

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

**PEGATRON CORPORATION**

**NON-CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2014 AND 2013**

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

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

## TABLE OF CONTENTS

<b>Contents</b>	<b>Page</b>
COVER PAGE	1
TABLE OF CONTENTS	2
INDEPENDENT ACCOUNTANTS' AUDIT REPORT	3
BALANCE SHEETS	4
STATEMENTS OF COMPREHENSIVE INCOME	5
STATEMENTS OF CHANGES IN EQUITY	6
STATEMENTS OF CASH FLOWS	7
NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS	
(1) COMPANY HISTORY	8
(2) APPROVAL DATE AND PROCEDURES OF THE NON-CONSOLIDATED FINANCIAL STATEMENTS	8
(3) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED	8~11
(4) SIGNIFICANT ACCOUNTING POLICIES	11~34
(5) MAJOR SOURCES OF SIGNIFICANT ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATION UNCERTAINTY	34
(6) EXPLANATION TO SIGNIFICANT ACCOUNTS	35~80
(7) RELATED PARTY TRANSACTIONS	80~83
(8) PLEDGED ASSETS	83
(9) SIGNIFICANT COMMITMENTS AND CONTINGENCIES	84
(10) LOSSES DUE TO MAJOR DISASTERS	84
(11) SUBSEQUENT EVENTS	84
(12) OTHERS	84
(13) SEGMENT INFORMATION	84



安侯建業聯合會計師事務所

KPMG

台北市11049信義路5段7號68樓(台北101大樓)  
68F, TAIPEI 101 TOWER, No. 7, Sec. 5,  
Xinyi Road, Taipei, 11049, Taiwan, R.O.C.

Telephone 電話 + 886 (2) 8101 6666  
Fax 傳真 + 886 (2) 8101 6667  
Internet 網址 www.kpmg.com.tw

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

**AUDIT REPORT OF INDEPENDENT ACCOUNTANTS**

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

We have audited the accompanying balance sheets of Pegatron Corporation (the “Company”) as of December 31, 2014 and 2013, and the related statements of comprehensive income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain investees accounted for under the equity method, in which the Company’s long-term equity investments amounted to NT\$ 22,255,615 thousand, NT\$ 22,241,985 thousand, representing 5.14% and 5.80% of total assets as of December 31, 2014 and 2013, respectively, and related investment income was NT\$ 1,069,407 thousand and NT\$ 1,697,446 thousand, representing 6.51% and 17.78% of net income before tax for the years ended December 31, 2014 and 2013, respectively. The financial statements of these investees were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, is based solely on the reports of other auditors.

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



In our opinion, based on our audits and the reports of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, the results of its operations and its cash flows for the years then ended in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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

March 23, 2015

**Note to Readers**

The accompanying non-consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION**  
**NON-CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2014 AND 2013**  
**(All Amounts Expressed in Thousands of New Taiwan Dollars)**

	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents (Note 6(1))	\$ 31,092,242	7	19,170,052	5
Notes and accounts receivable, net (Note 6(3))	103,145,200	24	85,155,913	22
Accounts receivable, net—Related parties (Note 7)	150,393,887	35	133,504,038	35
Other receivables, net (Notes 6(3) and 7)	12,895,589	3	23,296,254	6
Inventories (Note 6(4))	18,350,385	4	21,985,422	6
Other financial assets—current (Note 6(8))	42,141	-	55,820	-
Other current assets (Note 6(8))	136,624	-	120,548	-
	<u>316,056,068</u>	<u>73</u>	<u>283,288,047</u>	<u>74</u>
<b>Non-current assets:</b>				
Investments accounted for using equity method (Note 6(5))	112,093,393	26	95,704,186	25
Property, plant and equipment (Notes 6(6) and 7)	4,478,327	1	4,444,544	1
Intangible assets (Note 6(7))	48,713	-	58,990	-
Deferred tax assets (Note 6(15))	180,305	-	173,059	-
Other financial assets—noncurrent (Note 6(8))	26,684	-	32,492	-
Other noncurrent assets (Note 6(8))	-	-	34,370	-
	<u>116,827,422</u>	<u>27</u>	<u>100,447,641</u>	<u>26</u>
<b>TOTAL ASSETS</b>	<b>\$ 432,883,490</b>	<b>100</b>	<b>383,735,688</b>	<b>100</b>

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

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

## PEGATRON CORPORATION

## NON-CONSOLIDATED BALANCE SHEETS (CONT'D)

DECEMBER 31, 2014 AND 2013

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2014		December 31, 2013	
	Amount	%	Amount	%
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Short-term loans (Note 6(9))	\$ 21,965,100	5	18,628,125	6
Financial liabilities at fair value through profit or loss—current (Notes 6(2) and 6(11))	1,117,653	-	-	-
Notes and accounts payable	110,563,613	26	105,537,143	27
Accounts payable—Related parties (Note 7)	114,141,212	26	93,203,009	24
Other payables (Notes 6(17) and 7)	19,210,958	5	13,921,682	4
Current income tax liabilities	1,764,795	-	366,613	-
Provisions—current (Note 6(12))	64,030	-	62,923	-
Deferred revenue	535,714	-	504,324	-
Bonds payable—current portion (Note 6(11))	1,808,230	-	-	-
Long-term loans payable—current portion (Note 6(10))	5,064,000	1	4,768,800	1
Other current liabilities (Note 7)	10,754,198	3	14,093,534	4
	<u>286,989,503</u>	<u>66</u>	<u>251,086,153</u>	<u>66</u>
<b>Non-current liabilities:</b>				
Financial liabilities at fair value through profit or loss —noncurrent (Notes 6(2) and 6(11))	-	-	235,162	-
Bonds payable (Note 6(11))	-	-	8,116,490	2
Long-term loans (Note 6(10))	11,982,400	3	16,746,400	4
Deferred tax liabilities (Note 6(15))	205,445	-	217,397	-
Other noncurrent liabilities (Note 6(14))	35,211	-	30,292	-
	<u>12,223,056</u>	<u>3</u>	<u>25,345,741</u>	<u>6</u>
<b>Total Liabilities</b>	<u>299,212,559</u>	<u>69</u>	<u>276,431,894</u>	<u>72</u>
<b>EQUITY (Note 6(16))</b>				
<b>Share capital</b>	<u>25,156,805</u>	<u>6</u>	<u>23,211,555</u>	<u>6</u>
<b>Capital surplus:</b>				
Capital surplus, premium on capital stock	70,531,321	16	61,420,285	16
Capital surplus, others	3,764,399	1	1,755,534	-
	<u>74,295,720</u>	<u>17</u>	<u>63,175,819</u>	<u>16</u>
<b>Retained earnings:</b>				
Legal reserve	3,413,566	1	2,458,117	1
Special reserve	-	-	3,280,485	1
Unappropriated retained earnings	25,911,678	6	15,405,350	4
	<u>29,325,244</u>	<u>7</u>	<u>21,143,952</u>	<u>6</u>
<b>Other equity interest:</b>				
Exchange differences on translation of foreign financial statements	4,788,058	1	(48,637)	-
Unrealized gains on available-for-sale financial assets	177,810	-	79,871	-
Deferred compensation cost arising from issuance of restricted stock (Note 17)	(64,523)	-	(241,370)	-
	<u>4,901,345</u>	<u>1</u>	<u>(210,136)</u>	<u>-</u>
<b>Treasury stock</b>	<u>(8,183)</u>	<u>-</u>	<u>(17,396)</u>	<u>-</u>
<b>Total Equity</b>	<u>133,670,931</u>	<u>31</u>	<u>107,303,794</u>	<u>28</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 432,883,490</u>	<u>100</u>	<u>383,735,688</u>	<u>100</u>

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

(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION**  
**NON-CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**  
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Years ended December 31			
	2014		2013	
	Amount	%	Amount	%
<b>Operating revenues (Notes 6(19) and 7)</b>	\$ 900,073,512	100	796,040,889	100
Less: Sales returns and allowances	2,109,924	-	1,816,161	-
<b>Net sales</b>	897,963,588	100	794,224,728	100
<b>Cost of sales (Notes 6(4), 6(13) and 7)</b>	873,094,844	97	783,471,961	99
<b>Gross profit</b>	24,868,744	3	10,752,767	1
<b>Realized profit on intercompany transactions</b>	16,005	-	49,334	-
<b>Gross profit</b>	24,884,749	3	10,802,101	1
<b>Operating expenses (Notes 6(13), 6(14) and 7)</b>				
Selling expenses	7,602,091	1	3,252,575	-
General and administrative expenses	2,541,792	-	1,995,092	-
Research and development expenses	6,769,560	1	5,265,356	1
	16,913,443	2	10,513,023	1
	7,971,306	1	289,078	-
<b>Results from operating activities</b>				
<b>Non-operating income and expenses</b>				
Other income (Notes 6(20) and 7)	599,273	-	438,071	-
Other gains and losses (Notes 6(11) and 6(20))	(3,374,868)	-	514,234	-
Financial costs (Notes 6(11) and 6(20))	(702,460)	-	(917,669)	-
Share of profit (loss) of associates and joint ventures accounted for under equity method (Note 6(5))	11,976,103	1	9,242,598	1
Other losses (Note 7)	(30,887)	-	(19,912)	-
	8,467,161	1	9,257,322	1
	16,438,467	2	9,546,400	1
<b>Profit before tax</b>	1,780,329	-	(8,096)	-
<b>Income tax expense (benefit) (Note 6(15))</b>	14,658,138	2	9,554,496	1
<b>Profit for the year</b>				
<b>Other comprehensive income (Note 6(16))</b>				
Foreign currency translation differences—foreign operations	2,715,588	-	1,777,556	-
Defined benefit plan actuarial gains (losses)	1,364	-	(1,195)	-
Share of other comprehensive income of associates and joint ventures accounted for under equity method	2,228,932	-	1,572,974	-
Income tax relating to components of other comprehensive income	-	-	-	-
<b>Other comprehensive income for the year, net of tax</b>	4,945,884	-	3,349,335	-
<b>Total comprehensive income for the year</b>	\$ 19,604,022	2	12,903,831	1
<b>Earnings per share, net of tax (Note 6(18))</b>				
Basic earnings per share	\$	6.24	\$	4.16
Diluted earnings per share	\$	6.17	\$	3.74

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

(English Translations of Financial Statements Originally Issued in Chinese)  
 PEGATRON CORPORATION  
 NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013  
 (Expressed in Thousands of New Taiwan Dollars)

