsewhere.

In 2014, while global economy is full of uncertainties, global PC market is expected to continue the declining trend from 2013. However, the declining trend shall slow down

from 10% YoY down in 2013 to single digit YOY decline in 2014 helped by potential replacement cycle for commercial notebook PC models resulting from the expiration of support for Windows XP by Microsoft. Business for PC ODM/EMS companies may vary as brand companies consider consolidating orders to a few ODM/EMS suppliers. Therefore, some suppliers may expect slight growth year-over-year, while other anticipate further decline. Since demand for traditional PC is softening, the next growth driver could be tablets and various types of mobile devices. With prior experience in PC manufacturing, ODM/EMS companies are equipped with the skills to embrace the new trend. According to IDC, the compound annual growth rate of tablets in 2013 to 2018 will be 21.8% and brand companies are also increasing resources and investment in R&D of mobile devices, which is also likely to bring new growth potential for ODM/EMS companies.

5.2.1.4 Competitive Advantages

a. Experienced R&D Team

In addition to the Perspective Technology Office within the Company, there are also designated research and development engineers in each business unit. As of the end of 2013, total research and development engineers reached 3,122, among which 97.6% are with university degree. The leading research and development engineers in each product development have more than 15 years of experience in the relevant fields.

b. Comprehensive Manufacturing Locations

Suzhou, Shanghai and Chongqing in China, Juarez in Mexico, Ostrava in the Czech Republic and Kuanshan in Taoyuan, Taiwan to fulfill the needs of global customers at different regions.

c. Diversified Product Portfolio and Customer Base

The Company emphasizes on design capabilities, manufacturing excellence and service quality, and our major customers are well known global brand companies in the computing, communication and consumer electronics markets. In addition to our diversified product portfolio, the Company also has in-depth knowledge of the products to provide services to various types of customers.

d. Global Logistics Capabilities

The Company has manufacturing sites and service & repair stations across Europe, North America and Asia. One of the most important advantages of Pegatron is the effective management of global logistics based on the long-term experience providing prompt services across different time zones to meet customers' needs.

e. Professional Management Team

The management team consists of highly regarded senior professionals in the industry with more than 20 years of experience in the founding and managing of Asustek. One of the essential factors to the Company's sound development is the unspoken consensus and successful collaboration among the members of the management team after the long-term and stable working relationship.

f. Innovation Capabilities

Since the founding of the Company, the industrial design team, after years of experience, has won numerous international awards. In Dec 2012, our design team has once again been awarded German iF Communication Award for the exhibition display of "From Smart to Savvy" shown in 2012 Taipei Computex. It is evident that the capability of producing innovative designs is one of the core competitive advantages of the Company.

g. Comprehensive Vertical Integration

We are dedicated in the development of vertical integration. With our capabilities and know-how in working with a wide range of materials, from traditional metal stamping and plastic injection to newer light metal technologies, we are able to fulfill our customers' diverse needs and product design requirements and enhance our ability to offer competitive one-stop-shopping solutions. Our focus on vertical integration will continue to translate into larger cost advantages and shorter time-to-market to help us win new manufacturing mandates from major OEM/brand customers.

5.2.1.5 Disadvantages and Responsive Strategies

Advantages

a. Strong marketing attraction for fully the developed computing industry in Taiwan

The computing industry in Taiwan experienced numerous transformations and has fully developed over time. With the evenly developed industry and excellent collaboration among each supply chain, the computing industry in Taiwan is a strong marketing attraction and has become the global procurement center for computer peripherals.

b. Matured computing components industry and stable supply of key components in Taiwan

In the recent years, key components, such as chipset and PCB's, vendors for motherboards, CD-ROM drives and other electronic products have become more competitive at the global level. Comprehensive development of the component industry is one of the key factors for the prosperity of the computing industry in

Taiwan.

c. Integration of software and hardware systems help create growth momentum in the computing industry

In addition to the excellent capability in hardware design, the Company strives to provide integrated solutions to customers by continuously investing in research and development of key technologies in hardware and software design as well as its applicable operating systems. With the capabilities in software and hardware integration, the Company is able to tap into this trend and turn the opportunities into a growth momentum.

d. Excellent capabilities in research & development and innovative industrial design

The Company has an excellent research and development team, whom is fully dedicated to product development and innovative industrial design. As a result, the Company is able to launch new models before its peer companies. In addition to the corporate perspective technology office, there are also designated R&D units within each business unit, which helps shorten production cycle and keep the Company a step ahead of its peer companies in this competitive environment.

e. Comprehensive after sales service network

The Company provides consistent after sales services and quality assurance to global customers via service & repair stations across North America, Europe, Japan and China.

Disadvantages

a. Declined gross margin due to severe pricing competition

The competition in the computing industry is intense due to the low entry barrier that attracts a large number of competitors. Furthermore, with the products becoming more matured over time, product supply has been higher than its demand. Product differentiation has also gradually diminished, which may also lead to a decline of gross margin.

b. Profit margin impact by fluctuation of foreign exchange rates

Most of the Company's products are exported and is highly exposed to the fluctuation of foreign exchange rates which may have direct impact to the Company's profit margin.

c. Increase of manufacturing costs by potential labor shortage and higher acquisition cost of land

The Company has increased the usage of automation for majority of products in an effort to reduce the reliance on labors. However, certain manufacturing processes are still conducted manually. As the issues of labor shortage gradually

surfaced over recent years, labor compensation has increased dramatically, which increases the manufacturing cost and affects the Company's competitiveness in the global market.

Responsive Strategies

- a. Enhance research and development capability and manufacture high value-added products.
- b. Enforce cost control and inventory management, and maximize production efficiency by increasing automation.
- c. Maximize the hedging effect by balancing the position in foreign and local currencies.
- d. Invest in automation equipment to reduce the reliance on labor and improve product quality.
- e. Allocate labors across manufacturing sites appropriately and minimize the impact of labor shortage.

5.2.2 Application of Major Products

a. Computing Products

Notebook PCs, desktop PCs and other information electronic products that are mainly used for word processing, information management, typesetting, industrial design, presentation, statistical analysis, multimedia application, etc.

b. Communication Products

Communication products can be used for individual communication, internet communication, wire and wireless internet access.

c. Consumer Electronics Products

Products that can be used for entertainment purposes, such as tablets, game consoles, LCD TV, e-readers, etc.

5.2.3 Supply of Major Material

Major Raw Materials	Source of Supply	Supply Situation
Chipset	W Company 、X Company 、Z Company	Stable
CPU	Y Company 、Z Company	Stable
System Module	X Company 、Z Company	Stable
Storage	Y Company 、Z Company	Stable
Display	X Company 、Y Company 、Z Company	Stable

Note: All major material is purchased by major customers and resell to the Company for manufacturing and system assembly. Therefore, source of supply is from major customers.

5.2.4 Major Customers with over 10% Net Sales and Suppliers with over 10% Net Purchases of the Last Two Fiscal Years

5.2.4.1 Major Suppliers of the Last Two Fiscal Years

Unit: NT\$ thousands

Item	2012				2013			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	Y Company (Note 1)	125,728,752	15.11	None	X Company (Note 1)	209,053,437	24.79	None
2	X Company (Note 1)	121,357,028	14.59	None	Y Company (Note 1)	107,998,479	12.81	None
3	Z Company (Note 1)	102,904,941	12.37	Shareholder	Z Company (Note 1)	88,298,827	10.47	Shareholder
	Others	481,959,327	57.93	-	Others	437,804,648	51.93	-
	Net Total Purchases	831,950,048	100.00	-	Net Total Purchases	843,155,391	100.00	-

Note 1: In 2012 and 2013, the Company purchased (raw) material via major customers.

Note 2: Increase and decrease of the amount was due to business demand.

5.2.4.2 Major Customers of the Last Two Fiscal Years

Unit: NT\$ thousands

Item	2012				2013			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	A Company	243,042,779	27.58	None	A Company	390,919,709	41.16	None
2	B Company	135,833,324	15.41	Shareholder	B Company	109,115,869	11.49	Shareholder
	Others	502,321,312	57.01	-	Others	449,716,450	47.35	-
	Net Total Sales	881,197,415	100.00	-	Net Total Sales	949,752,028	100.00	-

Note 1: Increase and decrease of the amount was due to business demand.

5.2.5 Production/Sales Quantities and Value over the Past Two Years

Unit: thousands; NT\$ thousands

Output Year Major Products (or by departments)	2012			2013		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
3C Products	553	509	195,124	437	410	136,103
Other	-	-	1,021,515	-	-	1,142,455
Total	553	509	1,216,639	437	410	1,278,558

Note: Based on Pegatron Corporation only. For information of other listed subsidiaries, please refer to their annual reports

5.2.6 Sales Quantities and Value of the Last Two Years

Unit: thousands; NT\$ thousands

Shipments & Sales Year Major Products	2012				2013			
	Domestic		Export		Domestic		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
3C Products	23,945	301,920,979	59,326	324,936,653	19,564	267,035,800	92,779	518,269,070
Others	-	3,482,134	-	8,529,788	-	2,888,891	-	6,030,967
Total	23,945	305,403,113	59,326	333,466,441	19,564	269,924,691	92,779	524,300,037

Note: Based on Pegatron Corporation only. For information of other listed subsidiaries, please refer to their annual reports.

5.3 Status of Employees

Status of employees over the past two years and up to the date of the report

Year		2012	2013	As of 03/28/2014
Number of Employees	Others	2,111	2,411	2,506
	R&D	3,155	3,122	3,785
	Total	5,266	5,533	6,291
Average Age		33.3	34.3	34.1
Average Years of Service		4.8	5.4	5.3
Education	Ph.D.	0.27%	0.23%	0.22%
	Masters	37.18%	37.71%	37.88%
	Bachelor's Degree	54.53%	55.11%	55.41%
	Senior High School	4.95%	5.42%	4.99%
	Below Senior High School	3.07%	1.52%	1.49%

Note: Based on Pegatron Corporation only. For information of other listed subsidiaries, please refer to their annual report.

5.4 Expenditure on Environmental Protection

Total amount of loss (including penalty) paid for environmental pollution and stated any responsive actions and potential expenditure

During the reporting year and as of the printing date of this report, the Company did not incur any loss or have any penalty for major environmental pollution. There are designated personnel within the company who are in charge of environmental protection in compliance to the legal requirements. Waste clearance and disposal, wastewater management, environmental measurement and chemicals management have been conducted and controlled by management procedures. Besides, we consign a 3rd party to measure the concentration of the emissions and discharges to make sure the environmental pollution and impact are minimized and in compliance with legal regulations.

5.5 Employee Relations

5.5.1 Employee's Welfare and Benefit

a. Employee welfare and benefit

Employee welfare and benefit are provided by both the Company and Pegatron Employee Welfare Committee. Corporate benefit program offerings to employees include group insurance, travel insurance on business trips, meal subsidies, year-end bonus, performance bonus, etc., while benefit from Pegatron Employee Welfare Committee includes social clubs, family outlining, company group outlining, bonuses for three major festivals and different subsidies such as marriage, funeral, scholarship, etc.

b. Professional training program

The Company emphasizes on career planning for employees and is devoted to talent development by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competence and professional development to enhance employees working capabilities, while external training programs include seminars or conferences organized by external parties that provide excellent training opportunities for employees.

c. Retirement system

Pegatron's retirement policy is in accordance with the provisions in the Labor Standards Law and Labor Pension Act of the Republic of China.

d. Employee rights

The Company always emphasizes employee benefits as well as harmonious labor relations, and value the employees' opinions and feedbacks, which can be submitted via employee mailbox, conferences and emails. Employees can fully express their opinions, raising any labor issues to promote and maintain a positive labor

relationship.

e. Employees code of conduct

The pursuance of sustainable corporate development and embrace integrity is our highest guiding principle, and the Company has established Business Ethic Guidelines. Based on the Business Ethic Guideline, employees are required to strictly follow the moral standards and advocate honesty, integrity and confidentiality to protect the rights of the Company and shareholders and enhance the Company's competitiveness.

5.5.2 Any current or potential loss resulting from labor disputes and prevention actions for the past two years and as of the date of this annual report.

There have not been any material losses resulting from major labor disputes for the past two years and as of the date of this annual report.

5.6 Important Contracts

As of 03/28/2014

Agreement	Counterparty	Period	Major Contents	Restrictions
Syndication Agreement	Citi Bank, Taipei Fubon Bank, Taiwan Corporative Bank, DBS Bank, Land Bank of Taiwan and Bank of Taiwan (lead banks) and other participating banks	10/25/2010 ~ 10/25/2015	Loan Amount: US\$450million. Period: 5 years	Restrictions to financial ratios: 1. Current ratio: no less than 100% 2. Debt ratio (interesting bearing debt to equity: no higher than 50%) 3. Interest coverage ratio (EBITDA): no less than 4 times 4. Tangible equity: no less than NT\$90billion
Syndication Guarantee	ANZ Bank, DBS Bank, HSBC Bank and Mega International Commercial Bank (managing bank)	04/07/2011~ 04/06/2014	Guarantee for affiliate, Protek (Shanghai) Limited Loan Amount: US\$ 200 million Period: 3 years	1. Restrictions to financial ratios: (a) Current ratio: no less than 100% (b) Debt ratio (interesting bearing debt to equity: no higher than 50%) (c) Interest coverage ratio (EBITDA): no less than 4 times (d) Tangible equity: no less than NT\$90billion 2. Restrictions to ownership: 100% ownership (directly or indirectly) and having decision-making power in operation and management of Protek

Agreement	Counterparty	Period	Major Contents	Restrictions
Appointment Agreement	ABeam Consulting Ltd	03/28/2008 ~ to date	SAP system development and migration	Should ABeam not complete the work specified in the contract, the Company is entitled to cancel the contract and request for punitive damage as well as other compensation, provided ABeam is solely responsible for not completing the work as scheduled.
Software Purchase Agreement	NEC Taiwan Ltd.	03/07/2012 ~ to date	Purchase of SAP software	None.
License Agreement	SAP Taiwan Co., Ltd.	03/07/2012 ~ to date	License of SAP software.	None.
Finance Guarantee	Mega International Commercial Bank	06/23/2012 ~ 06/22/2013	Guarantee for affiliate, ASUSPOWER CORPORATION Loan Amount: US\$ 20 million. Period: 1 year.	None.
Finance Guarantee	Mega International Commercial Bank	04/27/2012 ~ 04/26/2013	Guarantee for affiliate, ASUSPOWER CORPORATION Loan Amount: US\$ 80 million. Period: 1 year.	None.
Syndication Agreement	Bank of Taiwan, Chang Hwa Bank, Taiwan Cooperative Bank, Mega International Commercial Bank, E. Sun Bank, Hua Nan Bank, Agricultural Bank of Taiwan, CTBC Bank, China Development Industrial Bank	08/01/2013 ~ 2018	Loan Amount: NT\$12billion. Period: 5 years	Restrictions to financial ratios: 1. Current ratio: no less than 100%; 2. Debt ratio (interest bearing debt to equity: no higher than 80%); 3. Interest coverage ratio (EBITDA): no less than 4 times; 4. Tangible equity: no less than NT\$90billion.
Lease Agreement	Fubon Life Insurance Co., Ltd.	06/01/2013 ~ 05/31/2016	Lease the building from Fubon as office. Period: 3 years.	None.

6. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Consolidated Balance Sheet – IFRS

Unit: NT\$ thousands

Year Item		2012 and 2013 Financial Summary (Note1)	
		2012	2013
Current assets		308,250,538	326,934,979
Funds & Investments		1,607,697	1,187,753
Property, plant and equipment		73,179,119	73,916,654
Intangible assets		2,770,545	1,969,832
Other assets		9,546,840	11,886,306
Total assets		395,354,739	415,895,524
Current liabilities	Before Distribution	238,103,119	239,272,864
	After Distribution	241,538,576	Undistributed
Non-current liabilities		29,614,039	32,567,481
Total liabilities	Before Distribution	267,717,158	271,840,345
	After Distribution	271,152,615	Undistributed
Equity		95,805,279	107,303,794
Share capital		22,903,049	23,211,555
Capital surplus		61,723,110	63,175,819
Retained earnings	Before Distribution	15,005,566	21,143,952
	After Distribution	11,570,109	Undistributed
Other equity interest		(3,807,652)	(210,136)
Treasury stock		(18,794)	(17,396)
Non-controlling interests		31,832,302	36,751,385
Total Equity	Before Distribution	127,637,581	144,055,179
	After Distribution	124,202,124	Undistributed

Note 1: Above financial information has been audited by CPA.

6.1.2 Condensed Consolidated Balance Sheet – TW GAAP

Unit: NT\$ thousands

Year Item		Four-Year Financial Summary (Note1)			
		2009	2010	2011	2012
Current assets		155,806,641	149,938,006	215,893,661	306,149,515
Funds & Investments		4,851,535	5,059,109	3,667,471	3,424,174
Fixed assets		54,666,525	53,102,733	70,457,980	71,812,742
Intangible assets		3,748,751	3,443,243	5,922,748	6,107,933
Other assets		4,995,780	4,175,215	3,336,147	3,639,205
Total assets		224,537,540	215,991,655	299,575,997	391,440,565
Current liabilities	Before Distribution	95,700,552	87,103,623	151,491,046	233,976,744
	After Distribution	99,701,146	90,375,354	151,491,046	237,412,201
Long-term liabilities		8,319,856	11,860,056	29,178,917	27,861,052
Other liabilities		363,462	410,477	709,305	1,575,537
Total liabilities	Before Distribution	104,383,870	99,374,156	181,379,268	263,413,333
	After Distribution	108,384,464	102,645,887	181,379,268	266,848,790
Capital stock		22,860,539	22,563,669	22,563,669	22,903,049
Capital surplus		63,776,623	63,145,448	63,465,496	64,560,268
Retained earnings	Before Distribution	7,258,220	9,469,062	6,308,696	12,412,492
	After Distribution	3,257,626	6,197,331	6,308,696	8,977,035
Unrealized gain or loss on financial instruments		1,680,205	922,576	48,936	122,071
Cumulative translation adjustments		198,092	(5,250,188)	(784,234)	(3,400,838)
Net loss unrecognized as pension cost		(3,202)	(16)	440	(1,717)
Total shareholders' equity	Before Distribution	120,153,670	116,617,499	118,196,729	128,027,232
	After Distribution	116,153,076	113,345,768	118,196,729	124,591,775

Note 1: Above financial information has been audited by CPA.

6.1.3 Condensed Consolidated Statement of Comprehensive Income – IFRS

Unit: NT\$ thousands

Year Item	2012 and 2013 Financial Summary (Note1)	
	2012	2013
Operating revenues	881,197,415	949,752,028
Gross profit	37,032,384	45,516,719
Results from operating activities	12,211,588	15,576,752
Non-operating income and expenses	1,967,609	3,453,120
Profit before tax	14,179,197	19,029,872
Profit (loss) from continuing operations	10,336,181	14,247,247
Profit (loss) from discontinued operations	-	-
Profit (loss)	10,336,181	14,247,247
Other comprehensive income (after tax)	(2,977,627)	3,916,721
Comprehensive income	7,358,554	18,163,968
Profit (loss), attributable to owners of parent	6,382,945	9,554,496
Profit (loss), attributable to non-controlling interests	3,953,236	4,692,751
Comprehensive income, attributable to owners of parent	3,819,274	12,903,831
Comprehensive income, attributable to non-controlling interests	3,539,280	5,260,137
Basic earnings per share	2.83	4.16

Note 1: Above financial information has been audited by CPA.

6.1.4 Condensed Consolidated Statement of Income – TW GAAP

Unit: NT\$ thousands

Year Item	Four-Year Financial Summary (Note 1)			
	2009	2010	2011	2012
Operating revenue	538,081,661	530,531,351	599,942,706	881,895,384
Gross profit	32,366,297	30,165,256	26,996,786	42,469,395
Income from operations	10,575,050	8,693,941	913,108	11,160,525
Non-operating income	4,134,121	5,400,736	5,371,569	5,242,466
Non-operating expenses	1,806,882	1,124,333	1,557,285	2,600,433
Income from operations of continued segments - before tax	12,902,289	12,970,344	4,727,392	13,802,558
Income from operations of continued segments - after tax	10,547,387	10,606,766	3,305,162	9,977,633
Income from discontinued departments	NA	NA	NA	NA
Extraordinary gain or loss	NA	NA	NA	NA
Cumulative effect of accounting principle changes	NA	NA	NA	NA
Net income (loss)	10,547,387	10,606,766	3,305,162	9,977,633
Basic earnings per share	2.95	2.73	0.05	2.71

Note 1: Above financial information has been audited by CPA.

6.1.5 Condensed Individual Balance Sheet – IFRS

Unit: NT\$ thousands

Year Item		2012 and 2013 Financial Summary (Note1)	
		2012	2013
Current assets		227,051,674	283,288,047
Funds & Investments		89,510,096	95,704,186
Property, plant and equipment		4,473,252	4,444,544
Intangible assets		93,514	58,990
Other assets		123,037	239,921
Total assets		321,251,573	383,735,688
Current liabilities	Before Distribution	207,361,516	251,086,153
	After Distribution	210,796,973	Undistributed
Non-current liabilities		18,084,778	25,345,741
Total liabilities	Before Distribution	225,446,294	276,431,894
	After Distribution	228,881,751	Undistributed
Equity		NA	NA
Share capital		22,903,049	23,211,555
Capital surplus		61,723,110	63,175,819
Retained earnings	Before Distribution	15,005,566	21,143,952
	After Distribution	11,570,109	Undistributed
Other equity interest		(3,807,652)	(210,136)
Treasury stock		(18,794)	(17,396)
Non-controlling interests		NA	NA
Total Equity	Before Distribution	95,805,279	107,303,794
	After Distribution	92,369,822	Undistributed

Note 1: Above financial information has been audited by CPA.

6.1.6 Condensed Individual Balance Sheet – TW GAAP

Unit: NT\$ thousands

Year Item		Four-Year Financial Summary (Note1)			
		2009	2010	2011	2012
Current assets		100,228,588	59,018,914	128,013,989	227,027,536
Funds & Investments		90,594,845	83,573,594	86,765,900	89,819,986
Fixed assets		4,253,802	4,041,546	3,934,857	3,832,044
Intangible assets		235,453	181,820	121,223	93,947
Other assets		1,872,571	1,512,580	763,501	666,826
Total assets		197,388,909	148,357,091	219,628,741	321,470,989
Current liabilities	Before Distribution	94,169,788	50,203,065	115,532,544	207,240,143
	After Distribution	98,170,382	46,931,334	115,532,544	210,675,600
Long-term liabilities		7,215,718	7,007,411	12,120,232	17,713,495
Other liabilities		232,926	305,386	391,756	438,518
Total liabilities	Before Distribution	101,618,432	57,515,862	128,044,532	225,392,156
	After Distribution	105,619,026	54,244,131	128,044,532	228,827,613
Capital stock		22,860,539	22,563,669	22,563,669	22,903,049
Capital surplus		63,776,623	63,145,448	63,465,496	64,560,268
Retained earnings	Before Distribution	7,258,220	9,469,062	6,308,696	12,412,492
	After Distribution	3,257,626	6,197,331	6,308,696	8,977,035
Unrealized gain or loss on financial instruments		1,680,205	922,576	48,936	122,071
Cumulative translation adjustments		198,092	(5,250,188)	(784,234)	(3,400,838)
Net loss unrecognized as pension cost		(3,202)	(16)	440	(1,717)
Total shareholders' equity	Before Distribution	95,770,477	90,841,229	91,584,209	96,078,833
	After Distribution	91,769,883	87,569,498	91,584,209	92,643,376

Note 1: Above financial information has been audited by CPA.

6.1.7 Condensed Individual Statement of Comprehensive Income – IFRS

Unit: NT\$ thousands

Item \ Year	2012 and 2013 Financial Summary (Note1)	
	2012	2013
Operating revenues	638,869,554	794,224,728
Gross profit (Note 2)	6,674,619	10,802,101
Results from operating activities	(916,249)	289,078
Non-operating income and expenses	7,735,386	9,257,322
Profit before tax	6,819,137	9,546,400
Profit (loss) from continuing operations	6,382,945	9,554,496
Profit (loss) from discontinued operations	-	-
Profit (loss)	6,382,945	9,554,496
Other comprehensive income (after tax)	(2,563,671)	3,349,335
Comprehensive income	3,819,274	12,903,831
Profit (loss), attributable to owners of parent	NA	NA
Profit (loss), attributable to non-controlling interests	NA	NA
Comprehensive income, attributable to owners of parent	NA	NA
Comprehensive income, attributable to non-controlling interests	NA	NA
Basic earnings per share	2.83	4.16

Note 1: Above financial information has been audited by CPA.

Note 2: Gross profit included realized (unrealized) profits from affiliated companies.

6.1.8 Condensed Individual Statement of Income – TW GAAP

Unit: NT\$ thousands

Item \ Year	Four-Year Financial Summary (Note 1)			
	2009	2010	2011	2012
Operating revenue	327,964,527	297,761,769	371,712,663	638,698,954
Gross profit (Note 2)	9,251,251	10,626,452	5,299,704	6,814,120
Income from operations	1,068,740	4,032,105	(1,823,495)	(1,720,235)
Non-operating income	6,839,938	3,758,108	2,677,282	9,252,726
Non-operating expenses	713,629	473,803	795,273	991,138
Income from operations of continued segments - before tax	7,195,049	7,316,410	58,514	6,541,353
Income from operations of continued segments - after tax	6,751,588	6,211,436	111,365	6,103,796
Income from discontinued departments	-	-	-	-
Extraordinary gain or loss	-	-	-	-
Cumulative effect of accounting principle changes	-	-	-	-
Net income (loss)	6,751,588	6,211,436	111,365	6,103,796
Basic earnings per share	2.95	2.73	0.05	2.71

Note 1: Above financial information has been audited by CPA.

