

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011
(With Independent Accountants' Review Report Thereon)

Address: 5F., No.76, Ligong St., Beitou District, Taipei City 112, Taiwan
Telephone: 886-2-8143-9001

TABLE OF CONTENTS

Contents	Page
COVER PAGE	1
TABLE OF CONTENTS	2
REVIEW REPORT OF INDEPENDENT ACCOUNTANTS	3
CONSOLIDATED BALANCE SHEETS	4
CONSOLIDATED STATEMENTS OF INCOME	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	
(1) ORGANIZATION AND BUSINESS	7
(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	7~28
(3) REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES	28
(4) SUMMARY OF MAJOR ACCOUNTS	28~68
(5) RELATED-PARTY TRANSACTIONS	68~72
(6) PLEDGED ASSETS	73
(7) SIGNIFICANT COMMITMENTS AND CONTINGENCIES	73~74
(8) SIGNIFICANT CATASTROPHIC LOSSES	75
(9) SIGNIFICANT SUBSEQUENT EVENTS	75
(10) OTHERS	75
(11) BUSINESS SEGMENT FINANCIAL INFORMATION	76

(English Translation of Financial Report Originally Issued in Chinese)

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of

Pegatron Corporation

We have reviewed the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries (the "Consolidated Company") as of September 30, 2012 and 2011, and the related consolidated statements of income and cash flows for the nine months then ended. These consolidated financial statements are the responsibility of the Consolidated Company's management. Our responsibility is to express the review report based on our review. We did not review the financial statements of certain consolidated subsidiaries with total assets of NT\$36,880,599 thousand and NT\$27,352,378 thousand, representing 9.98% and 9.06% and net sales of NT\$ 21,931,375 thousand and NT\$15,616,798 thousand, representing 3.57% and 3.70% of the related consolidated total as of and for the nine months ended September 30, 2012 and 2011, respectively. Those statements were reviewed by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for certain subsidiaries, were based solely on the reports of the other auditors.

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

The consolidated financial statements of certain subsidiaries were consolidated based on their unreviewed financial statements as of and for the nine months ended September 30, 2012 and 2011. The total assets of these subsidiaries amounted to NT\$178,217,269 thousand and NT\$ 210,557,195 thousand, representing 48.24% and 69.71% of the related consolidated total assets and the total liabilities amounted to NT\$79,303,729 thousand and NT\$113,347,144 thousand, representing 32.33% and 61.46% of the related consolidated liabilities as of September 30, 2012 and 2011, respectively. The operating revenues of these subsidiaries amounted to NT\$62,972,931 thousand and NT\$161,703,930 thousand, representing 10.25% and 38.26% of

the consolidated operating revenues for the nine months ended September 30, 2012 and 2011, respectively, and their net income amounted to NT\$888,914 thousand and NT\$198,045 thousand, representing 14.21% and 12.30% of the related consolidated net income, respectively. As disclosed in Note 4(5) to the consolidated financial statement, the financial statements of certain long-term investments accounted for under the equity method were not reviewed by independent accountants. Long-term investments in these companies amounted to NT\$2,406,083 thousand and NT\$2,449,665 thousand as of September 30, 2012 and 2011, respectively, and the related investment income thereon amounted to NT\$66,811 thousand and NT\$78,571 thousand, respectively.

Based on our reviews and the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the financial statements of some consolidated subsidiaries and some equity-method investees been reviewed as described in the preceding paragraph, we are not aware of any material modifications that should be made to the consolidated financial statements referred to the first paragraph for them to be in conformity with Order VI-0960064020 issued by the Financial Supervisory Commission under the Executive Yuan dated November 15, 2007 and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the accounting principles generally accepted in the Republic of China.

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

November 9, 2012

Note to Readers

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

For the convenience of readers, the accountants' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' report and financial statements shall prevail. Also, please refer to the original Chinese version for certain disclosures not translated into English as they are not required under generally accepted accounting principles in the Republic of China.

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2012 AND 2011

(All Amounts Expressed in Thousands of New Taiwan Dollars)

ASSETS	September 30, 2012		September 30, 2011	
	Amount	%	Amount	%
Current Assets:				
Cash (Note 4(1))	\$ 53,080,451	14	40,757,710	14
Financial assets reported at fair value through profit or loss – current (Notes 4(2) and 4(18))	6,348,568	2	5,815,111	2
Available-for-sale financial assets – current (Notes 4(2) and 4(18))	434,787	-	393,929	-
Notes and accounts receivable, net of allowance for uncollectible accounts (Note 4(3))	110,485,360	30	80,533,627	27
Accounts receivable, net – Related parties (Note 5)	4,442,253	1	9,659,357	3
Other receivable	4,451,301	1	2,358,447	1
Other receivable – Related parties (Note 5)	55,958	-	38,689	-
Other financial assets – current (Notes 5 and 6)	262,910	-	109,691	-
Inventories (Notes 4(4) and 6)	94,052,684	26	78,884,487	26
Other current assets (Note 5)	7,047,792	2	3,761,194	1
Deferred income tax assets – current (Note 4(14))	872,089	-	894,198	-
	<u>281,534,153</u>	<u>76</u>	<u>223,206,440</u>	<u>74</u>
Investments:				
Long-term investments under the equity method (Notes 4(5) and 4(18))	2,406,083	1	2,449,665	1
Available-for-sale financial assets – noncurrent (Notes 4(2) and 4(18))	461,792	-	1,198,634	-
Held-to-maturity financial assets – noncurrent (Notes 4(2) and 4(18))	-	-	338,841	-
Financial assets carried at cost – noncurrent (Notes 4(2) and 4(18))	692,022	-	922,482	-
	<u>3,559,897</u>	<u>1</u>	<u>4,909,622</u>	<u>1</u>
Other financial assets - noncurrent (Note 6)	<u>292,158</u>	<u>-</u>	<u>273,215</u>	<u>-</u>
Property, Plant and Equipment, at cost (Notes 4(7) and 6)				
Land	4,438,498	1	4,438,350	1
Buildings	30,078,006	8	26,243,100	9
Machinery and equipment	58,162,938	16	48,802,752	16
Warehousing equipment	120,014	-	127,658	-
Instrument equipment	1,932,967	1	1,991,865	1
Transportation equipment	237,457	-	247,740	-
Office equipment	804,299	-	1,188,455	-
Miscellaneous equipment	16,102,854	4	12,946,558	5
	<u>111,877,033</u>	<u>30</u>	<u>95,986,478</u>	<u>32</u>
Less: Accumulated depreciation	(43,900,820)	(12)	(40,223,605)	(13)
Less: Accumulated impairment	(127,046)	-	(140,439)	-
Prepayments on purchase of equipment	4,699,441	1	8,289,849	3
	<u>72,548,608</u>	<u>19</u>	<u>63,912,283</u>	<u>22</u>
Intangible Assets				
Goodwill (Note 4(8))	1,863,920	1	1,940,817	1
Deferred pension costs	2,525	-	379	-
Land use rights (Note 4(8))	2,994,304	1	2,613,005	1
Other intangible assets (Note 4(8))	889,108	-	1,519,576	-
	<u>5,749,857</u>	<u>2</u>	<u>6,073,777</u>	<u>2</u>
Other Assets				
Deferred charges (Note 4(9))	1,671,727	-	2,234,297	1
Deferred income tax assets – noncurrent (Notes 4(14))	677,776	-	396,919	-
Other assets – others (Notes 4(7) and 4(9))	3,442,820	2	1,035,727	-
	<u>5,792,323</u>	<u>2</u>	<u>3,666,943</u>	<u>1</u>
TOTAL ASSETS	<u>\$ 369,476,996</u>	<u>100</u>	<u>302,042,280</u>	<u>100</u>

The accompanying notes are an integral part of the consolidated financial statements.
 (With KPMG review report dated November 9, 2012.)

(English Translation of Financial Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards.
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CON'T)
SEPTEMBER 30, 2012 AND 2011
(All Amounts Expressed in Thousands of New Taiwan Dollars)

	September 30, 2012		September 30, 2011	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Short-term loans (Note 4(10))	\$ 22,561,661	6	25,110,401	8
Short-term notes and bills payable	179,948	-	159,908	-
Financial liabilities at fair value through profit or loss — current (Notes 4(2) and 4(18))	72,554	-	173,275	-
Notes and accounts payable	148,554,367	40	106,125,354	35
Notes and accounts payable – Related parties (Note 5)	1,567,005		2,523,864	1
Income tax payable	2,072,205	1	1,686,965	1
Accrued expenses (Note 5)	14,755,056	4	13,401,562	4
Other financial liabilities — current (Note 5)	7,365,121	2	4,159,209	2
Long-term loans payable — current portion (Notes 4(11), 4(12) and 4(18))	2,882,211	1	996,411	-
Other current liabilities (Notes 4(14) and 5)	9,797,589	3	4,544,625	2
Deferred income tax assets — current (Note 4(14))	53	-	4,649	-
	<u>209,807,770</u>	<u>57</u>	<u>158,886,223</u>	<u>53</u>
Long-Term Liabilities:				
Financial liabilities at fair value through profit or loss — noncurrent (Notes 4(2), 4(11) and 4(18))	7,141	-	-	-
Bonds payable (Notes 4(11) and 4(18))	8,456,934	2	1,396,981	-
Long-term loans (Notes 4(12) and 4(18))	25,435,903	7	23,024,895	8
Other financial liabilities — noncurrent	461,678	-	329,768	-
	<u>34,361,656</u>	<u>9</u>	<u>24,751,644</u>	<u>8</u>
Other Liabilities:				
Deferred income tax liabilities — noncurrent (Note 4(14))	1,079,153	-	696,219	-
Other liabilities — others (Note 4(13))	61,839	-	101,252	-
	<u>1,140,992</u>	<u>-</u>	<u>797,471</u>	<u>-</u>
Total Liabilities	<u>245,310,418</u>	<u>66</u>	<u>184,435,338</u>	<u>61</u>
Stockholders' Equity (Note 4(15)):				
Common stock	<u>22,563,669</u>	<u>6</u>	<u>22,563,669</u>	<u>7</u>
Capital surplus				
Premium on capital stock	60,393,247	16	60,393,247	20
Others	3,653,656	1	3,051,557	1
	<u>64,046,903</u>	<u>17</u>	<u>63,444,804</u>	<u>21</u>
Retained earnings:				
Legal reserve	1,847,737	1	1,836,601	1
Special reserve	734,859	-	4,327,629	1
Retained earnings (accumulated deficit)	7,178,547	2	(830,749)	-
	<u>9,761,143</u>	<u>3</u>	<u>5,333,481</u>	<u>2</u>
Other adjustments to stockholders' equity:				
Cumulative translation adjustments	(3,179,646)	(1)	(321,643)	-
Unrecognized loss (gain) on pension cost	440	-	(16)	-
Unrealized gain on financial assets	147,619	-	391,331	-
Treasury stock	(18,794)	-	(18,794)	-
	<u>(3,050,381)</u>	<u>(1)</u>	<u>50,878</u>	<u>-</u>
Total Parent Company's Equity	<u>93,321,334</u>	<u>25</u>	<u>91,392,832</u>	<u>30</u>
Minority interest	<u>30,845,244</u>	<u>9</u>	<u>26,214,110</u>	<u>9</u>
Total Stockholders' Equity	<u>124,166,578</u>	<u>34</u>	<u>117,606,942</u>	<u>39</u>
Commitments and Contingencies (Note 7)				
Significant Subsequent Events (Note 9)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 369,476,996</u>	<u>100</u>	<u>302,042,280</u>	<u>100</u>

The accompanying notes are an integral part of the consolidated financial statements.
(With KPMG review report dated November 9, 2012.)