	Attributable to Owners of the Company												
	Share capital				Retained earnings			Other adjustments to equity					
	Common stock	Advance receipts for share capital	Total	Capital surplus	Legal reserve	Special reserve	Unappropriated	Total	Foreign currency translation differences	Unrealized gains (losses) on available-for-sale financial assets	Other	Total	Treasury stock
<b>Balance, January 1, 2013</b>	\$ 22,903,049	-	22,903,049	61,723,110	1,847,737	734,859	12,422,970	15,005,566	(3,398,256)	88,302	(497,698)	(18,794)	95,805,279
Profit for the year	-	-	-	-	-	-	9,554,496	9,554,496	-	-	-	-	9,554,496
Other comprehensive income for the period	-	-	-	-	-	-	8,147	8,147	3,349,619	(8,431)	-	-	3,349,335
Total comprehensive income for the period	-	-	-	-	-	-	8,147	8,147	3,349,619	(8,431)	-	-	3,349,335
Appropriation and distribution of retained earnings (Note 1)	-	-	-	-	-	-	9,562,643	9,562,643	3,349,619	(8,431)	-	-	12,903,831
Legal reserve	-	-	-	610,380	-	-	(610,380)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	2,545,626	(2,545,626)	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(3,435,457)	(3,435,457)	-	-	-	-	(3,435,457)
Disposal of the Company's share by its subsidiary recognized as treasury share transaction	-	-	-	1,955	-	-	-	1,955	-	-	-	2,178	4,133
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	116,741	-	-	-	116,741	-	-	-	-	116,741
Changes in ownership interest in subsidiaries	-	-	-	608,763	-	-	-	608,763	-	-	-	-	608,763
Share-based payments	258,960	7,210	266,170	557,408	-	-	-	557,408	-	-	-	-	823,578
Expiration of restricted shares of stock issued to employees	(18,284)	-	(18,284)	19,064	-	-	-	19,064	-	-	-	-	-
Compensation cost arising from restricted shares of stock	60,020	-	60,020	148,778	-	-	-	148,778	-	-	-	-	-
<b>Balance, December 31, 2013</b>	23,204,345	7,210	23,211,555	63,175,819	2,458,117	3,280,485	15,405,350	21,143,952	(48,637)	79,871	(241,370)	(17,396)	107,303,794
Profit for the year	-	-	-	-	-	-	14,658,138	14,658,138	-	-	-	-	14,658,138
Other comprehensive income for the period	-	-	-	-	-	-	11,250	11,250	4,836,695	97,939	-	-	4,945,884
Total comprehensive income for the period	-	-	-	-	-	-	11,250	11,250	4,836,695	97,939	-	-	4,945,884
Appropriation and distribution of retained earnings (Note 2)	-	-	-	-	-	-	14,669,388	14,669,388	4,836,695	97,939	-	-	19,604,022
Legal reserve	-	-	-	955,449	-	-	(955,449)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	(3,280,485)	3,280,485	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	-	-	(6,497,217)	(6,497,217)	-	-	-	-	(6,497,217)
Conversion of convertible bonds	377,318	1,472,500	1,849,818	8,507,771	-	-	-	8,507,771	-	-	-	-	10,357,589
Disposal of the Company's share by its subsidiary recognized as treasury share transaction	-	-	-	9,629	-	-	-	9,629	-	-	-	10,503	20,132
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	2,266,315	-	-	-	2,266,315	-	-	-	-	2,266,315
Changes in ownership interest in subsidiaries	-	-	-	16,721	-	-	-	16,721	-	-	-	-	16,721
Share-based payments	104,890	(2,010)	102,880	266,598	-	-	-	266,598	-	-	-	-	369,478
Expiration of restricted shares of stock issued to employees	(7,448)	-	(7,448)	8,738	-	-	-	8,738	-	-	-	(1,290)	-
Compensation cost arising from restricted shares of stock	-	-	-	44,129	-	-	-	44,129	-	-	-	-	230,097
<b>Balance, December 31, 2014</b>	\$ 23,679,105	1,477,700	25,156,805	74,295,720	3,413,566	-	25,911,678	29,325,244	4,788,058	177,810	(64,523)	(8,183)	133,670,531

Note 1: The directors' and supervisors' remuneration of \$299,000 for the year ended December 31, 2012 had been deducted from comprehensive income for the year ended December 31, 2012. Please refer to Note 6(16) for details of earning distribution.

Note 2: The directors' and supervisors' remuneration of \$85,000 and employees' bonuses of \$870,000 for the year ended December 31, 2013 had been deducted from comprehensive income for the year ended December 31, 2013. Please refer to Note 6(16) for details of earning distribution.

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



(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION**  
**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2014 AND 2013**  
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2014	2013
<b>Cash flows from operating activities:</b>		
<b>Profit before tax</b>	\$ 16,438,467	9,546,400
<b>Adjustments to reconcile net income to net cash used in operating activities</b>		
Depreciation	611,252	572,928
Amortization	31,572	51,141
Allowance for uncollectable accounts	1,680,594	31,280
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	4,172,368	(534,768)
Interest expense	486,420	690,881
Interest income	(164,737)	(69,968)
Amortization of issuance costs on bonds payable	13,782	12,787
Compensation cost arising from employee stock options	237,421	508,571
Loss on foreign currency exchange of bonds payable	517,134	212,436
Share of profit of associates and joint ventures accounted for under equity method	(11,976,103)	(9,242,598)
Loss on disposal of property, plant and equipment	30,184	17,389
Gain on reversal of impairment loss	-	(3,878)
Realized profits on intercompany transactions	(16,005)	(49,334)
Loss on foreign currency exchange on long-term loans	295,200	244,800
	<u>(4,080,918)</u>	<u>(7,558,333)</u>
<b>Change in operating assets and liabilities</b>		
<b>Change in operating assets</b>		
Increase in notes and accounts receivable	(36,559,730)	(23,043,667)
Decrease (increase) in other receivables	10,394,767	(12,153,839)
Decrease (increase) in inventories	3,635,037	(9,953,266)
Decrease (increase) in other current assets	(15,397)	159,600
Decrease in other financial assets	13,679	41,113
Total changes in operating assets	<u>(22,531,644)</u>	<u>(44,950,059)</u>
<b>Change in operating liabilities</b>		
Increase in notes and accounts payable	25,964,673	16,659,923
Increase in other payables	3,215,317	1,147,613
Increase in provisions — current	1,107	1,784
Increase (decrease) in deferred revenue	31,390	(19,729)
Increase (decrease) in other current liabilities	(3,339,336)	6,762,488
Increase in other non-current liabilities	6,283	3,228
Total changes in operating liabilities	<u>25,879,434</u>	<u>24,555,307</u>
Net changes in operating assets and liabilities	<u>3,347,790</u>	<u>(20,394,752)</u>
Total changes in operating assets and liabilities	<u>(733,128)</u>	<u>(27,953,085)</u>
<b>Cash provided by (used in) operating activities</b>	15,705,339	(18,406,685)
Interest received	170,635	61,154
Dividend received	5,220,940	2,475,281
Interest paid	(429,111)	(287,997)
Income taxes paid	(296,005)	(48,335)
<b>Net cash provided by (used in) operating activities</b>	<u>20,371,798</u>	<u>(16,206,582)</u>

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

(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION**  
**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)**  
**FOR THE YEAR ENDED DECEMBER 31, 2014 AND 2013**  
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2014	2013
<b>Cash flows from investing activities</b>		
Acquisition of investments accounted for using equity method	(2,370,351)	(561,165)
Acquisition of property, plant and equipment	(541,258)	(438,505)
Proceeds from disposal of property, plant and equipment	626	2,323
Decrease (increase) in other financial assets	5,808	(789)
Acquisition of intangible assets	(21,295)	(5,498)
Net cash inflows from business combination	-	3,413,490
<b>Net cash provided by (used in) investing activities</b>	<b>(2,926,470)</b>	<b>2,409,856</b>
<b>Cash flows from financing activities</b>		
Increase in short-term loans	3,336,975	12,268,365
Proceeds from long-term loans	20,599,580	12,000,000
Repayments of long-term loans	(25,368,380)	(2,323,200)
Increase in other payables--related parties	2,043,750	1,643,250
Dividends paid	(6,497,217)	(3,435,457)
Employee stock options	362,154	746,281
Proceeds from issuance and retrieve of restricted stock	-	60,620
<b>Net cash provided by (used in) financing activities</b>	<b>(5,523,138)</b>	<b>20,959,859</b>
Net increase in cash and cash equivalents	11,922,190	7,163,133
<b>Cash and cash equivalents, beginning of the year</b>	<b>19,170,052</b>	<b>12,006,919</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 31,092,242</b>	<b>19,170,052</b>

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

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

**PEGATRON CORPORATION**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2014 AND 2013**

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

**1. COMPANY HISTORY**

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

In accordance with Article 19 of the Business Mergers and Acquisitions Act, the Company merged with UNIHAN CORPORATION, pursuant to the resolutions of the board of directors in November, 2013. Please refer to Note 6(5) for details.

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

The non-consolidated financial statements were authorized for issue by the Board of Directors on March 23, 2015.

**3. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

(1) Impact of the 2013 version of the International Financial Reporting Standard (“IFRS”) endorsed by the Financial Supervisory Commissions R.O.C. (“FSC”) but not yet effective

According to the official letter No.1030010325 issued on April 3, 2014 by the FSC, listed, over-the-counter, and emerging stock companies are required to adopt the 2013 version of the IFRS endorsed by the FSC (IFRS 9 Financial instruments is excluded) in preparing financial statements starting 2015.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

The new standards and amendments issued by the International Accounting Standards Board (“IASB”) were as follows:

<u>New standards and amendments</u>	<u>Effective date per IASB</u>
• Amended IFRS 1 “ <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i> ”	July 1, 2010
• Amended IFRS 1 “ <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ”	July 1, 2011
• Amended IFRS 1 “ <i>Government Loans</i> ”	January 1, 2013
• Amended IFRS 7 “ <i>Disclosure — Transfers of Financial Assets</i> ”	July 1, 2011
• Amended IFRS 7 “ <i>Disclosure — Offsetting Financial Assets and Financial Liabilities</i> ”	January 1, 2013
• IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (Investment Entities amendments, effective 1 January 2014.)
• IFRS 11 <i>Joint Arrangements</i>	January 1, 2013
• IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
• IFRS 13 <i>Fair Value Measurement</i>	January 1, 2013
• Amended IAS 1 “ <i>Presentation of Items of Other Comprehensive Income</i> ”	July 1, 2012
• Amended IAS 12 “ <i>Deferred Tax: Recovery of Underlying Assets</i> ”	January 1, 2012
• Amended IAS 19 “ <i>Employee Benefits</i> ”	January 1, 2013
• Amended IAS 27 “ <i>Separate Financial Statements</i> ”	January 1, 2013
• Amended IAS 32 “ <i>Offsetting Financial Assets and Financial Liabilities</i> ”	January 1, 2014
• IFRIC 20 — <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013

The Group has assessed that the 2013 version of the IFRS may not have significant impact on the consolidated financial statements except for the following:

A. IFRS 10 Consolidated Financial Statements

The standard replaced regulations related to consolidated financial statements in the original IAS 27 *Consolidated and Separate Financial Statements* and renamed IAS 27 as *Separate Financial Statements*. The standard also superseded Standard Interpretations Committee interpretations 12 *Consolidation – Special Purpose Entities* and redefined controlling ability. To have control over an investee, the investor must possess all three elements of control.

The adoption of the above standards may not change the method of accounting of investees and disclosure for certain subsidiaries and associates.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

B. Amendments to IAS 1 Presentation of Financial Statements

The other comprehensive income section is required to present line items which are classified by their nature, and grouped between those items that will or will not be reclassified to profit and loss in subsequent periods. Allocation of income tax to two groups of items of other comprehensive is also required. The Group is expecting to change the presentation of comprehensive income statement in accordance with the standard.

C. IFRS 12 Disclosure of Interests in Other Entities

The standard is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group is expecting to increase disclosures on the consolidated and unconsolidated entities in accordance with the standard.

D. IFRS 13 Fair Value Measurement

The standard defines fair value and provides a framework for measuring fair value and requires disclosures on fair value measurement. Based on its assessment, the Group is not expecting the standard to have significant impact on the financial position and the results of operations, but is expecting to increase the disclosures relating to fair value measurement in accordance with the standard.