Note 2: Gross profit included realized (unrealized) profits from affiliated companies

6.1.9 Auditing by CPA from 2009 to 2013

Year	CPA Firm	CPA's Name	Auditing Opinion
2009	KPMG	Charlotte W.W. Lin & Ulyos K.J. Maa	Modified Unqualified
2010	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2011	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2012	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2013	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified

6.2 Five-Year Financial Analysis

6.2.1 Consolidated Financial Analysis – IFRS

Year (Note1) Item (Note 2)		2012 and 2013 Financial Analysis	
		2012	2013
Capital structure (%)	Debt ratio	67.72	65.36
	Ratio of long-term capital to property, plant and equipment	210.83	233.73
Solvency	Current ratio (%)	129.46	136.64
	Quick ratio (%)	86.87	90.75
	Times interest earned (Times)	12.29	18.87
Operating ability	Accounts receivable turnover (Times)	8.46	8.28
	Average collection period	43.14	44.08
	Inventory turnover (Times)	10.03	8.71
	Accounts payable turnover (Times)	6.20	5.46
	Average days in sales	36.39	41.90
	Property, plant, and equipment turnover (Times)	12.04	12.85
	Total assets turnover (Times)	2.23	2.28
Profitability	Return on total assets (%)	3.28	3.73
	Return on stockholders' equity (%)	8.42	10.49
	Pretax profit to paid-in capital (%)	61.91	81.98
	Net profit margin (%)	1.17	1.50
	Basic earnings per share (\$)	2.83	4.16
Cash flow	Cash flow ratio (%)	10.33	10.48
	Cash flow adequacy ratio (%)	57.24	67.58
	Cash reinvestment ratio (%)	10.93	8.39
Leverage	Operating leverage	2.07	1.89
	Financial leverage	1.11	1.07

Analysis of financial ratio change in the last two years.

1. Times interest earned ratio: The ratio increased in 2013 due to the increase in gross profit and profit before tax.
2. Return on stockholders' equity: The ratio increased in 2013 due to the increase in income after income tax.
3. Pre-tax income to issued capital: The ratio increased in 2013 resulting from the increase in gross margin and profit before tax.
4. Earnings per share(Before adjustment): The ratio increased in 2013 due to the increase in income after income tax.
5. Cash reinvestment ratio: The ratio decreased in 2013 due to the increase in cash dividend payout and cash outflow for capital expenditures.

Note 1: First quarter 2014 financial statements have not been disclosed to the public as of the date of this annual report.

Note 2: Equations:

1. Capital Structure

(1) Debt ratio = Total liability / Total assets

(2) Ratio of long-term capital to property, plant and equipment = (Net shareholders' equity + Long-term liability) / Net property, plant and equipment

2. Solvency

- (1) Current ratio: Current assets / current liability
- (2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability
- (3) Times interest earned = Net income before tax and interest expense / Interest expense of the year

3. Operating ability

- (1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)
- (2) Days sales in accounts receivable = 365 / Account receivable turnover
- (3) Inventory turnover = Cost of goods sold / Average inventory amount
- (4) Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)
- (5) Average days in sales = 365 / Inventory turnover
- (6) Fixed assets turnover = Net sales / Net fixed assets
- (7) Total assets turnover = Net sales / Total assets

4. Profitability

- (1) Return on assets = (Net income (loss) + interest expense x (1-tax rate)) / Average total assets
- (2) Return on shareholders' equity = Net income (loss) / Net average shareholders' equity
- (3) Return to issued capital stock = Net income before tax / Issued capital stock
- (4) Profit ratio = Net income (loss) / Net sales
- (5) Basic earnings per share = (Net income – preferred stock dividend) / Weighted average stock shares issued

5. Cash flow

- (1) Cash flow ratio = Net cash flow from operating activity / Current liability
- (2) Cash flow adequacy ratio = Net cash flow from operating activity in the past 5 years / (Capital expenditure + Inventory interest + Cash dividend) in the past 5 years
- (3) Cash + reinvestment ratio = (Net cash flow from operating activity – Cash dividend) / (Fixed assets + Long term investment + Other assets + Working capital)

6. Balance

- (1) Degree of operating leverage = (Net operating income – Variable operating cost and expense) / Operating income (note 6)
- (2) Degree of financial leverage = Operating income / (Operating income – interest expense)

Note 4: The following factors are to be included in the consideration for the calculation of earnings per share:

1. It is based on the weighted average common stock shares instead of the outstanding stock shares at year end.
2. For capitalization with cash or treasury stock trade, the stock circulation must be included for consideration to calculate weighted average shares.
3. For capitalization with retained earnings and additional paid-in capital, the earnings per share calculated semi-annually and annually must be adjusted retroactively and proportionally to the capitalization but without considering the issuance period of the capitalization.
4. If preferred stock shares are nonconvertible and cumulative, the dividend of the year (whether it is distributed or not) should be deducted from net income or added to the net loss. If preferred shares are not cumulative, preferred stock dividend should be deducted from net income if there is any but it needs not be added to net loss if there is any.

Note 5: The following factors are to be included for consideration for the analysis of cash flow:

1. Net cash flow from operating activity meant for the net cash inflow from operating activity on the Cash Flow Statement.
2. Capital expenditure meant for the cash outflow of capital investment annually.
3. Increase of inventory is counted only when ending inventory exceeds beginning inventory. If the ending inventory is decreased, it is booked as zero value.
4. Cash dividend includes the amount for common stock and preferred stock.
5. Gross fixed assets for the total fixed assets before deducting the cumulative depreciation.

Note 6: Issuer should classify operating cost and operating expense according to fixed and variable category. If the classification is estimated and subjective, it should correspond with rationality and consistency.

6.2.2 Consolidated Financial Analysis – TW GAAP

Item (Note 2)		Financial analysis in the past four years			
		2009	2010	2011	2012
Capital structure (%)	Debt ratio	46.49	46.01	60.55	67.29
	Ratio of long-term capital to fixed assets	235.01	241.94	209.17	217.08
Solvency	Current ratio (%)	162.81	172.14	142.51	130.85
	Quick ratio (%)	115.55	121.32	95.81	88.07
	Times interest earned (Times)	85.13	58.71	8.84	13.96
Operating ability	Accounts receivable turnover (Times)	8.08	9.42	10.03	9.13
	Average collection period	45.17	38.75	36.39	39.98
	Inventory turnover (Times)	11.30	10.94	9.89	9.97
	Accounts payable turnover (Times)	7.75	8.26	7.39	6.16
	Average days in sales	32.30	33.36	36.89	36.62
	Fixed assets turnover (Times)	9.84	9.99	8.51	12.28
	Total assets turnover (Times)	2.40	2.46	2.00	2.25
Profitability	Return on total assets (%)	4.86	4.90	1.48	3.14
	Return on stockholders' equity (%)	9.16	8.96	2.82	8.10
	Ratio to issued capital (%)	Operating Income	46.26	38.53	4.05
		Pre-tax Income	56.44	57.48	20.95
	Net profit margin (%)	1.96	2.00	0.55	1.13
	Basic earnings per share(\$)	2.95	2.73	0.05	2.71
Cash flow	Cash flow ratio (%)	19.26	2.73	4.38	10.37
	Cash flow adequacy ratio (%)	83.85	53.32	33.70	38.49
	Cash reinvestment ratio (%)	10.52	-	0.42	11.48
Leverage	Operating leverage	2.00	2.19	13.01	2.18
	Financial leverage	1.01	1.03	2.94	1.11

Note 1: Equations:

1. Capital Structure

(1) Debt ratio = Total liability / Total assets

(2) Ratio of long-term capital to fixed assets = (Net shareholders' equity + Long-term liability) / Net fixed assets

2. Solvency

(1) Current ratio: Current assets / current liability

(2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability

(3) Times interest earned = Net income before tax and interest expense / Interest expense of the year

3. Operating ability

(1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)

(2) Days sales in accounts receivable = 365 / Account receivable turnover

(3) Inventory turnover = Cost of goods sold / Average inventory amount

(4) Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)

(5) Average days in sales = 365 / Inventory turnover

(6) Fixed assets turnover = Net sales / Net fixed assets

(7) Total assets turnover = Net sales / Total assets

4. Profitability

(1) Return on assets = (Net income (loss) + interest expense x (1-tax rate)) / Average total assets

(2) Return on shareholders' equity = Net income (loss) / Net average shareholders' equity

(3) Return to issued capital stock = Net income before tax / Issued capital stock

(4) Profit ratio = Net income (loss) / Net sales

(5) Basic earnings per share = (Net income – preferred stock dividend) / Weighted average stock shares issued

5. Cash flow

(1) Cash flow ratio = Net cash flow from operating activity / Current liability

(2) Cash flow adequacy ratio = Net cash flow from operating activity in the past 5 years / (Capital expenditure + Inventory interest + Cash dividend) in the past 5 years

(3) Cash + reinvestment ratio = (Net cash flow from operating activity – Cash dividend) / (Fixed assets + Long term investment + Other assets + Working capital)

6. Balance

(1) Degree of operating leverage = (Net operating income – Variable operating cost and expense) / Operating income (note 6)

(2) Degree of financial leverage = Operating income / (Operating income – interest expense)

Note 4: The following factors are to be included in the consideration for the calculation of earnings per share:

1. It is based on the weighted average common stock shares instead of the outstanding stock shares at year end.
2. For capitalization with cash or treasury stock trade, the stock circulation must be included for consideration to calculate weighted average shares.
3. For capitalization with retained earnings and additional paid-in capital, the earnings per share calculated semi-annually and annually must be adjusted retroactively and proportionally to the capitalization but without considering the issuance period of the capitalization.
4. If preferred stock shares are nonconvertible and cumulative, the dividend of the year (whether it is distributed or not) should be deducted from net income or added to the net loss. If preferred shares are not cumulative, preferred stock dividend should be deducted from net income if there is any but it needs not be added to net loss if there is any.

Note 5: The following factors are to be included for consideration for the analysis of cash flow:

1. Net cash flow from operating activity meant for the net cash inflow from operating activity on the Cash Flow Statement.
2. Capital expenditure meant for the cash outflow of capital investment annually.
3. Increase of inventory is counted only when ending inventory exceeds beginning inventory. If the ending inventory is decreased, it is booked as zero value.
4. Cash dividend includes the amount for common stock and preferred stock.
5. Gross fixed assets for the total fixed assets before deducting the cumulative depreciation.

Note 6: Issuer should classify operating cost and operating expense according to fixed and variable category. If the classification is estimated and subjective, it should correspond with rationality and consistency.

6.2.3 Individual Financial Analysis – IFRS

Year (Note1) Item (Note 2)		2012 and 2013 Financial Analysis	
		2012	2013
Capital structure (%)	Debt ratio	70.18	72.04
	Ratio of long-term capital to property, plant and equipment	2,520.63	2,973.68
Solvency	Current ratio (%)	109.50	112.83
	Quick ratio (%)	103.57	104.02
	Times interest earned (Times)	12.03	14.82
Operating ability	Accounts receivable turnover (Times)	4.21	3.87
	Average collection period	86.70	94.32
	Inventory turnover (Times)	57.95	44.95
	Accounts payable turnover (Times)	4.49	4.13
	Average days in sales	6.30	8.12
	Property, plant, and equipment turnover (Times)	142.82	178.70
	Total assets turnover (Times)	1.99	2.07
Profitability	Return on total assets (%)	2.55	2.87
	Return on stockholders' equity (%)	6.82	9.41
	Pretax Profit to paid-in capital (%)	29.77	41.13
	Net profit margin (%)	1.00	1.20
	Basic earnings per share (\$)	2.83	4.16
Cash flow	Cash flow ratio (%)	-	-
	Cash flow adequacy ratio (%)	-	-
	Cash reinvestment ratio (%)	-	-
Leverage	Operating leverage	0.30	3.16
	Financial leverage	0.60	-

Analysis of financial ratio change in the last two years.

6. Times interest earned ratio: The ratio increased in 2013 due to gross profit and profit before tax.
7. Inventory turnover (Times): Decrease in inventory turnover in 2013 was due to the increase in average inventory.
8. Average days in sales: The increase of average days in sales in 2013 was due to the decrease in inventory turnover.
9. Fixed assets turnover (Times): The ratio increased in 2013 due to improved net sales.
10. Return on stockholders' equity: The ratio increased in 2013 due to the increase in income after income tax.
11. Pre-tax income to issued capital: The ratio increased in 2013 resulting from the increase in gross margin and profit before tax.
12. Earnings per share(Before adjustment): The ratio increased in 2013 due to the increase in income after income tax.
13. Operating leverage: The ratio increased in 2013 due to the increase in operating revenue.
14. Financial leverage: The ratio increased in 2013 due to the higher increase in interest than operating income.

Note 1: First quarter 2014 financial statements have not been disclosed to public as of the date of this annual report.

Note 2: Equations:

1. Capital Structure

(1) Debt ratio = Total liability / Total assets

(2) Ratio of long-term capital to property, plant and equipment = (Net shareholders' equity + Long-term liability) / Net property, plant and equipment

2. Solvency

(1) Current ratio: Current assets / current liability

(2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability

(3) Times interest earned = Net income before tax and interest expense / Interest expense of the year

3. Operating ability

(1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)

(2) Days sales in accounts receivable = 365 / Account receivable turnover

(3) Inventory turnover = Cost of goods sold / Average inventory amount

(4) Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)

(5) Average days in sales = 365 / Inventory turnover

(6) Fixed assets turnover = Net sales / Net fixed assets

(7) Total assets turnover = Net sales / Total assets

4. Profitability

(1) Return on assets = (Net income (loss) + interest expense x (1-tax rate)) / Average total assets

(2) Return on shareholders' equity = Net income (loss) / Net average shareholders' equity

(3) Return to issued capital stock = Net income before tax / Issued capital stock

(4) Profit ratio = Net income (loss) / Net sales

(5) Basic earnings per share = (Net income – preferred stock dividend) / Weighted average stock shares issued

5. Cash flow

(1) Cash flow ratio = Net cash flow from operating activity / Current liability

(2) Cash flow adequacy ratio = Net cash flow from operating activity in the past 5 years / (Capital expenditure + Inventory interest + Cash dividend) in the past 5 years

(3) Cash + reinvestment ratio = (Net cash flow from operating activity – Cash dividend) / (Fixed assets + Long term investment + Other assets + Working capital)

6. Balance

(1) Degree of operating leverage = (Net operating income – Variable operating cost and expense) / Operating income(note6)

(2) Degree of financial leverage = Operating income / (Operating income – interest expense)

Note 4: The following factors are to be included in the consideration for the calculation of earnings per share:

1. It is based on the weighted average common stock shares instead of the outstanding stock shares at year end.

2. For capitalization with cash or treasury stock trade, the stock circulation must be included for consideration to calculate weighted average shares.

3. For capitalization with retained earnings and additional paid-in capital, the earnings per share calculated semi-annually an annually must be adjusted retroactively and proportionally to the capitalization but without considering the issuance period of the capitalization.

4. If preferred stock shares are nonconvertible and cumulative, the dividend of the year (whether it is distributed or not) should be deducted from net income or added to the net loss. If preferred shares are not cumulative, preferred stock dividend should be deducted from net income if there is any but it needs not be added to net loss if there is any.

Note 5: The following factors are to be included for consideration for the analysis of cash flow:

1. Net cash flow from operating activity meant for the net cash inflow from operating activity on the Cash Flow Statement.

2. Capital expenditure meant for the cash outflow of capital investment annually.

3. Increase of inventory is counted only when ending inventory exceeds beginning inventory. If the ending inventory is decreased, it is booked as zero value.

4. Cash dividend includes the amount for common stock and preferred stock.

5. Gross fixed assets for the total fixed assets before deducting the cumulative depreciation.

Note 6: Issuer should classify operating cost and operating expense according to fixed and variable category. If the classification is estimated and subjective, it should correspond with rationality and consistence.

6.2.4 Individual Financial Analysis – TW GAAP

Year Item (Note 2)		Financial analysis in the past four years			
		2009	2010	2011	2012
Capital structure (%)	Debt ratio	51.48	38.77	58.30	70.11
	Ratio of long-term capital to fixed assets	2,421.04	2,420.67	2,597.67	2,969.49
Solvency	Current ratio (%)	106.43	117.56	110.80	109.55
	Quick ratio (%)	95.25	103.13	102.68	103.62
	Times interest earned ratio (Times)	65.33	78.17	1.28	15.47
Operating ability	Accounts receivable turnover (Times)	5.03	4.72	4.82	4.21
	Average collection period	72.63	77.41	75.73	86.70
	Inventory turnover (Times)	20.59	30.93	42.75	57.94
	Accounts payable turnover (Times)	5.65	5.34	5.44	4.49
	Average days in sales	17.73	11.80	8.54	6.30
	Fixed assets turnover (Times)	77.10	73.68	93.12	166.67
	Total assets turnover (Times)	1.66	2.01	1.69	1.99
Profitability	Return on total assets (%)	3.76	3.64	0.16	2.39
	Return on stockholders' equity (%)	7.27	6.66	0.12	6.51
	Ratio to issued capital (%)	Operating Income	4.68	17.87	-8.08
		Pre-tax Income	31.47	32.43	0.26
	Profit ratio (%)	2.06	2.09	0.03	0.96
	Basic earnings per share(\$)	2.95	2.73	0.05	2.71
Cash flow	Cash flow ratio (%)	8.26	20.81	-	-
	Cash flow adequacy ratio (%)	163.33	226.20	51.91	-
	Cash reinvestment ratio (%)	6.66	6.52	-	-
Leverage	Operating leverage	1.92	1.21	0.61	0.60
	Financial leverage	1.12	1.02	0.90	0.79

Note 1: Equations:

1. Capital Structure

(1) Debt ratio = Total liability / Total assets

(2) Ratio of long-term capital to fixed assets = (Net shareholders' equity + Long-term liability) / Net fixed assets

2. Solvency

(1) Current ratio: Current assets / current liability

(2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability

(3) Times interest earned = Net income before tax and interest expense / Interest expense of the year

3. Operating ability

(1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)

(2) Days sales in accounts receivable = 365 / Account receivable turnover

(3) Inventory turnover = Cost of goods sold / Average inventory amount

(4) Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)

(5) Average days in sales = 365 / Inventory turnover

(6) Fixed assets turnover = Net sales / Net fixed assets

(7) Total assets turnover = Net sales / Total assets

4. Profitability

(1) Return on assets = (Net income (loss) + interest expense x (1-tax rate)) / Average total assets

- (2) Return on shareholders' equity = Net income (loss) / Net average shareholders' equity
 - (3) Return to issued capital stock = Net income before tax / Issued capital stock
 - (4) Profit ratio = Net income (loss) / Net sales
 - (5) Basic earnings per share = (Net income – preferred stock dividend) / Weighted average stock shares issued
 - 5. Cash flow
 - (1) Cash flow ratio = Net cash flow from operating activity / Current liability
 - (2) Cash flow adequacy ratio = Net cash flow from operating activity in the past 5 years / (Capital expenditure + Inventory interest + Cash dividend) in the past 5 years
 - (3) Cash + reinvestment ratio = (Net cash flow from operating activity – Cash dividend) / (Fixed assets + Long term investment + Other assets + Working capital)
 - 6. Balance
 - (1) Degree of operating leverage = (Net operating income – Variable operating cost and expense) / Operating income(note6)
 - (2) Degree of financial leverage = Operating income / (Operating income – interest expense)
- Note 4: The following factors are to be included in the consideration for the calculation of earnings per share:
- 1. It is based on the weighted average common stock shares instead of the outstanding stock shares at year end.
 - 2. For capitalization with cash or treasury stock trade, the stock circulation must be included for consideration to calculate weighted average shares.
 - 3. For capitalization with retained earnings and additional paid-in capital, the earnings per share calculated semi-annually annually must be adjusted retroactively and proportionally to the capitalization but without considering the issuance period of the capitalization.
 - 4. If preferred stock shares are nonconvertible and cumulative, the dividend of the year (whether it is distributed or not) should be deducted from net income or added to the net loss. If preferred shares are not cumulative, preferred stock dividend should be deducted from net income if there is any but it needs not be added to net loss if there is any.
- Note 5: The following factors are to be included for consideration for the analysis of cash flow:
- 1. Net cash flow from operating activity meant for the net cash inflow from operating activity on the Cash Flow Statement.
 - 2. Capital expenditure meant for the cash outflow of capital investment annually.
 - 3. Increase of inventory is counted only when ending inventory exceeds beginning inventory. If the ending inventory is decreased, it is booked as zero value.
 - 4. Cash dividend includes the amount for common stock and preferred stock.
 - 5. Gross fixed assets for the total fixed assets before deducting the cumulative depreciation.
- Note 6: Issuer should classify operating cost and operating expense according to fixed and variable category. If the classification is estimated and subjective, it should correspond with rationality and consistence.

6.3 Audit Committee's Report in the Most Recent Year

Pegatron Corporation

Audit Committee's Review Report

Date: May, 8, 2014

The Board of Directors has prepared the Pegatron Corporation's ("the Company") 2013 Business Report, financial statements, and proposal for earning distribution. The CPA firm of KPMG was retained to audit the Company's financial statements and has issued an audit report relating to the financial statements. The above Business Report, financial statements, and earning distribution proposal have been examined and determined to be correct and accurate by the Audit Committee members of Pegatron Corporation. According to Article 14-4 of Securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

Pegatron Corporation

Chairman of the Audit Committee: Mr. Chun Lin



6.4 Consolidated Financial Statements of the Parent Company and Subsidiary in the Most Recent Year:

Please refer to Attachment I.

6.5 Non-Consolidated Financial Statements of the Most Recent Year:

Please refer to Attachment II.

6.6 Financial Difficulties Encountered By the Company and the Related Party in the Most Recent Year and Up to the Date of the Annual Report Printed: None.

7. Review of Financial Position, Management Performance and Risk Management

7.1 Analysis of Financial Status - Consolidated

Unit: NT\$ thousands; %

Item \ Year	2013	2012	Difference	
			Amount	%
Current Assets	326,934,979	308,250,538	18,684,441	6.06%
Funds & Investments	1,187,753	1,607,697	(419,944)	(26.12%)
Property, plant and equipment	73,916,654	73,179,119	737,535	1.01%
Intangible Assets	1,969,832	2,770,545	(800,713)	(28.90%)
Other Assets	11,886,306	9,546,840	2,339,466	24.51%
Total Assets	415,895,524	395,354,739	20,540,785	5.20%
Current Liabilities	239,272,864	238,103,119	1,169,745	0.49%
Long-term Liabilities	28,708,174	26,644,352	2,063,822	7.75%
Other Liabilities	3,859,307	2,969,687	889,620	29.96%
Total Liabilities	271,840,345	267,717,158	4,123,187	1.54%
Capital stock	23,211,555	22,903,049	308,506	1.35%
Capital surplus	63,175,819	61,723,110	1,452,709	2.35%
Retained Earnings	21,143,952	15,005,566	6,138,386	40.91%
Other Adjustments	36,523,853	28,005,856	8,517,997	30.42%
Total Stockholders' Equity	144,055,179	127,637,581	16,417,598	12.86%

Analysis of changes in financial ratios:

1. Funds & Investments: The decrease was mainly due to disposals of investments .
2. Intangible Assets: The decrease was due to intangible assets being amortized over the years.
3. Other Assets: The increase was mainly due to the increases in time deposits with maturity period of over three months and deferred income tax assets.
4. Other Liabilities: The increase was mainly due to the increase in deferred income tax liability.
5. Retained Earnings: The increase was due to the increase in net income for the year 2013.
6. Other Adjustments: The increase was due to the fluctuation in FX rates changed rapidly which resulted in the increase of cumulative translation adjustments, and the increased net income for the year 2013 which resulted in the increase of non-controlling interests.

● Effect of change on financial condition:

No significant changes on the Company's financial condition.

● Future response actions: Not applicable.

7.2 Analysis of Operating Results - Consolidated

Unit: NT\$ thousands; %

Item \ Year	2013	2012	Difference	
			Amount	%
Net Sales	949,752,028	881,197,415	68,554,613	7.78%
Cost of Sales	904,235,309	844,165,031	60,070,278	7.12%
Gross Profit	45,516,719	37,032,384	8,484,335	22.91%
Operating Expense	29,939,967	24,820,796	5,119,171	20.62%
Results from operating activities	15,576,752	12,211,588	3,365,164	27.56%
Non-operating Income and Expenses	3,453,120	1,967,609	1,485,511	75.50%
Profit Before Tax	19,029,872	14,179,197	4,850,675	34.21%
Income Tax Expense	4,782,625	3,843,016	939,609	24.45%
Profit for the year Income after Income Tax	14,247,247	10,336,181	3,911,066	37.84%
Other Comprehensive Income	3,916,721	(2,977,627)	6,894,348	231.54%
Total Comprehensive Income	18,163,968	7,358,554	10,805,414	146.84%
Analysis of changes in financial ratios:				
1. Gross Profit: The increase was due to the increase in sales and improving operation efficiency.				
2. Operating Expense: The increase was mainly due to the increase in quantity of sales.				
3. Result from Operating Activities: The increase was due to improvement in gross profit.				
4. Non-Operating Income and Expense: The increase was due to increase in foreign exchange gains.				
5. Profit Before Tax: The increase was due to the increase in gross profit and non-operating income.				
6. Income Tax Expense: The increase was mainly due to the increased operating income .				
7. Profit for the year: The increase was mainly due to the increase in gross profit.				
8. Other comprehensive income: The increase was mainly due to the fluctuation in FX rates, which resulted in exchange differences on translation.				
9. Total Comprehensive Income: The increase was mainly due to the increase in profit after income tax and other comprehensive income				

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Current Year - Consolidated

Unit: NT\$ thousands; %

Item \ Year	2013	2012	Difference	
			Amount	%
Cash flows from operating activities	25,070,504	24,584,396	486,108	1.98%
Cash flows from investing activities	(12,683,224)	(20,539,135)	7,855,911	(28.25%)
Cash flows from financing activities	1,860,711	6,710,253	(4,849,542)	(72.27%)
Analysis of changes in financial ratios:				
1. Cash flows from operating activities: The increase in cash flow was due to increase in revenue, which resulted in decreased notes and accounts receivable, inventory, and accounts payable as compared to the previous year.				
2. Cash flows from investing activities: The increase was due to less acquisition of property, plant and equipment and prepayment on purchase of equipment as compared to the previous year.				
3. Cash flows from financing activities: The decrease was due to no issuance of Euro-convertible bond and increase repayment of long-term debt as compared to the previous year.				