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Nine Months ended September 30			
	2012		2011	
	Amount	%	Amount	%
Operating revenues (Note 5)	\$ 616,495,361	100	426,095,715	101
Less: Sales returns and allowances	2,351,642	-	3,458,832	1
Net sales	614,143,719	100	422,636,883	100
Cost of sales (Notes 4(4) and 5)	584,169,081	95	404,352,153	96
Gross profit	29,974,638	5	18,284,730	4
Operating expenses (Note 5)				
Selling expenses	7,731,738	1	6,443,038	1
General and administrative expenses	6,035,138	1	5,156,874	1
Research and development expenses	8,828,256	2	7,026,123	2
	22,595,132	4	18,626,035	4
Income (Loss) from operations	7,379,506	1	(341,305)	-
Non-operating income				
Interest revenue	634,129	-	408,574	-
Investment income under the equity method (Note 4(5))	66,811	-	78,571	-
Dividend income	78,718	-	132,230	-
Gain on disposal of fixed assets	-	-	79,749	-
Gain on disposal of investments (Notes 4(2) and 4(6))	122,521	-	417,119	-
Foreign exchange gain, net	-	-	1,549,152	1
Reversal for impairment loss (Notes 4(2) and 4(7))	-	-	8,586	-
Gain on valuation of financial asset (Notes 4(2) and 4(18))	121,931	-	-	-
Gain on valuation of financial liability (Notes 4(2) and 4(18))	41,700	-	-	-
Others (Notes 4(7) and 5)	1,844,152	-	1,585,208	-
	2,909,962	-	4,259,189	1
Non-operating expenses				
Interest expense (Note 4(11))	866,767	-	457,431	-
Loss on disposal of fixed assets	175,010	-	-	-
Foreign exchange loss, net	159,142	-	-	-
Impairment loss (Notes 4(2) and 4(7))	21,720	-	-	-
Loss on valuation of financial asset (Notes 4(2) and 4(18))	-	-	46,897	-
Loss on valuation of financial liability (Notes 4(2) and 4(18))	-	-	81,966	-
Others (Note 5)	608,396	-	377,869	-
	1,831,035	-	964,163	-
Income before income tax	8,458,433	1	2,953,721	1
Income tax expense (Note 4(14))	2,203,806	-	1,343,082	-
Consolidated income	\$ 6,254,627	1	1,610,639	1
Income (Loss) attributable to :				
Shareholders of parent company	\$ 3,452,447	1	(863,850)	-
Minority interest	2,802,180	-	2,474,489	1
	\$ 6,254,627	1	1,610,639	1
			Before	After
			Income Tax	Income Tax
Earnings (Losses) per share attributable to parent company (Note 4(17))				
Primary earnings (losses) per share	\$ 1.67	1.53	(0.40)	(0.38)
Diluted earnings per share	\$ 1.59	1.45		

The accompanying notes are an integral part of the consolidated financial statements.
(With KPMG review report dated November 9, 2012.)

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

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

	For the Nine Months Ended September 30	
	2012	2011
Cash flows from operating activities:		
Consolidated net income	\$ 6,254,627	1,610,639
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	7,790,263	6,088,107
Amortization	1,886,882	1,883,888
Allowance for uncollectible accounts	70,344	123,669
Loss on inventory market price decline and obsolescence, and for impairment	5,113,705	2,772,103
Employee compensation cost	132,704	220,799
Amortization of discount on bonds payable	48,939	23,180
Gain on foreign currency exchange on bonds payable	(82,383)	-
Amortization of issuance costs on bonds payable	8,341	-
Loss (gain) on foreign currency exchange on long term loans	(749,700)	456,701
Investment income under equity method	(66,811)	(78,571)
Cash dividends from investment under equity method	46,694	138,416
Loss on disposal and retirement of assets	151,779	117,975
Gain on disposal of investments	(122,521)	(417,119)
Loss (gain) on disposal of fixed assets	175,010	(79,749)
Loss (gain) on valuation of financial assets and liabilities	(163,631)	128,863
Impairment loss (reversal gain)	21,720	(8,586)
Amortization of difference between cost and net equity	1,114	24,337
Interest revenue less cost of financial instrument	-	617
Change in assets and liabilities:		
Change in assets:		
Financial assets reported at fair value through profit or loss	190,918	516,317
Notes and accounts receivable	(32,618,502)	(30,028,009)
Other accounts receivable	(2,937,050)	(426,386)
Inventories	(34,804,005)	(36,127,720)
Other current assets	(2,170,035)	(1,137,219)
Deferred income tax asset and liability	294,823	(271,058)
Change in liabilities:		
Financial liabilities reported at fair value through profit or loss	(1,598)	79,220
Notes and accounts payable	53,191,922	44,254,458
Income tax payable	209,955	(530,771)
Accrued expenses	1,614,734	3,682,201
Other financial liabilities — current	3,850,509	277,091
Other current liabilities	5,343,515	(126,986)
Other liabilities — others	10,189	41,094
Net cash provided by (used in) operating activities	<u>12,692,451</u>	<u>(6,792,499)</u>
Cash flows from investing activities:		
Acquisition of financial assets available-for-sale	-	(94,817)
Proceeds from disposal of financial assets available-for-sale	91,841	972,268
Acquisition of financial assets held-to-maturity	-	(324,827)
Acquisition of financial assets carried at cost	-	(316,600)
Proceeds from disposal of financial assets carried at cost	-	118,740
Proceeds from capital reduction of financial assets carried at cost	17,054	-
Proceeds from disposal of subsidiaries and investees under equity method	471,453	18,505
Acquisition of subsidiaries	-	(4,574,570)
Purchase of property, plant and equipment	(17,388,175)	(9,477,869)
Proceeds from disposal of property, plant and equipment	681,017	1,080,440
Proceeds from disposal of idle assets	10,357	706,884
Increase in deferred charges	(599,752)	(971,006)
Proceeds from disposal of deferred charges	-	2,557
Purchase of intangible assets	(411,404)	(167,732)
Proceeds from disposal of intangible assets	737	-
Other financial assets — current	(154,388)	1,232,116
Other financial assets — noncurrent	23,976	19,020
Other financial assets — others	(2,404,996)	22,930
Net cash used in investing activities	<u>(19,662,280)</u>	<u>(11,753,961)</u>

The accompanying notes are an integral part of the consolidated financial statements.
(With KPMG review report dated November 9, 2012.)

(English Translation of Financial Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards.
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2012	2011
Cash flows from financing activities:		
Increase (Decrease) in short-term loans	(211,705)	10,173,321
Increase (Decrease) in short-term notes and bills payable	(39,987)	109,984
Increase (Decrease) in long-term loans	(591,917)	12,365,537
Issuance of bonds payable	8,835,640	-
Increase (Decrease) in guarantee deposits received	40,887	(21,903)
Others payable — Related parties	-	(200,000)
Dividend paid	(2,175,417)	(5,874,937)
Employee stock option	1,862	49,623
Cost of treasury stock repurchase	-	(9,472)
Proceeds from acquisition of minority interest	-	(295,319)
Increase in minority interest	3,785,618	389,520
Net cash provided by financing activities	9,644,981	16,686,354
Foreign exchange rate effects	(48,134)	353,810
Net increase in cash	2,627,018	(1,506,296)
Cash, beginning of the period	50,453,433	42,264,006
Cash, end of the period	\$ 53,080,451	40,757,710
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 751,625	386,916
Income tax	\$ 1,542,494	2,133,559
Non-cash investing and financing		
Long-term loans — current portion (including current portion of long-term accounts payable)	\$ 2,882,211	996,411
Dividend payable	\$ 43,508	-
Purchase of property and equipment with cash and other payables:		
Property, plant and equipment	\$ 13,458,180	10,872,187
Add: Other payable, beginning of the period	4,943,219	468,687
Add: Balance from subsidiary acquired	-	473,027
Less: Other payable, end of the period	(1,013,224)	(2,336,032)
Cash paid	\$ 17,388,175	9,477,869
Cash received from disposal of property:		
Proceeds from disposal of property	\$ 681,017	1,390,440
Less: Other payable, end of the period	-	(310,000)
Cash Received	\$ 681,017	1,080,440
Cash received from disposal of equity investments in subsidiaries:		
Proceed of disposal	\$ 602,048	66,613
Less: cash decreased in subsidiaries	(130,595)	(48,108)
Cash Received	\$ 471,453	18,505
Cash received from acquisition of subsidiaries:		
Cash received		\$ 1,653,198
Acquisition of non-monetary assets		11,360,052
Goodwill arising from acquisition		976,828
Liabilities assumed		(7,466,549)
Minority interest		(295,761)
Acquisition cost		6,227,768
Less: Cash balance from consolidated subsidiary		(1,653,198)
Cash paid		\$ 4,574,570

The accompanying notes are an integral part of the consolidated financial statements.
(With KPMG review report dated November 9, 2012.)

(English Translation of Financial Report Originally Issued in Chinese)

Reviewed only, not audited in accordance with generally accepted auditing standards

PEGATRON CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2012 AND 2011

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

1. ORGANIZATION AND BUSINESS :

According to the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan, Pegatron Corporation (the “Company”) need not disclose the information about organization and business in the consolidated financial statements for the first and third quarters of each year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Company’s financial statements were prepared in accordance with the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan on November 15, 2007, Guidelines Governing the Preparation of Financial Reports by Securities, and generally accepted accounting principles of the Republic of China. Except for the following significant accounting policies, other significant policies which are not disclosed herein are the same as those in the Consolidated Company’s 2011 annual consolidated financial statements

The significant accounting policies and their measurement basis are as follows:

(1) Basis of consolidation

- a. The consolidated financial statements include the Company and its controlled subsidiaries, in which the significant inter-company transactions were eliminated. As of September 30, 2012 and 2011, the consolidated subsidiaries were as follows:

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
The Company	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	100.00%	100.00%	The Company directly owns over 50% of equity
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	12.35%	12.40%	The investors have de facto control

