2012 Pegatron Annual Report

TWSE 4938

PEGATRON

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1. Letter to Shareholders

Dear Shareholders,

2012 was a year full of challenges for IT industry. Worldwide PC territory underwent multiple changes as a result of the rapid evolution of portable and mobile devices. Changes of user interface and consumers' experience have also stimulated the versatility of industrial design applied on mobile devices and it presented a perfect opportunity for Pegatron to demonstrate the Company's core competence and innovation to customers. For the past few years, the Company has been dedicated to improving its product portfolio and manufacturing efficiency and, with the endeavoring effort from all employees, the Company was able to overcome any obstacle during the journey of transformation. 2012 was a remarkable year for Pegatron. The benefit of product diversification strategy finally unfolded when new projects went into mass production and annual revenue as well as customer base improved significantly on a year-over-year basis. By mastering industry trend adequately and diversifying production portfolio effectively, Pegatron was able to outshine the industry amid the challenging global economy in 2012.

Financial Performance

The consolidated revenue of 2012 reached NT$881.9 billion, grew by 47% from NT$599.9 billion in 2011 with gross margin of 4.8%. The net income (attributable to shareholders of the parent company) increased to NTNT6.1 billion from NT$110 million in the previous year. Consequently, earnings per share (EPS) reached NT$2.71 in 2012. Revenue from Computing segment accounted for nearly half of the total revenue, followed by Communication segment and Consumer Electronics segment. Benefitting from shipment of new products, revenue from Consumer Electronics and Communication segments grew significantly on a year-over-year basis in 2012.

Technical Capability and Operating Highlights

As a dedicated DMS (Design, Manufacturing and Services), we strive to provide services valuable to our customers through innovative design, solid R&D capability and in-depth research in application of various material. With the aforementioned technical capabilities, the Company's product diversification strategy gradually took effect resulting in a more balanced product portfolio by the end of 2012. As of the end of 2012, revenue from non Computing segment increased to around 50% of the total revenue. During the corporate transitional period, the Company devoted considerable resources to all aspects of operation and the result was especially evident in growing revenue and customer base. In addition to exploring future business opportunities amid the rapid moving industry, the Company continues to focus on lean manufacturing processes and efficiency enhancement so as to improve profitability and achieve the Company's business target of 2013.

Early 2013, the Company underwent an organization structure overhaul to reorganize the sales force and consolidate manufacturing facilities and R&D resources. The purpose of the organization overhaul is to improve the Company's profitability by making a more effective use of the available resources and preparing ourselves for future growth.

Awards and Social Responsibility

The Company received numerous domestic and international design awards over the past few years. In 2012, the Company was awarded German iF Communication Award for the exhibition display of "From Smart to Savvy" shown in 2012 Taipei Computex. In the same year, the Company's design team successfully stepped out of the traditional 3C territory and was awarded the orders of luxury goods by European customers whom are renowned for retail of luxury items. Through collaborative design, the Company's design team was able to fully demonstrate to customers our core competence in innovative design and seamless integration between design and the brand. We aim to fulfill customers' needs at all aspects, pursue perfection and provide services valuable to customers.

Corporate sustainability has always been the Company's long term commitment to the community. In 2012, the Company was awarded the 2011 National Sustainable Development Award by National Council for Sustainable Development, Executive Yuan. The prestigious award affirmed our achievement in sustainable development in the localization and living in line with the goals of the country. Furthermore, as a corporate citizen and a member of EICC (Electronic Industry Code of Conduct), the Company issued a statement of conflict minerals, expressing our concerns over conflict minerals. At the same time, we also invite our supply chain to investigate the sources of metal used in our products, do one's best to avoid using conflict minerals, and endeavor to fulfill responsibilities of a corporate citizen. To further demonstrate our commitment in corporate governance and social responsibility, the Company issues Corporate Social Responsibility Report ("CSR") every year and the report contains the Company's current status and results in economical, environmental and social aspects, which helps increase data transparency and enhance CSR management system.

Outlook

In 2013, in addition to balancing the development among three major product segments, Computing, Consumer Electronics, and Communication, we will cautiously evaluate and grasp any potential opportunity amid the rapid changing industry and product evolution. With our belief in "Innovation enhances product worth and lean production elevates product value", we strive to bring out our value to customers by providing innovative design and lean manufacturing system and transform challenges into opportunities. Looking ahead in 2013, we will continue focusing on our core competence, understanding customers' needs, providing total solutions, reinforcing customer relationship and expanding customer base and market share. With the aforementioned effort, we sincerely hope to bring profitability and growth to our shareholders.

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

Chairman T.H. Tung 

President and CEO Jason Cheng 

2.1 Company Profile

Date of Incorporation: June 2[7th], 2007

2.2 Company Milestones

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

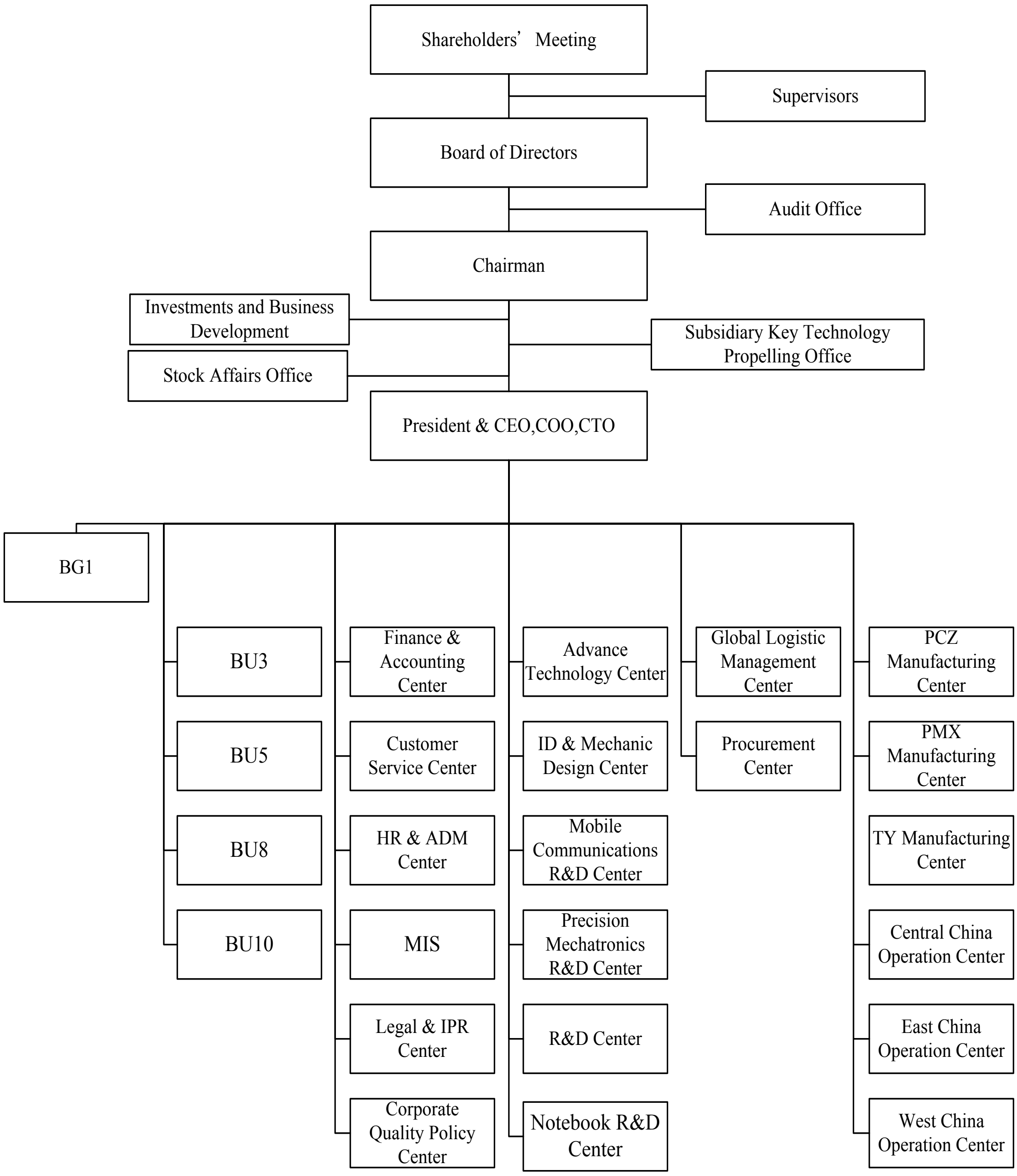
Jan 2010	● The Company's Board of Directors, acting on behalf of the Company's AGM pursuant to the Company Law, approved the merger with Pegatron International. Upon the completion of the merger, the Company is the surviving company.
Mar 2010	● The Company's application for being a public company was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

3. Corporate Governance

3.1 Organization Structure

3.1.1 Organization Chart

As of 2/28/2013



Department Functions

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

Department	Main Responsibilities
Legal & IPR Center	Corporate legal affairs, legal counseling, litigation, patents, licensing and other intellectual property management
MIS	Internal & external network system planning, integration and design
Business Group 1	Design, manufacturing and services of Notebook PCs
Business Unit 3	Design, manufacturing and services of handheld devices and multimedia players
Business Unit 5	Design, manufacturing and services of main boards and systems for large size customers
Business Unit 8	Design, manufacturing and services of main boards and systems for small and medium size customers
Business Unit 10	Design, manufacturing and services of industrial PCs

3.2 Board of Directors, Supervisors and Management Team Background Information

3.2.1 Introduction of Board of Directors and Supervisors

As of 02/28/2013

Title / Name	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
				Shares	%	Shares	%	Shares	%	Shares	%		
Chairman T.H. Tung	05/18/2010	3	05/18/2010	-	-	92,217,309	4.03	16,181,277	0.71	-	-	Master degree in Computer and Communication Engineering, National Taipei University of Technology Deputy General Manager of Asustek Computer Inc (“Asus”)	Chairman of Pegatron Corp. Chairman of Unihan Corp. Chairman of Kinsus Investment Co.,Ltd. Director of Asrock Incorporation Managing Director of Ability Enterprise Co., Ltd. Chairman of Lumens Digital Optics Inc. Chairman of Asus Investment Co., Ltd. Chairman of Asustek Investment Co., Ltd. Chairman of Pegavision Corp. Chairman KINSUS Investment Co., Ltd. Director of Casetek Holdings Ltd. Director of AMA Holdings Ltd. Director of Asuspower Investment Co., Ltd. Director of Magnificent Brightness Ltd. Chairman of Casetek Holdings Limited Director of Protek Global Holdings Ltd. Director of The Eslite Corporation Director of EZHi Technologies, Inc. Director of AzureWave Technologies, Inc. Director of Rih-Li International Ltd. Director of Eslite Spectrum Corp. Director of The Alliance Cultural Foundation
Director Ted Hsu	05/18/2010	3	05/18/2010	-	-	56,353,713	2.46	17,143,855	0.75	-	-	EMBA , National Chiao Tung University Deputy General Manager of Asus	Deputy Chairman of Pegatron Corp. Chairman of Asrock Incorporation. Chairman of Asuspower Investment Co., Ltd. Chairman of AzureWave Technologies, Inc. Chairman of eBizprise Inc. Director of Asuspower Corp. Director of Asiarock Technology Ltd. Director of Unihan Corp. Director of Advantech Co. Ltd Director of Associated Industries China, Inc. Director of ASMedia Technology Inc.

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

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

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

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

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

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

As of 02/28/2013

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

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

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

3.2.3 Introduction of the Management Team

As of 02/28/2013

Title / Name	Date Elected	Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
		Shares	%	Shares	%	Shares	%		
Group CEO T.H. Tung	01/01/2008	92,217,309	4.03	16,181,277	0.71	-	-	Master degree in Computer and Communication Engineering, National Taipei University of Technology Deputy General Manager of Asus	Refer to Introduction of Board of Directors and Supervisors
Deputy Group CEO Ted Hsu	01/01/2008	56,353,713	2.46	17,143,855	0.75	-	-	EMBA , National Chiao Tung University Deputy General Manager of Asus	Refer to Introduction of Board of Directors and Supervisors
President and CEO Jason Cheng	01/01/2008	2,754,773	0.12	54,250	0.00	-	-	Master degree in Electrical Engineering, University of Southern California Deputy General Manager of Asus	Refer to Introduction of Board of Directors and Supervisors
Senior Vice President and Chief Technical Officer Hsu-Tien Tung (Note 1)	08/01/2008	678,836	0.03	-	-	-	-	Bachelor degree in Electrical Engineering National Taiwan University Associate Vice President of Asus	Director of Ability Enterprise Co., Ltd. Chairman of Top Quark Ltd. Director of Digitek (Chongqing) Ltd.
Senior Vice President Yen-Hsueh Su	02/01/2008	321,062	0.01	-	-	-	-	Mater degree in Industrial Management Carnegie Mellon University Chief Investment Officer of Asus	Director of Kinsus Interconnect Technology Corp. Supervisor of Advantech Co. Ltd.
Senior Vice President and Chief Operating Officer Syh-Jang Liao	11/02/2012	641,856	0.03	6,093	0.00	-	-	Bachelor degree in Industrial and Business Management, Tatung Institute of Technology Senior Vice President of Unihan Corp.	Director of Ability Enterprise Co., Ltd. President of Pegatron Japan Inc. Director of AMA Precision Inc.
Vice President Yean-Jen Shue	08/01/2008	342,432	0.01	4,175	0.00	-	-	Ph.D. Electrical Engineering University of Florida Associate Vice President of Asus	None

Title / Name	Date Elected	Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
		Shares	%	Shares	%	Shares	%		
Vice President Te-Tzu Yao	08/01/2008	397,109	0.02	10,000	0.00	-	-	M.S. Psychology, National Taiwan University MBA in International Management, Thunderbird, The American Graduate School of International Management Chief Staff, CEO Office, Asus Vice President of Material Management, Wistron Corp General Auditor, Chief Logistic, AVP of Global Operation, Acer Inc	None
Vice President Kuo-Yen Teng	08/01/2008	383,309	0.02	2	0.00	-	-	College degree in Electronic Engineering National Taipei Institute of Technology Associate Vice President of Asus	None
Vice President Tsung-Jen Ku Lai	08/01/2008	562,278	0.02	6,991	0.00	-	-	Bachelor degree in Industrial Engineering Tunghai University Associate Vice President of Asus	None
Vice President En-Bair Chang	02/01/2008	385,213	0.02	152,669	0.01	-	-	Master degree in Industrial Design Pratt Institute Associate Vice President of Asus	Director of Kaedar Trading Ltd. Director of Kaedar Holdings Ltd. Director of Indeed Holdings Ltd. Director of Wilson Holdings Ltd. Chairman of AMA Precision Inc. Director of Indeed Shanghai Supervisor of Ability Enterprise Co. Ltd. Director of Casetek Holdings Ltd. Director of Ri Teng Computer Accessory (Shanghai) Co.,Ltd. Director of Ri-Pro Precision Model(Shanghai)Co., Ltd.
Vice President Shih-Chi Hsu	08/01/2008	236,621	0.01	-	-	-	-	Bachelor degree in Mechanical Engineering National Taiwan Institute of Technology Associate Vice President of Asus	None
Vice President Ming-Tung Hsu	08/01/2008	302,624	0.01	8,219	0.00	-	-	College degree in Industrial Engineering National Taipei Institute of Technology Associate Vice President of Asus	None
Vice President Ying Chang	04/01/2010	42,593	0.00	-	-	-	-	Ph.D. Mechanical Engineering Chung Yuan Christian University Vice President of Liteon Technology Corp.	None

Title / Name	Date Elected	Current Shareholding		Spouse & Minor Shareholdings		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
		Shares	%	Shares			%		
Vice President Kuang-Chih Cheng	08/01/2008	258,946	0.01	5,324	0.00	-	-	Master degree in Computer Science and Information Engineering Tamkang University Associate Vice President of Asus	None
Vice President Tian-Bao Chang	08/01/2008	493,101	0.02	-	-	-	-	College degree in Transportation Management Chungyu Institute of Technology Senior Manager of Asus	Director of Protek (Shanghai) Ltd. Director of Powtek (Shanghai) Co., Ltd. Director of Runtop (Shanghai) Co., Ltd. Director of Core-Tek (Shanghai) Ltd.
Vice President Chih-Hsiung Chen	07/01/2010	625,609	0.03	-	-	-	-	Master in Electrical Engineering Tufts University Vice President of Asus	None
Vice President Pei-Chin Wang	10/03/2011	295,949	0.01	-	-	-	-	Master degree in Electrical Engineering, National Taiwan University Vice President of Asus	None
Chief Financial Officer Chiu-Tan Lin	02/01/2008	252,475	0.01	-	-	-	-	Master degree in Business Administration Tunghai University Deputy Chief Investment Officer of Asus	Chairman of Starlink Electronics Corp. Supervisor of Powtek (Shanghai) Co., Ltd. Supervisor of Digitek (Chongqing) Ltd.
Vice President Hsi-Wen Lee	08/01/2012	243,390	0.01	-	-	-	-	Master degree in Mechanical Engineering, National Taiwan University Senior Manager of Asus	None
Vice President Chung Yu Huang	11/02/2012	215,630	0.01	-	-	-	-	Ph. D. Electrical Engineering, University of Southern California Associate Vice President of Asus	None
Senior Vice President Chin-Kuo Tsai (Note 2)	08/01/2008	120,000	0.01	-	-	-	-	Bachelor degree in Transportation Engineering and Management National Chiao Tung University Chief of Staff of Asus	None
Vice President Tien-Ting Wei (Note 3)	08/01/2008	-	-	-	-	-	-	Bachelor degree in Electrical Engineering Chinese Culture University Associate Vice President of Asus	None
Vice President Yu-Nan Ting (Note 4)	08/01/2008	-	-	-	-	-	-	Ph.D. Business Administration Shanghai University of Finance and Economics Associate Vice President of Asus	None

Note 1: Mr. Hsu-Tien Tung new position effective on 01/01/2013.
Note 2: Mr. Chin-Kuo Tsai retired from his position effective on 02/28/2013
Note 3: Mr. Tien-Ting Wei retired from his position effective on 07/31/2012.
Note 4: Ms. Yu-Nan Ting retired from her position effective on 02/15/2012.
Note 5: Current shareholding included the restricted employee shares granted in 2012, which are under the custody of the Trust.

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

3.2.4.1 Remuneration of Directors

Unit: NT$ thousands; Shares

<table>
<tr><th rowspan="4">Title/ Name</th><th colspan="8">Remuneration</th><th colspan="2" rowspan="2">Ratio of total remuneration (A+B+C+D) to net income (%)</th><th colspan="14">Relevant remuneration received by directors who are also employees</th><th colspan="2" rowspan="2">Ratio of total compensation (A+B+C+D+E+F+G) to net income(%)</th><th rowspan="4">Compensation paid to directors from an invested company other than the company's subsidiary</th></tr>
<tr><th colspan="2">Base Compensation(A)</th><th colspan="2">Severance Pay(B)</th><th colspan="2">Bonus to Directors(C) (Note)</th><th colspan="2">Allowances(D)</th><th colspan="2">Salary, Bonuses, and Allowances (E)</th><th colspan="2">Severance Pay (F)</th><th colspan="4">Profit Sharing-Employee Bonus (G)</th><th colspan="2">Exercisable Employee Stock Options (H)</th><th colspan="2">Number of Restricted Employee Shares(I)</th></tr>
<tr><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th><th colspan="2">The company</th><th colspan="2">Companies in the financial report</th><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>Chairman
T.H. Tung</td><td rowspan="11">0</td><td rowspan="11">0</td><td rowspan="11">0</td><td rowspan="11">0</td><td rowspan="11">21,750</td><td rowspan="11">22,785</td><td rowspan="11">0</td><td rowspan="11">9</td><td rowspan="11">0.36%</td><td rowspan="11">0.37%</td><td rowspan="11">30,119</td><td rowspan="11">30,119</td><td rowspan="11">0</td><td rowspan="11">0</td><td rowspan="11">0</td><td rowspan="11">0</td><td rowspan="11">0</td><td rowspan="11">0</td><td rowspan="11">0</td><td rowspan="11">0</td><td rowspan="11">1,400,000</td><td rowspan="11">1,400,000</td><td rowspan="11">0.85%</td><td rowspan="11">0.87%</td><td rowspan="11">2,300</td></tr>
<tr><td>Director
Ted Hsu</td></tr>
<tr><td>Director
Jason Cheng</td></tr>
<tr><td>Director
C.T. Lin</td></tr>
<tr><td>Director
L.L. Chao</td></tr>
<tr><td>Director
K.C. Liu</td></tr>
<tr><td>Director
C.I. Chia</td></tr>
<tr><td>Director
C.V. Chen</td></tr>
<tr><td>Independent Director
C.B. Chang</td></tr>
<tr><td>Independent Director
C. Lin</td></tr>
<tr><td>Independent Director
C.S. Yen</td></tr>
</table>

Note 1: Board of directors resolved on March 21th, 2013 that the total amount of employee profit sharing bonus for the year of 2012 is NT$ 299,000 thousands including the bonus to the directors.
Note 2: Number of restricted employees shares included the shares granted in 2012, which are under the custody of the Trust.

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

3.2.4.2 Remuneration of Supervisors

Unit: NT$ thousands

Title/Name	Remuneration						Ratio of total remuneration (A+B+C) to net income(%)		Compensation paid to directors from an invested company other than the company's subsidiary
	Base Compensation(A)		Bonus to Supervisor(B) (Note)		Allowances(C)				
	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	
Supervisor C.H. Tong Supervisor M.C. Chou Supervisor I. L. Cheng	0	0	7,250	7,250	0	12	0.12%	0.12%	No

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

3.2.4.3 Remuneration of the President and Vice President

Unit: NT$ thousands; Shares

<table>
<tr><th rowspan="3">Title/Name</th><th colspan="2">Salary(A)</th><th colspan="2">Severance Pay (B)</th><th colspan="2">Bonuses and Allowances (C)</th><th colspan="4">Profit Sharing- Employee Bonus (D)</th><th colspan="2">Ratio of total compensation (A+B+C+D) to net income (%)</th><th colspan="2">Exercisable Employee Stock Options</th><th colspan="2">Number of Restricted Employee Shares</th><th rowspan="3">Compensation paid to the president and vice president from an invested company other than the company’s subsidiary</th></tr>
<tr><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th><th colspan="2">The company</th><th colspan="2">Companies in the financial report</th><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th><th rowspan="2">The company</th><th rowspan="2">Companies in the financial report</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>Group CEO
T.H. Tung</td><td rowspan="12">64,459</td><td rowspan="12">76,422</td><td rowspan="12">0</td><td rowspan="12">0</td><td rowspan="12">49,792</td><td rowspan="12">51,941</td><td rowspan="12">0</td><td rowspan="12">0</td><td rowspan="12">0</td><td rowspan="12">0</td><td rowspan="12">1.87%</td><td rowspan="12">2.1%</td><td rowspan="12">0</td><td rowspan="12">0</td><td rowspan="12">5,140,000</td><td rowspan="12">5,140,000</td><td rowspan="12">2,540</td></tr>
<tr><td>Deputy Group CEO
Ted Hsu</td></tr>
<tr><td>President and CEO
Jason Cheng</td></tr>
<tr><td>Sr. Vice President and Chief Technical Officer
Hsu-Tien Tung
(Note 1)</td></tr>
<tr><td>Senior Vice President and Chief Operating Officer
Syh-Jang Liao</td></tr>
<tr><td>Sr. Vice President
Yen-Hsueh Su</td></tr>
<tr><td>Vice President
Yean-Jen Shue</td></tr>
<tr><td>Vice President
Te-Tzu Yao</td></tr>
<tr><td>Vice President
Tsung-Jen Ku Lai</td></tr>
<tr><td>Vice President
Kuo-Yen Teng</td></tr>
<tr><td>Vice President
En-Bair Chang</td></tr>
<tr><td>Vice President
Shih-Chi Hsu</td></tr>
</table>

Title/Name	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C)		Profit Sharing- Employee Bonus (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Exercisable Employee Stock Options		Number of Restricted Employee Shares		Compensation paid to the president and vice president from an invested company other than the company's subsidiary
	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	The company		Companies in the financial report		The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report	
							Cash	Stock	Cash	Stock							
Vice President Kuang-Chi Cheng																	
Vice President Tian-Bao Chang																	
Vice President Ming-Tung Hsu																	
Vice President Yuing Chang																	
Vice President Chih-Hsiung Chen	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above
Vice President Pei-Chin Wang																	
Vice President Chung Yu Huang																	
Vice President Hsi-Wen Lee																	
Sr. Vice President Chin-Kuo Tsai (Note 2)																	
Vice President Tien-Ting Wei (Note 3)																	
Vice President Yu-Nan Ting (Note 4)																	

Note 1: Mr. Hsu-Tien Tung new position effective on 01/01/2013.
Note 2: Mr. Chin-Kuo Tsai retired from his position effective on 02/28/2013.
Note 3: Mr. Tien-Ting Wei retired from his position effective on 07/31/2012..
Note 4: Ms. Yu-Nan Ting retired from her position effective on 02/15/2012.
Note 5: Board of directors resolved on March 21th, 2013 that the total amount of employee profit sharing bonus for the year of 2012 is NT$ 299,000 thousands including the bonus to the directors.
Note 6: Number of restricted employee shares included the shares granted in 2012, which are under the custody of the Trust.

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

3.2.4.4 Employee Profit Sharing Granted to Management Team

Unit: NT$ thousands

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

Note 1: Mr. Hsu-Tien Tung new position effective on 01/01/2013.
Note 2: Mr. Chin-Kuo Tsai retired from his position effective on 02/28/2013.
Note 3: Mr. Tien-Ting Wei retired from his position effective on 07/31/2012..
Note 4: Ms. Yu-Nan Ting retired from her position effective on 02/15/2012.
Note 5: Board of directors resolved on March 21th, 2013 that the total amount of employee profit sharing bonus for the year of 2012 is NT$ 299,000 thousands including the bonus to the directors.

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

Total remuneration paid by the Company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, supervisors, presidents and vice presidents of the Company are as follows:
Net Income of year 2011: NT$ 111,365 thousand dollars
Net Income of year 2012: NT$ 6,103,796 thousand dollars

NT$ thousands; %

Year	Total remuneration paid to directors, supervisors, presidents and vice presidents		Ratio of total remuneration paid to directors, supervisors, presidents and vice presidents to net income (%)	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
2011	211,604	218,920	190.01%	196.58%
2012	143,251	158,410	2.35%	2.60%

The ratio of remuneration paid to directors, supervisors, presidents and vice presidents of the Company and the companies in the consolidated financial statements in the last two years to the net income was 190.01% and 196.58% in 2011 and 2.35% and 2.60% in 2012, respectively.

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

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

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

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

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors

A total of 6 (A) meetings of the Board of Directors were held in 2012. The directors' attendance status is as follows:

Title	Name	Attendance in person (B)	By Proxy	Attendance rate (%)【B/A】	Remarks
Chairman	T.H. Tung	5	1	83.3%	None
Director	Ted Hsu	4	1	66.7%	None
Director	Jason Cheng	6	0	100.0%	None
Director	K.C. Liu	4	0	66.7%	None
Director	C.I. Chia	5	1	83.3%	None
Director	C.V. Chen	4	0	66.7%	None
Independent Director	C. Lin	5	1	83.3%	None
Independent Director	C.S. Yen	5	0	83.3%	None
Independent Director	C.B. Chang	4	0	66.7%	None

Remarks:

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

3.3.2 Supervisors

A total of 6 (A) meetings of the supervisors were held in 2012. The supervisors' attendance status is as follows:

Title	Name	Attendance in person (B)	Attendance rate (%) 【B/A】	Remarks
Supervisor	C.H. Tong	3	50.0%	None
Supervisor	M.C. Chou	6	100.0%	None
Supervisor	I.L. Cheng	6	100.0%	None

Remarks:

1. Composition and responsibilities of supervisors:

(1) Communications between supervisors and the Company's employees and shareholders (e.g. the communication channels and methods, etc.): If necessary, supervisors can be reached by telephone, fax, or email for communications.

(2) Communications between supervisors and the Company's Chief Internal Auditor and CPA (e.g. the items, methods and results of the audits of corporate finance or operations, etc.): Supervisors hold meetings with Chief Internal Audit on periodic basis to review auditing report, and CPA will be consulted whenever necessary.

2. If a supervisor expresses an opinion during a meeting of the Board of Directors, the dates of meetings, sessions, contents of motions, resolutions of the directors' meetings and the Company's response to supervisor's opinion should be specified: None

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

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

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

3.3.4 Status of Compensation Committee:

Pursuant to Article 14-6 of Securities and Exchange Act, listed companies shall establish a compensation committee. As of April 2012, the Compensation Committee was comprised of three members including one director, Mr. C. I. Chia, and two independent directors, Dr. C. Lin and Mr. C. B. Chang. Dr. C. Lin is the Chairman of the Compensation Committee. The Compensation Committee Charter is available on Market Observation Post System of Taiwan Stock Exchange.

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

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

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

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

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

A total of 3 (A) meetings of the Compensation Committee were held in 2012. The status of attendance is as follows:

1. The Compensation Committee comprised of 3 members.
2. The tenure of office is from 2011/8/25 to 2013/5/17. The committee convened 3 meetings in 2012.

Title	Position	Name	Attendance in person (B)	Attendance rate (%)【B/A】	Remarks
Chairman	Independent Director	C. Lin	3	100	Period of the post will be the same as that of the Board of Directors
Member	Independent Director	C. B. Chang	3	100	Period of the post will be the same as that of the Board of Directors
Member	Director	C. I. Chia	3	100	Period of the post will be the same as that of the Board of Directors

Other Information to be disclosed:

1. If Board of Directors did not adopt or revise the proposal made by the Compensation Committee, please specify the date, session, agendas and resolutions of the Board of Directors meeting and how the Company handled the proposal made by the Compensation Committee (If amount of the compensation approved by the Board of Directors is higher than that proposed by the Compensation Committee, please specify the reasons and differences in proposals.)

