

**(English Translation of Financial Report Originally Issued in Chinese)**  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013 AND 2012**  
**(With Independent Accountants' Review Report Thereon)**

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

**REVIEW REPORT OF INDEPENDENT ACCOUNTANTS**

**To the Board of Directors of**

**Pegatron Corporation**

We have reviewed the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries (the "Group") as of September 30, 2013, December 31, 2012, September 30, 2012 and January 1, 2012, and the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2013 and 2012, and changes in equity and cash flows for the nine months ended September 30, 2013 and 2012. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express the review report based on our reviews. We did not review the financial statements of certain consolidated subsidiaries with total assets of NT\$48,761,839 thousand, representing 11.85% and net sales of NT\$11,014,815 thousand and NT\$29,282,401 thousand, representing 4.34% and 4.28% of the related consolidated total as of and for the three months ended September 30, 2013 and for the nine months ended September 30, 2013. Those statements were reviewed by other auditors whose reports have been furnished to us, insofar as it relates to the amounts for certain subsidiaries, were based solely on the reports of other auditors.

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

The consolidated financial statements of certain subsidiaries were consolidated based on their financial statements as of and for the periods ended September 30, 2013, December 31, 2012, September 30, 2012 and January 1, 2012, which were not reviewed by independent accountants. The total assets of these subsidiaries amounted to NT\$44,399,768 thousand, NT\$121,659,378 thousand, NT\$101,456,180 thousand and NT\$108,101,230 thousand, representing 10.79%, 30.77%, 27.44% and 36.09% of the related consolidated total assets and the total liabilities amounted to NT\$12,445,005 thousand, NT\$32,727,718 thousand, NT\$37,303,946 thousand and NT\$32,848,226 thousand, representing 4.55%, 12.22%, 15.17% and 18.09% of the related consolidated liabilities as of September 30, 2013, December 31, 2012, September 30, 2012 and

January 1, 2012, respectively. The comprehensive income of these subsidiaries amounted to NT\$247,927 thousand, NT\$1,021,424 thousand, NT\$1,372,122 thousand, and NT\$2,560,086 thousand, representing 9.30%, 91.11%, 11.15%, and 66.26% of the related consolidated comprehensive income for the three months and the nine months ended September 30, 2013 and 2012, respectively.

As disclosed in Note 6(5) to the consolidated financial statements, the financial statements of certain equity-accounted investees were not reviewed by independent accountants. Long-term investments in these companies amounted to NT\$1,553,742 thousand, NT\$1,607,697 thousand, NT\$2,403,212 thousand and NT\$2,703,438 thousand as of September 30, 2013, December 31, 2012, September 30, 2012 and January 1, 2012, respectively, and the related investment income (loss) amounted to NT\$(10,287) thousand, NT\$20,920 thousand, NT\$(46,673) thousand, and NT\$ 66,811 thousand for the three months and the nine months ended September 30, 2013 and 2012, respectively.

Based on our reviews and the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the financial statements of some consolidated subsidiaries and some equity-accounted investees been reviewed as described in the preceding paragraphs, we are not aware of any material modifications that should be made to the consolidated financial statements referred to the first paragraph for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and guidelines of International Financial Reporting Standards No. 1 “First-time Adoption of International Financial Reporting Statements” and International Accounting Standards No. 34 “Interim Financial Reporting” which are endorsed by the Financial Supervisory Commission in the Republic of China (R.O.C.).

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

November 11, 2013

#### **Notes to Readers**

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

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

(English Translation of Financial Report Originally Issued in Chinese)  
Reviewed only, not audited in accordance with generally accepted auditing standards.  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**SEPTEMBER 30, 2013, DECEMBER 31, 2012, SEPTEMBER 30, 2012 AND JANUARY 1, 2012**  
(All Amounts Expressed in Thousands of New Taiwan Dollars)

	September 30, 2013		December 31, 2012		September 30, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>ASSETS</b>								
<b>Current Assets:</b>								
Cash and cash equivalents (Note 6(1))	\$ 62,449,613	15	59,832,189	15	51,487,651	14	50,007,260	17
Financial assets at fair value through profit or loss—current (Note 6(2))	6,517,778	2	7,534,036	2	6,348,568	2	6,417,685	2
Available-for-sale financial assets—current (Note 6(2))	390,048	-	505,919	-	434,787	-	414,737	-
Notes and accounts receivable, net (Notes 6(3) and 6(24))	112,194,500	27	116,957,480	30	110,493,329	30	74,522,214	25
Accounts receivable, net—Related parties (Note 7)	579	-	5,766,184	1	4,535,878	1	9,702,080	3
Other receivables, net (Notes 6(3) and 7)	19,771,684	5	15,793,738	5	4,365,572	1	2,184,857	1
Inventories (Note 6(4))	107,969,990	26	92,678,084	24	94,052,684	25	65,591,611	22
Other financial assets—current (Notes 6(9) and 8)	2,491,536	1	438,758	-	1,855,710	1	425,609	-
Other current assets (Note 6(9))	10,145,576	2	8,922,700	2	9,609,346	3	5,405,734	2
	<u>321,931,304</u>	<u>78</u>	<u>308,429,088</u>	<u>79</u>	<u>283,183,525</u>	<u>77</u>	<u>214,671,787</u>	<u>72</u>
<b>Non-current assets:</b>								
Available-for-sale financial assets—noncurrent (Note 6(2))	1,271,513	-	1,283,328	-	742,650	-	711,094	-
Financial assets carried at cost—noncurrent (Note 6(2))	490,100	-	498,134	-	443,618	-	491,905	-
Investments accounted for using equity method (Note 6(5))	1,553,742	1	1,607,697	-	2,403,212	1	2,703,438	1
Property, plant and equipment (Notes 6(6), 7 and 8)	74,077,742	18	72,994,019	18	73,273,137	20	67,046,058	23
Investment property, net (Note 6(7))	661,726	-	669,511	-	672,155	-	681,219	-
Intangible assets (Note 6(8))	2,424,426	1	2,770,545	1	2,778,344	1	3,278,425	1
Deferred tax assets	3,599,744	1	2,379,076	1	1,655,300	-	1,488,046	-
Prepayments on purchase of equipment	1,368,344	-	931,901	-	1,147,514	-	5,407,783	2
Other financial assets—noncurrent (Notes 6(9) and 8)	472,307	-	306,996	-	292,157	-	297,065	-
Long-term prepaid rents (Notes 6(15) and 8)	3,607,657	1	3,385,492	1	2,994,305	1	2,673,871	1
Other noncurrent assets (Note 6(9))	96,729	-	98,952	-	109,353	-	99,558	-
	<u>89,624,030</u>	<u>22</u>	<u>86,925,651</u>	<u>21</u>	<u>86,511,745</u>	<u>23</u>	<u>84,878,462</u>	<u>28</u>
<b>TOTAL ASSETS</b>	<b>\$ 411,555,334</b>	<b>100</b>	<b>395,354,739</b>	<b>100</b>	<b>369,695,270</b>	<b>100</b>	<b>299,550,249</b>	<b>100</b>

The accompanying notes are an integral part of the consolidated financial statements.  
(With KPMG review report dated November 11, 2013.)

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONT'D)

SEPTEMBER 30, 2013, DECEMBER 31, 2012, SEPTEMBER 30, 2012 AND JANUARY 1, 2012

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	September 30, 2013		December 31, 2012		September 30, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>LIABILITIES</b>								
<b>Current Liabilities:</b>								
Short-term loans (Note 6(10))	\$ 22,314,196	5	19,613,159	5	22,561,661	6	22,773,366	8
Short-term notes and bills payable (Note 6(11))	99,970	-	99,993	-	179,948	-	219,936	-
Financial liabilities at fair value through profit or loss – current (Notes 6(2) and 6(13))	1,631	-	69,084	-	72,554	-	102,583	-
Notes and accounts payable	163,069,607	40	171,833,654	43	147,070,287	40	97,586,150	33
Accounts payable – Related parties (Note 7)	411,543	-	546,850	-	1,759,966	-	2,296,908	1
Accrued expenses (Notes 6(16) and 7)	19,261,741	5	16,680,325	5	13,566,598	4	12,888,138	4
Other payables (Note 7)	10,076,228	3	5,202,976	1	8,194,995	2	7,793,539	3
Current income tax liabilities	2,772,387	1	3,672,048	1	2,303,200	1	1,862,250	1
Provisions – current (Note 6(14))	336,962	-	267,181	-	258,848	-	264,982	-
Deferred revenue	3,758,089	1	2,636,838	1	2,701,756	1	1,284,033	-
Long-term loans payable – current portion (Notes 6(12) and 6(13))	10,249,848	2	8,850,852	2	5,225,811	2	913,849	-
Other current liabilities (Note 7)	14,012,889	3	8,630,159	2	8,548,143	2	3,603,104	1
	<u>246,365,091</u>	<u>60</u>	<u>238,103,119</u>	<u>60</u>	<u>212,443,767</u>	<u>58</u>	<u>151,588,838</u>	<u>51</u>
<b>Non-current liabilities:</b>								
Financial liabilities at fair value through profit or loss – noncurrent (Notes 6(2) and 6(13))	678,632	-	759,815	-	985,805	-	-	-
Bonds payable (Note 6(13))	7,987,774	2	7,656,181	2	7,661,016	2	1,404,707	1
Long-term loans (Note 6(12))	15,511,340	4	18,988,171	5	23,092,303	7	27,353,419	9
Deferred tax liabilities	2,077,121	1	1,497,039	-	1,079,206	-	664,479	-
Other noncurrent liabilities (Note 6(16))	1,103,620	-	712,833	-	653,625	-	608,010	-
	<u>27,358,487</u>	<u>7</u>	<u>29,614,039</u>	<u>7</u>	<u>33,471,955</u>	<u>9</u>	<u>30,030,615</u>	<u>10</u>
<b>Total Liabilities</b>	<u>273,723,578</u>	<u>67</u>	<u>267,717,158</u>	<u>67</u>	<u>245,915,722</u>	<u>67</u>	<u>181,619,453</u>	<u>61</u>
<b>EQUITY (Note 6(18))</b>								
<b>Share capital</b>	<u>23,198,938</u>	<u>6</u>	<u>22,903,049</u>	<u>6</u>	<u>22,563,669</u>	<u>6</u>	<u>22,563,669</u>	<u>8</u>
<b>Capital surplus:</b>								
Capital surplus, premium on capital stock	60,998,689	15	60,393,247	16	60,393,247	17	60,393,247	19
Capital surplus, others	2,050,168	-	1,329,863	-	862,731	-	609,828	-
	<u>63,048,857</u>	<u>15</u>	<u>61,723,110</u>	<u>16</u>	<u>61,255,978</u>	<u>17</u>	<u>61,003,075</u>	<u>19</u>
<b>Retained earnings:</b>								
Legal reserve	2,458,117	1	1,847,737	1	1,847,737	-	1,836,601	1
Special reserve	3,280,485	1	734,859	-	734,859	-	4,327,629	1
Unappropriated retained earnings	12,007,297	2	12,422,970	3	9,654,494	3	2,458,391	1
	<u>17,745,899</u>	<u>4</u>	<u>15,005,566</u>	<u>4</u>	<u>12,237,090</u>	<u>3</u>	<u>8,622,621</u>	<u>3</u>
<b>Other equity interest (Note 6(23)):</b>								
Exchange differences on translation of foreign financial statements	(1,019,578)	-	(3,398,256)	(1)	(3,179,646)	(1)	(784,234)	-
Unrealized gains on available-for-sale financial assets	60,161	-	88,302	-	158,256	-	37,951	-
Deferred compensation cost arising from issuance of restricted stock (Note 6(19))	(317,355)	-	(497,698)	-	-	-	-	-
	<u>(1,276,772)</u>	<u>-</u>	<u>(3,807,652)</u>	<u>(1)</u>	<u>(3,021,390)</u>	<u>(1)</u>	<u>(746,283)</u>	<u>-</u>
Treasury stock	(21,556)	-	(18,794)	-	(18,794)	-	(18,794)	-
Equity attributable to owners of the parent	102,695,366	25	95,805,279	25	93,016,553	25	91,424,288	30
Non-controlling interests	35,136,390	8	31,832,302	8	30,762,995	8	26,506,508	9
<b>Total Equity</b>	<u>137,831,756</u>	<u>33</u>	<u>127,637,581</u>	<u>33</u>	<u>123,779,548</u>	<u>33</u>	<u>117,930,796</u>	<u>39</u>
<b>Total LIABILITIES AND EQUITY</b>	<u>\$ 411,555,334</u>	<u>100</u>	<u>395,354,739</u>	<u>100</u>	<u>369,695,270</u>	<u>100</u>	<u>299,550,249</u>	<u>100</u>

The accompanying notes are an integral part of the consolidated financial statements.  
(With KPMG review report dated November 11, 2013.)

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**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS AND THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012**  
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Three Months ended September 30				For the Nine Months ended September 30			
	2013		2012		2013		2012	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>Operating revenues (Note 7)</b>	\$ 254,154,607	100	223,856,574	100	685,173,656	100	616,505,819	100
Less: Sales returns and allowances	177,092	-	970,972	-	1,380,798	-	2,351,642	-
<b>Net sales</b>	253,977,515	100	222,885,602	100	683,792,858	100	614,154,177	100
<b>Cost of sales (Notes 6(4) and 7)</b>	243,319,116	96	213,111,455	96	651,677,696	95	587,426,919	96
<b>Gross profit</b>	10,658,399	4	9,774,147	4	32,115,162	5	26,727,258	4
<b>Operating expenses (Note 7)</b>								
Selling expenses	2,363,788	1	1,277,202	1	6,078,121	1	3,899,212	1
General and administrative expenses	2,310,945	1	2,230,565	1	6,984,549	1	6,039,277	1
Research and development expenses	3,062,577	1	3,243,140	1	8,585,065	1	8,819,678	1
	7,737,310	3	6,750,907	3	21,647,735	3	18,758,167	3
<b>Results from operating activities</b>	2,921,089	1	3,023,240	1	10,467,427	2	7,969,091	1
<b>Non-operating income and expenses</b>								
Other income (Note 6(22))	777,413	-	632,459	-	1,896,183	-	1,510,322	-
Other gains and losses (Note 6(22))	1,341,392	-	363,693	-	1,559,992	-	227,327	-
Financial costs (Note 6(22))	(280,090)	-	(381,462)	-	(858,322)	-	(1,009,207)	-
Share of profit (loss) of associates and joint ventures accounted for under equity method (Note 6(5))	(10,287)	-	20,920	-	(46,673)	-	66,811	-
Other losses	(78,698)	-	(124,601)	-	(233,127)	-	(185,204)	-
	1,749,730	-	511,009	-	2,318,053	-	610,049	-
<b>Profit before tax</b>	4,670,819	1	3,534,249	1	12,785,480	2	8,579,140	1
<b>Income tax expense (Note 6(17))</b>	992,121	-	797,090	-	3,141,113	-	2,156,720	-
<b>Profit for the period</b>	3,678,698	1	2,737,159	1	9,644,367	2	6,422,420	1
<b>Other comprehensive income (Notes 6(18) and 6(23))</b>								
Foreign currency translation differences – foreign operations	(977,895)	-	(1,587,841)	(1)	2,765,276	-	(2,734,164)	-
Unrealized gain (loss) on available-for-sale financial assets	(33,725)	-	(28,267)	-	(103,942)	-	175,544	-
<b>Other comprehensive income for the period, net of tax</b>	(1,011,620)	-	(1,616,108)	(1)	2,661,334	-	(2,558,620)	-
<b>Total comprehensive income for the period</b>	\$ 2,667,078	1	1,121,051	-	12,305,701	2	3,863,800	1
<b>Profit attributable to</b>								
Owners of the parent	\$ 2,477,564	1	1,625,242	1	6,175,790	1	3,614,469	1
Non-controlling interests	1,201,134	-	1,111,917	-	3,468,577	1	2,807,951	-
	\$ 3,678,698	1	2,737,159	1	9,644,367	2	6,422,420	1
<b>Comprehensive income attributable to</b>								
Owners of the parent	\$ 1,670,849	1	258,603	-	8,526,327	1	1,339,362	-
Non-controlling interests	996,229	-	862,448	-	3,779,374	1	2,524,438	1
	\$ 2,667,078	1	1,121,051	-	12,305,701	2	3,863,800	1
<b>Earnings per share, net of tax (Note 6(21))</b>								
<b>Basic earnings per share</b>	\$ 1.08		0.72		2.70		1.60	
<b>Diluted earnings per share</b>	\$ 0.53		0.56		2.55		1.41	

The accompanying notes are an integral part of the consolidated financial statements.  
(With KPMG review report dated November 11, 2013.)