(2) Impact of IFRS issued by the IASB but not yet endorsed by the FSC

The 2013 version of the IFRS issued by the IASB but not yet endorsed by the FSC were as follows:

<u>New standards and amendments</u>	<u>Effective date per IASB</u>
• IFRS 9 <i>Financial Instruments</i>	January 1, 2018
• Amended IAS 28 and IFRS 10 “ <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ”	January 1, 2016
• Amended IAS 28, IFRS 10, and IFRS 12 “ <i>Investment Entities: Applying the Consolidation Exception</i> ”	January 1, 2016
• Amended IFRS 11 “ <i>Accounting for Acquisitions of Interests in Joint Operations</i> ”	January 1, 2016
• IFRS 14 “ <i>Regulatory Deferral Accounts</i> ”	January 1, 2016
• IFRS 15 “ <i>Revenue from Contracts with Customers</i> ”	January 1, 2017
• Amended IAS 1 “ <i>Disclosure Initiative</i> ”	January 1, 2016
• Amended IAS 16 and IAS 38 “ <i>Clarification of Acceptable Methods of Depreciation and Amortization</i> ”	January 1, 2016

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

<u>New standards and amendments</u>	<u>Effective date per IASB</u>
• Amended IAS 16 and IAS 41 “ <i>Agriculture : Bearer Plants</i> ”	January 1, 2016
• Amended IAS 19 “ <i>Defined Benefit Plans: Employee Contributions</i> ”	July 1, 2014
• Amended IAS 27 “ <i>Equity method in separate financial statements</i> ”	January 1, 2016
• Amended IAS 36 “ <i>Recoverable Amount Disclosures for Non-Financial Assets</i> ”	January 1, 2014
• Amended IAS 39 “ <i>Novation of Derivatives and Continuation of Hedge Accounting</i> ”	January 1, 2014
• Amended IFRIC 21 “ <i>Levies</i> ”	January 1, 2014

As the standards and amendments above have not been endorsed by the FSC, the Group is in the process of assessing the impact on the financial position and the results of operations.

Related impact will be disclosed following the completion of its assessments.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied consistently to all periods presented in the non-consolidated financial statements, and to the non-consolidated balance sheet

(1) Statement of compliance

The non-consolidated financial statements are prepared in accordance with the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers in the Republic of China.

(2) Basis of preparation

A. Basis of measurement

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

- (a) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;
- (b) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (c) The defined benefit asset is recognized as plan assets, plus unrecognized past service cost, less the present value of the defined benefit obligation.

B. Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the Company operates. The non-consolidated financial statements are presented in New Taiwan Dollar, which is the Company's functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(3) Foreign currency

A. Foreign currency transaction

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

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

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

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

B. Foreign operations

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

income, and are presented in the exchange differences on translation of foreign financial statements in equity.

However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Company disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Company disposes of only part of investment in an associate of joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

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

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

- A. It is expected to be settled during the in its normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. The liability is due to be settled within twelve months after the reporting period; or



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

D. It does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(5) Cash and cash equivalents

Cash comprise cash balances and call deposits with maturities within three months. Cash equivalents are assets that are readily convertible into cash, and are subject to an insignificant risk of changes in their fair value.

Time deposits are accounted under cash and cash equivalents if they are accord with the definition aforementioned, and are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose, readily convertible to a known amount of cash and have an insignificant risk of change in value.

(6) Financial instruments

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

A. Financial assets

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

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

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

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

At initial recognition, financial assets classified under this category are measured at fair

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

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

(b) Loans and receivables

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

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

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

- i. The rights to accounts receivable have been isolated from the transferor as they are put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

- ii. Each transferee has the right to pledge or exchange the rights to the accounts receivable, and no condition prevents the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.
- iii. The transferor does not maintain effective control over the rights to the accounts receivable claims through either:
  - An agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or
  - The ability to unilaterally cause the holder to return specific rights to the accounts receivable.

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

(c) Impairment of financial assets

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

Such impairment loss is not reversible in subsequent periods.

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

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

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

(d) Derecognition of financial assets

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

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

B. Financial liabilities and equity instruments

(a) Classification of debt or equity instruments

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

Interest related to the financial liability is recognized in profit or loss, under non-operating income and expense. On conversion, financial liability is reclassified to equity, without recognizing any gain or loss.

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

iii. Hybrid instrument contains one or more embedded derivatives.

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

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

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

(c) Other financial liabilities

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

(d) Derecognition of financial liabilities

A financial liability is derecognized when its contractual obligation has been discharged or cancelled or expires. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in “non-operating income and expenses”.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(e) Offsetting of financial assets and liabilities

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

(f) Financial guarantee contract

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

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

C. Derivative financial instruments, including hedge accounting

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Embedded derivatives are separated from the host contract and are accounted for separately when the economic characteristics and risk of the host contract and the embedded derivatives are not closely related, and that the host contract is measured at fair value through profit or loss.

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

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

(a) Fair value hedge

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

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

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

(b) Cash flow hedge

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



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

(7) Inventories

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

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

(8) Investment in associates

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

(9) Subsidiaries

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

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

(10) Interests in joint ventures

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

(11) Property, plant and equipment

A. Recognition and measurement

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

B. Subsequent cost

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

C. Depreciation

Depreciation is calculated on the depreciable amount of an asset using the straight-line basis over its useful life. The depreciable amount of an asset is determined based on the cost less its residual value. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period is recognized in profit or loss.

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

Buildings	3-50 years
Plant and equipment	2-6 years
Instrument equipment	1-5 years
Miscellaneous equipment	1-8 years

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

(12) Leased assets

A. Lessor

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

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

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

B. Lessee

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

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

**PEGATRON CORPORATION**

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

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

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

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

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

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

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

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

If the Company concludes for an operating lease that it is impracticable to separate the payment reliably, then treat all payments under the arrangement as lease payments, and disclose the situation accordingly.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(13) Intangible assets

A. Other Intangible Assets

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

B. Subsequent Expenditure

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

C. Amortization

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

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

Computer software cost	2-5 years
------------------------	-----------

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

(14) Impairment – Non-derivative financial assets

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

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

(15) Provisions

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

(16) Treasury stock

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

(17) Revenue

A. Goods sold

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

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

B. Service

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



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(18) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

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

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

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

All actuarial gains and losses at 1 January, 2012, the date for the first time adoption of IFRS as endorsed by the FSC were recognized in retained earnings. All actuarial gains and losses arising subsequently from defined benefit plans are recognized in other comprehensive income.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

C. Short-term employee benefits

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

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

(19) Share-based payment

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(20) Income Taxes

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

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

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

(21) Business combination

Goodwill is measured at the consideration transferred less amounts of the identifiable assets acquired and the liabilities assumed (generally at fair value) at the acquisition date. If the amounts of net assets acquired or liabilities assumed exceeds the acquisition price, the Company shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain for the excess. If the business combination achieved in batches, the Company shall measure any non-controlling equity interest at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(22) Earnings per share

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

(23) Operating segments

Please refer to the consolidated financial report for the year ended December 31, 2014 and 2013 for operating segments information.

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

The preparation of the non-consolidated financial statements in conformity with Regulations Governing the Preparation of Financial Reports requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

(1) Note 6(13), Lease classification

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

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

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

(3) Note 6(15), Utilization of tax losses

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

6. EXPLANATIONS TO SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2014	December 31, 2013
Cash on hand	\$ 160	160
Cash in banks	17,512,686	9,494,278
Time deposits	13,579,396	9,675,614
	<u>\$ 31,092,242</u>	<u>19,170,052</u>

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

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

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

(2) Investment in financial assets and liabilities

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

	December 31, 2014	December 31, 2013
Financial assets carried at cost — noncurrent:		
Equity securities — common stock	\$ -	-
Current financial liabilities at fair value through profit or loss		
Foreign convertible bonds — conversion options	\$ 256,763	-
Adjustments	860,890	-
	<u>\$ 1,117,653</u>	<u>-</u>
Non-current financial liabilities at fair value through profit or loss:		
Foreign convertible bonds — conversion options	\$ -	1,262,770
Adjustments	-	(1,027,608)
	<u>\$ -</u>	<u>235,162</u>

B. The aforementioned investments held by the Company are measured at amortized cost at each reporting date given the range of reasonable fair value estimates is large and the probability for each estimate of fair value cannot be reasonably determined, therefore, the Company management determines the fair value cannot be measured reliably. As of December 31, 2014 and 2013, the Company had accumulated impairment loss thereon of \$150,000.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

As of December 31, 2014 and 2013, the aforesaid financial assets were not pledged as collateral.

- C. The convertible bond issued by the Company was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put option embedded in bonds payable were separated from bonds payable, and were recognized as "Financial liabilities at fair value through profit or loss." For the years ended December 31, 2014 and 2013, the Company recognized a gain (loss) on financial liability reported at fair value through profit or loss of \$(4,172,368) and \$534,768, respectively. Please refer to Note 6(11) for details.
- D. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

(3) Notes and accounts receivable, net

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Notes receivable	\$ -	10
Accounts receivable	104,906,500	85,236,609
Other receivable	12,895,589	23,296,254
Less: Allowance for impairment	(1,761,300)	(80,706)
	<b><u>\$ 116,040,789</u></b>	<b><u>108,452,167</u></b>

- A. Refer to Note 6(21) for the Company's notes receivable, accounts receivable and other receivable exposure to credit risk and currency risk.
- B. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

C. As of December 31, 2014 and 2013, the Company sold its accounts receivable without recourse as follows:

December 31, 2014						
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
SMBC	<u>\$ -</u>	<u>USD 300,000,000</u>	<u>USD -</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	<u>\$ -</u>
ANZ(Note)	<u>\$ 41,145,000</u>	<u>USD 1,300,000,000</u>	<u>USD 894,000,000</u>	None	"	<u>\$ 41,145,000</u>
December 31, 2013						
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
SMBC	<u>\$ 7,701,648</u>	<u>USD 300,000,000</u>	<u>USD 258,401,191</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	<u>\$ 7,701,648</u>
ANZ(Note)	<u>\$ 38,746,500</u>	<u>USD 1,300,000,000</u>	<u>USD 523,000,000</u>	None	"	<u>\$ 38,746,500</u>

Note: In October 2014 and 2013, the Company signed a one year joint accounts receivable factoring agreement with ANZ Bank and seven other banks where each bank will factor on pro-rata basis.

For the years ended December 31, 2014 and 2013, the Company recognized a loss of \$202,998 and \$221,482, respectively, from the assignment of accounts receivable, which was charged to profit or loss under financial costs. Also, the difference of \$12,849,900 and \$23,158,485 between the amount of accounts receivable assigned and the amount advanced was accounted under other receivable as of December 31, 2014 and 2013, respectively.