On March 19, 2012, the Compensation Committee resolved to propose NT$1,000,000 as the compensation to directors and supervisors for year 2011; however, the proposed amount was modified to zero by the Board of Directors on March 19, 2012.

2. If any members of the Compensation Committee were against or reserve their opinions towards the resolutions, please specify the date, session, agendas, opinions of all members and how the opinions are handled.

None.

3.3.5 Implementation of Social Responsibility

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

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

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

Item	Implementation Status	Non-implementation and its reason(s)
(6) The Company may, through commercial activities, non-cash property endowments, volunteering services or other free professional services, participate in event held by charities or local community for community development	We continue donating materials and goods, and the proceeds from the sales of waste IT products contributed by employees to community during 2012. Also, we invite NPO positively to join our activities and parties every year.	None
4. Enhancing Information Disclosure (1) How the Company discloses information regarding corporate social responsibility (2) The Company prepares corporate social responsibility report and discloses implementation status of corporate social responsibility	http://www.pegatroncorp.com/sustainability/csrReport.php We publish CSR report on annual basis and it contains chapters including corporate governance, social, economical and environmental performances. It is disclosed on our corporate website (http://www.pegatroncorp.com/sustainability/csrReport.php)	None
5. If the Company established any guideline of corporate social responsibility in accordance with "Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM-Listed Companies" and please state the implementation status of the guideline and any reasons for non-implementation: As a member of EICC (Electronic Industry Citizenship Coalition), the Company follows the code of conduct established by EICC, which includes labor standard, health, safety, environment, management system and business ethics. In terms of implementation, systematic management approach is adopted and any inconsistencies will be corrected to ensure continuous improvement on the operation of the system.		
6. Other material information that helps to understand the operation of corporate social responsibility: The Company proactively participates in corporate social responsibility activities concerning employees, communities, disadvantaged minorities, charities, such as donations, cleaning communities and beach and activities organized by Children Are Us Foundation, Sunshine Organization, Changhwa Christian Hospital, etc.		
7. Please provide further description for company product or corporate social responsibility report which is certified by relevant organization: The core business of the Company is ODM/EMS business, any certification regarding the products will be carried by customers themselves and the Company will assist customers whenever necessary. The Company has assisted customers in receiving certification and award such as TYPE III environmental certification and carbon footprint certification, EPEAT golden award, EU Flower, Taiwan environmental label, CECC, Energy Star, etc.		

3.3.6 Guideline for Corporate Business Conduct and Its Implementation:

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

Implementation of Corporate Integrity

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

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

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

3.3.7 Corporate Governance Guideline and Regulations:

The Company has not established corporate governance principles.

3.3.8 Other Important Information Regarding Corporate Governance: None

3.3.9 Internal Control System:

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

Pegatron Corporation
Statement of Internal Control System

Date: March 21, 2013

Based on the findings of self-assessment, Pegatron Corporation states the following with regard to its internal control system in 2012:

1. Pegatron is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and management. The aim of the internal control system is to provide reasonable assurance to operating effectiveness and efficiency (including profitability, performance and safeguarding of assets), reliability of financial reporting and compliance of applicable laws and regulations.

2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishing the aforementioned three objectives. Moreover, the effectiveness of an internal control system may be subject to changes of environmental or circumstances. Nevertheless, the internal control system of Pegatron contains self-monitoring mechanism and Pegatron takes corrective actions whenever a deficiency is identified.

3. Pegatron evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control System by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations indentify five components of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several items. Please refer to the Regulations for details.

4. Pegatron has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.

5. Based on the findings of the evaluation mentioned in the preceding paragraph, Pegatron believes that, as of December 31, 2012, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency, reliability of financial reporting, and compliance with the applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.

6. This Statement will be integral part of Pegatron's Annual Report for the year 2012 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Law.

7. This Statement has been passed by the Board of Directors in their meeting held on March 21, 2013 with zero of eight attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Pegatron Corporation

H.T. Tung
Chairman

Jason Cheng
President and Chief Executive Officer

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

3.3.11 Major Resolutions of Shareholders' Meeting and Board Meetings

3.3.11.1 Major Resolutions of Shareholders' Meeting:

Pegatron 2012 Annual Shareholder Meeting was held in Taipei on June 27, 2012. At the meeting, shareholders presented in person or by proxy approved the following resolutions:

(1) The 2011 Business Report and Financial Statements
(2) The proposal of 2011 Earning Distribution
(3) Amendment to the Procedures for Acquisition or Disposal of Assets
(4) Amendment to the Procedures for Lending Funds and Endorsement & Guarantee.
(5) Amendment to the Company's Corporate Articles of Incorporation
(6) The Issuance of Restricted Employee Shares

3.3.11.2 Major Resolutions of Board Meetings

Date	**Major resolutions**
03.19.2012	1. Approved 2011 business report and financial statements 2. Approved earnings distribution of 2011 3. Approved the list of employees eligible for Employee Stock Options (ESOP) program in 2011 4. Approved the scheduling of 2012 Annual Shareholders' Meeting 5. Approved the indirect investment in China subsidiary " Ri-Ming (Shanghai) Co., Limited "
05.10.2012	1. Approved the endorsement for Asuspower Corporation 2. Approved the significant influences on financial report after adopting IFRSs 3. Approved the application for issuing the 40000000 units restricted employee shares for motivating employees 4. Approved the amendment of 2012 annual shareholder's meeting agends
08.23.2012	1. Approved the financial report of 1st half of 2012 2. Approved factoring the AR from Client 1 and Client 2 3. Approved factoring the AR from Client 3 4. Approved the subsidiary "Casetek Holdings Limited" to apply IPO 5. Approved to authorize the Chairman to dispose the shares of Casetek Holdings Limited under the restrictions of its IPO plan
11.09.2012	1. Approved the list of employees eligible for the restricted employee shares and the total amount is 34,167,000 shares
01.31.2013	1. Approved subsidiary "Pegatron Holding Ltd" acquiring Grand Upright Technology Limited 2. Approved the endorsement for Grand Upright Technology Limited
03.21.2013	1. Approved 2012 business report and financial statements 2. Approved earnings distribution of 2012 3. Approved the amendments of Articles of Incorporation 4. Approved the Article of Audit Committee 5. Approved the scheduling of 2013 Annual Shareholders' Meeting 6. Approved to hold the election for the third session of Board of Directors (including Independent Directors) of the Company. 7. Approved the list of nominated candidates of directors.

	8.	Approved the cancellation of restricted employee shares which was bought back by the Company.

3.3.12 Major Issues of Record or Written Statement Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors from January 1, 2012 to March 29, 2013: None.

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

3.4 CPA Fees

CPA Firm	CPA		Auditing Period	Note
KPMG	Ulyos K.J. Maa	Charlotte W.W. Lin	Jan 1, 2012 ~ Dec 31, 2012	

Unit: NTD

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

Service Items included in the CPA fees Unit: NT$ thousands

CPA Firm	CPA	Fees	Non-Auditing Fees					Auditing Period	Note
			System Design	Industrial and commercial registration	HR	Others	Total		
KPMG	Ulyos K.J. Maa Charlotte W.W. Lin	8,030	0	0	0	8,244	8,224	2012/1/1~ 2012/12/31	Non-auditing services include transfer pricing, IFRS, ECB and RS.

3.5 Information on Change of CPA: None

3.6 If the chairman, president, and financial or accounting manager of the Company who had worked for the independent auditor or the related party in the most recent year, the name, title, and the term with the independent auditor or the related party must be disclosed: None.

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

3.7.1 Information on Net Change in Shareholding

Unit: Share

Title	2012		01/01/2013-03/29/2013	
	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman and Group CEO T.H. Tung	500,000	-	-	-
Director and Deputy Group CEO Ted Hsu	200,000	-	-	-
Director and President and CEO Jason Cheng	700,000	-	-	-
Director K.C. Liu	-	-	-	-
Director C.I. Chia	-	-	-	-
Director C.V. Chen	-	-	-	-
Independent Director C.B. Chang	-	-	-	-
Independent Director C. Lin	-	-	-	-
Independent Director C.S. Yen	-	-	-	-
Supervisor C.H. Tong	-	-	-	-
Supervisor M.C. Chou	-	-	-	-
Supervisor I. L. Cheng	-	-	-	-
Shareholder of 10% shareholding or more Asustek Computer Inc.	-	-	-	-

Note: Net changes in shareholding included the restricted employee shares granted in 2012, which are under the custody of the Trust.

3.7.2 Information of Shares Transferred: None.

3.7.3 Information of Equity Pledged: None.

3.8 The relations of the top ten shareholders as defined in the Finance Standard Article 6:

As of 4/29/2012

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders		Remarks %
	Shares	%	Shares	%	Shares	%	Name	Relation	
Asustek Computer Inc. (Representative: Jonney Shih)	551,523,484	24.44	-	-	-	-	Jonney Shih	Chairman of Asustek Computer Inc.	-
Citi (Taiwan) Bank in custody for Government of Singapore Investment Corporation	93,489,677	4.14							
T.H.Tung	91,717,309	4.06	19,517,291	0.86	-	-	-	-	-
Jonney Shih	67,032,290	2.97					Asustek Computer Inc.	Chairman	
Ted Hsu	56,153,713	2.49	17,143,855	0.76	-	-	-	-	-
GDR – Pegatron Corporation	49,964,145	2.21	-	-	-	-	-	-	-
Standard Chartered Bank in custody for Wayne Hsieh	39,502,655	1.75	-	-	-	-	-	-	-
Vangard Emerging Markets Stock Index Fund	32,003,225	1.42	-	-	-	-	-	-	-
Government of Singapore Investment Co. Pte Ltd(GIC)	27,722,680	1.23	-	-	-	-	-	-	-
HSBC in custody for Goldman Sachs Investment	24,005,425	1.06							

3.9 Long-Term Investment Ownership

Unit: thousand shares; %; As of 12/31/2012

Long-Term Investment	Ownership by Pegatron (1)		Direct/Indirect Ownership by Directors and Management (2)		Total Ownership (1)+(2)	
	Shares	%	Shares	%	Shares	%
Unihan Corporation	707,901	100.00	0	0	707,901	100.00
Asustek Investment Co., Ltd.	872,700	100.00	0	0	872,700	100.00
Asuspower Investment Co., Ltd.	841,900	100.00	0	0	841,900	100.00
Asus Investment Co., Ltd.	908,600	100.00	0	0	908,600	100.00
Pegatron USA, Inc.	50	100.00	0	0	50	100.00
Asus Holland Holding B.V.	—	100.00	0	0	—	100.00
Pegatron Holding Ltd.	679,906	100.00	0	0	679,906	100.00

4. Capital and Shares

4.1 Capital and Shares

4.1.1 Type of Stock

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Share	2,290,304,935	209,695,065	2,500,000,000	Listed

4.1.2 Share Capital

As of 3/29/2013

Month/ Year	Par Value (NTD)	Authorized Capital		Paid-in Capital		Remark		
		Shares (1,000)	Amount (NT$1,000)	Shares (1,000)	Amount (NT$1,000)	Sources of Capital	Capital Increased by Assets Other than Cash	Date of Approval and Document No.
6/2007	10	100	1,000	100	1,000	Incorporation		Note 1
11/2007	10	1,600,100	16,001,000	5,000	50,000	Cash injection of NT$49,000 thousand		Note 2
1/2008	10	1,605,000	16,050,000	1,605,000	16,050,000	Issuing common shares of NT$16,000,000 thousand for exchange of assets from Asustek		Note 3
6/2008	10	2,200,000	22,000,000	1,884,628	18,846,281	Issuing common shares of NT$2,796,281 thousand for exchange of subsidiary shareholding from Asustek		Note 4
11/2009	10	2,500,000	25,000,000	2,286,054	22,860,539	Capitalization of profit NT$4,014,258 thousand		Note 5
6/2010	10	2,500,000	25,000,000	2,286,064	22,860,639	Issuing common shares of NT$22,860,639 thousand and cancellation of issued shares of NT$22,860,539 thousand		Note 6
11/2010	10	2,500,000	25,000,000	2,256,367	22,563,669	Capital reduction of NT$296,970 thousand by canceling treasury shares		Note 7
01/2013	10	2,500,000	25,000,000	2,290,305	22,903,049	Issuing restricted stocks of NT$339,380 thousand		Note 8

Note 1: 06/28/2007 Fu Chian Son Tzi No. 09686253810
Note 2: 11/12/2007 Fu Chian Son Tzi No. 09691678020
Note 3: 01/23/2008 Jin So Son Tzi No. 09701016670
Note 4: 06/19/2008 Jin So Son Tzi No. 09701140610
Note 5: 11/06/2009 Jin So Son Tzi No. 09801255610
Note 6: 06/10/2010 Jin So Son Tzi No. 09901110210
Note 7: 11/16/2010 Jin So Son Tzi No. 09901256200
Note 8: 01/08/2013 Jin So Son Tzi No. 10201003050

4.1.3 Information for Shelf Registration: None

4.1.4 Composition of Shareholders

As of 4/29/2012

Item	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	6	9	436	146,425	819	147,695
Shareholding (shares)	33	7,939,745	688,815,486	639,605,256	920,006,415	2,256,366,935
Percentage	0.00	0.35	30.53	28.35	40.77	100.00

4.1.5 Shareholding Distribution Status

Common Share (The par value for each share is NT$10)

As of 4/29/2012

Class of Shareholding (Unit : Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	92,511	27,804,679	1.23
1,000 ~ 5,000	44,979	93,850,462	4.16
5,001 ~ 10,000	5,505	39,859,803	1.77
10,001 ~ 15,000	1,606	19,479,510	0.86
15,001 ~ 20,000	763	13,478,257	0.60
20,001 ~ 30,000	737	17,803,552	0.79
30,001 ~ 50,000	504	19,627,069	0.87
50,001 ~ 100,000	361	25,370,838	1.12
100,001 ~ 200,000	201	28,499,266	1.26
200,001 ~ 400,000	176	49,814,763	2.21
400,001 ~ 600,000	84	41,189,537	1.83
600,001 ~ 800,000	31	21,949,419	0.97
800,001 ~ 1,000,000	29	26,247,915	1.16
over 1,000,001	208	1,831,391,865	81.17
Total	147,695	2,256,366,935	100.00

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

4.1.6 List of Major Shareholder

As of 4/29/2012

Shareholder's Name	Shareholding	
	Shares	Percentage
Asustek Computer Inc. (Representative: Jonney Shih)	551,523,484	24.44
Citi (Taiwan) Bank in custody for Government of Singapore Investment Corporation	93,489,677	4.14
T.H.Tung	91,717,309	4.06
Jonney Shih	67,032,290	2.97
Ted Hsu	56,153,713	2.49
GDR – Pegatron Corporation	49,964,145	2.21
Standard Chartered Bank in custody for Wayne Hsieh	39,502,655	1.75
Vanguard Emerging Markets Stock Index Fund	32,003,225	1.42
Government of Singapore Investment Co. Pte Ltd(GIC)	27,722,680	1.23
HSBC in custody for Goldman Sachs Investment	24,005,425	1.06

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

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

Item	2011	2012	01/01/2013-03/29/2013
Market Price per Share (Note 1)			
Highest Market Price	42.2	48.1	46.2
Lowest Market Price	24.7	32.4	37.45
Average Market Price	32.16	39.27	40.99
Net Worth per Share (Note 2)			
Before Distribution	40.59	41.95	-
After Distribution	40.59	Undistributed	-
Earnings per Share			
Weighted Average Shares (thousand shares)	2,255,192	2,255,780	-
Diluted Earnings Per Share (Note 3)	0.05	2.71	-
Dividends per Share			
Cash Dividends	-	Undistributed	-
Stock Dividend			
• Dividends from Retained Earnings	-	-	-
• Dividends from Capital Surplus	-	-	-
Accumulated Undistributed Dividends (Note 4)	-	-	-
Return on Investment			
Price / Earnings Ratio (Note 5)	643.2	14.49	-

Item	2011	2012	01/01/2013-03/29/2013
Price / Dividend Ratio (Note 6)	-	Undistributed	-
Cash Dividend Yield Rate (Note 7)	-	Undistributed	-

Note 1: Listed the highest and the lowest market price per share in every year and the average market price were calculated based on the trading amount and volume.
Note 2: Based on the shares issued for the year end and resolution for stock distribution in the shareholders' meeting the next year.
Note 3: If the stock dividend is to be adjusted retroactively, earning per share before and after the adjustment shall be listed.
Note 4: Pursuant to regulations of security issuance, the undistributed dividend can be accumulated till the year with retained earnings. However, the accumulated undistributed dividend shall be disclosed.
Note 5: Price / Earnings Ratio = Average Market Price / Earnings per Share
Note 6: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share
Note 7: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

4.1.8 Divided Policy and Execution Status

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

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

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

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

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

4.1.8.2 Proposed Dividend Distribution

The Board approved the proposal for 2012 dividend distribution at its meeting on March 21, 2013. The proposal will become effective according to the relevant regulations, upon the approval of shareholders at the Annual Shareholders' Meeting on June 19, 2013.

Unit: NT$

Items	Amount	
	Subtotal	Total
Unappropriated Earnings of Previous Years		3,726,098,949
Plus: Net Income of 2012		6,103,795,957
Minus: Legal Reserve		(610,379,596)
Minus: Special Reserve Reverse		(2,545,625,680)
Minus: Cash Dividend		(3,435,457,403)
Unappropriated Earnings		3,238,432,227
Items	Amount	
	Subtotal	Total
Note:		
Employees' Cash Bonus		299,000,000
Compensation of Directors		29,000,000

4.1.9 Impact to 2012 Business Performance and EPS resulting from Stock Dividend Distribution: Not Applicable.

4.1.10 Bonus to Employees and Remuneration to Director and Supervisors:

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

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

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

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

- At most 1% of the remaining earnings shall be allocated as directors' and supervisors' remuneration.

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

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

4.1.10.3 Dividend distribution to employees in 2012 resolved by the Board of Directors

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

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

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

No stock dividend was distributed in 2012.

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

No stock dividend was distributed in 2012.

4.1.10.4 Distribution of cash / stock dividend to employees and remuneration to directors and supervisors in 2011 resolved by the Annual Shareholders Meeting on Jun. 27, 2012.

	Amount (NT$)
Employees' Cash Bonus	12,100,000
Compensation of Directors	0

Above cash bonus and compensation, being approved by the Board, has been expensed under the Company's 2011 income statements. The difference between the amounts approved in the shareholders' meeting and those of the estimation recognized in the financial statements, if any, are to be accounted for as changes in accounting estimates and recognized in profit or loss in the distributing year.

4.1.11 Buyback of Common Stock

As of 03/29/2013

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

4.2 Issuance of Corporate Bond

4.2.1 Corporate Bond:

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

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

4.2.2 Convertible Bond:

Issuance		1st Tranche of Euro Convertible Bond	
Date		Year 2012	As of 03/29/2013
Market Price per unit (US$)	Max.	116.8	119.8
	Min.	103.7	112.4
	Average	109.7	115.5
Conversion Price		NT$41.66 per share	NT$41.66 per share
Issuance Date & Conversion Price at Issuance		Issuance Date: 02/06/2012 Conversion Price at Issuance: NT$42.11 per share	
Conversion		Newly-issued common shares	

4.2.3 Exchangeable Bond: None.

4.2.4 Self Registration Bond: None.

4.2.5 Bond with Stock Option: None.

4.3 Preferred Shares (with stock option): None.

4.4 Issuance of Global Depository Receipts:

Date of Issuance(Process) / Item			August 9, 2010
Date of issuance (Process)			08/09/2010
Location and Issuance and Trade			Luxemburg Stock Exchange
Total Amount			Non applicable
Unit Price (in NT$ per GDS)			NT$37.70
Total Issuance			12,163,804
Source of Common Stock Registration			One GDS stands to five common share of Pegatron
Total Marketable Security Shares Recognized			Stands for 60,819,020 common shares of Pegatron
Rights and Obligations of GDR Holders			Same as those of common share holders (See Deposit Agreement and Custody Agreement for Details)
Trustee			Non applicable
GDR Institute			Citibank N.A.
Depositary Institute			Citibank Taiwan Limited
Outstanding GDS (as of December 31, 2012)			9,768,827 GDS
Issuance and Expense Amortization throughout the Issuance Period			Annual listing fees and accountant fees were borne by Pegatron
GDR Agreement and Depositary Agreement			See Deposit Agreement and Custody Agreement for Details
Market Price per unit (US$)	2012	Max.	US$7.910
		Min.	US$5.355
		Average	US$6.615
	As of March 29, 2013	Max.	US$7.666
		Min.	US$6.502
		Average	US$6.893

4.5 Employee Stock Option

4.5.1 Issuance of Employee Stock Option

Employee Stock Option Granted	**First Grant of 2011**	**Second Grant of 2011**
Approval Date by the Authority	2011/4/14	
Grant Date	2011/7/1	2012/4/2
Number of Options Granted	41,577units(Note1)	8,423 units(Note1)
Percentage of Shares Exercisable to Outstanding Common Shares (%)	1.81535	0.36777
Option Duration	3 years	
Vesting Schedule	From the second anniversary of the grant date, except that all or partial options revoked by the company, 100% vested options can be exercised without conditions	
Shares Exercised	0	0
Value of Shares Exercised	0	0
Shares Unexercised	41,577units(Note1)	8,423 units(Note1)
Adjusted Exercise Price Per Share	NT$28.11	NT$44.33
Percentage of Shares Unexercised to Outstanding Common Shares (%)	1.81535	0.36777
Impact on Shareholders' Equity	Dilution to Shareholders' Equity is limited	

Note 1.One unit shall purchase one thousand Pegatron common shares

4.5.2 Listing of Executive Receiving Employee Stock Options and the Top 10 Employees with Options Valued in Excess in NT$30 Million:

Not Applicable

4.6 Restricted Employee Shares

4.6.1 Issuance of Restricted Employee Shares

As of 03/29/2013

Type of Restricted Shares	First Grant
Approval Date by the Authority	2012/10/19
Grant Date	2012/12/20
Number of Restricted Employee Shares Granted	33,938,000
Price of Issuance	NT$ 10
Percentage of Restricted Employee Shares to Outstanding Common Shares	1.48%
Conditions for Exercise of Restricted Employee Shares	a. Upon the first anniversary of receiving the restricted stocks, employees can exercise 40% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct. b. Upon the second anniversary of receiving the restricted stocks, employees can exercise 30% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct. c. Upon the second anniversary of receiving the restricted stocks, employees can exercise the remaining 30% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct.
Limitations to the Rights of Restricted Employee Shares	a. Before fulfilling the vesting conditions, the restricted shares under the custody shall not be sold, pledged, transferred, and gave as gifts to others or any other means of disposal. b. Voting rights: To be conducted by the Trust in accordance with the relevant laws and regulations.
Custody of Restricted Employee Shares	A total of 33,773,000 shares delivered to the Trust (Note 1)
Procedures for Non-Compliance of the Conditions	The Company can buy back and cancel all restricted stocks from any employee whom received restricted stocks but fail to comply with the conditions.
Number of Restricted Employee Shares Bought Back	886,000 (Note 2)

Number of Restricted Employee Shares Free from Custody	-
Number of Restricted Employee Shares under Custody	33,072,000
Number of Restricted Employee Shares under Custody to Outstanding Common Shares (%)	1.44%
Impact on Shareholders" Equity	A. Potential expense: The number of restricted stocks proposed at 2012 Annual General Shareholders' Meeting is 40,000,000 shares at NT$10 as issuance price. The Company shall evaluate the fair value of the stocks on the issuance date and accrue relevant cost over the issuance period. The potential expense incurred is estimated at NT$562,789 thousands. In accordance with the conditions for exercising restricted stocks set forth in the preceding paragraph, the annually expensed amount is estimated at NT$65,091 thousands, NT$346,526 thousands, NT$112,992 thousands and NT$38,180 thousands in 2012, 2013, 2014 and 2015 respectively. B. Potential impact to dilution of earnings per share (EPS) and other factors that may affect shareholder's equity: Potential dilution of EPS based on the existing outstanding ordinary shares of 2,290,139,935 shares, is estimated at NT$0.03, NT$0.15, NT$0.05 and NT$0.02 in 2012, 2013, 2014 and 2015 respectively. Since the potential impact to EPS is limited, we do not expect any material impact to shareholders' equity.

Note 1：Including 701,000 shares under the custody of the Trust but will be bought back by the Company.
Note 2：Shares announced to buy back from employees。

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

As of 3/29/2013; Unit: Shares; %; NT$

<table>
<tr><th rowspan="2">Position</th><th rowspan="2">Title/Name</th><th rowspan="2">Number of Restricted Shares</th><th rowspan="2">Number of Restricted Employee Shares to Outstanding Common Shares</th><th colspan="4">Free from the Trust</th><th colspan="4">Under the Trust</th></tr>
<tr><th>Number of Restricted Employee Shares Free from Custody</th><th>Price of Issuance</th><th>Total Amount of Issuance</th><th>Number of Restricted Employee Shares Free from Custody to Outstanding Common Shares (%)</th><th>Number of Restricted Employee Shares under Custody</th><th>Price of Issuance</th><th>Total Amount of Issuance</th><th>Number of Restricted Employee Shares under Custody to Outstanding Common Shares (%)</th></tr>
<tr><td rowspan="21">Manager</td><td>Group CEO
T.H. Tung</td><td rowspan="21">5,230,000</td><td rowspan="21">0.23%</td><td rowspan="21">0</td><td rowspan="21">10</td><td rowspan="21">0</td><td rowspan="21">0</td><td rowspan="21">5,230,000</td><td rowspan="21">10</td><td rowspan="21">52,300,000</td><td rowspan="21">0.23%</td></tr>
<tr><td>Deputy Group CEO
Ted Hsu</td></tr>
<tr><td>President and CEO
Jason Cheng</td></tr>
<tr><td>Chief Financial Officer
Chiu-Tan Lin</td></tr>
<tr><td>Sr. Vice President and Chief Technical Officer
Hsu-Tien Tung</td></tr>
<tr><td>Sr. Vice President
Yen-Hsueh Su</td></tr>
<tr><td>Vice President
Yean-Jen Shue</td></tr>
<tr><td>Vice President
Te-Tzu Yao</td></tr>
<tr><td>Vice President
Kuo-Yen Teng</td></tr>
<tr><td>Vice President
Tsung-Jen Ku Lai</td></tr>
<tr><td>Vice President
En-Bair Chang</td></tr>
<tr><td>Vice President
Shih-Chi Hsu</td></tr>
<tr><td>Vice President
Kuang-Chih Cheng</td></tr>
<tr><td>Vice President
Tian-Bao Chang</td></tr>
<tr><td>Vice President
Ming-Tung Hsu</td></tr>
<tr><td>Vice President
Yuing Chang</td></tr>
<tr><td>Vice President
Chih-Hsiung Chen</td></tr>
<tr><td>Vice President
Pei-Chin Wang</td></tr>
<tr><td>Vice President
His-Wen Lee</td></tr>
<tr><td>Vice President
Chung-Yu Huang</td></tr>
<tr><td>Sr. Vice President and Chief Operation Officer
Shy-Jang Liao</td></tr>
</table>

Position	Title/Name	Number of Restricted Shares	Number of Restricted Employee Shares to Outstanding Common Shares	Free From Trust				Under the Trust			
				Number of Restricted Employee Shares Free from Custody	Price of Issuance	Total Amount of Issuance	Number of Restricted Employee Shares Free from Custody to Outstanding Common Shares (%)	Number of Restricted Employee Shares under Custody	Price of Issuance	Total Amount of Issuance	Number of Restricted Employee Shares under Custody to Outstanding Common Shares (%)
Employee	Wei-Pang Lee	1,870,000	0.08%	0	10	0	-	1,870,000	10	18,700,000	0.08%
	Yi-Hsin Lee										
	Pei-Chen Wu										
	Ching-Ru Wu										
	Kuo-Jung Hsu										
	Hsin-Cheng Chen										
	Hsiang-Chieh Huang										
	Ting-Pang Huang										
	Cheng-Yu Feng										
	Li-Ling Chao										

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

Not Applicable

4.8 Financing Plan and Implementation

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

5. Overview of Business Operation

5.1 Business Activities

5.1.1 Business Scope

5.1.1.1 Operating Scope

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

5.1.1.2 Breakdown of Sales by Major Products

Unit: NT$ thousands; %

Year / Major Product	2011		2012	
	Amount	**%**	**Amount**	**%**
3C Products	363,326,245	97.74	626,857,632	98.15
Other	8,386,418	2.26	11,841,322	1.85
Total	371,712,663	100.00	638,698,954	100.00

5.1.1.3 Product Lines

Computing Product

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

Communication Product

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

Consumer Electronics Product

a. Tablets
b. Game consoles

c. LCD TVs
d. E-readers
e. Multimedia Players (MP3)

5.1.1.4 Product (Service) Development

a. Tightly integrating the latest released Android and WinRT OS across varieties of ARM SOC platforms as we have the advantage of common R&D resource to provide customers the best solution in this fast-growing Tablet PC market.
b. Notebook PCs that are equipped with the latest Intel chipset, Broadwell platform, which highlight high efficiency and low power consumption technologies that can maximize the performance between multi core CPU and graphic chipset with Intel Turbo Boost technology. For Ultrabook, new material, process and platform are developed to meet the required features of long battery life, thin and light,
c. Notebook PCs with AMD Temash platform that has the advantages of high efficiency/low power and low design cost.
d. Car head unit communicated with personal smartphone seamlessly for data/media transfer/control (ex. Miracast, MirrorLink and MHL+BT)
e. Specific navigation system study for Truck series (7 inch screen); or 2.5G/3G platform integrated for e-call/b-call and telematics.
f. In 2013, nVidia will launch second generation of KEPLER chip design GK-200 series which built at TSMC with 28nm process to ensure the best performance, lowest cost and less power usage, support resolution up to 4096x2160 pixels and 4 simultaneous display heads as well as PCIe gen3 support.
g. The main board designs are following the architectures of Intel chipset. Intel has announced the 22nm micro-architecture. Comparing to the previous Maho Bay platform the internal graphics of the Haswell CPU has been dramatically improved. Furthermore, the 8-series Chipset, Lynx Point, supports more features such as supporting up to 3 independent simultaneous displays (HDMI, DVI, DP, VGA) and up to 6 USB3.0 ports.
h. Develop a new generation European Smart TV with the latest seamless and wireless display technology, cloud services and HMI. User can share multimedia via phone devices to family and friends and enjoy crystal-clear action and eye-popping images in 4K2K super resolution.