(English Translations of Financial Statements Originally Issued in Chinese  
Reviewed only, not audited in accordance with generally accepted auditing standard  
PEGATRON CORPORATION AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012  
(Expressed in Thousands of New Taiwan Dollars)

	Attributable to Owners of the Company								Other adjustments to equity							
	Share capital			Capital surplus	Retained earnings				Foreign currency translation differences		Unrealized gains (losses) on available-for-sale financial assets		Total equity attributable to owners of the Company		Non-controlling interests	Total equity
	Common stock	Advance receipts for share capital	Total		Legal reserve	Special reserve	Retained earnings	Total	Others	Total	Treasury stock	Total equity	Total equity			
<b>Balance, January 1, 2012</b>	\$ 22,563,669	-	22,563,669	61,003,075	1,836,601	4,327,629	2,458,391	8,622,621	(784,234)	37,951	-	(746,283)	(18,794)	91,424,288	26,506,508	117,930,796
Appropriation and distribution of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	11,136	-	(11,136)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	(3,592,770)	3,592,770	-	-	-	-	-	-	-	-	-
Other changes in capital surplus	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	164,161	-	-	-	-	-	-	-	-	-	164,161	(164,161)	-
Profit for the period	-	-	-	-	-	-	3,614,469	3,614,469	-	-	-	-	-	3,614,469	2,807,951	6,422,420
Other comprehensive income for the period	-	-	-	-	-	-	-	-	(2,395,412)	120,305	-	(2,275,107)	-	(2,275,107)	(283,513)	(2,558,620)
Total comprehensive income for the period	-	-	-	-	-	-	3,614,469	3,614,469	(2,395,412)	120,305	-	(2,275,107)	-	1,339,362	2,524,438	3,863,800
Compensation cost arising from employee stock options	-	-	-	88,742	-	-	-	-	-	-	-	-	-	88,742	-	88,742
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,896,210	1,896,210
<b>Balance, September 30, 2012</b>	\$ 22,563,669	-	22,563,669	61,255,978	1,847,737	734,859	9,654,494	12,237,090	(3,179,646)	158,256	-	(3,021,390)	(18,794)	93,016,553	30,762,995	123,779,548
<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)	(3,807,652)	(18,794)	95,805,279	31,832,302	127,637,581
Appropriation and distribution of retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	610,380	-	(610,380)	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	2,545,626	(2,545,626)	-	-	-	-	-	-	-	-	-
Common stock dividends	-	-	-	-	-	-	(3,435,457)	(3,435,457)	-	-	-	-	-	(3,435,457)	-	(3,435,457)
Other changes in capital surplus	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	-	-	716,288	-	-	-	-	-	-	-	-	-	716,288	(600,545)	115,743
Disposal of the Company's share by its subsidiary recognized as treasury share transaction	-	-	-	1,955	-	-	-	-	-	-	-	-	2,178	4,133	-	4,133
Profit for the period	-	-	-	-	-	-	6,175,790	6,175,790	-	-	-	-	-	6,175,790	3,468,577	9,644,367
Other comprehensive income for the period	-	-	-	-	-	-	-	-	2,378,678	(28,141)	-	2,350,537	-	2,350,537	310,797	2,661,334
Total comprehensive income for the period	-	-	-	-	-	-	6,175,790	6,175,790	2,378,678	(28,141)	-	2,350,537	-	8,526,327	3,779,374	12,305,701
Compensation cost arising from employee stock options	209,880	37,980	247,860	477,462	-	-	-	-	-	-	-	-	-	725,322	-	725,322
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	125,259	125,259
Expiration of restricted shares of stock issued to employees	(12,591)	-	(12,591)	17,531	-	-	-	-	-	-	-	-	(4,940)	-	-	-
Issuance of restricted employee shares of stock	60,620	-	60,620	112,511	-	-	-	-	-	-	180,343	180,343	-	353,474	-	353,474
<b>Balance, September 30, 2013</b>	\$ 23,160,958	37,980	23,198,938	63,048,857	2,458,117	3,280,485	12,007,297	17,745,899	(1,019,578)	60,161	(317,355)	(1,276,772)	(21,556)	102,695,366	35,136,390	137,831,756

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012**  
**(All Amount Expressed in Thousands of New Taiwan Dollars)**

	<b>For the Nine Months Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
<b>Profit from continuing operations before tax</b>	\$ 12,785,480	8,579,140
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities</b>		
Depreciation	9,891,848	8,992,412
Amortization	450,139	520,893
Allowance (reversal of allowance) for uncollectable accounts	1,125,853	(66,652)
Net gain on financial assets or liabilities at fair value through profit or loss	(153,977)	(427,328)
Interest expense	535,233	817,828
Interest income	(559,062)	(634,129)
Compensation cost arising from employee stock options	398,950	139,353
Loss on foreign currency exchange of bonds payable	158,529	(82,383)
Amortization of discount on bonds payable	163,956	166,156
Amortization of issuance costs on bonds payable	9,590	8,341
Share of profit (loss) of associates and joint ventures accounted for under equity method	46,673	(66,811)
Loss on disposal of property, plant and equipment	203,243	236,463
Property, plant and equipment charged to expenses	67,908	226
Loss (gain) on disposal of investments	(29,057)	2,902
Gain on disposal of investments accounted for using equity method	-	(125,423)
(Reversal gain) impairment loss on property, plant and equipment	(187,615)	21,720
Loss on redemption of bonds payable	6,065	-
Loss (gain) on foreign currency exchange on long-term loans	548,053	(749,700)
Gains on disposals of intangible assets	-	(64)
Long-term prepaid rent charged to expenses	57,479	57,021
Amortization of difference between cost and net equity	-	1,114
	<u>12,733,808</u>	<u>8,811,939</u>
<b>Changes in operating assets and liabilities</b>		
<b>Changes in operating assets</b>		
Decrease in financial assets reported at fair value through profit or loss	1,079,783	190,918
Decrease (increase) in notes and accounts receivable	9,401,876	(32,488,722)
Increase in other accounts receivable	(4,143,734)	(2,828,452)
Increase in inventories	(15,291,906)	(29,690,237)
Increase in other financial assets	(2,052,779)	(1,430,100)
Increase in other current assets	(1,220,213)	(4,652,211)
Total changes in operating assets	<u>(12,226,973)</u>	<u>(70,898,804)</u>
<b>Changes in operating liabilities</b>		
Increase (decrease) in financial liabilities reported at fair value through profit or loss	1,533	(1,598)
Increase (decrease) in notes and accounts payable	(8,899,354)	51,900,806
Increase in deferred revenue	1,354,856	43,874
Increase in accrued expenses	2,627,218	685,785
Increase in other accounts payable	705,268	4,609,620
Increase (decrease) in provisions — current	69,781	(6,134)
Increase in other current liabilities	5,382,730	6,294,758
Total changes in operating liabilities	<u>1,242,032</u>	<u>63,527,111</u>
Net changes in operating assets and liabilities	<u>(10,984,941)</u>	<u>(7,371,693)</u>
Total changes in operating assets and liabilities	<u>1,748,867</u>	<u>1,440,246</u>
<b>Cash provided by operating activities</b>	14,534,347	10,019,386
Dividend received	49,315	46,694
Interest received	547,303	636,481
Interest paid	(626,995)	(751,668)
Income taxes paid	(4,486,284)	(1,542,494)
<b>Net cash provided by operating activities</b>	<u>10,017,686</u>	<u>8,408,399</u>

**The accompanying notes are an integral part of the consolidated financial statements.**  
**(With KPMG review report dated November 11, 2013.)**

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**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012**  
(All Amount Expressed in Thousands of New Taiwan Dollars)

	<b>For the Nine Months Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from investing activities</b>		
Acquisition of available-for-sale financial assets	(146,450)	-
Proceeds from disposal of available-for-sale financial assets	216,038	91,841
Proceeds from disposal of subsidiaries	300,232	600,538
Proceeds from capital reduction of investments accounted for using equity method	8,330	17,054
Acquisition of property, plant and equipment	(7,948,679)	(12,422,286)
Proceeds from disposal of property, plant and equipment	1,284,695	704,495
Acquisition of intangible assets	(62,431)	(88,138)
Proceeds from disposal of intangible assets	27	737
Decrease (increase) in other financial assets	(165,311)	4,907
Increase in prepayments on purchase of equipment	(1,739,135)	(5,269,714)
Increase in long-term prepaid rents	(149,413)	(471,105)
Decrease (increase) in other noncurrent assets	2,657	(231,960)
<b>Net cash used in investing activities</b>	<b>(8,399,440)</b>	<b>(17,063,631)</b>
<b>Cash flows from financing activities</b>		
Increase (decrease) in short-term loans	2,701,037	(211,705)
Decrease in short-term notes and bills payable	(23)	(39,988)
Proceeds from issuance of bonds payable	-	8,835,640
Repayments of bonds	(1,513,281)	-
Proceeds from long-term loans	4,760,364	508,032
Repayments of long-term loans	(5,950,638)	(1,099,949)
Increase in other noncurrent liabilities	157,182	47,028
Dividends paid	(2,300,260)	(2,175,417)
Employee stock options	659,703	1,862
Proceeds from sale of treasury shares	10,597	-
Change in non-controlling interests	2,218,565	3,785,618
<b>Net cash provided by financing activities</b>	<b>743,246</b>	<b>9,651,121</b>
Effect of exchange rate fluctuations on cash held	255,932	484,502
Net increase in cash and cash equivalents	2,617,424	1,480,391
<b>Cash and cash equivalents, beginning of period</b>	<b>59,832,189</b>	<b>50,007,260</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 62,449,613</b>	<b>51,487,651</b>

The accompanying notes are an integral part of the consolidated financial statements.  
(With KPMG review report dated November 11, 2013.)

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 AND 2012

(Amounts Expressed in Thousands of New Taiwan Dollars,

Except for Per Share Information and Unless Otherwise Stated)

## 1. COMPANY HISTORY

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

## 2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements were authorized for issue by the Board of Directors on November 11, 2013.

## 3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The new accounting standards and interpretations issued by the IASB but are not yet endorsed by the Financial Supervisory Commissions R.O.C. (“FSC”) have not yet been adopted by the Company and its subsidiaries (together referred to as the “group” and individually as “Group entity”) and may impact the accompanying consolidated financial statements. Such new accounting standards and interpretations are the same as those disclosed in Note 3 of the consolidated financial statements for the three months ended March 31, 2013 and 2012, except for the following:

<u>Issue date</u>	<u>New standards and amendments</u>	<u>Description</u>	<u>Effective date per IASB</u>
May 29, 2013	• IAS 36 Impairment of Assets	• The amendments effective on January 1, 2013 require the disclosure of recoverable amounts of cash generating units if the carrying amount of goodwill or intangible assets with indefinite useful life is significant. Also, the standard has been amended requiring the disclosure of impairment loss recognized (reversed) if an individual impairment loss (reversal) is material.	January 1, 2014 or earlier

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>Issue date</u>	<u>New standards and amendments</u>	<u>Description</u>	<u>Effective date per IASB</u>
		• Also, if recoverable amount is fair value less costs of disposal, the valuation techniques used to measure fair value less costs of disposal and the key assumptions used in the measurement of fair value are categorized within “Level 2” or “Level 3” of the fair value hierarchy.	

As the new accounting standards and amendments discussed above and disclosed in Note 3 of the consolidated financial statements for the three months ended March 31, 2013 and 2012 have not been endorsed by the FSC, the Company is still assessing the impact thereof to the consolidated financial statements if and when they are adopted.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

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

##### (1) Statement of compliance

The accompanying consolidated interim financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to the Regulations) and guidelines of IAS 34 “Interim Financial Reporting,” endorsed by FSC. Such consolidated interim financial statements, however, do not include all of the information required for full annual financial statements by IFRS endorsed by the FSC.

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

##### (2) Basis of preparation

###### A. Basis of measurement

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

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**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

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

**B. Functional and presentation currency**

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

**(3) Basis of consolidation**

**A. Principle of preparation of the consolidated financial statements**

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

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**B. Acquisition of non-controlling interests**

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

**C. Subsidiaries**

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

D. Business combination under common control

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

E. Losing control

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

F. List of subsidiaries included in the consolidated financial statements

Investor	Subsidiary	Nature of business	Shareholding ratio				Notes
			2013.09.30	2012.12.31	2012.09.30	2012.01.01	
The Company	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	100.00%	100.00%	100.00%	100.00%	
UNIHAN AND ASUSPOWER INVESTMENT	ABILITY ENTERPRISE CO., LTD. (Ability(TW))	Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products and leasing	12.30%	12.31%	12.35%	12.36%	Note A
Ability (TW)	ABILITY ENTERPRISE (BVI) CO., LTD. (ABILITY)	Investing activities	100.00%	100.00%	100.00%	100.00%	Note A
Ability (TW)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%	100.00%	100.00%	Note A
Ability (TW)	VIEWQUEST TECHNOLOGIES INTERNATIONAL INC.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%	100.00%	100.00%	Note A
Ability (TW)	ASSOCIATION INTERNATIONAL LTD.	Investing activities	-	-	-	100.00%	Note A

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio				Notes
			2013.09.30	2012.12.31	2012.09.30	2012.01.01	
Ability (TW)	VIEWQUEST TECHNOLOGIES (BVI) INC. (VQ(BVI))	Manufacturing and trading computer peripherals, digital cameras and electronic components	100.00%	100.00%	100.00%	100.00%	Note A
Ability (TW)	Ability International Investment Co., Ltd.(ABILITY INVESTMENT)	Investing activities	100.00%	100.00%	100.00%	100.00%	Note A
Ability (TW)	E-PIN OPTICAL INDUSTRY CO., LTD.(E-PIN)	Selling electronic components of optical products	53.01%	53.01%	53.01%	53.01%	Note A
ABILITY	Ability Technology (Dongguan) Co., Ltd	Manufacturing and selling digital cameras	100.00%	100.00%	100.00%	100.00%	Note A
ABILITY	Jiujiang Viewquest Electronics Inc.	Manufacturing and selling digital cameras	100.00%	100.00%	100.00%	100.00%	Note A
VQ(BVI)	VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD.	Manufacturing and selling digital cameras	100.00%	100.00%	100.00%	100.00%	Note A
E-PIN	E-PIN INTERNATIONAL TECH CO., LTD.	Manufacturing optical instruments	-	-	-	65.10%	Note A
E-PIN	E-PIN OPTICAL INDUSTRY CO., LTD.	Trading activities	100.00%	100.00%	100.00%	100.00%	Note A
E-PIN	E-PIN OPTICAL INDUSTRY (M.) SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	100.00%	100.00%	Note A
E-PIN	ALL VISION TECHNOLOGY SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	100.00%	100.00%	Note A
E-PIN	ALL VISION HOLDING LTD. (AV)	Investing activities	100.00%	100.00%	100.00%	100.00%	Note A
AV	EVERLIGHT DEVELOPMENT CORPORATION (ED)	Investing activities	100.00%	100.00%	100.00%	100.00%	Note A
AV	E-SKY HOLDING LTD. (ES)	Investing activities	73.04%	73.04%	73.04%	73.04%	Note A
ED	WEIHAI E-SKY OPTICAL-ELECTRICAL CO., LTD.	Manufacturing and developing precision optical lenses	-	-	-	100.00%	Note A
ED	NANJING CHANGMING PHOTOELECTRIC TECHNOLOGY CO., LTD.	Manufacturing and developing precision optical lenses	55.45%	55.45%	55.45%	55.45%	Note A
ES	ZHONGSHAN SANXIN PRECISION INDUSTRY CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	100.00%	100.00%	100.00%	Note A
ES	NANJING E-PIN OPTOTECH CO., LTD.	Manufacturing and developing precision optical lenses	72.22%	72.22%	72.22%	72.22%	Note A
UNIHAN	UNIHAN HOLDING LTD. (UNIHAN HOLDING)	Investing activities	100.00%	100.00%	100.00%	100.00%	

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**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

Investor	Subsidiary	Nature of business	Shareholding ratio				Notes
			2013.09.30	2012.12.31	2012.09.30	2012.01.01	
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDING)	Investing and trading activities	100.00%	100.00%	100.00%	100.00%	
CASETEK HOLDING	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	100.00%	100.00%	
CASETEK HOLDING	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00%	100.00%	100.00%	100.00%	
CASETEK HOLDING	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDING)	Investing and trading activities	100.00%	100.00%	100.00%	100.00%	
KAEDAR HOLDING	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00%	100.00%	100.00%	100.00%	
CASETEK HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Trading activities	-	100.00%	100.00%	100.00%	
CASETEK HOLDING	KAEDAR TRADING LTD.	Investing and trading activities	100.00%	100.00%	100.00%	100.00%	
CASETEK HOLDING	CORE-TEK (SHANGHAI) LIMITED	Researching and producing spare parts for notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00%	100.00%	100.00%	100.00%	
UNIHAN, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	38.08%	38.08%	38.08%	38.65%	Note A
AZURE WAVE	EMINENT STAR CO., LTD. (EMINENT)	Investing activities	100.00%	100.00%	100.00%	100.00%	Note A
EMINENT	HANNEX INTERNATIONAL LIMITED (HANNEX)	Investing activities	100.00%	100.00%	100.00%	100.00%	Note A
HANNEX	SCIENTEK. NANJING CO., LTD.	Designing, manufacturing and selling computer products	100.00%	100.00%	100.00%	100.00%	Note A
EMINENT	JADE TECHNOLOGIES LIMITED (JADE)	Investing activities	100.00%	100.00%	100.00%	100.00%	Note A
EMINENT · JADE	AZUREWAVE TECHNOLOGY (SHENZHEN) CO., LTD.	Designing, researching and selling computer products	100.00%	100.00%	100.00%	100.00%	Note A
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00%	100.00%	100.00%	100.00%	Note A
AZURE WAVE	AZWAVE HOLDING (SAMOA) INC. (AZWAVE SAMOA)	Investing activities	100.00%	100.00%	100.00%	100.00%	Note A

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio				Notes
			2013.09.30	2012.12.31	2012.09.30	2012.01.01	
AZWAVE SAMOA	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and selling computer products	100.00%	100.00%	100.00%	100.00%	Note A
AZWAVE SAMOA	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00%	100.00%	100.00%	100.00%	Note A
AZWAVE SAMOA	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00%	100.00%	100.00%	100.00%	Note A
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00%	100.00%	100.00%	100.00%	Note A
UNIHAN	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	100.00%	100.00%	100.00%	
AMA PRECISION	AMA TECHNOLOGY CORPORATION	Trading computer peripherals	-	100.00%	100.00%	100.00%	
AMA PRECISION	AMA HOLDINGS LIMITED (AMA)	Investing activities	100.00%	100.00%	100.00%	100.00%	
AMA	METAL TRADINGS LTD.(METAL)	Trading activities	100.00%	100.00%	100.00%	100.00%	
METAL	FENGSHUO TRADING (TONGZHOU) CO., LTD.	Trading activities	100.00%	100.00%	100.00%	100.00%	
AMA	EXTECH LTD.	Trading electronic parts	90.51%	90.51%	90.51%	90.51%	
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	100.00%	100.00%	100.00%	100.00%	
AMA	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD	Manufacturing and selling new electronic parts and premium hardware	100.00%	100.00%	100.00%	100.00%	
THE COMPANY	PEGATRON HOLLAND HOLDING B.V.(PHH) (previously known as ASUS HOLLAND HOLDING B.V.)	Investing activities	100.00%	100.00%	100.00%	100.00%	
PHH	PEGATRON CZECH S.R.O.	Installing, repairing and selling electronic products	100.00%	100.00%	100.00%	100.00%	
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00%	100.00%	100.00%	100.00%	
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00%	100.00%	100.00%	100.00%	
POWTEK	POWTEK (SHANGHAI) CO., LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00%	100.00%	100.00%	100.00%	