7.3.2 Remedy for Cash Deficit and Liquidity Analysis:

In light of positive cash flows, remedial actions are not required.

7.3.3 Cash Flow Analysis for the Coming Year: Not applicable.

7.4 Major Capital Expenditure Items: None.

7.5 Investment Policy in Last year, Main Causes for Profits or Losses, Improvement Plans and the investment Plans for the Coming Year

The Company's long-term investment accounted under the equity method is mostly for strategic purposes. In 2013, the investment income under equity method reached NT\$9,242,598 thousand dollars, which grew significantly as compared to the previous year. The growth was due to improving operation from investees in 2013, especially the significant profit growth from Casetek holdings Ltd (Cayman). For future investment, the Company will continue focusing on strategic purpose and carefully assessing the financial risks and its return in order to maximize the value for the Company.

7.6 Analysis of Risk Management

7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation of Corporate Finance, and Future Response Measures

(1) Interest Rate

The Company's interest rate risks mainly arise from the long-term and short-term loans made from banks and the short-term capital management for working capital needs. In order to reduce the risks of interest rates, especially relating to bank loans, the Company contacts banks on the regular basis, studies the trend of interest rate

and negotiates for the best interest rate for the Company. As for short-term capital management, the Company mainly invests in financial instruments of fixed deposit, which not only secures the capital but also reduces associated risks.

(2) Foreign Exchange Rate

The Company adopts a prudent approach towards foreign exchange strategy. Since the Company's sales and purchases are denominated mainly in US dollars, the risks are naturally hedged. However, significant changes in foreign exchange rate may cause adverse impact to the financial conditions of the Company and the responsive measures are taken as follows:

- a. Collecting market information for analysis and risk evaluation, contacting banks on a regular basis to be fully aware of the trend of foreign exchange rate, and adjusting financial positions in foreign currency when necessary.
- b. Securing reasonable profits by taking foreign exchange into consideration when providing quotations for sales.

(3) Inflation

According to the statistics released by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the consumer price index and wholesale price index grew by 0.79% and decreased by 2.43% respectively in 2013, which represented a minor inflation and did not have material impact on the Company's financial conditions in 2013. The Company observes the changes of market price at all times and adjusts selling price or inventory levels when necessary.

7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-Risk, High-Leverage Investment, Loaning or Endorsement Guarantees and Derivatives Transactions

(1) High-Risk, High-Leverage Investment

In 2013 and as of the date of this annual report, the Company has not conducted any high-risk and/or high-leverage investment.

(2) Loaning or Endorsement Guarantees

The Company conducts loaning or endorsement guarantees according to the internal policy "Procedures for Loaning of Funds and Making of Endorsements / Guarantees". Procedures and risk evaluation are conducted in accordance with this policy.

(3) Derivatives Transactions

The Company has not conducted any derivative transactions in 2013. Shall such needs arise due to business operation, the transaction will be processed in accordance with the Company's internal policy "Procedures for the Acquisition and Disposal of Assets".

7.6.3 Future Research & Development Projects and Corresponding Budget

The Company focuses on the development of products that are integrated with high added value based on the Company's product roadmap. Going forward, continuous effort will be spent on product research and development and pursuing leading position in this field by controlling factors such as talent, capital, technology, etc. It is estimated that R&D expense will maintain at a certain amount and adjust on annual basis depending on the operation result.

7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales

The Company complies with regulations associating with corporate governance, company law, security law and other important sources of regulations. In addition, the Company also monitors material changes in governing regulations and laws and be fully aware of the changes in the markets. In 2013 and as of the date of this annual report, there were no such risks to the Company.

7.6.5 Effects of and Response to Changes in Technology and in Industry Relating to Corporate Finance and Sales

The Company pays attention to the changes in technologies and in industry at all time so as to be fully aware of the market trend and evaluate any potential impact on the operations of the Company. No material changes of technologies have brought any adverse impact to the financial conditions of the Company.

7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures

Since the date of incorporation, the Company has been having a positive corporate image and complying with relevant laws and regulations. In 2013 and as of the date of this annual report, there were no such risks for the Company.

7.6.7 Expected Benefits and Risks Relating to and Response to Merger and Acquisition Plans

In 2013 and as of the date of this annual report, the Company did not have any plans for mergers and acquisitions and there were no such risks for the Company.

7.6.8 Expected Benefits and Risks Relating to and Response to Factory Expansion Plans

The Company takes factors such as global economy, industry outlook, market demand and customers' order forecast into consideration when planning factory and capacity

expansion. In 2013 and as of the date of this annual report, the benefits of expansion plan meet the Company's expectation.

7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

The Company's core business is design, manufacturing and services of 3C products, and according to the industry practice, the Company tends to purchase raw material and sell the finished goods to the same party.

a. Source of Purchase

Per ODM/EMS industry practice, major customers, in order to control product quality and reduce cost of key components, will request the Company to purchase key components from specific supplier(s) and sell back to the customer after assembly. Therefore, purchase of material and sales of finished goods are concentrated to specific customer(s). The Company maintains more than two qualified raw material suppliers to ensure supply flexibility and pricing advantages so as to achieve cost reduction. In conclusion, The Company does not have risks associating with excessive concentration of supply.

b. Sales of Products

The Company continues engaging new customers, enhancing technologies and improving manufacturing process. In addition to existing customers, the Company endeavors to expand customer portfolio, develop new products to meet the versatile market demands and reduce concentration risks.

7.6.10 Effects of Risks Relating to and Response to Large Share Transfer or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholding of over 10%

The value of Pegatron shareholders' investment may be reduced by possible future sales of Pegatron shares by the major shareholders.

As of the date of this annual report, Asustek Computer Inc. owns around 19.33% of Pegatron total outstanding shares. Asustek has reiterated its intention to gradually and orderly reduce its equity interest in Pegatron. Pegatron will work closely with Asustek to complete their contemplated disposals of Pegatron shares in a way that would minimize the negative impact on the price of Pegatron shares and other shareholders.

7.6.11 Effects of Risks Relating to and Response to Changes in Control over the Company

By the end of 2009, the Company was owned 100% by Asustek and the shareholding reduced dramatically after the spin-off plan in 2010. The operation of the Company has

become more transparent after the spin-off and acceptable by customers, which is considered a positive factor in business development. In addition, the Company has formed a management team to manage the Company's operation and does not have risks associating with the changes in control over the Company.

7.6.12 Litigation or Non-litigation Matters

In 2013 and as of the date of this annual report, the Company did not engage in litigation or non-litigation matters that had significant impacts on shareholders' right or security prices. For litigation or non-litigation matter for major shareholder with 10% or more holding (as of the date of this annual report, Asustek Computer Inc is the only shareholder with more than 10% of shareholding.), please refer to the major shareholder's annual report.

7.7 Other Major Risks

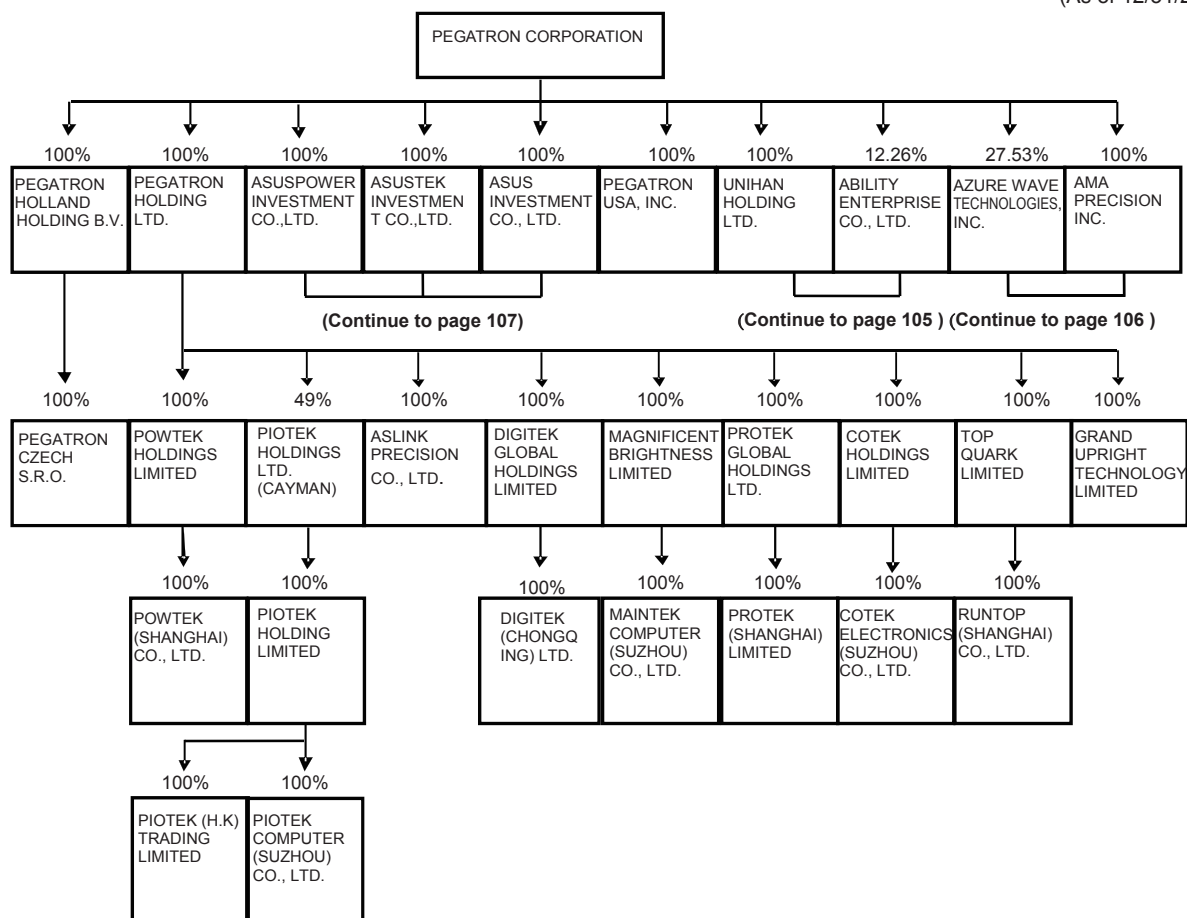
In 2013 and as of the date of this annual report, the Company did not have any other major risks.

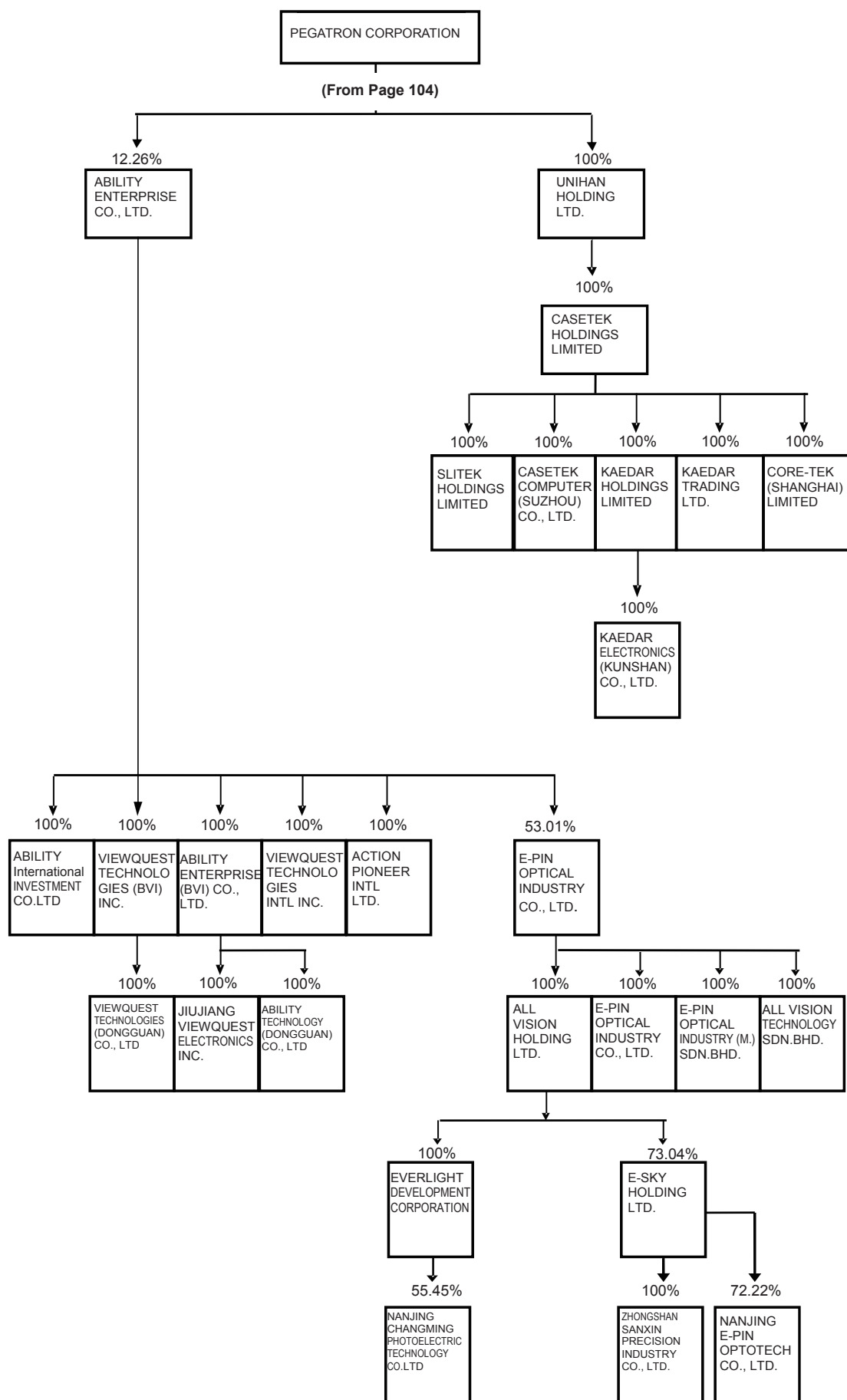
8. Other Special Notes

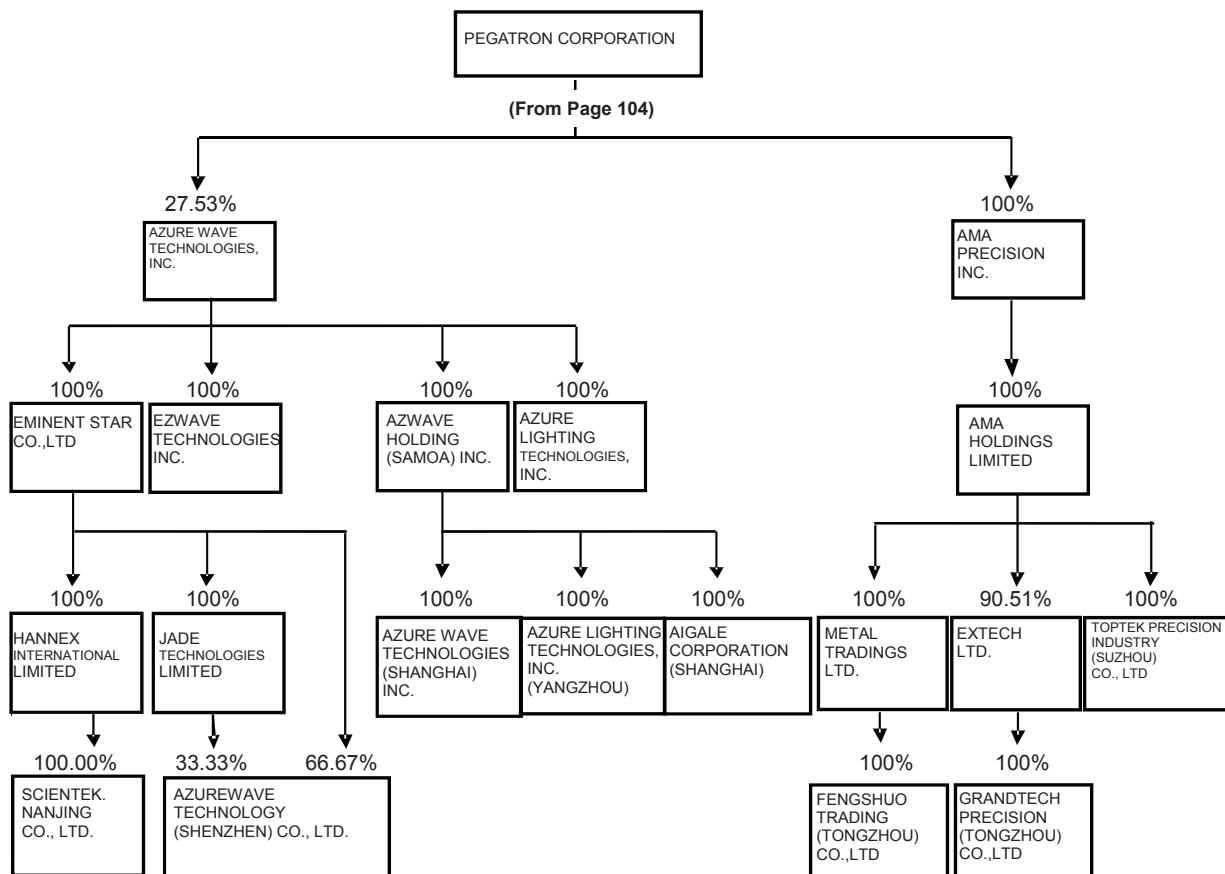
8.1 Summary of Affiliated Companies

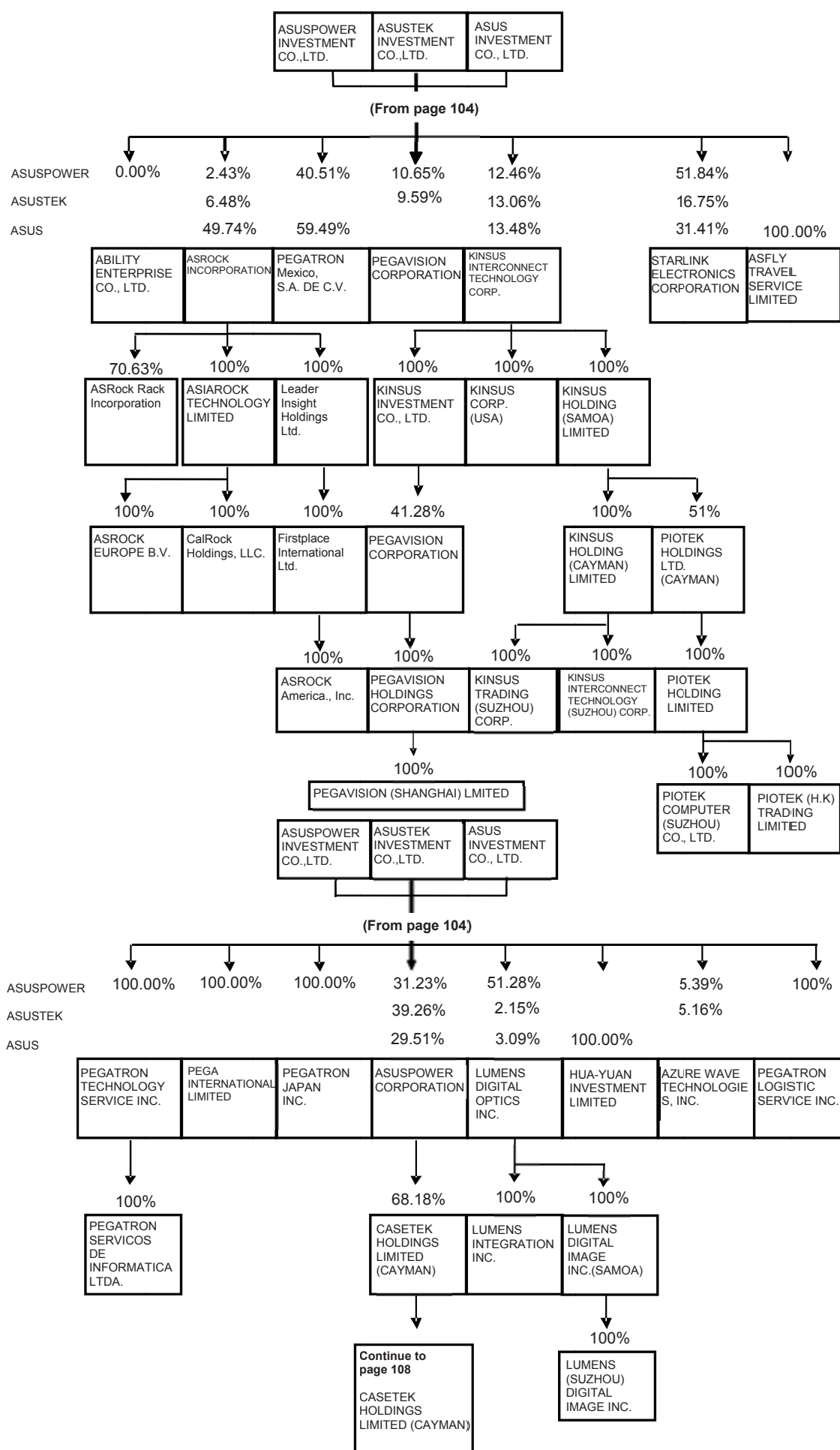
8.1.1 Affiliated Companies Chart

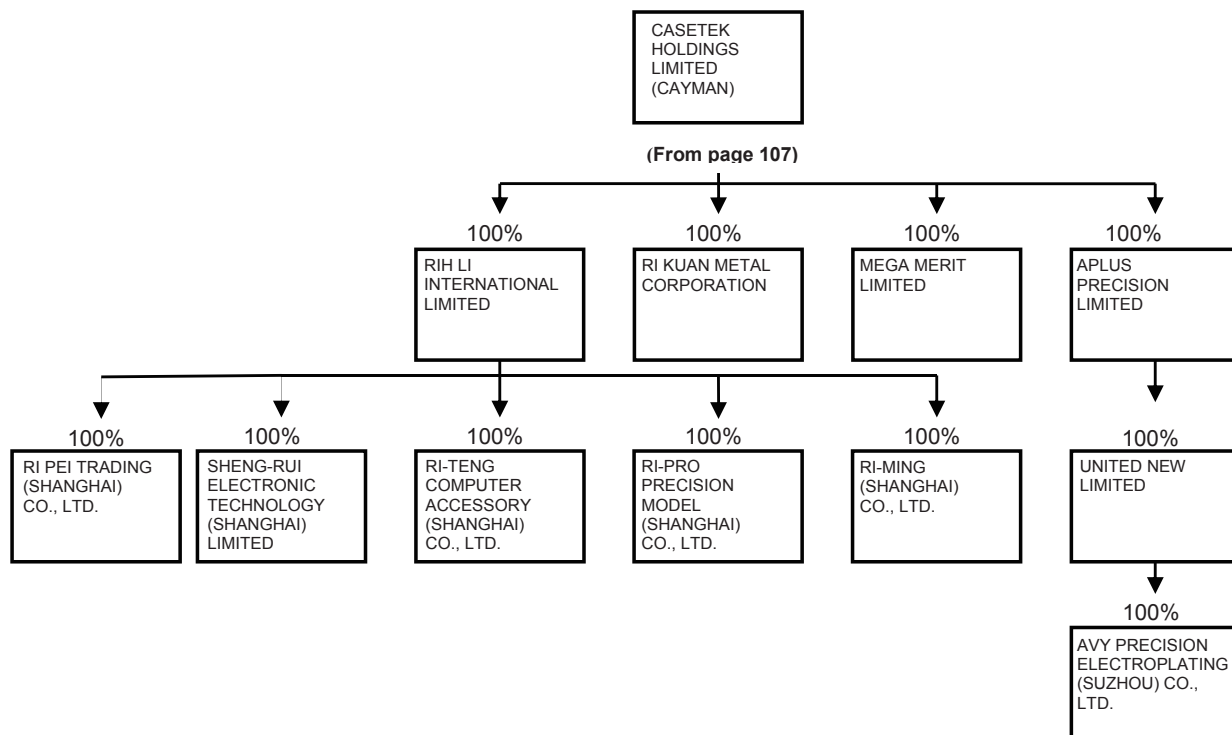
(As of 12/31/2013)











8.1.2 Business Scope of Pegatron and Its Affiliated Companies

Pegatron's affiliates support the Company's core business in providing design, manufacturing and services (DMS) of computing, consumer electronics and communication products. Some of Pegatron's affiliated companies are focused on investing in related companies in the industry. Pegatron and its affiliates provide mutual support in technology, capacity and services to maximize synergy within the group, enabling Pegatron to provide its customers with the most complete and comprehensive services.

8.2 Private Placement Securities in the Most Recent year: None.

8.3 The Shares of the Company Held or Disposed of by the Subsidiaries in the Most Recent year

Unit: NT\$ thousands; Shares; %

Name of subsidiary	Stock capital collected	Fund source	Shareholding ratio of the company	Date of acquisition or disposition	Shares and amount acquired	Shares and amount disposed of	Investment gain (loss)	Shareholdings & amount in the most recent year	Mortgage	Endorsement amount made for the subsidiary	Amount loaned to the subsidiary
Kinsus Interconnect Technology Corp.	4,460,000	Self-Finance	39%	7/1/2010	800,000 shares / NT\$23,902	-	-	800,000 shares / NT\$23,902	-	-	-
Kinsus Interconnect Technology Corp.	4,460,000	Self-Finance	39%	8/6/2011	900,000 shares / NT\$24,287	-	-	1,700,000 shares / NT\$48,189	-	-	-
Kinsus Interconnect Technology Corp.	4,460,000	Self-Finance	39%	6/6/2013	-	197,000 shares / NT\$5,585	-	1,503,000 shares / NT\$42,604	-	-	-

8.4 Any Other Special Notes to be specify: None.

8.5 Any Events in 2013 and as of the Date of this Annual Report printed that had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

Attachment I

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

(English Translation of Financial Report Originally Issued in Chinese)

AUDIT REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of

Pegatron Corporation

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

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

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

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

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

March 24, 2014

Notes to Readers

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

For the convenience of readers, the accountants' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' report and financial statements shall prevail.