5.1.2 Industry Overview

5.1.2.1 Progress and Development of the Industry

a. Computing Industry

In 2012, PC supply chain has gradually recovered from the crisis of key component shortage resulted from the natural disasters occurred in the previous year. However, with the global economic claimant remained poor, consumers’ spending on electronics was therefore lackluster. As the computing industry was further fuelled by tablets and various mobile devices with fierce pricing competition, it reshaped the competitive landscape as well as the growth prospect of PC industry. In addition to the intensifying market competition, the launch of the new operating system, Windows 8, did not boost the market demand as consumers took a more reserved approach about the touch-enabled function that come with a higher selling price. According to IDC, the total volume of PC (including notebook PCs and desktop PCs) shipped in 2012 was around 300 million units, declined by 2.6% on year-over-year (YoY) basis, while desktop PCs experienced a higher than average decline of 3.6% YoY.

In 2013, PC market will continue operating in a challenging environment given slow recovery of global economy. Nevertheless, global PC industry is expected to grow marginally by 2.8%.

b. Communication Industry

According to Digitimes, worldwide volume of smartphone has surged since 2010. In 2012, the worldwide volume of smartphone was around 690 million units, grew by over 40% YoY. Based on the research done by Digitimes, there are a few factors such as the relationship between platform providers and hardware suppliers, market demand and support from telecommunication companies, and major business direction/key turning points faced by various brand companies, that will heavily influence the development of smartphone industry in 2013. From market demand aspect, despite smartphone sales volume, in particular the high end models, negatively affected by decreasing consumer expense and less subsidies from the telecommunication providers, strong demand from the emerging market such as China, Russia, India, Indonesia, South America, etc. is likely to expedite the penetration rate of smartphone in 2013 and become the major growth driver of worldwide mobile phone shipment. In 2013, the worldwide volume of smartphone is expected to grow by 30% YoY to 860 million units, accounting for 43.9% of the worldwide mobile phone shipment.

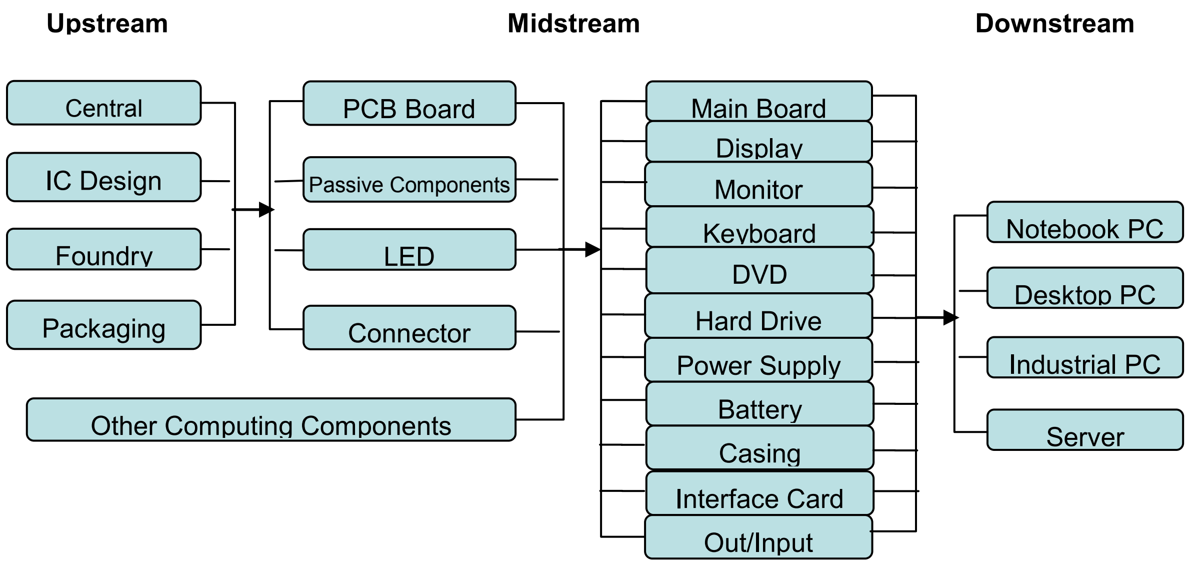
c. Consumer Electronics Industry

The consumer electronics market covers a broad range of products including LCD TVs, DVD and blue-ray players, digital cameras, portable multimedia players, projectors, game consoles, tablets, e-readers and other consumer appliances. Among the aforementioned, the Company manufactures products such as tablets, e-readers, game consoles, LCD TVs, multimedia players, etc. where the first three products are the major revenue contributors in consumer electronics segment.

According to IDC, the total volume of tablets in 2011 was around 122 million units, grew substantially by 70% YoY. In addition to the continuous success and growth of iPad series launched by Apple, non Apple camp has also gained meaningful market share by launching a full range of products. Furthermore, mainstream model shifting to smaller size tablets with lower average selling price (ASP) has also helped boost the sales volume. It is estimated that the compound annual growth rate of tablets from 2012 to 2017 is estimated at 31.5%.

Overall game console market declined in 2012 with the total volume of 33.5 million units according to IDC. The decline was attributable to weakening demand prior model refresh and lowering consumer expense resulting from poor global economy. In 2013, due to the launch of new model for game console, Gartner estimates that overall game console volume shall grow by 23.8% YoY. Going forward, it is expected that game consoles are likely to grow at a stable but slow pace for the next few years.

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



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

5.1.2.3 Trends of Product Development

Global notebook market has gradually matured since 2011. Though the growth of traditional notebook market is expected to slow down going forward, the market is still excited about the potential growth stimulated from new operating system, Windows 8, additional touch function and versatility in industrial design.

As for tablets, the market is dominating by major operating platform providers such as Apple, Google, Amazon and potentially Microsoft, while white box tablets have also heated up the market competition since 2012. In addition the aforementioned, the trend of tablet model has also moved towards smaller size. Based on the various tablet models launched in 2012, 7 inch became the mainstream size for tablets. It is estimated that the volume of smaller size tablets will be more than 50% starting in 2013.

5.1.2.4 Market Competition

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

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

5.1.3 Research and Development

5.1.3.1 Technology and Research Development

Pegatron has been striving for excellence in research and development since its corporation, and is fully dedicated in design and manufacturing of computing, communication and consumer electronics products. It is the Company's aim to continue developing cutting edge 3C (Computing, Communication and Consumer Electronics) integrated products. In 2013, the Company established Notebook R&D Center, Mobile Communication R&D Center, Precision Mechatronics R&D Center and Advanced Technology Center to devote in research and development of notebook PCs, tablets, mobile devices, prevision mechantronics/automation/optics/acoustics, as well as advanced technologies. By mastering the key technique of software and hardware for future products, chipset or application platform, the research results are effectively integrated into systems and ready for commercial production. In addition, The Research and Development Center, Layout team & SI, QTC, QTR, ID design and EMC departments were established as subdivisions to support design validation of R&D departments to ensure the quality of design.

5.1.3.2 Qualification of Employees in Research and Development

Number of Employees \ Year	2011	2012
Ph.D.	6	5
Master	1,311	1,447
Bachelor	1,630	1,650
High School (or below)	62	53
Total	3,009	3,155

5.1.3.3 Research and Development Expense in Recent Years

Unit: NT$ thousands; %

Items	2011	2012
R&D Expense (A)	3,958,773	4,784,643
Net Revenue (B)	371,712,663	638,698,954
(A)/(B) %	1.07%	0.75%

5.1.3.4 Research and Development Expense in Recent Years

Year	Achievement in Research and Development
2012	1. Notebook PCs that are equipped with the latest chipset, Haswell platform, highlighting high efficiency and low power consumption technologies that can maximize the performance between multi core CPU and graphic chipset with Intel Turbo Boost technology. For AMD, Kabini platform has been produced with the advantages of high efficiency and low design cost. 2. Innovation on adding GPS/GNSS with OBDII decoding platform with friendly GUI between CAR head unit, and tablet PC / smartphone. 3. We are approved by EU car manufacturer and the DNV certification of TS16949 in quality management system. 4. Cooperated with customer to design in our PND on latest/popular selling models of famous car manufacturer successfully with good sales. 5. For Nettop PC series, all new fan-less Nettop PC can meet customer's request on special application/environment. In addition, all new Nettop PC can provide much higher performance with new dual-core Intel CPU and nVidia VGA. 6. Developed the most advanced 16-channel Docsis 3.0 Gateway which is integrated with MoCA 2.0 and 802.11ac 3x3 WiFi. It fulfills the needs of super high speed multimedia center for multi-room and multi-screen applications.

5.1.4 Long Term and Short Term Business Development Plans

5.1.4.1 Short Term Business Development Plan

a. To increase market competitiveness and pursue higher annual revenue growth by lean operation management and effective manufacturing process.

b. To improve the efficiency of logistic management by reducing logistic cost and shortening product delivery time.

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

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

5.1.4.1 Long Term Business Development Plan

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

a. Customer Service Strategy

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

b. Manufacturing Strategy

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

c. Product Development Strategy

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

5.2 Market and Sales Overview

5.2.1 Market Analysis

5.2.1.1 Sales (Service) Regions

Unit: NT$ thousands; %

		2011		2012	
		Amount	%	Amount	%
Domestic		226,837,440	61.02	305,403,113	47.82
Export	Asia	25,913,579	6.97	41,436,648	6.49
	Europe	13,228,623	3.56	48,047,470	7.52
	America	105,026,144	28.26	242,346,462	37.94
	Others	706,877	0.19	1,465,261	0.23
	Subtotal	144,875,223	38.98	333,295,841	52.18
Total		371,712,663	100.00	638,698,954	100.00

5.2.1.2 Market Share

In 2012, the top five notebook PC ODM/EMS companies accounted for 157 million units of shipment, around 75% of total global shipment volume. This included 53.8 million units from Quanta, 37.45 million units from Compal, 31.50 million units from Wistron, 16.90 million units from Pegatron and 16.85 million units from Inventec. According to Digitimes' estimation, 2013 will be a challenging year for notebook PC market and the growth momentum for the top five ODM/EMS companies is likely to be limited.

5.2.1.3 Market Demand, Supply and Growth

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

In 2013, while the impact from global economic claimant to the IT industry is yet to be observed, the global PC market is expected to grow by single digit YoY given the launch of Windows 8 and top five ODM/EMS companies are likely to benefit from the growth. Despite the growth of traditional notebook PC market is slowing down, tablets and other forms of mobile devices are on the growing trend. According to IDC, the compound growth rate for tablet is expected to be 31.5% from 2012 to 2017, which brings new growth opportunities for ODM/EMS companies.

5.2.1.4 Competitive Advantages

a. Experienced R&D Team

In addition to the Perspective Technology Office within the Company, there are also designated research and development engineers in each business unit. As of the end of 2012, total research and development engineers reached 3,155, among which 91.9% are with university degree. The leading research and development engineers in each product development have more than 15 years of experience in the relevant fields.

b. Comprehensive Manufacturing Locations

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

c. Diversified Product Portfolio and Customer Base

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

d. Global Logistics Capabilities

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

e. Professional Management Team

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

f. Innovation Capabilities

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

g. Comprehensive Vertical Integration

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

5.2.1.5 Disadvantages and Responsive Strategies

Advantages

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

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

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

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

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

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

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

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

e. **Comprehensive after sales service network**

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

Disadvantages

a. **Declined gross margin due to severe pricing competition**

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

b. **Profit margin impact by fluctuation of foreign exchange rates**

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

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

The Company has increased the usage of automation for majority of products in an effort to reduce the reliance on labors. However, certain manufacturing processes are still conducted manually. As the issues of labor shortage gradually surfaced over recent years, labor compensation has increased dramatically, which increases the manufacturing cost and affects the Company's competitiveness in the global market.

Responsive Strategies

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

5.2.2 Application of Major Products

a. Computing Products

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

b. Communication Products

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

c. Consumer Electronics Products

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

5.2.3 Supply of Major Material

Major Raw Materials	Source of Supply	Supply Situation
Chipset	Asustek Computer Inc., X supplier, and A customer	Stable
CPU	Asustek Computer Inc. and B customer	Stable
System Module	Asustek Computer Inc. and A customer	Stable
Storage	Asustek Computer Inc. and B customer	Stable
Display	Asustek Computer Inc., A customer and B customer	Stable

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

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

5.2.4.1 Major Suppliers of the Last Two Fiscal Years

Unit: NT$ thousands

Item	2011				2012			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	Asustek (Note1)	125,809,844	34.37	Shareholder	A Supplier (Note 1)	125,728,752	19.86	None
2	Protek (Note 2)	56,064,625	15.32	Subsidiary	B Supplier (Note 1)	121,357,028	19.16	None
3	B Supplier (Note 1)	36,484,942	9.97	None	Asustek (Note 1)	102,904,941	16.25	Shareholder
4	A Supplier (Note 1)	30,481,179	8.33	None	Protek (Note 2)	91,791,221	14.50	Subsidiary
	Others	117,125,746	32.01	-	Others	191,440,845	30.23	-
	Net Total Purchases	365,966,336	100.00	-	Net Total Purchases	633,222,787	100.00	-

Note 1: In 2011 and 2012, the Company purchased (raw) material via Asustek and other major customers.
Note 2: It is considered an industry practice that the Company received orders from customers and allocates the orders to be manufactured by Protek, a subsidiary. Therefore, the Company purchased the products from Protek and resold them to customers.
Note 3: Increase and decrease of the amount was due to business demand.

5.2.4.2 Major Customers of the Last Two Fiscal Years

Unit: NT$ thousands

Item	2011				2012			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	Asustek	168,460,748	45.32	Shareholder	A Customer	226,698,959	35.49	None
2	A Customer	70,335,020	18.92	None	Asustek	132,338,189	20.72	Shareholder
3	B Customer	32,272,288	8.68	None	B Customer	123,765,728	19.38	None
	Others	100,644,607	27.08	-	Others	155,896,078	24.41	-
	Net Total Sales	371,712,663	100.00	-	Net Total Sales	638,698,954	100.00	-

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

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

Unit: thousands; NT$ thousands

Year / Output / Major Products (or by departments)	2011			2012		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
3C Products	923	453	237,459	553	509	195,124
Other	-	-	982,232	-	-	1,021,515
Total	923	453	1,219,691	553	509	1,216,639

5.2.6 Sales Quantities and Value of the Last Two Years

Unit: thousands; NT$ thousands

Shipments & Sales / Year / Major Products	2011				2012			
	Domestic		Export		Domestic		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
3C Products	20,688	222,189,136	32,682	141,137,109	23,945	301,920,979	59,326	324,936,653
Others	-	4,648,304	-	3,738,114	-	3,482,134	-	8,359,188
Total	20,688	226,837,440	32,682	144,875,223	23,945	305,403,113	59,326	333,295,841

5.3 Status of Employees

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

Year		**2011**	**2012**	**As of 03/29/2013**
Number of Employees	**Others**	2,000	2,111	2,106
	R&D	3,009	3,155	3,118
	Total	5,009	5,266	5,224
Average Age		32.7	33.3	33.4
Average Years of Service		4.7	4.8	5.0
Education	**Ph.D.**	0.24%	0.27%	0.25%
	Masters	34.66%	37.18%	37.20%
	Bachelor's Degree	53.44%	54.53%	55.44%
	Senior High School	5.01%	4.95%	4.83%
	Below Senior High School	6.65%	3.07%	2.28%

5.4 Expenditure on Environmental Protection

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

During 2012 and as of the date of this report, the Company did not incur any loss or have any penalty for environmental pollution. There are designated personnel within the company who are in charge of environmental protection in compliance to the legal requirements. Waste clearance and disposal, wastewater management, environmental measurement and chemicals management have been conducted and controlled by management procedures to reduce the environmental pollution and impact.

5.5 Employee Relations

5.5.1 Employee's Welfare and Benefit

a. Employee welfare and benefit

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

b. Professional training program

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

c. Retirement system

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

d. Employee rights

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

e. Employees code of conduct

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

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

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

5.6 Important Contracts

As of 03/29/2013

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

Agreement	Counterparty	Period	Major Contents	Restrictions
Finance Guarantee	Mega International Commercial Bank	08/18/2011~ 2016	Guarantee for affiliate, RiTeng Computer Accessory Co., Ltd. Loan Amount: US$ 40 million Period: 5 years	None
Appointment Agreement	ABeam Consulting Ltd	03/28/2008 ~ to date	SAP system development and migration	Should ABeam not complete the work specified in the contract, the Company is entitled to cancel the contract and request for punitive damage as well as other compensation, provided AMeam is solely responsible for not completing the work as scheduled.
Software Purchase Agreement	NEC Taiwan Ltd.	03/07/2012~ to date	Purchase of SAP software	None.
License Agreement	SAP Taiwan Co., Ltd.	03/07/2012~ to date	License of SAP software.	None.
Finance Guarantee	Mega International Commercial Bank	06/23/2012~ 06/22/2013	Guarantee for affiliate, ASUSPOWER CORPORATION Loan Amount: US$ 20 million. Period: 1 year.	None.
Finance Guarantee	Mega International Commercial Bank	04/27/2012~ 04/26/2013	Guarantee for affiliate, ASUSPOWER CORPORATION Loan Amount: US$ 80 million. Period: 1 year.	None.

6. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Balance Sheet – TW GAAP

Unit: NT$ thousands

Item \ Year		Five-Year Financial Summary (Note1)				
		2008	2009	2010	2011	2012
Current assets		75,232,766	100,228,588	59,018,914	128,013,989	227,027,536
Funds & Investments		85,259,911	90,594,845	83,573,594	86,765,900	89,819,986
Fixed assets		5,487,230	4,253,802	4,041,546	3,934,857	3,832,044
Intangible assets		217,672	235,453	181,820	121,223	93,947
Other assets		991,625	1,872,571	1,512,580	763,501	666,826
Total assets		167,504,633	197,388,909	148,357,091	219,628,741	321,470,989
Current liabilities	Before Distribution	69,510,123	94,169,788	50,203,065	115,532,544	207,240,143
	After Distribution	70,392,215	98,170,382	46,931,334	115,532,544	Undistributed
Long-term liabilities		8,005,928	7,215,718	7,007,411	12,120,232	17,713,495
Other liabilities		14,498	232,926	305,386	391,756	438,518
Total liabilities	Before Distribution	77,530,549	101,618,432	57,515,862	128,044,532	225,392,156
	After Distribution	78,412,641	105,619,026	54,244,131	128,044,532	Undistributed
Capital stock		18,846,281	22,860,539	22,563,669	22,563,669	22,903,049
Capital surplus		63,582,097	63,776,623	63,145,448	63,465,496	64,560,268
Retained earnings	Before Distribution	5,455,699	7,258,220	9,469,062	6,308,696	12,412,492
	After Distribution	559,349	3,257,626	6,197,331	6,308,696	Undistributed
Unrealized gain or loss on financial instruments		241,398	1,680,205	922,576	48,936	122,071
Cumulative translation adjustments		1,849,737	198,092	(5,250,188)	(784,234)	(3,400,838)
Net loss unrecognized as pension cost		(1,128)	(3,202)	(16)	440	(1,717)
Total shareholders' equity	Before Distribution	89,974,084	95,770,477	90,841,229	91,584,209	96,078,833
	After Distribution	89,091,992	91,769,883	87,569,498	91,584,209	Undistributed

Note 1: Financial information in 2008, 2009, 2010, 2011 and 2012 has been audited by CPA.
Note 2: First quarter 2013 financial statements have not been disclosed to public as of the date of this annual report.

6.1.2 Condensed Income Statement – TW GAAP

Unit: NT$ thousands

Item \ Year	Five-Year Financial Summary (Note 1)				
	2008	2009	2010	2011	2012
Operating revenue	303,748,099	327,964,527	297,761,769	371,712,663	638,698,954
Gross profit	8,878,596	9,251,251	10,626,452	5,299,704	6,814,120
Income from operations	219,084	1,068,740	4,032,105	(1,823,495)	(1,720,235)
Non-operating income	6,015,943	6,839,938	3,758,108	2,677,282	9,252,726
Non-operating expenses	1,211,327	713,629	473,803	795,273	991,138
Income from operations of continued segments - before tax	5,023,700	7,195,049	7,316,410	58,514	6,541,353
Income from operations of continued segments - after tax	5,526,317	6,751,588	6,211,436	111,365	6,103,796
Income from discontinued departments	-	-	-	-	-
Extraordinary gain or loss	-	-	-	-	-
Cumulative effect of accounting principle changes	-	-	-	-	-
Net income (loss)	5,526,317	6,751,588	6,211,436	111,365	6,103,796
Earnings per share (before adjustment)	3.08	2.95	2.73	0.05	2.71

Note 1: Financial information in 2008, 2009, 2010, 2011 and 2012 has been audited by CPA.
Note 2: First quarter 2013 financial statements have not been disclosed to public as of the date of this annual report.
Note 3: Gross profit included realized (unrealized) profits from affiliated companies.

6.1.3 Auditing by CPA from 2007 to 2011

Year	CPA Firm	CPA's Name	Auditing Opinion
2008	Earnest & Young	Ming-Yi Lee	Modified Unqualified
2009	KPMG	Charlotte W.W. Lin & Ulyos K.J. Maa	Modified Unqualified
2010	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2011	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2012	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified

6.2 Five-Year Financial Analysis – TW GAAP

Item (Note 2) / Year			Financial analysis in the past five years				
			2008	2009	2010	2011	2012
Financial structure (%)	Ratio of liabilities to assets		46.29	51.48	38.77	58.30	70.11
	Ratio of long-term capital to fixed assets		1,785.60	2,421.04	2,420.67	2,597.67	2,969.49
Solvency (%)	Current ratio		108.23	106.43	117.56	110.80	109.55
	Quick ratio		81.26	95.25	103.13	102.68	103.62
	Times interest earned ratio		32.86	65.33	78.17	1.28	15.47
Operating ability	Accounts receivable turnover (Times)		6.48	5.03	4.72	4.82	4.21
	Average collection period		56.35	72.63	77.41	75.73	86.70
	Inventory turnover (Times)		14.74	20.59	30.93	42.75	57.94
	Accounts payable turnover (Times)		7.46	5.65	5.34	5.44	4.49
	Average days in sales		24.77	17.73	11.80	8.54	6.30
	Fixed assets turnover (Times)		55.36	77.10	73.68	93.12	166.67
	Total assets turnover (Times)		1.81	1.66	2.01	1.69	1.99
Profitability	Return on total assets (%)		3.40	3.76	3.64	0.16	2.39
	Return on stockholders' equity (%)		6.14	7.27	6.66	0.12	6.51
	Ratio to issued capital (%)	Operating Income	1.16	4.68	17.87	-8.08	-7.51
		Pre-tax Income	26.66	31.47	32.43	0.26	28.56
	Profit ratio (%)		1.82	2.06	2.09	0.03	0.96
	Earnings per share (Before adjustment) ($)		3.08	2.95	2.73	0.05	2.71
Cash flow	Cash flow ratio (%)		-	8.26	20.81	-	-
	Cash flow adequacy ratio (%)		-	163.33	226.20	51.91	-
	Cash reinvestment ratio (%)		-	6.66	6.52	-	-
Leverage	Operating leverage		3.46	1.92	1.21	0.61	0.60
	Financial leverage		3.57	1.12	1.02	0.90	0.79

Analysis of financial ratio change in the last two years.

1. Ratio of liabilities to assets: The ratio increased in 2012 due to the increase in accounts payable for purchasing raw material and long-term debts.
2. Times interest earned ratio: The ratio increased in 2012 due to the increase in gross profit which resulted in the increase in income before tax in 2012.
3. Inventory turnover (Times): The ratio of inventory turnover increased in 2012 due to the sales increased, thus the related cost of sales increased consistently.
4. Average days in sales: The ratio of average days decreased in 2012 due to the increase in inventory turnover ratio.
5. Fixed assets turnover (Times): The ratio of fixed assets turnover increased in 2012 due to the increase in net sales.
6. Return on total assets: The ratio of return of total assets increased in 2012 due to the increase in gross margin, which resulted in the increase in net income after tax.
7. Return on stockholders' equity: The ratio of return on stockholders' equity increased in 2012 due to increase in gross margin, which resulted in the increase in net income after tax.
8. Pre-tax income to issued capital: The ratio increased in 2012 resulting from the increase in gross margin and income before tax.

9. Profit ratio: The ratio increased in 2012 due to the increase in gross margin, which resulted in the increase in net income after tax.
10. Earnings per share (Before adjustment): The ratio increased in 2012 due to the increase in gross margin, which resulted in the increase in net income after tax.
11. Cash flow adequacy ratio: The ratio decreased in 2012 due to the cash is out-flowing from operating activities.

Note 1: First quarter 2013 financial statements have not been disclosed to public as of the date of this annual report.
Note 2: Equations:
1. Financial Structure
   (1) Ratio of liabilities to assets = Total liability / Total assets
   (2) Ratio of long-term capital to fixed assets = (Net shareholders' equity + Long-term liability) / Net fixed assets
2. Solvency
   (1) Current ratio: Current assets / current liability
   (2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability
   (3) Times interest earned ratio = Net income before tax and interest expense / Interest expense of the year
3. Operating ability
   (1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)
   (2) Days sales in accounts receivable = 365 / Account receivable turnover
   (3) Inventory turnover = Cost of goods sold / Average inventory amount
   (4)Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)
   (5) Average days in sales = 365 / Inventory turnover
   (6) Fixed assets turnover = Net sales / Net fixed assets
   (7) Total assets turnover = Net sales / Total assets
4. Profitability
   (1) Return on assets = (Net income (loss) + interest expense x (1-tax rate)) / Average total assets
   (2) Return on shareholders' equity = Net income (loss) / Net average shareholders' equity
   (3) Return to issued capital stock = Net income before tax / Issued capital stock
   (4) Profit ratio = Net income (loss) / Net sales
   (5) Earnings per share = (Net income – preferred stock dividend) / Weighted average stock shares issued
5. Cash flow
   (1) Cash flow ratio = Bet cash flow from operating activity / Current liability
   (2) Cash flow adequacy ratio = Net cash flow from operating activity in the past 5 years / (Capital expenditure + Inventory interest + Cash dividend) in the past 5 years
   (3) Cash + reinvestment ratio = (Net cash flow from operating activity – Cash dividend) / (Fixed assets + Long term investment + Other assets + Working capital)
6. Balance
   (1) Degree of operating leverage = (Net operating income – Variable operating cost and expense) / Operating income(note6)
   (2) Degree of financial leverage = Operating income / (Operating income – interest expense)

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

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

Note6: Issuer should classify operating coat and operating expense according to fixed and variable category If the classification is estimated and subjective, it should correspond with rationality and consistence.

6.3 Supervisors' Report in the Most Recent Year

Pegatron Corporation

Supervisor's Report

Date: March, 22, 2013

The Board of Directors has prepared and submitted to the supervisor of Pegatron Corporation ("the Company)", the 2012 Business Report, financial statements, and proposal for earning distribution of the Company. The above Business Report, financial statements, and earning distribution proposal have been examined and determined to be correct and accurate by the undersigned. According to Article 219 of the Company Law, I hereby submit this report.

To the 2013 Annual Shareholders' Meeting of Pegatron Corporation.

C.H. Tong

Supervisor

Pegatron Corporation

Supervisor's Report

Date: March, 22, 2013

The Board of Directors has prepared and submitted to the supervisor of Pegatron Corporation ("the Company)", the 2012 Business Report, financial statements, and proposal for earning distribution of the Company. The above Business Report, financial statements, and earning distribution proposal have been examined and determined to be correct and accurate by the undersigned. According to Article 219 of the Company Law, I hereby submit this report.

To the 2013 Annual Shareholders' Meeting of Pegatron Corporation.

M.C. Chou

Supervisor

Pegatron Corporation

Supervisor's Report

Date: March, 22, 2013

The Board of Directors has prepared and submitted to the supervisor of Pegatron Corporation ("the Company)", the 2012 Business Report, financial statements, and proposal for earning distribution of the Company. The above Business Report, financial statements, and earning distribution proposal have been examined and determined to be correct and accurate by the undersigned. According to Article 219 of the Company Law, I hereby submit this report.

To the 2013 Annual Shareholders' Meeting of Pegatron Corporation.

I. L. Cheng

Supervisor

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

Please refer to page 98 to 202 of this annual report.

6.5 Financial Statements of the Most Recent Year:

Please refer to page 203 to 254 of this annual report.