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Investor	Subsidiary	Nature of business	Shareholding ratio				Notes
			2013.09.30	2012.12.31	2012.09.30	2012.01.01	
PEGATRON HOLDING, KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing activities	100.00%	100.00%	100.00%	100.00%	
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing and trading activities	100.00%	100.00%	100.00%	100.00%	
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	100.00%	100.00%	
PIOTEK HOLDING	PIOTEK (H.K) TRADING LIMITED	Trading activities	100.00%	100.00%	100.00%	100.00%	
PEGATRON HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Trading activities	100.00%	-	-	-	Note B
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00%	100.00%	100.00%	100.00%	
ASLINK	ASLINK (H.K.) PRECISION CO., LIMITED	Investing and trading activities	-	-	-	100.00%	
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00%	100.00%	100.00%	100.00%	
DIGITEK	DIGITEK (CHONGQING) LTD.	Manufacturing, developing, and selling GPS, computer electronic devices, and after-sales services	100.00%	100.00%	100.00%	100.00%	
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%	100.00%	100.00%	
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00%	100.00%	100.00%	100.00%	
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00%	100.00%	100.00%	100.00%	
PROTEK	PROTEK (SHANGHAI) LIMITED	Developing, manufacturing and selling GPS, new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	100.00%	100.00%	

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			2013.09.30	2012.12.31	2012.09.30	2012.01.01	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%	100.00%	100.00%	
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	100.00%	100.00%	
PEGATRON HOLDING	TOP QUARK LIMITED (TOP QUARK)	Investing activities	100.00%	100.00%	100.00%	100.00%	
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00%	100.00%	100.00%	100.00%	
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	100.00%	100.00%	
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	100.00%	100.00%	
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	58.65%	58.65%	58.65%	58.65%	
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Manufacturing and selling database storage and processing equipments	100.00%	100.00%	100.00%	100.00%	
ASIAROCK	ASROCK EUROPE B.V.	Manufacturing and selling database service and trading electronic components	100.00%	100.00%	100.00%	100.00%	
ASIAROCK	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%	100.00%	100.00%	
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing and holding activities	100.00%	100.00%	100.00%	100.00%	
Leader	Firstplace International Ltd. (Firstplace)	Investing and holding activities	100.00%	100.00%	100.00%	100.00%	
Firstplace	ASROCK America., Inc.	Database service and trading electronic components	100.00%	100.00%	100.00%	100.00%	

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ASROCK	ASRock Rack Incorporation	Manufacturing and selling computer and related peripherals	70.63%	-	-	-	Note D
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00%	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, whole selling and retailing electronic components, and providing business management consultant service	39.00%	39.00%	39.00%	39.00%	Note A
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00%	100.00%	100.00%	100.00%	Note A
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	68.75%	68.75%	80.22%	84.45%	Note A
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00%	100.00%	100.00%	-	Note A
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Manufacturing medical appliances	100.00%	100.00%	-	-	Note A
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%	100.00%	100.00%	Note A
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	100.00%	100.00%	Note A
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	100.00%	100.00%	100.00%	Note A
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	100.00%	100.00%	Note A
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00%	-	-	-	Note A
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION (STARLINK)	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	100.00%	100.00%	100.00%	

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Investor	Subsidiary	Nature of business	Shareholding ratio				Notes
			2013.09.30	2012.12.31	2012.09.30	2012.01.01	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00%	100.00%	100.00%	100.00%	
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED (CAYMAN) (CASETEK CAYMAN)	Investing activities	68.18%	74.39%	74.39%	100.00%	
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00%	100.00%	100.00%	100.00%	
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	Manufacturing and selling electronic components	100.00%	100.00%	100.00%	100.00%	
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	100.00%	100.00%	100.00%	
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	100.00%	100.00%	100.00%	
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Manufacturing and selling electronic components	100.00%	100.00%	100.00%	100.00%	
RIH LI	RI PEI TRADING (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	-	-	-	Note C
CASETEK CAYMAN	RIH KUAN METAL CORPORATION (RIH KUAN)	Selling iron and aluminum products	100.00%	100.00%	100.00%	100.00%	
CASETEK CAYMAN	APLUS PRECISION LIMITED (APLUS)	Investing and trading activities	100.00%	100.00%	100.00%	100.00%	
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	100.00%	100.00%	100.00%	
UNITED	AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	100.00%	100.00%	100.00%	
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00%	100.00%	100.00%	100.00%	
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00%	100.00%	100.00%	100.00%	
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.(PCBR)	Maintenance service	100.00%	100.00%	100.00%	100.00%	

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			2013.09.30	2012.12.31	2012.09.30	2012.01.01	
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00%	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00%	100.00%	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens Optics)	Developing, manufacturing and selling computer data projectors and related peripherals	56.52%	56.52%	56.52%	56.52%	
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	100.00%	100.00%	100.00%	
Lumens Optics	Lumens Digital Image Inc.(SAMOA) (Lumens)	Investing activities	100.00%	100.00%	100.00%	100.00%	
Lumens	Lumens (Suzhou) Digital Image Inc.	Developing, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	100.00%	100.00%	100.00%	
Lumens Optics	Lumens Europe BVBA	Selling computer communication products and peripherals	-	-	100.00%	100.00%	
Lumens Optics	Jie Xin Inc.	Manufacturing and wholesaling electronic parts	-	-	94.00%	94.00%	
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%	100.00%	100.00%	
The Company	ADVANSUS CORP.	Manufacturing computer peripherals	-	-	-	50.00%	
The Company	PEGATRON USA, INC.	Sales and repair service center in North America	100.00%	100.00%	100.00%	100.00%	

Note A: As of September 30, 2013, AZURE WAVE TECHNOLOGY CORP., ABILITY ENTERPRISE CO., LTD. and KINSUS INTERCONNECT TECHNOLOGY CORP., were included in the consolidated financial statements even if the Group hold 38.08%, 12.30% and 39.00%, respectively, or less than 50% of their total issued shares because the Group has acquired more than 50% of voting shares of each of these entities and has the ability to excise control over their respective board of directors.

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

Note C: In December, 2012, pursuant to the resolutions of the board of directors of ASROCK INCORPORATION ("ASROCK"), ASROCK has established and invested by acquiring the 100% equity ownership in ASRock Rack Incorporation ("ASRock Rack"), which is engaged in the server business. The registration process for the establishment of ASRock Rack was completed on January 29, 2013. In addition, ASRock Rack increased its capital but ASROCK did not participate in the said capital increase of ASRock Rack according to its equity shareholding ratio so that equity ownership of ASROCK has decreased to 70.63%.

Note D: For the nine months ended September 30, 2013, the Group has established and invested by acquiring the 100% equity ownership in RI PEI TRADING (SHANGHAI) CO., LTD. in Mainland China through RIH LI INTERNATIONAL LIMITED.

G. Subsidiaries excluded from consolidation: None.

(4) Foreign currency

A. Foreign currency transaction

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

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

B. Foreign operations

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

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

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

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

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

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(6) Cash and cash equivalents

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

(7) Financial instruments

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

A. Financial assets

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

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

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

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

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

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

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**(b) Available-for sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated available-for-sale or are not classified in any of the other categories of financial assets. At initial recognition, available-for-sale financial assets are recognized at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and unrealized gains (losses) on available-for-sale financial assets in equity. When an available-for-sale investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, under other income. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

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

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

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

**(c) Held-to-maturity financial assets**

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

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

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(d) Loans and receivables

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

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

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

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

The Group’s accounts receivable which are assigned but no cash advances are received yet are accounted for as other accounts receivable.

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**(e) Impairment of financial assets**

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

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

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

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

Such impairment loss is not reversible in subsequent periods.

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

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

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

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

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

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

**(f) Derecognition of financial assets**

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

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

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

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

**B. Financial liabilities and equity instruments**

**(a) Classification of debt or equity instruments**

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

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

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

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

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

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

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

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

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

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

Financial liabilities at fair value through profit or loss is measured at cost if it sells borrowed unquoted equity investment whose fair value cannot be reliably measured and that it is to be delivered to the obligator of the equity investment. It is included in financial liabilities measured at cost.

The Group provides and designates financial guarantee contract and loan commitments as at fair value through profit or loss, any gains and losses 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 removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in “non-operating income and expenses.”

**(e) Offsetting of financial assets and liabilities**

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

**(f) Financial guarantee contract**

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

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

C. Derivative financial instruments, including hedge accounting

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

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

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

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

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

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

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(a) Fair value hedge

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

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

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

(b) Cash flow hedge

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

When the hedged item is recognized in profit or loss, the amount accumulated in equity and retained in other comprehensive income is reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss, and it 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.

(8) Inventories

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

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

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

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

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

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

**(10) Investment in associates**

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

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

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

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

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

**(11) Interests in Joint Ventures**

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

**(12) Investment property**

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

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

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

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

**(13) Property, plant and equipment**

**A. Recognition and measurement**

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

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purchases of property, plant and equipment. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

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

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

**B. Reclassification to investment property**

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

**C. Subsequent cost**

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

**D. Depreciation**

Depreciation is calculated based 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.

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

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

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

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

(14) Leased assets

A. Lessor

Leased asset under finance lease is recognized on a net basis as lease receivable. Initial direct costs incurred in negotiating and arranging an operating lease is added to the net investment of the leased asset. Finance income is allocated to each period during the lease term so as 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 Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value and the present of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

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

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

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

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

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

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

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

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

**(15) Intangible assets**

**A. Goodwill**

**(a) Recognition**

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

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(b) Measurement

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

B. Other Intangible Assets

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

C. Subsequent Expenditure

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

D. Amortization

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

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

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

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

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**(16) Impairment – Non-derivative financial assets**

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

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

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

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

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

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

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

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

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

Reversal of an impairment loss for goodwill is prohibited.

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(17) Provisions

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

(18) Treasury stock

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

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

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

(19) Revenue

A. Goods sold

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

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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.

(20) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

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

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

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

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

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

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

**C. Short-term employee benefits**

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

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

**(21) Share-based payment**

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

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

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

**(22) Income Taxes**

Income tax expense for the period is best estimated by multiplying pretax income for the interim reporting period with the effective annual tax rate as forecasted by the management. This is recognized and allocated to current and deferred taxes proportionately.

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

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

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

Deferred taxes are measured based on the statutory tax rate on the reporting date; enacted 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.

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

**(23) Business combination**

**A. Acquisition after 1 January 2012 (inclusive)**

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

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

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

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

**B. Acquisition before January 1, 2012**

If it opted to adopt IFRSs endorsed by the Financial Supervisory Commission, R.O.C., the Group can choose to restate all business combination transactions occurring after January 1, 2012 (inclusive). For those business acquisitions occurring prior to January 1, 2012, goodwill is recognized based on the Regulations Governing the Preparation of Financial Reports issued by Financial Supervisory Commission in 10 January 1999 and "financial accounting standards and interpretation issued by the Accounting Research and Development Foundation" (Generally Accepted Accounting Policies).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(24) Earnings per share

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

(25) Operating segments

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

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

The preparation of the consolidated quarterly financial statements in conformity with IFRSs (in accordance with IAS 34 "Interim financial reporting" and approved by FSC) requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparation of the consolidated quarterly financial statements, the major sources of significant accounting judgments and estimation uncertainty are consistent with Note 5 of the consolidated financial statements for the three months ended March, 2013 and 2012 prepared under IFRS (endorsed by the FSC).

**6. EXPLANATIONS TO SIGNIFICANT ACCOUNTS**

(1) Cash and cash equivalents

	<b>September 30, 2013</b>	<b>December 31, 2012</b>	<b>September 30, 2012</b>	<b>January 1, 2012</b>
Cash on hand	\$ 33,750	44,937	16,170	29,797
Cash in banks	24,210,961	25,258,294	24,913,800	20,112,793
Time deposits	37,995,604	34,470,878	26,557,681	29,274,170
Cash equivalents-RP Bonds	209,298	58,080	-	590,500
	<b>\$ 62,449,613</b>	<b>59,832,189</b>	<b>51,487,651</b>	<b>50,007,260</b>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- A. The above cash and cash equivalents were not pledged as collateral. Pledged time deposits were accounted for under other financial assets. Please refer to Note 8 for details.
- B. Time deposits with maturity period of over three months are normally accounted under other financial assets. However, time deposits are accounted under cash and cash equivalents if they are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose, readily convertible to a known amount of cash and have an insignificant risk of change in value. Please refer to Note 6(9) for details.
- C. Refer to Note 6(24) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

(2) Investment in financial assets and liabilities

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

	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>September 30,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Financial assets at fair value through profit or loss—current:				
Held-for-trading				
Stock of listed companies	\$ 181,092	311,175	275,474	739,571
Beneficiary certificates	6,288,240	7,174,886	5,997,336	5,639,583
Corporate bonds	31,500	47,646	35,280	31,815
Foreign exchange swap contracts	-	58	8,019	135
Option exchange (long call)	4,446	-	-	4,496
Forward exchange contracts and others	12,500	271	32,459	2,085
	<u>\$ 6,517,778</u>	<u>7,534,036</u>	<u>6,348,568</u>	<u>6,417,685</u>
Available-for-sale financial assets—current:				
Stock of listed companies	\$ 11,670	90,979	-	-
Stock of overseas listed companies	378,378	414,940	434,787	414,737
	<u>\$ 390,048</u>	<u>505,919</u>	<u>434,787</u>	<u>414,737</u>
Available-for-sale financial assets—noncurrent:				
Stock of listed companies	\$ 1,079,263	1,169,155	574,544	586,719
Equity securities—common stock	192,250	114,173	168,106	124,375
	<u>\$ 1,271,513</u>	<u>1,283,328</u>	<u>742,650</u>	<u>711,094</u>
Financial assets carried at cost—noncurrent:				
Equity securities—common stock	\$ 265,243	273,542	159,340	166,325
Equity securities—preferred stock	224,857	224,592	284,278	325,580
	<u>\$ 490,100</u>	<u>498,134</u>	<u>443,618</u>	<u>491,905</u>

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	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Financial liabilities at fair value through profit or loss—current:				
Held-for-trading				
Foreign exchange swap contracts	\$ 14	-	-	1,367
Forward exchange contracts and others	1,617	98	-	232
	<u>1,631</u>	<u>98</u>	<u>-</u>	<u>1,599</u>
Designated as at fair value through profit or loss				
Domestic convertible bonds — put and call options	-	(1,578)	(1,578)	(1,578)
Adjustments	-	70,564	74,132	102,562
	<u>-</u>	<u>68,986</u>	<u>72,554</u>	<u>100,984</u>
	<u>\$ 1,631</u>	<u>69,084</u>	<u>72,554</u>	<u>102,583</u>
Non-current financial liabilities at fair value through profit or loss:				
Foreign convertible bonds — conversion options	\$ 1,262,770	1,262,770	1,262,770	-
Adjustments	(584,138)	(502,955)	(276,965)	-
	<u>\$ 678,632</u>	<u>759,815</u>	<u>985,805</u>	<u>-</u>

- (a) For the three months and nine months ended September 30, 2013 and 2012, the Group recognized a net gain on financial assets and liabilities reported at fair value through profit or loss of \$1,142,248, \$387,562, \$153,977 and \$427,328, respectively.
- (b) For the three months and nine months ended September 30, 2013 and 2012, the unrealized gain (loss) on available-for-sale financial assets amounted to \$(33,725), \$(28,267), \$(103,942) and \$175,544, respectively.
- (c) The aforementioned investments held by the Group are measured at amortized cost at each reporting date given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined, therefore, the Group management determines the fair value cannot be measured reliably. The Group evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of \$0, \$0, \$0 and \$40,812 for the three months and nine months ended September 30, 2013 and 2012, respectively. As of September 30, 2013, December 31, 2012, September 30, 2012 and January 1, 2012, the Group had accumulated impairment loss of \$401,088, \$444,443, \$257,442 and \$219,888, respectively.

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- (d) The convertible bond issued by the Group was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put option embedded in bonds payable were separated from bonds payable, and were recognized as “Financial liabilities at fair value through profit or loss.” For the three months and nine months ended September 30, 2013 and 2012, the Group recognized a gain on financial liability reported at fair value through profit or loss of \$1,074,682, and \$318,560, and \$90,059 and \$305,397, respectively.
- (e) Refer to Note 6(22) for further discussion on gains and losses on disposal of investments.
- (f) Refer to Note 6(24) for the Group’s information on financial instruments risk management.
- (g) As of September 30, 2013, December 31, 2012, September 30, 2012 and January 1, 2012, the aforesaid financial assets were not pledged as collateral.