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(4) Inventories

	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
Merchandise	\$ 18,129,325	22,092,811
Finished goods	26,643	31,981
Work in process	249,111	64,217
Raw materials	546,006	362,875
Subtotal	<u>18,951,085</u>	<u>22,551,884</u>
Less: Allowance for inventory market decline and obsolescence	(600,700)	(566,462)
Total	<u>\$ 18,350,385</u>	<u>21,985,422</u>

For the years ended December 31, 2014 and 2013, the components of cost of goods sold were as follows:

	<u>For the Years Ended December 31</u>	
	<u>2014</u>	<u>2013</u>
Cost of goods sold	\$ 872,959,939	783,162,313
Provision on inventory market price decline	34,238	149,065
Loss on disposal of inventory	17,185	18,935
Unamortized manufacturing expenses	81,776	141,763
Loss (gain) on physical inventory	1,706	(115)
	<u>\$ 873,094,844</u>	<u>783,471,961</u>

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

B. As of December 31, 2014 and 2013, the aforesaid inventories were not pledged as collateral.

(5) Investments accounted for using equity method

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Subsidiary	<u>\$ 112,093,393</u>	<u>95,704,186</u>

A. Subsidiaries

Please refer to the consolidated financial report for the years ended December 31, 2014 and 2013.

B. For the years ended December 31, 2014 and 2013, the Company had participated in the capital increase of PEGATRON HOLDING LTD., and invested USD69,000 thousand (approximately NTD2,072,301) and USD19,000 thousand (approximately NTD561,165), respectively. For the years ended December 31, 2014, the Company had participated in the capital increase of UNIHAN HOLDING LTD., and invested USD10,000 thousand (approximately NTD298,050).

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

- C. For the years ended December 31, 2014 and 2013, the Company received cash dividend of \$5,220,940 and \$2,475,281, respectively, from its investee companies accounted for under equity method.
- D. For the years ended December 31, 2014 and 2013, the Company's shares held by its subsidiaries are treated as treasury stock as described in Note 6(16).
- E. In November 2013, pursuant to the resolutions of the board of directors, the Company had set December 31, 2013 as the effective date of the statutory merger with Unihan Corporation, with the Company as the surviving entity from the merger. The business combination had been approved by the Ministry of Economic Affairs, R.O.C. on February 7, 2014, and the legal procedure for the change in the registration had been completed. On the effective date of the statutory merger, the details of identifiable assets acquired, the liabilities assumed, and equity-accounted investees merged were as follows:

	<u>December 31, 2013</u>
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 3,413,490
Notes receivable, Accounts receivable and Other receivables	4,090,181
Inventories	14,005
Other financial assets and other current assets	64,910
<b>NON-CURRENT ASSETS</b>	
Financial assets carried at cost	-
Equity-accounted investees	8,659,762
Property, plant and equipment	182,899
Deferred tax assets	109,874
Other financial assets and other current assets	12,172
<b>CURRENT LIABILITIES</b>	
Accounts payable and Other payables	(1,765,327)
Provisions	(1,900)
Other current liabilities	(853,448)
<b>NON-CURRENT LIABILITIES</b>	
Other non-current liabilities	(6,437)
<b>NET ASSETS</b>	3,920,181
<b>INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD-UNIHAN CORPORATION</b>	(13,920,181)
	<u>\$ -</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

F. As of December 31, 2014 and 2013, the investments in aforesaid equity-accounted investees were not pledged as collateral.

(6) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2014 and 2013 were as follows:

	Land	Building and construction	Machinery and equipment	Instrument equipment	Other facilities	Total
<b>Cost or deemed cost:</b>						
Balance on January 1, 2014	\$ 2,233,032	2,271,183	48,745	314,655	729,701	5,597,316
Additions	125,489	-	4,765	97,132	50,358	277,744
Disposals and obsolescence	-	(31,679)	(9,236)	(82,103)	(622,690)	(745,708)
Reclassifications	-	-	-	-	398,101	398,101
Balance on December 31, 2014	<u>\$ 2,358,521</u>	<u>2,239,504</u>	<u>44,274</u>	<u>329,684</u>	<u>555,470</u>	<u>5,527,453</u>
Balance on 1 January 2013	\$ 2,233,032	2,345,796	48,766	149,384	863,519	5,640,497
Additions	-	-	18,161	9,652	23,208	51,021
Disposals and obsolescence	-	(74,613)	(18,182)	(21,884)	(618,546)	(733,225)
Reclassifications	-	-	-	905	325,229	326,134
Acquisition from business combination	-	-	-	176,598	136,291	312,889
Balance on December 31, 2013	<u>\$ 2,233,032</u>	<u>2,271,183</u>	<u>48,745</u>	<u>314,655</u>	<u>729,701</u>	<u>5,597,316</u>
<b>Depreciation and impairment loss :</b>						
Balance on January 1, 2014	\$ -	633,008	23,180	153,998	342,586	1,152,772
Depreciation for the period	-	58,684	6,921	103,021	442,626	611,252
Disposals and obsolescence	-	(28,777)	(9,084)	(80,979)	(596,058)	(714,898)
Balance on December 31, 2014	<u>\$ -</u>	<u>662,915</u>	<u>21,017</u>	<u>176,040</u>	<u>189,154</u>	<u>1,049,126</u>
Balance on January 1, 2013	\$ -	630,226	37,498	60,296	439,224	1,167,244
Depreciation for the period	-	77,135	4,188	47,202	444,403	572,928
Reversal of impairment loss	-	-	(3,088)	-	(790)	(3,878)
Disposals and obsolescence	-	(74,353)	(15,418)	(21,133)	(602,608)	(713,512)
Acquisition from business combination	-	-	-	67,633	62,357	129,990
Balance on December 31, 2013	<u>\$ -</u>	<u>633,008</u>	<u>23,180</u>	<u>153,998</u>	<u>342,586</u>	<u>1,152,772</u>
<b>Carrying amounts :</b>						
Balance on December 31, 2014	<u>\$ 2,358,521</u>	<u>1,576,589</u>	<u>23,257</u>	<u>153,644</u>	<u>366,316</u>	<u>4,478,327</u>
Balance on December 31, 2013	<u>\$ 2,233,032</u>	<u>1,638,175</u>	<u>25,565</u>	<u>160,657</u>	<u>387,115</u>	<u>4,444,544</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

	For the Years Ended December 31	
	2014	2013
Reversal of impairment loss	\$ -	3,878

- B. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.
- C. As of December 31, 2014 and 2013, the property, plant and equipment were not pledged as collateral.

(7) Intangible assets

The intangible assets of the Company consisted of computer software. The components of the costs of intangible assets, amortization, and impairment loss thereon of the years ended December 31, 2014 and 2013 were as follows :

Costs:

Balance on January 1, 2014	\$	113,001
Additions		21,295
Disposals		(32,972)
Balance on December 31, 2014	\$	<u>101,324</u>
Balance on January 1, 2013	\$	310,061
Additions		5,498
Disposals		(220,066)
Acquisition from business combination		17,508
Balance on December 31, 2013	\$	<u>113,001</u>

Amortization and Impairment Loss:

Balance on January 1, 2014	\$	54,011
Amortization for the period		31,572
Disposals		(32,972)
Balance on December 31, 2014	\$	<u>52,611</u>
Balance on January 1, 2013	\$	216,547
Amortization for the period		51,141
Disposals		(220,066)
Acquisition from business combination		6,389
Balance on December 31, 2013	\$	<u>54,011</u>

Carrying value:

Balance on December 31, 2014	\$	<u>48,713</u>
Balance on December 31, 2013	\$	<u>58,990</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

(8) Other financial assets and other assets

	December 31, 2014	December 31, 2013
Other financial assets—current	\$ 42,141	55,820
Other financial assets—noncurrent	26,684	32,492
Other current assets	136,624	120,548
Other noncurrent assets	-	34,370
	<u>\$ 205,449</u>	<u>243,230</u>

- A. Other financial assets are assets that do not qualify as cash and cash equivalents which consisted of time deposits with maturity period of over three months, restricted time deposits and guarantee deposit paid. Please refer to Note 8 for details.
- B. Other current assets consisted of prepayments, current tax assets and others.
- C. Other noncurrent assets consisted of prepayments for business facilities.
- D. Please refer to Note 6(5) for the Company's assets acquired from the merger with Unihan Corporation effective from December 31, 2013.

(9) Short-term loans

	December 31, 2014	December 31, 2013
Unsecured bank loans	\$ 21,965,100	18,628,125
Unused credit line	\$ 41,832,735	22,455,863
Interest rate	<u>0.60%~0.95%</u>	<u>0.82%~0.95%</u>

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(10) Long -term loans

<b>December 31, 2014</b>				
<b>Currency</b>	<b>Interest rate</b>	<b>Expiration</b>	<b>Amount</b>	
Unsecured bank loans	USD	1.2949%	2010.10~2015.10	\$ 5,064,000
Unsecured bank loans	NTD	1.5979%~1.6137%	2013.09~2018.09	12,000,000
Total				17,064,000
Less : Arrangement fee				(17,600)
Less : Current portion				(5,064,000)
Total				<b>\$ 11,982,400</b>
Unused credit line				<b>\$ -</b>

  

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

A. Securities for bank loans

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

B. Loan covenants

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

- i. Current ratio (current assets/current liabilities): should not be less than 100%.
- ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.
- iii. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

The Company was in compliance with the above financial covenants as of December 31, 2014 and 2013.

- (b) On August 01, 2013, the Company signed a syndicated loan agreement with a total credit line of \$12,000,000. According to the agreement, the Company must comply with the following financial covenants:
  - i. Current ratio (current assets/current liabilities): should not be less than 100%.
  - ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 80%.
  - iii. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.
  - iv. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

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

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

The Company was in compliance with the above financial covenants as of December 31, 2014 and 2013.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(11) Bonds payable

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Convertible bonds issued	\$ 8,874,000	8,874,000
Unamortized discounted on bonds payable	(120,577)	(824,809)
Accumulated amount of Converted bonds	(7,069,620)	-
Bonds payable, end of the period	1,683,803	8,049,191
Foreign currency valuation, end of the period	124,427	67,299
Bonds payable, net	1,808,230	8,116,490
Less: current portion	(1,808,230)	-
	<u>\$ -</u>	<u>8,116,490</u>
Embedded derivative –conversion options, accounted under financial liabilities at fair value through profit or loss	<u>\$ 1,117,653</u>	<u>235,162</u>
	<u>For the Years Ended December 31</u>	
	<u>2014</u>	<u>2013</u>
Embedded derivative instruments –conversion options, accounted under other gains and losses	<u>\$ (4,172,368)</u>	<u>534,768</u>
Interest expense	<u>\$ 39,852</u>	<u>381,313</u>

The put option of the bonds payable is exercisable at three years after the first day of issue (February 6, 2015). Bonds payable of \$1,808,230 as of December 31, 2014 were classified as current liabilities for those convertible bonds whose holders bear the right to require for bond redemption within a year. Those bonds payable which are not expected to be settled within twelve months after the redemption period will reclassify as noncurrent liabilities.

As of December 31, 2014, the convertible bonds with face value of USD 239,000 had been converted into 184,982 thousand shares. The legal procedure for the issuance of 147,250 thousand shares had not yet been completed, and were classified as advance receipts for share capital. Please refer to Note 6(16) for the information on capital surplus - conversion of convertible bonds of \$8,507,771 generated from the conversion.