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

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

7.1 Analysis of Financial Status

Unit: NT$ thousands; %

Item \ Year	2012	2011	Difference	
			Amount	%
Current Assets	227,027,536	128,013,989	99,013,547	77.35%
Funds & Investments	89,819,986	86,765,900	3,054,086	3.52%
Other Financial Assets–Non Current	30,650	29,271	1,379	4.71%
Fixed Assets	3,832,044	3,934,857	(102,813)	-2.61%
Intangible Assets	93,947	121,223	(27,276)	-22.50%
Other Assets	666,826	763,501	(96,675)	-12.66%
Total Assets	321,470,989	219,628,741	101,842,248	46.37%
Current Liabilities	207,240,143	115,532,544	91,707,599	79.38%
Long-term Liabilities	17,713,495	12,120,232	5,593,263	46.15%
Other Liabilities	438,518	391,756	46,762	11.94%
Total Liabilities	225,392,156	128,044,532	97,347,624	76.03%
Capital stock	22,903,049	22,563,669	339,380	1.50%
Capital surplus	64,560,268	63,465,496	1,094,772	1.72%
Retained Earnings	12,412,492	6,308,696	6,103,796	96.75%
Other Adjustments	(3,796,976)	(753,652)	(3,043,324)	403.81%
Total Stockholders' Equity	96,078,833	91,584,209	4,494,624	4.91%

Analysis of changes in financial ratios:

1. Current Assets: The increase was mainly due to the increase in 4Q 2012 sales, which resulted in the increased order. Thus, the related accounts receivables and inventory increased accordingly.
2. Intangible Assets: The decrease was due to intangible assets being amortized over the year.
3. Total Assets: The increase was mainly due to the increase of inventory and accounts receivable.
4. Current Liabilities: As the aforesaid in current assets, the increase was due to the increase in 4Q 2012 sales, and related cost of goods increased accordingly. Thus, the accounts payables increased accordingly.
5. Long-term Liabilities: The increase was due to the issuance of corporation bonds for the demand in funds, thus the long-term loans increased accordingly.
6. Total Liabilities: The increase was due to the increase in accounts payable and the issuance of corporation bonds.
7. Retained Earnings: The increase was due to the increase in net income for the year 2012.
8. Other Adjustments: The reduction was due to the fluctuation in FX rates changed rapidly, and issue the restricted stock to recognized the Unrecognized loss (gain) on pension cost thus the cumulative translation adjustments decreased accordingly.

- **Effect of change on financial condition:**

  The Company's financial condition is without significant change.

- **Future response actions:** Not applicable.

7.2 Analysis of Operating Results

Unit: NT$ thousands; %

Item \ Year	2012	2011	Difference: Amount	Difference: %
Net Sales	638,698,954	371,712,663	266,986,291	71.83%
Cost of Sales (Note)	631,884,834	366,412,959	265,471,875	72.45%
Gross Profit	6,814,120	5,299,704	1,514,416	28.58%
Operating Expense	8,534,355	7,123,199	1,411,156	19.81%
Operating Income	(1,720,235)	(1,823,495)	103,260	5.66%
Non-operating Income and Gains	9,252,726	2,677,282	6,575,444	245.60%
Non-operating Expenses and Losses	991,138	795,273	195,865	24.63%
Income Before Tax	6,541,353	58,514	6,482,839	11079.12%
Tax Expense	437,557	(52,851)	490,408	927.91%
Income after Income Tax	6,103,796	111,365	5,992,431	5380.89%

Analysis of changes in financial ratios:

1. Net Sales: The increase was due to the increased order in mobile product, which resulted in the increase of sales.
2. Cost of Sales: The increase was due to the increase in sales, thus the cost of sales increased accordingly.
3. Gross Profit: The increase was due to the increase in quantity of sales.
4. Non-Operating Income and Gains: The increase was mainly due to the increase in investees' profit by the end of 2012, thus, the investment income increased accordingly.
5. Non-Operating Expense and Losses: The increase was due to increase in interest expenses resulting from the increase in long-term loans.
6. Income Before Tax: The increase was due to the increase in gross profit, and the increase in operating income.
7. Tax Expense: The increase was mainly due to pay the 10% surtax on undistributed earnings and decrease in deferred income tax assets.
8. Income after Income Tax: The increase was due to the increase in gross profit, and the increase in operating income. Moreover, the investment income recognized from investees increased as compared to 2011.

Note: Including realized (unrealized) profit of affiliated companied.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Current Year

Unit: NT$ thousands; %

Item \ Year	2012	2011	Difference	
			Amount	%
Cash flows from operating activities	(9,602,370)	(7,752,843)	(1,849,527)	(23.86%)
Cash flows from investing activities	(2,332,482)	408,733	(2,741,215)	(670.66%)
Cash flows from financing activities	15,167,462	5,351,990	9,815,472	183.40%

Analysis of changes in financial ratios:

1. Cash flows from operating activities: The decrease in cash flow was due to increase in revenue, which resulted in increased notes and accounts receivable, other receivables, and accounts payable as compared to the previous year.
2. Cash flows from investing activities: The decrease was caused by increased other financial assets as compared to the previous year.
3. Cash flows from financing activities: The increase was due to other payables-related parties and issuance of Euro-convertible bond as compared to the previous year.

7.3.2 Remedy for Cash Deficit and Liquidity Analysis:

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

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

7.4 Major Capital Expenditure Items: None.

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

The Company's long-term investment accounted under the equity method is mostly for strategic purposes. In 2012, the investment income under equity method reached NT$7,341,563 thousand dollars, which grew significantly as compared to the previous year. The growth was mainly due to improving operation efficiency post natural disasters in 2011 as well as successful ramping of new products from vertically integrated investment. For future investment, the Company will continue focusing on strategic purpose and carefully assessing the financial risks and its return in order to maximize the value of investment.

7.6 Analysis of Risk Management

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

(1) Interest Rate

The Company's interest rate risks mainly arise from the long-term and short-term loans made from banks and the short-term capital management for working capital needs. In order to reduce the risks of interest rates, especially relating to bank loans, the Company contacts banks on the regular basis, studies the trend of interest rate and negotiates for the best interest rate for the Company. As for short-term capital management, the Company mainly invests in financial instruments of fixed deposit, which not only secures the capital but also reduces associated risks.

(2) Foreign Exchange Rate

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

a. Collecting market information for analysis and risk evaluation, contacting banks on a regular basis to be fully aware of the trend of foreign exchange rate, and adjusting financial positions in foreign currency when necessary.

b. Securing reasonable profits by taking foreign exchange into consideration when providing quotations for sales.

(3) Inflation

According to the statistics released by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the consumer price index and wholesale price index grew by 1.93% and decreased by 1.16% respectively in 2012, which represented a minor inflation and did not have material impact on the Company's financial conditions in 2012. The Company observes the changes of market price at all times and adjusts selling price or inventory levels when necessary.

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

(1) High-Risk, High-Leverage Investment

In 2012 and as of the date of this annual report, the Company has not conducted any high-risk and/or high-leverage investment.

(2) Loaning or Endorsement Guarantees

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

(3) Derivatives Transactions

The Company has not conducted any derivative transactions in 2012. Shall such needs arise due to business operation, the transaction will be processed in accordance with the Company's internal policy "Procedures for the Acquisition and Disposal of Assets".

7.6.3 Future Research & Development Projects and Corresponding Budget

The Company focuses on the development of products that are integrated with high added value while the associated research and development projects are proceeding as scheduled. Going forward, continuous effort will be spent on product research and development and pursuing leading position in this field by controlling factors such as talent, capital, technology, etc.

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

The Company complies with regulations associating with corporate governance, company law, security law and other important sources of regulations. In addition, the Company also monitors material changes in governing regulations and laws and be fully aware of the changes in the markets. In 2012 and as of the date of this annual report, there were no such risks to the Company.

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

The Company pays attention to the changes in technologies and in industry at all time so as to be fully aware of the market trend and evaluate any potential impact on the operations of the Company. In 2012, no material changes of technologies have brought any adverse impact to the financial conditions of the Company.

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

Since the date of incorporation, the Company has been having a positive corporate image and complying with relevant laws and regulations. In 2012 and as of the date of this annual report, there were no such risks for the Company.

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

In 2012 and as of the date of this annual report, the Company did not have any plans for mergers and acquisitions and there were no such risks for the Company.

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

In 2012 and as of the date of this annual report, the Company did not have any major factory expansion plan that may materially affect the Company financially.

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

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

a. Source of Purchase

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

b. Sales of Products

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

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

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

As of the date of this annual report, Asustek Computer Inc. owns around 24.1% of Pegatron total outstanding shares. Asustek has reiterated its intention to gradually and orderly reduce its equity interest in Pegatron. Pegatron will work closely with Asustek to complete their contemplated disposals of Pegatron shares in a way that would minimize the negative impact on the price of Pegatron shares and other shareholders.

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

By the end of 2009, the Company was owned 100% by Asustek and the shareholding reduced dramatically after the spin-off plan in 2010. The operation of the Company has become more transparent after the spin-off and acceptable by customers, which is considered a positive factor in business development. In addition, the Company has formed a management team to manage the Company's operation and does not have risks associating with the changes in control over the Company.

7.6.12 Litigation or Non-litigation Matters

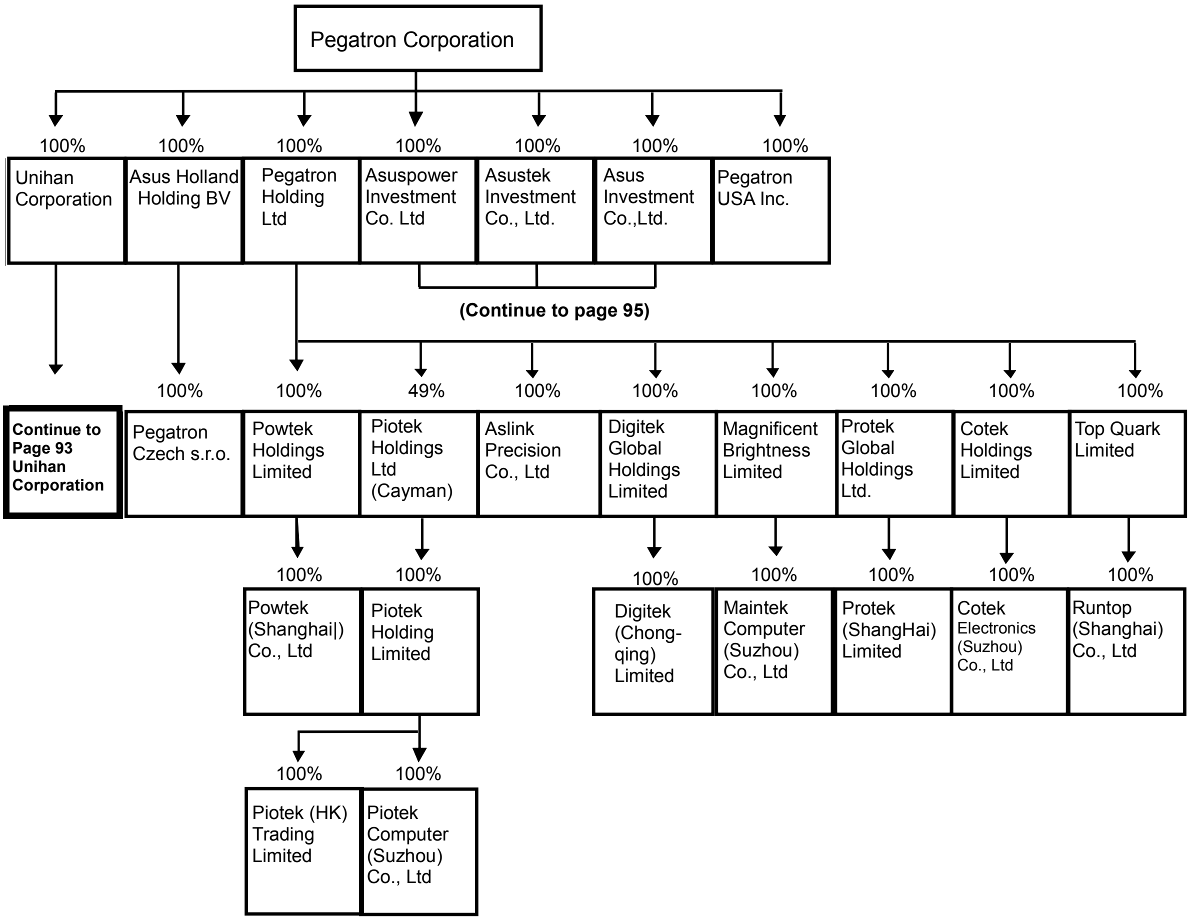
In terms of Litigation or Non-litigation Matters that Company has engaged in, as for Litigation, in addition to compiling information for evidential purpose and secure Company's rights, Company also keep updating and follow-up the subsequent Litigation process. In 2012 and as of the date of this annual report, Company did not engage in Litigation or Non-litigation Matters that had Significant Impacts on Shareholders' Right or Security Prices.

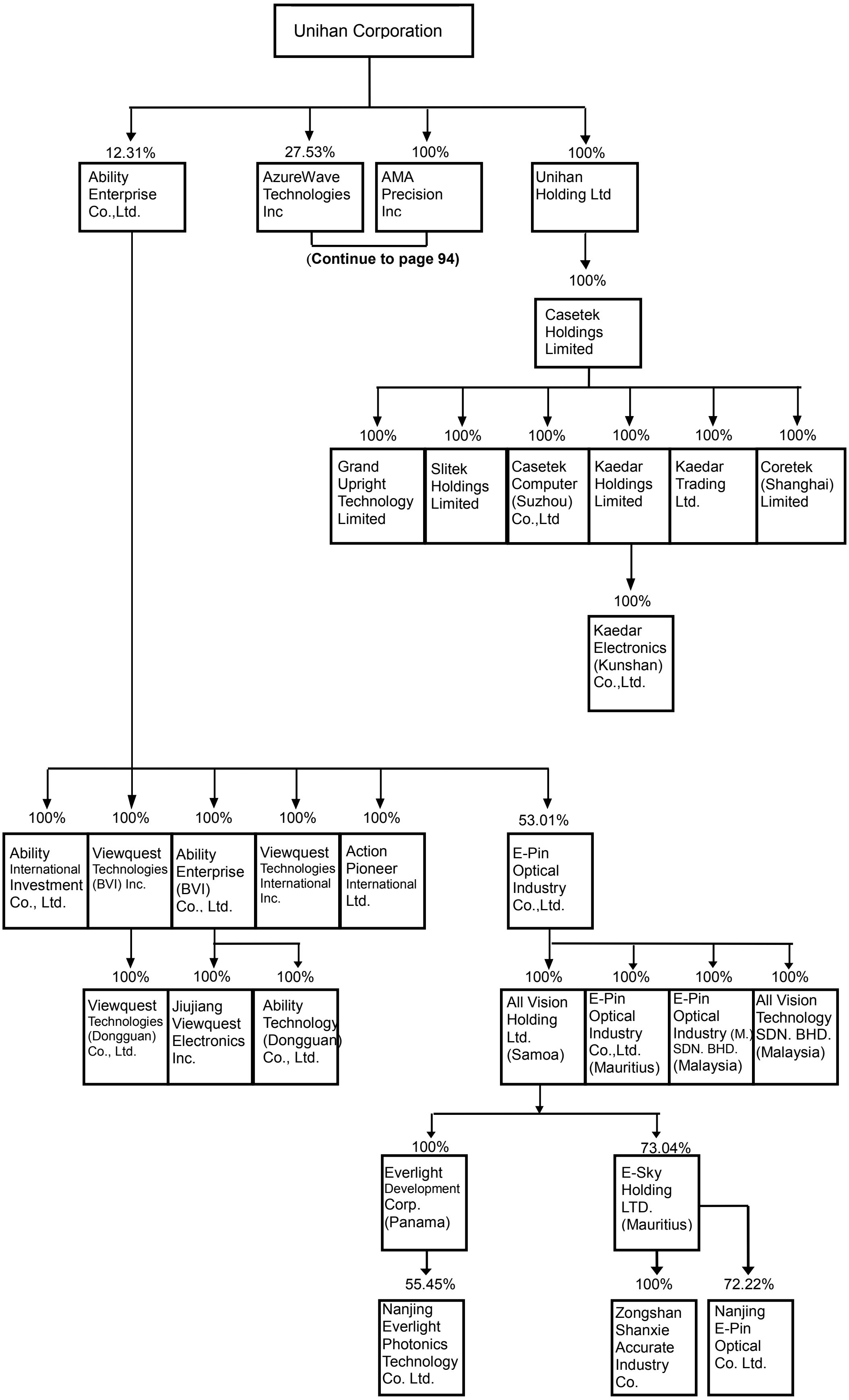
7.7 Other Major Risks

In 2012 and as of the date of this annual report, the Company did not have any other major risks.

8. Other Special Notes
8.1 Summary of Affiliated Companies
8.1.1 Affiliated Companies Chart

(As of 12/31/2012)




Unihan Corporation
12.31%
Ability Enterprise Co.,Ltd.
27.53%
AzureWave Technologies Inc
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AMA Precision Inc
(Continue to page 94)
100%
Unihan Holding Ltd
100%
Casetek Holdings Limited
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Grand Upright Technology Limited
100%
Slitek Holdings Limited
100%
Casetek Computer (Suzhou) Co.,Ltd
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Kaedar Holdings Limited
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Kaedar Trading Ltd.
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Coretek (Shanghai) Limited
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Kaedar Electronics (Kunshan) Co.,Ltd.
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Ability International Investment Co., Ltd.
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Jiujiang Viewquest Electronics Inc.
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All Vision Technology SDN. BHD. (Malaysia)
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Everlight Development Corp. (Panama)
73.04%
E-Sky Holding LTD. (Mauritius)
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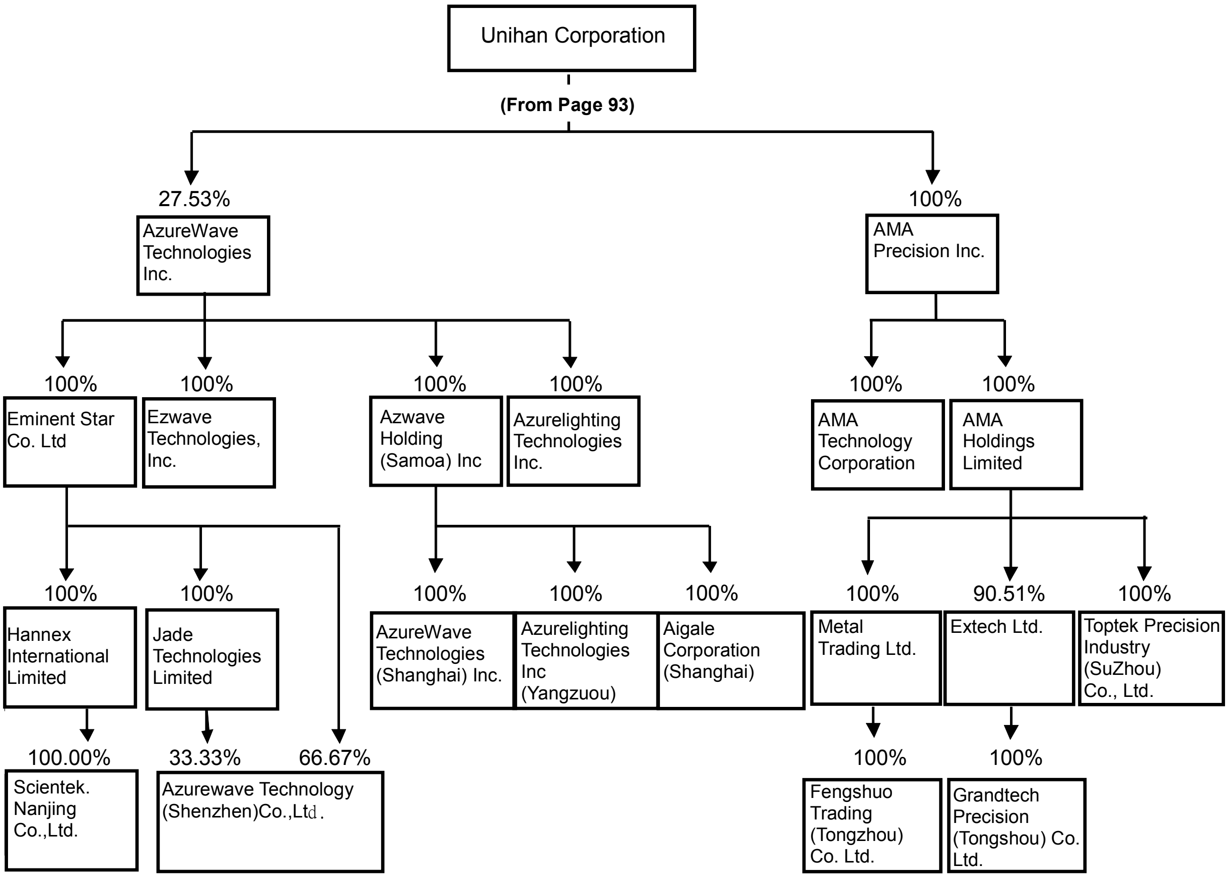
100%
Zongshan Shanxie Accurate Industry Co.
72.22%
Nanjing E-Pin Optical Co. Ltd.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AzureWave Technologies Inc.
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AMA Precision Inc.
100%
Eminent Star Co. Ltd
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Ezwave Technologies, Inc.
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Azwave Holding (Samoa) Inc
100%
Azurelighting Technologies Inc.
100%
AMA Technology Corporation
100%
AMA Holdings Limited
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Hannex International Limited
100%
Jade Technologies Limited
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AzureWave Technologies (Shanghai) Inc.
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Azurelighting Technologies Inc (Yangzuou)
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Aigale Corporation (Shanghai)
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Metal Trading Ltd.
90.51%
Extech Ltd.
100%
Toptek Precision Industry (SuZhou) Co., Ltd.
100.00%
Scientek. Nanjing Co.,Ltd.
33.33%
66.67%
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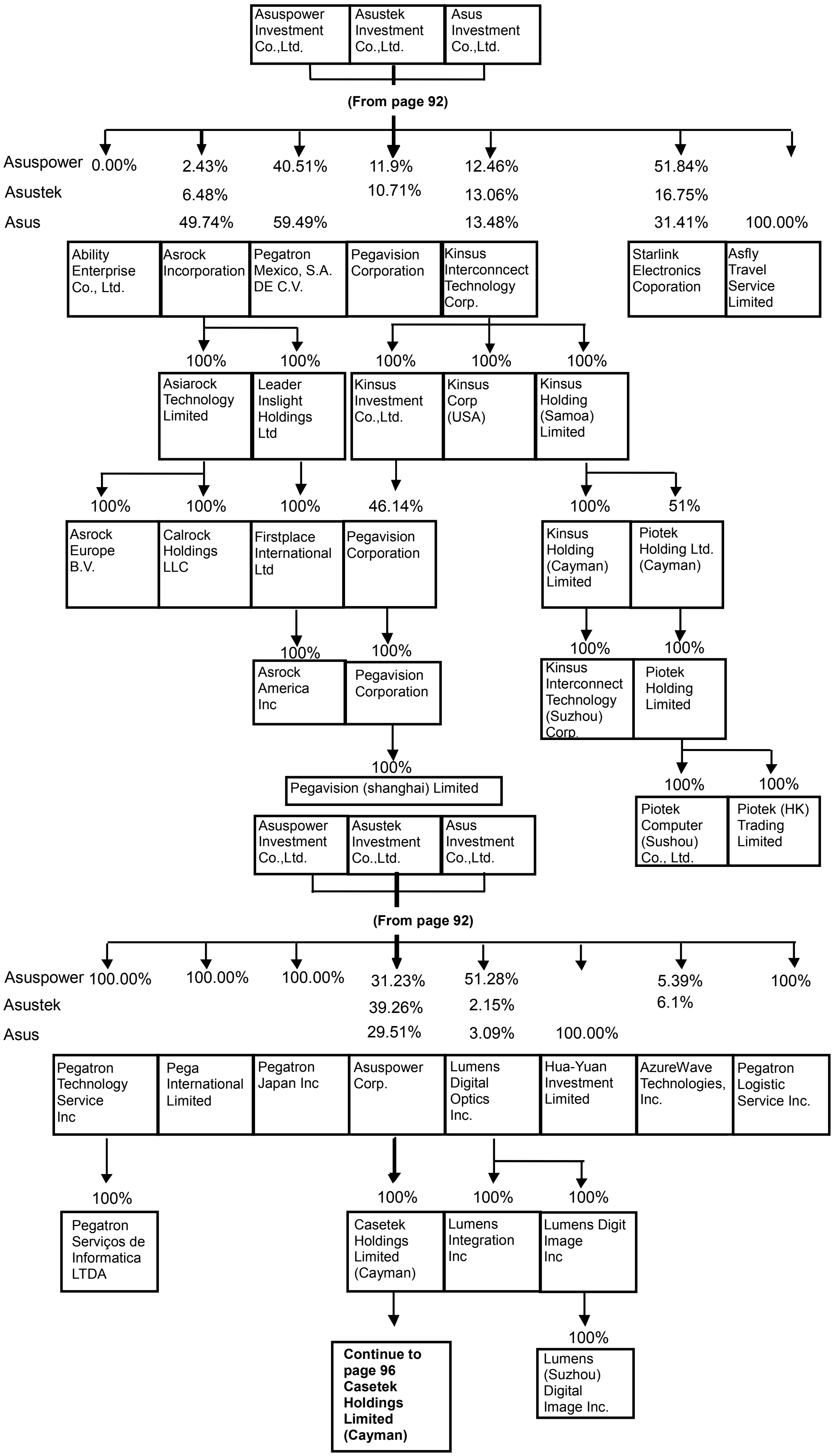
Fengshuo Trading (Tongzhou) Co. Ltd.
100%
Grandtech Precision (Tongshou) Co. Ltd.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Pegatron Mexico, S.A. DE C.V.
Pegavision Corporation
Kinsus Interconncect Technology Corp.
Starlink Electronics Coporation
Asfly Travel Service Limited
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Leader Inslight Holdings Ltd
Kinsus Investment Co.,Ltd.
Kinsus Corp (USA)
Kinsus Holding (Samoa) Limited
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Asrock Europe B.V.
Calrock Holdings LLC
Firstplace International Ltd
Pegavision Corporation
Kinsus Holding (Cayman) Limited
Piotek Holding Ltd. (Cayman)
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Asrock America Inc
Pegavision Corporation
Kinsus Interconnect Technology (Suzhou) Corp.
Piotek Holding Limited
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Pegavision (shanghai) Limited
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Piotek Computer (Sushou) Co., Ltd.
Piotek (HK) Trading Limited
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2.15%
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Pegatron Technology Service Inc
Pega International Limited
Pegatron Japan Inc
Asuspower Corp.
Lumens Digital Optics Inc.
Hua-Yuan Investment Limited
AzureWave Technologies, Inc.
Pegatron Logistic Service Inc.
100%
100%
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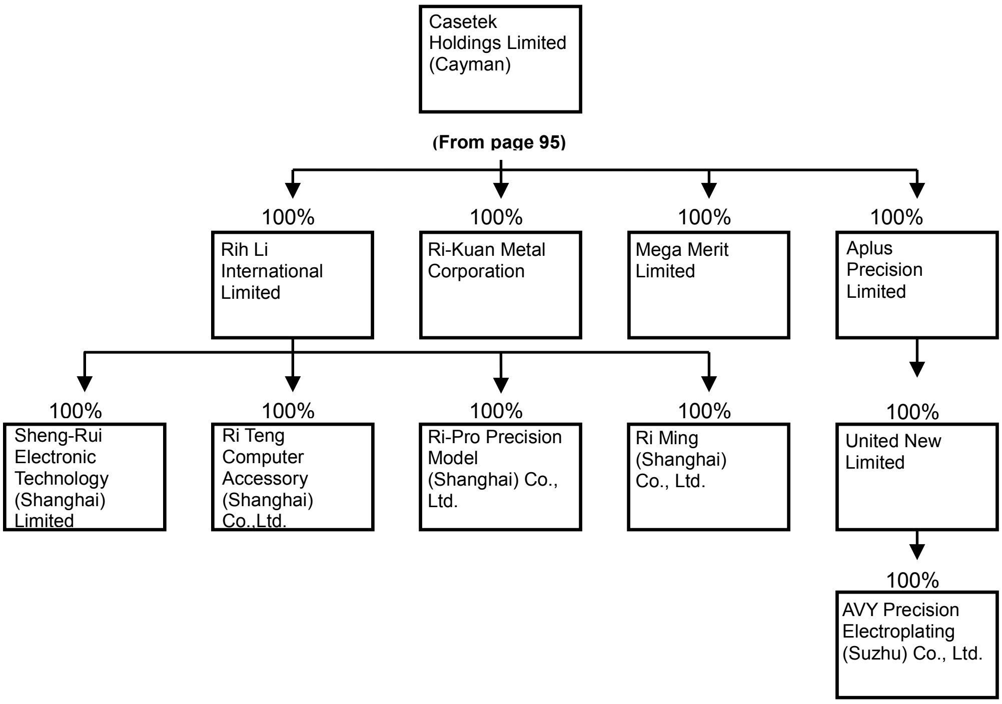
100%
Pegatron Serviços de Informatica LTDA
Casetek Holdings Limited (Cayman)
Lumens Integration Inc
Lumens Digit Image Inc
100%
Continue to page 96 Casetek Holdings Limited (Cayman)
Lumens (Suzhou) Digital Image Inc.


Casetek Holdings Limited (Cayman)
(From page 95)
100%
Rih Li International Limited
100%
Ri-Kuan Metal Corporation
100%
Mega Merit Limited
100%
Aplus Precision Limited
100%
Sheng-Rui Electronic Technology (Shanghai) Limited
100%
Ri Teng Computer Accessory (Shanghai) Co.,Ltd.
100%
Ri-Pro Precision Model (Shanghai) Co., Ltd.
100%
Ri Ming (Shanghai) Co., Ltd.
100%
United New Limited
100%
AVY Precision Electroplating (Suzhu) Co., Ltd.