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
Ability (TW)	ABILITY ENTERPRISE (BVI) CO., LTD. (ABILITY)	Investing activities	100.00%	100.00%	Ability (TW) directly owns over 50% of equity
Ability (TW)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%	Ability (TW) directly owns over 50% of equity
Ability (TW)	VIEWQUEST TECHNOLOGIES INTERNATIONAL INC.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%	Ability (TW) directly owns over 50% of equity
Ability (TW)	ASSOCIATION INTERNATIONAL LTD.	Investing activities	-	100.00%	Ability (TW) directly owns over 50% of equity
Ability (TW)	VIEWQUEST TECHNOLOGIES (BVI) INC. (VQ(BVI))	Manufacturing and trading computer peripherals, digital cameras and electronic components	100.00%	100.00%	Ability (TW) directly owns over 50% of equity
Ability (TW)	Ability International Investment Co., Ltd.(ABILITY INVESTMENT)	Investing activities	100.00%	100.00%	Ability (TW) directly owns over 50% of equity
Ability (TW)	E-PIN OPTICAL INDUSTRY CO. LTD.(E-PIN)	Selling electronic components of optical products	53.01%	53.01%	Ability (TW) directly owns over 50% of equity
ABILITY	Ability Technology (Dongguan) Co., Ltd	Manufacturing and selling digital cameras	100.00%	100.00%	Ability directly owns over 50% of equity
ABILITY	Jiujiang Viewquest Electronics Inc.	Manufacturing and selling digital cameras	100.00%	100.00%	Ability directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
VQ(BVI)	VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD.	Manufacturing and selling digital cameras	100.00%	100.00%	VQ(BVI) directly owns over 50% of equity
E-PIN	E-PIN INTERNATIONAL TECH CO., LTD.	Manufacturing optical instruments	-	65.10%	E-PIN directly owns over 50% of equity
E-PIN	E-PIN OPTICAL INDUSTRY CO., LTD.	Trading activities	100.00%	100.00%	E-PIN directly owns over 50% of equity
E-PIN	E-PIN OPTICAL INDUSTRY (M.) SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	E-PIN directly owns over 50% of equity
E-PIN	ALL VISION TECHNOLOGY SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	E-PIN directly owns over 50% of equity
E-PIN	ALL VISION HOLDING LTD. (AV)	Investing activities	100.00%	100.00%	E-PIN directly owns over 50% of equity
AV	EVERLIGHT DEVELOPMENT CORPORATION (ED)	Investing activities	100.00%	100.00%	AV directly owns over 50% of equity
AV	E-SKY HOLDING LTD. (ES)	Investing activities	73.04%	73.04%	AV directly owns over 50% of equity
ED	WEIHAI E-SKY OPTICAL-ELECTRICAL CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	100.00%	ED directly owns over 50% of equity
ED	NANJING CHANGMING PHOTOELECTRIC TECHNOLOGY CO., LTD.	Manufacturing and developing precision optical lenses	55.45%	55.45%	ED directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
ES	ZHONGSHAN SANXIN PRECISION INDUSTRY CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	100.00%	ES directly owns over 50% of equity
ES	NANJING E-PIN OPTOTECH CO., LTD.	Manufacturing and developing precision optical lenses	72.22%	72.22%	ES directly owns over 50% of equity
UNIHAN	UNIHAN HOLDING LTD. (UNIHAN HOLDING)	Investing activities	100.00%	100.00%	UNIHAN directly owns over 50% of equity
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDING)	Investing and trading activities	100.00%	100.00%	UNIHAN HOLDING directly owns over 50% of equity
CASETEK HOLDING	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	CASETEK HOLDING directly owns over 50% of equity
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%	CASETEK HOLDING directly owns over 50% of equity
CASETEK HOLDING	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDING)	Investing and trading activities	100.00%	100.00%	CASETEK HOLDING directly owns over 50% of equity
CASETEK HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Trading activities	100.00%	100.00%	CASETEK HOLDING directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
KAEDAR HOLDING	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00%	100.00%	KAEDAR HOLDING directly owns over 50% of equity
CASETEK HOLDING	KAEDAR TRADING LTD.	Investing and trading activities	100.00%	100.00%	CASETEK HOLDING directly owns over 50% of equity
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%	CASETEK HOLDING directly owns over 50% of equity
UNIHAN, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	38.08%	38.65%	UNIHAN, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT have de facto control
AZURE WAVE	EMINENT STAR COMPANY LIMITED (EMINENT)	Investing activities	100.00%	100.00%	AZURE WAVE directly owns over 50% of equity
EMINENT	HANNEX INTERNATIONAL LIMITED (HANNEX)	Investing activities	100.00%	100.00%	EMINENT directly owns over 50% of equity
HANNEX	SCIEN TEK. NANJING CO., LTD.	Designing, manufacturing and selling computer products	100.00%	100.00%	HANNEX directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
EMINENT	JADE TECHNOLOGIES LIMITED (JADE)	Investing activities	100.00%	100.00%	EMINENT directly owns over 50% of equity
EMINENT·JADE	AZUREWAVE TECHNOLOGY (SHENZHEN) CO., LTD.	Designing, researching and selling computer products	100.00%	100.00%	EMINENT、JADE directly and indirectly held 100% of equity
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00%	100.00%	AZURE WAVE directly owns over 50% of equity
AZURE WAVE	AZWAVE HOLDING (SAMOA) INC. (AZWAVE SAMOA)	Investing activities	100.00%	100.00%	AZURE WAVE directly owns over 50% of equity
AZWAVE SAMOA	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and selling computer products	100.00%	100.00%	AZWAVE SAMOA directly owns over 50% of equity
AZWAVE SAMOA	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00%	100.00%	AZWAVE SAMOA directly owns over 50% of equity
AZWAVE SAMOA	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00%	100.00%	AZWAVE SAMOA directly owns over 50% of equity
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00%	100.00%	AZURE WAVE directly owns over 50% of equity
UNIHAN	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	100.00%	UNIHAN directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
AMA PRECISION	AMA TECHNOLOGY CORPORATION	Trading computer peripherals	100.00%	100.00%	AMA PRECISION directly owns over 50% of equity
AMA PRECISION	AMA HOLDINGS LIMITED (AMA)	Investing activities	100.00%	100.00%	AMA PRECISION directly owns over 50% of equity
AMA	METAL TRADINGS LTD.(METAL)	Trading activities	100.00%	100.00%	AMA directly owns over 50% of equity
METAL	FENGSHUO TRADING (TONGZHOU) CO., LTD.	Trading activities	100.00%	100.00%	METAL directly owns over 50% of equity
AMA	EXTECH LTD.	Trading electronic parts	90.51%	90.51%	AMA directly owns over 50% of equity
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	100.00%	100.00%	EXTECH LTD. directly owns over 50% of equity
AMA	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD	Manufacturing and selling new electronic parts and premium hardware	100.00%	100.00%	AMA directly owns over 50% of equity
THE COMPANY AND ASUS INVESTMENT	ASUS HOLLAND HOLDING B.V.(AHH)	Investing activities	100.00%	100.00%	The Company and ASUS INVESTMENT directly and indirectly held 100% of equity
AHH	PEGATRON CZECH S.R.O.	Installing, repairing and selling electronic products	100.00%	100.00%	AHH directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00%	100.00%	PEGATRON HOLDING directly owns over 50% of equity
POWTEK	POWTEK (SHANGHAI) CO., LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00%	100.00%	POWTEK directly owns over 50% of equity
PEGATRON HOLDING, KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing activities	100.00%	100.00%	PEGATRON HOLDING and KINSUS SAMOA directly and indirectly held 100% of equity
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing activities	100.00%	100.00%	PIOTEK CAYMAN directly owns over 50% of equity
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	PIOTEK HOLDING directly owns over 50% of equity
PIOTEK HOLDING	PIOTEK (H.K) TRADING LIMITED	Trading activities	100.00%	100.00%	PIOTEK HOLDING directly owns over 50% of equity
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00%	100.00%	PEGATRON HOLDING directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
ASLINK	ASLINK (H.K.) PRECISION CO., LIMITED	Investing and trading activities	-	100.00%	ASLINK directly owns over 50% of equity
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00%	100.00%	PEGATRON HOLDING directly owns over 50% of equity
DIGITEK	DIGITEK (CHONGQING) LTD.	Manufacturing, developing, and selling GPS, computer electronic devices, and after-sales services	100.00%	100.00%	DIGITEK directly owns over 50% of equity
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%	PEGATRON HOLDING directly owns over 50% of equity
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00%	100.00%	PEGATRON HOLDING directly owns over 50% of equity
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00%	100.00%	MAGNIFICENT directly owns over 50% of equity
PROTEK	PROTEK (SHANGHAI) LIMITED	Developing, manufacturing and selling GPS, new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	PROTEK directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%	PEGATRON HOLDING directly owns over 50% of equity
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	COTEK directly owns over 50% of equity
PEGATRON HOLDING	TOP QUARK LIMITED (TOP QUARK)	Investing activities	100.00%	100.00%	PEGATRON HOLDING directly owns over 50% of equity
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00%	100.00%	TOP QUARK directly owns over 50% of equity
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	58.65%	58.65%	ASUSPOWER INVESTMENT, ASUS INVESTMENT and ASUSTEK INVESTMENT directly owns over 50% of equity
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Manufacturing and selling database storage and processing equipments	100.00%	100.00%	ASROCK directly owns over 50% of equity
ASIAROCK	ASROCK EUROPE B.V.	Manufacturing and selling database service and trading electronic components	100.00%	100.00%	ASIAROCK directly owns over 50% of equity
ASIAROCK	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%	ASIAROCK directly owns over 50% of equity
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing and holding activities	100.00%	100.00%	ASROCK directly owns over 50% of equity
Leader	Firstplace International Ltd. (Firstplace)	Investing and holding activities	100.00%	100.00%	Leader directly owns over 50% of equity
Firstplace	ASROCK America, Inc.	Database service and trading electronic components	100.00%	100.00%	Firstplace directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00%	100.00%	ASUSPOWER INVESTMENT and ASUS INVESTMENT directly and indirectly held 100% of equity
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, wholeselling and retailing electronic components, and providing business management consultant service	39.00%	39.00%	The investors have de facto control
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00%	100.00%	KINSUS directly owns over 50% of equity
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	80.22%	84.45%	KINSUS INVESTMENT, ASUSPOWER INVESTMENT and ASUSTEK INVESTMENT directly owns over 50% of equity
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION	Investing activities	100.00%	-	PEGAVISION CORPORATION directly owns over 50% of equity
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%	KINSUS directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	KINSUS directly owns over 50% of equity
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	100.00%	KINSUS SAMOA directly owns over 50% of equity
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	KINSUS CAYMAN directly owns over 50% of equity
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00%	100.00%	ASUSPOWER INVESTMENT, ASUS INVESTMENT and ASUSTEK INVESTMENT directly and indirectly held 100% of equity
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION (STARLINK)	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	100.00%	ASUSPOWER INVESTMENT, ASUS INVESTMENT and ASUSTEK INVESTMENT directly and indirectly held 100% of equity
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED (CAYMAN) (CASETEK CAYMAN)	Investing activities	74.39%	100.00%	ASUSPOWER CORPORATION directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00%	100.00%	CASETEK CAYMAN directly owns over 50% of equity
CASETEK CAYMAN	RIH KUAN METAL CORPORATION (RIH KUAN)	Selling iron and aluminum products	100.00%	100.00%	CASETEK CAYMAN directly owns over 50% of equity
CASETEK CAYMAN	APLUS PRECISION LIMITED (APLUS)	Investing and trading activities	100.00%	70.00%	CASETEK CAYMAN directly owns over 50% of equity
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00%	100.00%	CASETEK CAYMAN directly owns over 50% of equity
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	100.00%	APLUS directly owns over 50% of equity
UNITED	AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	100.00%	UNITED directly owns over 50% of equity
RIH LI	GLOBAL EXPERT LIMITED	Trading activities	-	100.00%	RIH LI directly owns over 50% of equity
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	Manufacturing and selling electronic components	100.00%	100.00%	RIH LI directly owns over 50% of equity
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	100.00%	RIH LI directly owns over 50% of equity
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	100.00%	RIH LI directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Manufacturing and selling electronic components	100.00%	100.00%	RIH LI directly owns over 50% of equity
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%	ASUS INVESTMENT directly owns over 50% of equity
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00%	100.00%	ASUSPOWER INVESTMENT directly owns over 50% of equity
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.(PCBR)	Maintenance service	100.00%	100.00%	PTSI directly owns over 50% of equity
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	100.00%	ASUSPOWER INVESTMENT directly owns over 50% of equity
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00%	100.00%	ASUSPOWER INVESTMENT directly owns over 50% of equity
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00%	-	ASUSPOWER INVESTMENT directly owns over 50% of equity
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens Optics)	Developing, manufacturing and selling computer data projectors and related peripherals	56.52%	56.52%	ASUSPOWER INVESTMENT, ASUS INVESTMENT and ASUSTEK INVESTMENT directly owns over 50% of equity
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	100.00%	Lumens Optics directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.09.30	2011.09.30	
Lumens Optics	Lumens Digital Image Inc.(SAMOA) (Lumens)	Investing activities	100.00%	100.00%	Lumens Optics directly owns over 50% of equity
Lumens	Lumens (Suzhou) Digital Image Inc.	Developing, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	100.00%	Lumens directly owns over 50% of equity
Lumens Optics	Lumens Europe BVBA	Selling computer communication products and peripherals	100.00%	100.00%	Lumens Optics directly owns over 50% of equity
Lumens Optics	Jie Xin Inc.	Manufacturing and wholesaling electronic parts	94.00%	94.00%	Lumens Optics directly owns over 50% of equity
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%	ASUS INVESTMENT directly owns over 50% of equity
The Company	ADVANSUS CORP.	Manufacturing computer peripherals	-	50.00%	The Company directly owns over 50% of equity
The Company	PEGATRON USA, INC.	Sales and repair service center in North America	100.00%	100.00%	The Company directly owns over 50% of equity

b. Increases or decreases in the number of consolidated subsidiaries as of September 30, 2012 were as follows:

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

2. For the year ended December 31, 2011, ASUSPOWER INVESTMENT CO., LTD., ASUS INVESTMENT CO., LTD. and ASUSTEK INVESTMENT CO., LTD. has established and invested US\$5,000 thousand, US\$10,000 thousand, NT\$300,000 thousand and US\$1,000 thousand in SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LTD. and RI-MING (SHANGHAI) CO., LTD. in Mainland China and RI-KUAN METAL CORPORATION and MEGA MERIT LIMITED in Taiwan through ASUSPOWER CORPORATION, respectively. ASUSPOWER INVESTMENT CO., LTD., ASUS INVESTMENT CO., LTD. and ASUSTEK INVESTMENT CO., LTD. thus acquired 100% equity ownership of the aforesaid newly established subsidiaries.
3. For the year ended December 31, 2011, the Company has established and invested DIGITEK (CHONGQING) LTD. in Mainland China through DIGITEK GLOBAL HOLDINGS LIMITED. The Company acquired 100% equity ownership of DIGITEK (CHONGQING) LTD. for US\$10,000 thousand.
4. For the year ended December 31, 2011, ASUSPOWER INVESTMENT CO., LTD. has invested and established PEGATRON LOGISTIC SERVICES INC. for US\$1,000, and directly owned 100% of its equity.
5. Due to organization restructuring, ASUS INVESTMENT CO., LTD. sold its 7.55% equity ownership of AHH to the Company in December 2011. Thus, the Company held 100% equity ownership of AHH as of December 31, 2011.
6. ASLINK (H.K.) PRECISION CO., LIMITED was excluded from the consolidated financial statements as it was liquidated in February 2012.
7. For the nine months ended September 30, 2012, the Consolidated Company disposed all equity ownership in ADVANSUS CORP. Please refer to Note 4(6) for details of the disposal.
8. In 2010, CASETEK HOLDINGS LIMITED (“CASETEK HOLDINGS”) acquired ownership of 51% of total issued shares of APLUS PRECISION (“APLUS”) in exchange of its long-term equity investment. In April 2011, CASETEK HOLDINGS acquired ownership of another 19% of total issued shares of APLUS from Avy Precision Technology Inc. for US\$10,281 thousand, which increased its total equity ownership in APLUS to 70%. Also, CASETEK HOLDINGS sold its equity ownership of APLUS at book value to CASETEK HOLDINGS LIMITED (CAYMAN), a subsidiary of the Company, due to the Group’s organizational restructuring in June 2011. In November 2011, CASETEK HOLDINGS LIMITED (CAYMAN) acquired the remaining 30% of equity ownership in APLUS from Avy Precision Technology Inc. APLUS becomes a wholly owned subsidiary of CASETEK HOLDINGS LIMITED (CAYMAN) following the acquisition.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

9. For the year ended December 31, 2011, Ability (TW) has invested and established VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. in Mainland China through VIEWQUEST TECHNOLOGIES (BVI) INC. Ability (TW) acquired 100% equity ownership of VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. for US\$3,300 thousand. Moreover, Ability (TW) has increased its equity investment in VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. by US\$3,000 for the nine months ended September 30, 2012.
10. E-PIN INTERNATIONAL TECH CO., LTD. was excluded from the consolidated financial statements as it was liquidated in April 2012.
11. GLOBAL EXPERT LIMITED was excluded from the consolidated financial statements as it was liquidated in November 2011.
12. For the year ended December 31, 2011, Ability (TW) acquired the 52.24% and 0.77% equity ownership of E-PIN from non-related parties and related parties for \$366,664 and \$2,549, respectively. Following the acquisition, Ability (TW) obtained a significant control over E-PIN OPTICAL INDUSTRY CO. LTD. and its subsidiaries.
13. For the nine months ended September 30, 2012, PEGAVISION CORPORATION has invested and established PEGAVISION HOLDINGS CORPORATION for US\$120 thousand and directly owned 100% equity of the aforesaid subsidiary.
14. In July, 2012, PEGAVISION CORPORATION has undergone a capital reduction and capital increment of \$180,000. As KINSUS INVESTMENT and ASUSPOWER INVESTMENT did not participate the capital increase of PEGAVISION CORPORATION according to their equity holding percentages, the equity ownership of KINSUS INVESTMENT and ASUSPOWER INVESTMENT have been reduced from 56.67% and 27.78% to 53.83% and 13.89%, respectively. Also, ASUSTEK INVESTMENT has acquired 12.50% equity ownership of PEGAVISION CORPORATION by participating in its capital increase.
15. In September 2012, ASSOCIATION INTERNATIONAL LTD. (ASSOCIATION) has completed its liquidation process. Ability (TW) has recognized a loss from disposal of investment of \$6,883 based on the difference between the book value of the investment in ASSOCIATION and the amount remitted. ASSOCIATION was excluded from the consolidated financial statements as it was liquidated in September 2012.

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

AZURE WAVE TECHNOLOGY CORP., ABILITY ENTERPRISE CO., LTD. and KINSUS INTERCONNECT TECHNOLOGY CORP., were included in the consolidated financial statements even if the Consolidated Company holds 38.08%, 12.35% and 39.00%, respectively, or less than 50% of their total issued shares because the Consolidated Company has acquired more than 50% of voting shares of each of these entities and has the ability to excise control over their respective board of directors.

- d. Subsidiaries excluded from consolidation: None.

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

(2) Financial Instruments

- a. Financial assets reported at fair value through profit or loss

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

- b. Available-for-sale financial assets

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

c. Held-to-maturity financial assets

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

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

d. Financial assets carried at cost

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

e. Notes and Account receivables, and other receivables

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

f. Financial liabilities reported at fair value through profit or loss

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

g. Short-term notes payable

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

h. Compound financial instruments

Compound financial instruments issued by the Consolidated Company comprise both financial liabilities and convertible notes that can be converted into share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized based on the excess of the fair value of the compound financial instrument as a whole over the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method, unless it is designated at fair value through profit or loss. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

(3) Transfer of Financial Assets

In accordance with Statement of Financial Accounting Standards No. 33 (SFAS 33) "Accounting for Transfers of Financial Assets and Extinguishments of Liabilities," a transfer of financial assets or a portion of a financial asset in which the transferor surrenders control over those financial assets shall be regarded as a sale to the extent that consideration in the transferred assets is received in exchange. The rights to the account receivable are derecognized after deducting the estimated amount in commercial dispute when all the following conditions are met.

- i. The rights to the account 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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- ii. Each transferee has the right to pledge or exchange the rights to the account 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 account receivable claims through either:
 - (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or
 - (2) the ability to unilaterally cause the holder to return specific rights to the account receivable.

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

3. Reasons for and Effect of Accounting Changes:

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

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

4. Summary of Major Accounts

(1) Cash and Cash Equivalents

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Cash on hand	\$ 16,170	25,000
Demand deposits	24,913,800	14,068,555
Time deposits	28,150,481	26,664,155
Total	<u>\$ 53,080,451</u>	<u>40,757,710</u>

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Financial Instruments

a. The components of financial instruments were as follows:

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Financial assets reported at fair value through profit or loss — current:		
Financial assets held-for-trading — current		
Stock of listed companies	\$ 275,475	161,801
Beneficiary certificates	5,997,336	5,084,582
Forward exchange contracts	32,459	18,650
Foreign exchange swap contracts	8,018	-
Option exchange	-	27,684
Corporate bonds	35,280	522,394
	<u>\$ 6,348,568</u>	<u>5,815,111</u>
Available-for-sale financial assets — current:		
Stock of overseas listed companies	<u>\$ 434,787</u>	<u>393,929</u>
Available-for-sale financial assets — noncurrent:		
Stock of listed companies	<u>\$ 461,792</u>	<u>1,198,634</u>
Held-to-maturity financial assets — noncurrent:		
Corporate bonds	<u>\$ -</u>	<u>338,841</u>
Financial assets carried at cost — noncurrent:		
Equity securities — common stock	\$ 407,744	596,800
Equity securities — preferred stock	284,278	325,682
	<u>\$ 692,022</u>	<u>922,482</u>
Financial liabilities reported at fair value through profit or loss — current:		
Financial liabilities held-for-trading — current		
Foreign exchange swap contracts	\$ -	54,384
Forward exchange contracts	-	25,029
Sub-total	<u>\$ -</u>	<u>79,413</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Financial liabilities reported at fair value through profit or loss — current:		
Domestic convertible bonds — put and call options	\$ (1,578)	(1,578)
Adjustments	74,132	95,440
Sub-total	<u>72,554</u>	<u>93,862</u>
Total	<u>\$ 72,554</u>	<u>173,275</u>
Financial liabilities reported at fair value through profit or loss — noncurrent:		
Financial liabilities held-for-trading — noncurrent		
Foreign convertible bonds — put and call options	\$ 20,410	-
Adjustments	(13,269)	-
Total	<u>\$ 7,141</u>	<u>-</u>

- b. The convertible bond issued by ABILITY ENTERPRISE CO., LTD. (“Ability (TW)”) was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put options embedded in bonds payable were separated from bonds payable, and were recognized as “Financial assets or liabilities at fair value through profit or loss” in accordance with SFAS No.34. For the nine months ended September 30, 2012 and 2011, Ability (TW) recognized a gain (loss) on financial liability reported at fair value through profit or loss of \$28,431 and \$(82,720), respectively. Please refer to Note 4(11) for the main terms and conditions of the 1st unsecured domestic convertible bonds issued by Ability (TW).
- c. For the nine months ended September 30, 2012 and 2011, the Consolidated Company recognized a net gain (loss) on financial assets reported at fair value through profit or loss of \$163,631 and \$(128,863), respectively.
- d. For the nine months ended September 30, 2012 and 2011, the unrealized gain (loss) on available-for-sale financial assets amounted to \$98,683 and \$(531,245), respectively.
- e. The investments in equity securities held by the Consolidated Company with no quoted price from active market and the fair value cannot be measured reliably, were reported as financial assets carried at cost — noncurrent. The Consolidated Company evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of \$40,812 and \$21,435 for the nine months ended September 30, 2012 and 2011, respectively.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- f. For the nine months ended September 30, 2011, the Consolidated Company sold for US\$18,904 thousand to a third party all of its equity ownership in Atheros Communications Inc. of 443,741 shares at US\$ 42.6 per share and recognized a gain thereon of \$331,781.
- g. For the nine months ended September 30, 2011, KINSUS sold all of its equity ownership in KINMAC SOLAR CO., LTD., of 10,711 thousand shares to WIN Semiconductors Corporation and 50 thousand shares to a third party, totaling 10,761 thousand shares at \$11 per share, for a total selling price of \$118,015, net of securities transaction tax.
- h. The Company separately accounts for the equity components and liability components of the overseas convertible corporate bonds in accordance with SFAS 36. Please refer to Note 4(11) for details.
- i. As of September 30, 2012 and 2011, the components of financial derivatives of Ability (TW) and GLOBAL EXPERT LIMITED were as follows:

September 30, 2012

	Book Value	Notional Principal (thousands)	Maturity Date/ Contract Period
Derivative financial assets not for hedge			
Forward exchange contract (buy)	\$ 32,459	USD 75,000	2012.08~2012.10
Foreign exchange swap contract	\$ 8,018	USD 47,650	2012.09~2012.11

September 30, 2011

	Book Value	Notional Principal (thousands)	Maturity Date/ Contract Period
Derivative financial assets not for hedge			
Forward exchange contract (buy)	\$ 18,650	USD 10,000	2011.08~2011.10
Option exchange (long call)	\$ 27,684	USD 5,700	2011.04~2012.02
Foreign exchange swap contracts	\$ (54,384)	USD 90,133	2011.04~2012.02
Forward exchange contract (sell)	\$ (25,029)	USD 19,000	2011.08~2011.10

Ability (TW) entered into derivative contracts during the nine months ended September 30, 2012 and 2011 to manage exposures due to the fluctuations of exchange rate and interest rate. However, no hedge accounting was adopted as these derivatives do not meet the criteria for hedge accounting.