B. Foreign equity investments

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

		September 30, 2013			September 30, 2012		
		Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
USD	\$	24,346	29.570	719,911	25,900	29.295	758,741
		December 31, 2012			January 1, 2012		
		Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
USD		25,347	29.04	736,077	25,423	30.275	769,681

C. Derivative not used for hedging

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

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**Financial Assets**

**September 30, 2013**

	<b>Notional Principal (thousands)</b>	<b>Contract Period</b>
Derivative financial instruments not used for hedging		
Option exchange (long call)	<b>USD 9,000</b>	2013.07~2014.09
Forward exchange contract and others	<b>USD 88,000</b>	2013.07~2013.12

**December 31, 2012**

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

**September 30, 2012**

	<b>Notional Principal (thousands)</b>	<b>Contract Period</b>
Derivative financial instruments not used for hedge		
Foreign exchange swap contract	<b>USD 47,650</b>	2012.09~2012.11
Forward exchange contract and others	<b>USD 75,000</b>	2012.08~2012.10

**January 1, 2012**

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

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**Financial Liabilities**

**September 30, 2013**

	<b>Notional Principal (thousands)</b>	<b>Contract Period</b>
Derivative financial instruments not used for hedging		
Foreign exchange swap contract	<b>USD 7,000</b>	2013.09~2013.10
Forward exchange contract and others	<b>USD 22,000</b>	2013.09~2013.10

**December 31, 2012**

	<b>Notional Principal (thousands)</b>	<b>Contract Period</b>
Derivative financial instruments not used for hedging		
Forward exchange contract and others	<b>USD 6,200</b>	2012.11~2013.02

**January 1, 2012**

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

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

	<b>September 30, 2013</b>	<b>December 31, 2012</b>	<b>September 30, 2012</b>	<b>January 1, 2012</b>
Notes receivable	\$ 117,922	158,517	113,037	107,356
Accounts receivable	113,872,410	117,469,858	111,067,626	75,172,520
Other receivable	19,785,916	15,808,826	4,383,401	2,202,678
Subtotal	133,776,248	133,437,201	115,564,064	77,482,554
Less: Allowance for impairment	(1,810,064)	(685,983)	(705,163)	(775,483)
	<b>\$ 131,966,184</b>	<b>132,751,218</b>	<b>114,858,901</b>	<b>76,707,071</b>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- A. Refer to Note 6(24) for the Group's notes receivable, accounts receivable and other receivable exposure to credit risk and currency risk.
- B. As of September 30, 2013 and December 31, 2012, the Company sold its accounts receivable without recourse as follows:

September 30, 2013

<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Transferring Terms</u>	<u>Derecognition Amount</u>
SMBC	\$ <u>4,423,255</u>	USD <u>300,000,000</u>	USD <u>149,585,887</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>4,423,255</u>
ANZ (Note)	\$ <u>37,737,474</u>	USD <u>1,300,000,000</u>	USD <u>699,784,876</u>	None	"	\$ <u>37,737,474</u>

December 31, 2012

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

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

For the three months and nine months ended September 30, 2013, the Company recognized a loss of \$ 57,722 and \$147,230 from the assignment of accounts receivable, which is accounted under financial costs. Also, the difference of \$17,044,835 and \$10,454,400 between the amount of accounts receivable assigned and the amount advanced is accounted under other receivable as of September 30, 2013 and December 31, 2012, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- C. As of September 30, 2013, December 31, 2012, September 30, 2012 and January 1, 2012, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

September 30, 2013

<u>Purchaser</u>	<u>Assignment Facility</u>		<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Derecognition Amount</u>
Mega International Commercial Bank	\$ <u>570,572</u>	USD	<u>30,000</u>	\$ <u>-</u>	None	\$ <u>570,572</u>

December 31, 2012

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

September 30, 2012

<u>Purchaser</u>	<u>Assignment Facility</u>		<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Derecognition Amount</u>
Mega International Commercial Bank	\$ <u>418,865</u>	USD	<u>30,000</u>	\$ <u>114,250</u>	None	\$ <u>418,865</u>

January 1, 2012

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

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(4) Inventories

	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>September 30,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Merchandise	\$ 2,250,394	3,140,408	2,946,832	3,450,561
Finished goods	30,178,355	28,257,318	31,859,895	25,858,910
Work in process	28,076,571	14,276,124	14,072,273	7,408,034
Raw materials	52,737,586	52,539,079	49,893,645	33,370,900
Subtotal	<u>113,242,906</u>	<u>98,212,929</u>	<u>98,772,645</u>	<u>70,088,405</u>
Less: Allowance for inventory market decline and obsolescence	(5,272,916)	(5,534,845)	(4,719,961)	(4,496,794)
Total	<u>\$ 107,969,990</u>	<u>92,678,084</u>	<u>94,052,684</u>	<u>65,591,611</u>

For three months and nine months ended September 30, 2013 and 2012, the components of cost of sales were as follows:

	<u>For the Three Months Ended</u> <u>September 30</u>		<u>For the Nine Months Ended</u> <u>September 30</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Cost of goods sold	\$ 240,855,970	210,472,163	644,890,262	581,661,285
(Reversal of) Provision on inventory market price decline	(133,526)	608,967	(261,929)	223,167
Loss on disposal of inventory	2,586,142	1,972,554	6,122,132	4,863,980
Idle capacity	12,873	55,468	941,190	651,929
Gain (loss) on physical inventory	(2,343)	2,303	(13,959)	26,558
	<u>\$ 243,319,116</u>	<u>213,111,455</u>	<u>651,677,696</u>	<u>587,426,919</u>

For the nine months ended September 30, 2013 and 2012, the conditions that previously caused inventories to be written down below cost had disappeared due to the disposal of related inventories, so that the related allowance for loss on decline in the value of inventories was reversed, which resulted in a reversal gain on inventory valuation allowance.

As of September 30, 2013, December 31, 2012, September 30, 2012 and January 1, 2012, the aforesaid inventories were not pledged as collateral.

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(5) Investments accounted for using equity method

- A. The fair value of investments in associate of the Group for which there are published price quotation are \$791,342 and \$797,660 with carrying amount of \$775,707 and \$819,853 as of September 30, 2012 and January 1, 2012, respectively.
- B. The Group's financial information for investments accounted for using equity method at reporting date is as follows:

	<b>September 30, 2013</b>	<b>December 31, 2012</b>	<b>September 30, 2012</b>	<b>January 1, 2012</b>
Associates	\$ <b>1,553,742</b>	<b>1,607,697</b>	<b>2,403,212</b>	<b>2,703,438</b>

- C. For the three months and nine months ended September 30, 2013 and 2012, the Group's share of profit (loss) of the associates were as follows:

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
The Group's share of profit (loss) of the associates	\$ <b>(10,287)</b>	<b>20,920</b>	<b>(46,673)</b>	<b>66,811</b>

- D. The investee of Ability (TW), SHIN-EI YORKEY INTERNATIONAL LTD. (BVI), was liquidated in June 2013. As the result, Ability (TW) had recognized the difference between proceeds received and the carrying amount of the investment of \$2,163, as a loss on disposal of investment.
- E. As of September 30, 2013, December 31, 2012, September 30, 2012 and January 1, 2012, the aforesaid investments accounted for using equity method were not pledged as collateral.

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

## (6) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the nine months ended September 30, 2013 and 2012 were as follows:

	Land	Buildings	Machinery and equipment	Instrument equipment	Other facilities	Construction in progress	Total
<b>Cost or deemed cost:</b>							
Balance on January 1, 2013	\$ 4,406,917	33,062,623	58,686,858	977,217	25,022,661	301,559	122,457,835
Additions	-	1,844,220	1,094,082	158,212	2,671,002	2,898,721	8,666,237
Disposals and obsolescence	-	(372,899)	(5,153,266)	(549,770)	(2,092,206)	-	(8,168,141)
Reclassifications	684,640	1,584,894	2,439,323	1,023,810	(2,165,502)	(2,372,143)	1,195,022
Interest expense capitalization	-	-	-	-	-	2,135	2,135
Effect of movements in exchange rates	688	1,135,169	1,847,467	65,650	655,079	68,119	3,772,172
Balance on September 30, 2013	<b>\$ 5,092,245</b>	<b>37,254,007</b>	<b>58,914,464</b>	<b>1,675,119</b>	<b>24,091,034</b>	<b>898,391</b>	<b>127,925,260</b>
Balance on 1 January 2012	\$ 4,470,930	28,162,285	53,883,126	1,858,762	20,932,882	3,058,448	112,366,433
Additions	28,835	671,386	3,310,146	398,821	1,796,844	6,216,254	12,422,286
Disposals and obsolescence	(1,787)	(497,135)	(2,368,653)	(192,830)	(1,098,874)	-	(4,159,279)
Reclassifications	-	3,605,448	7,058,219	(75,286)	480,214	(5,548,427)	5,520,168
Interest expense capitalization	-	-	-	-	-	19,212	19,212
Others	(23,963)	(22,428)	(11,276)	-	(8,748)	-	(66,415)
Effect of movements in exchange rates	4,505	(812,085)	(1,428,551)	(53,235)	(574,569)	(193,561)	(3,057,496)
Balance on September 30, 2012	<b>\$ 4,478,520</b>	<b>31,107,471</b>	<b>60,443,011</b>	<b>1,936,232</b>	<b>21,527,749</b>	<b>3,551,926</b>	<b>123,044,909</b>
<b>Depreciation and impairment loss :</b>							
Balance on January 1, 2013	\$ -	7,117,165	29,206,386	715,535	12,424,730	-	49,463,816
Depreciation for the period	-	1,550,117	4,871,532	241,763	3,220,651	-	9,884,063
Reversal of impairment loss	-	(25)	(171,073)	(553)	(15,964)	-	(187,615)
Reclassifications	-	39,865	(56,923)	281,374	(342,190)	-	(77,874)
Disposals and obsolescence	-	(349,853)	(4,019,264)	(499,969)	(1,811,117)	-	(6,680,203)
Effect of movements in exchange rates	-	235,834	811,829	33,070	364,598	-	1,445,331
Balance on September 30, 2013	<b>\$ -</b>	<b>8,593,103</b>	<b>30,642,487</b>	<b>771,220</b>	<b>13,840,708</b>	<b>-</b>	<b>53,847,518</b>
Balance on January 1, 2012	\$ -	6,098,575	27,830,546	985,914	10,405,340	-	45,320,375
Depreciation for the period	-	1,180,084	4,937,623	233,547	2,632,094	-	8,983,348
Reversal of impairment loss	-	-	28,042	(945)	(46,189)	-	(19,092)
Reclassification	-	76,454	(414,874)	(55,191)	358,128	-	(35,483)
Disposals and obsolescence	-	(497,095)	(1,635,511)	(141,736)	(943,979)	-	(3,218,321)
Others	-	(2,305)	(10,823)	-	(6,243)	-	(19,371)
Effect of movements in exchange rates	-	(143,625)	(744,396)	(30,977)	(320,686)	-	(1,239,684)
Balance on September 30, 2012	<b>\$ -</b>	<b>6,712,088</b>	<b>29,990,607</b>	<b>990,612</b>	<b>12,078,465</b>	<b>-</b>	<b>49,771,772</b>
<b>Carrying amounts :</b>							
Balance on January 1, 2013	<b>\$ 4,406,917</b>	<b>25,945,458</b>	<b>29,480,472</b>	<b>261,682</b>	<b>12,597,931</b>	<b>301,559</b>	<b>72,994,019</b>
Balance on September 30, 2013	<b>\$ 5,092,245</b>	<b>28,660,904</b>	<b>28,271,977</b>	<b>903,899</b>	<b>10,250,326</b>	<b>898,391</b>	<b>74,077,742</b>
Balance on January 1, 2012	<b>\$ 4,470,930</b>	<b>22,063,710</b>	<b>26,052,580</b>	<b>872,848</b>	<b>10,527,542</b>	<b>3,058,448</b>	<b>67,046,058</b>
Balance on September 30, 2012	<b>\$ 4,478,520</b>	<b>24,395,383</b>	<b>30,452,404</b>	<b>945,620</b>	<b>9,449,284</b>	<b>3,551,926</b>	<b>73,273,137</b>

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Reversal of impairment loss	\$ (42,160)	(52,400)	(187,615)	(19,092)

- B. KINSUS INTERCONNECT TECHNOLOGY CORP. (“KINSUS”) purchased a farm land in the name of KINSUS’s chairman instead of KINSUS, due to the restriction imposed by the local government. As of September 30, 2013, the registration procedures were not completed.
- C. Please refer to Note 6(22) for details of the capitalization of interest expenses and gain and loss on disposal of property, plant and equipment.
- D. Please refer to Note 8 for details of the property, plant and equipment pledged as collateral.
- (7) Investment property

	Land	Buildings	Total
Carrying amount :			
Balance as of January 1, 2013	\$ 272,328	397,183	669,511
Balance as of September 30, 2013	\$ 272,328	389,398	661,726
Balance as of January 1, 2012	\$ 272,328	408,891	681,219
Balance as of September 30, 2012	\$ 272,328	399,827	672,155

- A. For the nine months ended September 30, 2013 and 2012, there were no significant purchase, disposal, impairment loss, or reversal gain on investment property. Please refer to Note 12 for the details of depreciation on investment property and refer to Note 6(8) of the consolidated financial statements for the three months ended March 31, 2013 and 2012 for other related information.
- B. As of September 30, 2013, December 31, 2012, September 30, 2012 and January, 2012, the fair value of investment property of the Group was \$895,282, \$932,807, \$830,588 and \$847,721, respectively. The fair value of investment property was evaluated based on the recent market transaction on arm’s length terms.
- C. As of September 30, 2013, December 21, 2012, September 30, 2012 and January 1, 2012, the aforesaid investment properties were not pledged as collateral.

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(8) Intangible assets

The costs of intangible assets, amortization, and impairment loss of the Group for the nine months ended September 30, 2013 and 2012 were as follows:

	<u>Goodwill</u>	<u>Customer relationship</u>	<u>Technology</u>	<u>Others</u>	<u>Total</u>
<b>Costs:</b>					
Balance on January 1, 2013	\$ 1,855,246	348,824	746,848	995,716	3,946,634
Additions	-	-	-	62,431	62,431
Disposals	-	-	-	(7,181)	(7,181)
Reclassifications	-	-	-	9,219	9,219
Effect of movement in exchange rate	18,562	6,366	13,631	12,415	50,974
Balance on September 30, 2013	<u>\$ 1,873,808</u>	<u>355,190</u>	<u>760,479</u>	<u>1,072,600</u>	<u>4,062,077</u>
Balance on January 1, 2012	\$ 1,898,499	363,659	778,610	1,003,399	4,044,167
Additions	-	-	-	88,138	88,138
Disposals	-	-	-	(40,286)	(40,286)
Reclassifications	-	-	-	2,274	2,274
Effect of movement in exchange rates	(34,579)	(11,772)	(25,204)	(19,612)	(91,167)
Balance on September 30, 2012	<u>\$ 1,863,920</u>	<u>351,887</u>	<u>753,406</u>	<u>1,033,913</u>	<u>4,003,126</u>
<b>Amortization and Impairment Loss:</b>					
Balance on January 1, 2013	\$ -	232,549	497,899	445,641	1,176,089
Amortization for the period	-	89,321	191,241	169,577	450,139
Disposals	-	-	-	(7,154)	(7,154)
Effect of movement in exchange rates	-	3,721	7,966	6,890	18,577
Balance on September 30, 2013	<u>\$ -</u>	<u>325,591</u>	<u>697,106</u>	<u>614,954</u>	<u>1,637,651</u>
Balance on January 1, 2012	\$ -	121,220	259,537	384,985	765,742
Amortization for the period	-	89,101	190,770	241,022	520,893
Disposals	-	-	-	(39,613)	(39,613)
Effect of movement in exchange rates	-	(5,053)	(10,820)	(6,367)	(22,240)
Balance on September 30, 2012	<u>\$ -</u>	<u>205,268</u>	<u>439,487</u>	<u>580,027</u>	<u>1,224,782</u>
<b>Carrying value:</b>					
Balance on January 1, 2013	<u>\$ 1,855,246</u>	<u>116,275</u>	<u>248,949</u>	<u>550,075</u>	<u>2,770,545</u>
Balance on September 30, 2013	<u>\$ 1,873,808</u>	<u>29,599</u>	<u>63,373</u>	<u>457,646</u>	<u>2,424,426</u>
Balance on January 1, 2012	<u>\$ 1,898,499</u>	<u>242,439</u>	<u>519,073</u>	<u>618,414</u>	<u>3,278,425</u>
Balance on September 30, 2012	<u>\$ 1,863,920</u>	<u>146,619</u>	<u>313,919</u>	<u>453,886</u>	<u>2,778,344</u>

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A. Goodwill impairment

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

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

For the nine months ended September 30, 2013 and 2012, there were no significant addition, disposal, impairment loss, or reversal gain on goodwill. Please refer to Note 6(9) of the consolidated financial statements for the three months ended March 31, 2013 and 2012 for other related information.

B. Impairment

For the nine months ended September 30, 2013 and 2012, there were no significant addition, disposal, impairment loss, or reversal gain on intangible assets other than goodwill. Please refer to Note 12 for the details of impairment and refer to Note 6(9) of the consolidated financial statements for the three months ended March 31, 2013 and 2012 for other related information.

(9) Other financial assets and other assets

Other current assets noncurrent assets were as follow:

	<u>September 30, 2013</u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>	<u>January 1, 2012</u>
Other financial assets \$	2,491,536	438,758	1,855,710	425,609
— current				
Other financial assets	472,307	306,996	292,157	297,065
— noncurrent				
Other current assets	10,145,576	8,922,700	9,609,346	5,405,734
Other noncurrent assets	96,729	98,952	109,353	99,558
	<u>\$ 13,206,148</u>	<u>9,767,406</u>	<u>11,866,566</u>	<u>6,227,966</u>

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

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B. Other current assets consisted of temporary payments of \$2,317,034, current tax asset of \$122,856 and others.