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

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

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

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

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

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

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

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

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

The accompanying notes are an integral part of the consolidated financial 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, 2013 AND 2012
(All Amount Expressed in Thousands of New Taiwan Dollars)

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013 AND 2012
(Amounts Expressed in Thousands of New Taiwan Dollars,
Except for Per Share Information and Unless Otherwise Stated)

1. COMPANY HISTORY

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

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

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

2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES

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

(1) Statement of compliance

The accompanying consolidated annual financial statements have been prepared in accordance with the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to the Regulations) and IFRS as endorsed by the FSC.

These are the Group’s first consolidated annual financial statements prepared under IFRS (endorsed by the FSC) for purposes of annual financial statements reporting, and IFRS 1 “First-time Adoption of International Financial Reporting Standards.” An explanation of how the transition to IFRS has affected the reported financial position, financial performance, and cash flows of the Group is provided in Note 15.

(2) Basis of preparation

A. Basis of measurement

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

- (a) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;
- (b) Available-for-sale financial assets are measured at fair value;
- (c) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- (d) The defined benefit asset is recognized as plan assets, plus unrecognized past service cost, less the present value of the defined benefit obligation.

B. Functional and presentation currency

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Basis of consolidation

A. Principle of preparation of the consolidated financial statements

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

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

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

B. Acquisition of non-controlling interests

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

C. Subsidiaries

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

D. Business combination under common control

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

E. Losing control

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

G. Subsidiaries excluded from consolidation: None.

(4) Foreign currency

A. Foreign currency transaction

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

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

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

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

B. Foreign operations

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

(6) Cash and cash equivalents

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(7) Financial instruments

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

A. Financial assets

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

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

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

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

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

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

(b) Available-for sale financial assets

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

(c) Held-to-maturity financial assets

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

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

(d) Loans and receivables

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

- i. The rights to accounts receivable have been isolated from the transferor as they are put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.
- ii. Each transferee has the right to pledge or exchange the rights to the accounts receivable, and no condition prevents the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.
- iii. The transferor does not maintain effective control over the rights to the accounts receivable claims through either:
 - An agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or
 - The ability to unilaterally cause the holder to return specific rights to the accounts receivable.

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

(e) Impairment of financial assets

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

Such impairment loss is not reversible in subsequent periods.

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

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(f) Derecognition of financial assets

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

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

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

B. Financial liabilities and equity instruments

(a) Classification of debt or equity instruments

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

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

- i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses thereon on different basis;
- ii. Performance of the financial liabilities is evaluated on a fair value basis;
- iii. Hybrid instrument contains one or more embedded derivatives.

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

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

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

(c) Other financial liabilities

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

(d) Derecognition of financial liabilities

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(e) Offsetting of financial assets and liabilities

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

(f) Financial guarantee contract

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

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

C. Derivative financial instruments, including hedge accounting

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

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

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

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

(a) Fair value hedge

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

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

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

(b) Cash flow hedge

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(8) Inventories

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

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

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

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

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

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

(10) Investment in associates

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

(11) Interests in Joint Ventures

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

(12) Investment property

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

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

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

Buildings	45-60 years
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When the use of an investment property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(13) Property, plant and equipment

A. Recognition and measurement

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

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

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

B. Reclassification to investment property

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

C. Subsequent cost

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

D. Depreciation

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

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

(14) Leased assets

A. Lessor

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. Lessee

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

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

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

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

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(15) Intangible assets

A. Goodwill

(a) Recognition

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

(b) Measurement

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

B. Other Intangible Assets

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

C. Subsequent Expenditure

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

D. Amortization

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(16) Impairment – Non-derivative financial assets

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

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

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

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

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

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

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

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

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

Reversal of an impairment loss for goodwill is prohibited.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(17) Provisions

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

(18) Treasury stock

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

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

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

(19) Revenue

A. Goods sold

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. Service

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

(20) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

C. Short-term employee benefits

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

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

(21) Share-based payment

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

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

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

(22) Income Taxes

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

- A. Assets and liabilities that are initially recognized from non-business combination transactions, with no effect on net income or taxable gains (losses).
- B. Temporary differences arising from equity investments on subsidiaries or joint ventures, where there is a high probability that such temporary differences will not reverse.
- C. Initial recognition of goodwill.

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

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

- A. if the entity has the legal right to settle tax assets and liabilities on a net basis; and
- B. the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - (a) levied by the same taxing authority; or
 - (b) levied by different taxing authorities, but where each such authority intend to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation; or where the timing of asset realization and debt liquidation is matched.

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

(23) Business combination

A. Acquisition after 1 January 2012 (inclusive)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

B. Acquisition before January 1, 2012

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

(24) Earnings per share

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(25) Operating segments

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

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

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

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

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

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

(2) Note 6(16), Lease classification

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

(1) Note 6(26), Accounts receivable impairment evaluation

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

(3) Note 6(26), Fair value measurement of financial assets carried at cost

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

6. EXPLANATIONS TO SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

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

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

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

(2) Investment in financial assets and liabilities

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

- (a) As of December 31, 2013 and 2012, the Group recognized a net gain on financial assets and liabilities reported at fair value through profit of \$628,347 and \$666,767, respectively.
- (b) As of December 31, 2013 and 2012, the unrealized gain (loss) on available-for-sale financial assets amounted to \$(64,975) and \$82,165, respectively.
- (c) The aforementioned investments held by the Group are measured at amortized cost at each reporting date given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined, therefore, the Group management determines the fair value cannot be measured reliably. The Group evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of \$0 and \$100,370 for the years ended December 31, 2013 and 2012, respectively. As of December 31, 2013 and 2012, and January 1, 2012 the Group had accumulated impairment loss of \$401,088, \$444,443 and \$219,888, respectively.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (d) The Group reclassified its investment in ASMEDIA TECHNOLOGY INC. (ASMEDIA) from financial assets carried at cost — noncurrent to available-for-sale financial assets — current following ASMEDIA's approval for listing on Taiwan Stock Exchange on December 12, 2012. Also, in order to facilitate ASMEDIA's public offering, ASROCK has voluntarily deposited 600 thousand shares of ASMEDIA's stock for custody by the Taiwan Depository and Clearing Corporation where those shares cannot be sold. However, ASROCK can withdraw 50% of deposited shares after six months of ASMEDIA's public listing and can also withdraw the remaining deposited shares after one year of ASMEDIA's public listing.
- (e) The convertible bond issued by the Group was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put option embedded in bonds payable were separated from bonds payable, and were recognized as "Financial liabilities at fair value through profit or loss." As of December 31, 2013 and 2012, the Group recognized a gain on financial liability reported at fair value through profit or loss of \$534,768 and \$534,953, respectively.
- (f) Refer to Note 6(24) for further discussion on gains and losses on disposal of investments.
- (g) Refer to Note 6(26) for the Group's information on financial instruments risk management.
- (h) As of December 31, 2013, December 31, 2012 and January 1, 2012, the aforesaid financial assets were not pledged as collateral.
- B. Fair value sensitivity analysis

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

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

C. Foreign equity investments

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

D. Derivative not used for hedging

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

Financial Assets

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

Financial Liabilities

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

December 31, 2013

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

December 31, 2012

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

December 31, 2013

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

December 31, 2012

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

January 1, 2012

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Inventories

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

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

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

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

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

	December 31, 2013
ASAP TECHNOLOGY (JIANGXI) CO., LTD.	\$ <u>365,243</u>

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

(6) Investments accounted for using equity method

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

	December 31, 2013	December 31, 2012	January 1, 2012
Associates	<u>\$ 1,187,753</u>	<u>1,607,697</u>	<u>2,703,438</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- A. The fair value of investments in associates of the Group with carrying amount of \$819,853 for which there are published price quotation amounted to \$797,660 as of January 1, 2012.
- B. As of December 31, 2013 and 2012, the Group's share of profit (loss) of the associates were as follows:

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

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

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

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

- D. The investee of Ability (TW), SHIN-EI YORKEY INTERNATIONAL LTD. (BVI), was liquidated in June 2013. As the result, Ability (TW) had recognized the difference between proceeds received and the carrying amount of the investment of \$2,166, as a loss on disposal of investment.
- E. In October 2012, the Group sold its equity ownership in AVY PRECISION, which resulted in the Group holding less than 20% equity shares of AVY PRECISION so that the Group ceased significant control of AVY PRECISION. Therefore, the Group has reclassified its equity investment in AVY PRECISION to available-for-sale financial assets — noncurrent. Please refer to Note 6(2) for details.
- F. In May 2012, YOFREE TECHNOLOGY CO., LTD. ("YOFREE") has elected a new set of members of the Board of Directors. Following the election, AZURE WAVE was not elected as YOFREE's director nor supervisor, and lost its significant influence over YOFREE. Therefore, AZURE WAVE has reclassified its equity investment in YOFREE to financial assets carried at cost — noncurrent.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

(7) Property, plant and equipment

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

- C. KINSUS INTERCONNECT TECHNOLOGY CORP. ("KINSUS") purchased a farm land in the name of KINSUS's chairman instead of KINSUS, due to the restriction imposed by the local government. As of December 31, 2013, the registration procedures were not completed.
- D. Please refer to Note 6(24) for details of the capitalization of interest expenses and gain and loss on disposal of property, plant and equipment.
- E. Please refer to Note 8 for details of the property, plant and equipment pledged as collateral.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(8) Investment property

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

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

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

- B. As of December 31, 2013, December 31, 2012, and January 1, 2012, the fair value of investment property of the Group was \$888,531, \$932,807, and \$847,721, respectively. The fair value of investment property was evaluated based on the recent market transaction on arm's length terms.
- C. As of December 31, 2013, December 21, 2012, and January 1, 2012, the aforesaid investment properties were not pledged as collateral.

(9) Intangible assets

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

- B. Goodwill impairment

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

- (a) The recoverable amount of the metal casing factory cash-generating unit was based on value in use. Key assumptions used in calculating the recoverable amount were as follows:
 - i. Management had projected cash flow based on a five-year financial budget which was extrapolated from historical operating results and future operating plan.
 - ii. Pre-tax discount rate used in calculating the value in use was determined from weighted average cost of capital (WACC) of the Company.
- (b) The recoverable amount of the digital camera cash-generating unit was based on value in use. Key assumptions used in calculating the recoverable amount were as follows:
 - i. Management had projected cash flow based on a five-year financial budget which was extrapolated from future operating plan.
 - ii. Projected revenue and gross profit ratio were extrapolated from management's forecast based on past operating results and future marketing development trends.
 - iii. Pre-tax discount rate used in calculating the value in use was determined from weighted average cost of capital (WACC) of the Company.
- C. For the years ended December 31, 2013 and 2012, the Group has not noted any indication of potential impairment loss based on the impairment testing performed.

(10) Other financial assets and other assets

Other current assets noncurrent assets were as follows:

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

(11) Short-term loans

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

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

(12) Short-term notes and bills payable

Short-term notes and bills payable were as follows:

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(13) Long-term loans

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

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

A. Securities for bank loans

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

B. Loan covenants

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

- 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%.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- iii. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.
- iv. Tangible net assets (stockholders' equity, including minority shareholders) - intangible assets): should not be less than \$90,000,000.
- v. Factoring line of accounts receivable factoring/ net book value of accounts receivable before derecognition: less than 50%

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

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

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

- i. Current ratio (current assets/current liabilities): should not be less than 100%.
- ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 80%.
- iii. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.
- iv. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

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

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

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

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

- i. Current ratio (current assets/current liabilities): should not be less than 100%.
- ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

- iii. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.
- iv. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than NT\$90,000,000.

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

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

(14) Bonds payable

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

- (a) Ability (TW) issued the 1st unsecured domestic convertible bonds of NT\$1,500 million with each bond having coupon rate of 0%, an issue price of 100.2% over par value, and maturing in 5 years (During Feb 6th, 2010 to Feb 6th, 2015). These convertible bonds are payable in full at par on maturity date and are listed on Over-the-Counter Market on February 8th, 2010.
- (b) After 30 days from issue date (March 7th, 2010) and 10 days prior to maturity date (January 27th, 2015), the bondholders can exercise their rights to convert the bonds into Ability (TW)'s common stock. Under the terms of the convertible bonds, the rights and obligations of the new shares converted from convertible bonds are the same as the issued and outstanding common stock.
- (c) The conversion price will be adjusted based on the terms of the conversion plan, and will be reset based on the prescribed formula upon the occurrence of certain events that will have a dilutive effect on the bondholders' rights. The conversion price was originally set at \$60. As Ability (TW) distributes cash dividend on August 1, 2010, September 6, 2011 and August 14, 2012, the exercise price was adjusted from \$60 to \$55.7 and \$55.7 to \$50.7, respectively, on the effective dates. As of August 14, 2012, the exercise price was adjusted from \$50.7 to \$47.4 on the effective date.
- (d) After 3 years from issue date (Feb 6th, 2013), the bondholders shall have the right at such bondholders' option to require Ability (TW) to redeem all or some of the convertible bonds at a price equal to 100% of the principal amount plus interest at the rate of 0.3% per annum, payable annually.
- (e) Ability (TW) may purchase the outstanding bonds at face value under the following conditions: (i) the closing price of the shares for a period of 30 consecutive trading days is above 130% of the conversion price and (ii) the amount of the outstanding bonds is less than 10% of the initial issuance amount of convertible bonds, from the day after the first month of issuance of the bonds to 40 days prior to the maturity date.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

(15)Provisions

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

A. Warranties

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. Allowance for sales return and discounts

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

(16) Operating leases

A. Lessee

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

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

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

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

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

B. Long-term prepaid rents

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(17) Employee benefits

A. Defined benefit plans

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

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

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

(a) Composition of plan assets

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) Movements of defined benefit plan assets

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

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

(d) Expenses recognized in profit or loss

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(f) Actuarial assumptions

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

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

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

(g) Experience adjustments based on historical information

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

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

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

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

B. Defined contribution plans

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(18) Income Tax

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

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

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

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

- C. Deferred tax assets and liabilities

- (a) Unrecognized deferred tax liabilities

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(b) Unrecognized deferred tax assets

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

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

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

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

Note: In accordance with its local income tax act.

(c) Recognized deferred tax assets and liabilities

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

D. Income tax

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

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

E. Five year income tax exemption period

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Stockholders' imputation tax credit account \$	<u>1,310,701</u>	<u>545,432</u>	<u>3,448</u>
	<u>2013 (Expect)</u>	<u>2012 (Actual)</u>	
Tax deduction ratio for earnings distributable to R.O.C. residents	<u>10.69%</u>	<u>4.49%</u>	

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

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

(19) Capital and reserves

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

A. Nominal ordinary shares

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

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

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

B. Global depositary receipts

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

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

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

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

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

C. Capital surplus

The components of the capital surplus were as follows:

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

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

D. Retained earnings

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

(a) Legal reserve

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

(a) Legal reserve

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

(b) Special reserve

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

(c) Earnings Distribution

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

E. Treasury stock

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

F. Other equity accounts

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(20) Share-based payment

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

Equity-settled share-based payment

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

Employee stock option

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

Cash-settled share-based payment

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

A. Determining the fair value of equity instruments granted

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

Equity-settled share-based payment

Restricted stock to employee

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

Employee stock option

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

Cash-settled share-based payment

Restricted stock to employee

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

B. Restricted stock to employee

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

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

C. Employee stock options

Information on aforesaid employee stock options was as follows:

(a) For the year ended December 31, 2013

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(b) For the year ended December 31, 2012

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

D. Expenses resulted from share-based payments

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

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

(21) Subsidiary's share-based payments

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

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

The aforementioned share-based payment transactions are equity transactions.

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

- C. For the years ended December 31, 2013 and 2012, the weighted-average exercise price of stock option on the date of exercise amounted to \$24.52 and \$27.80 per share, respectively.
- D. As of the balance sheet date, the expiration date and exercise price of outstanding employee stock options were as follows:

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

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

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

(22) Earnings per share

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(23) Revenue

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

(24) Non-operating income and expenses

A. Other income

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

B. Other gains and losses

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

C. Finance costs

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

(25) Reclassification of other comprehensive income

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

(26) Financial instruments

A. Categories of financial instruments

(a) Financial assets

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Financial liabilities

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

B. Credit risk

(a) Exposure to credit risk

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

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

(b) Impairment losses

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

C. Liquidity risk

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

D. Currency risk

(a) Currency risk exposure

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(Unit: Foreign currency/NTD in Thousands)						
	December 31, 2013			December 31, 2012		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial assets						
Monetary items						
USD:NTD	\$ 8,165,674	29.805	243,377,914	8,392,007	29.04	243,703,883
USD:CNY	5,361,939	6.0969	159,812,592	4,960,352	6.2855	144,048,622
Financial liabilities						
Monetary items						
USD:NTD	8,405,776	29.805	250,534,154	8,177,451	29.04	237,473,177
USD:CNY	7,461,939	6.0969	222,403,092	7,247,028	6.2855	210,453,693
JPY: CNY	837	0.058	238	329,405	0.073	110,812
	January 1, 2012					
	Foreign Currency	Exchange Rate	NTD			
Financial assets						
Monetary items						
USD:NTD	5,169,519	30.275	156,507,188			
USD:CNY	3,348,088	6.3009	101,363,364			
Financial liabilities						
Monetary items						
USD:NTD	5,259,683	30.275	159,236,903			
USD:CNY	4,808,911	6.3009	145,589,781			
JPY: CNY	2,595,338	0.081	1,013,739			

(b) Sensitivity analysis

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

E. Interest rate analysis

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

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

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

F. Fair value of financial instruments

(a) Fair value and carrying amount

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

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

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

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

(c) Fair value hierarchy

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(27) Financial risk management

A. Overview

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

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

B. Risk management framework

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

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

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

C. Credit risk

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

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

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(a) Accounts receivables and other receivables

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

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

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

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

(b) Investment

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

(c) Guarantee

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

D. Liquidity risk

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

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

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

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

E. Market risk

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

(a) Currency risk

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

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

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

(b) Interest rate risk

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

(c) Price floating risk on equity instruments

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

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

(28) Capital management

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

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

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

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

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

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

7. RELATED PARTY TRANSACTIONS

(1) The ultimate parent company

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

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

(2) Significant Transactions with related parties

A. Sale of Goods and Services to Related Parties

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

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

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

B. Purchase of Goods from Related Parties

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

C. Warranty repair expense paid to Related Parties

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

D. Other income and expenses from Related Parties

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

E. Rental revenue

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

F. Other related party transactions recorded as expenses

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Key management personnel compensation:

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

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

8. Pledged Assets

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

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

9. Significant Commitments And Contingencies

(1) Major commitments and contingencies were as follows:

A. Unused standby letters of credit

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

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

	December 31, 2013	December 31, 2012	January 1, 2012
NTD	<u>\$ 20,105</u>	<u>17,297</u>	<u>17,332</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- C. As of December 31, 2013, December 31, 2012, and January 1, 2012, the significant contracts for purchase of properties by the Group amounted to \$4,393,035, \$8,822,652 and \$29,520,477, of which \$1,950,522, \$5,198,394 and \$16,974,382, respectively, were unpaid.
- D. As of December 31, 2013, December 31, 2012, and January 1, 2012, the Group provided endorsement guarantee for bank loans obtained by the related parties, including Group entities, amounting to \$24,353,209, \$20,090,019 and \$22,320,790, respectively.
- E. As of December 31, 2013, AZURE WAVE TECHNOLOGIES INC. issued a tariff guarantee of \$7,000 to the bank for the purpose of importing goods.

(2) Significant contingent liability: None.

10. LOSSES DUE TO MAJOR DISASTERS: None.

11. SUBSEQUENT EVENTS: None

12. OTHER

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

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

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

	For the Years Ended December 31	
	2013	2012
Depreciation in investment property	\$ <u>10,380</u>	<u>11,708</u>

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

13. SEGMENT INFORMATION

(1) General Information

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Geographic information

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

A. External Sales

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

B. Non-current assets

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

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

(4) Major Customer

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

(1) Reconciliation of balance sheet

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(2) Reconciliation of its statement of comprehensive income

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Significant reconciliation of its cash flows statement

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

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

(4) Notes to significant reconciliation

A. Allowance for sales returns and discounts

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

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

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

B. Interests in Joint Ventures

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

C. Financial assets carried at cost

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

conversion date, these investments are measured at fair value.

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

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

D. Rental assets and idle assets

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

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

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

E. Prepayments for business facilities

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

F. Land use rights

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

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

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

G. Warranties and repair cost

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

H. Provisions for employee benefits

(a) Compensated absences benefit

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Share-based payments

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

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

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

I. Employee benefits — defined benefit pension plan

- (a) Under R.O.C. GAAP, an actuarial valuation is made of the Group's defined benefit obligation and the related pension cost and accrued pension liabilities, and net periodic pension costs are accounted for under the corridor approach. Under the IFRS as endorsed by the FSC, the aforementioned obligation shall be recognized as deduction of retained earnings, and actuarial gain or loss shall be recognized as other comprehensive income in the statement of comprehensive income.
- (b) Under R.O.C. GAAP, unrecognized net transition assets (obligations) are amortized to pension cost on the straight-line basis over the average remaining service period of those employees who are still in service and expected to receive pension benefits. Under IFRS as endorsed by the FSC, under IAS No. 19, there is no such similar requirement as R.O.C. GAAP. Therefore, the unrecognized net transition obligation and related amounts are recognized directly to retained earnings at the date of transition to IFRSs.
- (c) Under R.O.C. GAAP, the minimum pension liability is recognized if accumulated pension benefits exceed the fair market value of its pension plan assets. Under IFRS as endorsed by the FSC, there is no requirement for recognizing minimum pension liability in accordance with IAS 19.

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

In addition, under R.O.C. GAAP, valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. Under IFRS as endorsed by the FSC, deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits and the valuation allowance account is no longer used.

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The effects of this GAAP difference are-as follows:

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

K. Deferred gross profit

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

Under R.O.C. GAAP, if an associate or investee issues new shares and an investor does not buy new shares proportionately, the investor's ownership percentage and its interest in net assets of the investment will change. The resulting difference is adjusted to the capital surplus or retained earnings. Under the IFRS as endorsed by the FSC, if the percentage of ownership is changed due to disproportionate subscription in the capital increase of the investee, the capital surplus arising from long-term equity investment is recalculated retrospectively, and such change adjusted to retained earnings.

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

	December 31, 2012	January 1, 2012
Consolidated balance sheets		
Reduction on capital surplus	\$ 2,459,495	2,481,205
Retained earnings adjustments	<u>\$ 2,459,495</u>	<u>2,481,205</u>

M. Overseas convertible bonds payable

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

N. Loss of significant influence on associates

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

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

	For the year ended December 31, 2012
Consolidated comprehensive income statement	
Decrease in other gains and losses	\$ 139,693
Attributable to :	
Owners of the company	\$ 17,251
Non-controlling interests	122,442
Adjustments before tax	\$ 139,693
	December 31, 2012
Consolidated balance sheets	
Decrease in capital surplus	\$ 21,095
Increase in other equity interest	(3,844)
Retained earnings adjustments	\$ 17,251

O. Repair expense, Indemnity income and Indemnity losses

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

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

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

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

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

Attachment II

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NON-CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

(English Translation of Financial Report Originally Issued in Chinese)

AUDIT REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying balance sheets of Pegatron Corporation (the “Company”) as of December 31, 2013, December 31, 2012, and January 1, 2012, and the related statements of comprehensive income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express the audit report based on our audits. We did not audit the financial statements of certain investees accounted for under the equity method, in which the Company’s long-term equity investments amounted to NT\$ 22,241,985 thousand, NT\$ 22,108,686 thousand and NT\$ 18,953,837 thousand, representing 5.80%, 6.88% and 8.63% of total assets as of December 31, 2013, December 31, 2012, and January 1, 2012, respectively, and related investment income was NT\$ 1,697,446 thousand and NT\$ 2,091,600 thousand, representing 17.78% and 30.67% of net income before tax for the years ended December 31, 2013 and 2012, respectively. The financial statements of these investees were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, is based solely on the reports of other auditors.

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

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

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

March 24, 2014

Note to Readers

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

For the convenience of readers, the accountants' report and the accompanying non-consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' report and financial statements shall prevail.