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

<u>Item</u>	<u>1<sup>st</sup> overseas unsecured convertible bonds issued in 2012</u>
1. Offering amount	USD 300 million with each unit valued at USD 200 thousand.
2. Issue date	February 6, 2012
3. Listing place	Singapore Exchange Securities Trading Limited (the "SGX-ST")
4. Interest	The Bonds will not bear any interest.
5. Issue period	5 years, commencing from February 6, 2012 and matured on February 6, 2017.
6. Settlement	Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on Maturity Date at an amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.
7. Redemption at the option of the Company	<p>(1) The Company may redeem the Bonds, in whole but not in part, at the early redemption amount at any time on or after February 6, 2015 if the closing price of the common shares on TWSE (translated into U.S. Dollars at the fixing rate at 11:00 a.m. Taipei time as quoted by Taipei Forex Inc.) on each trading day during a period of 20 consecutive trading dates exceeds at least 125% of the quotient of the early redemption amount divided by the number of shares to be issued upon conversion of USD 200,000 principal amount of Bonds on the applicable trading day based on the conversion price then in effect (translated into U.S. Dollars at the fixed exchange rate of NT\$29.761 = USD 1.00).</p> <p>(2) If more than 90% in principal amount of the Bonds originally outstanding has been redeemed, repurchased and cancelled or converted, the Company has the right to redeem all but not portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) The Bonds may be redeemed, in whole but not in part, if the affect of change in the tax laws of ROC will increase the Company's tax liability, interest expense or related cost from the Bonds. Holders may elect not to have their bonds redeemed with no entitlement to any additional amount of reimbursement of additional tax.</p>

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

<u>Item</u>	<u>1<sup>st</sup> overseas unsecured convertible bonds issued in 2012</u>
8. Redemption at the option of the Holder	<p>(1) Each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds on February 6, 2015 at a redemption price equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(2) In the event that the Company's common shares ceased to be listed or admitted to trading on the TWSE, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) In the event of change of control occurs with respect to the Company, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount.</p>
9. Conversion	<p>(1) Conversion period</p> <p>Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, each Holder of the Bonds will have the right at any time during the conversion period commencing March 18, 2012 (the 41st day following 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</p> <p>The conversion price was NT\$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012. However, upon the issuance of restricted Company shares of stock to employees, the conversion price has been adjusted to NT\$40.11 per share effective October 7, 2013. The conversion price has been adjusted to NT\$38.28 per share effective September 15, 2014 due to the distribution of cash dividends in 2014.</p> <p>(3) Conversion to common shares</p> <p>Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT\$29.761 = USD 1.00) divided by the conversion price on the conversion date.</p>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(12) Provisions

	<u>Allowance for sales returns and discounts</u>	
Balance on January 1, 2014	\$	62,923
Provisions made during the period		1,107
Balance on December 31, 2014	\$	<u>64,030</u>
Balance on January 1, 2013	\$	59,239
Provisions made during the period		1,784
Acquisition from business combination		1,900
Balance on December 31, 2013	\$	<u>62,923</u>

A. Allowance for sales return and discounts

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

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

(13) Operating leases

A. Lessee

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Less than one year	\$ 105,523	106,094
Between one and five years	70,329	107,076
	<u>\$ 175,852</u>	<u>213,170</u>

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

For the years ended December 31, 2014 and 2013, expenses recognized in profit or losses in respect of operating leases were as follows:

	For the years Ended December 31	
	2014	2013
Cost of sales	\$ 518	573
Operating expenses	117,365	95,024
	<u>\$ 117,883</u>	<u>95,597</u>

(14) Employee benefits

A. Defined benefit plans

The Company's defined benefit obligations and fair value of plan assets were as follows:

	December 31,	December 31,
	2014	2013
Total present value of obligations	\$ 27,988	25,267
Fair value of plan assets	(8,040)	(7,305)
Accrued pension liabilities	<u>\$ 19,948</u>	<u>17,962</u>

The Company makes defined benefit plans contributions to the pension fund account with Bank of Taiwan that provide pension for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for six months prior to retirement.

(a) Composition of plan assets

The Company set aside pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. Under these regulations, the minimum earnings from these pension funds shall not be less than the earnings from two-year time deposits with the interest rates offered by local banks.

The Company's contributions to the pension funds were deposited with Bank of Taiwan. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(b) Movements in present value of the defined benefit obligations

The movements in the present value of the defined benefit obligations for the years ended December 31, 2014 and 2013 were as follows:

	For the Years Ended December 31	
	2014	2013
Defined benefit obligation, January 1	\$ 25,267	17,960
Current service costs and interest	4,066	2,688
Actuarial losses (gains)	(1,345)	1,160
Liabilities assumed from business combination	-	3,459
Defined benefit obligation, December 31	<u>\$ 27,988</u>	<u>25,267</u>

(c) Movements of defined benefit plan assets

The movements in the present value of the defined benefit assets for the years ended December 31, 2014 and 2013 were as follows:

	For the Years Ended December 31	
	2014	2013
Fair value of plan assets, January 1	\$ 7,305	6,070
Benefits paid by the plan	570	669
Expected return on plan assets	146	106
Actuarial (losses) gains	19	(35)
Others	-	495
Fair value of plan assets, December 31	<u>\$ 8,040</u>	<u>7,305</u>

(d) Expenses recognized in profit or loss

The Company's pension expenses recognized in profit or loss for the years ended December 31, 2014 and 2013 were as follows:

	For the Years Ended December 31	
	2014	2013
Current service cost	\$ 3,561	2,419
Interest on obligation	505	269
Expected return on plan assets	(146)	(106)
	<u>\$ 3,920</u>	<u>2,582</u>
Operating Expense	<u>\$ 3,920</u>	<u>2,582</u>
Actual return on plan assets	<u>\$ 165</u>	<u>71</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

The Company's actuarial gains and losses recognized in other comprehensive income for the years ended December 31, 2014 and 2013 were as follows:

	For the Years Ended December 31	
	2014	2013
Cumulative amount, January 1	\$ (1,195)	-
Recognized during the period	1,364	(1,195)
Cumulative amount, December 31	<u>\$ 169</u>	<u>(1,195)</u>

(f) Actuarial assumptions

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

	2014	2013
Discount rate on December 31	2.25%	2.00%
Expected return on plan assets on January 1	2.25%	2.00%
Future salary increases	3.00%	3.00%

The expected long-term rate of return was based on the portfolio as a whole and not on the sum of the returns on individual asset categories. Also, such return was based exclusively on historical returns, without adjustments.

(g) Experience adjustments based on historical information

	December 31, 2014	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligation	\$ 27,988	25,267	17,960	13,910
Fair value of plan assets	(8,040)	(7,305)	(6,070)	(5,044)
Deficit in the plan	<u>\$ 19,948</u>	<u>17,962</u>	<u>11,890</u>	<u>8,866</u>
Experience adjustments arising on plan liabilities	<u>\$ (894)</u>	<u>(521)</u>	<u>1,605</u>	-
Experience adjustments arising on plan assets	<u>\$ (19)</u>	<u>35</u>	<u>47</u>	-

The Company expected \$568 worth of contributions to be paid to its benefit plans within a year starting from the reporting date of December 31, 2014.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (h) In determining the present value of the defined benefit obligation, the Company's management makes judgments and estimates in determining certain actuarial assumptions on the balance sheet date, which includes employee turnover rate and future salary changes. Changes in actuarial assumptions may have significant impact on the amount of defined benefit obligation.

As of December 31, 2014, the Company's defined benefit obligation had a present value of \$27,988. An increase (decrease) of 0.5% in future salary increase rate would have (decreased) increased the present value of the defined benefit obligation by \$(3,228) and \$3,687, respectively.

B. Defined contribution plans

The Company contributes an amount at the rate of 6% of the employee's monthly wages to the Labor Pension personal account with the Bureau of the Labor Insurance and Council of Labor Affairs in R.O.C. in accordance with the provisions of the Labor Pension Act. The Company's contributions to the Bureau of the Labor Insurance and Social Security Bureau for the employees' pension benefits require no further payment of additional legal or constructive obligations.

The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2014 and 2013 amounted to \$258,491 and \$199,159, respectively.

C. Short-term employee benefits

The Company's short-term holiday paid liabilities are \$89,184 and \$76,333 for the year ended December 31, 2014 and 2013, respectively.

(15) Taxes

- A. The components of income tax expense (benefit) for the years ended December 31, 2014 and 2013 were as follows:

	For the Years Ended December 31	
	2014	2013
Current income tax expense		
Currently incurred	\$ 1,439,672	277,296
Adjustment to prior year's income tax charged to current income tax	(180,311)	(152,308)
10% surtax on undistributed earnings	540,166	-
Deferred tax expense		
The origination and reversal of temporary differences	(19,198)	(133,084)
Income tax expense (benefit)	<u>\$ 1,780,329</u>	<u>(8,096)</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

- B. Income tax calculated on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2014 and 2013 as follows :

	For the Years Ended December 31	
	2014	2013
Profit before income tax	\$ 16,438,467	9,546,400
Income tax on pre-tax financial income calculated at the domestic rate	2,794,539	1,622,888
Permanents differences	(64,440)	(1,343,523)
Change of unrecognized temporary differences	(1,262,195)	(318,630)
Prior years income tax adjustment	(180,311)	(152,308)
10% surtax on undistributed earnings	540,166	-
Others	(47,430)	183,477
Income tax expense	\$ 1,780,329	(8,096)

- C. Deferred tax assets and liabilities

- (a) Unrecognized deferred tax liabilities

As of December 31, 2014 and 2013, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax liabilities as the Company has the ability to control the reversal of these temporary differences which are not expected to reverse in the foreseeable future. The related amounts were as follows:

	December 31, 2014	December 31, 2013
The aggregate temporary differences associated with investments in subsidiaries	\$ 15,189,625	7,764,950
Unrecognized deferred tax liabilities	\$ 2,582,236	1,320,041



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(b) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2014 and 2013 were as follows:

	<u>Gain on foreign investments</u>	<u>Convertible bonds</u>	<u>Others</u>	<u>Total</u>
<b>Deferred tax liabilities:</b>				
Balance, January 1, 2014	\$ 225,261	(7,864)	-	217,397
Recognized in profit	-	(11,952)	-	(11,952)
Balance, December 31, 2014	<u>\$ 225,261</u>	<u>(19,816)</u>	<u>-</u>	<u>205,445</u>
Balance, January 1, 2013	\$ 225,261	26,531	101,285	353,077
Recognized in profit	-	(34,395)	(101,285)	(135,680)
Balance, December 31, 2013	<u>\$ 225,261</u>	<u>(7,864)</u>	<u>-</u>	<u>217,397</u>
<b>Deferred tax assets:</b>				
Balance, January 1, 2014	\$ 96,298	43,578	33,183	173,059
Recognized in profit (loss)	5,821	(32,076)	33,501	7,246
Balance, December 31, 2014	<u>\$ 102,119</u>	<u>11,502</u>	<u>66,684</u>	<u>180,305</u>
Balance, January 1, 2013	\$ 48,409	20,439	(3,067)	65,781
Recognized in profit (loss)	25,341	23,139	(51,076)	(2,596)
Arising from business combination	22,548	-	87,326	109,874
Balance, December 31, 2013	<u>\$ 96,298</u>	<u>43,578</u>	<u>33,183</u>	<u>173,059</u>

D. Income tax

The Company's income tax returns through 2011 have been assessed and approved by the Tax Authority.

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Stockholders' imputation tax credit account	\$ <u>1,458,156</u>	<u>1,310,701</u>
	<u>2014 (Expect)</u>	<u>2013 (Actual)</u>
Tax deduction ratio for earnings distributable to R.O.C. residents	<u>12.44%</u>	<u>9.29%</u>

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

(16) Capital and reserves

As of December 31, 2014 and 2013, the authorized capital of the Company consisted of 3,000,000 thousand shares, with par value of \$10 per share. The outstanding shares consisted of 2,367,911 and 2,320,435 common shares, respectively, and the capital that rose from the shares had all been retrieved.