8.1.2 Business Scope of Pegatron and Its Affiliated Companies

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

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

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

Unit: NT$ thousands; Shares; %

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

8.4 Any Other Special Notes to be specify: None.

8.5 Any Events in 2012 and as of the Date of this Annual Report that had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

(English Translation of Financial Report Originally Issued in Chinese)

AUDIT REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of

Pegatron Corporation

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

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

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

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

March 21, 2013

Note to Readers

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

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(All Amounts Expressed in Thousands of New Taiwan Dollars)

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CON'T)

DECEMBER 31, 2012 AND 2011

(All Amounts Expressed in Thousands of New Taiwan Dollars)

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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

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

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

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

(All Amount Expressed in Thousands of New Taiwan Dollars)

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

(Amounts Expressed in Thousands of New Taiwan Dollars,

Except for Per Share Information and Unless Otherwise Stated)

1. ORGANIZATION AND BUSINESS :

Pegatron Corporation (the "Company") was established on June 27, 2007. In order to enhance competitiveness and boost productivity, the Company resolved to absorb the OEM business from ASUSTek Computer Inc. on January 1, 2008 as part of the Company's business restructuring. On April 1, 2008, ASUSALPHA Computer Inc. was merged with the Company. The main activities of the Company are to produce, design and sell OEM business. In January 2010, pursuant to the resolutions of the respective board of directors, the Company merged with Pegatron International Investment Co., Ltd., effective June 10, 2010. As the surviving entity from this merger, the Company applied for initial public offering (IPO) to TSEC. The Company's shares were listed on TSEC on June 24, 2010.

As of December 31, 2012 and 2011, the Company and its subsidiaries (the "Consolidated Company") had 177,948 and 112,318 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Basis of consolidation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

9. For the year ended December 31, 2011, Ability (TW) acquired the 52.24% and 0.77% equity ownership of E-PIN from non-related parties and related parties for $366,664 and $2,549, respectively. Following the acquisition, Ability (TW) obtained a significant control over E-PIN OPTICAL INDUSTRY CO., LTD. and its subsidiaries.

10. Ability (TW) invested NT$40,000 in exchange for an 80% equity ownership of a newly established company named, NOENA CORPORATION (NOENA). In April 2011, Ability (TW) has sold its entire equity ownership in NOENA CORPORATION to a non-related party. Furthermore, Ability (TW) invested and acquired 100% of the equity ownership of Jiujing Viewquest Electronics Inc. through a third party.

11. Lumen Europe BVBA was excluded from the consolidated financial statements as it was liquidated in 2012.

12. Due to business consideration, Jie Xin Inc. has undertaken a liquidation process for the year ended December 31, 2012 and was excluded from the consolidated financial statements following its liquidation in December 2012.

13. For the year ended December 31, 2012, the Consolidated Company disposed all equity ownership in ADVANSUS CORP. Please refer to Note 4(6) for details of the disposal.

14. For the year ended December 31, 2011, Ability (TW) has invested and established VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. in Mainland China through VIEWQUEST TECHNOLOGIES (BVI) INC. Ability (TW) acquired 100% equity ownership of VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. for USD 3,300 thousand. Moreover, Ability (TW) has increased its equity investment in VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. by USD 8,829 for the year ended December 31, 2012.

15. E-PIN INTERNATIONAL TECH CO., LTD. was excluded from the consolidated financial statements as it was liquidated in April 2012.

16. WEIHAI E-SKY OPTICAL ELECTRICAL CO., LTD. was excluded from the consolidated financial statements as it was liquidated in August 2012.

17. In September 2012, ASSOCIATION INTERNATIONAL LTD. (ASSOCIATION) has completed its liquidation process. Ability (TW) has recognized a loss from disposal of investment of $6,883 based on the difference between the book value of the investment in ASSOCIATION and the amount remitted. ASSOCIATION was excluded from the consolidated financial statements as it was liquidated in September 2012.

18. In March 2012, PEGAVISION CORPORATION has invested and established PEGAVISION HOLDINGS CORPORATION for USD 120 thousand and directly owned 100% equity of the aforesaid subsidiary.

19. In July 2012, PEGAVISION CORPORATION has undergone a capital reduction and capital increment of $180,000. As KINSUS INVESTMENT and ASUSPOWER INVESTMENT did not participate in the capital increase of PEGAVISION CORPORATION according to their equity holding percentages, the equity ownership of KINSUS INVESTMENT and ASUSPOWER INVESTMENT have decreased from 56.67% and 27.78% to 53.83% and 13.89%, respectively. Also, ASUSTEK INVESTMENT has acquired 12.50% equity ownership of PEGAVISION CORPORATION by participating in its capital increase. In October 2012, PEGAVISION CORPORATION increased its capital by $60,000. As KINSUS INVESTMENT, ASUSPOWER INVESTMENT and ASUSTEK INVESTMENT did not participate in this capital increase of PEGAVISION CORPORATION according to their equity holding percentages, the equity ownership of KINSUS INVESTMENT, ASUSPOWER INVESTMENT and ASUSTEK INVESTMENT in PEGAVISION CORPORATION have decreased from 53.83%, 13.89% and 12.50% to 46.14%, 11.90% and 10.71%, respectively.

20. In December 2012, KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS) has invested and established PEGAVISION (SHANGHAI) LIMITED in Mainland China through PEGAVISION HOLDINGS CORPORATION. KINSUS acquired 100% equity ownership of PEGAVISION (SHANGHAI) LIMITED for USD 100 thousand.

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

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

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

d. Subsidiaries excluded from consolidation: None.

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

(2) Use of Estimates

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

(3) Foreign Currency and Financial Report Translation

The Company records its transactions in New Taiwan dollars. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date, and the resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the reporting currency using the foreign exchange rates at the balance sheet date. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains or losses from such translation are reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange gains or losses from such translation are recorded as a separate component of stockholders' equity.

For long-term equity investments in foreign investees which are accounted for by the equity method, their foreign currency-denominated assets and liabilities are translated at spot rate on the balance sheet date; the components of their stockholders' equity are translated at the historical rate except for the beginning balance of retained earnings, which is translated using the spot rate at the beginning of the year. Income statement accounts are translated at the weighted-average rate of the year. Translation differences are accounted for as cumulative translation adjustments to stockholders' equity.

(4) Basis for Classifying Assets and Liabilities as Current or Non-Current

Unrestricted cash, cash equivalents, assets held for trading, or other assets that the Company will convert to cash or use within in a relatively short period of time — one year or one operating cycle, whichever is longer — are classified as current assets; other assets are classified as non-current assets. Debts due within one year or one operating cycle, whichever is longer, are classified as current liabilities; other liabilities are classified as noncurrent liabilities.

(5) Assets Impairment

The Consolidated Company adopted Statement of Financial Accounting Standards No. 35 (SFAS 35) "Impairment of Assets." In accordance with SFAS 35, the Consolidated Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit other than goodwill) may have been impaired. If any such indication exists, the recoverable amount of the asset is estimated and impairment loss is recognized for an asset whose carrying value is higher than the recoverable amount.

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

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

(6) Cash and Cash Equivalents

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

(7) Financial Instruments

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

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

b. Available-for-sale financial assets

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

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

c. Held-to-maturity financial assets

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

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

d. Financial assets carried at cost

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

e. Notes and Account receivables, and other receivables

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

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

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

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

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

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

g. Short-term notes payable

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

h. Compound financial instruments

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

(8) Transfer of Financial Assets

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

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

ii. Each transferee has the right to pledge or exchange the rights to the accounts receivable, and no condition prevents the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.

iii. The transferor does not maintain effective control over the rights to the accounts receivable claims through either:

(1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or

(2) the ability to unilaterally cause the holder to return specific rights to the accounts receivable.

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

(9) Inventories

Inventories are carried at the lower of cost or net realizable value using a perpetual inventory basis. Cost is determined using the weighted-average method. According to SFAS 10, the cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period. The replacement cost of raw material is its net realizable value.

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

Long-term equity investments in which the Consolidated Company, directly or indirectly, owns 20% or more of the investee's voting shares, or less than 20% of the investee's voting shares but is able to exercise significant influence over the investee's operating and financial policies, are accounted for under the equity method.

Investment in a joint venture in which the Company has the ability to control is accounted for under the equity method.

Unrealized profits/losses on intercompany transactions are eliminated and deferred. Gains and losses resulting from transactions involving depreciable assets are recognized ratably over their economic lives, while those from other assets are recognized immediately.

Cost and gains or losses on partial disposition of long-term equity investments are determined by the weighted-average method. Capital surplus from partial disposition of such investments is reduced by the percentage sold, with gains and losses included in current earnings.

The change in the carrying value of long-term equity investment as a result of the change in percentage of equity ownership due to disproportionate subscription to additional shares issued by the investee company is charged against capital surplus. When the balance of capital surplus arising from long-term equity investments is insufficient, the difference is charged against retained earnings.

(11) Property, Plant, and Equipment, Rental Assets, Idle Assets, and Depreciation

Property, plant, and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. Interest expense incurred up to the time when the asset is ready for its intended use is capitalized as part of the acquisition cost. Major additions, improvements, and replacements are capitalized.

Depreciation is provided over the estimated economic lives using the straight-line method. Assets still in use at the end of their estimated useful lives are continuously depreciated based on their estimated remaining useful lives and estimated salvage values. Economic lives of major property and equipment are as follows:

Buildings	3 to 60 years
Machinery and equipment	1 to 10 years
Warehousing equipment	5 to 15 years
Instrument equipment	3 to 5 years
Transportation equipment	3 to 20 years
Office equipment	3 to 20 years
Miscellaneous equipment	1 to 25 years

Gain and loss on disposal of properties are recorded as non-operating income or loss.

Rental assets and idle fixed assets, which are not used for operating purposes, are classified as other assets.

(12) Intangible Assets

According to the Statement of Financial Accounting Standard No. 37 (SFAS 37) "Intangible Assets," intangible assets are stated at cost, except for the government grant which is stated at fair value. Intangible assets with finite life are measured at cost plus the revaluation increment arising from the revaluation in accordance with the laws, less any accumulated amortization and any impairment losses.

The amortizable amount of intangible assets with definite lives is determined after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are made available for use. The economic useful lives of intangible assets are as follows:

Computer software cost	1 to 10 years
Trademark rights	5 to 20 years
Patents	5 to 20 years
Land use rights	45 to 50 years
Customer relationship	3 years
Technology	3 years
Development	5 years

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

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

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

(13) Deferred Charges

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

(14) Pension Plan

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

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

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

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

(15) Warranty Reserve

For products under warranty, warranty costs are accrued based on the past record of the cost of returns for repair, failure rate and warranty period. Warranty costs are accounted for as current expenses when the sales are recognized.

(16) Revenue and Cost Recognition

Revenue is recognized when title to the product and the risks and rewards of ownership are transferred to the customer; otherwise revenue recognition is deferred until these criteria are met. The related cost and expenses are recognized as the revenue is recognized. The expenses are recognized on accrual basis. Also, allowances for sales returns and discounts are estimated based on historical experience. Such allowances are recognized in the same period in which sales are made.

(17) Classification of Capital and Operating Expenditures

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

(18) Share-based payment transactions

The Consolidated Company adopted SFAS No. 39, "Share-based Payment," for share-based payment arrangements with a grant date on or after January 1, 2008, and Interpretations (92) 070, 071 and 072 issued by ROC Accounting Research and Development Foundations (ARDF) for employee stock options that were granted before January 1, 2008.

a. An equity-settled share-based payment transaction is measured based on the fair value of the award at grant date, and is recognized as expenses over the vesting period with a corresponding increase in equity. The vesting period is estimated based on the vesting conditions under the share-based payment arrangement. Vesting conditions include service conditions and performance conditions (including market conditions). In estimating the fair value of an equity-settled share-based award, only the effect of market conditions is taken into consideration.

b. A cash-settled share-based payment transaction is measured at the balance sheet date and the settlement date based on the fair value of the stock option as of those dates and is recorded as a liability incurred for the goods and services received. Changes in fair values are recognized in profit or loss for the period.

c. The fair value of employee stock options and similar instruments at grant date is estimated using the Black-Scholes option-pricing model, taking into account the exercise price, the current market price of the underlying shares, management's best estimate of the expected term, the expected volatility, the expected dividends, and the risk-free interest rate.

d. Company shares of stock award to employees subject to certain restrictions is an equity-settled share-based payment transaction, which is measured based on the fair value of the award at grant date, and is recognized as expenses over the vesting period with a corresponding increase in equity. Employees receiving restricted stock awards are not limited to the right to receive dividends, and need not return receipt of dividends as they resign within the vesting period. However, upon the Company's declaration of dividend, dividends expected to be received by employees resigning within the vesting period are estimated based on grant-date fair value and are recognized as a compensation cost.

e. According to SFAS No. 39 "Share-based Payment", this accounting standard need not be applied retroactively to the share-based payments that were granted before January 1, 2008; however, the pro forma net income and net income per share should be disclosed.

(19) Employee Bonuses and Remuneration to Directors and Supervisors

Appropriations for employee bonuses and remuneration to directors and supervisors are accounted for in accordance with Interpretation (96) 052 issued by the ROC Accounting Research and Development Foundation. According to this Interpretation, the employee bonuses and remuneration to directors and supervisors are estimated and recognized as expenses in the year when services are rendered. The differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized in profit or loss.

(20) Treasury Stock

As the Consolidated Company purchased its outstanding shares, the Consolidated Company adopted Financial Accounting Standard No. 30 "Accounting for Treasury Stock" in the accounting of treasury shares of stock, which are stated at cost. When treasury stock is sold, the excess of the proceeds from sale over the book value of treasury stock is recorded as capital surplus-treasury stock transaction. If the disposal price is lower than the book value, the difference is offset against capital surplus resulting from other treasury stock transactions, and any deficiency is debited to retained earnings. The carrying amount of treasury stock is calculated by using the weighted-average method according to the same class of treasury stock.

When treasury stock is cancelled, "capital surplus-premium on capital stock" is debited proportionately according to the equity shareholding ratio. If the book value of the treasury stock exceeds the sum of par value and premium on capital stock, the difference is offset against capital surplus arising from similar treasury stock transactions, and any deficiency is charged against retained earnings. If the book value is less than the total par value and premium on stock, the difference is added to capital surplus arising from treasury stock transaction of the same category.

In accordance with Financial Accounting Standard No. 30 "Accounting for Treasury Stock," the Company's shares of stock held by its subsidiaries are deemed as treasury stock when recognizing investment income (loss) and when preparing the financial statements.

(21) Income Tax

In accordance with Statement of Financial Accounting Standards No. 22 (SFAS 22) "Income Taxes," income taxes are accounted for using the asset and liability method. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, loss carry forwards and investment tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly. The Consolidated Company recalculates deferred income tax liabilities and deferred income tax assets based on newly modified effective tax rate, and reports the difference between newly calculated amount and the originally calculated one as current expense or benefit. Adjustments to prior years' income taxes are reported as current income taxes.

Deferred income tax assets or liabilities are classified as current and non-current in accordance with the nature of the related assets and liabilities or the length of time to their reversal.

Income taxes credits from purchase of equipment, technical research and development, and personnel training are recognized by the flow-through method.

The 10% surtax on undistributed earnings of the Consolidated Company is reported as current expense on the date when the stockholders declared not to distribute the earnings during their annual meeting.

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

(22) Commitments and Contingencies

If loss from a commitment or contingency is deemed highly likely and the amount can be reasonably estimated, then such loss is immediately recognized. Otherwise only the nature of such loss is disclosed in the notes to the financial statements.

(23) Earnings per Share ("EPS")

Earnings per share of common stock is determined based on net income available to common stockholders divided by the weighted-average number of outstanding shares of common stock. The effect on earnings per share from an increase in capital stock through the distribution of stock dividends from unappropriated earnings, capital surplus, or employee stock bonuses approved in the annual stockholders' meetings held before and in 2008 is computed retroactively.

Diluted EPS is calculated by dividing net income by the weighted-average number of common shares used in the basic EPS calculation plus the number of common shares that would be issued assuming all potentially dilutive common shares are converted and outstanding. The employee bonus appropriated after 1 January, 2008 are potentially dilutive common shares. If a dilutive effect does not exist, only basic EPS is disclosed; otherwise, diluted EPS is disclosed in addition to the basic EPS.

(24) Spin–Off Transactions

Spin-off transactions are accounted for under Interpretation (91) 128 issued by the ROC Accounting Research and Development Foundation. Under this Interpretation, if a transferor company and a transferee company are affiliated and the spin-off transaction arise from group reorganization, the assets and liabilities are recognized by the transferee based on the book value of the assets and liabilities of the transferor company without recognizing any transfer gain/loss. However, if the book value of the assets exceeds their fair value, the excess is recognized as impairment loss before the transfer of these assets.

(25) Business Combinations

According to SFAS No. 25 "Business Combination," the equity of the acquiring corporation in a business combination acquired in cash is valued either at the fair value of the assets contributed or at the fair value of the property acquired, whichever is more objectively evident. All identified assets acquired and liability assumed in a business combination, whether or not shown in the financial statements of the acquired corporation, are measured based on their fair value at the acquisition date.

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

(26) Operating Segments

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

3. Reasons for and Effect of Accounting Changes:

Effective from January 1, 2011, the Consolidated Company adopted the third revision of SFAS No. 34 "Financial Instrument Recognition and Measurement" on the recognition, subsequent measurement and impairment testing of originated loans and receivables and on trouble debt restructuring and modification of debt agreement commencing from January 1, 2011. The adoption of this amended accounting principle disclosed no significant influences on the consolidated income for the year ended December 31, 2011.

Effective from January 1, 2011, the Consolidated Company adopted SFAS No. 41 "Operating Segments." In accordance with SFAS No. 41, information is disclosed to enable users of the Company's financial statements to evaluate the nature and financial effects of the business activities in which the Company engages and the economic environment in which it operates. Accordingly, the Company determines and presents operating segments based on the information that internally is provided to the chief operating decision maker. This new accounting Standard superseded SFAS No. 20 "Segment Reporting." The adoption of this accounting standard did not have any cumulative effect for the year ended December 31, 2011.

4. Summary of Major Accounts

(1)Cash and Cash Equivalents

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

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

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

(2) Financial Instruments

The components of financial instruments were as follows:

	December 31, 2012	December 31, 2011
Financial assets reported at fair value through profit or loss － current:		
Financial assets held-for-trading － current		
Stock of listed companies	$ 311,175	739,571
Beneficiary certificates	7,174,886	5,639,583
Forward exchange contracts and others	271	2,085
Foreign exchange swap contracts	58	135
Option exchange	-	4,496
Corporate bonds	47,646	31,815
	$ 7,534,036	**6,417,685**

	December 31, 2012	December 31, 2011
Available-for-sale financial assets － current:		
Stock of listed companies	$ 90,979	40,015
Stock of overseas listed companies	414,940	414,737
Total	**$ 505,919**	**454,752**

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

	December 31, 2012	December 31, 2011
Financial liabilities reported at fair value through profit or loss — noncurrent:		
Financial liabilities held-for-trading — noncurrent		
Foreign convertible bonds — put and call options	$ 20,410	-
Adjustments	(14,135)	-
Total	**$ 6,275**	**-**

a. For the years ended December 31, 2012 and 2011, the Consolidated Company recognized a net gain (loss) on financial assets reported at fair value through profit or loss of $131,815 and $(160,782), respectively.

b. For the years ended December 31, 2012 and 2011, the unrealized gain (loss) on available-for-sale financial assets amounted to $113,473 and $(1,216,141), respectively. Also, the Consolidated Company sold its equity ownership in AVY PRECISION TECHNOLOGY INC. ("AVY PRECISION"), which resulted in the Consolidated Company holding less than 20% equity shares of AVY PRECISION so that the Consolidated Company ceased significant control of AVY PRECISION. Therefore, the Consolidated Company has reclassified its equity investment in AVY PRECISION to available-for-sale financial assets － noncurrent. Please refer to Note 4(5) for details.

c. The investments in equity securities held by the Consolidated Company with no quoted price from active market and the fair value cannot be measured reliably, were reported as financial assets carried at cost－noncurrent. The Consolidated Company evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of $100,370 and $21,435 for the years ended December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, the Consolidated Company had accumulated impairment loss of $309,155 and 212,042, respectively. Also, since May 2012, the Consolidated Company has ceased significant control of YOFREE TECHNOLOGY CO., LTD. Therefore, the Consolidated Company has reclassified its equity investment in YOFREE TECHNOLOGY CO., LTD. to financial assets carried at cost. Please refer to Note 4(5) for further details.

d. The Consolidated Company's investments in Ralink, accounted under available-for-sale financial asset － noncurrent, was transferred to investments in MediaTek Inc. as MediaTek Inc. acquired Ralink via shares swap in October 2012. The Consolidated Company recognized the cost of the transferred stock as the fair value of the investments in Ralink on the effective date of stock conversion and recognized the accumulated unrealized gain of $338,716 as current profit.

e. For the year ended December 31, 2011, the Consolidated Company sold for USD 18,904 thousand to a third party all of its equity ownership in Atheros Communications Inc. of 443,741 shares at USD 42.6 per share and recognized a gain thereon of $331,781.

f. During the first quarter of 2011, KINSUS sold all of its equity ownership in KINMAC SOLAR CO., LTD., of 10,711 thousand shares to WIN Semiconductors Corporation and 50 thousand shares to a third party, totaling 10,761 thousand shares at $11 per share, for a total selling price of $118,015, net of securities transaction tax.

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

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

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

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

	December 31, 2012		
	Book Value	**Notional Principal (thousands)**	**Maturity Date/ Contract Period**
Derivative financial assets not for hedge			
Foreign exchange swap contracts	$ 58	USD 6,100	2012.12~2013.01
Forward exchange contract	$ 271	USD 96,000	2012.12~2013.01
Forward exchange contract (sell)	$ (98)	USD 6,200	2012.11~2013.02

	December 31, 2011		
	Book Value	**Notional Principal (thousands)**	**Maturity Date/ Contract Period**
Derivative financial assets not for hedge			
Foreign exchange swap contracts	$ 135	USD 30,000	2011.12~2012.01
Forward exchange contract	$ 2,085	USD 28,000	2011.12~2012.01
Option exchange (long call)	$ 4,496	USD 950	2011.08~2012.02
Forward exchange contract (sell)	$ (232)	USD 16,000	2011.12~2012.01
Foreign exchange swap contracts	$ (1,367)	USD 950	2011.08~2012.02

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

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

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

(3) Notes and Accounts Receivable

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

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

December 31, 2012

Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Range of Interest Rate	Collateral	Significant Transferring Terms	Derecognition Amount
SMBC	$ 7,104,133	USD 300,000,000	USD 243,405,143	0.8937%~ 0.9112%	None	The accounts receivable factoring is without recourse but the sellers still bears the risks except for eligible obligor's insolvency.	$ 7,104,133
ANZ(Note)	$ 26,185,725	USD 900,000,000	USD 540,000,000	0.90%	None	"	$ 26,185,725

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

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

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

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

(4) Inventories

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

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

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

(5) Long-Term Equity Investments

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

a. For the years ended December 31, 2012 and 2011, the Consolidated Company recognized investment income under equity method of $59,484 and $98,444, respectively, based on the investees' financial statements which were audited by independent accountants.

b. For the years ended December 31, 2012 and 2011, the Consolidated Company held less than 50% equity shares of SHIN-EI YORKEY INTERNATIONAL LTD. (BVI) and had no significant control thereof thus SHIN-EI YORKEY INTERNATIONAL LTD. (BVI) was excluded from the consolidated financial statements.

c. AVY PRECISION TECHNOLOGY INC. ("AVY PRECISION"), a subsidiary of ABILITY ENTERPRISE CO., LTD. ("Ability (TW)"), had swapped its equity shares with AZURE WAVE TECHNOLOGIES, INC. ("AZURE WAVE"), which resulted in a difference between acquisition cost and fair value of the identifiable long-term investment. Since the Consolidated Company has the ability to control Ability (TW), such difference of $1,114 as of December 31, 2011 was adjusted using the equity method of accounting based on the percentage of ownership of the Consolidated Company, in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 25 "Business Combinations."

d. In October 2012, the Consolidated Company sold its equity ownership in AVY PRECISION, which resulted in the Consolidated Company holding less than 20% equity shares of AVY PRECISION so that the Consolidated Company ceased significant control of AVY PRECISION. Therefore, the Consolidated Company has reclassified its equity investment in AVY PRECISION to available-for-sale financial assets － noncurrent.

e. In May 2012, YOFREE TECHNOLOGY CO., LTD. ("YOFREE") has elected a new set of member of the Board of Directors. Following the election, AZURE WAVE was not elected as YOFREE's director nor supervisor, and lost its significant influence over YOFREE. Therefore, AZURE WAVE has reclassified its equity investment in YOFREE to financial assets carried at cost － noncurrent.

f. The Consolidated Company invested USD 1,200 thousand in PENTAX VQ CO., LTD. through ASSOCIATION INTERNATIONAL LTD. ("ASSOCIATION"), which was approved by the Investment Commission of the Ministry of Economic Affairs. During the first quarter of 2011, the ASSOCIATION was liquidated and the liquidation proceeds of USD 1,432 thousand were remitted to the Consolidated Company. A loss of USD 63 thousand was recognized based on the difference between the book value of the investment in ASSOCIATION and amount remitted.

g. In July 2011, eBizprise Inc. has undergone a capital reduction and capital increase. As the Consolidated Company did not participate in the capital increase of eBizprise Inc. according to its equity holding percentage, the equity ownership of the Consolidated Company has been reduced from 31.76% to 12.93%. Consequently, the Consolidated Company lost its ability to exercise control of eBizprise Inc. Therefore, the equity investment in eBizrise Inc. has been reclassified to financial assets carried at cost. In December 2011, the Consolidated Company has disposed its equity investment in eBizrise Inc. at original acquisition cost.

h. For the years ended December 31, 2012 and 2011, the Consolidated Company received cash dividends of $46,653 and $139,460, respectively, from its investee companies accounted under equity method.

(6) Joint Venture Investment

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

	December 31, 2011
Current Assets	$ 411,541
Non-current Assets	11,417
Current Liabilities	179,889

	For the Year Ended December 31, 2011
Revenues	$ 1,447,598
Expenses	1,416,366

In order to enhance resource efficiency, the Company sold all its equity ownership in ADVANSUS CORP. ("ADVANSUS") to the other joint venture party for $306,000 on January 5, 2012. The transfer of equity ownership was completed in June 2012, and a disposal gain of NT$ 62,028 was recognized thereon.

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

a. Property, plant and equipment

(a) Based on the results of its evaluation of the recoverability of property, plant and equipment, the Consolidated Company recognized a reversal of impairment loss on assets amounting to $112,579 and $29,519 for the years ended December 31, 2012 and 2011, respectively.

(b) In order to construct operational headquarter and research and development center, ABILITY ENTERPRISE CO., LTD. ("Ability(TW)") participated in Xinzhuang land auction and acquired a parcel of land worth $2,468,329 which was accounted under land. The legal process for the registration of this land has been completed. On May 5, 2011, pursuant to the resolutions of the board of directors, Ability(TW) sold 50% of the aforesaid land for $1,239,706 for the purpose of joint development with builder and recognized a gain thereon of $5,532, which was recorded as other income.

(c) On November 6, 2011, the factory of CASETEK HOLDINGS LTD. (CAYMAN) and its subsidiaries ("CASETEK CAYMAN") in Suzhou had a fire accident. The carrying value of the damaged assets amounted to RMB$11,211,256 (NT$51,142), of which RMB$10,150,451 (NT$46,163) was recognized as a loss in 2011. In April, 2012, the insurance claim of RMB$7,500,000 (NT$35,102) has been confirmed. Therefore, a gain of RMB$6,439,195 (NT$30,137) was recognized thereon and accounted for as other income for the year ended December 31, 2012. The subsidiary has improved the damage caused by the fire accident, so there is no critical impact to the subsidiary's operating activity.

(d) On December 17, 2011, the dust collecting equipment of CASETEK CAYMAN and its subsidiaries in Shanghai had a small gas explosion. Based on the result of the preliminary assessment by the Consolidated Company, a loss of $28,197 was recognized and accounted for under catastrophic loss for the year ended December 31, 2011. In November 2012, the Consolidated Company's claim for damages of RMB$ 4,001,000 (NT$18,726) has been confirmed by the insurance company and was accounted for as other income for the year ended December 31, 2012. As improvement was made of the damage caused by the explosion, it is no longer expected to have any critical impact to the operating activity of the subsidiary concerned.

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

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

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

(f) For the years ended December 31, 2012 and 2011, Ability(TW) capitalized interest expense of $25,616 and $6,373, respectively.

(g) Please refer to Note 6 for details of the property, plant, and equipment pledged as collateral.

b. Rental assets

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

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

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

c. Idle assets

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

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

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

(8) Intangible assets

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

b. 'Land use rights' are rights granted to the Consolidated Company to use government-owned land. These rights were paid in lump sum, which was capitalized and amortized equally over their useful lives. As of December 31, 2012 and 2011, the unamortized amount of land use rights was $3,366,515 and $2,672,171, respectively.

c. Identifiable intangible assets from customer relationships, technology and developments are amortized equally over 3 to 5 years based on their respective expected economic benefits. As of December 31, 2012 and 2011, the unamortized amount was $609,004 and $1,100,375, respectively.

d. For the year ended December 31, 2011, the Consolidated Company acquired 100% ownership of RIH LI for $6,000,000 (with equivalent amount of USD 201,205 thousand) with an equity premium of USD 120,763 thousand. On January 19, 2011, the Consolidated Company made a down payment of $3,000,000 following the authority's approval of the transaction and deposit the remaining $3,000,000 in three annual installments in accordance with the installment payment schedule stated in the contract. In order to meet the demands of the Consolidated Company and the original seller, they renegotiated the terms of payments, under which, the Consolidated Company is required to make an advance payment, with the cost of capital calculated using a discount rate of 2%. On August 31, 2011, the Consolidated Company made an advance payment of $2,919,773.