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

	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
ASSETS						
Current Assets:						
Cash and cash equivalents (Note 6(1))	\$ 19,170,052	5	12,006,919	4	6,815,955	3
Notes and accounts receivable, net (Note 6(3))	85,155,913	22	79,952,973	25	40,771,246	19
Accounts receivable, net — Related parties (Note 7)	133,504,038	35	112,235,263	35	70,676,143	32
Other receivables, net (Notes 6(3) and 7)	23,296,254	6	10,502,748	3	48,223	-
Inventories (Note 6(4))	21,985,422	6	12,018,150	4	9,252,961	4
Other financial assets — current (Note 6(8))	55,820	-	76,205	-	72,003	-
Other current assets (Note 6(8))	120,548	-	259,416	-	128,462	-
	<u>283,288,047</u>	<u>74</u>	<u>227,051,674</u>	<u>71</u>	<u>127,764,993</u>	<u>58</u>
Non-current assets:						
Investments accounted for using equity method (Note 6(5))	95,704,186	25	89,510,096	28	86,611,949	40
Property, plant and equipment (Notes 6(6), and 7)	4,444,544	1	4,473,252	1	4,633,015	2
Intangible assets (Note 6(7))	58,990	-	93,514	-	121,223	-
Deferred tax assets (Note 6(15))	173,059	-	65,781	-	287,835	-
Other financial assets — noncurrent (Note 6(8))	32,492	-	30,650	-	29,271	-
Other noncurrent assets (Note 6(8))	34,370	-	26,606	-	72,259	-
	<u>100,447,641</u>	<u>26</u>	<u>94,199,899</u>	<u>29</u>	<u>91,755,552</u>	<u>42</u>
TOTAL ASSETS	<u>\$ 383,735,688</u>	<u>100</u>	<u>321,251,573</u>	<u>100</u>	<u>219,520,545</u>	<u>100</u>

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

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

	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
LIABILITIES						
Current Liabilities:						
Short-term loans (Note 6(9))	\$ 18,628,125	6	6,359,760	2	6,176,100	3
Accounts payable	105,537,143	27	95,814,244	30	42,449,007	19
Accounts payable— Related parties (Note 7)	93,203,009	24	85,225,163	27	57,939,610	26
Other payables (Notes 6(17) and 7)	13,921,682	4	10,064,443	3	6,037,633	3
Current income tax liabilities	366,613	-	345,592	-	152,894	-
Provisions— current (Note 6(12))	62,923	-	59,239	-	35,190	-
Deferred revenue	504,324	-	117,938	-	46,338	-
Long-term loans payable— current portion (Note 6(10))	4,768,800	1	2,323,200	1	-	-
Other current liabilities (Note 7)	14,093,534	4	7,051,937	2	2,803,743	1
	<u>251,086,153</u>	<u>66</u>	<u>207,361,516</u>	<u>65</u>	<u>115,640,515</u>	<u>52</u>
Non-current liabilities:						
Financial liabilities at fair value through profit or loss	235,162	-	759,815	-	-	-
— noncurrent (Notes 6(2) and 6(11))						
Bonds payable (Note 6(11))	8,116,490	2	7,656,181	2	-	-
Long-term loans (Note 6(10))	16,746,400	4	9,292,800	3	12,110,000	6
Deferred tax liabilities (Note 6(15))	217,397	-	353,077	-	335,510	-
Other noncurrent liabilities (Note 6(14))	30,292	-	22,905	-	10,232	-
	<u>25,345,741</u>	<u>6</u>	<u>18,084,778</u>	<u>5</u>	<u>12,455,742</u>	<u>6</u>
Total Liabilities	<u>276,431,894</u>	<u>72</u>	<u>225,446,294</u>	<u>70</u>	<u>128,096,257</u>	<u>58</u>
EQUITY						
Share capital	<u>23,211,555</u>	<u>6</u>	<u>22,903,049</u>	<u>7</u>	<u>22,563,669</u>	<u>10</u>
Capital surplus:						
Capital surplus, premium on capital stock	61,420,285	16	60,393,247	19	60,393,247	28
Capital surplus, others (Note 6(16))	1,755,534	-	1,329,863	-	609,828	-
	<u>63,175,819</u>	<u>16</u>	<u>61,723,110</u>	<u>19</u>	<u>61,003,075</u>	<u>28</u>
Retained earnings:						
Legal reserve	2,458,117	1	1,847,737	1	1,836,601	1
Special reserve	3,280,485	1	734,859	-	4,327,629	2
Unappropriated retained earnings (Note 6(15))	15,405,350	4	12,422,970	4	2,458,391	1
	<u>21,143,952</u>	<u>6</u>	<u>15,005,566</u>	<u>5</u>	<u>8,622,621</u>	<u>4</u>
Other equity interest(Notes 6(16) and 6(17)):						
Exchange differences on translation of foreign financial statements	(48,637)	-	(3,398,256)	(1)	(784,234)	-
Unrealized gains on available-for-sale financial assets	79,871	-	88,302	-	37,951	-
Deferred compensation cost arising from issuance of restricted stock	(241,370)	-	(497,698)	-	-	-
	<u>(210,136)</u>	<u>-</u>	<u>(3,807,652)</u>	<u>(1)</u>	<u>(746,283)</u>	<u>-</u>
Treasury stock	(17,396)	-	(18,794)	-	(18,794)	-
Total Equity	<u>107,303,794</u>	<u>28</u>	<u>95,805,279</u>	<u>30</u>	<u>91,424,288</u>	<u>42</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 383,735,688</u>	<u>100</u>	<u>321,251,573</u>	<u>100</u>	<u>219,520,545</u>	<u>100</u>

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

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

	For the Years ended December 31			
	2013		2012	
	Amount	%	Amount	%
Operating revenues (Notes 6(19) and 7)	\$ 796,040,889	100	639,914,274	100
Less: Sales returns and allowances	1,816,161	-	1,044,720	-
Net sales	794,224,728	100	638,869,554	100
Cost of sales (Notes 6(4) and 7)	783,471,961	99	632,150,041	99
Gross profit	10,752,767	1	6,719,513	1
Unrealized (Realized) profit on intercompany transactions	(49,334)	-	44,894	-
Gross profit	10,802,101	1	6,674,619	1
Operating expenses (Note 7)				
Selling expenses	3,252,575	-	1,274,789	-
General and administrative expenses	1,995,092	-	1,525,095	-
Research and development expenses	5,265,356	1	4,790,984	1
	10,513,023	1	7,590,868	1
Results from operating activities	289,078	-	(916,249)	-
Non-operating income and expenses				
Other income (Notes 6(20) and 7)	438,071	-	442,161	-
Other gains and losses (Notes 6(6), 6(11) and 6(20))	514,234	-	703,467	-
Share of profit (loss) of associates and joint ventures accounted for under equity method (Note 6(5))	9,242,598	1	7,294,075	1
Financial costs (Note 6(20))	(917,669)	-	(674,045)	-
Other losses (Note 7)	(19,912)	-	(30,272)	-
	9,257,322	1	7,735,386	1
Profit before tax	9,546,400	1	6,819,137	1
Income tax expense (benefit) (Notes 6(15))	(8,096)	-	436,192	-
Profit for the year	9,554,496	1	6,382,945	1
Other comprehensive income (Note 6(16))				
Foreign currency translation differences—foreign operations	1,777,556	-	(1,134,150)	-
Defined benefit plan actuarial losses	(1,195)	-	-	-
Share of other comprehensive income of associates and joint ventures accounted for under equity method	1,572,974	-	(1,429,521)	-
Income tax relating to components of other comprehensive income	-	-	-	-
Other comprehensive income for the year, net of tax	3,349,335	-	(2,563,671)	-
Total comprehensive income for the year	\$ 12,903,831	1	3,819,274	1
Earnings per share, net of tax (Note 6(18))				
Basic earnings per share	\$ 4.16		2.83	
Diluted earnings per share	\$ 3.74		2.43	

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

Attributable to Owners of the Company

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NON-CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013 AND 2012

(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2013	2012
Cash flows from operating activities:		
Profit before tax	\$ 9,546,400	6,819,137
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation	572,928	564,288
Amortization	51,141	78,741
Allowance for uncollectable accounts	31,280	12,037
Net gain on financial assets or liabilities at fair value through profit or loss	(534,768)	(502,955)
Interest expense	445,680	406,151
Interest income	(69,968)	(39,158)
Amortization of discount on bonds payable	245,201	227,840
Amortization of issuance costs on bonds payable	12,787	11,537
Compensation cost arising from employee stock options	508,571	179,563
Loss (gain) on foreign currency exchange of bonds payable	212,436	(156,066)
Share of profit of associates and joint ventures accounted for under equity method	(9,242,598)	(7,294,075)
Loss (gain) on foreign currency exchange on long-term loans	244,800	(494,000)
Loss on disposal of property, plant and equipment	17,389	29,647
Gains on disposals of intangible assets	-	(64)
Gain on disposal of investments accounted for using equity method	-	(62,028)
Reversal gain on property, plant and equipment	(3,878)	(4,127)
Unrealized loss (profits) on intercompany transactions	(49,334)	44,894
	<u>(7,558,333)</u>	<u>(6,997,775)</u>
Change in operating assets and liabilities		
Change in operating assets		
Increase in notes and accounts receivable	(23,043,667)	(80,752,885)
Increase in other accounts receivable	(12,153,839)	(10,454,234)
Increase in inventories	(9,953,266)	(2,765,189)
Decrease (increase) in other current assets	159,600	(127,198)
Decrease (increase) in other financial assets	41,113	(4,201)
Total changes in operating assets	<u>(44,950,059)</u>	<u>(94,103,707)</u>
Change in operating liabilities		
Increase in accounts payable	16,659,923	80,650,790
Increase (decrease) in other accounts payable	1,147,613	(2,045,161)
Increase in provisions — current	1,784	24,049
Increase (decrease) in deferred revenue	(19,729)	71,600
Increase in other current liabilities	6,762,488	4,248,194
Increase in other non-current liabilities	3,228	12,673
Total changes in operating liabilities	<u>24,555,307</u>	<u>82,962,145</u>
Net changes in operating assets and liabilities	<u>(20,394,752)</u>	<u>(11,141,562)</u>
Total changes in operating assets and liabilities	<u>(27,953,085)</u>	<u>(18,139,337)</u>
Cash used in operating activities	<u>(18,406,685)</u>	<u>(11,320,200)</u>
Interest received	61,154	38,867
Dividend received	2,475,281	2,260,957
Interest paid	(287,997)	(309,481)
Income taxes paid	(48,335)	(7,629)
Net cash used in operating activities	<u>(16,206,582)</u>	<u>(9,337,486)</u>

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE YEAR ENDED DECEMBER 31, 2013 AND 2012
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2013	2012
Cash flows from investing activities		
Acquisition of investments accounted for using equity method	(561,165)	(589,451)
Proceeds from disposal of available-for-sale financial assets		
Proceeds from disposal of subsidiaries		
Proceeds from disposal of investments accounted for using equity method	-	305,082
Acquisition of property, plant and equipment	(438,505)	(312,698)
Proceeds from disposal of property, plant and equipment	2,323	11,184
Increase in other financial assets	(789)	(1,379)
Acquisition of intangible assets	(5,498)	(51,704)
Proceeds from disposal of intangible assets	-	736
Increase in prepayments on purchase of equipment		
Increase in long-term prepaid rents		
Net cash inflows from business combination	3,413,490	-
Net cash provided by (used in) investing activities	2,409,856	(638,230)
Cash flows from financing activities		
Increase in short-term loans	12,268,365	183,660
Decrease in short-term notes and bills payable		
Proceeds from issuance of bonds payable	-	8,835,640
Repayments of bonds		-
Proceeds from long-term loans	12,000,000	-
Repayments of long-term loans	(2,323,200)	-
Increase in other payables—related parties	1,643,250	5,808,000
Dividends paid	(3,435,457)	-
Employee stock options	746,281	-
Proceeds from issuance of restricted stock	60,620	339,380
Net cash provided by financing activities	20,959,859	15,166,680
Effect of exchange rate fluctuations on cash held		
Net increase in cash and cash equivalents	7,163,133	5,190,964
Cash and cash equivalents, beginning of the year	12,006,919	6,815,955
Cash and cash equivalents, end of the year	\$ 19,170,052	12,006,919

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 AND 2012

(Amounts Expressed in Thousands of New Taiwan Dollars,

Except for Per Share Information and Unless Otherwise Stated)

1. COMPANY HISTORY

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

In accordance with Article 19 of the Business Mergers and Acquisitions Act, the Company merged with UNIHAN CORPORATION, pursuant to the resolutions of the board of directors in November, 2013. Please refer to Note 6(5) for details.

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

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

3. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

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

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PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

4. SIGNIFICANT ACCOUNTING POLICIES

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

(1) Statement of compliance

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

(2) Basis of preparation

A. Basis of measurement

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

- (a) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;
- (b) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- (c) The defined benefit asset is recognized as plan assets, plus unrecognized past service cost, less the present value of the defined benefit obligation.

B. Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the Company operates. The non-consolidated financial statements are presented in New Taiwan Dollar, which is the Company’s functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(3) Foreign currency

A. Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

items is the difference between amortized cost in the functional currency at the beginning of the period adjusted for the effective interest and payments during the period.

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

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

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

B. Foreign operations

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

However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Company disposes of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

(5) Cash and cash equivalents

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

Time deposits with maturity period of over three months are normally accounted under other financial assets. However, time deposits are accounted under cash and cash equivalents if they are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose, readily convertible to a known amount of cash and have an insignificant risk of change in value.

(6) Financial instruments

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

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

A. Financial assets

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

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

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

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

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

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

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

(b) Loans and receivables

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

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

- i. The rights to accounts receivable have been isolated from the transferor as they are put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.
- ii. Each transferee has the right to pledge or exchange the rights to the accounts receivable, and no condition prevents the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.
- iii. The transferor does not maintain effective control over the rights to the accounts receivable claims through either:
 - An agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or
 - The ability to unilaterally cause the holder to return specific rights to the accounts receivable.

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

(c) Impairment of financial assets

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

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

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

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

Such impairment loss is not reversible in subsequent periods.

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

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

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

(d) Derecognition of financial assets

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

On partial derecognition of a financial assets, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

equity account unrealized gains or losses from available for sale financial assets is reclassified to profit or loss, under “other gains and losses, net”.

B. Financial liabilities and equity instruments

(a) Classification of debt or equity instruments

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

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

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

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

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

Interest related to the financial liability is recognized in profit or loss, under non-operating income and expense. On conversion, financial liability is reclassified to equity, without recognizing any gain or loss.

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

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

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

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

iii. Hybrid instrument contains one or more embedded derivatives.

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

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

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

(c) Other financial liabilities

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

(d) Derecognition of financial liabilities

A financial liability is derecognized when its contractual obligation has been discharged or cancelled or expires. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in “non-operating income and expenses”.

(e) Offsetting of financial assets and liabilities

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

(f) Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder of a loss it incurs because a specified debtor fails to

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

pay on due date in accordance with the original or modified terms of a debt instrument.

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

C. Derivative financial instruments, including hedge accounting

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

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

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

Embedded derivatives are separated from the host contract and are accounted for separately when the economic characteristics and risk of the host contract and the embedded derivatives are not closely related, and that the host contract is measured at fair value through profit or loss.

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

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

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(a) Fair value hedge

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

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

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

(b) Cash flow hedge

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

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

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

(7) Inventories

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

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

(8) Investment in associates

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

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PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Company holds between 20% and 50% of the voting power of another entity.

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

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

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

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

(9) Subsidiaries

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

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

(10) Interests in Joint Ventures

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

(11) Property, plant and equipment

A. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that eligible for capitalization. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

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

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

B. Subsequent cost

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

C. Depreciation

Depreciation is calculated on the depreciable amount of an asset using the straight-line basis over its useful life. The depreciable amount of an asset is determined based on the cost less its residual value. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period is recognized in profit or loss.

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

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

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

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

(12) Leased assets

A. Lessor

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

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

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

B. Lessee

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

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

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

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

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

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

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

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

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

(13) Intangible assets

A. Other Intangible Assets

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

B. Subsequent Expenditure

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

C. Amortization

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

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

Computer software cost	3-5 years
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The residual value, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually at each financial year-end. Any change thereof is accounted for as a change in accounting estimate.

(14) Impairment – Non-derivative financial assets

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

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

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

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

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

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(15) Provisions

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

(16) Treasury stock

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

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

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

(17) Revenue

A. Goods sold

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

B. Service

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

(18) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

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

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

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

All actuarial gains and losses at 1 January, 2012, the date for the first time adoption of IFRS as endorsed by the FSC were recognized in retained earnings. All actuarial gains and losses arising subsequently from defined benefit plans are recognized in other comprehensive income.

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

C. Short-term employee benefits

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

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

(19) Share-based payment

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

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

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

the period that the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and settlement date. Any change in the fair value of the liability is recognized as personnel expenses in profit or loss.

(20) Income Taxes

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

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

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

- A. Assets and liabilities that are initially recognized from non-business combination transactions, with no effect on net income or taxable gains (losses).
- B. Temporary differences arising from equity investments on subsidiaries or joint ventures, where there is a high probability that such temporary differences will not reverse.

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

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

- A. if the entity has the legal right to settle tax assets and liabilities on a net basis; and
- B. the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - (a) levied by the same taxing authority; or
 - (b) levied by different taxing authorities, but where each such authority intend to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation; or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset is recognized for unused tax losses available for carry-forward, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits and deductible

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

temporary differences are also re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized.

(21) Business combination

For those business acquisitions after 1 January 2012 (inclusive), goodwill is measured at the consideration transferred less amounts of the identifiable assets acquired and the liabilities assumed (generally at fair value) at the acquisition date. If the amounts of net assets acquired or liabilities assumed exceeds the acquisition price, the Company shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain for the access. If the business combination achieved in batches, the Company shall measure any non-controlling equity interest at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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

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

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

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

(22) Earnings per share

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

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(23) Operating segments

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

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

The preparation of the non-consolidated financial statements in conformity with Regulations Governing the Preparation of Financial Reports requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

(1) Note 6(13), Lease classification

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

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

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

(3) Note 6(15), Utilization of tax losses

6. EXPLANATIONS TO SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2013	December 31, 2012	January 1, 2012
Cash on hand	\$ 160	160	50
Cash in banks	9,494,278	7,017,927	4,198,030
Time deposits	9,675,614	4,988,832	2,617,875
Cash and cash equivalents	\$ 19,170,052	12,006,919	6,815,955

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

(2) Investment in financial assets and liabilities

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

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

B. The aforementioned investments held by the Company are measured at amortized cost at each reporting date given the range of reasonable fair value estimates is large and the probability for each estimate of fair value cannot be reasonably determined, therefore, the Company management determines the fair value cannot be measured reliably. As of December 31, 2013, the Company had accumulated impairment loss thereon of \$150,000.

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

C. The convertible bond issued by the Company was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put option embedded in bonds payable were separated from bonds payable, and were recognized as "Financial liabilities at fair value through profit or loss." For the year ended December 31, 2013 and 2012, the Company recognized a gain on financial liability reported at fair value through profit or loss of \$534,768 and \$502,955 respectively. Please refer to Note 6(11) for details.

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

(3) Notes and accounts receivable, net

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

December 31, 2013

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

December 31, 2012

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(4) Inventories

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

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

	For the Years Ended December 31	
	2013	2012
Cost of goods sold	\$ 783,162,313	631,959,689
Provision on inventory market price decline	149,065	21,688
Loss on disposal of inventory	18,935	17,469
Unamortized manufacturing expenses	141,763	151,017
(Loss) gain on physical inventory	(115)	178
	<u>\$ 783,471,961</u>	<u>632,150,041</u>

A. Please refer to Note 6(5) for the Company's assets acquired from the merger with UniHan Corporation effective from December 31, 2013.

B. As of December 31, 2013 and 2012, and January 1, 2012, the aforesaid inventories were not pledged as collateral.

(5) Investments accounted for using equity method

The Company's financial information for equity-accounted investees at reporting date was as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Subsidiary	<u>\$ 95,704,186</u>	<u>89,510,096</u>	<u>86,611,949</u>

A. Subsidiaries

Please refer to the consolidated financial report for the years ended December 31, 2013 and 2012.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

- B. In order to enhance resource efficiency, the Company sold all its equity ownership in ADVANSUS CORP. ("ADVANSUS") to the other joint venture party for \$306,000 on January 5, 2012. The transfer of equity ownership was completed in June 2012, and a disposal gain of \$ 62,028 was recognized thereon.
- C. On November 19, 2012, Unihan Corporation's shareholders resolved to offset Unihan Corporation's accumulated deficits of \$1,322,043 via capital reduction. This resulted in a decrease in the Company's equity investment in Unihan Corporation by \$1,903,863, divided into 132,204 thousand shares, according to the capital reduction ratio.
- D. For the years ended December 31, 2013 and 2012, the Company had participated in the capital increase of PEGATRON HOLDING LTD. and invested USD19,000 thousand (approximately \$561,165) and USD20,000 thousand (approximately \$587,600), respectively. In addition, the Company participated in the capital increase of ASUS HOLLAND HOLDING B.V. (renamed PEGATRON HOLLAND HOLDING B.V. in 2013) and invested EUR50 thousand (approximately \$1,851) for the year ended December 31, 2012.
- E. For the years ended December 31, 2013 and 2012, the Company received cash dividend of \$2,475,281 and \$2,260,957, respectively, from its investee companies accounted under equity method.
- F. For the years ended December 31, 2013 and 2012, the Company's shares held by its subsidiaries are treated as treasury stock as described in Note 6(16).
- G. In November 2013, pursuant to the resolutions of the board of directors, the Company had set December 31, 2013 as the effective date of the statutory merger with Unihan Corporation, with the Company as the surviving entity from the merger. The business combination had been approved by the Ministry of Economic Affairs, R.O.C. on February 7, 2014, and the legal procedure for the change in the registration had been completed. On the effective date of the statutory merger, the details of identifiable assets acquired, the liabilities assumed, and equity-accounted investees merged were as follows:

	<u>December 31, 2013</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,413,490
Notes receivable, Accounts receivable and Other receivable	4,090,181
Inventories	14,005
Other financial assets and other current assets	64,910
NON-CURRENT ASSETS	
Financial assets carried at cost	-
Equity-accounted investees	8,659,762
Property, plant and equipment	182,899
Deferred tax assets	109,874
Other financial assets and other current assets	12,172

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	December 31, 2013
CURRENT LIABILITIES	
Accounts payable and Other payables	(1,765,327)
Provisions	(1,900)
Other current liabilities	(853,448)
NON-CURRENT LIABILITIES	
Other non-current liabilities	(6,437)
NET ASSETS	13,920,181
INVESTMENTS ACCOUNTED FOR USING EQUITY	(13,920,181)
METHOD-UNIHAN CORPORATION	
	\$ -

H. As of December 31, 2013 and 2012, the investments in aforesaid equity-accounted investees were not pledged as collateral.

(6) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2013 and 2012 were as follows:

	Land	Building and construction	Machinery and equipment	Instrument equipment	Other facilities	Total
Cost or deemed cost:						
Balance on January 1, 2013	\$ 2,233,032	2,345,796	48,766	149,384	863,519	5,640,497
Additions	-	-	18,161	9,652	23,208	51,021
Disposals and obsolescence	-	(74,613)	(18,182)	(21,884)	(618,546)	(733,225)
Reclassifications	-	-	-	905	325,229	326,134
Acquisition from business combination	-	-	-	176,598	136,291	312,889
Balance on December 31, 2013	\$ 2,233,032	2,271,183	48,745	314,655	729,701	5,597,316
Balance on 1 January 2012	\$ 2,233,032	2,400,639	75,181	146,286	926,306	5,781,444
Additions	-	3,020	2,957	47,375	24,606	77,958
Disposals and obsolescence	-	(57,863)	(29,270)	(44,372)	(450,671)	(582,176)
Reclassifications	-	-	(102)	95	363,278	363,271
Balance on December 31, 2012	\$ 2,233,032	2,345,796	48,766	149,384	863,519	5,640,497
Depreciation and impairment loss :						
Balance on January 1, 2013	\$ -	630,226	37,498	60,296	439,224	1,167,244
Depreciation for the period	-	77,135	4,188	47,202	444,403	572,928
Reversal of impairment loss	-	-	(3,088)	-	(790)	(3,878)
Disposals and obsolescence	-	(74,353)	(15,418)	(21,133)	(602,608)	(713,512)
Acquisition from business combination	-	-	-	67,633	62,357	129,990
Balance on December 31, 2013	\$ -	633,008	23,180	153,998	342,586	1,152,772
Balance on January 1, 2012	\$ -	603,751	59,295	43,348	442,035	1,148,429
Depreciation for the period	-	84,298	6,788	45,599	427,603	564,288
Reversal of impairment loss	-	-	(3,495)	-	(632)	(4,127)
Reclassifications	-	-	(57)	-	57	-
Disposals and obsolescence	-	(57,822)	(25,033)	(28,651)	(429,839)	(541,345)
Balance on December 31, 2012	\$ -	630,227	37,498	60,296	439,224	1,167,245
Carrying amounts :						
Balance on December 31, 2013	\$ 2,233,032	1,638,175	25,565	160,657	387,115	4,444,544
Balance on December 31, 2012	\$ 2,233,032	1,715,569	11,268	89,088	424,295	4,473,252
Balance on January 1, 2012	\$ 2,233,032	1,796,888	15,886	102,938	484,271	4,633,015

A. Based on the results of its evaluation of the recoverability of property, plant and equipment, the Company recognized impairment reversal gains as follows:

	For the Years Ended December 31	
	2013	2012
Reversal of impairment loss	\$ 3,878	4,127

B. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

C. As of December 31, 2013, December 31, 2012 and January 1, 2012, the property, plant and equipment were not pledged as collateral.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(7) Intangible assets

The intangible assets of the Company consisted of computer software. The components of the costs of intangible assets, amortization, and impairment loss thereon of the years ended December 31, 2013 and 2012 were as follows :

Costs:

Balance on January 1, 2013	\$	310,061
Additions		5,498
Disposals		(220,066)
Acquisition from business combination		17,508
Balance on December 31, 2013	\$	113,001
Balance on January 1, 2012	\$	314,139
Additions		51,704
Disposals		(55,782)
Balance on December 31, 2012	\$	310,061

Amortization and Impairment Loss:

Balance on January 1, 2013	\$	216,547
Amortization for the period		51,141
Disposals		(220,066)
Acquisition from business combination		6,389
Balance on December 31, 2013	\$	54,011
Balance on January 1, 2012	\$	192,916
Amortization for the period		78,741
Disposals		(55,110)
Balance on December 31, 2012	\$	216,547

Carrying value:

Balance on December 31, 2013	\$	58,990
Balance on December 31, 2012	\$	93,514
Balance on January 1, 2012	\$	121,223

- A. The amortization of intangible assets and impairment losses are respectively included in the statement of comprehensive income. Please refer to Note 12 for details.
- B. Please refer to Note 6(5) for the Company's assets acquired from the merger with UniHan Corporation effective from December 31, 2013.

(8) Other financial assets and other assets

	December 31, 2013	December 31, 2012	January 1, 2012
Other financial assets — current	\$ 55,820	76,205	72,003
Other financial assets — noncurrent	32,492	30,650	29,271
Other current assets	120,548	259,416	128,462
Other noncurrent assets	34,370	26,606	72,259
	\$ 243,230	392,877	301,995

- A. Other financial assets consisted of time deposits with maturity period of over three months, restricted time deposits and guarantee deposit paid. Please refer to Note 8 for details.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

B. Other current assets consisted of prepayments, temporary payments for traveling and others.

C. Other noncurrent assets consisted of prepayments for business facilities.

D. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

(9) Short-term loans

	December 31, 2013	December 31, 2012	January 1, 2012
Unsecured bank loans	\$ 18,628,125	6,359,760	6,176,100
Unused credit line	\$ 22,455,863	24,336,109	19,406,885
Interest rate	0.82%~0.95%	0.72%~1.40%	0.70%~1.56%

The Company's promissory notes were pledged as a guarantee for the Company's credit loan facility. In addition, the Company shared most of its credit line with its subsidiary, UNIHAN CORPORATION for the years ended December 31, 2013 and 2012.