The movements in ordinary shares of stock outstanding for the year ended December 31, 2014 and 2013 were as follows:

Ordinary Shares (In thousands of shares)	For the Years Ended December 31	
	2014	2013
Beginning balance, January 1	2,320,435	2,290,305
Expiration of restricted stock	(745)	4,234
Exercise of employee stock options	10,489	25,896
From conversion of convertible bonds	37,732	-
Ending balance, December 31	<u>2,367,911</u>	<u>2,320,435</u>

A. Nominal ordinary shares

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares of stock valued at \$296,970. In 2012, the Company had issued 33,938 thousand shares of restricted Company shares of stock to employees, of which 1,828 thousand shares were retired in 2013. Also, the Company issued 6,062 thousand shares of restricted Company shares of stock to employees in 2013. New common shares of stock totaling 26,617 thousand shares were issued from the exercise of employee stock options, of which 721 thousand shares were accounted under advance receipts for share capital as the registration procedures were yet to be completed.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

In 2014, the Company had retired 745 thousand shares of restricted Company shares of stock to employees, and 10,288 thousand shares and 184,982 thousand shares of common shares of stock were issued from the exercise of employee stock options and conversion of convertible bonds, respectively, of which 520 thousand shares and 147,250 thousand shares were accounted under advance receipts for share capital as the registration procedures were yet to be completed. As of December 31, 2014 and 2013, the authorized capital of the Company both consisted of 3,000,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,367,911 thousand common shares of stock and 2,320,435 thousand common shares of stock, respectively.

As of December 31, 2014 and 2013, the restricted Company shares of stock issued to employees have expired and of which 207 and 78 thousand shares have not been retired.

B. Global depositary receipts

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

The Company may issue new GDRs with no more than 60,819,020 of the Company's common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines." As of December 31, 2014, the Company has listed, in total, 6,589 thousand units of GDR on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed Company shares totaling 32,946 thousand shares of stock. Major terms and conditions for GDRs were as follows:

(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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

C. Capital surplus

The components of the capital surplus were as follows:

	December 31, 2014	December 31, 2013
From issuance of share capital	\$ 62,023,550	61,420,285
From conversion of convertible bonds	8,507,771	-
From treasury stock-transactions	96,553	86,924
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,383,056	116,741
Changes in ownership interest in subsidiaries	729,852	713,131
Employee share options	13,171	119,265
Restricted stock to employees	131,850	309,556
Other	409,917	409,917
	<u>\$ 74,295,720</u>	<u>63,175,819</u>

In accordance with Amended Companies Act 2012, realized capital reserves can only be capitalized or distributed as cash dividends after offsetting against losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with Securities Offering and Issuance Guidelines, the amount of capital reserves that can be capitalized shall not exceed 10 percent of the actual share capital amount.

D. Retained earnings

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

(a) Legal reserve

No less than 10% as employees' bonuses which are distributable in cash or shares of stock. In the event that the employee bonus is distributed in the form of shares of stock, employees qualifying for such distribution may include the employees of subsidiaries of 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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (c) The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

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

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

- (a) Legal reserve

In accordance with the Amended Companies Act 2012, 10 percent of net income is set aside as legal reserve, until it is equal to share capital. If the Company incurred profit for the year, the meeting of shareholders decides on the distribution of the statutory earnings reserve either by issuing new shares or by paying cash, of up to 25 percent of the actual share capital.

- (b) Special reserve

In accordance with Permit No. 1010012865 as issued by the Financial Supervisory Commission on 6 April 2012, a special reserve equal to the contra account of other shareholders' equity is appropriated from current and prior period earnings. When the debit balance of any of the contra accounts in the shareholders' equity is reversed, the related special reserve can be reversed. The subsequent reversals of the contra accounts in shareholders' equity shall qualify for additional distributions.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(c) Earnings Distribution

For the years ended December 31, 2014 and 2013, employee bonuses of \$1,325,000 and \$870,000, and directors' and supervisors' remuneration of \$131,000 and \$85,000, respectively, were estimated and recognized as current expense. These amounts were calculated using the Company's net profit for the years ended December 31, 2014 and 2013, and were determined according to the earnings allocation method, priority and factor for employee benefits and key management personnel compensation as stated under the Articles of Association. These benefits were charged to profit or loss under operating costs or operating expenses for the years ended December 31, 2014 and 2013. The earnings distribution for the year ended December 31, 2014 has not yet been approved through shareholders' meeting. Related information can be accessed from the Market Observation Post System on the web site. Management is expecting that the differences between the amounts which are yet to be approved in the shareholders' meeting and those recognized in the financial statements, if any, will be treated as changes in accounting estimates and charged to profit or loss.

On June 18, 2014 and June 19, 2013, the Company's shareholders' meeting resolved to appropriate the 2013 and 2012 earnings. These earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

	<u>2013</u>	<u>2012</u>
Common stock dividends per share (dollars)		
— Cash	\$ <b>2.80</b>	<b>1.50</b>
Employee bonus — cash	\$ 870,000	299,000
Remuneration to directors and supervisors	85,000	29,000
Total	<u>\$ <b>955,000</b></u>	<u><b>328,000</b></u>

The 2013 and 2012 earnings approved for distribution agreed with those accrued in the financial statements for the years ended December 31, 2013 and 2012.

Related information of distributions of employee bonus and remuneration to directors and supervisors can be accessed from the Market Observation Post System on the web site.

E. Treasury stock

Company shares of stock that are owned by the Company's subsidiaries are treated as treasury stock. As of December 31, 2014 and 2013, the Company's shares held by its subsidiaries were 553 thousand shares and 1,503 thousand shares, amounting to \$40,369 thousand and \$57,715 thousand at fair value.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

F. Other equity accounts (net of tax)

	Exchange differences on translation of foreign financial statements	Available-for- sale investments	Deferred compensation arising from issuance of restricted stock	Total
Balance, January 1, 2014	\$ (48,637)	79,871	(241,370)	(210,136)
Exchange differences on foreign operation	2,715,588	-	-	2,715,588
Exchange differences on subsidiaries accounted for using equity method	2,121,107	-	-	2,121,107
Unrealized gains (losses) on available-for-sale financial assets of subsidiaries accounted for using equity method	-	97,939	-	97,939
Deferred compensation cost	-	-	176,847	176,847
Balance, December 31, 2014	<u>\$ 4,788,058</u>	<u>177,810</u>	<u>(64,523)</u>	<u>4,901,345</u>
Balance, January 1, 2013	\$ (3,398,256)	88,302	(497,698)	(3,807,652)
Exchange differences on foreign operation	1,777,556	-	-	1,777,556
Exchange differences on subsidiaries accounted for using equity method	1,572,063	-	-	1,572,063
Unrealized gains (losses) on available-for-sale financial assets of subsidiaries accounted for using equity method	-	(8,431)	-	(8,431)
Deferred compensation cost	-	-	256,328	256,328
Balance, December 31, 2013	<u>\$ (48,637)</u>	<u>79,871</u>	<u>(241,370)</u>	<u>(210,136)</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(17) Share-based payment

Information on share-based payment transactions as of December 31, 2014 was as follows:

**Equity-settled share-based payment**

<b>Restricted stock to employee</b>	<b>Issued in</b>	
	<b>2013</b>	<b>2012</b>
Thousand units granted	6,062	34,167
Contractual life	3 years	3 years
Vesting period	Note A	Note A
Actual turnover rate of employees	3.79%	8.28%
Estimated future turnover rate for each or the three years of employees	10.94%, 25.07%, 33.76%	14.28%, 22.84%, 28.85%

<b>Employee stock option</b>	<b>Issued in</b>	
	<b>2012</b>	<b>2011</b>
Thousand units granted	8,053	40,679
Contractual life	3 years	3 years
Vesting period	2 years	2 years
Actual turnover rate of employees	21.52%	24.88%
Estimated future turnover rate of employees	19.01%	19.88%

**Cash-settled share-based payment**

<b>Stock appreciation rights plan</b>	<b>Issued in 2012</b>
Thousand units granted	Note B
Contractual life	07/01/2013~06/30/2014
Vesting period	1.25 years
Actual turnover rate of employees	8.27%
Estimated future turnover rate of employees	8.97%

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

Note B: The option will be granted only if the earnings per share target be reached.



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

On August 12, 2013, pursuant to the resolutions of its board of directors, the Company issued 6,062 thousand shares of restricted shares of stock to employees with par value of \$10 per share. These were unissued shares whose total number is limited to up to 40,000 thousand shares of stock approved by the Financial Supervisory Commission for purposes of issuing restricted Company shares of stock to employees on October 19, 2012. The effective date of this capital increase was September 12, 2013. The legal procedure for the change in the registration of capital stock has been completed. Unless the vesting conditions have lapsed, the restricted shares of stock may not be sold, pledged, transferred, hypothecated or otherwise disposed. Holders of restricted shares of stock are entitled to rights as the Company's existing common shareholders except for the fact that restricted shares of stock are held by the trust and have vesting conditions. Also, the Company bears the right to buy back the restricted shares of stock at the issuance price and to cancel all restricted shares of stock issued to any employee who fails to comply with the vesting condition without returning the distributed dividend.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

The previously recognized compensation cost was reversed because the stock appreciation right fails to meet the vesting condition on December 31, 2014 and 2013.

A. Determining the fair value of equity instruments granted

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

**Equity-settled share-based payment**

**Restricted stock to employee**

**Issued in**

	<b>2013</b>	<b>2012</b>
Fair value at grant date	08/12/2013	11/09/2012
Share price at grant date	\$ 45.20	39.45
Exercise price (Note A)	10.00	10.00
Expected life of the option	3 years	3 years
Current market price	45.20	39.45
Expected volatility	32.68%	38.49%
Expected dividend yield rate (Note A)	- %	- %
Risk-free interest rate	(Note C)	(Note B)

**Employee stock option**

**Issued in**

	<b>2012</b>	<b>2011</b>
Fair value at grant date	04/02/2012	07/01/2011
Share price at grant date	44.85	30.00
Exercise price (Note A)	44.85	30.00
Expected life of the option	3 years	3 years
Current market price	44.85	30.00
Expected volatility	44.41%	37.0531%
Expected dividend yield rate (Note A)	-%	-%
Risk-free interest rate	0.95%	1.0838%

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

Cash-settled share-based payment Restricted stock to employee	Issued in
	2012
Fair value at grant date	04/02/2012
Share price at grant date	N/A
Exercise price (Note A)	N/A
Expected life of the option	07/01/2013~06/30/2014
Current market price	-
Expected volatility	40.12%
Expected dividend yield rate (Note A)	- %
Risk-free interest rate	1.355%

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

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

Note C: The risk-free interest rate is 0.5997% for the 1st year, 0.7167% for the 2nd year, and 0.8764% for the 3rd year.

B. Restricted stock to employee

For the years ended December 31, 2013 and 2012, the Company issued restricted shares of stock to employees of 6,062 and 33,938 thousand shares respectively, which resulted in a capital surplus — restricted employee stock of \$112,511 and \$478,366 thousand dollars. Also, for the years ended December 31, 2014 and 2013, 874 and 1,906 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$8,738 and \$19,064. As of December 31, 2014 and 2013, the Company has deferred compensation cost arising from issuance of restricted stock of \$64,523 and \$241,370 thousand dollars respectively.