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

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

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

e. Supplementary Pro Forma Information for Business Combinations

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

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

(9) Other Assets – Others

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

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

(10) Short - Term Loans

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

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

(11) Bonds Payable

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

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

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

Item	1st overseas unsecured convertible bonds issued in 2012
	(2) If more than 90% in principal amount of the Bonds originally outstanding has been redeemed, repurchased and cancelled or converted, the Company has the right to redeem all but not portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis. (3) The Bonds may be redeemed, in whole but not in part, if the affect of change in the tax laws of ROC will increase the Company's tax liability, interest expense or related cost from the Bonds. Holders may elect not to have their bonds redeemed with no entitlement to any additional amount of reimbursement of additional tax.
8. Redemption at the option of the Holder	(1) Each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds on February 6, 2015 at a redemption price equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis. (2) In the event that the Company's common shares ceased to be listed or admitted to trading on the TWSE, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis. (3) In the event of change of control occurs with respect to the Company, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount.
9. Conversion	(1) Conversion period Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, each Holder of the Bonds will have the right at anytime during the conversion period commencing March 18, 2012 (the 41st day following the Closing Date) and ending at the close of business on January 27, 2017 (the 10th day prior to the Maturity Date), to convert their bonds. (2) Conversion price The conversion price was NT$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012. However, upon the issuance of restricted Company shares of stock to employees, the conversion price has been adjusted to NT$41.66 per share effective December 20, 2012. (3) Conversion to common shares Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT$29.761 = USD 1.00) divided by the conversion price on the conversion date.

The Company separately accounts overseas convertible corporate bonds into the equity components and liability components. The equity components are accounted for under capital surplus and the liability components are accounted for under financial liabilities reported at fair value through profit or loss or bonds payable in accordance with SFAS 36. As of December 31, 2012, information on the aforesaid convertible bonds were as follows:

1st overseas unsecured convertible bonds issued in 2012	December 31, 2012	
Total issue price	$	8,874,000
Discount on bonds payable		(282,252)
Discount on bonds payable － transaction cost		(26,822)
Accumulated converted amount		-
Accumulated redeemed amount		-
Bonds payable, end of the period		8,564,926
Less: Valuation of bonds payable		(161,520)
Less: Current portion of bonds payable		-
Bonds payable, net, end of the period	**$**	**8,403,406**
Equity components － capital surplus on stock options	**$**	**329,225**
Liability components － financial liabilities (put and call options) reported at fair value through profit or loss	**$**	**6,275**
Liability components － gain on valuation	**$**	**(14,135)**
Interest expense	**$**	**182,163**

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

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

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

(c) The conversion price will be adjusted based on the terms of the conversion plan, and will be reset based on the prescribed formula upon the occurrence of certain events that will have a dilutive effect on the bondholders' rights. The conversion price was originally set at $60. As Ability (TW) distributes cash dividend on August 1, 2010, September 6, 2011 and August 14, 2012, the exercise price was adjusted from $60 to $55.7 and $55.7 to $50.7, respectively, on the effective dates. As of August 14, 2012, the exercise price was adjusted from $50.7 to $47.4 on the effective date.

(d) After 3 years from issue date (Feb 6th, 2013), the bondholders shall have the right at such bondholders' option to require Ability (TW) to redeem all or some of the convertible bonds at a price equal to 100% of the principal amount plus interest at the rate of 0.3% per annum, payable annually.

(e) Ability (TW) may purchase the outstanding bonds at face value under the following conditions: (i) the closing price of the shares for a period of 30 consecutive trading days is above 130% of the conversion price and (ii) the amount of the outstanding bonds is less than 10% of the initial issuance amount of convertible bonds, from the day after the first month of issuance of the bonds to 40 days prior to the maturity date.

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

c. In accordance with SFAS No. 36, convertible bonds are initially treated as compound financial instruments, of which the equity and liability components are separately accounted for. As of March 31, 2012, the issuance of convertible bonds resulted in a "capital surplus－stock option" of $153,508. In addition, the fair value of call options and put options embedded in bonds payable was separated from bonds payable, and was recognized as "Financial assets or liabilities at fair value through profit or loss" in accordance with SFAS No. 34. The effective annual interest rate of the bonds ranges from 2.122% to 2.263%.

d. As of December 31, 2012, the convertible bonds of Ability (TW) have not yet been converted into common shares nor repurchased.

(12) Long - Term Loans

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

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

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

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

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

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

a. Current ratio (current assets/current liabilities): should not be less than 100%.

b. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.

c. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

d. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than $90,000,000.

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

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

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

a. Current ratio (current assets/current liabilities): should not be less than 100%.

b. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50% (total total liabilities include short-term loans, short-term notes payable, rents payable, current portion of long-term loans, current portion of bonds payable, long-term loans and bonds payable).

c. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

d. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than NT$90,000,000.

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

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

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

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

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

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

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

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

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

(13) Pension Plan

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

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

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

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

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

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

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

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

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

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

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

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

(14) Income Tax

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

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

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

The components of deferred income tax benefit were as follows:

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

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

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

(iv) As of December 31, 2012 and 2011, the temporary differences, loss carry-forwards and income tax credits and the related income tax effect thereof resulting in deferred income tax assets (liabilities) were as follows:

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

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

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

(v) Income Tax

a. The Company's income tax returns through 2010 have been assessed and approved by the Tax Authority. However, the tax return for 2008 is still under review.

b. The income tax returns of UNIHAN, Ability (TW), Lumens Digital Optics Inc., KINSUS, AZUREWAVE and its subsidiaries EZWAVE Technologies, Inc. and AZURE Lighting Technologies, Inc. through 2010 have been assessed and approved by the Tax Authority.

c. The income tax returns of ASROCK INCORPORATION (ASROCK) through 2008 have been assessed and approved by the Tax Authority. Also, ASROCK had estimated and recognized additional tax payable arising from its 2009 income tax returns, in which ASROCK had a different understanding with the National Taxation Bureau of Taipei on the timing for recognizing employee bonus for research and development tax credit. On January 2, 2012, National Taxation Bureau of Taipei had assessed again and approved ASROCK's 2009 income tax returns, and ASROCK had paid additional tax expense of $15,699 thereon.

d. According to the Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises, Ability Technology (Dongguan) Co., Ltd. is exempted from enterprise income tax for the first two profit-making years and subject to enterprise income tax at a rate reduced by 50% for the third year through the fifth year with year 2008 as its first tax exempt year. For the years ended December 31, 2012 and 2011, Ability Technology (Dongguan) Co., Ltd. recognized tax expenses of $8,154 and $505, respectively.

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

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

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

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

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

Note: In accordance with its local income tax act.

(viii) Five year income tax exemption period

a. Due to the increase in its investments in new equipment, the Company was granted several income tax exemptions for its manufacturing and sales of "motherboard" out of the new equipment purchased from the proceeds of its capital increase. As of December 31, 2012, the five year income tax exemption periods were as follows:

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

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

Item	Approving Office	Approval document number	Tax exemption period
1	Industrial Development Bureau	09605034400	08/31/2007~08/30/2012
2	Industrial Development Bureau	09805018460	09/30/2008~09/29/2013
3	Industrial Development Bureau	10005112010	01/01/2013~12/312017

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

Accumulated earnings:	December 31, 2012	December 31, 2011
Accumulated in 1997 and prior years	$ -	-
Accumulated in 1998 and thereafter	9,829,896	144,466
Total	**$ 9,829,896**	**144,466**
Stockholders' imputation tax credit account	**$ 211,593**	**3,448**

	2012 (Expected)	2011 (Actual)
Expected or actual deductible tax ratio	**5.67%**	**0.09%**

(15) Stockholders' Equity

a. Capital Stock

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

In order to enhance own-brand business and boost productivity, the board of directors of ASUSTeK Computer Inc. ("ASUSTek") resolved on December 11, 2009 but revised it on January 1, 2010, to spin-off or cede its OEM group (Pegatron Corporation (the "Company")) to Pegatron International Investment Co., Ltd. ("Pegatron Investment"), which is being held by ASUSTeK. Pegatron Investment will issue new shares to ASUSTeK and all shareholders of ASUSTek, for which, ASUSTek and all other shareholders of ASUSTek will acquire 25% ownership and 75% ownership, respectively, of the equity of Pegatron Investment. The record date of this spin-off was June 1, 2010. Following the spin-off, the Company merged with Pegatron Investment. The Company issued 10 thousands new shares, resulting in additional capital of $100. Thereafter, the total outstanding capital amounted to $22,860,639, divided into 2,286,064 thousand shares with par value of $10 per share.

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares of stock valued at $296,970. In 2012, the Company had issued 33,938 thousand shares of restricted Company shares of stock to employees. As of December 31, 2012 and 2011, the authorized capital of the Company consisted of 3,000,000 and 2,500,000 thousand shares, respectively, with par value of $10 per share, and its outstanding capital consisted of 2,290,305 thousand shares and 2,256,367 thousand shares of stock, respectively.

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

The Company may issue new GDRs with no more than 60,819,020 Pegatron common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines." As of December 31, 2012, the Company has listed, in total, 9,769 thousand units of GDR on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 shares, the Company has listed Company shares totaling 48,844 thousand shares. Major terms and conditions for GDRs were as follows:

(a) Voting Rights

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

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

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

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

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

Employee stock option	For the Years Ended December 31	
	2012	**2011**
Grant date	04/02/2012	07/01/2011
Thousand units granted	8,053	40,679
Contractual life	3 years	3 years
Vesting period	2 years	2 years
Actual turnover rate of employees	8.96%	20.48%
Estimated future turnover rate of employees	19.01%	19.88%

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

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

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

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

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

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

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

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

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

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

A. For the year ended December 31, 2012

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

	Issued in 2011		
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price	
Balance, beginning of the period	37,648	$	28.38
Granted	-		-
Exercised	-		-
Forfeited	4,739		-
Expired	-		-
Balance, end of the period	**32,909**		28.38
Exercisable, end of the period	**32,909**		
Weighted-average fair value of options granted	**7.9**		
Exercise price of share option outstanding, end of the period	**28.38**		
Remaining contractual life	**0.50**		
Expenses incurred in share-based payment transactions	**92,456**		

B. For the year ended December 31, 2011

	Issued in 2011		
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price	
Balance, beginning of the period	-	$	-
Granted	40,679		28.38
Exercised	-		-
Forfeited	3,031		-
Expired	-		-
Balance, end of the period	**37,648**		28.38
Exercisable, end of the period	**37,648**		
Weighted-average fair value of options granted	**7.9**		
Exercise price of share option outstanding, end of the period	**28.38**		
Remaining contractual life	**1.50**		
Expenses incurred in share-based payment transactions	**49,513**		

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

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

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

	Stock Appreciation Right
Grant date	04/02/2012
Vesting condition	EPS performance target
Exercise period	07/01/2013~06/30/2014
Vesting period	1.25 years
Actual turnover rate of employees	8.27%
Estimated future turnover rate of employees	8.97%

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

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

d. Legal reserve and capital surplus

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

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

Dividends yield by the trust of the shareholders of parent company were distributed to the employees of the Company as bonuses. These bonuses both amounted to $409,917 for the years ended December 31, 2012 and 2011, which were credited to capital surplus － others. Also, the Company issued restricted shares of stock to employees, which resulted in capital surplus － restricted employee stock of $478,366 for the year ended December 31, 2012.

e. Treasury Stock

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

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

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

f. Earnings Distribution and Dividend Policy

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

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

(b) Up to 1% as remuneration to directors and supervisors.

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

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

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

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

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

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

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

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

For the year ended December 31, 2012, employee bonuses of $299,000 and directors' and supervisors' remuneration of $29,000 were estimated and recognized as current expenses. Management is expecting that the differences between the amounts which are yet to be approved in the shareholders' meeting and those recognized in the financial statements, if any, will be treated as changes in accounting estimates and charged to profit or loss.

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

(16) Employee Stock Option

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

(a) On November 20, 2007, pursuant to the resolutions of its board of directors, Ability(TW) had issued employee stock options covering a total number of 19,500 units. Each unit bears an option to subscribe for one thousand share of Ability(TW)'s common stock. Therefore, 10,000 thousand shares of new common stock were issued from the exercise of 10,000 units of employee stock option. Following the issuance of employee stock options, any event, such as additional change to common stock of Ability(TW), distributions of cash dividends, and occurrence of merger and acquisition will result in adjustments in the price of the stock options. The employee stock options cover a contractual life of 7 years, and are exercisable in accordance with certain schedules as prescribed by the plan starting 2 years from the date of grant. As of December 31, 2012 and 2011, the weighted-average expected life of the employee stock options was 2.24 years and 3.24 years, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(17) Earnings per Share (EPS)

For the years ended December 31, 2012 and 2011, the primary earnings per share, diluted earnings per share and the retroactively adjusted primary and diluted earnings per share were computed as follows:

(Note: shares in thousands)

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

	For the Years Ended December 31			
	2012		2011	
	Before income tax	After income tax	Before income tax	After income tax
Weighted-average common shares outstanding	2,255,780	2,255,780	2,255,192	2,255,192
Potentially dilutive common shares	217,920	217,920	7,981	7,981
Diluted shares	**2,473,700**	**2,473,700**	**2,263,173**	**2,263,173**
Primary earnings per share	**$ 2.90**	**2.71**	**0.03**	**0.05**
Diluted earnings per share	**$ 2.72**	**2.53**	**0.03**	**0.05**

(18) Financial Instruments

a. Fair value of financial instruments

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

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

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

Non-Financial Instruments	December 31, 2012		December 31, 2011	
Financial Liabilities	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Financial liability reported at fair value through profit or loss － current	$ 69,084	69,084	102,583	102,583
Financial liability reported at fair value through profit or loss －noncurrent	6,275	6,275	-	-
Bonds payable (including current portion)	9,839,019	9,910,906	1,404,707	1,485,000
Long-term loans (including current portion)	26,403,410	26,403,410	28,267,268	28,267,268
Financial Instruments				
Financial Assets				
Foreign exchange swap contracts	$ 58	58	135	135
Forward exchange contracts	271	271	2,085	2,085
Option exchange	-	-	4,496	4,496

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

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

(a) The fair value of financial instruments, which are carried at fair value through profit or loss and traded in active markets, is based on quoted market prices. If the financial instruments are not traded in an active market, then the fair value is determined by using valuation techniques, under which, the estimates and assumptions used are consistent with prevailing market conditions.

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

(c) The fair value of call options and put options embedded in the convertible bonds, which were issued after January 1st, 2006, is determined by their fair market value.

(d) The fair market value of long-term loans is determined by the present value of future cash flow. As the value derived by using floating interest rate in discounting is close to the book value, the book value is adopted as the fair market value.

(e) The fair value of the derivatives traded in active markets is determined by their carrying value, which approximates market value on the balance sheet date. If the derivatives are not traded in active markets, then the fair value is determined by using valuation techniques, under which the estimates and assumptions used are consistent with prevailing market conditions.

c. Gain (Loss) recognized from changes in the fair values of financial assets, which were estimated by using valuation techniques, amounted to $131,815 and $(160,782), for the years ended December 31, 2012 and 2011, respectively.

d. Gain (Loss) recognized from changes in the fair values of financial liabilities, which were estimated by using valuation techniques, amounted to $46,133 and $(89,842), for the years ended December 31, 2012 and 2011, respectively.

e. Information on financial risks

(a) Market risk

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

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

(b) Credit risk

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

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

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

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

(c) Liquidity risk

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

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

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

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

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

f. Financial risk control and hedging strategy

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

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

(1) Ability (TW) undertakes derivative financial instruments to manage cash flow risk, fair value risk and other risks arising from fluctuations in prices, interest rates and foreign exchange rates.

(2) To hedge cash flow fair value risk arising from fluctuations in exchange rates, Ability(TW) undertakes derivative financial instruments such as forward exchange contracts to manage import and export transactions denominated in foreign currencies.

(3) To mitigate price risk, Ability (TW) sets a stop-loss point on derivatives to limit potential loss.

(4) Derivative counterparties are limited to international financial institutions with high-credit-quality. Ability (TW) has policies that limit the amount of credit exposure to any financial institution.

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

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

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

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

(19) Others

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

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

5. Related-Party Transactions

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

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

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

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

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

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

(2) Significant Transactions with Related Parties

a. Sales

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

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

b. Purchases

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

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

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

c. Others

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

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

(d) Promotion expenses

		For the Year Ended December 31, 2011
ASUSTEK	**$**	**4,344**

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

d. Property Transactions

(a) Purchase of properties

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

(b) Equity transactions

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

(c) Rental revenue

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

e. Accounts Receivable (Payable)

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

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

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

f. Remuneration

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

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

6. Pledged Assets

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

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

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

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

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

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

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

	Future lease commitments				
Year	**2013**	**2014**	**2015**	**2016**	**2017**
Future lease commitments	**$ 723,386**	**582,701**	**401,006**	**223,803**	**136,236**

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

Duration	Amount	Present Value
01/01/2018~01/31/2025	**$ 123,914**	**110,159**

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

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

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

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

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

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

(9) For the year ended December 31, 2012, CASETEK CAYMAN have a trade dispute with MEICOM INDUSTRIES CORP. MEICOM INDUSTRIES CORP. and filed a claim for payment and property protection to the court. On August 6, 2012, the Shanghai Songjiang District People's Court has adjudicated to freeze CASETEK HOLDINGS's demand deposit of RMB$31,361 (NT$144,897) for six months. In December 2012, CASETEK CAYMAN paid the claim and the court's order to freeze its demand deposit was lifted. CASETEK HOLDINGS incurred no loss thereon, and thus management believe that this case will have no significant impact on CASETEK HOLDINGS' financial activities.

8. SIGNIFICANT CATASTROPHIC LOSSES: None.

9. SIGNIFICANT SUBSEQUENT EVENTS:

(1) In compliance with relevant guidelines for the initial public offering, CASETEK CAYMAN's board of directors approved a resolution on December 12, 2012 for the issuance of 24,000 thousand new shares with 10% to be retained for employees to purchase. Pursuant to the approval of Financial Supervisory Commission on January 2, 2013, CASETEK CAYMAN completed its issuance of new shares at share price of $90 per share with par value of $10 per share on January 23, 2013, and the effective date of this capital increase was January 24, 2013. As of the financial report date, the procedure for the registration of change in capital stock has been completed. Also, CASETEK CAYMAN's shares were listed on TSEC on January 24, 2013.

(2) In consideration of its operating capital utilization, CASETEK CAYMAN had paid off the undue long-term loan from Taiwan Cooperative Bank of USD 50,000 (NT$ 1,452,000) in advance in February 2013.

(3) As of February 6, 2013, the outstanding balance of Ability (TW)'s 1st unsecured domestic convertible bonds amounted to $24,300, representing 1.62% of the total initial issuance amount of NT$1,500 million, which was less than 10% of the initial issuance amount. Under the terms of the convertible bonds, Ability (TW) may repurchase all of the outstanding bonds at face value within five business days from the record date of repurchase. Ability (TW) had undergone the repurchase process from February 6, 2013 and set the record date of repurchase as April 1, 2013, and the termination date as April 2, 2013. For all the holders who have not requested for redemption before the record date, Ability (TW) will convert all of the unredeemed bonds.

10. OTHERS

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

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

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

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

11. BUSINESS SEGMENT FINANCIAL INFORMATION

(1) General Information

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

For the years ended December 31, 2012 and 2011, operating segments required to be disclosed are categorized as DMS (Design, Manufacturing and Service) and Strategic Investment Group. DMS's main operating activities are designing and manufacturing computer, communication and consumer electronics' end products, and providing after-sales service. Strategic Investment Group is DMS's upstream and downstream supply chain, strategic investments and other related investments arms. The chief operating decision maker's main responsibility is to integrate strategy that creates operating synergy throughout the supply chain and to allocate the profit from the operating result. The Consolidated Company assess performance of the segments based on the segments' profit, and report the amounts of revenues based on the financial information used to prepare the consolidated financial statements.

For the Year Ended December 31, 2012	DMS	Strategic Investment Group	Adjustment and eliminations	Total
External Revenue	$ 766,406,767	115,488,617	-	881,895,384
Intra-Group Revenue	1,652,157	13,788,665	(15,440,822)	-
Total segment revenue	**$ 768,058,924**	**129,277,282**	**(15,440,822)**	**881,895,384**
Segment profit (loss)	**$ 6,980,211**	**15,138,025**	**(8,315,678)**	**13,802,558**
Other significant non-monetary items:				
Investment income (loss) under equity method	**3,158,883**	**5,140,437**	**(8,239,836)**	**59,484**
Asset				
Long-term investment under equity method	**$ 39,004,666**	**60,440,052**	**(97,837,021)**	**1,607,697**
Segment assets	**$ 317,779,521**	**182,654,596**	**(108,993,552)**	**391,440,565**
Other significant non-monetary items				
Goodwill	**-**	**1,015,733**	**839,513**	**1,855,246**
Segment liabilities	**$ 221,700,689**	**53,659,010**	**(11,946,366)**	**263,413,333**

For the Year Ended December 31, 2011	DMS	Strategic Investment Group	Adjustment and eliminations	Total
External Revenue	$ 453,636,342	146,306,364	-	599,942,706
Intra-Group Revenue	46,929,465	11,694,900	(58,624,365)	-
Total segment revenue	**$ 500,565,807**	**158,001,264**	**(58,624,365)**	**599,942,706**
Segment profit (loss)	**$ 63,089**	**6,603,540**	**(1,939,237)**	**4,727,392**
Other significant non-monetary items:				
Investment income (loss) under equity method	**1,989,701**	**(94,972)**	**(1,796,285)**	**98,444**

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

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

(2) Industrial Information

a. Geographic information

(a) External Sales

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

(b) Non-current assets

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

b. Major Customer

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

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

(English Translation of Financial Report Originally Issued in Chinese)

AUDIT REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Pegatron Corporation

We have audited the accompanying balance sheets of Pegatron Corporation (the "Company") as of December 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express the audit report based on our audits. We did not audit the financial statements of certain investees accounted for under the equity method, in which the Company's long-term equity investments amounted to NT$ 22,289,553 thousand and NT$ 18,996,148 thousand, representing 6.93% and 8.65% of total assets as of December 31, 2012 and 2011, respectively, and related investment income was NT$ 2,139,088 thousand and NT$ 2,044,432 thousand, representing 32.70% and 3,493.90% of net income before tax for the years ended December 31, 2012 and 2011, respectively. The financial statements of these investees were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, is based solely on the reports of other auditors.

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

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

We have also audited the consolidated financial statements of the Company as of and for the years ended December 31, 2012 and 2011 and have issued modified unqualified audit report thereon.

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

March 21, 2013

Note to Readers

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

BALANCE SHEETS

December 31, 2012 and 2011

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

ASSETS	December 31, 2012 Amount	%	December 31, 2011 Amount	%
Current Assets:				
Cash (Note (4)(a))	$ 12,006,919	4	6,815,955	3
Notes receivable, net of allowance for uncollectible accounts – Non-related parties (Note (4)(b))	32	-	-	-
Accounts receivable, net of allowance for uncollectible accounts – Non-related parties (Note (4)(b))	79,893,702	25	40,736,056	19
Accounts receivable, net of allowance for uncollectible accounts– Related parties (Note (5))	112,235,263	35	70,676,143	32
Other receivables – Non-related parties (Note (4)(b))	10,476,420	3	40,427	-
Other receivables – Related parties (Note (5))	28,374	-	9,842	-
Other financial assets — current (Note (6))	76,204	-	72,003	-
Inventories (Note (4)(c))	12,018,150	4	9,252,961	4
Other current assets (Note (5))	258,359	-	133,332	-
Deferred income tax assets — current (Note (4)(k))	34,113	-	277,270	-
	227,027,536	71	128,013,989	58
Investments:				
Long-term investments under the equity method (Note (4)(d))	89,819,986	28	86,765,900	40
Other Financial Assets — Noncurrent (Note (6))	30,650	-	29,271	-
Property, Plant and Equipment, at cost :				
Land	2,171,560	1	2,167,308	1
Buildings	1,917,987	-	1,886,473	1
Machinery and equipment	34,479	-	45,169	-
Warehousing equipment	600	-	600	-
Instrument equipment	149,384	-	146,286	-
Transportation equipment	24,650	-	23,339	-
Office equipment	2,718	-	3,951	-
Leased assets	6,003	-	6,003	-
Miscellaneous equipment	302,463	-	386,816	-
	4,609,844	1	4,665,945	2
Less: Accumulated depreciation	(778,705)	-	(731,088)	-
Construction in progress	905	-	-	-
	3,832,044	1	3,934,857	2
Intangible Assets	93,947	-	121,223	-
Other Assets — others (Note (4)(e))	666,826	-	763,501	-
TOTAL ASSETS	**$ 321,470,989**	**100**	**219,628,741**	**100**

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

BALANCE SHEETS (CONT'D)

December 31, 2012 and 2011

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

	December 31, 2012		December 31, 2011	
LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%	Amount	%
Current Liabilities:				
Short-term loans (Note (4)(f))	$ 6,359,760	2	6,176,100	3
Accounts payable – Non-related parties	95,814,244	29	42,449,007	19
Accounts payable – Related parties (Note (5))	85,225,163	27	57,939,610	26
Income tax payable	345,592	-	-	-
Accrued expenses – Non-related parties (Note (4)(l))	3,548,816	1	2,345,724	1
Accrued expenses – Related parties (Note (5))	520,399	-	3,588,099	2
Other payables – Related parties (Note (5))	5,808,000	2	-	-
Long-terms loans payables – current portion (Note (4)(h))	2,323,200	1	-	-
Other current liabilities (Note (5))	7,294,969	2	3,034,004	1
	207,240,143	64	115,532,544	52
Long-Term Loans:				
Financial liabilities at fair value through profit or loss (Note (4)(g) and (i))	6,275	-	-	-
Long-term loans (Note (4)(h))	9,292,800	3	12,110,000	6
	9,299,075	3	12,110,000	6
Other Liabilities:				
Bonds payable (Note (4)(i))	8,403,406	3	-	-
Refundable guarantee deposits	11,014	-	10,232	-
Deferred income tax liabilities — Noncurrent (Note (4)(k))	331,972	-	334,145	-
Accrued pension liabilities	4,041	-	-	-
Other long-term liabilities (Note (5))	102,505	-	57,611	-
	8,852,938	3	401,988	-
Total Liabilities	225,392,156	70	128,044,532	58
Stockholders' Equity(Note (4)(i), (4)(k) and 4(l)):				
Common stock	22,903,049	7	22,563,669	10
Capital surplus				
Premium on capital stock	60,393,247	19	60,393,247	28
Other	4,167,021	1	3,072,249	1
	64,560,268	20	63,465,496	29
Retained earnings :				
Legal reserve	1,847,737	1	1,836,601	1
Special reserve	734,859	-	4,327,629	2
Retained earnings	9,829,896	3	144,466	-
	12,412,492	4	6,308,696	3
Other adjustments to stockholders' equity:				
Cumulative translation adjustments	(3,400,838)	(1)	(784,234)	-
Unrecognized (loss) gain on pension cost	(1,717)	-	440	-
Unrealized gain on financial assets	122,071	-	48,936	-
Treasury stock	(18,794)	-	(18,794)	-
Deferred compensation arising from issuance of restricted stock	(497,698)	-	-	-
	(3,796,976)	(1)	(753,652)	-
Total Stockholders' Equity	96,078,833	30	91,584,209	42
Commitments and Contingencies (Note (7))				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 321,470,989**	**100**	**219,628,741**	**100**

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	For the Years Ended December 31			
	2012		2011	
	Amount	%	Amount	%
Operating revenues (Note (5))	$ 639,743,674	100	373,745,393	101
Less: Sales returns	545,954	-	1,741,657	1
Sales allowances	498,766	-	291,073	-
Net sales	638,698,954	100	371,712,663	100
Cost of sales (Notes (4)(c) and (5))	631,839,940	99	366,365,728	99
Gross profit	6,859,014	1	5,346,935	1
Less: Unrealized profit on intercompany transactions (Note (5))	(44,894)	-	(47,231)	-
	6,814,120	1	5,299,704	1
Operating expenses (Notes (4)(l) and Note (5))				
Selling expenses	2,216,456	-	1,835,805	1
General and administrative expenses	1,533,256	-	1,328,621	-
Research and development expenses	4,784,643	1	3,958,773	1
	8,534,355	1	7,123,199	2
Loss from operations	(1,720,235)	-	(1,823,495)	(1)
Non-operating income				
Interest income	39,158	-	20,558	-
Investment income under the equity method (Note (4)(d))	7,341,563	1	1,516,472	1
Gain on disposal of fixed assets (Note (4)(e) and (5))	-	-	108,345	-
Gain on disposal of investments (Note (4)(d))	62,028	-	-	-
Foreign exchange gain, net	135,479	-	-	-
Rental revenue (Note (5))	82,816	-	65,994	-
Reversal of allowance for uncollectible accounts	-	-	25,999	-
Gain on reversal of impairment loss (Note (4)(e))	4,127	-	28,450	-
Gain on valuation of financial asset	-	-	843	-
Gain on valuation of financial liability (Note (4)(g) and (4)(i))	14,135	-	-	-
Others (Note (5))	1,573,420	-	910,621	-
	9,252,726	1	2,677,282	1
Non-operating expenses				
Interest expenses (Note (4)(i) and Note (5))	452,203	-	210,687	-
Loss on disposal of assets (Note (4)(e) and Note (5))	1,122	-	-	-
Foreign exchange loss, net	-	-	310,723	-
Others (Note (4)(b) and Note (5))	537,813	-	273,863	-
	991,138	-	795,273	-
Income before income tax	6,541,353	1	58,514	-
Income tax expense (benefit) (Note (4)(k))	437,557	-	(52,851)	-
Net income	**$ 6,103,796**	**1**	**111,365**	**-**

	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Earnings per share (Note (4)(m))				
Primary earnings per share	**$ 2.90**	**2.71**	**0.03**	**0.05**
Diluted earnings per share	**$ 2.72**	**2.53**	**0.03**	**0.05**

Pro forma result assuming the Company's shares of stock held by its subsidiary do not count as treasury stock:

	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Net income	**$ 6,541,353**	**6,103,796**	**58,514**	**111,365**
Earnings per share (Note (4)(m))	**$ 2.90**	**2.70**	**0.03**	**0.05**
Diluted earnings per share (Note 4(m))	**$ 2.72**	**2.53**	**0.03**	**0.05**

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

(English Translations of Financial Statements Originally Issued in Chinese)
PEGATRON CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

			Retained earnings			Other adjustments to stockholders' equity					
	Common stock	Capital surplus	Legal reserve	Special reserve	Retained earnings (accumulated deficit)	Cumulative translation adjustments	Unrecognized gain(loss) on pension	Unrealized gain(loss) of financial assets	Deferred compensation	Treasury stock	Total
Balance, January 1, 2011	$ 22,563,669	63,145,448	1,215,457	-	8,253,605	(5,250,188)	(16)	922,576	-	(9,322)	90,841,229
Company shares held by investee	-	-	-	-	-	-	-	-	-	(9,472)	(9,472)
Compensation cost arising from employee stock option	-	49,513	-	-	-	-	-	-	-	-	49,513
Net income for the year ended December 31, 2011	-	-	-	-	111,365	-	-	-	-	-	111,365
Appropriations and distributions of 2010 earnings (Note 1):											
Legal reserve	-	-	621,144	-	(621,144)	-	-	-	-	-	-
Special reserve	-	-	-	4,327,629	(4,327,629)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(3,271,731)	-	-	-	-	-	(3,271,731)
Adjustment arising from long-term equity investments	-	121,024	-	-	-	1,986,855	456	(873,640)	-	-	1,234,695
Cumulative translation adjustments	-	-	-	-	-	2,479,099	-	-	-	-	2,479,099
Interest expense incurred from trust of shareholders of parent company	-	149,511	-	-	-	-	-	-	-	-	149,511
Balance, December 31, 2011	**$ 22,563,669**	**63,465,496**	**1,836,601**	**4,327,629**	**144,466**	**(784,234)**	**440**	**48,936**	**-**	**(18,794)**	**91,584,209**
Balance, January 1, 2012	$ 22,563,669	63,465,496	1,836,601	4,327,629	144,466	(784,234)	440	48,936	-	(18,794)	91,584,209
Issuance of restricted employee stock	339,380	478,366	-	-	-	-	-	-	(497,698)	-	320,048
Service cost recognized from granting convertible corporate bonds－stock option	-	329,225	-	-	-	-	-	-	-	-	329,225
Compensation cost arising from employee stock option	-	114,472	-	-	-	-	-	-	-	-	114,472
Net income for the year ended December 31, 2012	-	-	-	-	6,103,796	-	-	-	-	-	6,103,796
Appropriations and distributions of 2011 earnings (Note 2):											
Legal reserve	-	-	11,136	-	(11,136)	-	-	-	-	-	-
Special reserve	-	-	-	(3,592,770)	3,592,770	-	-	-	-	-	-
Adjustment arising from long-term equity investments	-	172,709	-	-	-	(1,482,454)	(2,157)	73,135	-	-	(1,238,767)
Cumulative translation adjustments	-	-	-	-	-	(1,134,150)	-	-	-	-	(1,134,150)
Balance, December 31, 2012	**$ 22,903,049**	**64,560,268**	**1,847,737**	**734,859**	**9,829,896**	**(3,400,838)**	**(1,717)**	**122,071**	**(497,698)**	**(18,794)**	**96,078,833**

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

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

	For the Years Ended December 31	
	2012	2011
Cash flows from operating activities:		
Net income	$ 6,103,796	111,365
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	174,323	205,342
Amortization	468,706	471,361
Reversal of impairment loss	(4,127)	(28,450)
Provision (Reversal) for allowance for uncollectible accounts	12,037	(25,999)
Provision (Reversal) for contingent service cost	71,599	(259,509)
Amortization of discount on bonds payable	61,930	-
Gain on foreign currency exchange on bonds payable	(156,066)	-
Amortization of issuance costs on bonds payable	11,537	-
Provision (Reversal) for inventory market price decline and obsolescence	39,157	(186,652)
Investment income under equity method	(7,341,563)	(1,516,472)
Cash dividend from investments under equity method	2,260,957	2,055,436
Loss (gain) on disposal and retirement of assets, net	27,537	(10,491)
Gain on disposal of long-term investments under the equity method	(62,028)	-
Gain on valuation of financial labiliies	(14,135)	-
Unrealized profits on intercompany transactions	44,894	47,231
Gain on foreign currency exchange on long-term loans	(494,000)	-
Employee compensation cost	179,563	199,024
Change in assets and liabilities:		
Notes and accounts receivable	(80,728,835)	(68,773,813)
Other receivables	(10,454,525)	(9,624)
Inventories	(2,804,347)	(1,896,501)
Other current assets	(488,474)	(60,603)
Deferred income tax assets and liabilities, net	240,984	(45,641)
Accounts payable	80,659,176	66,031,937
Income tax payable	192,699	-
Accrued expenses	(1,936,207)	(4,259,795)
Other current liabilities	4,333,042	199,011
Net cash used in operating activities	(9,602,370)	(7,752,843)
Cash flows from investing activities:		
Increase in long-term investments under the equity method	(589,451)	(294,000)
Proceeds from disposal of long-term investments under the equity method	305,082	-
Decrease in long-term investments under the equity method	-	440,880
Purchase of property, plant and equipment and intangible assets	(39,081)	(127,179)
Proceeds from disposal of assets, idle assets, deferred charges	13,966	711,319
Increase in deferred charges	(7,360)	(288,617)
Purchase of intangible assets	(51,704)	(32,920)
Increase in other financial assets	(5,580)	(750)
Net cash (used in) provided by investing activities	(374,128)	408,733
Cash flows from financing activities:		
Increase in short-term loans	183,660	3,510,900
Issuance of bonds payable	8,835,640	-
Increase in long-term loans	-	5,118,800
Increase in other accounts payable－Related parties	5,808,000	-
Increase (Decrease) in other financial liabilities	782	(5,979)
Distribution of cash dividends	-	(3,271,731)
Issuance of restricted stock to employees	339,380	-
Net cash provided by financing activities	15,167,462	5,351,990
Net increase (decrease) in cash	5,190,964	(1,992,120)
Cash, beginning of the year	6,815,955	8,808,075
Cash, end of the year	**$ 12,006,919**	**6,815,955**
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest, excluding capitalized interest	**$ 313,342**	**158,264**
Income tax	**$ 3,872**	**408,046**
Non-cash investing and financing:		
Long-term loans － current portion	**$ 2,323,200**	-
Reclassification of idle assets to fixed assets	**$ 32,710**	**136,852**
Cash paid from acquisition of subsidiaries:		
Increase in long-term investments under the equity method	$ 589,451	416,935
Less: Accounts payable, end of the year	-	(122,935)
	$ 589,451	**294,000**

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

(English Translation of Financial Report Originally Issued in Chinese)
RPEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 AND 2011
(Amounts Expressed in New Taiwan Dollars in Thousands,
Except for Per Share Information and Unless Otherwise Stated)

1. Organization and Business

Pegatron Corporation (the “Company”) was established on June 27, 2007. In order to enhance competitiveness and boost productivity, the Company resolved to absorb the OEM business from ASUSTek Computer Inc. on January 1, 2008 as part of the Company’s business restructuring. On April 1, 2008, ASUSALPHA Computer Inc. was merged with the Company. The main activities of the Company are to produce, design and sell OEM business. In January 2010, pursuant to the resolutions of the respective board of directors, the Company merged with Pegatron International Investment Co., Ltd., effective June 10, 2010. As the surviving entity from this merger, the Company applied for initial public offering (IPO) to TSEC. The Company’s shares were listed on TSEC on June 24, 2010.

As of December 31, 2012 and 2011, the Company had 5,287 and 5,035 employees, respectively.

2. Summary of Significant Accounting Policies

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

a. Use of Estimates

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

b. Foreign Currency Translation

The Company records its transactions in New Taiwan dollars. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date, and the resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the reporting currency using the foreign exchange rates at the balance sheet date. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains or losses from such translation are reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange gains or losses from such translation are recorded as a separate component of stockholders' equity.

For long-term equity investments in foreign investees which are accounted for by the equity method, their foreign currency-denominated assets and liabilities are translated at spot rate on the balance sheet date; the components of their stockholders' equity are translated at the historical rate except for the beginning balance of retained earnings, which is translated using the spot rate at the beginning of the year. Income statement accounts are translated at the weighted-average rate of the year. Translation differences are accounted for as cumulative translation adjustments to stockholders' equity.

c. Basis for Classifying Assets and Liabilities as Current or Non-current

Unrestricted cash, cash equivalents, assets held for trading, or other assets that the Company will convert to cash or use within in a relatively short period of time - one year or one operating cycle, whichever is longer - are classified as current assets; other assets are classified as non-current assets. Debts due within one year or one operating cycle, whichever is longer, are classified as current liabilities; other liabilities are classified as non-current liabilities.

d. Asset Impairment

The Company adopted Statement of Financial Accounting Standards No. 35 (SFAS 35) "Impairment of Assets." In accordance with SFAS 35, the Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit other than goodwill) may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

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

e. Financial Instruments

i. Financial assets or liabilities reported at fair value through profit or loss

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

ii. Notes and Account receivables, and other receivables

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

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

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

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

iii. Compound financial instruments

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

f. Transfer of Financial Assets

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

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

ii. Each transferee has the right to pledge or exchange the rights to the accounts receivable, and no condition prevents the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.

iii. The transferor does not maintain effective control over the rights to the accounts receivable claims through either:

(1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or

(2) the ability to unilaterally cause the holder to return specific rights to the accounts receivable.

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

g. Inventories

Inventories are carried at the lower of cost or net realizable value using a perpetual inventory basis. Cost is determined using the weighted-average method. According to SFAS 10, the cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period. The replacement cost of raw material is its net realizable value.

h. Long-Term Equity Investments (Including Joint Ventures)

Long-term equity investments in which the Company, directly or indirectly, owns 20% or more of the investee's voting shares, or less than 20% of the investee's voting shares but is able to exercise significant influence over the investee's operating and financial policies, are accounted for under the equity method.

Investment in joint ventures in which the Company has the ability to control is accounted for under the equity method.

Unrealized profits/losses on intercompany transactions are eliminated and deferred. Gains and losses resulting from transactions involving depreciable assets are recognized ratably over their economic lives, while those from other assets are recognized immediately.

Cost and gains or losses on partial disposition of long-term equity investments are determined by the weighted-average method. Capital surplus from partial disposition of such investments is reduced by the percentage sold, with gains and losses included in current earnings.

The change in the carrying value of long-term equity investment as a result of the change in percentage of equity ownership due to disproportionate subscription to additional shares issued by the investee company is charged against capital surplus. When the balance of capital surplus arising from long-term equity investments is insufficient, the difference is charged against retained earnings.

i. Property, Plant, and Equipment, Rental Assets, Idle Assets, and Depreciation

Property, plant, and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. Interest expense incurred up to the time when the asset is ready for its intended use is capitalized as part of the acquisition cost. Major additions, improvements, and replacements are capitalized.

Depreciation is provided over the estimated economic lives using the straight-line method. Assets still in use at the end of their estimated useful lives are continuously depreciated based on their estimated remaining useful lives and estimated salvage values. Economic lives of major property and equipment are as follows:

Buildings	5 to 50 years
Machinery and equipment	1 to 6 years
Warehousing equipment	8 years
Instrument equipment	3 years
Transportation equipment	5 years
Office equipment	5 years
Leased assets	3 years
Miscellaneous equipment	3 to 15 years

Gain and loss on disposal of properties are recorded as non-operating income or loss.

Rental assets and idle fixed assets, which are not used for operating purposes, are classified as other assets.

j. Intangible Assets

According to the Statement of Financial Accounting Standard No. 37 (SFAS 37) "Intangible Assets," intangible assets are initially stated at cost, except for the government grant which is stated at fair value. Intangible assets with finite life are measured at cost plus the revaluation increment arising from the revaluation in accordance with the laws, less any accumulated amortization and any impairment losses.

The amortizable amount of intangible assets with definite lives is determined after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are made available for use. The economic useful lives of intangible assets are as follows:

Computer software cost	3 to 5 years

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

k. Deferred Charges

The costs of renovation project and office decorations are deferred and amortized equally over 3 to 5 years, and the costs of molds and fixtures are deferred and amortized equally over 1 to 2 years.

l. Pension Plan

In accordance with the "Labor Pension Act," that prescribes a defined contribution plan, the Company contributes monthly to the Labor Pension Fund at the rate of 6% of the employees' monthly wages. These contributions are accrued and recognized as pension expense in the period when the service is rendered.

m. Warranty Reserve

For products under warranty, warranty costs are accrued based on the past record of the cost of returns for repair, failure rate and warranty period. Warranty costs are accounted for as current expenses when the sales are recognized.

n. Revenue and Cost Recognition

Revenue is recognized when title to the product and the risks and rewards of ownership are transferred to the customer; otherwise revenue recognition is deferred until these criteria are met. The related cost and expenses are recognized as the revenue is recognized. The expenses are recognized on accrual basis. Also, allowances for sales returns and discounts are estimated based on historical experience. Such allowances are recognized in the same period in which sales are made.

o. Classification of Capital and Operating Expenditures

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

p. Share-based payment transactions

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 issued by ROC Accounting Research and Development Foundations (ARDF) for employee stock options that were granted before January 1, 2008.

i. An equity-settled share-based payment transaction is measured based on the fair value of the award at grant date, and is recognized as expenses over the vesting period with a corresponding increase in equity. The vesting period is estimated based on the vesting conditions under the share-based payment arrangement. Vesting conditions include service conditions and performance conditions (including market conditions). In estimating the fair value of an equity-settled share-based award, only the effect of market conditions is taken into consideration.

ii. A cash-settled share-based payment transaction is measured at the balance sheet date and the settlement date based on the fair value of the stock option as of those dates and is recorded as a liability incurred for the goods and services received. Changes in fair values are recognized in profit or loss for the period.

iii. The fair value of employee stock options and similar instruments at grant date is estimated using the Black-Scholes option-pricing model, taking into account the exercise price, the current market price of the underlying shares, management's best estimate of the expected term, the expected volatility, the expected dividends, and the risk-free interest rate.

iv. Company shares of stock award to employees subject to certain restrictions is an equity-settled share-based payment transaction, which is measured based on the fair value of the award at grant date, and is recognized as expenses over the vesting period with a corresponding increase in equity. Employees receiving restricted stock awards are not limited to the right to receive dividends, and need not return receipt of dividends as they resign within the vesting period. However, upon the Company's declaration of dividend, dividends expected to be received by employees resigning within the vesting period are estimated based on grant-date fair value and are recognized as a compensation cost.

q. Employee Bonuses and Remuneration to Directors and Supervisors

Appropriations for employee bonuses and remuneration to directors and supervisors are accounted for in accordance with Interpretation (96) 052 issued by the ROC Accounting Research and Development Foundation. According to this Interpretation, the Company estimates the amount of employee bonuses and remuneration to directors and supervisors and recognizes it as expenses in the period when services are rendered. The differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized in profit or loss.

r. Commitments and Contingencies

If loss from a commitment or contingency is deemed highly likely and the amount can be reasonably estimated, then such loss is immediately recognized. Otherwise only the nature of such loss is disclosed in the notes to the financial statements.

s. Income Tax

In accordance with Statement of Financial Accounting Standards No. 22 (SFAS 22) "Income Taxes," income taxes are accounted for using the asset and liability method. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, loss carry forwards and investment tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly. The deferred income tax liabilities and deferred income tax assets are recalculated based on newly modified effective tax rate, and the difference between newly calculated amount and the originally calculated one is reported as current expense or benefit when the new tax rate is announced. Adjustments to prior years' income taxes are reported as current income taxes.

Deferred income tax assets or liabilities are classified as current and non-current in accordance with the nature of the related assets and liabilities or the length of time to their reversal.

Income taxes credits from purchase of equipment, technical research and development, and personnel training are recognized by the flow-through method.

The 10% surtax on undistributed earnings of the Company is reported as current expense on the date when the stockholders declared not to distribute the earnings during their annual meeting.

t. Earnings per Share ("EPS")

Earnings per share of common stock is determined based on net income available to common stockholders divided by the weighted-average number of outstanding shares of common stock. The effect on earnings per share from an increase in capital stock through the distribution of stock dividends from unappropriated earnings, capital surplus, or employee stock bonuses approved in the annual stockholders' meetings held before and in 2008 is computed retroactively.

Diluted EPS is calculated by dividing net income by the weighted-average number of common shares used in the basic EPS calculation plus the number of common shares that would be issued assuming all potentially dilutive common shares are converted and outstanding. The convertible corporate bonds, employee stock option and employee stock bonus which are not yet resolved for distribution in the shareholders' meeting are treated as potentially dilutive common shares. If a dilutive effect does not exist, only basic EPS is disclosed; otherwise, diluted EPS is disclosed in addition to the basic EPS.

u. Spin–Off Transactions

Spin-off transactions are accounted for under Interpretation (91) 128 issued by the ROC Accounting Research and Development Foundation. Under this Interpretation, if a transferor company and a transferee company are affiliated and the spin-off transaction arise from group reorganization, the assets and liabilities are recognized by the transferee based on the book value of the assets and liabilities of the transferor company without recognizing any transfer gain/loss. However, if the book value of the assets exceeds their fair value, the excess is recognized as impairment loss before the transfer of these assets.

v. Treasury Stock

As the Company purchased its outstanding shares, the Company adopted Financial Accounting Standard No. 30 "Accounting for Treasury Stock" in the accounting of treasury shares of stock, which are stated at cost. When treasury stock is sold, the excess of the proceeds from sale over the book value of treasury stock is recorded as capital surplus-treasury stock transaction. If the disposal price is lower than the book value, the difference is offset against capital surplus resulting from other treasury stock transactions, and any deficiency is debited to retained earnings. The carrying amount of treasury stock is calculated by using the weighted-average method according to the same class of treasury stock.

When treasury stock is cancelled, "capital surplus-premium on capital stock" is debited proportionately according to the equity shareholding ratio. If the book value of the treasury stock exceeds the sum of par value and premium on capital stock, the difference is offset against capital surplus arising from similar treasury stock transactions, and any deficiency is charged against retained earnings. If the book value is less than the total par value and premium on stock, the difference is added to capital surplus arising from treasury stock transaction of the same category.

In accordance with Financial Accounting Standard No. 30 "Accounting for Treasury Stock," the Company's shares of stock held by its subsidiaries are deemed as treasury stock when recognizing investment income (loss) and when preparing the financial statements.

w. Operating Segments

Segment information is disclosed in the consolidated financial statements, and need not be presented in the individual or stand-alone financial statements.

x. Business Combinations

According to SFAS No.25 "Business Combination," the equity of the acquiring corporation in a business acquisition in cash is valued either at the fair value of the assets contributed or at the fair value of the property acquired, whichever is more objectively evident. All identified assets acquired and liability assumed in a business combination, whether or not shown in the financial statements of the acquired corporation, are measured based on their fair value at the acquisition date.

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

3. Reasons for and Effect of Accounting Changes:

Effective from January 1, 2011, the Company adopted the third revision of SFAS No. 34 "Financial Instrument Recognition and Measurement" on the recognition, subsequent measurement and impairment testing of originated loans and receivables and on trouble debt restructuring and modification of debt agreement commencing from January 1, 2011. The adoption of this amended accounting principle disclosed no significant influences on profit or loss for the year ended December 31, 2011.

Effective from January 1, 2011, the Company adopted SFAS No. 41 "Operating Segments." In accordance with SFAS No. 41, information is disclosed to enable users of the Company's financial statements to evaluate the nature and financial effects of the business activities in which the Company engages and the economic environment in which it operates. Accordingly, the Company determines and presents operating segments based on the information that internally is provided to the chief operating decision maker. This new accounting Standard superseded SFAS No. 20 "Segment Reporting." The adoption of this accounting standard did not have any cumulative effect for the year ended December 31, 2011.

4. Summary of Major Accounts:

a. Cash

	December 31, 2012	December 31, 2011
Cash on hand	$ 160	50
Demand deposits	467,730	773,503
Foreign currency deposits	6,550,197	3,424,527
Foreign currency time deposits	4,088,832	1,967,875
Time deposits	900,000	650,000
Total	**$ 12,006,919**	**6,815,955**

b. Notes and Accounts Receivable － Non-related parties

	December 31, 2012	December 31, 2011
Notes receivable	$ 140	-
Less: Allowance for uncollectible accounts	(108)	-
Net	32	-
Accounts receivable	79,982,474	40,788,850
Less: Allowance for uncollectible accounts	(29,533)	(17,604)
Less: Allowance for sales returns and discounts	(59,239)	(35,190)
Net	79,893,702	40,736,056
Total	**$ 79,893,734**	**40,736,056**

An assignment of the Company's accounts receivable is generally be treated as sales if the derecognition criteria for the factoring of accounts receivable under SFAS 33 are met. As of December 31, 2012, the assigned accounts receivable which met the derecognition criteria were as follows:

December 31, 2012

Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Range of Interest Rate	Collateral	Significant Transferring Terms	Derecognition Amount
SMBC	$ 7,104,133	USD 300,000,000	USD 243,405,143	0.8937%~ 0.9112%	None	The accounts receivable factoring is without recourse but the sellers still bears the risks except for eligible obligor's insolvency.	$ 7,104,133
ANZ(Note)	$ 26,185,725	USD 900,000,000	USD 540,000,000	0.90%	None	"	$ 26,185,725

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

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

c. Inventories

	December 31, 2012	December 31, 2011
Merchandise (including inventory-in-transit)	$ 11,806,401	7,486,732
Less: Allowance for inventory market decline and obsolescence	(172,766)	(135,912)
Sub-total	11,633,635	7,350,820
Finished goods	11,812	254,019
Less: Allowance for inventory market decline and obsolescence	(4,602)	(4,719)
Sub-total	7,210	249,300
Work in process	54,402	70,921
Less: Allowance for inventory market decline and obsolescence	(16,307)	(21,665)
Sub-total	38,095	49,256
Raw materials	430,295	1,704,361
Less: Allowance for inventory market decline and obsolescence	(91,085)	(100,776)
Sub-total	339,210	1,603,585
Total	**$ 12,018,150**	**9,252,961**

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

	For the Years Ended December 31	
	2012	**2011**
Cost of goods sold	$ 631,800,783	366,552,380
Provision (Reversal) for inventory market price decline	21,688	(191,859)
Loss on inventory obsolescence	17,469	5,207
	$ 631,839,940	**366,365,728**

For the year ended December 31, 2011, 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.

d. Long-Term Equity Investments

	December 31, 2012			December 31, 2011		
Name of Investee Company	Equity Holding	Book Value	Original Investment	Equity Holding	Book Value	Original Investment
PEGATRON HOLDING LTD.	100.00%	$ 30,151,495	24,825,750	100.00%	29,398,324	24,238,150
UNIHAN CORPORATION	100.00%	12,944,240	10,194,416	100.00%	12,031,272	12,098,279
ASUSPOWER INVESTMENT CO., LTD.	100.00%	14,128,052	13,033,429	100.00%	14,031,301	13,033,429
ASUS INVESTMENT CO., LTD.	100.00%	15,732,207	16,184,982	100.00%	15,379,992	16,184,982
ASUSTEK INVESTMENT CO., LTD.	100.00%	14,782,757	14,593,543	100.00%	14,281,002	14,593,543
ADVANSUS CORP.	- %	-	-	50.00%	243,069	166,364
ASUS HOLLAND HOLDING B.V.	100.00%	2,064,406	1,278,287	100.00%	1,383,843	1,276,436
PEGATRON USA, INC.	100.00%	16,829	16,085	100.00%	17,097	16,085
		$ 89,819,986			86,765,900	

i. The investment income recognized under the equity method amounted to $7,341,563 and $1,516,472 for the years ended December 31, 2012 and 2011, respectively.

ii. For the year ended December 31, 2012, the Company had participated in the capital increase of PEGATRON HOLDING LTD. and invested USD20,000 thousand (approximately $587,600).

iii. For the purpose of organization restructuring, the Company acquired 7.55% equity ownership of ASUS HOLLAND HOLDING (B.V.) (AHH) from ASUS INVESTMENT CO., LTD. for $122,935 which is equal to the carrying value of ASUS INVESTMENT CO., LTD.'s long-term investment in AHH. Following such acquisition, the Company participated in the capital increase of AHH and invested EUR$ 50 thousand (approximately $1,851) for the year ended December 31, 2012.

iv. In order to enhance resource efficiency, the Company sold all its equity ownership in ADVANSUS CORP. ("ADVANSUS") to the other joint venture party for $306,000 on January 5, 2012. The transfer of equity ownership was completed in June 2012, and a disposal gain of $ 62,028 was recognized thereon.

v. On November 19, 2012, Unihan Corporation's shareholders resolved to offset Unihan Corporation's accumulated deficits of $1,322,043 via capital reduction. This resulted in a decrease in the Company's equity investment in Unihan Corporation by $1,903,863, divided into 132,204 thousand shares, according to the capital reduction ratio.

vi. ADVANSUS CORP. is a joint venture entity of the Company, which held the assets and liabilities of ADVANSUS CORP. as follows:

	December 31, 2011
Current Assets	$ 411,541
Non-current Assets	11,417
Current Liabilities	179,889

	For the Year Ended December 31, 2011
Revenues	$ 1,447,598
Expenses	1,416,366

vii. For the years ended December 31, 2012 and 2011, the Company received cash dividend of $2,260,957 and $2,055,436, respectively, from its investee companies accounted under equity method.

viii. For the years ended December 31, 2012 and 2011, the Company's shares held by its subsidiaries are treated as treasury stock in accordance with ROC SFAS 30 as described in Note 4(l).

ix. Investees, in which the Company has controlling interest over their operation, are included in the Company's consolidated financial statements, except for ADVANSUS CORP.

e. Idle Assets

(i) In accordance with Statement of Financial Accounting Standards No. 35 (SFAS 35) "Accounting for Asset Impairment," the Company performed asset impairment test by comparing the recoverable amount with the carrying value of idle assets. Based on the results of such assessment, the Company recognized provisions for impairment loss of $3,911 and $8,038 as of December 31, 2012 and 2011, respectively.

(ii) For the years ended December 31, 2012 and 2011, the Company recognized a gain from impairment recovery of $4,127 and $28,450, respectively, and a gain (loss) on disposal of idle assets of $(1,581) and $107,964, respectively.

f. Short-Term Loans

Nature of the loan	December 31, 2012	December 31, 2011
Credit loan	$ 6,359,760	6,176,100
Range of interest rate	**0.72%~1.40%**	**0.70%~1.56%**

The Company issued promissory notes as guarantee for part of credit loan facility. The majority of this credit facility was used jointly by the Company and Unihan Corporation.

g. Financial Liabilities Reported at Fair Value Through Profit or Loss

	December 31, 2012
Financial liabilities — put and call options embedded in overseas convertible bonds	**$ 6,275**

(ii) For the year ended December 31, 2012, the Company recognized a gain of $14,135 on valuation of financial liabilities reported at fair value through profit or loss — noncurrent.

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

h. Long-Term Loans

Creditor	Types of Debt	Credit Line	Repayment Schedule	December 31 2012	December 31 2011
Citibank Taiwan and 14 other banks	Credit loan	**USD 400,000,000**	2010.10.25~2015. 10.25. This loan is payable in 5 semi-annual installments, commencing October 25, 2013.	**USD 400,000,000**	**USD 400,000,000**
				$ 11,616,000	12,110,000
Less: current portion of long-term loans				(2,323,200)	-
				$ 9,292,800	**12,110,000**

For the years ended December 31, 2012 and 2011, long-term loans bore interest at average rates of 0.9086% ~ 2.3256% and 1.0647% ~2.3256%, respectively. According to the syndicated loan agreement, during the loan repayment periods, the Company must comply with certain financial covenants based on its audited consolidated financial statements as of the balance sheet date (June 30 and December 31) as follows:

(i) Current ratio (current assets/current liabilities): should not be less than 100%.

(ii) Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.

(iii) Interest coverage ratio (EBITDA/interest expense): should not be less than 400%.

(iv) Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than $90,000,000.

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

As of December 31, 2012, the Company was in compliance with the loan covenants mentioned above.

The Company's promissory notes were pledged as a guarantee for the credit loan facility as of December 31, 2012 and 2011.

i. Bonds Payable

	December 31, 2012	Collateral
Overseas convertible bonds payable	$ 8,874,000	None
Less: Discount on bonds payable	(309,074)	
Less: Foreign currency valuation, end of the period	(161,520)	
Net	8,403,406	
Less: Current portion of bonds payable	-	
Total	**$ 8,403,406**	

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

Item	First overseas unsecured convertible bonds issued in 2012
1. Offering amount	USD300 million with each unit valued at USD200 thousand.
2. Issue date	February 6, 2012
3. Listing place	Singapore Exchange Securities Trading Limited (the "SGX-ST")
4. Interest	The Bonds will not bear any interest.
5. Issue period	5 years, commencing from February 6, 2012 and matured on February 6, 2017.
6. Settlement	Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on Maturity Date at an amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.

Item	First overseas unsecured convertible bonds issued in 2012
7. Redemption at the option of the Company	(1) The Company may redeem the Bonds, in whole but not in part, at the early redemption amount at any time on or after February 6, 2015 if the closing price of the common shares on TWSE (translated into U.S. Dollars at the fixing rate at 11:00 a.m. Taipei time as quoted by Taipei Forex Inc.) on each trading day during a period of 20 consecutive trading dates exceeds at least 125% of the quotient of the early redemption amount divided by the number of shares to be issued upon conversion of USD200,000 principal amount of Bonds on the applicable trading day based on the conversion price then in effect (translated into U.S. Dollars at the fixed exchange rate of NT$29.761 = USD1.00). (2) If more than 90% in principal amount of the Bonds originally outstanding has been redeemed, repurchased and cancelled or converted, the Company has the right to redeem all but not portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis. (3) The Bonds may be redeemed, in whole but not in part, if the affect of change in the tax laws of ROC will increase the Company's tax liability, interest expense or related cost from the Bonds. Holders may elect not to have their bonds redeemed with no entitlement to any additional amount of reimbursement of additional tax.
8. Redemption at the option of the Holder	(1) Each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds on February 6, 2015 at a redemption price equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis. (2) In the event that the Company's common shares ceased to be listed or admitted to trading on the TWSE, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis. (3) In the event of change of control occurs with respect to the Company, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount.