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

(10) Short-term loans

	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>September 30,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Letters of credits	\$ -	-	-	468,600
Unsecured bank loans	21,730,349	19,338,311	22,180,507	22,236,323
Secured bank loans	583,847	274,848	381,154	68,443
Total	<u>\$ 22,314,196</u>	<u>19,613,159</u>	<u>22,561,661</u>	<u>22,773,366</u>
Unused credit line	<u>\$ 39,703,471</u>	<u>42,891,715</u>	<u>30,512,776</u>	<u>53,665,056</u>
Interest rate	<u>0.67%~5.38%</u>	<u>0.16%~6.56%</u>	<u>0.16~6.56%</u>	<u>0.05%~6.53%</u>

A. Borrowing and repayment

In consideration of the operating situation and the terms of the loan agreement, the Group increased (decreased) its short-term loans by \$2,701,037 and \$(211,705) for the nine months ended September 30, 2013 and 2012, respectively. Please refer to Note 6(22) for the details of interest expenses and refer to Note 6(10) of the consolidated financial statements for the three months ended March 31, 2013 and 2012 for other related information.

B. Securities for bank loans

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

(11) Short-term notes and bills payable

	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>September 30,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Commercial paper payables	<u>\$ 99,970</u>	<u>99,993</u>	<u>179,948</u>	<u>219,936</u>

For the nine months ended September 30, 2013 and 2012, there were no significant borrowing, repurchase, or repayment for short-term notes and bills payable. Please refer to Note 6(22) for the details of interest expenses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(12) Long -term loans

	<u>September 30, 2013</u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>	<u>January 1, 2012</u>
Unsecured bank loans	\$ 24,901,712	25,338,778	25,764,980	26,854,444
Secured bank loans	859,476	1,064,632	1,125,247	1,412,824
Less: current portion	<u>(10,249,848)</u>	<u>(7,415,239)</u>	<u>(3,797,924)</u>	<u>(913,849)</u>
Total	<u>\$ 15,511,340</u>	<u>18,988,171</u>	<u>23,092,303</u>	<u>27,353,419</u>
Unused credit line	<u>\$ 17,847,404</u>	<u>9,445,760</u>	<u>10,429,732</u>	<u>10,894,317</u>
Interest rate	<u>0.79%~2.25%</u>	<u>0.91%~2.60%</u>	<u>0.91%~2.38%</u>	<u>0.79%~3.88%</u>

A. Borrowing and repayment

In consideration of the operating situation and the terms of the loan agreement, the Group repaid the long-term loans of \$5,950,638 and \$1,009,949 for the nine months ended September 30, 2013 and 2012. In addition, the Group borrowed long-term loans of \$4,760,364 and \$508,032 for the nine months ended September 30, 2013 and 2012, respectively. Except the following new syndicated loan, please refer to Note 6(22) for interest expenses and refer to Note 6(10) of the consolidated financial statements for the three months ended March 31, 2013 and 2012 for other related information.

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:

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

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

B. Securities for bank loans

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

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C. Breach of loan covenants

According to the Group's credit loan facility agreements with the banks, during the loan repayment periods, the Group must comply with certain financial covenants, such as current ratio, debt ratio, interest coverage ratio and tangible net assets, based on its audited annual consolidated financial statements (December 31) and reviewed semi-annual consolidated financial statements (June 30). If the aforesaid covenants are breached, the syndicated banks have the rights to demand an immediate repayment. As of September 30, 2013, the Group was in compliance with the above financial covenants.

(13) Bonds payable

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

	<u>September 30, 2013</u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>
Convertible bonds issued	\$ 8,874,000	8,874,000	8,874,000
Unamortized discounted on bonds payable	(883,235)	(1,056,299)	(1,298,230)
Bonds payable, end of the period	7,990,765	7,817,701	7,575,770
Foreign currency valuation, end of the period	(2,991)	(161,520)	85,246
Bonds payable, net	<u>\$ 7,987,774</u>	<u>7,656,181</u>	<u>7,661,016</u>
Embedded derivative –conversion options, accounted under financial liabilities at fair value through profit or loss	<u>\$ 678,632</u>	<u>759,815</u>	<u>985,805</u>

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Embedded derivative instruments –conversion options, accounted under other gains and losses	<u>\$ 1,074,682</u>	<u>318,252</u>	<u>90,059</u>	<u>276,966</u>
Interest expense	<u>\$ 96,548</u>	<u>109,793</u>	<u>285,585</u>	<u>249,434</u>

For the nine months ended September 30, 2013, there were no significant issuance, repurchase, or repayment of bonds payable. Please refer to Note 6(10) of the consolidated financial statements for the three months ended March 31, 2013 and 2012 for related information on issuance of convertible bonds in 2012.

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

	<u>December 31,</u> <u>2012</u>	<u>September 30,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Convertible bonds issued	\$ 1,500,000	1,500,000	1,500,000
Unamortized discounted on bonds payable	(64,387)	(72,113)	(95,293)
Corporate bonds issued balance at period end	1,435,613	1,427,887	1,404,707
Less: Bonds payable—current portion or redemption	(1,435,613)	(1,427,887)	-
	<u>\$ -</u>	<u>-</u>	<u>1,404,707</u>

- C. In February and March of 2013, Ability (TW) have redeemed all convertible bonds with face value of \$1,500 million and recognized a redemption loss of \$6,065. Please refer to Note 6(10) of the consolidated financial statements for the three months ended March 31, 2013 and 2012 for other related information. For the three months and nine months ended September 30, 2012, ABILITY ENTERPRISE CO., LTD. has recognized a gain on valuation of convertible bonds of \$308 and \$28,431, respectively.

(14) Provisions

	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>September 30,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Warranties	\$ 209,951	151,312	143,746	170,614
Allowance for sales returns and discounts	127,011	115,869	115,102	94,368
	<u>\$ 336,962</u>	<u>267,181</u>	<u>258,848</u>	<u>264,982</u>

For the nine months ended September 30, 2013 and 2012, there were no significant changes in provisions. Please refer to Note 6(11) of the consolidated financial statements for the three months ended March 31, 2013 and 2012 for other related information.

(15) Operating leases

A. Lessee

For the nine months ended September 30, 2013 and 2012, there were no significant new lease contracts. Please refer to Note 6(12) of the consolidated financial statements for the three months ended March 31, 2013 and 2012 for other related information.

B. Long-term prepaid rents

	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>September 30,</u> <u>2012</u>	<u>January 1,</u> <u>2012</u>
Long-term prepaid rents	\$ 3,607,657	3,385,492	2,994,305	2,673,871

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- (a) Long-term prepaid rents represent land use rights under operating lease arrangement and are expensed equally over 45 to 50 years on a straight-line basis.
- (b) The aforesaid land use rights were not pledged as collateral.

(16) Employee benefits

A. Defined benefit plans

Management believes that there were no material market volatility, no material reimbursement and settlement or other material one-time events. As a result, the pension cost in the accompanying interim consolidated financial statements was measured and disclosed according to the actuarial report as of December 31, 2012 and January 1, 2012.

The Group's pension expenses recognized in profit or loss for the three months and nine months ended September 30, 2013 and 2012 were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Cost of sales	\$ 297	385	933	867
Operating expense	1,750	4,372	5,462	8,402

B. Defined contribution plans

The contributions of the Group to the Bureau of the Labor Insurance and China Labor and Social Security Bureau for the employees' pension benefits were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Cost of sales	\$ 557,554	206,612	1,512,287	1,107,942
Operating expense	239,484	161,634	546,046	443,394

(17) Income Tax

A. The component of income tax expenses were as follows:

Income tax expense, excluding tax on sale of discontinued operation	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Current income tax	\$ 992,121	797,090	2,977,885	1,794,913
10% surtax on undistributed earnings	-	-	163,228	361,807
Total	\$ <u>992,121</u>	<u>797,090</u>	<u>3,141,113</u>	<u>2,156,720</u>

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- B. Income tax on pre-tax financial income was reconciled with income tax expense for the nine months ended September, 30, 2013 and 2012 as follows :

	For the Nine Months Ended September 30	
	2013	2012
Profit before income tax	\$ 12,785,480	8,579,140
Tax at the domestic rates applicable to profits in the country concerned	4,725,468	2,781,398
Non-taxable income	(1,808,355)	(1,001,709)
Tax-exempt income	(138,180)	(199,613)
Prior years income tax adjustment	(128,448)	9,161
10% surtax on undistributed earnings	163,228	361,807
Others	327,400	205,676
Income tax expense	\$ <u>3,141,113</u>	<u>2,156,720</u>

C. Income tax

- (a) The Company's income tax returns through 2011 have been assessed and approved by the Tax Authority. However, the income tax return for 2008 is still under review by the Tax Authority.
- (b) The Group have income tax returns approved by the Tax Authority as follows:

Years of Approval	Company Name
2011	UNIHAN, Ability (TW), ASROCK, Pegavision Corporation, PEGAVISION, ASUSPOWER INVESTMENT, ASUS INVESTMENT, ASUSTEK INVESTMENT AND RIH KUAN AZURE WAVE, AND EZWAVE Technologies, Inc.
2010	KINSUS and AZURE Lighting Technologies, INC.

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

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Stockholders' imputation tax credit account	\$ <u>557,353</u>	<u>545,432</u>	<u>545,432</u>	<u>3,448</u>
		<u>2012 (Actual)</u>	<u>2011 (Actual)</u>	
Tax deduction ratio for earnings distributable to R.O.C. residents		<u>4.49%</u>	<u>9.05%</u>	

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

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

**(18) Capital and reserves**

Except the following description, there is not the significant difference in capital and reserves. Please refer to Note 6(15) of the previous quarterly financial statements for details.

**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 1,259 thousand shares were retired in 2013. Also, the Company had reissued 6,062 thousand shares of restricted Company shares of stock to employees in 2013. New common shares of stock totaling 24,786 thousand shares were issued from the exercise of employee stock options, of which 3,798 thousand shares were accounted under advance receipts for share capital as the registration procedures were yet to be completed. As of September 30, 2013 and 2012, the authorized capital of the Company consisted of 3,000,000 and 2,500,000 thousand shares, respectively, with par value of \$10 per share, and its outstanding capital consisted of 2,316,096 thousand common shares of stock and 2,256,367 thousand common shares of stock, respectively.

As of September 30, 2013, the restricted Company shares of stock issued to employees have expired, of which 494 thousand shares have not been retired.

**B. Global depositary receipts**

As of September 30, 2013, the Company has listed, in total, 10,760 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 53,801 thousand shares of stock.

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C. Capital surplus

The components of the capital surplus were as follows:

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
From issuance of share capital	\$ 60,998,689	60,393,247	60,393,247	60,393,247
From treasury stock transactions	86,924	84,969	84,969	84,969
Gain or loss on disposal of subsidiary share options	840,990	124,702	164,161	-
Employee share options	100,955	228,935	156,003	67,261
Restricted stock to employees	608,408	478,366	-	-
Others	412,891	412,891	457,598	457,598
	<u>\$ 63,048,857</u>	<u>61,723,110</u>	<u>61,255,978</u>	<u>61,003,075</u>

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

Pursuant to the Regulations of Securities and Futures Bureau Commission, a special reserve is set aside from the current year's net income after tax and prior year's inappropriate 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.

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**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

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

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 in January 2012, 10 percent of net income should be set aside as legal reserve, until it is equal to share capital. If the Company experienced profit for the year, the meeting of shareholders shall decide on the distribution of the statutory earnings reserve either by new shares or by 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 portion of current period earnings and undistributed prior period earnings shall be reclassified as a special reserve during earnings distribution. The amount to be reclassified should be equal to the total net reduction of current period of other shareholders' equity resulting from the first-time adoption of IFRS as endorsed by the FSC. When the debit balance of any of these contra accounts in the shareholders' equity is reversed, the related special reserve can be reversed. The subsequent reversals of the contra accounts in shareholders' equity shall qualify for additional distributions.

(c) Earnings Distribution

For the three months and nine months ended September 30, 2013 and 2012, employee bonuses of \$232,000 and \$127,000, and \$566,000 and \$316,000, and directors' and supervisors' remuneration of \$22,000 and \$14,000 and \$55,000 and \$29,000, respectively, were estimated and recognized as current expense. These amounts were calculated using the Company's net profit for the three and nine months ended September 30, 2013 and 2012, and were determined according to the earnings allocation method, priority and factor for employee benefits and key management personnel compensation as stated under the Articles of Association. These benefits were charged to profit or loss under operating costs or operating expenses for the three and nine months ended September 30, 2013 and 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

On June 19, 2013 and June 27, 2012, the Company's shareholders' meeting resolved to appropriate the 2012 and 2011 earnings. These earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

	<u>2012</u>	<u>2011</u>
Common stock dividends per share (dollars)		
—Cash	<u>\$ 1.50</u>	<u>-</u>
Employee bonus — cash	\$ 299,000	12,100
Remuneration to directors and supervisors	<u>29,000</u>	<u>-</u>
Total	<u>\$ 328,000</u>	<u>12,100</u>

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

The actual 2011 earnings distributions and those recognized in the financial report for 2011 were as follows:

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

The difference between the actual amounts of earnings distribution for 2011 and those recognized in the financial statements for 2011 was due mainly to the board of directors' resolution to change the amount of directors' and supervisors' remuneration to \$0. Such difference was accounted for as a change in accounting estimate and charged to profit or loss in 2012.

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

E. Treasury stock

Company shares of stock that are owned by the Company's subsidiaries are treated as treasury stock. As of September 30, 2013, the Company's shares held by its subsidiaries were 1,503 thousand shares amounting to \$63,427 at fair value.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

F. Other equity accounts

	<u>Exchange differences on translation of foreign financial statements</u>	<u>Unrealized gains (losses) on available-for-sale financial assets</u>	<u>Deferred compensation arising from issuance of restricted stock</u>
Balance, January 1, 2013	\$ (3,398,256)	88,302	(497,698)
Exchange differences on translation of foreign financial statements, net of tax :			
—Group	2,353,909	-	-
—Associates	24,769	-	-
Unrealized gains (losses) on available-for-sale financial assets :			
—Group	-	(28,141)	-
Other equity			
—Group	-	-	180,343
Balance, September 30, 2013	<u>\$ (1,019,578)</u>	<u>60,161</u>	<u>(317,355)</u>
Balance, January 1, 2012	\$ (784,234)	37,951	
Exchange differences on translation of foreign financial statements, net of tax :			
—Group	(2,383,962)	-	
—Associates	(11,450)	-	
Unrealized gains (losses) on available-for-sale financial assets :			
—Group	-	120,305	
Balance, September 30, 2012	<u>\$ (3,179,646)</u>	<u>158,256</u>	

(19) Share-based payment

For the nine months ended September 30, 2013 and 2012, there were no significant changes in share-based payment. Please refer to Note 6(16) of the consolidated financial statements for the three months ended March 31, 2013 and 2012 for other related information.

A. Restricted stock to employee

(a) Information on equity-settled share-based payment transaction as of September 30, 2013 was as follows:

<u>Restricted stock to employee</u>	<u>Issued in 2013</u>
Thousand units granted	6,062
Contractual life	3 years
Vesting period	Note
Actual turnover rate of employees	0.63%
Estimated future turnover rate of employees	10.94%, 25.07%, 33.76%

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

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On August 28, 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.

(b) The valuation of fair value at grant date

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:

Restricted stock to employee	Issued in 2013
Grant date	08/12/2013
Stock price at grant date	\$ 45.20
Exercise price (Note)	10.00
Expected life of the option	3 years
Current market price	45.20
Expected volatility	32.68%
Expected dividend yield rate (Note)	- %
Risk-free interest rate	Note

Note : The risk-free interest rate is 0.5997%, 0.7167%, and 0.8764% for the first, second and third year, respectively.

For the year ended December 31, 2012, the Company issued restricted shares of stock to employees of 33,938 thousand shares, which resulted in a capital surplus — restricted employee stock of \$478,366. Also, for the nine months ended September 30, 2013, 1,753 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$17,531 of which 1,094 thousand shares were registered before the reporting date and 494 thousand shares have not been retired. Also, for the nine months September 30, 2013, the Company issued restricted shares of stock to employees of 6,062 thousand shares, which resulted in a capital surplus — restricted employee shares of stock of \$112,511.

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As of September 30, 2013 and December 31, 2012, the Company has deferred compensation cost arising from issuance of restricted stock of \$317,355 and \$497,698, respectively.