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

(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

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Notes receivable	\$ 113,037	145,556
Less: Allowance for uncollectible accounts	-	(20)
Net	<u>113,037</u>	<u>145,536</u>
Accounts receivable	111,174,760	81,181,154
Less: Allowance for uncollectible accounts	(687,334)	(793,063)
Less: Allowance for sales returns and discounts	(115,103)	-
Net	<u>110,372,323</u>	<u>80,388,091</u>
Total	<u><u>\$ 110,485,360</u></u>	<u><u>80,533,627</u></u>

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

September 30, 2012

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

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

- b. As of September 30, 2012 and 2011, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

<u>Purchaser</u>	<u>Amount derecognized</u>		<u>Credit advanced</u>		<u>Collateral</u>	<u>Credit (thousands)</u>	
	<u>September 30, 2012</u>	<u>September 30, 2011</u>	<u>September 30, 2012</u>	<u>September 30, 2011</u>		<u>September 30, 2012</u>	<u>September 30, 2011</u>
Mega International Commercial Bank	\$ 418,865	722,285	114,250	76,928	None	US\$ 30,000	US\$ 30,000

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Inventories

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Merchandise	\$ 2,946,832	3,377,540
Less: Allowance for inventory market decline and obsolescence	(62,366)	(181,886)
Sub-total	<u>2,884,466</u>	<u>3,195,654</u>
Finished goods	31,015,198	24,986,878
Less: Allowance for inventory market decline and obsolescence	(1,223,713)	(1,117,522)
Sub-total	<u>29,791,485</u>	<u>23,869,356</u>
Work in process	14,072,273	12,181,209
Less: Allowance for inventory market decline and obsolescence	(1,161,226)	(1,143,526)
Sub-total	<u>12,911,047</u>	<u>11,037,683</u>
Raw materials	49,893,645	41,518,831
Less: Allowance for inventory market decline and obsolescence	(2,272,656)	(2,381,021)
Sub-total	<u>47,620,989</u>	<u>39,137,810</u>
Inventory-in-transit	844,697	1,643,984
Total	<u><u>\$ 94,052,684</u></u>	<u><u>78,884,487</u></u>

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

	<u>For the Nine Months Ended September 30</u>	
	<u>2012</u>	<u>2011</u>
Cost of goods sold	\$ 577,085,645	400,998,555
Reversal of inventory market price decline	223,167	1,316,072
Loss on disposal of inventory	4,863,980	1,454,346
Loss on physical inventory	26,558	1,685
Others	1,969,731	581,495
	<u><u>\$ 584,169,081</u></u>	<u><u>404,352,153</u></u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(5) Long-Term Equity Investments

Name of Investee Company	September 30, 2012		September 30, 2011	
	Equity Holding	Book Value	Equity Holding	Book Value
INDEED HOLDINGS LTD.	49.00%	\$ 732,002	49.00%	756,343
AVY PRECISION TECHNOLOGY INC.	20.25%	794,213	20.25%	765,004
ASAP TECHNOLOGY (JIANGXI) CO., LTD.	25.00%	273,631	25.00%	213,484
WILSON HOLDINGS LTD.	49.00%	158,156	49.00%	166,188
EVER PINE INTERNATIONAL LTD. (BVI)	34.65%	52,885	34.65%	104,623
WISE INVESTMENT LTD.	48.78%	44,133	48.78%	40,062
SHIN-EI YORKEY INTERNATIONAL LTD. (BVI)	50.00%	17,723	50.00%	13,943
ZHANGJIAGANG DONGBU HIGH TECHNOLOGY METAL PRODUCTS CO., LTD.	20.00%	43,541	20.00%	48,911
E-PACKING HOLDING LTD.	30.00%	289,799	30.00%	291,352
YOFREE TECHNOLOGY CO., LTD.	- %	-	17.50%	12,260
Sub-total		<u>2,406,083</u>		<u>2,412,170</u>
Add: Fair value adjustment for identifiable assets		-		37,495
Total		<u><u>\$2,406,083</u></u>		<u><u>2,449,665</u></u>

- a. For the nine months ended September 30, 2012 and 2011, the Consolidated Company recognized investment income under equity method of \$66,811 and \$78,571, respectively, based on the investees' financial statements, which were not reviewed by independent accountants. In October 2012, Ability (TW) sold its equity ownership of AVY PRECISION TECHNOLOGY INC. ("AVY PRECISION"), which resulted in Ability (TW) holding less than 20% equity shares of AVY PRECISION so that Ability (TW) ceased significant control of AVY PRECISION. Therefore, Ability (TW) has reclassified its equity investment in AVY PRECISION to available-for-sale financial assets – noncurrent.
- b. For the nine months ended September 30, 2012 and 2011, the Consolidated Company held less than 50% equity shares of SHIN-EI YORKEY INTERNATIONAL LTD. (BVI) and had no significant control thereof thus SHIN-EI YORKEY INTERNATIONAL LTD. (BVI) was excluded from the consolidated financial statements.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- c. AVY PRECISION, a subsidiary of Ability (TW), had swapped its equity shares with AZURE WAVE, which resulted in a difference between acquisition cost and fair value of the identifiable long-term investment. Since the Consolidated Company has the ability to control Ability (TW), such difference of \$37,495 as of September 30, 2012 was adjusted using the equity method of accounting based on the percentage of ownership of the Consolidated Company, in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 25 “Business Combinations.”
- d. The Consolidated Company invested US\$1,200 thousand in PENTAX VQ CO., LTD. through ASSOCIATION INTERNATIONAL LTD. (ASSOCIATION), which was approved by the Investment Commission of the Ministry of Economic Affairs. During the first quarter of 2011, the ASSOCIATION was liquidated and the liquidation proceeds of US\$1,432 thousand were remitted to the Consolidated Company. A loss of US\$63 thousand was recognized based on the difference between the book value of the investment in ASSOCIATION and amount remitted.
- e. In July 2011, eBizprise Inc. has undergone a capital reduction and capital increase. As the Consolidated Company did not participate in the capital increase of eBizprise Inc. according to its equity holding percentage, the equity ownership of the Consolidated Company has been reduced from 31.76% to 12.93%. Consequently, the Consolidated Company lost its ability to exercise control of eBizprise Inc. Therefore, the equity investment in eBizprise Inc. has been reclassified to financial assets carried at cost. In December 2011, the Consolidated Company has disposed its equity investment in eBizprise Inc. at original acquisition cost.
- f. In May 2012, YOFREE TECHNOLOGY CO., LTD. (YOFREE) has elected a new set of member of the Board of Directors. Following the election, AZURE WAVE TECHNOLOGIES, INC. (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.
- (6) Joint Venture Investments

The Company had equity investment in ADVANSUS CORP., which is a joint venture entity. As of September 30, 2011, the issued capital of ADVANSUS CORP. amounted to \$360,000, of which 50% was held by the Company as of the same date. The financial accounts of ADVANSUS CORP., which were included in the Company’s consolidated financial statements, were as follows:

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>September 30, 2011</u>	
Current Assets	\$	471,548
Non-current Assets		11,551
Current Liabilities		243,367
		For the Nine Months
		<u>Ended September 30, 2011</u>
Revenues	\$	1,181,848
Expenses		1,153,938

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.

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

a. Property, plant and equipment

- (a) Based on the results of its evaluation of the recoverability of property, plant and equipment, the Consolidated Company recognized a reversal of impairment loss on assets amounting to \$35,255 and \$1,571 for the nine months ended September 30, 2012 and 2011, respectively.
- (b) In order to construct operational headquarter and research and development center, ABILITY ENTERPRISE CO., LTD. (“Ability(TW)”) participated in Xinzhuang land auction and acquired a parcel of land worth \$2,468,329 which was accounted under land. The legal process for the registration of this land has been completed. On May 5, 2011, pursuant to the resolutions of the board of directors, Ability(TW) sold 50% of the aforesaid land for \$1,239,706 for the purpose of joint development with builder and recognized a gain thereon of \$5,532, which was recorded as other income.
- (c) On November 6, 2011, the factory of CASETEK HOLDINGS LIMITED and its subsidiaries (“CASETEK HOLDINGS”) in Suzhou had a fire accident. The carrying value of the damaged assets amounted to RMB\$11,211,256 (NT\$51,142), of which RMB\$10,150,451 (NT\$46,163) was recognized as a loss in 2011. In April, 2012, the insurance claim of RMB\$7,500,000 (NT\$35,239) has been confirmed. Therefore, a gain of RMB\$6,439,195 (NT\$30,255) was recognized thereon and accounted for as other income for the nine months ended September 30, 2012. The subsidiary has improved the damage caused by the fire accident, so there is no critical impact to the subsidiary’s operating activity.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (d) In order to expand the business and factories, RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. ("RI-TENG") signed with a non-related party (original petitioner) an agreement to purchase land use right and the existing building for RMB\$285,000. Under this agreement, the original petitioner is responsible for acquiring the land use right from the landlord and constructing a factory that conforms to the requirement of RI-TENG's.

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

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

- (e) For the nine months ended September 30, 2012, Ability(TW) capitalized interest amounted to \$19,212.
- (f) Please refer to Note 6 for details of the property, plant, and equipment pledged as collateral.

b. Rental assets

- (a) As of September 30, 2012 and 2011, the components of rental assets were as follows:

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Land	\$ 302,323	286,573
Buildings	726,947	579,063
Less: Accumulated depreciation	(173,784)	(127,662)
Less: Accumulated impairment	(12,030)	(12,030)
Add: Fair value adjustment for identifiable assets	4,999	6,706
	<u>\$ 843,455</u>	<u>732,650</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) In accordance with SFAS 25, as the Consolidated Company has the ability to control Ability (TW) through a share swap, the difference between the acquisition cost and the fair value of the rental assets was adjusted based on the Consolidated Company's percentage of ownership. As of September 30, 2012 and 2011, the fair value adjustment for identifiable assets amounted to \$4,999 and \$6,706, respectively.

c. Idle assets

(a) As of September 30, 2012 and 2011, the components of idle assets were as follows:

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Land	\$ 14,694	39,978
Buildings	68,953	205,845
Machinery and others	2,323,018	1,227,601
Less: Accumulated depreciation	(1,755,761)	(926,707)
Less: Accumulated impairment	(294,111)	(341,105)
	<u>\$ 356,793</u>	<u>205,612</u>

(b) As these idle assets were not used in operation, the Consolidated Company revalued these assets based on the recoverable amount. For the nine months ended September 30, 2012 and 2011, an impairment loss of \$16,163 and a gain from impairment loss recovery of \$28,450, respectively, was recognized for these idle assets.

(8) Intangible assets

a. Goodwill is assessed periodically for impairment in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets." As of September 30, 2012 and 2011, the carrying value of goodwill amounted to \$1,863,920 and \$1,940,817, respectively.

b. 'Land use rights' are rights granted to the Company to use government-owned land. These rights were paid in lump sum, which was capitalized and amortized equally over their useful lives. As of September 30, 2012 and 2011, the unamortized amount of land use rights was \$2,994,304 and \$2,613,005, respectively.

c. Identifiable intangible assets from customer relationships, technology and developments are amortized equally over 3 to 5 years based on their respective expected economic benefits. As of September 30, 2012 and 2011, the unamortized amount was \$726,953 and \$1,224,982, respectively.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

d. In April 2011, the Consolidated Company acquired 100% ownership of RIH LI for \$6,000,000 (with equivalent amount of US\$201,205 thousand) with an equity premium of US\$120,763 thousand. As of June 30, 2011, the remaining amount of payable arising from this transaction was \$2,949,540 (equivalent to US\$102,682 thousand), of which \$972,444 was due within a year (accounted under other financial liabilities — current), in accordance with the installment payment schedule stated in the contract. In order to meet the demands of the Consolidated Company and the original seller, they renegotiated the terms of payments, under which, the Consolidated Company is required to make an advance payment, with the cost of capital calculated using a discount rate of 2%. The Consolidated Company made an advance payment on August 31, 2011.

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

As of September 30, 2012, the acquisition price which was determined based on the report of independent appraiser was allocated as follows:

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

e. Supplementary Pro Forma Information for Business Combinations

For the nine months ended September 30, 2011, the Consolidated Company acquired 100% equity ownership of RIH LI INTERNATIONAL LIMITED and 52.24% equity ownership of E-PIN OPTICAL INDUSTRY CO., LTD. These investees were included in the consolidated financial statements from the date when the Consolidated Company's control over these investees commences. The supplementary pro forma information as if the business combination occurred on January 1, 2011 was as follows:

	For the Nine Months Ended September 30, 2011
Consolidated net sales	\$ 424,048,947
Consolidated net income before tax	\$ 2,419,285
Consolidated net loss	\$ 1,067,510
Pro forma primary losses per share	\$ (0.40)

(9) Other Assets – Others

This consisted of deferred charges arising from capitalized costs of small molds, fixtures and office decorations, which are amortized equally over 3 months to 10 years. As of September 30, 2012 and 2011, the unamortized amount of deferred charges was \$1,671,727 and \$2,234,297, respectively.