(10) Long -term loans

December 31, 2013				
	Currency	Interest rate	Expiration	Amount
Unsecured bank loans	USD	0.8775%~1.7442%	2010.10~2015.10	\$ 9,537,600
Unsecured bank loans	NTD	1.5789%~1.6074%	2013.09~2018.09	12,000,000
Total				21,537,600
Less : Arrangement fee				(22,400)
Less : Current portion				(4,768,800)
Total				\$ 16,746,400
Unused credit line				\$ -

December 31, 2012				
	Currency	Interest rate	Expiration	Amount
Unsecured bank loans	USD	0.9086%~2.3256%	2010.10~2015.10	\$ 11,616,000
Less : Current portion				(2,323,200)
Total				\$ 9,292,800
Unused credit line				\$ -

January 1, 2012				
	Currency	Interest rate	Expiration	Amount
Unsecured bank loans	USD	1.0647%~2.3256%	2010.10~2015.10	\$ 12,110,000
Less : Current portion				-
Total				\$ 12,110,000
Unused credit line				\$ -

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

A. Securities for bank loans

The Company's promissory notes were pledged as a guarantee for the Company's credit loan facility.

B. Loan covenants

(a) According to the Company's credit loan facility agreement with the banks, during the loan repayment periods, the Company must comply with certain financial covenants based on its audited annual and semi-annual consolidated financial statements (June 30 and December 31) as follows:

- i. Current ratio (current assets/current liabilities): should not be less than 100%.
- ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.
- iii. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.
- iv. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.
- v. Factoring line of accounts receivable factoring/ net book value of accounts receivable before derecognition: less than 50%

If the aforesaid covenants are breached, the syndicate banks will, depending on the circumstances, based on the majority decision of the syndicate banks to either suspend the subsequent credit usage or demand an immediate repayment.

The Company was in compliance with the above financial covenants as of December 31, 2013 and 2012.

(b) On August 01, 2013, the Company signed a syndicated loan agreement with a total credit line of \$12,000,000. According to the agreement, the Company must comply with the following financial covenants:

- i. Current ratio (current assets/current liabilities): should not be less than 100%.
- ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 80%.
- iii. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.
- iv. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

Compliance with the aforesaid financial covenants is determined on the reviewed quarterly consolidated financial statements (March 31, June 30 and September 30) and audited annual (December 31) stand alone and consolidated financial statements of the Company.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(11) Bonds payable

A. The Company's overseas unsecured convertible bonds were as follows:

	December 31, 2013	December 31, 2012
Convertible bonds issued	\$ 8,874,000	8,874,000
Unamortized discounted on bonds payable	(824,809)	(1,056,299)
Bonds payable, end of the period	8,049,191	7,817,701
Foreign currency valuation, end of the period	67,299	(161,520)
Bonds payable, net	<u>\$ 8,116,490</u>	<u>7,656,181</u>
Embedded derivative –conversion options, accounted under financial liabilities at fair value through profit or loss	<u>\$ 235,162</u>	<u>759,815</u>
	For the Years Ended	December 31
	2013	2012
Embedded derivative instruments –conversion options, accounted under other gains and losses	<u>\$ (534,768)</u>	<u>(502,955)</u>
Interest expense	<u>\$ 381,313</u>	<u>348,073</u>

B. The offering information on the unsecured convertible bonds were as follows:

Item	1st overseas unsecured convertible bonds issued in 2012
1. Offering amount	USD 300 million with each unit valued at USD 200 thousand.
2. Issue date	February 6, 2012
3. Listing place	Singapore Exchange Securities Trading Limited (the "SGX-ST")
4. Interest	The Bonds will not bear any interest.
5. Issue period	5 years, commencing from February 6, 2012 and matured on February 6, 2017.
6. Settlement	Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on Maturity Date at an amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Item	1 st overseas unsecured convertible bonds issued in 2012
7. Redemption at the option of the Company	(1) The Company may redeem the Bonds, in whole but not in part, at the early redemption amount at any time on or after February 6, 2015 if the closing price of the common shares on TWSE (translated into U.S. Dollars at the fixing rate at 11:00 a.m. Taipei time as quoted by Taipei Forex Inc.) on each trading day during a period of 20 consecutive trading dates exceeds at least 125% of the quotient of the early redemption amount divided by the number of shares to be issued upon conversion of USD 200,000 principal amount of Bonds on the applicable trading day based on the conversion price then in effect (translated into U.S. Dollars at the fixed exchange rate of NT\$29.761 = USD 1.00). (2) If more than 90% in principal amount of the Bonds originally outstanding has been redeemed, repurchased and cancelled or converted, the Company has the right to redeem all but not portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis. (3) The Bonds may be redeemed, in whole but not in part, if the affect of change in the tax laws of ROC will increase the Company's tax liability, interest expense or related cost from the Bonds. Holders may elect not to have their bonds redeemed with no entitlement to any additional amount of reimbursement of additional tax.
8. Redemption at the option of the Holder	(1) Each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds on February 6, 2015 at a redemption price equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis. (2) In the event that the Company's common shares ceased to be listed or admitted to trading on the TWSE, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis. (3) In the event of change of control occurs with respect to the Company, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount.
9. Conversion	(1) Conversion period Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, each Holder of the Bonds will have the right at any time during the conversion period commencing March 18, 2012 (the 41st day following

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Item	1 st overseas unsecured convertible bonds issued in 2012
	the Closing Date) and ending at the close of business on January 27, 2017 (the 10th day prior to the Maturity Date), to convert their bonds.
	(2) Conversion price
	The conversion price was NT\$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012. However, upon the issuance of restricted Company shares of stock to employees, the conversion price has been adjusted to NT\$40.11 per share effective October 7, 2013.
	(3) Conversion to common shares
	Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT\$29.761 = USD 1.00) divided by the conversion price on the conversion date.

(12) Provisions

	Allowance for sales returns and discounts
Balance on January 1, 2013	\$ 59,239
Provisions made during the period	1,784
Acquisition from business combination	1,900
Balance on December 31, 2013	<u>\$ 62,923</u>
Balance on January 1, 2012	\$ 35,190
Provisions made during the period	24,049
Balance on December 31, 2012	<u>\$ 59,239</u>

A. Allowance for sales return and discounts

Allowances for sales returns and discounts are estimated based on historical experience. Such allowances are recognized as sales revenue deduction in the same period in which sales are made.

B. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

(13) Operating leases

A. Leasee

At the end of reporting period, the lease commitments were as follows:

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	December 31, 2013	December 31, 2012	January 1, 2012
Less than one year	\$ 106,094	37,280	81,229
Between one and five years	107,076	2,769	29,562
	<u>\$ 213,170</u>	<u>40,049</u>	<u>110,791</u>

The Company lease a number of office, warehouse, factory facilities and parking lots under operating leases. The leases typically run for a period of 1 to 4 years, with an option to renew the lease after that date. Also, lease obligations payable of UNIHAN CORPORATION, the dissolved company, was included in the above lease commitments as of December 31, 2013.

For the years ended December 31, 2013 and 2012, expenses recognized in profit or loss in respect of operating leases were as follows:

	For the years Ended December 31	
	2013	2012
Cost of sales	\$ 573	730
Operating expenses	95,024	91,265
	<u>\$ 95,597</u>	<u>91,995</u>

(14) Employee benefits

A. Defined benefit plans

The Company's defined benefit obligations and fair value of plan assets were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Total present value of obligations	\$ 25,267	17,960	13,910
Fair value of plan assets	(7,305)	(6,070)	(5,044)
Deficit in the plan	<u>\$ 17,962</u>	<u>11,890</u>	<u>8,866</u>

The Company makes defined benefit plans contributions to the pension fund account with Bank of Taiwan that provide pension for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for six months prior to retirement.

(a) Composition of plan assets

The Company set aside pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund and such funds are managed by the Labor Pension Fund Supervisory Committee. Under these regulations, the minimum earnings from these pension funds shall not be less than the earnings from two-year time deposits with the interest rates offered by local banks.

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

The Company's contributions to the pension funds were deposited with Bank of Taiwan. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

(b) Movements in present value of the defined benefit obligations

The movements in the present value of the defined benefit obligations for the years ended December 31, 2013 and 2012 were as follows:

	For the Years Ended December 31	
	2013	2012
Defined benefit obligation, January 1	\$ 17,960	13,910
Current service costs and interest	2,688	2,281
Actuarial losses (gain)	1,160	1,769
Liabilities assumed from business combination	3,459	-
Defined benefit obligation, December 31	<u>\$ 25,267</u>	<u>17,960</u>

(c) Movements of defined benefit plan assets

The movements in the present value of the defined benefit assets for the year ended December 31, 2013 and 2012 were as follows:

	For the Years Ended December 31	
	2013	2012
Fair value of plan assets, January 1	\$ 6,070	5,044
Benefits paid by the plan	669	985
Expected return on plan assets	106	88
Actuarial losses (gain)	(35)	(47)
Others	495	-
Fair value of plan assets, December 31	<u>\$ 7,305</u>	<u>6,070</u>

(d) Expenses recognized in profit or loss

The Company's pension expenses recognized in profit or loss for the years ended December 31, 2013 and 2012 were as follows:

	For the Years Ended December 31	
	2013	2012
Current service cost	\$ 2,419	2,038
Interest on obligation	269	243
Expected return on plan assets	(106)	(88)
	<u>\$ 2,582</u>	<u>2,193</u>
Operating Expense	<u>\$ 2,582</u>	<u>2,193</u>
Actual return on plan assets	<u>\$ 71</u>	<u>41</u>

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(e) Actuarial gains and losses recognized in other comprehensive income

The Company's actuarial gains and losses recognized in other comprehensive income for the years ended December 31, 2013 and 2012, were as follows:

	For the Years Ended December 31	
	2013	2012
Cumulative amount, January 1, 2013	\$ -	-
Recognized during the period	(1,195)	-
Cumulative amount, December 31, 2013	<u>\$ (1,195)</u>	<u>-</u>

(f) Actuarial assumptions

The following were the key actuarial assumptions at the reporting date:

	2013	2012
Discount rate on December 31	2.00%	1.50%
Expected return on plan assets on January 1	2.00%	1.75%
Future salary increases	3.00%	2.00%

The expected long-term rate of return was based on the portfolio as a whole and not on the sum of the returns on individual asset categories. Also, such return was based exclusively on historical returns, without adjustments.

(g) Experience adjustments based on historical information

	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligation	\$ 25,267	17,960	13,910
Fair value of plan assets	(7,305)	(6,070)	(5,044)
Deficit in the plan	<u>\$ 17,962</u>	<u>11,890</u>	<u>8,866</u>
Experience adjustments arising on plan liabilities	<u>\$ 521</u>	<u>1,605</u>	-
Experience adjustments arising on plan assets	<u>\$ 35</u>	<u>47</u>	-

The Company expected \$669 worth of contributions to be paid to its benefit plans within a year starting from the reporting date of December 31, 2013.

(h) In determining the present value of the defined benefit obligation, the Company's management makes judgments and estimates in determining certain actuarial assumptions on the balance sheet date, which includes employee turnover rate and future salary changes. Changes in actuarial assumptions will impact the amount of defined benefit obligation.

As of December 31, 2013, the Company's defined benefit obligation had a present value of \$25,267. An increase (decrease) of 0.5% in future salary increase rate would have

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(decreased) increased the present value of the defined benefit obligation by \$(3,077) and \$3,536, respectively.

B. Defined contribution plans

The Company contributes an amount at the rate of 6% of the employee's monthly wages to the Labor Pension personal account with the Bureau of the Labor Insurance and Council of Labor Affairs in R.O.C. in accordance with the provisions of the Labor Pension Act. The Company's contributions to the Bureau of the Labor Insurance and Social Security Bureau for the employees' pension benefits require no further payment of additional legal or constructive obligations.

The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2013 and 2012 amounted to \$199,159 and \$187,117, respectively.

(15) Taxes

A. The components of income tax expense (benefit) for the years ended December 31, 2013 and 2012 were as follows:

	For the Years Ended December 31	
	2013	2012
Current income tax expense		
Currently incurred	\$ 11,128	184,648
Adjustment to prior year's income tax charged to current income tax	(152,308)	11,923
Deferred tax expense		
The origination and reversal of temporary differences	133,084	239,621
Income tax expense (benefit)	<u>\$ (8,096)</u>	<u>436,192</u>

B. Income tax calculated on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2013 and 2012 as follows :

	For the Years Ended December 31	
	2013	2012
Profit before income tax	\$ 9,546,400	6,819,137
Income tax on pre-tax financial income calculated at the domestic rate	1,622,888	1,159,253
Permanents differences	(1,252,612)	(906,251)
Change of unrecognized temporary differences	(318,630)	(333,742)
Prior years income tax adjustment	(152,308)	11,923
10% surtax on undistributed earnings	-	369,300
Others	92,566	135,709
Income tax expense	<u>\$ (8,096)</u>	<u>436,192</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

C. Deferred tax assets and liabilities

(a) Unrecognized deferred tax liabilities

As of December 31, 2013, December 31, 2012 and January 1, 2012, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax liabilities as the Company has the ability to control the reversal of these temporary differences which are not expected to reverse in the foreseeable future. The related amounts were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
The aggregate temporary differences associated with investments in subsidiaries	\$ <u>7,764,950</u>	<u>5,890,654</u>	<u>3,927,464</u>
Unrecognized deferred tax liabilities	\$ <u>1,320,041</u>	<u>1,001,411</u>	<u>667,669</u>

(b) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2013 and 2012, were as follows:

	Gain on foreign investments	Convertible bonds	Others	Total
Deferred tax liabilities:				
Balance, January 1, 2013	\$ 225,261	26,531	101,285	353,077
Recognized in profit	-	(34,395)	(101,285)	(135,680)
Balance, December 31, 2013	\$ <u>225,261</u>	<u>(7,864)</u>	<u>-</u>	<u>217,397</u>
Balance, January 1, 2012	225,261	-	110,249	335,510
Recognized in loss (profit)	-	26,531	(8,964)	17,567
Balance, December 31, 2012	\$ <u>225,261</u>	<u>26,531</u>	<u>101,285</u>	<u>353,077</u>
	Gain on valuation of inventory	Convertible bonds	Others	Total
Deferred tax assets:				
Balance, January 1, 2013	\$ 48,409	20,439	(3,067)	65,781
Recognized in profit (loss)	25,341	23,139	(51,076)	(2,596)
Arising from business combination	-	-	109,874	109,874
Balance, December 31, 2013	\$ <u>73,750</u>	<u>43,578</u>	<u>55,731</u>	<u>173,059</u>
Balance, January 1, 2012	44,722	-	243,113	287,835
Recognized in profit (loss)	3,687	20,439	(246,180)	(222,054)
Balance, December 31, 2012	\$ <u>48,409</u>	<u>20,439</u>	<u>(3,067)</u>	<u>65,781</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

D. Income tax

The Company's income tax returns through 2011 have been assessed and approved by the Tax Authority. However, the income tax return for 2008 is still under review by the Tax Authority.

E. Stockholders' imputation tax credit account and tax rate:

	December 31, 2013	December 31, 2012	January 1, 2012
Stockholders' imputation tax credit account \$	664,702	545,432	3,448
	2013 (Expect)	2012 (Actual)	
Tax deduction ratio for earnings distributable to R.O.C. residents	4.61%	4.49%	

There were no retained earnings accumulated in 1997 and prior years, which were not appropriated.

The aforesaid imputation tax related information was prepared in accordance with Decree No.10204562810 issued by the Taxation Administration, Ministry of Finance, R.O.C. on October 17, 2013.

Please refer to Note 6(5) for the Company's assets acquired and liabilities assumed from the merger with Unihan Corporation effective from December 31, 2013.

(16) Capital and reserves

As of December 31, 2013, December 31, 2012, and January 1, 2012, the authorized capital of the Company consisted of 30,000,000, 30,000,000 and 25,000,000 thousand shares, respectively, with par value of \$10 per share, and its outstanding capital consisted of 2,320,435 thousand shares, 2,290,305 thousand shares and 2,256,367 thousand shares of stock, respectively.

The movements in ordinary shares of stock outstanding for the year ended December 31, 2013 and 2012 were as follows:

	For the Years Ended December 31	
Ordinary Shares (In thousands of shares)	2013	2012
Beginning balance, January 1	2,290,305	2,256,367
Expiration of restricted stock	4,234	33,938
Exercise of employee stock options	25,896	-
Ending balance, December 31	2,320,435	2,290,305

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

A. Nominal ordinary shares

In order to enhance own-brand business and boost productivity, the board of directors of ASUSTeK Computer Inc. (“ASUSTeK”) resolved on December 11, 2009 but revised it on January 1, 2010, to spin-off or cede its OEM group (Pegatron Corporation (the “Company”)) to Pegatron International Investment Co., Ltd. (“Pegatron Investment”), which is being held by ASUSTeK. Pegatron Investment will issue new shares to ASUSTeK and all shareholders of ASUSTeK, for which, ASUSTeK and all other shareholders of ASUSTeK will acquire 25% ownership and 75% ownership, respectively, of the equity of Pegatron Investment. The record date of this spin-off was June 1, 2010. Following the spin-off, the Company merged with Pegatron Investment. The Company issued 10 thousands new shares of stock, resulting in additional capital of \$100. Thereafter, the total outstanding capital amounted to \$22,860,639, divided into 2,286,064 thousand shares with par value of \$10 per share.

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares of stock valued at \$296,970. In 2012, the Company had issued 33,938 thousand shares of restricted Company shares of stock to employees, of which 1,828 thousand shares were retired in 2013. Also, the Company issued 6,062 thousand shares of restricted Company shares of stock to employees in 2013. New common shares of stock totaling 26,617 thousand shares were issued from the exercise of employee stock options, of which 721 thousand shares were accounted under advance receipts for share capital as the registration procedures were yet to be completed. As of December 31, 2013 and 2012, the authorized capital of the Company both consisted of 3,000,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,320,435 thousand common shares of stock and 2,290,305 thousand common shares of stock, respectively.

As of December 31, 2013, the restricted Company shares of stock issued to employees have expired and of which 78 thousand shares have not been retired.

B. Global depositary receipts

ASUSTeK GDR holders who surrender their ASUSTeK GDRs on or after the Effective Date of Spin-off and Merger in Taiwan will receive new ASUSTeK GDRs and the Company’s entitlement. The Company’s entitlement represents the rights to receive 60,819,026 of the Company’s common shares in Taiwan.

The Company may issue new GDRs with no more than 60,819,020 of the Company’s common shares and deliver them to ASUSTeK GDR holders pursuant to the “Issuer of Overseas Securities Offering and Issued Guidelines.” As of December 31, 2013, the Company has listed, in total, 5,964 thousand units of GDR on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed Company shares totaling 29,818 thousand shares of stock. Major terms and conditions for GDRs were as follows:

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO 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 Depositary Shares – Voting Rights,” as such provisions may be amended from time to time to comply with applicable ROC law.

(b) Dividend Distributions, Pre-emptive Rights, and Other Rights

Holders of GDRs have same rights on dividend distribution and share distribution as the Company’s existing common shareholders.

C. Capital surplus

The components of the capital surplus were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
From issuance of share capital	\$ 61,420,285	60,393,247	60,393,247
From treasury stock-transactions	86,924	84,969	84,969
Gain or loss on disposal of subsidiary share options	918,130	192,626	65,429
Employee share options	31,007	163,985	49,513
Restricted stock to employees	309,556	478,366	-
Other	409,917	409,917	409,917
	\$ 63,175,819	61,723,110	61,003,075

In accordance with Amended Companies Act 2012, realized capital reserves can only be capitalized or distributed as cash dividends after offsetting against losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with Securities Offering and Issuance Guidelines, the amount of capital reserves that can be capitalized shall not exceed 10 percent of the actual share capital amount.

D. Retained earnings

The Company’s Articles of Incorporation require that after-tax earnings shall first be offset against any deficit, and 10% of the balance shall be set aside as legal reserve. The appropriation for legal reserve is discontinued when the balance of the legal reserve equals the total authorized capital. Aside from the aforesaid legal reserve, the Company may, under its Articles of Incorporation or as required by the government, appropriate for special reserve. The remaining balance of the earnings, if any, is distributed as follows:

(a) Legal reserve

No less than 10% as employees’ bonuses which are distributable in cash or shares of stock. In the event that the employee bonus is distributed in the form of shares of stock, employees qualifying for such distribution may include the employees of subsidiaries of

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

the Company who meet certain specific requirements. Such qualified employees and distribution ratio are decided by the Board of Directors.

- (b) Up to 1% as remuneration to directors and supervisors.
- (c) The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

Pursuant to the Regulations of Securities and Futures Bureau Commission, a special reserve is set aside from the current year's net income after tax and prior year's unappropriated earnings at an amount equal to the debit balance of contra accounts in the shareholders' equity such as the unrealized loss on financial instruments and cumulative translation adjustments. When the debit balance of any of these contra accounts in the shareholders' equity is reversed, the related special reserve can be reversed.

In order to bring about stability in the payment of dividends, the Company distributes dividends depending on the level of earnings of each year. The Company is facing a rapidly changing industrial environment. In consideration of the Company's long-term operating plan and funding needs, the Company adopts a stable dividends policy. Therefore, the Company distributes cash dividends of at least 10% of the aggregate dividends, if the distributions include cash dividends.

(a) Legal reserve

In accordance with the Amended Companies Act 2012, 10 percent of net income is set aside as legal reserve, until it is equal to share capital. If the Company incurred profit for the year, the meeting of shareholders decides on the distribution of the statutory earnings reserve either by issuing new shares or by paying cash, of up to 25 percent of the actual share capital.

(b) Special reserve

In accordance with Permit No. 1010012865 as issued by the Financial Supervisory Commission on 6 April 2012, a special reserve equal to the contra account of other shareholders' equity is appropriated from current and prior period earnings. When the debit balance of any of the contra accounts in the shareholders' equity is reversed, the related special reserve can be reversed. The subsequent reversals of the contra accounts in shareholders' equity shall qualify for additional distributions.

(c) Earnings Distribution

For the years ended December 31, 2013 and 2012, employee bonuses of \$870,000 and \$299,000, and directors' and supervisors' remuneration of \$85,000 and \$29,000, respectively, were estimated and recognized as current expense. These amounts were

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

calculated using the Company's net profit for the years ended December 31, 2013 and 2012, and were determined according to the earnings allocation method, priority and factor for employee benefits and key management personnel compensation as stated under the Articles of Association. These benefits were charged to profit or loss under operating costs or operating expenses for the years ended December 31, 2013 and 2012. The earnings distribution for the year ended December 31, 2013 has not yet been approved through shareholders' meeting. Related information can be accessed from the Market Observation Post System on the web site. Management is expecting that the differences between the amounts which are yet to be approved in the shareholders' meeting and those recognized in the financial statements, if any, will be treated as changes in accounting estimates and charged to profit or loss.

On June 19, 2013 and June 27, 2012, the Company's shareholders' meeting resolved to appropriate the 2012 and 2011 earnings. These earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

	2012	2011
Common stock dividends per share (dollars)		
— Cash	\$ 1.50	-
Employee bonus — cash	\$ 299,000	12,100
Remuneration to directors and supervisors	29,000	-
Total	\$ 328,000	12,100

The 2012 earnings approved for distribution agreed with those accrued in the financial statements for the year ended December 31, 2012.

The actual 2011 earnings distributions and those recognized in the financial report for 2011 were as follows:

	Actual distribution approved by the shareholders'	Distribution recognized in the financial report	Difference
Employee bonus — cash	\$ 12,100	12,100	-
Remuneration of directors and supervisors	-	1,000	(1,000)
	\$ 12,100	13,100	(1,000)

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

The difference between the actual amounts of earnings distribution for 2011 and those recognized in the financial statements for 2011 was due mainly to the board of directors' resolution to change the amount of directors' and supervisors' remuneration to \$0. Such difference was accounted for as a change in accounting estimate and charged to profit or loss in 2012.

Related information of distributions of employee bonus and remuneration to directors and supervisors can be accessed from the Market Observation Post System on the web site.

E. Treasury stock

Company shares of stock that are owned by the Company's subsidiaries are treated as treasury stock. As of December 31, 2013, the Company's shares held by its subsidiaries were 1,503 thousand shares amounting to \$57,715 at fair value.

F. Other equity accounts

	Exchange differences on translation of foreign financial statements	Available-for-sale investments	Deferred compensation arising from issuance of restricted stock
Balance, January 1, 2013	\$ (3,398,256)	88,302	(497,698)
Exchange differences on translation of foreign financial statements, net of tax :			
— Company	1,777,556	-	-
—Subsidiaries	1,572,063	-	-
Unrealized gains (losses) on available-for-sale financial assets :			
—Subsidiaries	-	(8,431)	-
Other equity			
—Company	-	-	256,328
Balance, December 31, 2013	<u>\$ (48,637)</u>	<u>79,871</u>	<u>(241,370)</u>
Balance, January 1, 2012	\$ (784,234)	37,951	-
Exchange differences on translation of foreign financial statements, net of tax :			
—Company	(1,134,150)	-	-
—Subsidiaries	(1,479,872)	-	-
Unrealized gains (losses) on available-for-sale financial assets :			
—Subsidiaries	-	50,351	-
Other equity :			
—Company	-	-	(497,698)
Balance, December 31, 2012	<u>\$ (3,398,256)</u>	<u>88,302</u>	<u>(497,698)</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(17) Share-based payment

Information on share-based payment transaction as of December 31, 2013 were as follows:

Equity-settled share-based payment	
Restricted stock to employee	Issued in
	2013
Thousand units granted	6,062
Contractual life	3 years
Vesting period	Note A
Actual turnover rate of employees	1.88%
Estimated future turnover rate for each or the three years of employees	10.94% , 25.07%, 33.76%
	2012
Thousand units granted	34,167
Contractual life	3 years
Vesting period	Note A
Actual turnover rate of employees	6.89%
Estimated future turnover rate for each or the three years of employees	14.28%, 22.84%, 28.85%
Employee stock option	
	Issued in
	2012
Thousand units granted	8,053
Contractual life	3 years
Vesting period	2 years
Actual turnover rate of employees	17.77%
Estimated future turnover rate of employees	19.01%
Cash-settled share-based payment	
Stock appreciation rights plan	Issued in 2012
Thousand units granted	Note B
Contractual life	07/01/2013~06/30/2014
Vesting period	1.25 years
Actual turnover rate of employees	8.27%
Estimated future turnover rate of employees	8.97%

Note A: Employees are entitled to receive 40%, 30%, and 30% of the restricted stock in the first, second and third year, respectively, of their service.