For the years ended December 31, 2014 and 2013, the Company recognized salary cost of \$9,121 thousand and \$11,200 thousand from the distribution of cash dividends to estimated non-vesting restricted shares of stock distributed to employees from prior period earnings. Such salary cost was accounted under retained earnings as it remained to be unrealized.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

On June 18, 2014, pursuant to the resolutions of its shareholders' meetings, the Company is planning to issue 40,000 thousand shares of restricted shares of stock to employees with par value of \$10 per share. Vesting conditions are in accordance with the offering information.

C. Employee stock options

Information on aforesaid employee stock options was as follows:

(a) For the year ended December 31, 2014

	<u>Issued in 2012</u>	
	<u>Number of Exercisable Thousand Shares</u>	<u>Weighted-average Exercise Price</u>
Balance, beginning of the period	6,501	\$ 42.67
Granted	-	-
Exercised	4,762	42.67
Exercised	686	40.80
Forfeited	181	-
Expired	-	-
Balance, end of the period	<u>872</u>	40.80
Exercisable, end of the period	<u>863</u>	
Weighted-average fair value of options granted	<u>13.8</u>	
Exercise price of share option outstanding, end of the period	<u>40.80</u>	
Remaining contractual life	<u>0.25</u>	
Expenses incurred on share-based payment transactions	<u>8,462</u>	

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	Issued in 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	5,050	27.06
Granted	-	-
Exercised	4,840	27.06
Forfeited	66	-
Expired	144	-
Balance, end of the period	-	-
Exercisable, end of the period	-	-
Weighted-average fair value of options granted	7.9	
Exercise price of share option outstanding, end of the period	-	
Remaining contractual life	-	
Expenses incurred on share-based payment transactions	(1,138)	

(b) For the year ended December 31, 2013

	Issued in 2012	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	7,389	44.33
Granted	-	-
Exercised	-	-
Forfeited	888	-
Expired	-	-
Balance, end of the period	6,501	42.67
Exercisable, end of the period	-	-
Weighted-average fair value of options granted	13.8	
Exercise price of share option outstanding, end of the period	42.67	
Remaining contractual life	1.25	
Expenses incurred on share-based payment transactions	33,501	

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	Issued in 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	32,909	28.11
Granted	-	-
Exercised	24,786	28.11
Exercised	1,831	27.06
Forfeited	1,242	-
Expired	-	-
Balance, end of the period	<u>5,050</u>	27.06
Exercisable, end of the period	<u>4,787</u>	
Weighted-average fair value of options granted	<u>7.9</u>	
Exercise price of share option outstanding, end of the period	<u>27.06</u>	
Remaining contractual life	<u>0.50</u>	
Expenses incurred on share-based payment transactions	<u>43,796</u>	

D. Expenses resulted from share-based payments

The Company incurred expenses from share-based payments transactions for the years ended December 31, 2014 and 2013 as follows:

	For the Years Ended December 31	
	2014	2013
Expenses resulting from issuance of restricted stock to employees	\$ 230,097	431,274
Expenses arising from granting of employee share options(including granted by the company to subsidiaries)	7,324	77,297
Total	<u>\$ 237,421</u>	<u>508,571</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(18) Earnings per share

The basic earnings per share and diluted earnings per shares were calculated as follows:

	For the Years Ended December 31	
	2014	2013
<b>Basic earnings per share</b>		
Profit attributable to ordinary shareholders	\$ 14,658,138	9,554,496
Weighted-average number of ordinary shares	2,348,719	2,296,456
	<u>\$ 6.24</u>	<u>4.16</u>
<b>Diluted earnings per share</b>		
Profit attributable to ordinary shareholders	\$ 14,658,138	9,554,496
Effect of potentially dilutive ordinary shares		
Conversion of convertible bonds	-	(5,844)
Profit attributable to ordinary shareholders (diluted)	<u>\$ 14,658,138</u>	<u>9,548,652</u>

	For the Years Ended December 31	
	2014	2013
Weighted-average number of ordinary shares	2,348,719	2,296,456
Effect of potentially dilutive ordinary shares		
Employee stock bonus	25,528	25,329
Employee stock option	337	9,662
Conversion of convertible bonds	-	222,596
Weighted-average number of ordinary shares (diluted)	<u>2,374,584</u>	<u>2,554,043</u>
	<u>\$ 6.17</u>	<u>3.74</u>

For the year ended December 31, 2014, convertible bonds of \$4,360,446 were not included in the calculation of weighted-average number of shares, due to its' anti-dilutive impact on earnings per share.

(19) Revenue

	For the Years Ended December 31	
	2014	2013
Sale of goods	\$ 878,000,008	785,304,870
Others	19,963,580	8,919,858
	<u>\$ 897,963,588</u>	<u>794,224,728</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(20) Non-operation income and expenses

A. Other income

	For the Years Ended December 31	
	2014	2013
Interest income	\$ 164,737	69,968
Rental income	57,739	92,409
Technical service income	219,823	139,651
Other income	156,974	136,043
	<u>\$ 599,273</u>	<u>438,071</u>

B. Other gains and losses

	For the years Ended December 31	
	2014	2013
Loss on disposal of property, plant and equipment	\$ (385)	(149)
Foreign exchange gains (losses)	797,885	(25,234)
Gain on reversal of impairment loss	-	3,878
Net gains (losses) on evaluation of financial assets (liabilities) measured at fair value through profit or loss	(4,172,368)	535,739
	<u>\$ (3,374,868)</u>	<u>514,234</u>

C. Finance costs

	For the Years Ended December 31	
	2014	2013
Interest expenses	\$ 486,420	690,881
Finance expense – bank fees	216,040	226,788
	<u>\$ 702,460</u>	<u>917,669</u>

(21) Financial instruments

A. Categories of financial instruments

(a) Financial assets

	December 31,	December 31,
	2014	2013
Financial assets carried at cost	\$ -	-
Loans and receivables:		
Cash and cash equivalent	31,092,242	19,170,052
Notes receivable, Accounts receivable and Other receivables	266,434,676	241,956,205
Other financial assets	68,825	88,312
Subtotal	<u>297,595,743</u>	<u>261,214,569</u>
Total	<u>\$ 297,595,743</u>	<u>261,214,569</u>



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(b) Financial liabilities

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Financial liabilities at fair value through profit or loss		
Financial liabilities at fair value through profit or loss, designated as upon initial recognition	\$ 1,117,653	235,162
Financial liabilities at amortized cost		
Short-term borrowings	21,965,100	18,628,125
Payable	243,915,783	212,661,834
Bonds payable	1,808,230	8,116,490
Long-term borrowings (including current portion)	17,046,400	21,515,200
Guarantee deposit (recognized in other noncurrent liabilities)	15,264	12,330
Subtotal	<u>284,750,777</u>	<u>260,933,979</u>
Total	<u>\$ 285,868,430</u>	<u>261,169,141</u>

B. Credit risk

(a) Exposure to credit risk

The carrying amount of financial assets represents the Company's maximum credit exposure. As of December 31, 2014 and 2013, the maximum exposures to credit risk amounted to \$297,595,743 thousand and \$261,214,569 thousand, respectively.

As of December 31, 2014 and 2013, the accounts receivable from the Company's top three customers amounted to \$165,298,716 and \$127,407,751, representing 65% and 58% of accounts receivable, respectively, which exposes the Company to credit risk.

(b) Impairment losses

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Not past due	\$ 263,999,211	236,007,515
Past due 0 - 30 days	2,090,426	4,278,284
Past due 31 - 120 days	382,288	246,285
Past due 121 - 365 days	101,601	1,482,773
Past due more than 1 year	1,622,450	22,054
	<u>\$ 268,195,976</u>	<u>242,036,911</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance on January 1, 2014	\$ -	80,706	80,706
Impairment loss	-	1,680,594	1,680,594
Balance on December 31, 2014	<u>\$ -</u>	<u>1,761,300</u>	<u>1,761,300</u>
Balance on January 1, 2013	\$ -	29,641	29,641
Impairment loss	-	31,280	31,280
Written off unrecoverable amount	-	(2,732)	(2,732)
Acquisition from business combination	-	22,517	22,517
Balance on December 31, 2013	<u>\$ -</u>	<u>80,706</u>	<u>80,706</u>

Based on historical default rates, the Company believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due. Also, the payment term of the receivables from related parties depend on the Company's capital movement, and there's no penalty interest due for late payment. The Company's management believes that there's no significant change on the credit quality of the aforesaid receivables which are past due but not impaired, thus they assess the receivables can be recovered. In addition, the Company does not hold any collateral and of other credit enhancement to mitigate the credit risk of the foresaid receivables.

Allowance for bad debts or accumulated impairment are the accounts used to record bad debt expense or impairment loss. If the Company believes the related receivables cannot be recovered, the carrying amount of the financial assets will be reduced through the allowance for bad debts accounts and accumulated impairment.

No accounts receivable and its allowance were offset as of December 31, 2014 and 2013.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

C. Liquidity risk

The following are the contractual maturities of financial liabilities, excluding estimated interest payment and the impact of netting agreements.

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
<b>December 31, 2014</b>					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 39,029,100	39,029,100	27,029,100	-	12,000,000
Unsecured domestic bonds	1,808,230	1,808,230	1,808,230	-	-
Non-interest bearing liabilities	245,680,578	245,680,578	245,680,578	-	-
Derivative financial liabilities					
Overseas convertible bonds — conversion options	1,117,653	1,117,653	1,117,653	-	-
	<u>\$ 287,635,561</u>	<u>287,635,561</u>	<u>275,635,561</u>	<u>-</u>	<u>12,000,000</u>
<b>December 31, 2013</b>					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 40,165,725	40,165,725	23,396,925	4,768,800	12,000,000
Unsecured domestic bonds	8,116,490	8,116,490	-	8,116,490	-
Non-interest bearing liabilities	213,028,447	213,028,447	213,028,447	-	-
Derivative financial liabilities					
Overseas convertible bonds — conversion options	235,162	235,162	-	235,162	-
	<u>\$ 261,545,824</u>	<u>261,545,824</u>	<u>236,425,372</u>	<u>13,120,452</u>	<u>12,000,000</u>

The liquidity of the aforesaid bank loans does not include interest expense on cash outflow. The Company is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

D. Currency risk

(a) Currency risk exposure

The Company's exposures to significant currency risk were those from its foreign currency denominated financial assets and liabilities as follows:

(Unit: Foreign currency/NTD in Thousands)

	December 31, 2014			December 31, 2013		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	8,577,700	31.65	271,484,205	7,682,705	29.805	228,983,023
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	8,112,727	31.65	256,767,810	7,939,846	29.805	236,647,110

(b) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, accounts payable, bonds payable and other payables that are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Company's functional currency as of December 31, 2014 and 2013 would have decreased the after-tax net income by \$122,146 and \$63,612, respectively. The analysis is performed on the same basis for both periods.

E. Interest rate analysis

The interest risk exposure from financial assets and liabilities has been disclosed in the note of liquidity risk management.

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments on the reporting date.

For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date. The Company's internal management reported the increases/decreases in the interest rates and the exposure to changes in interest rates of 1% is considered by management to be a reasonable change of interest rate.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

If the interest rate increases / decreases by 1%, the Company's net income will decrease /increase by \$141,631 and \$190,945 for the years ended December 31, 2014 and 2013, respectively, assuming all other variable factors remain constant. This is mainly due to the Company's variable rate borrowing.