B. Employee stock options

Information on aforesaid employee stock options was as follows:

(a) For the nine months ended September 30, 2013

	Issued in 2012		Issued in 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	7,389	\$ 42.67	32,909	\$ 27.06
Granted	-	-	-	-
Exercised	-	-	24,786	-
Forfeited	788	-	2,064	-
Expired	-	-	-	-
Balance, end of the period	<u>6,601</u>	42.67	<u>6,059</u>	27.06
Exercisable, end of the period	<u>6,601</u>		<u>6,059</u>	
Weighted-average fair value of options granted	<u>13.8</u>		<u>7.9</u>	
Exercise price of share option outstanding, end of the period	<u>42.67</u>		<u>27.06</u>	
Remaining contractual life	<u>0.5</u>		<u>-</u>	
Expenses incurred on share-based payment transactions	<u>24,033</u>		<u>43,796</u>	

(b) For the nine months ended September 30, 2012

	Issued in 2012		Issued in 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	-	\$ -	37,648	\$ 28.38
Granted	8,053	44.85	-	-
Exercised	-	-	-	-
Forfeited	439	-	3,751	-
Expired	-	-	-	-
Balance, end of the period	<u>7,614</u>	44.85	<u>33,897</u>	28.38
Exercisable, end of the period	<u>7,614</u>		<u>33,897</u>	
Weighted-average fair value of options granted	<u>13.8</u>		<u>7.9</u>	
Exercise price of share option outstanding, end of the period	<u>44.85</u>		<u>28.38</u>	
Remaining contractual life	<u>1.75</u>		<u>0.75</u>	
Expenses incurred on share-based payment transactions	<u>14,698</u>		<u>74,044</u>	

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C. Expenses and liabilities resulted from share-based payments

The Group incurred expenses and liabilities from share-based payments transactions as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Expenses resulting from issuance of restricted stock \$ to employees	112,549	-	307,822	-
Expenses arising from granting of employee share options	7,099	44,746	89,354	123,394
Total	<u>\$ 119,648</u>	<u>44,746</u>	<u>397,176</u>	<u>123,394</u>

(20) Subsidiary's share-based payments

- A. For the nine months ended September 30, 2013 and 2012, there were no significant changes in share-based payment except the following. Please refer to Note 6(17) of the consolidated financial statements for the three months ended March 31, 2013 and 2012 for other related information.
- B. Information on share-based payment transactions were as follows:

The first batch of employee stock options	For the Nine months Ended September 30			
	2013		2012	
	Quantity of stock option (thousand shares)	Weighted- average exercise price	Quantity of stock option (thousand shares)	Weighted- average exercise price
Outstanding at the beginning of the period	5,079	\$ 32.6	5,079	34.9
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>5,079</u>	29.9	<u>5,079</u>	32.6
Exercisable at the end of the period	<u>5,079</u>	29.9	<u>3,079</u>	32.6

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The second batch of employee stock options	For the Nine months Ended September 30			
	2013		2012	
	Quantity of stock option (thousand shares)	Weighted- average exercise price	Quantity of stock option (thousand shares)	Weighted- average exercise price
Outstanding at the beginning of the period	2,992	\$ 16.4	4,888	17.6
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	(157)	16.4	(213)	17.6
Exercised	(64)	15.0	(38)	16.4
Forfeited	(86)	-	-	-
Outstanding at the end of the period	<b>2,685</b>	15.0	<b>4,637</b>	16.4
Exercisable at the end of the period	<b>785</b>	15.0	<b>837</b>	16.4

C. For the nine months ended September 30, 2013 and 2012, the weighted-average exercise price of stock option on the date of exercise amounted to \$25.96 and \$28.16 per share, respectively.

D. The expenses resulting from the share-based payment transactions were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
	Equity-settled	\$ 87	4,115	1,774

(21) Earnings per share

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
<b>Basic earnings per share</b>				
Profit attributable to ordinary shareholders	\$ 2,477,564	1,625,242	6,175,790	3,614,469
Weighted-average number of ordinary shares	2,292,801	2,254,667	2,289,667	2,254,667
	<b>\$ 1.08</b>	<b>0.72</b>	<b>2.70</b>	<b>1.60</b>
<b>Diluted earnings per share</b>				
Profit attributable to ordinary shareholders	\$ 2,477,564	1,625,242	6,175,790	3,614,469
Effect of potentially dilutive ordinary shares				
Conversion of convertible bonds	(1,127,192)	(222,254)	294,330	(158,044)
Profit attributable to ordinary shareholders (diluted)	<b>\$ 1,350,372</b>	<b>1,402,988</b>	<b>6,470,120</b>	<b>3,456,425</b>

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	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Weighted-average number of ordinary shares	2,292,801	2,254,667	2,289,667	2,254,667
Effect of potentially dilutive ordinary shares				
Employee stock bonus	13,412	8,283	16,986	8,486
Employee stock option	10,572	8,978	11,594	10,159
Conversion of convertible bonds	214,726	212,023	214,726	184,166
Weighted-average number of ordinary shares (diluted)	2,531,511	2,483,951	2,532,973	2,457,478
	<b>\$ 0.53</b>	<b>0.56</b>	<b>2.55</b>	<b>1.41</b>

(22) Non-operating income and expenses

A. Other income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Interest income	\$ 195,117	234,097	559,062	634,129
Subsidy income	285,725	60,225	507,264	111,235
Rental income	72,685	64,636	187,521	139,923
Technical service income	104,818	156,933	367,047	298,146
Other income	119,068	116,568	275,289	326,889
	<b>\$ 777,413</b>	<b>632,459</b>	<b>1,896,183</b>	<b>1,510,322</b>

B. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Gains (losses) on reversal of uncollectable account	\$ (27,183)	21,468	14,203	33,351
Loss on disposal of property, plant and equipment	(52,010)	(49,745)	(185,430)	(175,011)
Gains (losses) on disposals of investments	(13,044)	62,812	29,057	122,521
Foreign exchange gains (losses)	249,221	(110,804)	1,360,570	(159,142)
(Reversal of) Impairment loss recognized in profit or loss	42,160	52,400	187,615	(21,720)
Net gains on evaluation of financial assets (liabilities) measured at fair value through profit or loss	1,142,248	387,562	153,977	427,328
	<b>\$ 1,341,392</b>	<b>363,693</b>	<b>1,559,992</b>	<b>227,327</b>

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C. Finance costs

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Interest expenses	\$ 219,314	373,026	701,324	1,003,196
Interest expense capitalization	-	(6,404)	(2,135)	(19,212)
Finance expense – bank fees	60,776	14,840	159,133	25,223
	<u>\$ 280,090</u>	<u>381,462</u>	<u>858,322</u>	<u>1,009,207</u>
Capitalization rate	<u>2.198%</u>	<u>2.198%</u>	<u>2.198%</u>	<u>2.198%</u>

(23) Reclassification of other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Net fair value change in available-for-sale financial assets recognized in:				
Other comprehensive income	\$ (46,763)	(28,850)	(72,716)	172,642
Profit or loss	13,038	583	(31,226)	2,902
Net fair value changed recognized in other comprehensive income	<u>\$ (33,725)</u>	<u>(28,267)</u>	<u>(103,942)</u>	<u>175,544</u>

(24) Financial instruments

For the nine months ended September 30, 2013 and 2012, there were no significant changes in fair value of financial instrument and its exposure to credit risk, liquidity risk and market risk except for the following. Please refer to Note 6(22) of the consolidated financial statements for the three months ended March 31, 2013 and 2012 for other related information.

A. Credit risk

(a) Exposure to credit risk

As of September 30, 2013, December 31, 2012, September 30, 2012 and January 1, 2012, accounts receivable from the Group's top three customers amounted to \$104,606,580, \$89,273,125, \$64,792,066 and \$26,188,297, respectively.

(b) Impairment losses

Aging analysis of notes and accounts receivable and the receivables on the balance sheet date were as follows:

	September 30, 2013		December 31, 2012		September 30, 2012		January 1, 2012	
	Total amount	Impairment	Total amount	Impairment	Total amount	Impairment	Total amount	Impairment
Not past due	\$ 126,943,185	(28,530)	134,515,790	(15,532)	112,020,187	(80,501)	83,764,483	(73,399)
Past due 0 - 30 days	4,116,847	(137,159)	3,968,670	(113,059)	7,197,201	(117,264)	2,703,911	(134,198)
Past due 31 - 120 days	1,425,537	(446,212)	214,737	(75,386)	352,956	(20,723)	164,352	(29,649)
Past due 121 - 365 days	817,493	(732,336)	69,365	(47,295)	123,922	(83,802)	132,209	(118,558)
Past due more than 1 year	473,765	(465,827)	434,823	(434,711)	405,676	(402,873)	419,679	(419,679)
	<u>\$ 133,776,827</u>	<u>(1,810,064)</u>	<u>139,203,385</u>	<u>(685,983)</u>	<u>120,099,942</u>	<u>(705,163)</u>	<u>87,184,634</u>	<u>(775,483)</u>

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

		<b>Individually assessed impairment</b>	<b>Collectively assessed impairment</b>	<b>Total</b>
Balance on January 1, 2013	\$	66,928	619,055	685,983
Impairment loss (reversal)		(15,088)	1,140,941	1,125,853
Foreign exchange gain (loss)		946	(2,718)	(1,772)
Balance on September 30, 2013	\$	<b>52,786</b>	<b>1,757,278</b>	<b>1,810,064</b>

		<b>Individually assessed impairment</b>	<b>Collectively assessed impairment</b>	<b>Total</b>
Balance on January 1, 2012	\$	98,228	677,255	775,483
Reversal of impairment loss		-	(66,652)	(66,652)
Foreign exchange loss		(1,749)	(1,919)	(3,668)
Balance on September 30, 2012	\$	<b>96,479</b>	<b>608,684</b>	<b>705,163</b>

B. Liquidity risk

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

	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Within 1 year</b>	<b>1-2 years</b>	<b>More than 2 years</b>
<b>September 30, 2013</b>					
Non-derivative financial liabilities					
Secured bank loans	\$ 1,443,323	1,443,323	972,077	304,598	166,648
Unsecured bank loans	46,632,061	46,632,061	31,591,967	6,816,874	8,223,220
Unsecured convertible bonds	7,987,774	7,987,774	-	-	7,987,774
Non-interest bearing liabilities	195,691,476	195,691,476	195,691,476	-	-
Derivative financial liabilities					
Forward exchange contract and others	1,631	1,631	1,631	-	-
	<b>\$ 251,756,265</b>	<b>251,756,265</b>	<b>228,257,151</b>	<b>7,121,472</b>	<b>16,377,642</b>

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	<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, 2012</b>					
Non-derivative financial liabilities					
Secured bank loans	\$ 1,339,480	1,339,480	652,339	382,253	304,888
Unsecured bank loans	44,677,089	44,677,089	26,376,059	8,916,997	9,384,033
Unsecured convertible bonds	9,091,794	9,091,794	1,435,613	-	7,656,181
Non-interest bearing liabilities	198,035,846	198,035,846	198,035,846	-	-
Derivative financial liabilities					
Forward exchange contract and others	98	98	98	-	-
	<u>\$ 253,144,307</u>	<u>253,144,307</u>	<u>226,499,955</u>	<u>9,299,250</u>	<u>17,345,102</u>
<b>September 30, 2012</b>					
Non-derivative financial liabilities					
Secured bank loans	\$ 1,506,401	1,506,401	720,731	387,874	397,796
Unsecured bank loans	47,945,487	47,945,487	25,638,854	15,624,444	6,682,189
Unsecured convertible bonds	9,088,903	9,088,903	1,427,887	-	7,661,016
Non-interest bearing liabilities	173,074,994	173,074,994	173,074,994	-	-
	<u>\$ 231,615,785</u>	<u>231,615,785</u>	<u>200,862,466</u>	<u>16,012,318</u>	<u>14,741,001</u>
<b>January 1, 2012</b>					
Non-derivative financial liabilities					
Secured bank loans	\$ 1,481,267	1,481,267	298,285	438,603	744,379
Unsecured bank loans	49,559,367	49,559,367	23,388,929	7,143,216	19,027,222
Unsecured convertible bonds	1,404,707	1,404,707	-	1,404,707	-
Non-interest bearing liabilities	122,646,921	122,646,921	122,646,921	-	-
Derivative financial liabilities					
Forward exchange contract and others	1,599	1,599	1,599	-	-
	<u>\$ 175,093,861</u>	<u>175,093,861</u>	<u>146,335,734</u>	<u>8,986,526</u>	<u>19,771,601</u>

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

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C. Currency risk

(i) Currency risk exposure

The Group'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)

	September 30, 2013			September 30, 2012		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 9,396,878	29.57	277,865,682	7,722,204	29.295	226,221,966
USD:RMB	5,100,468	6.1480	150,820,839	4,200,473	6.3410	123,052,857
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	8,880,101	29.57	262,584,587	7,729,172	29.295	226,426,094
USD:RMB	7,960,929	6.1480	235,404,671	6,422,471	6.3410	188,146,288
JPY:RMB	5,950,519	0.0628	1,797,652	8,273,633	0.082	3,124,951
	December 31, 2012			January 1, 2012		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	8,392,007	29.04	243,703,883	5,169,519	30.275	156,507,188
USD:RMB	4,960,352	6.2855	144,048,622	3,348,088	6.3009	101,363,364
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	8,177,451	29.04	237,473,177	5,259,683	30.275	159,236,903
USD:RMB	7,247,028	6.2855	210,453,693	4,808,911	6.3009	145,589,781
JPY:RMB	329,405	0.073	110,812	2,595,338	0.081	1,013,739

(ii) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, available-for-sale financial assets, loans, accounts payable, bonds payable and other payables that are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Group's functional currency as of September 30, 2013 and 2012 would have decreased the after-tax net income by \$673,644 and \$666,859, respectively. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for both periods.

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D. Interest rate analysis

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

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

If the interest rate increases / decreases by 1%, the Group's net income will decrease /increase by \$93,046 and \$118,560 for the nine months ended September 30, 2013 and 2012, respectively, assuming all other variable factors remain constant. This is mainly due to the Group's variable rate borrowing.

E. Fair value of financial instruments

(a) Fair value and carrying amount

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

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

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

- The fair value of financial assets and liabilities traded in active markets is based on quoted market prices. These include corporate bonds from listed entities, agency bonds, listed stocks and government bonds.
- The fair value of derivative instruments is based on quoted prices. When quoted prices are unavailable, the fair value of non-option derivative is determined based on the discounted cash flow analysis calculated based on the applicable yield curve through the expected life of the derivative instruments. The fair value of option derivatives is determined using option pricing models.
- The fair value of stock of unlisted company is determined using market method, under which market price is extrapolated from similar stock of a listed company.
- For all other financial assets and financial liabilities, the fair value is determined using a discounted cash flow analysis of expected future cash flows.

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(c) Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>September 30, 2013</b>				
Financial assets designated as at fair value through profit or loss				
Derivative financial assets	\$ -	16,946	-	16,946
Held-for-trading non-derivative financial assets	6,500,832	-	-	6,500,832
Available-for-sale financial assets				
Stock of listed companies	1,090,933	-	-	1,090,933
Equity investment—common stock	-	192,250	-	192,250
Stock of overseas listed companies	-	378,378	-	378,378
	<u>\$ 7,591,765</u>	<u>587,574</u>	<u>-</u>	<u>8,179,339</u>
Financial liabilities designated as at fair value through profit or loss				
Derivative financial liabilities	\$ -	1,631	-	1,631
Overseas convertible bonds	-	678,632	-	678,632
	<u>\$ -</u>	<u>680,263</u>	<u>-</u>	<u>680,263</u>
<b>December 31, 2012</b>				
Financial assets designated as at fair value through profit or loss				
Derivative financial assets	\$ -	329	-	329
Held-for-trading non-derivative financial assets	7,533,707	-	-	7,533,707
Available-for-sale financial assets				
Stock of listed companies	1,260,134	-	-	1,260,134
Equity investment—common share	-	114,173	-	114,173
Stock of overseas listed companies	-	414,940	-	414,940
	<u>\$ 8,793,841</u>	<u>529,442</u>	<u>-</u>	<u>9,323,283</u>
Financial liabilities designated as at fair value through profit or loss				
Derivative financial assets	\$ -	98	-	98
Domestic convertible bonds	-	68,986	-	68,986
Overseas convertible bonds	-	759,815	-	759,815
	<u>\$ -</u>	<u>828,899</u>	<u>-</u>	<u>828,899</u>

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	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>September 30, 2012</b>				
Financial assets designated as at fair value through profit or loss				
Derivative financial assets	\$ -	40,478	-	40,478
Held-for-trading non-derivative financial assets	6,308,090	-	-	6,308,090
Available-for-sale financial assets				
Stock of listed companies	574,544	-	-	574,544
Equity investment—common share	-	168,106	-	168,106
Stock of overseas listed companies	-	434,787	-	434,787
	<u>\$ 6,882,634</u>	<u>643,371</u>	<u>-</u>	<u>7,526,005</u>
Financial liabilities designated as at fair value through profit or loss				
Domestic convertible bonds	\$ -	72,554	-	72,554
Overseas convertible bonds	-	985,805	-	985,805
	<u>\$ -</u>	<u>1,058,359</u>	<u>-</u>	<u>1,058,359</u>
<b>January 1, 2012</b>				
Financial assets designated as at fair value through profit or loss				
Derivative financial assets	\$ -	6,716	-	6,716
Held-for-trading non-derivative financial assets	6,410,969	-	-	6,410,969
Available-for-sale financial assets				
Stock of listed companies	586,719	-	-	586,719
Equity investment—common share	-	124,375	-	124,375
Stock of overseas listed companies	-	414,737	-	414,737
	<u>\$ 6,997,688</u>	<u>545,828</u>	<u>-</u>	<u>7,543,516</u>
Financial liabilities designated as at fair value through profit or loss				
Derivative financial assets	\$ -	1,599	-	1,599
Domestic convertible bonds	-	100,984	-	100,984
	<u>\$ -</u>	<u>102,583</u>	<u>-</u>	<u>102,583</u>

There have been no transfers from each level for the nine months ended September 30, 2013 and 2012.

(25) Financial risk management

A. Overview

The Group is exposed to the nature and extent of the risks arising from financial instruments. They include credit risk, liquidity risk and market risk.

This note discloses the exposure risk information, and the Group's objectives, policies and procedures of measuring and managing risks. For more quantitative information about the financial instruments, please refer to notes of the financial statements.

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**B. Risk management framework**

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

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

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

**C. Credit risk**

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

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

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

**(a) Accounts receivables and other receivables**

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

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

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

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

**(b) Investment**

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

**(c) Guarantee**

The Group's policies were prepared in accordance with Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies. As of September 30, 2013, December 31, 2012, September 30, 2012 and January 1, 2012, guarantees and endorsements provided by the Group, were discussed further in Note 9.

**D. Liquidity risk**

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

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

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

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

E. Market risk

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

(a) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the New Taiwan Dollars (NTD), US Dollars (USD) and Chinese Yuan (CNY). The currencies used in these transactions are denominated in NTD, EUR, USD, and CNY.