Note B: The option will be granted only if the earnings per share target is reached.

On April 14, 2011, the Company obtained the approval from the Financial Supervisory Commission and issued 50,000 units of Employee Stock Options with an exercisable right of 1,000 shares of the Company's common shares of stock per unit. For these employee stock options, the Company will issue its own new common shares on settlement, and the exercise price of all stock options shall be equal to the closing price of the Company's common stock at grant date. The expected life of the stock options is estimated to be 3 years, and stock option granted to an employee is not transferable to any person. If the exercise period expires, the

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

employee forfeits his/her right to exercise the option and purchase the shares. Except for the forfeiture of vested options, all stock options shall vest from the second year of the grant date, and the employees should exercise the right to apply for shares against the stock option vested in them pursuant to the stock option plan.

On October 19, 2012, the Company obtained the approval from the Financial Supervisory Commission to issue restricted Company shares of stock to employees for up to a limited number of 40,000 thousand shares. On grant date of November 9, 2012, the Board of Directors approved the list of eligible employees and resolved to issue 34,167 thousand shares effective December 20, 2012. The actual number of newly issued shares was 33,938 thousand shares with a par value of \$10 per share. The procedure for the registration of change of capital stock has been completed. Unless the vesting conditions have elapsed, the restricted shares of stock may not be sold, pledged, transferred, hypothecated or otherwise disposed. Holders of restricted shares of stock are entitled to rights as the Company's existing common shareholders except for the fact that restricted shares of stock are held by the trust and have vesting conditions. Also, the Company bears the right to buy back the restricted shares of stock at the issuance price and to cancel all restricted shares of stock issued to any employee who fails to comply with the vesting condition without returning the distributed dividend.

On August 12, 2013, pursuant to the resolutions of its board of directors, the Company issued 6,062 thousand shares of restricted shares of stock to employees with par value of \$10 per share. These were unissued shares whose total number is limited to up to 40,000 thousand shares of stock approved by the Financial Supervisory Commission for purposes of issuing restricted Company shares of stock to employees on October 19, 2012. The effective date of this capital increase was September 12, 2013. The legal procedure for the change in the registration of capital stock has been completed. Unless the vesting conditions have lapsed, the restricted shares of stock may not be sold, pledged, transferred, hypothecated or otherwise disposed. Holders of restricted shares of stock are entitled to rights as the Company's existing common shareholders except for the fact that restricted shares of stock are held by the trust and have vesting conditions. Also, the Company bears the right to buy back the restricted shares of stock at the issuance price and to cancel all restricted shares of stock issued to any employee who fails to comply with the vesting condition without returning the distributed dividend.

In order to encourage employees to stay and contribute their skills to the Company, the Board of Directors resolved on March 19, 2012 to issue 30,000,000 units of Employee Stock Appreciation Rights. The Company will pay the stock appreciation rights as employee bonus in cash based on the difference between the base price and the settlement price of the stock appreciation right where the base price on settlement of the right is the closing price of the Company's common stock on grant date, and the settlement price is the closing price of the Company's common share on exercise date.

The previously recognized compensation cost was reversed because the stock appreciation right fails to meet the vesting condition on December 31, 2013.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

A. Determining the fair value of equity instruments granted

The Company adopted the Black-Scholes model to calculate the fair value of the stock option at grant date, and the assumptions adopted in this valuation model were as follows:

Equity-settled share-based payment

Restricted stock to employee

For the Years Ended December 31

	2013	2012
Fair value at grant date	08/12/2013	11/09/2012
Share price at grant date	\$ 45.20	39.45
Exercise price (Note A)	10.00	10.00
Expected life of the option	3 years	3 years
Current market price	45.20	39.45
Expected volatility	32.68%	38.49%
Expected dividend yield rate (Note A)	- %	- %
Risk-free interest rate	(Note C)	(Note B)

Employee stock option

For the Years Ended December 31

	2012	2011
Fair value at grant date	04/02/2012	07/01/2011
Share price at grant date	44.85	30.00
Exercise price (Note A)	44.85	30.00
Expected life of the option	3 years	3 years
Current market price	44.85	30.00
Expected volatility	44.41%	37.0531%
Expected dividend yield rate (Note A)	-%	-%
Risk-free interest rate	0.95%	1.0838%

Cash-settled share-based payment

Restricted stock to employee

For the Years Ended December 31

	2012
Fair value at grant date	04/02/2012
Share price at grant date	N/A
Exercise price (Note A)	N/A
Expected life of the option	07/01/2013~06/30/2014
Current market price	-
Expected volatility	40.12%
Expected dividend yield rate (Note A)	- %
Risk-free interest rate	1.355%

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Note A: After the issuance of the employee stock options, if the Company increases its capital through the surplus and/or capital reserve, the exercise price will be adjusted accordingly. Therefore, the expected dividend yield rate is excluded in calculating the fair value of the stock option.

Note B: The risk-free interest rate is 0.6953% for the 1st year, 0.7363% for the 2nd year, and 0.7873% for the 3rd year.

Note C: The risk-free interest rate is 0.5997% for the 1st year, 0.7167% for the 2nd year, and 0.8764% for the 3rd year.

B. Restricted stock to employee

For the year ended December 31, 2012, the Company issued restricted shares of stock to employees of 33,938 thousand shares, which resulted in a capital surplus — restricted employee stock of \$478,366. Also, for the year ended December 31, 2013, 1,906 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$19,064 of which 78 thousand shares have not been retired. Also, for the year ended December 31, 2013, the Company issued restricted shares of stock to employees of 6,062 thousand shares, which resulted in a capital surplus — restricted employee shares of stock of \$112,511. As of December 31, 2013 and December 31, 2012, the Company has deferred compensation cost arising from issuance of restricted stock of \$241,370 and 497,698, respectively

For the year ended December 31, 2013, the Company recognized salary cost of \$11,200 from the distribution of cash dividends to estimated non-vesting restricted shares of stock distributed to employees from prior period earnings. Such salary cost was accounted under retained earnings as it remained to be unrealized.

C. Employee stock options

Information on aforesaid employee stock options was as follows:

(a) For the year ended December 31, 2013

	Issued in 2012	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	7,389	\$ 44.33
Granted	-	-
Exercised	-	-
Forfeited	888	-
Expired	-	-
Balance, end of the period	6,501	42.67
Exercisable, end of the period	0	

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	Issued in 2012	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Weighted-average fair value of options granted	<u>13.8</u>	
Exercise price of share option outstanding, end of the period	<u>42.67</u>	
Remaining contractual life	<u>1.25</u>	
Expenses incurred on share-based payment transactions	<u>33,501</u>	

	Issued in 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	32,909	\$ 28.11
Granted	-	-
Exercised	26,617	28.04
Forfeited	1,242	-
Expired	-	-
Balance, end of the period	<u>5,050</u>	27.06
Exercisable, end of the period	<u>4,787</u>	
Weighted-average fair value of options granted	<u>7.9</u>	
Exercise price of share option outstanding, end of the period	<u>27.06</u>	
Remaining contractual life	<u>0.50</u>	
Expenses incurred on share-based payment transactions	<u>43,796</u>	

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(b) For the year ended December 31, 2012

	Issued in 2012	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	-	\$ -
Granted	8,053	44.85
Exercised	-	-
Forfeited	664	-
Expired	-	-
Balance, end of the period	7,389	44.33
Exercisable, end of the period	7,389	
Weighted-average fair value of options granted	13.8	
Exercise price of share option outstanding, end of the period	44.85	
Remaining contractual life	2.25	
Expenses incurred on share-based payment transactions	22,016	

	Issued in 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	37,648	\$ 28.38
Granted	-	-
Exercised	-	-
Forfeited	4,379	-
Expired	-	-
Balance, end of the period	32,909	28.11
Exercisable, end of the period	32,909	
Weighted-average fair value of options granted	7.9	
Exercise price of share option outstanding, end of the period	28.38	
Remaining contractual life	1.50	
Expenses incurred on share-based payment transactions	92,456	

D. Expenses resulted from share-based payments

The Company incurred expenses from share-based payments transactions for the years ended December 31, 2013 and 2012 as follows:

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	For the Years Ended December 31	
	2013	2012
Expenses resulting from issuance of restricted stock to employees	\$ 431,274	65,091
Expenses arising from granting of employee share options	77,297	114,472
Total	<u>\$ 508,571</u>	<u>179,563</u>

(18) Earnings per share

The basic earnings per share and diluted earnings per shares were calculated as follows:

	For the Years Ended December 31	
	2013	2012
Basic earnings per share		
Profit attributable to ordinary shareholders	\$ 9,554,496	6,382,945
Weighted-average number of ordinary shares	2,296,456	2,255,780
	<u>\$ 4.16</u>	<u>2.83</u>
Diluted earnings per share		
Profit attributable to ordinary shareholders	\$ 9,554,496	6,382,945
Effect of potentially dilutive ordinary shares		
Conversion of convertible bonds	(5,844)	(370,121)
Profit attributable to ordinary shareholders (diluted)	<u>\$ 9,548,652</u>	<u>6,012,824</u>

	For the Years Ended December 31	
	2013	2012
Weighted-average number of ordinary shares	2,296,456	2,255,780
Effect of potentially dilutive ordinary shares		
Employee stock bonus	25,329	15,324
Employee stock option	9,662	9,362
Conversion of convertible bonds	222,596	193,234
Weighted-average number of ordinary shares (diluted)	2,554,043	2,473,700
	<u>\$ 3.74</u>	<u>2.43</u>

(19) Revenue

	For the Years Ended December 31	
	2013	2012
Sale of goods	\$ 785,304,870	626,857,632
Others	8,919,858	12,011,922
	<u>\$ 794,224,728</u>	<u>638,869,554</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(20) Non-operation income and expenses

A. Other income

	For the Years Ended December 31	
	2013	2012
Interest income	\$ 69,968	39,158
Rental income	92,409	82,816
Technical service income	139,651	232,370
Other income	136,043	87,817
	\$ 438,071	442,161

B. Other gains and losses

	For the years Ended December 31	
	2013	2012
Loss on disposal of property, plant and equipment	\$ (149)	(1,122)
Gain on disposal of investments accounted for using equity method	-	62,028
Foreign exchange gains (losses)	(25,234)	135,479
Gain on reversal of impairment loss	3,878	4,127
Net gains on evaluation of financial assets (liabilities) measured at fair value through profit or loss	535,739	502,955
	\$ 514,234	703,467

C. Finance costs

	For the Years Ended December 31	
	2013	2012
Interest expenses	\$ 690,881	618,112
Finance expense – bank fees	226,788	55,933
	\$ 917,669	674,045

(21) Financial instruments

A. Categories of financial instruments

(a) Financial assets

	December 31, 2013	December 31, 2012	January 1, 2012
Financial assets carried at cost	\$ -	-	-
Loans and receivables:			
Cash and cash equivalent	19,170,052	12,006,919	6,815,955
Notes receivable, Accounts receivable and Other receivable	241,956,205	202,690,984	111,495,612
Other financial assets	88,312	106,855	101,274
Subtotal	261,214,569	214,804,758	118,412,841
Total	\$ 261,214,569	214,804,758	118,412,841

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(b) Financial liabilities

	December 31, 2013	December 31, 2012	January 1, 2012
Financial liabilities at fair value through profit or loss			
Financial liabilities at fair value through profit or loss, designated as upon initial recognition	\$ 235,162	759,815	-
Financial liabilities at amortised cost			
Short-term borrowings	18,628,125	6,359,760	6,176,100
Payable	212,661,834	191,103,850	106,426,250
Bonds payable	8,116,490	7,656,181	-
Long-term borrowings (including current portion)	21,515,200	11,616,000	12,110,000
Guarantee deposit (recognized in other noncurrent liabilities)	12,330	11,014	10,232
Subtotal	260,933,979	216,746,805	124,722,582
Total	<u>\$ 261,169,141</u>	<u>217,506,620</u>	<u>124,722,582</u>

B. Credit risk

(a) Exposure to credit risk

The carrying amount of financial assets represents the Company's maximum credit exposure. As of December 31, 2013, December 31, 2012, and January 1, 2012, the maximum exposures to credit risk amounted to \$261,214,569, \$214,804,758, and \$118,412,841, respectively.

As of December 31, 2013, December 31, 2012, and January 1, 2012, accounts receivable from the Company's top three customers amounted to \$127,407,751, \$129,576,532, and \$73,850,488, respectively.

(b) Impairment losses

Aging analysis of the receivables on the balance sheet date were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Not past due	\$ 236,007,515	201,007,198	110,909,747
Past due 0 - 30 days	4,278,284	1,520,459	533,856
Past due 31 - 120 days	246,285	186,965	55,776
Past due 121 - 365 days	1,482,773	1,623	11,933
Past due more than 1 year	22,054	4,380	1,904
	<u>\$ 242,036,911</u>	<u>202,720,625</u>	<u>111,513,216</u>

The movement in the allowance for impairment with respect to the receivables during the period was as follows:

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2013	\$ -	29,641	29,641
Impairment loss	-	31,280	31,280
Written off unrecoverable amount	-	(2,732)	(2,732)
Acquisition from business combination	-	22,517	22,517
Balance on December 31, 2013	<u>\$ -</u>	<u>80,706</u>	<u>80,706</u>
Balance on January 1, 2012	\$ -	17,604	17,604
Impairment loss	-	12,037	12,037
Balance on December 31, 2012	<u>\$ -</u>	<u>29,641</u>	<u>29,641</u>

Based on historical default rates, the Company believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due. Also, the payment term of the receivables from related parties depend on the Company's capital movement, and there's no penalty interest due for late payment. The Company's management believes that there's no significant change on the credit quality of the aforesaid receivables which are past due but not impaired, thus they assess the receivables can be recovered. In addition, the Company does not hold any collateral and of other credit enhancement to mitigate the credit risk of the foresaid receivables.

Allowance for bad debts or accumulated impairment are the accounts used to record bad debt expense or impairment loss. If the Company believes the related receivables cannot be recovered, the carrying amount of the financial assets will be reduced through the allowance for bad debts accounts and accumulated impairment.

No accounts receivable and its allowance were offset as of December 31, 2013 and 2012.

C. Liquidity risk

The following are the contractual maturities of financial liabilities, excluding estimated interest payment and the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	More than 2 years
December 31, 2013					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 40,165,725	40,165,725	23,396,925	4,768,800	12,000,000
Unsecured domestic bonds	8,116,490	8,116,490	-	8,116,490	-
Non-interest bearing liabilities	213,028,447	213,028,447	213,028,447	-	-
Derivative financial liabilities	235,162	235,162	-	235,162	-
	<u>\$261,545,824</u>	<u>261,545,824</u>	<u>236,425,372</u>	<u>13,120,452</u>	<u>12,000,000</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
December 31, 2012					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 17,975,760	17,975,760	8,682,960	4,646,400	4,646,400
Unsecured domestic bonds	7,656,181	7,656,181	-	-	7,656,181
Non-interest bearing liabilities	191,449,442	191,449,442	191,449,442	-	-
Derivative financial liabilities	759,815	759,815	-	-	759,815
	<u>\$217,841,198</u>	<u>217,841,198</u>	<u>200,132,402</u>	<u>4,646,400</u>	<u>13,062,396</u>
January 1, 2012					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 18,286,100	18,286,100	6,176,100	2,422,000	9,688,000
Non-interest bearing liabilities	106,579,144	106,579,144	106,579,144	-	-
	<u>\$124,865,244</u>	<u>124,865,244</u>	<u>112,755,244</u>	<u>2,422,000</u>	<u>9,688,000</u>

The liquidity of the aforesaid bank loans does not include interest expense on cash outflow. The Company is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

D. Currency risk

(a) Currency risk exposure

The Company's exposures to significant currency risk were those from its foreign currency denominated financial assets and liabilities as follows:

(Unit: Foreign currency/NTD in Thousands)						
	December 31, 2013			December 31, 2012		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
Financial assets						
Monetary items						
USD	\$ 7,682,705	29.805	228,983,023	6,976,283	29.04	202,591,258
Financial liabilities						
Monetary items						
USD	7,939,846	29.805	236,647,110	7,173,487	29.04	208,318,062
	January 1, 2012					
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>			
Financial assets						
Monetary items						
USD	3,853,347	30.275	116,660,080			
Financial liabilities						
Monetary items						
USD	4,042,144	30.275	122,375,910			

(b) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, accounts payable, bonds payable and other payables that

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Company's functional currency as of December 31, 2013 and 2012 would have decreased the after-tax net income by \$76,641 and \$57,268, respectively. The analysis is performed on the same basis for both periods.

E. Interest rate analysis

The interest risk exposure from financial assets and liabilities has been disclosed in the note of liquidity risk management.

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date.

For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date. The Company's internal management reported the increases/decreases in the interest rates and the exposure to changes in interest rates of 1% is considered by management to be a reasonable change of interest rate.

If the interest rate increases / decreases by 1%, the Company's net income will decrease /increase by \$190,945 and \$96,413 for the years ended December 31, 2013 and 2012, respectively, assuming all other variable factors remain constant. This is mainly due to the Company's variable rate borrowing.

F. Fair value of financial instruments

(a) Fair value and carrying amount

The Company considers the carrying amounts of its financial assets and financial liabilities measured at amortized cost as a reasonable approximation of fair value.

(b) Valuation techniques and assumptions used in fair value determination

The Company uses the following methods in determining the fair value of its financial assets and liabilities:

- The fair value of financial assets and liabilities traded in active markets is based on quoted market prices.
- The fair value of stock of unlisted company is determined using market method, under which market price is extrapolated from similar stock of a listed company.
- For all other financial assets and financial liabilities, the fair value is determined using a discounted cash flow analysis of expected future cash flows.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(c) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by the levels in the fair value hierarchy. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

December 31, 2013	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Financial liabilities designated as at fair value through profit or loss				
Overseas convertible bonds	\$ -	235,162	-	235,162
December 31, 2012	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Financial liabilities designated as at fair value through profit or loss				
Overseas convertible bonds	\$ -	759,815	-	759,815

There have been no transfers from each level for the years ended December 31, 2013 and 2012.

(22) Financial risk management

A. Overview

The nature and the extent of the Company's risks arising from financial instruments, which include credit risk, liquidity risk and market risk, are discussed below. Also, the Company's objectives, policies and procedures of measuring and managing risks are discussed below.

For more quantitative information about the financial instruments, please refer to the other related notes of the notes to the financial statements.

B. Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has deputized managements of core business departments for developing and monitoring the Company's risk management policies. Management reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyze the risks

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Internal Audit Department oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures and exception management, the results of which are reported to the Board of Directors.

C. Credit risk

Credit risk means the potential loss of the Company if the counterparty involved in that transaction defaults. The primary potential credit risk is from financial instruments like cash, equity securities, and accounts receivable. Also, the Company deposits cash in different financial institutions. The Company manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk on cash and equity securities.

The Company transacted only with the approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Company would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Company believes that there is no significant credit risk.

(a) Accounts receivables and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current deteriorating economic circumstances.

Under its customer credibility evaluation policies, the Company evaluates the customer's credibility and collectability of notes and account receivables regularly before doing business. Thus, management is not expecting any significant uncollectible accounts.

The major customers of the Company are concentrated in the high-tech computer industry. As the customers of the Company have good credits and profit records, the Company evaluates the financial conditions of these customers continually to reduce credit risk from accounts receivable. Moreover, the Company also periodically evaluates

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

the customers' financial positions and the possibility of collecting trade receivables. Thus, management is not expecting any significant issue on credit risk.

The Company establishes an impairment allowance that represents its estimate of incurred losses in respect of trade receivables. The two components of this impairment allowance are specific loss component that relates to individually significant exposure and collective loss component which the loss was incurred but not identified. The collective component is based on historical payment experience of similar financial assets.

(b) Investment

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Company's finance department. As the Company deals with the banks and other external parties with good credit standing and financial institutions, corporate organization and government agencies which are graded above investment level, management believes that the Company do not have compliance issues and no significant credit risk.

(c) The Company's policies were prepared in accordance with Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies.

D. Liquidity risk

Liquidity risk is a risk that the Company is unable to meet the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as much as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The funds and marketable securities investments held by the Company have publicly quoted prices and could be sold at approximate market price.

Equity investments recorded as financial assets carried at cost do not have reliable market prices and are expected to have liquidity risk.

E. Market risk

Market risk is a risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(a) Currency risk

The functional currency of the Company is the New Taiwan Dollars (NTD).The

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency. The currencies used in these transactions are denominated in NTD, EUR, and USD.

The Company's foreign currency denominated purchases and sales are denominated mainly in US dollars. This exposes the Company to the current and future foreign exchange fluctuation risk that arises from cash flows of foreign currency assets and liabilities. However, the risks may be regarded as insignificant, because foreign currency losses from sales are subsequently offset by the foreign currency gain from purchases. In addition, the Company conducts foreign exchange activities on spot market in order to manage its foreign exchange risks.

The interest is denominated in the same currency as borrowings. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Company. This provides an economic hedge without derivatives being entered into, and therefore, hedge accounting is not applied in these circumstances.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(b) Interest rate risk

The Company's interest rate risk arises from short-term and long-term loans bearing floating interest rates. Future cash flow will be affected by a change in market interest rate.

(c) Price floating risk on equity instruments

The equity securities held by the Company are classified as financial assets measured at fair value through profit or loss and available-for-sale financial assets. As these assets are measured at fair value, the Company is exposed to the market price fluctuation risk in the equity securities market.

The Company's investment portfolios of equity instruments are reviewed regularly by management, and significant investment decision is approved by the Board of Directors.

(23) Capital management

The Board's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, non-redeemable preference shares, retained earnings and non-controlling interests of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

The Company use the liability-to-equity ratio, debt-to-equity ratio and other financial ratio to maintain an optimal capital structure and raise returns on equity.

The Company's debt to equity ratios at the balance sheet date were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
Total liabilities	\$ 276,431,894	225,446,294	128,096,257
Less: cash and cash equivalents	19,170,052	12,006,919	6,815,955
Net debt	<u>\$ 257,261,842</u>	<u>213,439,375</u>	<u>121,280,302</u>
Total capital (Note)	<u>\$ 364,565,636</u>	<u>309,244,654</u>	<u>212,704,590</u>
Debt to equity ratio	<u>70.57%</u>	<u>69.02%</u>	<u>57.02%</u>

Note: Total capital includes share capital, capital surplus, retained earnings, other equity and non-controlling interest and net debt.

Management believes that there were no changes in the Company's approach to capital management for the year ended December 31, 2013.

(24) Non-cash transactions of investment and financing activity

For the year ended December 31, 2013, non-cash transactions of investment and financing activity of the Company were as follows:

- A. Short-form merges with Unihan Corporation, a wholly owned subsidiary of the Company.
Please refer to Note 6(5) for details.

7. RELATED PARTY TRANSACTIONS

(1) List of subsidiaries :

Subsidiary	Shareholding ratio		
	2013.12.31	2012.12.31	2012.01.01
UNIHAN CORPORATION (UNIHAN) (Note)	- %	100.00%	100.00%
ABILITY ENTERPRISE CO., LTD. (Ability(TW))	12.26%	12.31%	12.36%
UNIHAN HOLIDNG LTD.	100.00%	100.00%	100.00%
AZUREWAVE TECHNOLOGY (SHENZHEN) CO., LTD.	38.08%	38.08%	38.65%
AMA PRECISION INC.(AMA PRECISION)	100.00%	100.00%	100.00%
PEGATRON HOLLAND HOLDING B.V. (PHH) (previously known as ASUS HOLLAND HOLDING B.V.)	100.00%	100.00%	100.00%
PEGATRON HOLDING LTD. (PEGATRON HOLDING)	100.00%	100.00%	100.00%
ASUSPOWER INVESTMENT CO., LTD.	100.00%	100.00%	100.00%
ASUS INVESTMENT CO., LTD.	100.00%	100.00%	100.00%
ASUSTEK INVESTMENT CO., LTD.	100.00%	100.00%	100.00%
PEGATRON USA, INC.	100.00%	100.00%	100.00%

Note: Unihan Corporation was merged with the Company and Unihan Corporation was dissolved from the merger, which resulted in elimination of assets and liabilities from related parties transactions on the effective date of the merger.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(2) The ultimate parent company

A. On April 29, 2013, the entity ("A Company") in which the Company has significant influence has disposed a portion of its share holding in the Company which resulted in losing its significant influence over the Company. Therefore, A Company has become a non-related party as of the said date.

B. The Company is the ultimate parent company.

(3) Significant Transactions with related parties

A. Sale of Goods and Services to Related Parties

The amounts of significant sales transactions and outstanding balances between the Company and related parties were as follows:

	Sales		Receivables from Related Parties		
	2013	2012	December 31, 2013	December 31, 2012	January 1, 2012
Entity with significant influence over the Company	\$ 21,311,808	132,338,189	-	4,746,542	9,116,587
Subsidiaries	7,255,389	10,988,795	133,504,038	107,486,595	61,556,555
Other related parties	748	18,021	-	2,126	3,001
	<u>\$ 28,567,945</u>	<u>143,345,005</u>	<u>133,504,038</u>	<u>112,235,263</u>	<u>70,676,143</u>

Prices charged for sales transactions with entity with significant influence over the Company ("A Company") and associates were not significantly different from those of non-related parties. The average sales term for notes and accounts receivables pertaining to such sales transactions ranged from one to three months. In addition, accounts receivables and accounts payables resulted from sales and purchase transactions between the Company and the A Company, who has the legal right to set-off, are offset and presented as a net amount on the balance sheet dates according to the agreements. Receivables from related parties were not secured with collaterals, and did not require provisions for bad debt expenses.