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

(10) Short - Term Loans

	September 30, 2012	September 30, 2011
Credit loans	\$ 22,180,507	24,950,979
Collateralized loans	381,154	159,422
	\$ 22,561,661	25,110,401
Range of interest rate	0.16% ~ 6.56%	0.05% ~ 5.04%

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(11) Bonds Payable

	September 30, 2012	September 30, 2011	Collateral
Overseas convertible bonds payable	\$ 8,874,000	-	None
Less: Discount on overseas bonds payable	(331,820)	-	
Less: Foreign currency valuation, end of the period	(85,246)	-	
Net	8,456,934	-	
Less: Current portion of bonds payable	-	-	
Sub-total	8,456,934	-	
Domestic convertible bonds payable	1,500,000	1,500,000	None
Less: Discount on domestic bonds payable	(72,113)	(103,019)	
Net	1,427,887	1,396,981	
Less: Current portion of bonds payable	(1,427,887)	-	
Sub-total	-	1,396,981	
Total	\$ 8,456,934	1,396,981	

- a. As of September 30, 2012, the offering information on the unsecured convertible bonds were as follows:

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

(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
	<p>(2) If more than 90% in principal amount of the Bonds originally outstanding has been redeemed, repurchased and cancelled or converted, the Company has the right to redeem all but not portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) The Bonds may be redeemed, in whole but not in part, if the affect of change in the tax laws of ROC will increase the Company's tax liability, interest expense or related cost from the Bonds. Holders may elect not to have their bonds redeemed with no entitlement to any additional amount of reimbursement of additional tax.</p>
8. Redemption at the option of the Holder	<p>(1) Each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds on February 6, 2015 at a redemption price equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(2) In the event that the Company's common shares ceased to be listed or admitted to trading on the TWSE, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) In the event of change of control occurs with respect to the Company, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount.</p>
9. Conversion	<p>(1) Conversion period Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, each Holder of the Bonds will have the right at anytime during the conversion period commencing March 18, 2012 (the 41st day following the Closing Date) and ending at the close of business on January 27, 2017 (the 10th day prior to the Maturity Date), to convert their bonds.</p> <p>(2) Conversion price The conversion price will be NT\$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012.</p> <p>(3) Conversion to common shares Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT\$29.761 = US\$1.00) divided by the conversion price on the conversion date.</p>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

<u>1st overseas unsecured convertible bonds issued in 2012</u>	<u>September 30, 2012</u>
Total issue price	\$ 8,874,000
Discount on bonds payable	(301,801)
Discount on bonds payable — transaction cost	(30,019)
Accumulated converted amount	-
Accumulated redeemed amount	-
Bonds payable, end of the period	8,542,180
Less: Valuation of bonds payable	(85,246)
Less: Current portion of bonds payable	-
Bonds payable, net, end of the period	<u>\$ 8,456,934</u>
Equity components — capital surplus on stock options	<u>\$ 329,225</u>
Liability components — financial liabilities (put and call options) reported at fair value through profit or loss	<u>\$ 7,141</u>
	For the Nine Months Ended September 30, 2012
Liability components — gain on valuation	<u>\$ (13,269)</u>
Interest expense	<u>\$ 132,217</u>

b. The key terms and conditions of the 1st unsecured domestic convertible bonds of the consolidated subsidiary, ABILITY ENTERPRISE CO., LTD. (“Ability (TW)”), 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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(12) Long - Term Loans

Creditor	Usage and redemption duration	September 30, 2012	September 30, 2011
Citibank Taiwan and 14 other participating financial institutions (Note A)	2010.10.25~2015.10.25, payable in 5 semi-annual installments, commencing from October 25, 2013.	\$ 11,718,000	12,192,000
The Shanghai Commercial & Saving Bank, Ltd. — International Financial Service Branch	2010.09.21~2015.09.20 payable in 10 quarterly installments, commencing from April 2013.	1,025,325	1,066,800
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2006.12.08 ~2013.12.08, interest is payable monthly and principal is payable in quarterly installments from the 13 th month, commencing from the date of borrowing.	6,103	11,430
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2009.06.23 ~2014.06.23, interest is payable monthly and principal is payable in quarterly installments from the 13 th month, commencing from the date of borrowing.	38,450	62,865
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2009.07.23 ~2014.07.23, interest is payable monthly and principal is payable in quarterly installments from the 13 th month, commencing from the date of borrowing.	10,986	17,145
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2009.11.23~2014.10.15, interest is payable monthly and principal is payable in quarterly installments from the 13 th month, commencing from the date of borrowing.	119,469	179,546
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2010.07.22~2015.07.15, interest is payable monthly and principal is payable in quarterly installments from the 13 th month, commencing from the date of borrowing.	114,250	158,496
The Shanghai Commercial & Savings Bank, Ltd. — International Financial Service Branch	2010.12.24~2014.12.24, interest is payable monthly and principal is payable in quarterly installments from the 13 th month, commencing from the date of borrowing.	97,650	241,300

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Creditor	Usage and redemption duration	September 30, 2012	September 30, 2011
The Shanghai Commercial & Savings Bank, Ltd. — International Financial Service Branch	2010.04.20~2013.04.19, payable in 8 quarterly installments, commencing from May 20, 2011. As of June 2011, redeeming method has changed to 8 quarterly installments, commencing from September 21, 2011.	21,971	53,340
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.01.24~2016.01.24, payable in 12 quarterly installments, commencing from the date of borrowing (with a two years grace period).	15,000	15,000
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.03.11~2015.03.10, interest is payable monthly and principal is payable in quarterly installments from the 13 th month, commencing from the date of borrowing.	122,063	215,900
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.11.29~2015.11.28, payable in 12 quarterly installments, commencing from the date of borrowing.	134,269	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.07.01~2015.06.30, payable in 12 quarterly installments, commencing from the date of borrowing.	268,538	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.10.04~2016.07.15, payable in 11 quarterly installments commencing from the 25 th month of borrowing.	51,160	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2012.01.18~2017.01.15, payable in 12 quarterly installments, commencing from the date of borrowing (with a two years grace period).	15,000	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2012.04.30~2017.04.15, payable in 12 quarterly installments, commencing from the date of borrowing (with a two years grace period).	30,000	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2012.06.29~2017.04.15, payable in 16 quarterly installments, commencing from the date of borrowing (with a one year grace period).	20,000	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2012.04.12~2016.04.11, payable in 12 quarterly installments, commencing from the date of borrowing (with a one year grace period).	-	304,800

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Creditor	Usage and redemption duration	September 30, 2012	September 30, 2011
E.Sun Bank	2012.03.12~2015.03.11, interest is payable in 12 quarterly installments and principal is payable on maturity.	146,474	-
Mega International Commercial Bank — Lan-Ya Branch	2004.12.31~2011.12.31, payable in 20 quarterly installments, commencing from January, April, July, October 15 which date is the nearest date of borrowing.	-	2,554
Mega International Commercial Bank — Lan-Ya Branch	2005.01.31~2012.01.31, payable in 20 quarterly installments, commencing from the date of borrowing (with a two years grace period).	-	11,354
Mega International Commercial Bank — Lan-Ya Branch	2009.12.16~2016.12.15, payable in 20 quarterly installments, commencing from the date of borrowing (with a two years grace period).	184,266	332,232
Mega International Commercial Bank — Lan-Ya Branch	2010.10.28 ~2015.10.27, interest is payable monthly and principal is payable in quarterly installments from the 13 th month, commencing from the date of borrowing.	142,813	213,360
Mega International Commercial Bank — Lan-Ya Branch	2010.10.28~2015.10.27, payable in 20 quarterly installments, commencing from the date of borrowing (with a two years grace period).	249,007	121,920
Mega International Commercial Bank — Lan-Ya Branch	2010.12.20~2015.12.20, payable in 20 quarterly installments, commencing from the date of borrowing.	666,461	906,780
Mega International Commercial Bank — Lan-Ya Branch	2011.02.14~2016.02.13, payable in 20 quarterly installments, commencing from the date of borrowing.	410,130	548,640
Mega International Commercial Bank — Lan-Ya Branch	2011.03.11~2016.03.11, payable in 20 quarterly installments, commencing from the date of borrowing.	285,626	388,620
Mega International Commercial Bank — Lan-Ya Branch	2011.04.07~2014.04.07, payable in 8 quarterly installments, commencing from the date of borrowing (with a one year grace period).	8,750	10,000

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Creditor	Usage and redemption duration	September 30, 2012	September 30, 2011
Mega International Commercial Bank — Lan-Ya Branch	2011.08.15~2014.08.15, payable in 8 quarterly installments, commencing from the date of borrowing (with a one year grace period).	14,000	14,000
Mega International Commercial Bank (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,464,750	1,524,000
Mega International Commercial Bank	2011.10.12~2016.10.12, payable in 8 quarterly installments, commencing from January 2015.	1,171,800	-
The Land Bank of Taiwan — Chung - Li Branch	2011.12.23~2016.12.23, payable in 60 monthly installments, commencing from the date of borrowing.	120,222	-
The Land Bank of Taiwan — Chung - Li Branch	2010.12.24~2015.12.24, payable in 60 monthly installments, commencing from the date of borrowing.	96,193	130,076
The Land Bank of Taiwan — Chung - Li Branch	2011.03.14~2014.03.13, interest is payable in 36 monthly installments and principal is payable on maturity date, commencing from the date of borrowing.	292,950	-
The Land Bank of Taiwan — Chung - Li Branch	2011.11.28~2016.11.27, interest is payable monthly and principal is payable in quarterly installments from the 13 th month, commencing from the date of borrowing.	137,584	-
The Land Bank of Taiwan — Chung - Li Branch	2011.07.04~2016.07.03, interest is payable monthly and principal is payable in quarterly installments from the 13 th month, commencing from the date of borrowing.	275,167	-
Taipei Fubon Banks	2012.01.31~2015.01.31, payable in 9 quarterly installments, commencing from January 31, 2013. The repayment schedule is 10% for first 8 installments, and the remaining amount is payable on maturity date.	385,000	-

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Creditor	Usage and redemption duration	September 30, 2012	September 30, 2011
Hua Nan Bank and 6 other banks	2009.08.31~2014.08.31, payable in 6 semi-annual installments, commencing from August 31, 2011. The repayment schedule is 10% for first 4 installments, 15% for the following 2 installments and the remaining amount is payable on maturity date.	-	360,000
Hua Nan Bank and 6 other banks	2009.08.31~2014.08.31, payable in 5 diminishing semi-annual installments, commencing from August 31, 2011.	-	25,000
The Shanghai Commercial & Savings Bank, Ltd. — Tian - Mu Branch	2009.06.23~2019.06.23, payable in equal monthly installment.	-	27,703
The Shanghai Commercial & Savings Bank, Ltd. — Tian - Mu Branch	2009.08.31~2014.08.31, payable in equal monthly installment	-	2,145
The Shanghai Commercial & Savings Bank, Ltd. — Tian - Mu Branch	2010.09.07~2013.09.07, payable in equal monthly installment.	-	7,500
The Land Bank of Taiwan — Chung - Li Branch	2011.04.28~2016.04.27, interest is payable monthly commencing from the date of borrowing and principal is payable in 16 quarterly installments commencing from April 28, 2012.	-	304,800
ANZ (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,464,750	1,524,000
DBS (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,464,750	1,524,000
DBS	2011.11.17~2016.11.16, payable in 6 installments. The repayment schedule is 15% for the 30 th and 33 rd month, 17.5% for the 42 nd , 48 th , 54 th and 60 th month, commencing from the date of borrowing .	1,171,800	-
Taiwan Cooperative Bank OBU Branch	2011.10.13~2016.10.13, payable in 4 semi-annual installments, commencing from April 2015.	1,464,750	-

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>Creditor</u>	<u>Usage and redemption duration</u>	<u>September 30, 2012</u>	<u>September 30, 2011</u>
HSBC (Taiwan) (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,464,750	1,524,000
Total		26,890,227	24,021,306
Less: Current portion		(1,454,324)	(996,411)
		<u>\$ 25,435,903</u>	<u>23,024,895</u>
Range of interest rate		<u>0.91%~2.38%</u>	<u>0.78%~3.55%</u>

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

(13) Pension Plan

In accordance with the order VI-0960064020 issued by the Financial Supervisory Commission, Executive Yuan, ROC, the related information on pension plan need not be disclosed.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(14) Income Tax

In accordance with the order VI-0960064020 issued by the Financial Supervisory Commission, Executive Yuan, ROC, the related information on income tax need not be disclosed.