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

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

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

(b) Interest rate risk

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

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(c) Price floating risk on equity instruments

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

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

(26) Capital management

Management believes that there were no changes in the Group's approach to the targets, policies and procedures in capital management as disclosed in the consolidated financial statements for the three months ended March 31, 2013 and 2012. Also, they believe that for the nine months ended September 30, 2013, there were also no changes in the Group's capital management information. Please refer to Note 6(24) of the consolidated financial statements for the three months ended March 31, 2013 and 2012 for other related information

**7. RELATED PARTY TRANSACTIONS**

(1) The immediate parent company and ultimate parent company

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

B. The Company is the ultimate parent company of the Group.

(2) Key management personnel compensation:

	<b>For the Three Months Ended September 30</b>		<b>For the Nine Months Ended September 30</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Short-term employee benefits	\$ 200,420	141,155	449,603	348,590
Post-employment benefits	676	791	2,126	2,372
Share-based payments	17,606	344	48,736	1,037
	<b>\$ 218,702</b>	<b>142,290</b>	<b>500,465</b>	<b>351,999</b>

Please refer to Notes 6(19) and 6(20) for further explanations related to share-based payment transactions.

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(3) Other Related Party Transactions

A. Sale of Goods and Services to Related Parties

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

	Sales			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Entity in which the Group has significant influence	\$ -	27,220,811	21,942,101	107,312,656
Associates	124	89,356	172,691	278,053
	<u>\$ 124</u>	<u>27,310,167</u>	<u>22,114,792</u>	<u>107,590,709</u>

  

	Receivables from Related Parties			
	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
	Entity in which the Group has significant influence	\$ -	5,695,594	4,437,856
Associates	579	70,590	98,022	55,455
	<u>\$ 579</u>	<u>5,766,184</u>	<u>4,535,878</u>	<u>9,702,080</u>

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

B. Purchase of Goods from Related Parties

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

	Purchase			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Entity in which the Group has significant influence	\$ -	20,416,547	17,046,948	82,936,530
Associates	393,473	1,542,178	1,288,685	5,463,310
	<u>\$ 393,473</u>	<u>21,958,725</u>	<u>18,335,633</u>	<u>88,399,840</u>

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	Payables to Related Parties			
	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Entity in which the Group has significant influence	\$ -	-	-	-
Associates	411,543	546,850	1,759,966	2,296,908
	<u>\$ 411,543</u>	<u>546,850</u>	<u>1,759,966</u>	<u>2,296,908</u>

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

C. Warranty repair expense paid to Related Parties

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Associates	\$ -	11,015	13,414	21,256

D. Other income and expenses from Related Parties

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Entity in which the Group has significant influence	\$ -	79,133	(60,661)	199,086
Associate	(1,989)	2,066	1,987	6,834
	<u>\$ (1,989)</u>	<u>81,199</u>	<u>(58,674)</u>	<u>205,920</u>

E. Rental revenue

For the three months and nine months ended September 30, 2013 and 2012, the Group incurred other related party transactions of \$0 and \$7,132 and \$5,590 and \$21,392, respectively, which were accounted for as rental revenue.

F. Other related party transactions recorded as expenses

For the three months and nine months ended September 30, 2013 and 2012, the Group incurred other related party transactions recorded as expenses such as rental expense, royalty payment, storage expense and professional service fee, etc, aggregating to \$0 and \$26,617, and \$4,813 and \$72,663, respectively.

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

For the three months and nine months ended September 30 2012, molds purchased from other related parties amounted to \$20,226 and \$97,858, respectively.

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

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
<u>Other receivables</u>				
Entity in which the Group has significant influence	\$ -	14,628	53,717	435
Associates	1	235	3,027	8,467
	<u>\$ 1</u>	<u>14,863</u>	<u>56,744</u>	<u>8,902</u>
<u>Accrued expenses</u>				
Entity in which the Group has significant influence	\$ -	34,185	4,353	396,680
Associate	169	8,501	13,191	10,524
	<u>\$ 169</u>	<u>42,686</u>	<u>17,544</u>	<u>407,204</u>
<u>Other payables</u>				
Associates	\$ -	292	292	320
<u>Other current liabilities</u>				
Associates	\$ 183	29	2,889	3,641

8. Pledged Assets

As of September 30, 2013 and 2012, pledged assets were as follows:

Asset	Purpose of pledge	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
Other financial assets	Customs duty guarantee, collateral, rental deposits, travel agency guarantee, etc.	\$ 74,777	133,055	263,717	111,049
Property, plant and equipment	Bank loans	1,897,864	2,039,763	2,082,894	939,363
Long-term prepaid rentals	Bank loans	-	11,585	-	12,344
Refundable deposits	Customs duty guarantee, custom deposits, batch declaration guarantee, and deposits for performance guarantee	33,929	31,352	41,578	32,327
		<u>\$ 2,006,570</u>	<u>2,215,755</u>	<u>2,388,189</u>	<u>1,095,083</u>

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9. Significant Commitments And Contingencies

(1) Major commitments and contingencies were as follows:

A. Unused standby letters of credit

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
NTD	\$ -	5,510	6,286	6,753
EUR	2,577	2,558	2,693	3,927
JPY	4,518,612	4,003,161	3,755,265	4,808,946
USD	17,493	18,880	25,043	26,654

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

	September 30, 2013	December 31, 2012	September 30, 2012	January 1, 2012
NTD	\$ <u>20,105</u>	<u>17,297</u>	<u>17,297</u>	<u>17,332</u>

C. As of September 30, 2013, December 31, 2012, September 30, 2012 and January 1, 2012, the significant contracts for purchase of properties by the Group amounted to \$2,690,984, \$8,822,652, \$4,190,396 and \$29,520,477, of which \$465,867, \$5,198,394, \$1,622,517 and \$16,974,382, respectively, were unpaid.

D. As of September 30, 2013, December 31, 2012, September 30, 2012 and January 1, 2012, the Group provided endorsement guarantee for bank loans obtained by the related parties, including Group entities, amounting to \$23,021,594, \$20,090,019, \$17,482,794 and \$22,320,790, respectively.

E. As of September 30, 2013, AZURE WAVE TECHNOLOGIES INC. issued a tariff guarantee of \$7,000 to the bank for the purpose of importing goods.

(2) Significant contingent liability: None.

10. LOSSES DUE TO MAJOR DISASTERS: None.

11. SUBSEQUENT EVENTS

In order to react to the development in industrial competitive trends, the Company has adopted resource integration to enhance its operational efficiency, expand the business sector and raise the scale of operation. Also, it aims further to achieve operational stability, boost production and enhance competitiveness.

On November 11, 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, a wholly owned subsidiary of the Company, with the Company as the surviving entity from the merger. As the acquired entity, Unihan Corporation will be dissolved from the merger.

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12. OTHER

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

By item	For the three months Ended September 30,2013			For the three months Ended September 30,2012		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 9,304,322	3,723,929	13,028,251	6,705,000	2,599,768	9,304,768
Health and labor insurance	901,427	207,109	1,108,536	697,524	174,069	871,593
Pension	557,851	241,234	799,085	206,997	166,006	373,003
Others	552,451	208,586	761,037	578,528	143,548	722,076
Depreciation	2,531,791	788,263	3,320,054	2,748,394	437,225	3,185,619
Amortization	73,228	70,593	143,821	89,904	79,575	169,479

By item	For the Nine months Ended September 30,2013			For the Nine months Ended September 30,2012		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 24,296,273	9,644,717	33,940,990	18,175,188	8,089,929	26,265,117
Health and labor insurance	2,075,866	557,207	2,633,073	1,109,844	498,393	1,608,237
Pension	1,513,220	551,508	2,064,728	1,108,809	451,796	1,560,605
Others	1,619,231	494,071	2,113,302	1,415,551	480,570	1,896,121
Depreciation	8,195,513	1,688,550	9,884,063	7,653,288	1,330,060	8,983,348
Amortization	237,043	213,096	450,139	263,051	257,842	520,893

Above depreciations did not include depreciation in investment property which was accounted under non-operating expense as follows:

	For the Three Months ended September 30		For the Nine Months Ended September 30	
	2013	2012	2013	2012
Depreciation in investment property	\$ 2,595	3,021	7,785	9,064

- (2) Seasonality of activities: The Group's operation is not affected by seasonality nor periodicity.
- (3) Certain accounts in the consolidated financial statements as of and for the periods ended December 31, 2012, September 30, 2012 and January 1, 2012, were reclassified to conform to the presentation adopted in the consolidated financial statements as of and for the nine months ended September 30, 2013.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

13. SEGMENT INFORMATION

The Group identifies the entity's operating segments based on the decision of the chief operating decision maker and perform quantitative threshold testing in accordance with IFRS 8 "Operating Segments."

For the three months and nine months ended September 30, 2013 and 2012, operating segments required to be disclosed are categorized as DMS (Design, Manufacturing and Service) and Strategic Investment Group. DMS's main operating activities are designing and manufacturing computer, communication and consumer electronics' end products, and providing after-sales service. Strategic Investment Group is DMS's upstream and downstream supply chain, strategic investments and other related investments arms. The chief operating decision maker's main responsibility is to integrate strategy that creates operating synergy throughout the supply chain and to allocate the profit from the operating result. The Group assesses performance of the segments based on the segments' profit, and report the amounts of revenues based on the financial information used to prepare the consolidated financial statements.

<b>For the Three Months Ended September 30, 2013</b>	<b>DMS</b>	<b>Strategic Investment Group</b>	<b>Adjustment and eliminations</b>	<b>Total</b>
<b>Revenue :</b>				
Revenue from external customers	\$ 231,101,204	22,876,311	-	253,977,515
Intersegment revenues	78,755	4,457,560	(4,536,315)	-
Total revenue	<u>\$ 231,179,959</u>	<u>27,333,871</u>	<u>(4,536,315)</u>	<u>253,977,515</u>
<b>Reportable segment profit or loss</b>	<u>\$ 2,760,693</u>	<u>4,680,104</u>	<u>(2,769,978)</u>	<u>4,670,819</u>

<b>For the Three Months Ended September 30, 2012</b>				
<b>Revenue :</b>				
Revenue from external customers	\$ 192,210,032	30,675,570	-	222,885,602
Intersegment revenues	174,615	3,273,870	(3,448,485)	-
Total revenue	<u>\$ 192,384,647</u>	<u>33,949,440</u>	<u>(3,448,485)</u>	<u>222,885,602</u>
<b>Reportable segment profit or loss</b>	<u>\$ 1,719,738</u>	<u>3,226,464</u>	<u>(1,411,953)</u>	<u>3,534,249</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<b>For the Nine Months Ended September 30, 2013</b>	<b>DMS</b>	<b>Strategic Investment Group</b>	<b>Adjustment and eliminations</b>	<b>Total</b>
<b>Revenue :</b>				
Revenue from external customers	\$ 616,320,593	67,472,265	-	683,792,858
Intersegment revenues	206,357	14,707,622	(14,913,979)	-
Total revenue	<u>\$ 616,526,950</u>	<u>82,179,887</u>	<u>(14,913,979)</u>	<u>683,792,858</u>
<b>Reportable segment profit or loss</b>	<u>\$ 6,785,745</u>	<u>15,264,160</u>	<u>(9,264,425)</u>	<u>12,785,480</u>
<b>For the Nine Months Ended September 30, 2012</b>				
<b>Revenue :</b>				
Revenue from external customers	\$ 526,544,940	87,609,237	-	614,154,177
Intersegment revenues	2,563,479	8,226,344	(10,789,823)	-
Total revenue	<u>\$ 529,108,419</u>	<u>95,835,581</u>	<u>(10,789,823)</u>	<u>614,154,177</u>
<b>Reportable segment profit or loss</b>	<u>\$ 4,092,902</u>	<u>8,939,368</u>	<u>(4,453,130)</u>	<u>8,579,140</u>
<b>Reportable segment assets</b>				
	<b>DMS</b>	<b>Strategic Investment Group</b>	<b>Adjustment and eliminations</b>	<b>Total</b>
Balance as of January 1, 2013	<u>\$ 340,381,883</u>	<u>181,911,027</u>	<u>(110,737,576)</u>	<u>411,555,334</u>
Balance as of September 30, 2013	<u>\$ 321,512,378</u>	<u>182,835,913</u>	<u>(108,993,552)</u>	<u>395,354,739</u>
Balance as of January 1, 2012	<u>\$ 294,445,413</u>	<u>179,939,061</u>	<u>(104,689,204)</u>	<u>369,695,270</u>
Balance as of September 30, 2012	<u>\$ 227,615,034</u>	<u>176,385,266</u>	<u>(104,450,051)</u>	<u>299,550,249</u>

**14. FIRST-TIME ADOPTION OF IFRS**

The consolidated financial statements as of December 31, 2012 were prepared in conformity with generally accepted accounting principles of the Republic of China as mentioned in Note 4(1). These are the Group's first consolidated interim financial statements prepared under IFRS (endorsed by the FSC) for annual financial statements, and IFRS 1 "First-time Adoption of International Financial Reporting Standards."

The accounting policies discussed in Note 4 have been applied to comparative consolidated interim financial statements for the nine months ended September 30, 2012, consolidated balance sheets as of December 31 and the consolidated balance sheets as of January 01, 2012, first IFRSs adoption date.

For purposes of preparing the first financial reports in 2012 under IFRS, the Group regarded the amounts in the financial reports under R.O.C. GAAP as the initial point for adjustments. An explanation of how the transition to IFRS has affected the reported financial position, financial performance, and cash flows of the Group is provided in the following statements and notes. Please refer to Note 15 of the consolidated financial statements for the three months ended March 31, 2013 and 2012 for the of consolidated balance sheet reconciliation between R.O.C. GAAP and IFRS as of December 31 and January 1, 2012 and consolidated statement of comprehensive income reconciliation between R.O.C. GAAP and IFRS for the periods then ended.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(1) Reconciliation of balance sheet

	September 30, 2012		
	ROC GAAP	Adjustments	IFRSs
<b>ASSETS</b>			
Cash and cash equivalents	\$ 53,080,451	(1,592,800)	51,487,651
Other investments	6,783,355	-	6,783,355
Notes receivable, Accounts receivable and Other receivable	119,434,872	(40,093)	119,394,779
Inventories	94,052,684	-	94,052,684
Other current assets	8,413,786	3,051,270	11,465,056
Total Current Assets	<u>281,765,148</u>	<u>1,418,377</u>	<u>283,183,525</u>
Other investments	1,153,814	32,454	1,186,268
Investments accounted for using equity method	2,406,083	(2,871)	2,403,212
Property, plant and equipment	72,548,608	724,529	73,273,137
Investment property	-	672,155	672,155
Intangible assets	5,749,857	(2,971,513)	2,778,344
Deferred tax assets	677,776	977,524	1,655,300
Other noncurrent assets	5,406,705	(863,376)	4,543,329
Total Noncurrent Assets	<u>87,942,843</u>	<u>(1,431,098)</u>	<u>86,511,745</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>369,707,991</u></b>	<b><u>(12,721)</u></b>	<b><u>369,695,270</u></b>
<b>LIABILITIES</b>			
Short-term loans	\$ 22,561,661	-	22,561,661
Short-term notes and bills payable	179,948	-	179,948
Current financial liabilities at fair value through profit or loss	72,554	-	72,554
Notes payable, Accounts payable and Other payables	157,486,493	(461,245)	157,025,248
Accrued Expense	14,755,056	(1,188,458)	13,566,598
Current tax liabilities	2,303,200	-	2,303,200
Long-term liabilities, current portion	5,225,811	-	5,225,811
Other current liabilities	9,797,642	1,711,105	11,508,747
Total current liabilities	<u>212,382,365</u>	<u>61,402</u>	<u>212,443,767</u>
Noncurrent financial liabilities at fair value through profit or loss	7,141	978,664	985,805
Bonds payable	8,456,934	(795,918)	7,661,016
Long-term borrowings	23,092,303	-	23,092,303
Deferred tax liabilities	1,079,153	53	1,079,206
Other noncurrent liabilities	523,517	130,108	653,625
Total Noncurrent Liabilities	<u>33,159,048</u>	<u>312,907</u>	<u>33,471,955</u>
<b>TOTAL LIABILITIES</b>	<b><u>245,541,413</u></b>	<b><u>374,309</u></b>	<b><u>245,915,722</u></b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF PARENT</b>			
Share capital	22,563,669	-	22,563,669
Capital surplus	64,046,903	(2,790,925)	61,255,978
Retained earnings			
Legal reserve	1,847,737	-	1,847,737
Special reserve	734,859	-	734,859
Unappropriated retained earnings	7,178,547	2,475,947	9,654,494
Other equity interest	(3,031,587)	10,197	(3,021,390)
Treasury shares	(18,794)	-	(18,794)
Total equity attributable to owners of the parent	<u>93,321,334</u>	<u>(304,781)</u>	<u>93,016,553</u>
Non-controlling interests	30,845,244	(82,249)	30,762,995
Total equity	<u>124,166,578</u>	<u>(387,030)</u>	<u>123,779,548</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ <u>369,707,991</u></b>	<b><u>(12,721)</u></b>	<b><u>369,695,270</u></b>