F. Fair value of financial instruments

(a) Fair value and carrying amount

The Company considers the carrying amounts of its financial assets and financial liabilities measured at amortized cost as a reasonable approximation of fair value.

(b) Valuation techniques and assumptions used in fair value determination

The Company uses the following methods in determining the fair value of its financial assets and liabilities:

- The fair value of financial assets and liabilities traded in active markets is based on quoted market prices.
- The fair value of stock of unlisted company is determined using market method, under which market price is extrapolated from similar stock of a listed company.
- For all other financial assets and financial liabilities, the fair value is determined using a discounted cash flow analysis of expected future cash flows.

(c) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by the levels in the fair value hierarchy. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

<b>December 31, 2014</b>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial liabilities:				
Financial liabilities designated as at fair value through profit or loss				
Overseas convertible bonds	\$ -	1,117,653	-	1,117,653
<b>December 31, 2013</b>				
Financial liabilities:				
Financial liabilities designated as at fair value through profit or loss				
Overseas convertible bonds	\$ -	235,162	-	235,162

There have been no transfers from each level for the years ended December 31, 2014 and 2013.

(22) Financial risk management

A. Overview

The nature and the extent of the Company's risks arising from financial instruments, which include credit risk, liquidity risk and market risk, are discussed below. Also, the Company's objectives, policies and procedures of measuring and managing risks are discussed below.

For more quantitative information about the financial instruments, please refer to the other related notes of the notes to the financial statements.

B. Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has deputized managements of core business departments for developing and monitoring the Company's risk management policies. Management reports regularly to the Board of Directors on its activities.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Internal Audit Department oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures and exception management, the results of which are reported to the Board of Directors.

C. Credit risk

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

The Company transacted only with the approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Company would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Company believes that there is no significant credit risk.

(a) Accounts receivables and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current deteriorating economic circumstances.

Under its customer credibility evaluation policies, the Company evaluates the customer's credibility and collectability of notes and account receivables regularly before doing business. Thus, management is not expecting any significant uncollectible accounts.

(English Translation of Financial Report Originally Issued in Chinese)

**PEGATRON CORPORATION**

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

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

The Company establishes an impairment allowance that represents its estimate of incurred losses in respect of trade receivables. The two components of this impairment allowance are specific loss component that relates to individually significant exposure and collective loss component which the loss was incurred but not identified. The collective component is based on historical payment experience of similar financial assets.

(b) Investment

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Company's finance department. As the Company deals with the banks and other external parties with good credit standing and financial institutions, corporate organization and government agencies which are graded above investment level, management believes that the Company do not have compliance issues and no significant credit risk.

(c) Guarantee

The Company's policies were prepared in accordance with Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies.

D. Liquidity risk

Liquidity risk is a risk that the Company is unable to meet the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as much as possible, that it always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

E. Market risk

Market risk is a risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

(a) Currency risk

The functional currency of the Company is the New Taiwan Dollars (NTD). The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency. The currencies used in these transactions are denominated in NTD, EUR, and USD.

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

The interest is denominated in the same currency as borrowings. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Company. This provides an economic hedge without derivatives being entered into, and therefore, hedge accounting is not applied in these circumstances.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(b) Interest rate risk

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(c) Price floating risk on equity instruments

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

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

(23) Capital management

The Board's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, non-redeemable preference shares, retained earnings and non-controlling interests of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Company used the liability-to-equity ratio, debt-to-equity ratio and other financial ratio to maintain an optimal capital structure and raise returns on equity.

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

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Total liabilities	\$ 299,212,559	276,431,894
Less: cash and cash equivalents	31,092,242	19,170,052
Net debt	<u>\$ 268,120,317</u>	<u>257,261,842</u>
Total capital (Note)	<u>\$ 401,791,248</u>	<u>364,565,636</u>
Debt to equity ratio	<u>66.73%</u>	<u>70.57%</u>

Note: Total capital includes share capital, capital surplus, retained earnings, other equity and non-controlling interest and net debt.

Management believes that there were no changes in the Company's approach to capital management for the year ended December 31, 2014.

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

For the years ended December 31, 2014 and 2013, non-cash investing and financing activity of the Company were as follows:

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

- A. Short-form mergers with Unihan Corporation, a wholly owned subsidiary of the Company. Please refer to Note 6(5) for details.
- B. Convertible bonds payable converted into ordinary shares. Please refer to Note 6(11) for details.

7. RELATED PARTY TRANSACTIONS

(1) List of subsidiaries :

Subsidiary	Shareholding ratio	
	2014.12.31	2013.12.31
UNIHAN CORPORATION (Note)	- %	- %
ABILITY ENTERPRISE CO., LTD.	11.68%	12.26%
UNIHAN HOLIDNG LTD.	100.00%	100.00%
AZUREWAVE TECHNOLOGY CO., LTD.	38.08%	38.08%
AMA PRECISION INC.	100.00%	100.00%
PEGATRON HOLLAND HOLDING B.V.	100.00%	100.00%
PEGATRON HOLDING LTD.	100.00%	100.00%
ASUSPOWER INVESTMENT CO., LTD.	100.00%	100.00%
ASUS INVESTMENT CO., LTD.	100.00%	100.00%
ASUSTEK INVESTMENT CO., LTD.	100.00%	100.00%
PEGATRON USA, INC.	100.00%	100.00%

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

(2) The ultimate parent company

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(3) Significant Transactions with related parties

A. Sale of Goods and Services to Related Parties

The amounts of significant sales transactions and outstanding balances between the Company and related parties were as follows:

	Sales		Receivables from Related Parties	
	2014	2013	December 31, 2014	December 31, 2013
Entity with significant influence over the Company	\$ -	21,311,808	-	-
Subsidiaries	7,048,092	7,255,389	150,393,887	133,504,038
Other related parties	-	748	-	-
	<u>\$ 7,048,092</u>	<u>28,567,945</u>	<u>150,393,887</u>	<u>133,504,038</u>

Prices charged for sales transactions with entity with significant influence over the Company ("A Company") and associates were not significantly different from those of non-related parties. The average sales term for notes and accounts receivables pertaining to such sales transactions ranged from one to three months. In addition, accounts receivables and accounts payables resulted from sales and purchase transactions between the Company and the A Company, who has the legal right to set-off, are offset and presented as a net amount on the balance sheet dates according to the agreements. Receivables from related parties were not secured with collaterals, and did not require provisions for bad debt expenses.

B. Purchase of Goods from Related Parties

The amounts of significant purchase transactions and outstanding balances between the Company and related parties were as follows:

	Purchases		Payables to Related Parties	
	2014	2013	December 31, 2014	December 31, 2013
Entity with significant influence over the Company	\$ -	17,046,948	-	-
Subsidiaries	192,760,657	168,974,930	114,129,456	92,726,651
Others	434,515	1,603,358	11,756	476,358
	<u>\$ 193,195,172</u>	<u>187,625,236</u>	<u>114,141,212</u>	<u>93,203,009</u>

There were no significant differences between the terms and pricing of purchase transactions with related enterprises and those carried out with other normal vendors. The average payment period for notes and accounts payable pertaining to such purchase transactions ranged from one to four months, which is similar to that of other normal vendors.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

C. Warranty repair expense paid to Related Parties

	<u>For the Years Ended December 31</u>	
	<u>2014</u>	<u>2013</u>
Subsidiaries	\$ 239,119	234,105
Others	-	12,817
	<u>\$ 239,119</u>	<u>246,922</u>

D. Other income and expenses from Related Parties

	<u>For the Years Ended December 31</u>	
	<u>2014</u>	<u>2013</u>
Entity with significant influence over the Company	\$ -	(60,913)
Subsidiaries	12,384	37,728
Others	-	2,003
	<u>\$ 12,384</u>	<u>(21,182)</u>

E. Rental revenue

For the years ended December 31, 2014 and 2013, the Company incurred other related party transactions of \$28,026 and \$62,063, respectively, which were accounted for as rental revenue.

F. Other related party transactions recorded as expenses

For the years ended December 31, 2014 and 2013, the Company incurred other related party transactions recorded as expenses such as rental expense, royalty payment, storage expense, and professional service fee, etc, aggregating to \$988,831 and \$379,504, respectively.

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

For the years ended December 31, 2014 and 2013, molds purchased from other related parties amounted to \$3,738 and \$4,643, respectively.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

H. Other related party transactions accounted for as assets and liabilities in the balance sheet

	December 31, 2014	December 31, 2013
Other receivables		
Subsidiaries	\$ 18,559	36,307
Others	-	234
	<u>\$ 18,559</u>	<u>36,541</u>
Other payables		
Subsidiaries	<u>\$ 998,762</u>	<u>714,872</u>
Other financial liabilities -- current		
Subsidiaries	\$ 19,099	261,402
Others	-	1,794
	<u>\$ 19,099</u>	<u>236,196</u>

I. Borrowings from related parties

	December 31, 2014	December 31, 2013
Subsidiaries	<u>\$ 9,495,000</u>	<u>7,451,250</u>
Interest rate	<u>0.2276%~0.2341%</u>	<u>0.2691%~0.2733%</u>

(4) Key management personnel compensation:

	For the Years Ended December 31	
	2014	2013
Short-term employee benefits	\$ 130,490	121,357
Post-employment benefits	2,151	2,277
Share-based payments	32,209	65,931
	<u>\$ 164,850</u>	<u>189,565</u>

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

8. PLEDGED ASSETS

As of December 31, 2014 and 2013, pledged assets were as follows:

Asset	Purpose of pledge	December 31, 2014	December 31, 2013
Other financial asset	Deposits for customs duties and provisional seizure	\$ 42,141	55,820
Refundable deposits	Deposits for performance guarantee	26,684	32,492
		<u>\$ 68,825</u>	<u>88,312</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

9. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

(1) Major commitments and contingencies were as follows:

A. Unused standby letters of credit

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
EUR	\$ 2,540	2,540

B. Promissory notes and certificates of deposit obtained for business purpose were as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
NTD	\$ 11,997	20,105

(2) Significant contingent liability: None.

10. LOSSES DUE TO MAJOR DISASTERS: None.

11. SUBSEQUENT EVENTS: None.

12. OTHER

(1) The nature of employee benefits, depreciation and amortization expenses categorized by function, were as follows:

By item	For the year ended December 31, 2014			For the year ended December 31, 2013		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit						
Salary	\$ 1,052,748	7,288,752	8,341,500	971,365	5,325,035	6,296,400
Health and labor insurance	83,992	397,786	481,778	71,674	290,956	362,630
Pension	41,794	220,617	262,411	36,525	165,216	201,741
Others	93,145	380,176	473,321	91,856	327,092	418,948
Depreciation	388,222	223,030	611,252	368,065	204,863	572,928
Amortization	27,382	4,190	31,572	41,721	9,420	51,141

The Company has the total number of employees of 6,783 and 6,355(including 781 employees of UNIHAN CORPORATION), respectively under the year of 2014 and 2013.

(2) Certain accounts in the non-consolidated financial statements as of and for the year ended December 31, 2013, were reclassified to conform to the presentation adopted in the non-consolidated financial statements as of and for the year ended December 31, 2014.

13. SEGMENT INFORMATION

Please refer to the consolidated financial report for the years ended December 31, 2014 and 2013.