(15) Stockholders' Equity

a. Capital Stock

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

In order to enhance own-brand business and boost productivity, the board of directors of ASUSTeK Computer Inc. ("ASUSTek") resolved on December 11, 2009 but revised it on January 1, 2010, to spin-off or cede its OEM group (Pegatron Corporation (the "Company")) to Pegatron International Investment Co., Ltd. ("Pegatron Investment"), which is being held by ASUSTeK. Pegatron Investment will issue new shares to ASUSTeK and all shareholders of ASUSTek, for which, ASUSTek and all other shareholders of ASUSTek will acquire 25% ownership and 75% ownership, respectively, of the equity of Pegatron Investment. The record date of this spin-off is June 1, 2010. Following the spin-off, the Company merged with Pegatron Investment. The Company issued 10 thousands new shares, resulting in additional capital of \$100. Thereafter, the Company's 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 valued at \$296,970. As of September 30, 2012 and 2011, the authorized capital of the Company consisted of 3,000,000 thousand and 2,500,000 thousand shares, with par value of \$10 per share, respectively. And its outstanding capital both consisted of 2,256,367 thousand shares.

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

The Company may issue new GDRs with no more than 60,819,020 Pegatron common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines." As of September 30, 2012, the Company has listed, in total, 9,877 thousand units of GDR on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 shares, the Company has listed Company shares totaling 49,386 thousand shares. Major terms and conditions for GDRs were as follows:

(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.

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

Note: After the issuance of the employee stock option, if the Company increases its capital through the surplus and/or capital reserve, the exercise price will be adjusted accordingly. Therefore, the expected dividend yield rate is excluded in calculating the fair value of the stock option.

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

A. For the nine months ended September 30, 2012

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

(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	3,751	-
Expired	-	-
Balance, end of the period	<u>33,897</u>	28.38
Exercisable, end of the period	<u>33,897</u>	
Weighted-average fair value of options granted	<u>7.90</u>	
Exercise price of share option outstanding, end of the period	<u>28.38</u>	
Remaining contractual life	<u>0.75</u>	
Expenses incurred in share-based payment transactions	<u>74,044</u>	

B. For the nine months ended September 30, 2011

	Issued in 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	-	\$ -
Granted	40,679	28.38
Exercised	-	-
Forfeited	1,770	-
Expired	-	-
Balance, end of the period	<u>38,909</u>	28.38
Exercisable, end of the period	<u>38,909</u>	
Weighted-average fair value of options granted	<u>7.9</u>	
Exercise price of share option outstanding, end of the period	<u>28.38</u>	
Remaining contractual life	<u>1.75</u>	
Expenses incurred in share-based payment transactions	<u>24,668</u>	

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

	<u>Stock Appreciation Rights</u>
Valuation date	09/28/2012
Base price	44.85
Expected volatility	44.12%
Risk-free interest rate	1.355%
Expected life of the option	2.244 years
Remaining life of the option	1.753 years

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

d. Legal reserve and capital surplus

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

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

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

e. Treasury Stock

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

(b) In accordance with Securities and Exchange Act, treasury shares cannot be pledged. Also, treasury shares do no bear the shareholder's right prior to being sold to third parties.

(c) As of September 30, 2012, the Company's shares held by its subsidiaries were 1,700 thousand shares amounting to \$64,855 at fair value.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

f. Earnings Distribution and Dividend Policy

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

- (a) No less than 10% as employees' bonuses which are distributable in cash or shares of stock. In the event that the employee bonus is distributed in the form of shares of stock, employees qualifying for such distribution may include the employees of subsidiaries of the Company who meet certain specific requirements. Such qualified employees and distribution ratio are decided by the Board of Directors.
- (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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

The difference between the actual amounts of earnings distribution for 2011 and those recognized in the financial statements was due mainly to the board of directors' resolution to change the amount of directors' and supervisors' remuneration to \$0. Such difference was accounted for under a change in accounting estimate and charged to profit or loss.

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

For the nine months ended September 30, 2012, employee bonuses of \$316,000 and directors' and supervisors' remuneration of \$29,000 were estimated and recognized as current expenses. Management is expecting that the differences between the amounts which are yet to be approved in the shareholders' meeting and those recognized in the financial statements, if any, will be treated-as changes in accounting estimates and charged to profit or loss.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(16) Employee Stock Option

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

(a) On November 20, 2007, pursuant to the resolutions of its board of directors, Ability(TW) had issued employee stock options covering a total number of 19,500 units. Each unit bears an option to subscribe for one thousand share of Ability(TW)’s common stock. Therefore, 10,000 thousand shares of new common stock were issued from the exercise of 10,000 units of employee stock option. Following the issuance of employee stock options, any event, such as additional change to common stock of Ability(TW), distributions of cash dividends, and occurrence of merger and acquisition will result in adjustments in the price of the stock options. The employee stock options cover a contractual life of 7 years, and are exercisable in accordance with certain schedules as prescribed by the plan starting 2 years from the date of grant. As of September 30, 2012 and 2011, the weighted-average expected life of the employee stock options was 2.49 years and 3.49 years, respectively.

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

	For the Nine Months Ended September 30			
	2012		2011	
	Quantity of stock option (thousand shares)	Weighted-average exercise price	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	5,079	\$ 34.9	6,678	38.3
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	-	-	(1,599)	38.3
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>5,079</u>	32.6	<u>5,079</u>	34.9
Exercisable at the end of the period	<u>3,079</u>	32.6	<u>1,079</u>	34.9

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

	For the Nine Months Ended	
	September 30	
	2012	2011
Net income		
Net income	\$ 1,098,492	807,709
Pro forma net income	1,092,396	793,908
Basic earnings per share		
Earnings per share	2.46 dollars	1.81 dollars
Pro forma earnings per share	2.44 dollars	1.78 dollars
Diluted earnings per share		
Earnings per share	2.27 dollars	1.72 dollars
Pro forma earnings per share	2.26 dollars	1.69 dollars

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

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

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

- (a) On November 20, 2007, pursuant to resolutions of its board of directors, Ability(TW) had issued employee stock options covering a total number of 19,500 units. The second batch of employee stock option 9,500 units was issued on October 13, 2008. Each unit bears an option to subscribe for one shares of Ability(TW)'s common stock at an exercise price of \$22.2 per share. As of September 30, 2012 and 2011, the weighted-average expected life of the employee stock options was 3 years and 4 years, respectively.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

	For the Nine Months Ended September 30			
	2012		2011	
	Quantity of stock option (thousand shares)	Weighted-average exercise price	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	4,888	\$ 17.6	6,802	19.3
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	(213)	17.6	(470)	19.3
Exercised	(38)	16.4	-	-
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>4,637</u>	16.4	<u>6,332</u>	17.6
Exercisable at the end of the period	<u>837</u>	16.4	<u>632</u>	17.6

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

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

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

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

	For the Nine Months Ended September 30	
	2012	2011
Equity transaction	\$ <u>5,694</u>	<u>9,912</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- c. The relevant registration processes for changes of capital resulting from the exercise of employee stock options and conversion of convertible bonds should be completed within at least each quarter when those changes occur. As of September 30, 2012, Ability (TW) increased its capital by \$680 due to the exercise of employee stock options.

(17) Earnings per Share (EPS)

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

(Note: shares in thousands)

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

(18) Financial Instruments

a. Fair value of financial instruments

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

Non-Financial Instruments	September 30, 2012		September 30, 2011	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets				
Financial asset reported at fair value through profit or loss — current	\$ 6,348,568	6,348,568	5,815,111	5,815,111
Available-for-sale financial asset — current	434,787	434,787	393,929	393,929
Financial assets held-to-maturity — noncurrent	-	-	338,841	338,841
Available-for-sale financial asset — noncurrent	461,792	461,792	1,198,634	1,198,634
Financial assets carried at cost — noncurrent	692,022	-	922,482	-
Financial Liabilities				
Financial liability reported at fair value through profit or loss — current	\$ 72,544	72,544	173,275	173,275
Bonds payable (including current portion)	9,884,821	9,955,434	1,396,981	1,485,000
Long-term loans (including current portion)	26,890,227	26,890,227	24,021,306	24,021,306
Financial Instruments				
Financial Assets				
Foreign exchange swap contracts	\$ 8,018	8,018	-	-
Forward exchange contracts	32,459	32,459	18,650	18,650
Option exchange	-	-	27,684	27,684
Financial Liabilities				
Foreign exchange swap contracts	\$ -	-	25,029	25,029
Interest swap contracts	-	-	54,384	54,384
Embedded derivatives — convertible bonds	79,695	79,695	93,862	93,862

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

- (a) The fair value of financial instruments, which are carried at fair value through profit or loss and traded in active markets, is based on quoted market prices. If the financial instruments are not traded in an active market, then the fair value is determined by using valuation techniques, under which, the estimates and assumptions used are consistent with prevailing market conditions.
 - (b) Financial assets carried at cost, are measured at carrying value, as their market price is difficult to determine, due to lack of objective evidences, in practice.
 - (c) The fair value of call options and put options embedded in the convertible bonds, which were issued after January 1st, 2006, is determined by their fair market value.
 - (d) The fair market value of long-term loans is determined by the present value of future cash flow. As the value derived by using floating interest rate in discounting is close to the book value, the book value is adopted as the fair market value.
 - (e) The fair value of the derivatives traded in active markets is determined by their carrying value, which approximates market value on the balance sheet date. If the derivatives are not traded in active markets, then the fair value is determined by using valuation techniques, under which the estimates and assumptions used are consistent with prevailing market conditions.
- c. Gain (Loss) recognized from changes in the fair values of financial assets, which were estimated by using valuation techniques, amounted to \$121,931 and \$(46,897), for the nine months ended September 30, 2012 and 2011, respectively.
- d. Gain (Loss) recognized from changes in the fair values of financial liabilities, which were estimated by using valuation techniques, amounted to \$41,700 and \$(81,996), for the nine months ended September 30, 2012 and 2011, respectively.

e. Information on financial risks

(a) Market risk

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(b) Credit risk

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

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

The Consolidated Company transacted only with the approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Consolidated Company would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Consolidated Company believes that there is no significant credit risk. Under its customer credibility evaluation policies, the Consolidated Company evaluates the customer's credibility and collectability of notes and account receivables regularly before doing business. Thus, management is not expecting any significant uncollectible accounts.