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## PEGATRON CORPORATION AND ITS SUBSIDIARIES

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

## (2) Reconciliation of its statement of comprehensive income

	For the Three Months Ended September 30, 2012			For the Nine Months Ended September 30, 2012		
	ROC GAAP	Adjustments	IFRSs	ROC GAAP	Adjustments	IFRSs
Operating revenue	\$ 223,035,009	(149,407)	222,885,602	614,143,719	10,458	614,154,177
Cost of sales	(212,034,129)	(1,077,326)	(213,111,455)	(584,169,081)	(3,257,838)	(587,426,919)
Gross profit	11,000,880	(1,226,733)	9,774,147	29,974,638	(3,247,380)	26,727,258
Selling expenses	(2,688,896)	1,411,694	(1,277,202)	(7,731,738)	3,832,526	(3,899,212)
General and administrative expenses	(2,229,284)	(1,281)	(2,230,565)	(6,035,138)	(4,139)	(6,039,277)
Research and development expenses	(3,247,393)	4,253	(3,243,140)	(8,828,256)	8,578	(8,819,678)
Total operating expenses	(8,165,573)	1,414,666	(6,750,907)	(22,595,132)	3,836,965	(18,758,167)
Income from operations	2,835,307	187,933	3,023,240	7,379,506	589,585	7,969,091
Non-operating income and expenses :						
Other income	851,742	(219,283)	632,459	2,523,649	(1,013,327)	1,510,322
Other gains and losses	48,061	315,632	363,693	(36,370)	263,697	227,327
Finance costs	(322,767)	(58,695)	(381,462)	(891,990)	(117,217)	(1,009,207)
Share of profit of associates and joint ventures accounted for using equity method	20,920	-	20,920	66,811	-	66,811
Other losses	(153,088)	28,487	(124,601)	(583,173)	397,969	(185,204)
	444,868	66,141	511,009	1,078,927	(468,878)	610,049
Profit before tax	3,280,175	254,074	3,534,249	8,458,433	120,707	8,579,140
Tax expense	(822,946)	25,856	(797,090)	(2,203,806)	47,086	(2,156,720)
Profit	2,457,229	279,930	2,737,159	6,254,627	167,793	6,422,420
Other comprehensive income :						
Foreign currency translation differences – foreign operations	(1,587,841)	-	(1,587,841)	(2,734,164)	-	(2,734,164)
Net change in fair value of available-for-sale financial assets	(24,700)	(3,567)	(28,267)	141,857	33,687	175,544
Other comprehensive income, net of tax	(1,612,541)	(3,567)	(1,616,108)	(2,592,307)	33,687	(2,558,620)
Comprehensive income	\$ <b>844,688</b>	<b>276,363</b>	<b>1,121,051</b>	<b>3,662,320</b>	<b>201,480</b>	<b>3,863,800</b>
Profit, attributable to :						
Owners of the parent	\$ 1,353,473	271,769	1,625,242	3,452,447	162,022	3,614,469
Non-controlling interests	1,103,756	8,161	1,111,917	2,802,180	5,771	2,807,951
Profit	\$ <b>2,457,229</b>	<b>279,930</b>	<b>2,737,159</b>	<b>6,254,627</b>	<b>167,793</b>	<b>6,422,420</b>
Comprehensive income attributable to :						
Owners of the parent	\$ 2,466	256,137	258,603	1,155,718	183,644	1,339,362
Non-controlling interests	842,222	20,226	862,448	2,506,602	17,836	2,524,438
Comprehensive income	\$ <b>844,688</b>	<b>276,363</b>	<b>1,121,051</b>	<b>3,662,320</b>	<b>201,480</b>	<b>3,863,800</b>
Earnings per share						
Basic earnings per share	\$ <b>0.60</b>	<b>0.12</b>	<b>0.72</b>	<b>1.53</b>	<b>0.07</b>	<b>1.60</b>
Diluted earnings per share	\$ <b>0.56</b>	<b>-</b>	<b>0.56</b>	<b>1.45</b>	<b>(0.04)</b>	<b>1.41</b>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Significant reconciliation of its cash flows statement

Under R.O.C. GAAP, the time deposit of \$1,592,800, was classified under cash and cash equivalents in the consolidated statement of cash flows on September 30, 2012. Under IFRS, however, the time deposit or investment with an initial maturity of more than three months does not qualify as cash equivalents. Under IFRS, such time deposit was reclassified as other financial asset and reported under the cash flows from operating activities.

There was no other significant difference in consolidated statement of cash flows between IFRS (endorsed by the FSC) and R.O.C. GAAP, aside from the difference described above.

(4) Notes to significant reconciliation

A. Allowance for sales returns and discounts

Under R.O.C. GAAP, provisions for estimated sales returns and discounts are recorded in the same period in which sales are made, based on historical experience. Allowance for sales returns and discounts is recorded as a deduction from accounts receivable. Under IFRS as endorsed by the FSC, the allowance for sales returns and discounts is deemed as a present obligation with uncertain timing and amount that arises from past events and is therefore reclassified as provisions.

The effects of this GAAP difference were as follows:

	<u>September 30,</u> <u>2012</u>
Consolidated balance sheets	
Accounts receivable	\$ 115,102
Provisions (accounted for under other liabilities)	(115,102)
Retained earnings adjustments	<u>\$ -</u>

B. Financial assets carried at cost

Under the IFRS as endorsed by the FSC, when the fair value of investments in equity instruments can be reliably measured, such investment are reclassified from “financial assets carried at cost” to “available-for-sale financial assets” account. Subsequent to IFRS conversion date, these investments are measured at fair value.

The effects of this GAAP difference were as follows:

	<u>September 30,</u> <u>2012</u>
Consolidated balance sheets	
Financial assets at cost	\$ (248,404)
Available-for-sale financial assets	280,858
Unrealized gains (losses) on available-for-sale financial assets	(10,637)
Non-controlling interests	(21,817)
Retained earnings adjustments	<u>\$ -</u>

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C. Rental assets and idle assets

Under R.O.C. GAAP, rental assets and idle assets are classified under other assets. Under the IFRS as endorsed by the FSC, the aforementioned items are reclassified as property, plant and equipment and investment property according to their nature. The rental asset is also classified as an investment property if it is held to earn rentals and can be sold or leased out separately under a finance lease. When a portion of the rental assets and idle assets could not be sold or leased out separately under a finance lease, the entire property is classified as investment property only if the portion of the property held for own use is insignificant.

The effects of this GAAP difference were as follows:

	<u>September 30,</u> <u>2012</u>
Consolidated balance sheets	
Rental assets and Idle assets (accounted for under other assets)	\$ (1,200,249)
Property, plant and equipment	528,094
Investment property, net	672,155
Retained earnings adjustments	<u>\$ -</u>

D. Prepayments for business facilities

Under R.O.C GAAP, prepayments on purchase of equipment are accounted for under property, plant and equipment. Under the IFRS as endorsed by the FSC, such prepayments are reclassified as other noncurrent assets.

The effects of this GAAP difference were as follows:

	<u>September 30,</u> <u>2012</u>
Consolidated balance sheets	
Property, plant and equipment	\$ (1,147,514)
Other assets	1,147,514
Retained earnings adjustments	<u>\$ -</u>

E. Land use rights

Under R.O.C GAAP, prepaid lease payment involving land use rights under operating lease arrangement is accounted for under intangible assets. Under the IFRS as endorsed by the FSC, such prepayments is treated simply as a prepaid rental so that it is reclassified to “long-term prepaid rents” account.

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The effects of this GAAP difference were as follows:

	<u>September 30,</u> <u>2012</u>
Consolidated balance sheets	
Intangible assets	\$ (2,994,305)
Long-term prepaid rents (accounted for under other assets)	<u>2,994,305</u>
Retained earnings adjustments	<u>\$ -</u>

F. Warranties and repair cost

Under R.O.C GAAP, the DMS segment issues warranties that the customer pays for, warranty liabilities and the related repair cost were estimated in the same period in which goods are sold. These warranty liabilities paid by the customers are recognized as warranty liabilities. Under the-IFRS as endorsed by the FSC, warranty reserve is treated as a “deferred revenue” when sales is made. When the warranty expires, the deferred revenue becomes earned revenue and recognized as sales revenue.

The effects of this GAAP difference were as follows:

	<u>For the Three Months</u> <u>Ended September 30,</u> <u>2012</u>	<u>For the Nine Months</u> <u>Ended September 30,</u> <u>2012</u>
Consolidated comprehensive income statement		
Operating revenue	\$ 281,658	325,532
Cost of sales	1,135,459	3,407,615
Selling expenses	<u>(1,417,117)</u>	<u>(3,733,147)</u>
Adjustments before income tax	<u>\$ -</u>	<u>-</u>

	<u>September 30,</u> <u>2012</u>
Consolidated balance sheets	
Accrued expenses	\$ 1,609,565
Other current liabilities	1,249,447
Deferred revenue (accounted for under other current liabilities)	<u>(2,175,266)</u>
Provisions (accounted for under other current liabilities)	<u>(143,746)</u>
Retained earnings adjustments	<u>\$ -</u>

G. Provisions for employee benefits

(a) Compensated absences benefit

Under the IFRS as endorsed by the FSC, the Group accrues the obligation for paid absences if the obligation both relates to employees' past services and accumulates (i.e. can be carried forward to a future period).

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The effects of this GAAP difference were as follows:

	<b>For the Three Months Ended September 30, 2012</b>	<b>For the Nine Months Ended September 30, 2012</b>
Consolidated statements of comprehensive income		
Cost of sales	\$ 2,167	12,565
Selling expenses	53	1,666
General and administrative expenses	(104)	4,752
Research and development expenses	160	4,475
Adjustments before income tax	<u>2,276</u>	<u>23,458</u>
Tax expense	<u>(311)</u>	<u>(3,877)</u>
Adjustments after income tax	<u><u>\$ 1,965</u></u>	<u><u>19,581</u></u>

	<b>For the Three Months Ended September 30, 2012</b>	<b>For the Nine Months Ended September 30, 2012</b>
Attributable to		
Owners of the parent	\$ 4,987	16,697
Non-controlling interests	(3,022)	2,884
Adjustments before income tax	<u><u>\$ 1,965</u></u>	<u><u>19,581</u></u>

	<b>September 30, 2012</b>
Consolidated balance sheets	
Deferred tax assets	\$ 28,442
Other payable	(206,789)
Non-controlling interests	40,377
Retained earnings adjustments	<u><u>\$ (137,970)</u></u>

(b) Share-based payments

Under R.O.C GAAP, the Company adopted SFAS No. 39, "Share-based Payment," for share-based payment arrangements with a grant date on or after January 1, 2008, and Interpretations (92) 070, 071 and 072 of the ARDF for employee share options that were granted before January 1, 2008. Under the IFRS as endorsed by the FSC, the Group will avail of the exemption allowed under IFRS 1 for employee share options that were granted before January 1, 2008 so that these options will no longer be fair valued retrospectively; however, the Group shall nevertheless disclose the information required by paragraphs 44 and 45 of IFRS 2.

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The effects of this GAAP difference were as follows:

	<u>September 30,</u> <u>2012</u>
Consolidated balance sheets	
Deferred tax assets	\$ 19
Increase in capital surplus	(835)
Non-controlling interests	(17)
Retained earnings adjustments	<u>\$ (833)</u>

H. Employee benefits — defined benefit pension plan

- (a) Under R.O.C. GAAP, an actuarial valuation is made of the Group's defined benefit obligation and the related pension cost and accrued pension liabilities, and net periodic pension costs are accounted for under the corridor approach. Under the IFRS as endorsed by the FSC, the aforementioned obligation shall be recognized as deduction of retained earnings, and actuarial gain or loss shall be recognized as other comprehensive income in the statement of comprehensive income.
- (b) Under R.O.C. GAAP, unrecognized net transition assets (obligations) are amortized to pension cost on the straight-line basis over the average remaining service period of those employees who are still in service and expected to receive pension benefits. Under IFRS as endorsed by the FSC, under IAS No. 19, there is no such similar requirement as R.O.C. GAAP. Therefore, the unrecognized net transition obligation and related amounts are recognized directly to retained earnings at the date of transition to IFRSs.
- (c) Under R.O.C. GAAP, the minimum pension liability is recognized if accumulated pension benefits exceed the fair market value of its pension plan assets. Under IFRS as endorsed by the FSC, there is no requirement for recognizing minimum pension liability in accordance with IAS 19.

The effects of this GAAP difference are as follows:

	<u>For the Three Months</u> <u>Ended September 30,</u> <u>2012</u>	<u>For the Nine Months</u> <u>Ended September 30,</u> <u>2012</u>
Consolidated statement of comprehensive income		
Selling expenses	\$ (51)	(133)
General and administrative expenses	(1,260)	(3,800)
Research and development expenses	(182)	(402)
Adjustments before income tax	(1,493)	(4,355)
Income tax expense	-	(7)
Adjustments after income tax	<u>\$ (1,493)</u>	<u>(4,342)</u>

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	<b>For the Three Months Ended September 30, 2012</b>	<b>For the Nine Months Ended September 30, 2012</b>
Attributable to :		
Owners of the parent	\$ (639)	(2,287)
Non-controlling interests	(854)	(2,055)
Adjustments after income tax	<u>\$ (1,493)</u>	<u>(4,342)</u>

  

	<b>September 30, 2012</b>
Consolidated Balance Sheet	
Intangible assets	\$ (2,525)
Deferred tax assets	13,281
Other non-current assets	121
Other non-current liabilities	(130,108)
Unrecognized loss (gain) on pension fund (other equity)	440
Non-controlling interests	79,467
Retained earnings adjustments	<u>\$ (39,324)</u>

I. Classifications of deferred income tax asset/liability and valuation allowance

Under R.O.C. GAAP, deferred income tax assets or liabilities are classified as current or non-current according to the classification of related assets or liabilities. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, it is classified as either current or non-current based on the expected length of time before it is realized or settled. Under IFRS as endorsed by the FSC, a deferred tax asset or liability is classified as non-current asset or liability.

In addition, under R.O.C. GAAP, valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. Under IFRS as endorsed by the FSC, deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits and the valuation allowance account is no longer used.

Deferred tax assets and liabilities may be offset against each other only if the entity has the legal right to settle tax assets and liabilities on a net basis, and the deferred tax assets and liabilities are taxed by the same taxing authority.

The effects of this GAAP difference are-as follows:

	<b>September 30, 2012</b>
Consolidated Balance Sheet	
Deferred income tax assets— current (other current assets)	\$ (872,090)
Deferred income tax assets	872,090
Deferred income tax liabilities— current (other current liabilities)	53
Deferred income tax liabilities	(53)
Retained earnings adjustments	<u>\$ -</u>

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

J. Deferred gross profit

Under R.O.C. GAAP, deferred income tax assets or liabilities arising from intergroup sales can be recognized using the tax rates of buyer or seller. The Group originally adopted the seller's tax rates. Under the IFRS as endorsed by the FSC, temporary differences are determined by comparing the carrying amount of assets and liabilities and their tax basis in the consolidated financial statements, therefore, deferred income tax assets or liabilities from unrealized profit or loss are calculated using the buyer's tax rate.

The effects of this GAAP difference are as follows:

	<u>For the Three Months Ended September 30, 2012</u>	<u>For the Nine Months Ended September 30, 2012</u>
Consolidated Statement of comprehensive income		
Income tax expense	\$ (25,545)	(43,202)
Income (loss) attributable to :		
Owners of the parent	(19,318)	(30,773)
Non-controlling interest	(6,227)	(12,429)
Adjustments before income tax	\$ (25,545)	(43,202)
		<u>September 30, 2012</u>
Consolidated Balance Sheet		
Deferred income tax assets		\$ 63,692
Non-controlling interests		(18,276)
Retained earnings adjustments		\$ 45,416

K. Capital surplus — long-term equity investment not subscribing proportionately

Under R.O.C. GAAP, if an associate or investee issues new shares and an investor does not buy new shares proportionately, the investor's ownership percentage and its interest in net assets of the investment will change. The resulting difference is adjusted to the capital surplus or retained earnings. Under the IFRS as endorsed by the FSC, if the percentage of ownership is changed due to disproportionate subscription in the capital increase of the investee, the capital surplus arising from long-term equity investment is recalculated retrospectively, and such change adjusted to retained earnings.

The effects of this GAAP difference are as follows:

	<u>September 30, 2012</u>
Consolidated Balance Sheet	
Reduction on capital surplus	\$ 2,481,205
Retained earnings adjustments	\$ 2,481,205

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

L. Overseas convertible bonds payable

Under R.O.C. GAAP, if the conversion price of the overseas convertible bonds payable is expressed in New Taiwan Dollars, and the bonds payable is convertible to NTD only at fixed foreign currency in NTD exchange rate, the conversion option is classified as an equity component. Under IFRS as endorsed by the FSC, the conversion option does not conform to the definition of equity component; therefore, the conversion option being treated as liability component is initially recognized as “derivative financial liabilities.” The valuation gain or loss resulting from changes in fair values is recognized in profit or loss.

The effects of this GAAP difference are as follows:

Consolidated statement of comprehensive income	For the Three Months Ended September 30, 2012	For the Nine Months Ended September 30, 2012
Other gains and losses	\$ (315,632)	(263,697)
Finance costs	58,695	117,217
Adjustments before income tax	<u>\$ (256,937)</u>	<u>(146,480)</u>

  

	September 30, 2012
Consolidated Balance Sheet	
Financial liabilities at fair value through profit or loss — noncurrent	\$ (978,664)
Bonds payables	795,918
Reduction on capital surplus	329,226
Retained earnings adjustments	<u>\$ 146,480</u>

M. Repair expense, Indemnity income and Indemnity losses

Under IFRS as endorsed by FSC, compensation gain or loss is reclassified to “Sales revenue” and “Cost of sales” account according to its nature.

The effects of this GAAP difference are as follows:

Consolidated Statement of comprehensive income	For the Three Months Ended September 30, 2012	For the Nine Months Ended September 30, 2012
Sales revenue	\$ (180,547)	(384,286)
Cost of sales	(61,912)	(282,599)
Other income	267,715	1,061,623
Other losses	(25,256)	(394,738)
Adjustments before income tax	<u>\$ -</u>	<u>-</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

N. The effects to retained earnings of the GAAP differences described above are as follows :

	<b>September 30, 2012</b>
Employee benefits liabilities	\$ (137,970)
Employee benefits, post-employment benefit plan	(39,324)
Deferred sales profit	45,416
Capital surplus	2,481,205
Foreign convertible bonds	146,480
Others	(19,860)
Increase in retained earnings	<b>\$ 2,475,947</b>