Item	First overseas unsecured convertible bonds issued in 2012
9. Conversion	(1) Conversion period Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, each Holder of the Bonds will have the right at anytime during the conversion period commencing March 18, 2012 (the 41st day following the Closing Date) and ending at the close of business on January 27, 2017 (the 10th day prior to the Maturity Date), to convert their bonds. (2) Conversion price The conversion price was NT$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012. However, upon the issuance of restricted Company shares of stock to employees, the conversion price has been adjusted to NT$41.66 per share effective December 20, 2012. (3) Conversion to common shares Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT$29.761 = USD1.00) divided by the conversion price on the conversion date.

The Company separately accounts overseas convertible corporate bonds into the equity components and liability components. The equity components are accounted for under capital surplus and the liability components are accounted for under financial liabilities reported at fair value through profit or loss or bonds payable in accordance with SFAS 36. As of December 31, 2012, information on the aforesaid convertible bonds were as follows:

First overseas unsecured convertible bonds issued in 2012	December 31, 2012
Total issue price	$ 8,874,000
Discount on bonds payable	(282,252)
Discount on bonds payable — transaction cost	(26,822)
Accumulated converted amount	-
Accumulated redeemed amount	-
Bonds payable, end of the period	8,564,926
Less: Valuation of bonds payable	(161,520)
Less: Current portion of bonds payable	-
Bonds payable, net, end of the period	**$ 8,403,406**
Equity components — capital surplus on stock options	**$ 329,225**
Liability components — financial liabilities (put and call options) reported at fair value through profit or loss	**$ 6,275**
Liability components — gain on valuation	**$ (14,135)**
Interest expense	**$ 182,163**

j. Pension Plan

For the years ended December 31, 2012 and 2011, the pension costs for the defined contribution pension plan of the Company amounted to $187,117 and $179,349, respectively.

k. Income Tax

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

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

	For the Years Ended December 31	
	2012	2011
Current income tax benefit	$ -	(50,893)
Deferred income tax expense	240,984	5,251
10% surtax on undistributed earnings	184,650	-
Prior years income tax adjustment	11,923	(7,209)
Income tax expense (benefit)	**$ 437,557**	**(52,851)**

The components of deferred income tax expense were as follows:

	For the Years Ended December 31	
	2012	2011
Unrealized exchange gain (loss)	$ 89,513	(188,884)
Reversal (Provision) of allowance for loss on inventory market decline and obsolescence	(3,687)	32,616
Allowance for sales return and discount	(10,071)	-
Unrealized profits on sales	(7,632)	(8,029)
Amortization of employee benefits	17	17
Gain on (provision) reversal of warranty reserve	(12,171)	44,117
Investment tax credits	259,035	249,252
Unrealized expenses and foreign exchange gain on bonds payable	6,091	-
Gain on reversal of impairment loss on assets	701	4,836
Unrealized foreign investment income	-	34,285
Reserve for foreign investment losses	(8,965)	-
Reversal of valuation on allowance for deferred tax assets	(71,847)	(162,959)
Deferred income tax expense	**$ 240,984**	**5,251**

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

	For the Years Ended December 31	
	2012	**2011**
Income tax calculated on pre-tax financial income at statutory tax rate	$ 1,112,030	9,947
Permanent differences	(1,475,234)	(241,093)
10% surtax on undistributed earnings	369,300	-
Investment tax credits	2,538	85,203
Non deductable loss carry-forward	417,000	100,301
Prior years income tax adjustment	11,923	(7,209)
Income tax expense (benefit)	**$ 437,557**	**(52,851)**

(iv) As of December 31, 2012 and 2011, the temporary differences, loss carry-forwards and income tax credits and the related income tax effect thereof resulting in deferred income tax assets (liabilities) were as follows:

	December 31, 2012		December 31, 2011	
Temporary differences of deferred income tax assets (liabilities) — current	**Amount**	**Income Tax Effect**	**Amount**	**Income Tax Effect**
Unrealized foreign exchange (gain) loss: (taxable) deductible	$ (117,006)	(19,891)	409,543	69,622
Allowance for loss on inventory market decline and obsolescence: deductible	284,760	48,409	263,071	44,722
Unrealized sales return and sales discount: deductible	59,239	10,071	-	-
Deferred employee benefits for tax: deductible	-	-	100	17
Warranty reserve: deductible	117,937	20,049	46,339	7,878
Unrealized intercompany profits: deductible	102,505	17,426	57,611	9,794
Investment tax credits: deductible	-	249,624	-	508,659
Valuation allowance		(291,575)		(363,422)
Net deferred income tax assets—current		**$ 34,113**		**277,270**

	December 31, 2012		December 31, 2011	
Temporary differences of deferred income tax assets (liabilities) — noncurrent	**Amount**	**Income Tax Effect**	**Amount**	**Income Tax Effect**
Unrealized impairment loss on assets: deductible	$ 3,911	665	8,038	1,366
Unrealized interest expenses on bonds payable: deductible	120,232	20,440	-	-
Unrealized foreign exchange gain on bonds payable: taxable	(156,066)	(26,531)	-	-
Unrealized gain on foreign investments including cumulative translation adjustments: taxable	(1,325,062)	(225,261)	(1,325,062)	(225,261)
Reserve for foreign investment losses: taxable	(595,791)	(101,285)	(648,527)	(110,250)
Net deferred income tax liabilities— noncurrent		$ (331,972)		(334,145)

(v) The Company's tax returns through 2010 have been assessed and approved by the Tax Authority. However, the tax return for 2008 is still under review.

(vi) In accordance with Statute for Industrial Innovation, the Company is allowed to avail of tax credit from R&D expenditures, but this tax credit cannot exceed 30% of the business income tax payable in a given year. Pursuant to Statute for Upgrading Industries, the Company can credit up to 50% of the amount of funds invested for R&D expenditures against the amount of business income tax payable within five years commencing from the year subsequent to the tax credit application, however, such limit for the tax credit application shall not apply to the final year. The Company was granted investment tax credits from funds invested in equipment for automation of production, equipment for pollution control, R&D and personnel training, and newly emerging, important and strategic industries which are deemed tax credit under the statute. As of December 31, 2012, unused investment tax credits which may be applied to offset against income tax payable in the future were as follows:

Year of loss	Unused amount	Year of expiration
2009	$ 219,702	2013
2011 (estimated)	29,922	2011
	$ 249,624	

(vii) Due to the increase in its investments in new equipment, the Company was granted several income tax exemptions for its manufacturing and sales of "motherboard" out of the new equipment purchased from the proceeds of capital increase. As of December 31, 2012, the details of the five year income tax exemption period were as follows:

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

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

Undistributed earnings:	December 31, 2012	December 31, 2011
Accumulated in 1997 and prior years	$ -	-
Accumulated in 1998 and thereafter	9,829,896	144,466
Total	**$ 9,829,896**	**144,466**
Stockholders' imputation tax credit account	**$ 211,593**	**3,448**

	2012 (Expected)	2011 (Actual)
Expected or actual deductible tax ratio	**5.67%**	**0.09%**

l. Stockholders' Equity

(i) Capital Stock

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

In order to enhance own-brand business and boost productivity, the board of directors of ASUSTeK Computer Inc. ("ASUSTek") resolved on December 11, 2009 but revised it on January 1, 2010, to spin-off or cede its OEM group (Pegatron Corporation (the "Company")) to Pegatron International Investment Co., Ltd. ("Pegatron Investment"), which is being held by ASUSTeK. Pegatron Investment will issue new shares to ASUSTeK and all shareholders of ASUSTek, for which, ASUSTek and all other shareholders of ASUSTek will acquire 25% ownership and 75% ownership, respectively, of the equity of Pegatron Investment. The record date of this spin-off was June 1, 2010. Following the spin-off, the Company merged with Pegatron Investment. The Company issued 10 thousands new shares, resulting in additional capital of $100. Thereafter, the total outstanding capital amounted to $22,860,639, divided into 2,286,064 thousand shares with par value of $10 per share.

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares of stock valued at $296,970. In 2012, the Company had issued 33,938 thousand shares of restricted Company shares of stock to employees. As of December 31, 2012 and 2011, the authorized capital of the Company consisted of 3,000,000 and 2,500,000 thousand shares, respectively, with par value of $10 per share, and its outstanding capital consisted of 2,290,305 thousand shares and 2,256,367 thousand shares of stock, respectively.

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

The Company may issue new GDRs with no more than 60,819,020 Pegatron common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines." As of December 31, 2012, the Company has listed, in total, 9,769 thousand units of GDR on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 shares, the Company has listed Company shares totaling 48,844 thousand shares. Major terms and conditions for GDRs were as follows:

1. Voting Rights

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

2. Dividend Distributions, Pre-emptive Rights, and Other Rights

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

(ii) Share-based payment transactions－employee stock option plan

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

Employee stock option	For the Years Ended December 31	
	2012	**2011**
Grant date	04/02/2012	07/01/2011
Thousand units granted	8,053	40,679
Contractual life	3 years	3 years
Vesting period	2 years	2 years
Actual turnover rate of employees	8.96%	20.48%
Estimated future turnover rate of employees	19.01%	19.88%

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

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

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

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

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

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

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

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

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

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

A. For the year ended December 31, 2012

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

	Issued in 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	37,648	$ 28.38
Granted	-	-
Exercised	-	-
Forfeited	4,739	-
Expired	-	-
Balance, end of the period	**32,909**	28.38
Exercisable, end of the period	**32,909**	
Weighted-average fair value of options granted	**7.9**	
Exercise price of share option outstanding, end of the period	**28.38**	
Remaining contractual life	**0.50**	
Expenses incurred in share-based payment transactions	**92,456**	

B. For the year ended December 31, 2011

	Issued in 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	-	$ -
Granted	40,679	28.38
Exercised	-	-
Forfeited	3,031	-
Expired	-	-
Balance, end of the period	**37,648**	28.38
Exercisable, end of the period	**37,648**	
Weighted-average fair value of options granted	**7.9**	
Exercise price of share option outstanding, end of the period	**28.38**	
Remaining contractual life	**1.50**	
Expenses incurred in share-based payment transactions	**49,513**	

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

(iii) Share-based payment transactions－stock appreciation rights plan

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

	Stock Appreciation Right
Grant date	04/02/2012
Vesting condition	EPS performance target
Exercise period	07/01/2013~06/30/2014
Vesting period	1.25 years
Actual turnover rate of employees	8.27%
Estimated future turnover rate of employees	8.97%

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

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

(iv) Legal reserve and capital surplus

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

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

Dividends yield by the trust of the shareholders of parent company were distributed to the employees of the Company as bonuses. These bonuses both amounted to $409,917 for the years ended December 31, 2012 and 2011, which were credited to capital surplus － others. Also, the Company issued restricted shares of stock to employees, which resulted in capital surplus － restricted employee stock of $478,366 for the year ended December 31, 2012.

(v) Treasury Stock

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

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

3. As of December 31, 2012, the Company's shares held by its subsidiaries were 1,700 thousand shares amounting to $63,835 at fair value.

(vi) Earnings Distribution and Dividend Policy

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

1. 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.

2. Up to 1% as remuneration to directors and supervisors.
3. The remaining earnings, if any, are appropriated according to a resolution of a stockholders' meeting.

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

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

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

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

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

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

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

For the year ended December 31, 2012, employee bonuses of $299,000 and directors' and supervisors' remuneration of $29,000 were estimated and recognized as current expenses. Management is expecting that the differences between the amounts which are yet to be approved in the shareholders' meeting and those recognized in the financial statements, if any, will be treated as changes in accounting estimates and charged to profit or loss.

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

m. Earnings per Share (EPS)

For the years ended December 31, 2012 and 2011, the primary earnings per share, diluted earnings per share and the retroactively adjusted primary and diluted earnings per share were computed as follows:

(Note: shares in thousands)

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

	For the Years Ended December 31			
	2012		2011	
	Before income tax	After income tax	Before income tax	After income tax
Weighted-average common shares outstanding	2,255,780	2,255,780	2,255,192	2,255,192
Potentially dilutive common shares	217,920	217,920	7,981	7,981
Diluted shares	**2,473,700**	**2,473,700**	**2,263,173**	**2,263,173**
Primary earnings per share	**$ 2.90**	**2.71**	**0.03**	**0.05**
Diluted earnings per share	**$ 2.72**	**2.53**	**0.03**	**0.05**

Pro forma result from assuming the Company's shares held by its subsidiaries do not count as treasury stock

	For the Years Ended December 31			
	2012		2011	
	Before income tax	After income tax	Before income tax	After income tax
Net income	$ 6,541,353	6,103,796	58,514	111,365
Effect of potentially dilutive common shares	182,163	151,195	-	-
Diluted net income	**$ 6,723,516**	**6,254,991**	**58,514**	**111,365**
Weighted-average common shares outstanding	2,257,480	2,257,480	2,256,367	2,256,367
Potentially dilutive common shares	217,920	217,920	7,981	7,981
Diluted shares	**2,475,400**	**2,475,400**	**2,264,348**	**2,264,348**
Primary earnings per share	**$ 2.90**	**2.70**	**0.03**	**0.05**
Diluted earnings per share	**$ 2.72**	**2.53**	**0.03**	**0.05**

n. Financial Instruments

(i) Fair value of financial instruments

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

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

	December 31, 2012		December 31, 2011	
Financial Liabilities	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Financial liabilities report at fair value through profit or loss	$ 6,275	6,275	-	-
Bank loans	17,975,760	17,975,760	18,286,100	18,286,100
Bonds payable	8,403,406	8,403,406	-	-

(ii) Methods and assumptions used by the Company to evaluate the fair value of financial instruments were as follows:

1. The fair market value of long-term loans is determined by the present value of future cash flow. As the present value derived by using interest rate in discounting future cash flow is close to the book value, the book value is adopted as the fair market value.
2. The fair market value of bonds payable is determined by the present value of future cash flow. The discount rate adopted calculating the said present value is estimated based on similar corporate bond's market interest rate.
3. The fair value of derivative financial instruments, which are reported at fair value through profit or loss and traded in active markets, is based on quoted market prices. If the financial instruments are not traded in an active market, then the fair value is determined by using valuation techniques, under which, the estimates and assumptions used are consistent with prevailing market conditions.

(iii) Financial risks

1. Market risk

The Company's purchases and sales are denominated mainly in US dollars. Consequently, it is exposed to the current and future foreign currency fluctuation risk that arises from cash flows of foreign currency assets and liabilities. However, this risk may be regarded as insignificant, because foreign currency losses from sales are subsequently offset by foreign currency gain from purchases.

2. Credit risk

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

The Company only transacted with approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Company would transfer the risk by acquiring guarantees or transacting by L/C. In compliance with the Company's customer credit evaluation policies, the Company evaluates the customer's credibility and collectability of notes and account receivables regularly before doing business. Thus, management is not expecting any significant uncollectible accounts.

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

3. Liquidity risk

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

4. Cash flow and interest rate risk

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

(iv) Financial Instruments with Off-Balance Sheet Credit Risk:

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

o. Others

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

	December 31, 2012			December 31, 2011		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	$6,976,283	29.04	202,591,258	3,853,347	30.275	116,660,080
Long-term Equity Investments						
USD	1,038,854	29.04	30,168,324	971,608	30.275	29,415,421
EUR	53,635	38.49	2,064,406	35,320	39.18	1,383,843
Financial Liabilities						
Monetary Items						
USD	7,173,487	29.04	208,318,062	4,042,144	30.275	122,375,910

5. Related-Party Transactions

a. Names and relationships of related parties with the Company

Name of Related Party	Relationship with the Company
ASUSTEK COMPUTER INC. (ASUSTEK)	An investor company accounting its investment in the Company under the equity method
ASKEY COMPUTER CORP.(ASKEY)	An investee company accounted for under the equity method by ASUSTeK Computer Inc.
ASUS TECHNOLOGY INC.	〃
ASMEDIA TECHNOLOGY INC.	〃
ASUSTEK COMPUTER (SHANGHAI) CO., LTD.	〃
ASUS COMPUTER (SHANGHAI) CO., LTD.	〃
SHINEWAVE INTERNATIONAL INC.	〃
UNIMAX ELECTRONICS INC.	〃
ASUS COMPUTER INTERNATIONAL (ACI)	〃
ENERTRONIX, INC.	〃
ASHINE TECHNOLOGY (SUZHOU) LTD.	〃
ASKEY TECHNOLOGY (JIANG SU) LTD. (ASKEY (JIANG SU))	〃
POWTEK (SHANGHAI) CO., LTD. (POWTEK)	An investee company accounted for under the equity method

Name of Related Party	Relationship with the Company
ADVANSUS CORP. (ADVANSUS)	An investee company which ceased to be accounted for under the equity method effective January 1, 2012.
ASROCK INC.	An investee company accounted for under the equity method
ABILITY ENTERPRISE CO., LTD.	〃
PEGA INTERNATIONAL LTD.	〃
UNIHAN CORPORATION (UNIHAN)	〃
AMA PRECISION INC.	〃
STARLINK ELECTRONICS CORP.	〃
ASFLY TRAVEL SERVICE LTD.	〃
AZUREWAVE TECHNOLOGIES INC.	〃
PROTEK (SHANGHAI) LTD. (PROTEK)	〃
SHANGHAI INDEED TECHNOGLY CO., LTD. (SHANGHAI INDEED)	〃
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD. (KAEDAR ELECTRONICS)	〃
MAINTEK COMPUTER (SUZHOU) CO., LTD. (MAINTEK)	〃
BOARDTEK COMPUTER (SUZHOU) CO., LTD.	〃
CASETEK COMPUTER (SUZHOU) CO., LTD. (CASETEK)	〃
AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD. (AVY)	〃
CORE-TEK (SHANGHAI) LTD.	〃
PEGAVISION CORP.	An investee company accounted for under the equity method by Kinsus Interconnect Technology Corp.
RUNTOP(SHANGHAI) CO., LTD. (RUNTOP)	An investee company accounted for under the equity method
LUMENS DIGITAL OPTICS INC.	〃
HOLD JUMPER PACKING (SUZHOU) CO., LTD.	〃
HOLD JUMPER PACKING (SHANGHAI) CO., LTD.	〃
SUZHOU DELUXE PACKING PRODUCTION CO., LTD.	〃
COTEK ELECTRONICS (SUZHOU) CO., LTD.	〃
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	〃
RI-KUAN METAL CORP.(RI-KUAN)	〃

Name of Related Party	Relationship with the Company
RIH LI INTERNATIONAL LIMITED	An investee company accounted for under the equity method
GREEN PACKING LIMITED	〃
DIGITEK (CHONGQING) LTD.	〃
KINSUS INTERCONNECT CORP.	〃
ASUS INVESTMENT CO., LTD.	〃
PEGATRON SERVICOS DE INFORMATICA LTDA. (PCBR)	〃
KAEDAR TRADING LTD.	〃
ASUSPOWER CORP. (ASUSPOWER)	〃
PEGATRON CZECH S.R.O (PCZ)	
PEGATRON JAPAN INC. (PCJ)	〃
PEGATRON MEXICO, S.A. DE C.V.(PCM)	〃
PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	〃
PEGATRON USA, INC.	〃
BLACKROCK MARYLAND INT'L CORP.	〃
VIEWQUEST TECHNOLOGIES (BVI) INC.	〃
UNITED NEW LIMITED	〃
MEGA MERIT LIMITED	〃
ASIAROCK TECHNOLOGY LTD.	〃

b. Significant Transactions with Related Parties

(i) Sales

	For the Years Ended December 31					
	2012			2011		
Name of Related Party	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTEK	$ 132,338,189	20.72	Open account 60 days	168,460,748	45.32	Open account 60 days
PCZ	6,733,693	1.05	120 days from receipt of goods	5,239,652	1.41	120 days from receipt of goods
POWTEK	3,902,538	0.61	45 days from receipt of goods	3,485,967	0.94	45 days from receipt of goods
Others	370,585	0.06	30~90 days from receipt of goods Open account 30~90 days	718,062	0.19	30~90 days from receipt of goods Open account 30~90 days
Total	**$ 143,345,005**	**22.44**		**177,904,429**	**47.86**	

The collection term with third-party customer is L/C, T/T or 7 to 120 days from receipt of goods.

For the years ended December 31, 2012 and 2011, the Company adjusted the double recording of sales to and purchases from related parties, which amounted to $527,057,811 and $309,257,679, respectively.

As of December 31, 2012 and 2011, unrealized profits on intercompany transactions were $102,505 and $57,611, respectively.

(ii) Purchases

	For the Years Ended December 31					
	2012			2011		
Name of Related Party	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	$ 102,904,941	16.26	Open account 60 days	125,809,844	34.37	Open account 60 days
PROTEK	91,791,221	14.50	Open account 60 days	56,064,625	15.32	Open account 60 days
MAINTEK (Note)	4,080,331	0.64	Open account 60 days	(1,700,746)	(0.46)	Open account 60 days
CASETEK	2,176,703	0.34	Open account 60 days	1,822,673	0.50	Open account 60 days
SHANGHAI INDEED	2,131,684	0.34	Open account 60 days	2,546,870	0.70	Open account 60 days
ASKEY (JIANG SU)	1,590,694	0.25	Open account 60 days	2,333,987	0.64	Open account 60 days
RI-TENG	1,337,763	0.21	Open account 60 days	1,421,930	0.39	Open account 60 days
Others	420,027	0.07	30~90 days from receipt of goods Open account 30~120 days	2,203,519	0.58	30~90 days from receipt of goods Open account 30~120 days
Total	**$ 206,433,364**	**32.61**		**190,502,702**	**52.04**	

Note: The Company sells raw materials to overseas factories for fabrication and buys back the finished goods for selling purposes. In order to avoid double recording of sales, the revenues and cost of goods sold are written off in proportion to the repurchase ratio. As the purchase amount is less than the sales amount for the year ended December 31, 2011, the net balance becomes a negative amount.

The purchase term with third-party vendors is 90 days from receipt of goods or open account 30 to 90 days.

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

(iii) Others

(1)

	For the Years Ended December 31	
	2012	2011
After-sales warranty repair expense paid to:		
PCZ	$ 65,487	52,438
PTSI	50,641	106,908
PCJ	17,224	16,531
ASUS COMPUTER (SHANGHAI) CO., LTD.	33,857	1,245
Others	1,533	1,236
Total	**$ 168,742**	**178,358**

(2)

	For the Years Ended December 31	
	2012	2011
Assembling fee paid to:		
ASUSPOWER	$ 186,070	1,347,287
PCM	176,396	155,214
RUNTOP	-	47,325
Others	-	132
Total	**$ 362,466**	**1,549,958**

(3)

	For the Years Ended December 31	
	2012	2011
Other income from:		
ASUSTeK	$ 493,055	527,204
UNIHAN	30,738	28,884
PCJ	17,063	26,119
Others	15,177	19,684
Total	**$ 556,033**	**601,891**

(4) For the years ended December 31, 2012 and 2011, the Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, professional service fee, etc, aggregating to $351,207 and $111,662, respectively.

(5) For the years ended December 31, 2012 and 2011, the Company incurred other related party transactions recorded as rental revenue, amounting to $64,081 and $56,048, respectively.

(6) For the years ended December 31, 2012 and 2011, the Company sold for $8,656 and $3,032 to other related party fixed assets with carrying value of $8,099 and $2,606, which resulted in gain on disposal of fixed assets of $557 and $426, respectively.

(7) For the years ended December 31, 2012 and 2011, the Company had other related party transactions recorded as non-operating expense amounting to $29,151 and $31,779, respectively.

(iv) Accounts receivable (payable)

	December 31, 2012		December 31, 2011	
	Amount	**%**	**Amount**	**%**
Accounts Receivable:				
PROTEK	$ 81,220,882	42.25	53,627,766	48.11
DIGITEK (CHONGQING)	14,458,524	7.52	2,241,367	2.01
MAINTEK	8,840,833	4.60	2,763,233	2.48
ASUSTeK	4,746,542	2.47	9,116,587	8.18
PCZ	2,332,636	1.21	2,616,432	2.35
Others	635,846	0.34	310,758	0.28
Total	**$ 112,235,263**	**58.39**	**70,676,143**	**63.41**
Other Receivables:				
UNIHAN	$ 19,696	0.19	9,053	18.01
RI-KUAN	6,506	0.06	18	0.04
DIGITEK (CHONGQING)	1,300	0.01	-	-
Others	872	0.01	771	1.53
Total	**$ 28,374**	**0.27**	**9,842**	**19.58**
Accounts Payable:				
PROTEK	$ 72,863,923	40.25	53,236,449	53.03
DIGITEK (CHONGQING)	10,769,327	5.95	1,955,635	1.95
Others	1,591,913	0.88	2,747,526	2.74
Total	**$ 85,225,163**	**47.08**	**57,939,610**	**57.72**

	December 31, 2012		December 31, 2011	
	Amount	%	Amount	%
Accrued Expenses:				
PCM	$ 393,676	9.67	359,402	6.10
PROTEK	-	-	362,841	6.16
ASUSPOWER	4,040	0.10	2,274,830	38.64
ASUSTeK	34,181	0.84	396,675	6.74
PCZ	39,572	0.97	13,783	0.23
Others	48,930	1.21	180,568	3.07
Total	**$ 520,399**	**12.79**	**3,588,099**	**60.94**

As of December 31, 2012, the Company had collected $1,349,732, on behalf of PROTEK, which was accounted for under other current liability.

Other related party transactions accounted for as other assets or liabilities in balance sheets were as follows:

	December 31, 2012	December 31, 2011
Assets:		
Prepayments	$ 8,150	75
Temporary payments	236	-
	$ 8,386	**75**
Liabilities:		
Temporary receivables	**$ 87,239**	**24,527**

(v) Endorsement Guarantee

As of December 31, 2012 and 2011, the Company provided endorsement guarantee for bank loans obtained by related parties as follows:

	Amount of Guarantee (thousands)	
Name of Related Party Guaranteed	**December 31, 2012**	**December 31, 2011**
ASUSPOWER	**USD 100,815**	**USD 80,000**
PCZ	**USD 10,000**	**USD 10,000**
PIOTEK	**USD 49,000**	**USD 49,000**
UNITED NEW LTD.	**USD -**	**USD 20,000**
RI-TENG	**USD -**	**USD 90,000**
PROTEK	**USD 200,000**	**USD 200,000**
AVY	**USD -**	**USD 75,000**

(vi) Financing

As of December 31, 2012, the details of financing provided by a related party to the Company were as follows:

	For the Year Ended December 31, 2012			
	The Highest Balance	**Ending Balance**	**Annual Interest**	**Interest Expense**
ASUSPOWER	**$ (5,976,000)**	**(5,808,000)**	0.311%~0.468%	**12,405**

(vii) Remuneration

For the years ended December 31, 2011 and 2010, the total remuneration paid to the members of Board of Directors and Supervisors and of Executive management were as follows:

	December 31, 2012	**December 31, 2011**
Salary and Bonus (including BODS remuneration)	$ 119,916	196,127
Employee Bonus	-	20,791
	$ 119,916	**216,918**

6. Pledged Assets

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

	December 31		
Asset	**2012**	**2011**	**Purpose of pledge**
Restricted deposits	$ 76,204	72,003	Deposits for customs duties, provisional seizure, and accounts receivable factoring
Refundable deposits	30,650	29,271	Deposits for performance guarantee
	$ 106,854	**101,274**	

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

(a) As of December 31, 2012 and 2011, the Company had unused letters of credit of both EUR$ 267 thousand and USD1,000 thousand.

(b) As of December 31, 2012 and 2011, the Company had promissory notes and certificate of deposit obtained for business purpose of both $11,537.

(c) Rental expense and future lease commitments arising from operating lease agreements were as follows:

	For the Year ended December 31, 2012	Future lease commitments 2013	2014	2015	2016
Rent expense	**$ 91,995**	**37,280**	**1,929**	**840**	**-**

8. Significant Catastrophic Losses: None.

9. Significant Subsequent Events: None.

10. Others

a. Personnel, depreciation, and amortization expense incurred, categorized as operating cost or expense, were as follows:

	For the Year Ended December 31, 2012			For the Year Ended December 31, 2011		
Categorized as Nature	**Operating Cost**	**Operating Expense**	**Total**	**Operating Cost**	**Operating Expense**	**Total**
Personnel expense						
Salary expense	803,136	4,457,818	5,260,954	689,436	3,562,442	4,251,878
Health and labor Insurance expense	57,694	259,688	317,382	51,656	241,016	292,672
Pension expense	32,066	159,645	191,711	30,848	149,395	180,243
Other expense	68,885	266,545	335,430	41,823	161,138	202,961
Depreciation expense (Note A)	20,635	146,729	167,364	38,055	155,600	193,655
Amortization expense	341,858	126,848	468,706	247,913	223,448	471,361

Note A: For the years ended December 31, 2012 and 2011, the Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle assets of $6,959 and $11,687, respectively.

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

11. Segment Information

As segment information is disclosed in the Company's consolidated financial statements, the Company need not present such information in its stand-alone or individual financial statements.

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台灣112台北市北投區立功街76號5樓
5F, No. 76, Ligong St., Beitou Dist.,
Taipei City 112, Taiwan
T +886 2 8143 9001
F +886 2 8143 7984
www.pegatroncorp.com

Taiwan Stock Exchange Market Observation Post System
台灣證券交易所公開資訊觀測站網址

http://newmops.twse.com.tw

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