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(c) Liquidity risk

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

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

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

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

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

f. Financial risk control and hedging strategy

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(19) Others

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

	September 30, 2012			September 30, 2011		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	\$4,487,127	29.295	131,450,385	2,865,916	30.480	87,353,120
RMB	2,008,290	4.6199	9,278,099	1,595,874	4.7963	7,654,290
Long-term Equity Investments						
USD	42,688	29.295	1,250,566	52,748	30.480	1,607,759
Financial Liabilities						
Monetary Items						
USD	6,755,565	29.295	197,904,277	4,784,373	30.480	145,827,689
RMB	2,072,430	4.6199	9,574,419	1,350,231	4.7963	6,476,113

5. Related-Party Transactions

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

Name of Related Party	Relationship with the Company
ASUSTEK COMPUTER INC. (ASUSTeK)	An investor company accounting its investment in the Company under the equity method
ASUS COMPUTER INTERNATIONAL	An investee company accounted for under the equity method by ASUSTeK (Note1)
ASKEY COMPUTER CORP.	"
ASUS TECHNOLOGY INC.	"
ASMEDIA TECHNOLOGY INC.	"
ASUSTEK COMPUTER (SHANGHAI) CO., LTD. (ASUSTEK COMPUTER (SHANGHAI))	"
ASUS COMPUTER (SHANGHAI) CO., LTD. (ASUS COMPUTER (SHANGHAI))	"
SHINEWAVE INTERNATIONAL INC.	"
ENERTRONIX, INC.	"
AAEON TECHNOLOGY INC.	"

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
ASUS TECHNOLOGY (SHANGHAI) CO., LTD.	An investee company accounted for under the equity method by ASUSTeK (Note1)
EMES (SUZHOU) CO., LTD.	"
ASKEY TECHNOLOGY (JIANG SU) LTD. (ASKEY TECHNOLOGY)	"
UNIMAX ELECTRONICS INC.	"
ASHINE PRECISION CO., LTD.	An investee company accounted for under the equity method
AVY PRECISION TECHNOLOGY INC. (AVY PRECISION)	"
AVY CO., LTD.	"
E-PIN OPTICAL INDUSTRY CO., LTD. (E-PIN)	An investee company accounted for under the equity method (Note2)
DONGGUAN AVY PRECISION METAL COMPONENTS CO., LTD. (DONGGUAN AVY)	An investee company accounted for under the equity method
DONGGUAN CHENGGUANGP PRECISION HARDWARE CO., LTD.	"
AVY PRECISION METAL COMPONENTS (SUZHOU) CO., LTD.	"
SHANGHAI INDEED TECHNOLOGY CO., LTD. (SHANGHAI INDEED)	"
GING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	"
HOLD JUMPER PACKING (SUZHOU) CO., LTD.	"
HOLD JUMPER PACKING (SHANGHAI) CO., LTD.	"
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	"
SUZHOU DELUXE PACKING PRODUCTION CO., LTD.	"
BLACKROCK MARYLAND INTERNATIONAL CORP.	"
GREEN PACKING LTD.	"
SHINE TRADE INTERNATIONAL LTD.	"
TAISHIBA INTERNATIONAL CO., LTD.	An affiliate of Ability Enterprise Co., Ltd.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

Note 2: Effective September 1, 2011, E-PIN was included in the consolidated financial statements as Ability(TW) obtained a significant control over E-PIN.

(2) Significant Transactions with Related Parties

a. Sales

Name of Related Party	For the Nine Months Ended September 30					
	2012			2011		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTeK	\$ 107,312,656	17.47	Open account 60 days	121,184,409	28.67	Open account 60 days
Others	29,885	0.01	30~90 days from receipt of goods Open account 30~90 days	70,323	0.02	30~90 days from receipt of goods Open account 30~90 days
Total	<u>\$ 107,342,541</u>	<u>17.48</u>		<u>121,254,732</u>	<u>28.69</u>	

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

b. Purchases

Name of Related Party	For the Nine Months Ended September 30					
	2012			2011		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$ 82,936,530	14.40	Open account 60 days	91,650,572	22.17	Open account 60 days
Others	5,145,382	0.89	30~90 days from receipt of goods Open account 30~120 days	5,709,296	1.38	30~90 days from receipt of goods Open account 30~120 days
Total	<u>\$ 88,081,912</u>	<u>15.29</u>		<u>97,359,868</u>	<u>23.55</u>	

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

c. Others

	For the Nine Months Ended	
	September 30	
	2012	2011
(a) <u>After-sales warranty repair expense paid to :</u>		
ASUSTeK	\$ 21,256	268
ASUS COMPUTER (SHANGHAI)	-	138
Total	<u>\$ 21,256</u>	<u>406</u>
(b) <u>Other income from:</u>		
ASUSTeK	\$ 199,182	386,794
Others	5,900	4,332
Total	<u>\$ 205,082</u>	<u>391,126</u>

- (c) For the nine months ended September 30, 2012 and 2011, the Consolidated Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, and professional service fee, etc, amounting to \$11,721 and \$24,331, respectively.

d. Property Transactions

(a) Purchase of properties

For the nine months ended September 30, 2012 and 2011, properties purchased from other related parties amounted to \$97,858 and \$91,511, respectively.

(b) Equity transactions

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

(c) Rental revenue

For the nine months ended September 30, 2012 and 2011, the Consolidated Company incurred other related party transactions of \$21,392 and \$21,777, respectively, which were accounted as rental revenue.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

e. Accounts Receivable (Payable)

	September 30, 2012		September 30, 2011	
	Amount	%	Amount	%
Accounts Receivable:				
ASUSTeK	\$ 4,437,856	3.84	9,618,257	10.57
Others	4,397	-	41,100	0.05
Total	<u>\$ 4,442,253</u>	<u>3.84</u>	<u>9,659,357</u>	<u>10.62</u>
Other Receivable:				
ASUSTeK	\$ 53,717	1.19	34,258	1.43
Others	2,241	0.05	4,431	0.18
Total	<u>\$ 55,958</u>	<u>1.24</u>	<u>38,689</u>	<u>1.61</u>
Accounts Payable:				
AVY PRECISION	\$ 499,007	0.33	446,617	0.41
SHANGHAI INDEED	490,793	0.33	772,910	0.71
ASKEY TECHNOLOGY	322,093	0.21	815,445	0.75
Others	255,112	0.17	488,892	0.45
Total	<u>\$ 1,567,005</u>	<u>1.04</u>	<u>2,523,864</u>	<u>2.32</u>
Accrued Expenses:				
ASUSTEK COMPUTER (SHANGHAI)	\$ 12,844	0.09	7,611	0.06
ASUSTeK	4,353	0.03	984,886	7.35
Others	228	-	19	-
Total	<u>\$ 17,425</u>	<u>0.12</u>	<u>992,516</u>	<u>7.41</u>

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

	September 30, 2012	September 30, 2011
Other current assets	<u>\$ -</u>	<u>175</u>
Liabilities:		
Other financial liabilities — current	\$ 292	320
Other current liabilities	2,889	3,395
Total	<u>\$ 3,181</u>	<u>3,715</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

6. Pledged Assets

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

Asset	September 30		Purpose of pledge
	2012	2011	
Restricted deposit	\$ 263,717	112,217	Customs duty guarantee, collateral, rental deposits, travel agency guarantee, etc.
Property, plant and equipment	2,082,894	1,752,723	Bank loans
Refundable deposits	41,578	119,896	Customs duty guarantee, outsourcing guarantee, custom deposits, batch declaration guarantee, and deposits for performance guarantee
	<u>\$ 2,388,189</u>	<u>1,984,836</u>	

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

(1) As of September 30, 2012 and 2011, major commitments and contingencies were as follows:

Unused standby letters of credit	September 30, 2012	September 30, 2011
NTD	\$ 6,286	-
EUR	2,693	3,927
JPY	3,755,265	3,413,350
USD	25,043	204,001

(2) As of September 30, 2012 and 2011, promissory notes and certificate of deposit obtained for business purpose amounted to \$17,297 and \$16,776, respectively.

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

Year	Future lease commitments					
	2012	2013	2014	2015	2016	After 2017
Future lease commitments	<u>\$ 196,435</u>	<u>725,526</u>	<u>491,370</u>	<u>297,719</u>	<u>176,404</u>	<u>82,983</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

<u>Duration</u>	<u>Amount</u>	<u>Present Value</u>
10/01/2017~1/31/2025	<u>\$ 127,469</u>	<u>112,845</u>

(4) As of September 30, 2012 and 2011, the significant contracts for purchase of properties by the Consolidated Company amounted to \$4,190,396 and \$7,248,818, of which \$1,622,517 and \$3,055,257, respectively, were unpaid.

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

	<u>September 30, 2012</u>	<u>September 30, 2011</u>
Jointly issued with VQ (BVI)	<u>-</u>	<u>USD 10,000</u>
Jointly issued with VQ (BVI)	<u>-</u>	<u>NTD 175,000</u>
Jointly issued with E-PIN	<u>NTD 700,000</u>	<u>-</u>

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

(7) As of September 30, 2012, AZURE WAVE TECHNOLOGIES INC. issued a tariff guarantee of \$10,000 to the bank for the purpose of importing goods.

(8) ASUSPOWER INVESTMENT CO., LTD. has undertaken an administrative remedy due to the disagreement with Tax Authority in determining the nature of the equity transactions in 2006 and 2007. However, ASUSPOWER INVESTMENT CO., LTD. has accrued the income taxes due thereon.

(9) For the nine months ended September 30, 2012, CASETEK HOLDINGS LIMITED and its subsidiaries ("CASETEK HOLDINGS") have a trade dispute with MEICOM INDUSTRIES CORP. MEICOM INDUSTRIES CORP. has filed a claim for payment and property protection to the court. On August 6, 2012, the Shanghai Songjiang District People's Court has adjudicated to freeze CASETEK HOLDINGS's demand deposit of RMB\$31,361 (NT\$144,887) for six months. As CASETEK HOLDINGS has estimated and accrued the related liabilities, management believe that this case is expected to have no significant influence on CASETEK HOLDINGS' financial activities.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

8. SIGNIFICANT CATASTROPHIC LOSSES

On December 17, 2011, the dust collecting equipment of CASETEK HOLDINGS LIMITED and its subsidiaries in Shanghai had a small gas explosion. Based on the result of the preliminary assessment by the Consolidated Company, a loss of \$28,197 was recognized and accounted for under catastrophic loss. The actual amount of damages will be adjusted in the year when the amount of insurance claims will be confirmed.

9. SIGNIFICANT SUBSEQUENT EVENTS:

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

10. OTHERS

- (1) In accordance with the order VI-0960064020 issued by the Financial Supervisory Commission, Executive Yuan, ROC, the information on personnel, depreciation, and amortization expense need not be disclosed.
- (2) Certain accounts in the financial statements as of and for the nine months ended September 30, 2011, were reclassified to conform to the presentation adopted in the financial statements as of and for the nine months ended September 30, 2012.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

11. BUSINESS SEGMENT FINANCIAL INFORMATION

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

For the nine months ended September 30, 2012 and 2011, operating segments required to be disclosed are categorized as DMS (Design Manufacturing 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 Consolidated Company assess performance of the segments based on the segments' profit, and report the amounts of revenues based on the financial information used to prepare the consolidated financial statements.

For the Nine Months Ended September 30, 2012	DMS	Strategic Investment Group	Adjustment and eliminations	Total
External Revenue	\$ 527,759,312	86,384,407	-	614,143,719
Intra-Group Revenue	1,468,531	8,226,345	(9,694,876)	-
Total segment Revenue	<u>\$ 529,227,843</u>	<u>94,610,752</u>	<u>(9,694,876)</u>	<u>614,143,719</u>
Segment profit (loss)	<u>\$ 4,065,784</u>	<u>8,845,779</u>	<u>(4,453,130)</u>	<u>8,458,433</u>
Segment assets	<u>\$ 294,340,672</u>	<u>179,825,528</u>	<u>(104,689,204)</u>	<u>369,476,996</u>
For the Nine Months Ended September 30, 2011	DMS	Strategic Investment Group	Adjustment and eliminations	Total
External Revenue	\$ 344,437,781	78,199,102	-	422,636,883
Intra-Group Revenue	2,072,509	7,074,705	(9,147,214)	-
Total segment Revenue	<u>\$ 346,510,290</u>	<u>85,273,807</u>	<u>(9,147,214)</u>	<u>422,636,883</u>
Segment profit (loss)	<u>\$ (852,168)</u>	<u>5,956,314</u>	<u>(2,150,425)</u>	<u>2,953,721</u>
Segment assets	<u>\$ 230,178,729</u>	<u>174,42,098</u>	<u>(102,178,547)</u>	<u>302,042,280</u>

As of September 30, 2012, ADVANSUS CORP. was excluded from the consolidated financial statements due to disposal of the Company's entire equity ownership thereof.