B. Purchase of Goods from Related Parties

The amounts of significant purchase transactions and outstanding balances between the Company and related parties were as follows:

	Purchases		Payables to Related Parties		
	2013	2012	December 31, 2013	December 31, 2012	January 1, 2012
Entity with significant influence over the Company	\$ 17,046,948	102,904,941	-	-	-
Subsidiaries	168,974,930	99,603,091	92,726,651	84,789,243	56,557,291
Others	1,603,358	3,925,332	476,358	435,920	1,382,319
	<u>\$ 187,625,236</u>	<u>206,433,364</u>	<u>93,203,009</u>	<u>85,225,163</u>	<u>57,939,610</u>

There were no significant differences between the terms and pricing of purchase transactions with related enterprises and those carried out with other normal vendors. The average payment period for notes and accounts payable pertaining to such purchase transactions ranged from one to four months, which is similar to that of other normal vendors.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

C. Warranty repair expense paid to Related Parties

For the Years Ended December 31		
	2013	2012
Subsidiaries	\$ 234,105	134,884
Others	12,817	33,858
	\$ 246,922	168,742

D. Other income and expenses from Related Parties

For the Years Ended December 31		
	2013	2012
Entity with significant influence over the Company	\$ (60,913)	492,519
Subsidiaries	37,728	9,942
Others	2,003	1,491
	\$ (21,182)	503,952

E. Rental revenue

For the years ended December 31, 2013 and 2012, the Company incurred other related party transactions of \$62,063 and \$64,081, respectively, which were accounted for as rental revenue.

F. Other related party transactions recorded as expenses

For the years ended December 31, 2013 and 2012, the Company incurred other related party transactions recorded as expenses such as rental expense, royalty payment, storage expense, and professional service fee, etc, aggregating to \$379,504 and \$518,692 respectively.

G. Purchase and sales of real estate property and other assets

For the years ended December 31, 2013 and 2012, molds purchased from other related parties amounted to \$4,643 and \$3,309, respectively.

H. Other related party transactions accounted for as assets and liabilities in the balance sheet

	December 31, 2013	December 31, 2012	January 1, 2012
Other receivable			
Entity with significant influence over the Company	\$ -	174	287
Subsidiaries	36,307	28,200	9,555
Others	234	-	-
	\$ 36,541	28,374	9,842

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	December 31, 2013	December 31, 2012	January 1, 2012
Other payable			
Entity with significant influence over the \$	-	34,181	396,675
Company			
Subsidiaries	714,872	478,001	3,182,149
Others	-	8,217	9,275
	\$ 714,872	520,399	3,588,099
Other financial liabilities — current			
Entity with significant influence over the \$	-	2,798	31
Company			
Subsidiaries	261,402	84,412	23,734
Others	1,794	29	762
	\$ 236,196	87,239	24,527

I. Borrowings from related parties

	December 31, 2013	December 31, 2012	January 1, 2012
Subsidiaries	\$ 7,451,250	5,808,000	-
Interest rate	0.2691%~0.2733%	0.311%~0.468%	-

J. Key management personnel compensation:

	For the Years Ended December 31	
	2013	2012
Short-term employee benefits	\$ 121,357	89,601
Post-employment benefits	2,277	2,214
Share-based payments	65,931	-
	\$ 189,565	91,815

Please refer to Notes 6(17) for further explanations related to share-based payment transactions.

8. Pledged Assets

As of December 31, 2013 and 2012, pledged assets were as follows:

Asset	Purpose of pledge	December 31, 2013	December 31, 2012	January 1, 2012
Other financial asset	Deposits for customs duties and provisional seizure	\$ 55,820	76,205	72,003
Refundable deposits	Deposits for performance guarantee	32,492	30,650	29,271
		\$ 88,312	106,855	101,274

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

9. Significant Commitments And Contingencies

(1) Major commitments and contingencies were as follows:

A. Unused standby letters of credit

	December 31, 2013	December 31, 2012	January 1, 2012
EUR	2,540	267	267
USD	-	1,000	1,000

B. Promissory notes and certificates of deposit obtained for business purpose were as follows:

	December 31, 2013	December 31, 2012	January 1, 2012
NTD	\$ 20,105	11,537	11,537

(2) Significant contingent liability: None.

10. LOSSES DUE TO MAJOR DISASTERS: None.

11. SUBSEQUENT EVENTS: None.

12. OTHER

(1) The employee benefits, depreciation, depletion and amortization expenses categorized by function, were as follows:

	For the year ended December 31, 2013			For the year ended December 31, 2012		
By item	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit						
Salary	\$ 971,365	5,325,035	6,296,400	869,479	4,400,499	5,268,978
Health and labor insurance	71,674	290,956	362,630	62,777	254,605	317,382
Pension	36,525	165,216	201,741	31,978	157,332	189,310
Others	91,856	327,092	418,948	76,918	258,512	335,430
Depreciation	368,065	204,863	572,928	312,541	251,747	564,288
Amortization	41,721	9,420	51,141	57,431	21,310	78,741

(2) Pro Forma Information for Business Combination

The Company had set December 31, 2013 as the effective date of the statutory merger with UniHan Corporation. For Comparison purposes, the supplementary pro forma balance sheet and statements of comprehensive income were presented as follows, as if the business combination occurred on comparative reporting dates:

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

A. Pro forma balance sheet

	<u>December 31, 2012</u>	<u>January 1, 2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 17,124,766	9,776,084
Notes receivable, Accounts receivable and Other receivable	221,110,774	133,895,797
Inventories	15,896,240	13,963,651
Other financial assets and other current assets	416,485	178,577
NON-CURRENT ASSETS		
Financial assets carried at cost	-	-
Equity-accounted investees	85,405,146	84,685,464
Property, plant and equipment	4,669,566	4,935,920
Intangible assets	100,467	129,307
Deferred tax assets	214,462	600,553
Other financial assets and other noncurrent assets	84,413	143,795
CURRENT LIABILITIES		
Short-term borrowings	(12,458,160)	(10,111,850)
Long-term borrowings, current portion	(2,323,200)	-
Accounts payable and Other payables	(207,930,705)	(130,297,527)
Provisions and other current liabilities	(8,411,141)	(3,868,760)
NON-CURRENT LIABILITIES		
Bonds payable	(7,656,181)	-
Long-term borrowings	(9,292,800)	(12,110,000)
Non-current financial liabilities at fair value through profit or loss	(759,815)	-
Other non-current liabilities	(385,038)	(496,723)
NET ASSETS	<u><u>\$ 95,805,279</u></u>	<u><u>91,424,288</u></u>

B. Pro forma statements of comprehensive income

	For the Years Ended December 31	
	2013	2012
Pro forma net sales	<u><u>\$ 846,200,493</u></u>	<u><u>755,696,809</u></u>
Pro forma net income before tax	<u><u>\$ 10,003,203</u></u>	<u><u>7,215,760</u></u>
Pro forma net income	<u><u>\$ 9,554,496</u></u>	<u><u>6,382,945</u></u>
Pro forma primary earnings per share	<u><u>\$ 4.16</u></u>	<u><u>2.83</u></u>

- (3) Certain accounts in the non-consolidated financial statements as of and for the year ended December 31, 2012, were reclassified to conform to the presentation adopted in the non-consolidated financial statements as of and for the year ended December 31, 2013.

13. SEGMENT INFORMATION

Please refer to the consolidated financial report for the year ended December 31, 2013 and 2012.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

14. FIRST-TIME ADOPTION OF IFRS ENDORSED BY THE FSC

The non-consolidated financial statements as of and for the year ended December 31, 2012 were prepared in conformity with generally accepted accounting principles of the Republic of China. As mentioned in Note 4(1), these are the Company's first annual non-consolidated financial statements prepared in accordance with the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers.

For comparison purposes, the accounting policies discussed in Note 4 have been applied to comparative annual financial statements for the year ended December 31, 2012, balance sheets as of December 31, 2012 and the balance sheets as of January 01, 2012, first adoption date of IFRS as endorsed by the FSC.

In preparing the first financial reports in 2012 under IFRS as endorsed by the FSC, the Company regarded the amounts in the financial reports under R.O.C. GAAP as the initial point for adjustments. An explanation of how the transition to IFRS as endorsed by the FSC has affected the reported financial position, financial performance, and cash flows of the Company is provided in the following statements and notes.

(1) Reconciliation of balance sheet

	December 31, 2012			January 1, 2012		
	ROC GAAP	Adjustments	IFRSs	ROC GAAP	Adjustments	IFRSs
ASSETS						
Cash and cash equivalents	\$ 12,006,919	-	12,006,919	6,815,955	-	6,815,955
Notes receivable, Accounts receivable and Other receivable	202,631,745	59,239	202,690,984	111,460,422	35,190	111,495,612
Inventories	12,018,150	-	12,018,150	9,252,961	-	9,252,961
Other current assets	369,734	(34,113)	333,621	477,735	(277,270)	200,465
Total Current Assets	227,026,548	25,126	227,051,674	128,007,073	(242,080)	127,764,993
Equity-accounted investees	89,819,986	(309,890)	89,510,096	86,765,900	(153,951)	86,611,949
Property, plant and equipment	3,832,043	641,209	4,473,252	3,991,815	641,200	4,633,015
Intangible assets	93,947	(433)	93,514	121,223	-	121,223
Deferred tax assets	21,105	44,676	65,781	1,366	286,469	287,835
Other non-current assets	698,465	(641,209)	57,256	742,730	(641,200)	101,530
Total Non-current Assets	94,465,546	(265,647)	94,199,899	91,623,034	132,518	91,755,552
TOTAL ASSETS	\$ 321,492,094	(240,521)	321,251,573	219,630,107	(109,562)	219,520,545
LIABILITIES						
Short-term loans	\$ 6,359,760	-	6,359,760	6,176,100	-	6,176,100
Accounts payable and Other payables	191,159,655	(55,805)	191,103,850	106,399,809	26,441	106,426,250
Current tax liabilities	345,592	-	345,592	152,894	-	152,894
Long-term liabilities, current portion	2,323,200	-	2,323,200	-	-	-
Other current liabilities	7,051,937	177,177	7,229,114	2,803,743	81,528	2,885,271
Total current liabilities	207,240,144	121,372	207,361,516	115,532,546	107,969	115,640,515
Non-current financial liabilities at fair value through profit or loss	6,275	753,540	759,815	-	-	-
Bonds payable	8,403,406	(747,225)	7,656,181	-	-	-
Long-term borrowings	9,292,800	-	9,292,800	12,110,000	-	12,110,000
Deferred tax liabilities	353,077	-	353,077	335,510	-	335,510
Other non-current liabilities	117,560	(94,655)	22,905	67,843	(57,611)	10,232
Total Non-current Liabilities	18,173,118	(88,340)	18,084,778	12,513,353	(57,611)	12,455,742
TOTAL LIABILITIES	225,413,262	33,032	225,446,294	128,045,899	50,358	128,096,257

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	December 31, 2012		January 1, 2012	
	ROC GAAP	Adjustments	ROC GAAP	Adjustments
EQUITY ATTRIBUTABLE TO OWNERS OF PARENT				
Share capital	22,903,049	-	22,903,049	22,563,669
Capital surplus	64,560,267	(2,837,157)	61,723,110	63,465,496
Retained earnings				(2,462,421)
Legal reserve	1,847,737	-	1,847,737	-
Special reserve	734,859	-	734,859	-
Unappropriated retained earnings	9,829,896	2,593,074	12,422,970	144,466
Other equity interest	(3,778,182)	(29,470)	(3,807,652)	(734,859)
Treasury shares	(18,794)	-	(18,794)	-
Total equity	96,078,832	(273,553)	95,805,279	91,584,208
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 321,492,094	(240,521)	321,251,573	219,630,107
				(109,562)
				219,520,545

(2) Reconciliation of its statement of comprehensive income

	For the Year Ended December 31, 2012		
	ROC GAAP	Adjustments	IFRSs
Operating revenue	\$ 638,698,954	170,600	638,869,554
Operating costs	(631,839,940)	(310,101)	(632,150,041)
Gross profit	6,859,014	(139,501)	6,719,513
Unrealized profit on intercompany transactions	(44,894)	-	(44,894)
Selling expenses	(2,216,456)	941,667	(1,274,789)
General and administrative expenses	(1,533,257)	8,162	(1,525,095)
Research and development expenses	(4,784,643)	(6,341)	(4,790,984)
Total operating expenses	(8,534,356)	943,488	(7,590,868)
Income from operations	(1,720,236)	803,987	(916,249)
Non-operating income and expenses :			
Other income	1,695,394	(1,253,233)	442,161
Other gains and losses	214,647	488,820	703,467
Finance costs	(508,136)	(165,909)	(674,045)
Share of profit (loss) of associates and joint ventures accounted for using equity method	7,341,563	(47,488)	7,294,075
Other losses	(481,880)	451,608	(30,272)
	8,261,588	(526,202)	7,735,386
Profit before tax	6,541,352	277,785	6,819,137
Tax expense	(437,556)	1,364	(436,192)
Profit	6,103,796	279,149	6,382,945
Other comprehensive income :			
Foreign currency translation differences — foreign operations	(1,134,150)	-	(1,134,150)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(1,409,319)	(20,202)	(1,429,521)
Other comprehensive income, net of tax	(2,543,469)	(20,202)	(2,563,671)
Comprehensive income	\$ 3,560,327	258,947	3,819,274
Earnings per share			
Basic earnings per share	\$ 2.71	0.12	2.83
Diluted earnings per share	\$ 2.53	(0.10)	2.43

(3) Significant reconciliation of its cash flows statement

There was no significant difference in the non-consolidated statement of cash flows between IFRS (endorsed by the FSC) and R.O.C. GAAP, as of December 31 and January 1, 2012.

(4) Notes to significant reconciliation

A. Allowance for sales returns and discounts

Under R.O.C. GAAP, provisions for estimated sales returns and discounts are recorded in the same period in which sales are made, based on historical experience. Allowance for sales returns and discounts is recorded as a deduction from accounts receivable. Under IFRS as endorsed by the FSC, the allowance for sales returns and discounts is deemed as a present

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

obligation with uncertain timing and amount that arises from past events and is therefore reclassified as provisions.

The effects to IFRS financial statements of this GAAP difference were as follows:

	December 31, 2012	January 1, 2012
Balance sheets		
Increase in accounts receivable	\$ 59,239	35,190
Increase in provisions (accounted for under other liabilities)	(59,239)	(35,190)
Retained earnings adjustments	<u>\$ -</u>	<u>-</u>

B. Interests in Joint Ventures

Under R.O.C. GAAP, the Company recognized its interest in a jointly controlled entity using proportionate consolidated method. Under IFRS as endorsed by the FSC, the Company accounts for its investment in the joint venture using the equity method instead of proportionate consolidated method. As of January 1, 2012, the Company reclassified into "Equity-accounted investees" account of IFRS financial statements the carrying amounts of jointly controlled entity's net assets and liabilities amounting to \$243,069.

C. Rental assets and idle assets

Under R.O.C. GAAP, rental assets and idle assets are classified under other noncurrent assets. Under the IFRS as endorsed by the FSC, the aforementioned items are reclassified as property, plant and equipment. The rental asset is also classified as an investment property if it is held to earn rentals and can be sold or leased out separately under a finance lease. When a portion of the rental assets and idle assets could not be sold or leased out separately under a finance lease, the entire property is classified as investment property only if the portion of the property held for own use is insignificant.

The effects to IFRS financial statements of this GAAP difference were as follows:

	For Year Ended December 31, 2012
Statement of comprehensive income	
Increase in cost of sales	\$ 5,076
Increase in selling expenses	293
Increase in general and administrative expenses	1,008
Increase in research and development expenses	581
Decrease in other losses	(6,958)
Adjustments before income tax	<u>\$ -</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	December 31, 2012	January 1, 2012
Balance sheets		
Decrease in rental assets and idle assets (accounted for under other non-current assets)	\$ (320,423)	(357,588)
Increase in property, plant and equipment	320,423	357,588
Retained earnings adjustments	<u>\$ -</u>	<u>-</u>

D. Prepayments for business facilities and deferred expense

Under R.O.C GAAP, prepayments on purchase of equipment and deferred expenses are accounted for under property, plant and equipment and other noncurrent assets, respectively. Under the IFRS as endorsed by the FSC, such prepayments are reclassified as other noncurrent assets and property, plant and equipment, respectively.

The effects to IFRS financial statements of this GAAP difference were as follows:

	December 31, 2012	January 1, 2012
Balance sheets		
Increase in property, plant and equipment	\$ 320,786	283,612
Decrease in other assets	(320,786)	(283,612)
Retained earnings adjustments	<u>\$ -</u>	<u>-</u>

E. Warranties and repair cost

Under R.O.C GAAP, the DMS segment issues warranties that the customer pays for, warranty liabilities and the related repair cost were estimated in the same period in which goods are sold. These warranty liabilities paid by the customers are recognized as warranty liabilities. Under the-IFRS as endorsed by the FSC, warranty reserve is treated as a “deferred revenue” when sales is made. When the warranty expires, the deferred revenue becomes earned revenue and recognized as sales revenue.

The effects to IFRS financial statements of this GAAP difference were as follows:

	For Year Ended December 31, 2012
Statement of comprehensive income	
Decrease in operating revenue	\$ 71,599
Increase in cost of sales	870,434
Decrease in Selling expenses	(942,033)
Adjustments before income tax	<u>\$ -</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	December 31, 2012	January 1, 2012
Balance sheets		
Decrease in other payables	\$ 117,938	46,338
Increase in deferred revenue (accounted for under other current liabilities)	(117,938)	(46,338)
Retained earnings adjustments	<u>\$ -</u>	<u>-</u>

F. Provisions for employee benefits —Compensated absences benefit

Under R.O.C GAAP, there were no related regulations about accumulated compensated absences benefit. Under the IFRS as endorsed by the FSC, the Company accrues the obligation for paid absences if the obligation both relates to employees' past services and accumulates (i.e. can be carried forward to a future period).

The effects of this GAAP difference in the IFRS financial statements were as follows:

	For Year Ended December 31, 2012
Statements of comprehensive income	
Increase in cost of sales	\$ 975
Increase in selling expenses	73
Increase in administrative expenses	1,216
Increase in research and development expenses	5,760
Adjustments before income tax	<u>8,024</u>
Decrease in Tax expense	<u>(1,364)</u>
Adjustments after income tax	<u><u>\$ 6,660</u></u>

	December 31, 2012	January 1, 2012
Balance sheets		
Increase in deferred tax assets	\$ 10,563	9,199
Increase in other payable	(62,133)	(54,109)
Retained earnings adjustments	<u>\$ (51,570)</u>	<u>(44,910)</u>

G. Employee benefits — defined benefit pension plan

- (a) Under R.O.C. GAAP, an actuarial valuation is made of the Company's defined benefit obligation and the related pension cost and accrued pension liabilities, and net periodic pension costs are accounted for under the corridor approach. Under the IFRS as endorsed by the FSC, the aforementioned obligation shall be recognized as deduction of retained earnings, and actuarial gain or loss shall be recognized as other comprehensive income in the statement of comprehensive income.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (b) Under R.O.C. GAAP, unrecognized net transition assets (obligations) are amortized to pension cost on the straight-line basis over the average remaining service period of those employees who are still in service and expected to receive pension benefits. Under IFRS as endorsed by the FSC, under IAS No. 19, there is no such similar requirement as ROC GAAP. Therefore, the unrecognized net transition obligation and related amounts are recognized directly to retained earnings at the date of transition to IFRSs.
- (c) Under R.O.C. GAAP, the minimum pension liability is recognized if accumulated pension benefits exceed the fair market value of its pension plan assets. Under IFRS as endorsed by the FSC, there is no requirement for recognizing minimum pension liability in accordance with IAS 19.

The effects to IFRS financial statements of this GAAP difference are as follows:

	For Year Ended December 31, 2012
Statement of comprehensive income	
Increase in administrative expenses	\$ 6,466
Adjustments before income tax	6,466
Income tax expense	-
Adjustments after income tax	\$ 6,466
	December 31, 2012
Balance sheets	
Decrease in investments accounted for using equity method	\$ (2,408)
Decrease in deferred pension cost (intangible assets)	(433)
Increase in accrued pension liabilities (other noncurrent liabilities)	(7,849)
Decrease in unrecognized loss on pension fund (other equity)	2,408
Retained earnings adjustments	\$ (8,282)

H. Classifications of deferred income tax asset/liability and valuation allowance

Under R.O.C. GAAP, deferred income tax assets or liabilities are classified as current or non-current according to the classification of related assets or liabilities. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as either current or non-current based on the expected length of time before it is realized or settled. Under IFRS as endorsed by the FSC, a deferred tax asset or liability is classified as non-current asset or liability.

In addition, under R.O.C. GAAP, valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. Under IFRS as endorsed by the FSC, deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits and the valuation allowance account is no longer used.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Deferred tax assets and liabilities may be offset against each other only if the entity have has the legal right to settle tax assets and liabilities on a net basis, and the deferred tax assets and liabilities are taxed by the same taxing authority.

The effects to IFRS financial statements of this GAAP difference are-as follows:

	December 31, 2012	January 1, 2012
Balance sheets		
Decrease in deferred income tax assets— current (other current assets)	\$ (34,113)	(277,270)
Increase in Deferred income tax assets	34,113	277,270
Retained earnings adjustments	<u>\$ -</u>	<u>-</u>

I. Capital surplus— long-term equity investment not subscribing proportionately

Under R.O.C. GAAP, if an associate or investee issues new shares and an investor does not buy new shares proportionately, the investor's ownership percentage and its interest in net assets of the investment will change. The resulting difference is adjusted to the capital surplus or retained earnings. Under the IFRS as endorsed by the FSC, if the percentage of ownership is changed due to disproportionate subscription in the capital increase of the investee, the capital surplus arising from long-term equity investment is recalculated retrospectively, and such change adjusted to retained earnings.

The effects to IFRS financial statements of this GAAP difference are as follows:

	December 31, 2012	January 1, 2012
Balance sheets		
Reduction on capital surplus	\$ 2,507,931	2,462,421
Retained earnings adjustments	<u>\$ 2,507,931</u>	<u>2,462,421</u>

J. Overseas convertible bonds payable

Under R.O.C. GAAP, if the conversion price of the overseas convertible bonds payable is expressed in New Taiwan Dollars, and the bonds payable is convertible to NTD only at fixed foreign currency in NTD exchange rate, the conversion option is classified as an equity component. Under IFRS as endorsed by the FSC, the conversion option does not conform to the definition of equity component; therefore, the conversion option being treated as liability component is initially recognized as “derivative financial liabilities”. The valuation gain or loss resulting from changes in fair values is recognized in profit or loss

The effects to IFRS financial statements of this GAAP difference are as follows:

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	For Year Ended December 31, 2012
Statement of comprehensive income	
Increase in other gains and losses	\$ 488,820
Decrease in finance costs	(165,909)
Adjustments before income tax	<u>\$ 322,911</u>
	December 31, 2012
Balance sheets	
Increase in financial liabilities at fair value through profit or loss— noncurrent	\$ (753,540)
Decrease in bonds payables	747,225
Decrease in capital surplus	329,226
Retained earnings adjustments	<u>\$ 322,911</u>

K. Repair expense, Indemnity income and Indemnity losses

Under R.O.C GAAP, there were no related regulations about Repair expense, Indemnity income and Indemnity losses. Under IFRS as endorsed by FSC, compensation gain or loss is reclassified to “Sales revenue” and “Cost of sales” account according to its nature.

The effects of this GAAP difference to the IFRS financial statements are as follows:

	For Year Ended December 31, 2012
Statement of comprehensive income	
Increase in sales revenue	\$ (242,199)
Decrease in cost of goods sold	(566,384)
Decrease in other income	1,253,233
Decrease in other losses	(444,650)
Adjustments before income tax	<u>\$ -</u>

L. Deferred credits – gain on intercompany accounts

Under R.O.C. GAAP, unrealized gains and losses on downstream transactions should be deferred and recognized as deferred credits – gain on intercompany accounts. Under IFRS as endorsed by the FSC, deferred credits – gains on intercompany accounts are reclassified as investment accounted for using equity method.

The effects to IFRS financial statements of this GAAP difference are as follows:

	December 31, 2012	January 1, 2012
Balance sheets		
Decrease in investment accounted for using equity method	\$ (102,504)	(57,611)
Decrease in deferred credits – gain on intercompany accounts	102,504	57,611
Retained earnings adjustments	<u>\$ -</u>	<u>-</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

M. Investment accounted for using equity method

The adjustments applied to IFRS financial statements due to the difference between GAAP and IFRS of long-term equity investments subscribing proportionately are summarized as follows:

	For Year Ended December 31, 2012	
Statement of comprehensive income		
Decrease in share of other comprehensive income of associates and joint ventures accounted for using equity method	\$	(47,488)
	December 31, 2012	January 1, 2012
Balance sheets		
Decrease in Investment accounted for using equity method	\$ (204,978)	(115,010)
Increase in other equity	27,062	11,424
Retained earnings adjustments	\$ (177,916)	(103,586)

N. The effects to retained earnings of the GAAP differences described above are as follows :

	December 31, 2012	January 1, 2012
Employee benefits liabilities	\$ (51,570)	(44,910)
Employee benefits, post-employment benefit plan	(8,282)	-
Overseas convertible bonds	322,911	-
Capital surplus	2,507,931	2,462,421
Investment accounted for using equity method	(177,916)	(103,586)
Increase (decrease) in retained earnings	\$ 2,593,074	2,313,925

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MEMO

Pegatron Corporation



T.H. Tung, Chairman



