(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

(With Independent Accountants' Review Report Thereon)

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REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of

Pegatron Corporation

We have reviewed the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries (the "Consolidated Company") as of June 30, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Consolidated Company's management. Our responsibility is to express the review report based on our review. We did not review the financial statements of certain consolidated subsidiaries with total assets of NT$ 73,289,564 thousand and NT$ 68,163,271 thousand, representing 20.61% and 26.36% and net sales of NT$ 40,410,038 thousand and NT$ 38,260,385 thousand, representing 10.33% and 15.96% of the related consolidated total as of and for the six months ended June 30, 2012 and 2011, respectively. Those statements were reviewed by other auditors whose reports have been furnished to us, and our opinion, insofar as if relates to the amounts included for certain subsidiaries, were based solely on the reports of the other auditors.

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

The consolidated financial statements of certain subsidiaries were consolidated based on their unreviewed financial statements as of and for the six months ended June 30, 2012 and 2011. The total assets of these subsidiaries amounted to NT$33,623,496 thousand and NT$ 29,018,039 thousand, representing 9.46% and 11.22% of the related consolidated total assets and the total liabilities amounted to NT$8,752,006 thousand and NT$6,142,765 thousand, representing 3.76% and 4.16% of the related consolidated liabilities as of June 30, 2012 and

2011, respectively. The operating revenues of these subsidiaries amounted to NT$14,620,772 thousand and NT$12,953,842 thousand, representing 3.74% and 5.40% of the consolidated operating revenues for the six months ended June 30, 2012 and 2011, respectively, and their net loss amounted to NT$439,037 thousand and NT$201,973 thousand, representing (11.56)% and (75.77)% of the related consolidated net income, respectively. As disclosed in Note 4(5) to the consolidated financial statement, the financial statements of certain long-term investments accounted for under the equity method were not reviewed by independent accountants. Long-term investments in these companies amounted to NT$1,637,490 thousand and NT$1,619,638 thousand as of June 30, 2012 and 2011, respectively, and the related investment income (loss) thereon amounted to NT$23,098 thousand and NT$(8,206) thousand, respectively.

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

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

August 23, 2012

Note to Readers

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

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

(English Translation of Financial Report Originally Issued in Chinese)

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2012 AND 2011

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	June 30, 2012		June 30, 2011	
ASSETS	**Amount**	**%**	**Amount**	**%**
Current Assets:				
Cash (Note 4(1))	$ 53,329,303	15	45,759,013	18
Financial assets reported at fair value through profit or loss－ current (Notes 4(2) and 4(18))	6,652,232	2	7,823,463	3
Available-for-sale financial assets － current (Notes 4(2) and 4(18))	471,008	-	583,911	-
Notes and accounts receivable, net of allowance for uncollectible accounts (Note 4(3))	112,032,238	32	59,450,257	23
Accounts receivable, net – Related parties (Note 5)	7,285,139	2	4,852,614	2
Other receivable	3,224,371	-	2,084,676	1
Other receivable – Related parties (Note 5)	57,114	-	240,072	-
Other financial assets － current (Note 5 and 6)	116,823	-	109,632	-
Inventories (Note 4(4) and 6)	77,478,005	22	64,459,782	25
Other current assets (Note 5)	6,460,673	2	2,930,280	1
Deferred income tax assets － current (Note 4(14))	1,144,186	-	884,041	-
	268,251,092	75	189,177,741	73
Investments:				
Long-term investments under the equity method (Note 4(5) and 4(18))	2,420,385	1	2,365,377	1
Available-for-sale financial assets － noncurrent (Notes 4(2) and 4(18))	541,241	-	1,308,152	1
Held-to-maturity financial assets － noncurrent (Notes 4(2))	-	-	185,164	-
Financial assets carried at cost － noncurrent (Note 4(2) and 4(18))	709,402	-	787,219	-
	3,671,028	1	4,645,912	2
Other financial assets - noncurrent (Note 6)	300,800	-	322,249	-
Property, Plant and Equipment, at cost (Note 4(7) and 6)				
Land	4,418,348	1	4,157,583	2
Buildings	30,406,225	9	24,083,941	9
Machinery and equipment	56,780,769	16	43,465,975	17
Warehousing equipment	114,202	-	118,216	-
Instrument equipment	1,850,153	1	1,495,557	-
Transportation equipment	247,700	-	224,161	-
Office equipment	846,561	-	1,072,312	-
Miscellaneous equipment	15,472,815	4	11,712,814	5
	110,136,773	31	86,330,559	33
Less: Accumulated depreciation	(42,766,708)	(12)	(35,426,821)	(14)
Less: Accumulated impairment	(181,614)	-	(50,746)	-
Prepayments on purchase of equipment	6,463,082	2	4,226,430	2
	73,651,533	21	55,079,422	21
Intangible Assets				
Goodwill (Note 4(8))	1,882,989	1	1,874,245	1
Deferred pension costs	2,525	-	379	-
Land use rights (Note 4(8))	2,977,477	1	2,347,264	1
Other intangible assets (Note 4(8))	1,036,646	-	1,575,904	1
	5,899,637	2	5,797,792	3
Other Assets				
Deferred charges (Note 4(9))	1,820,219	1	2,108,942	1
Deferred income tax assets － noncurrent (Note 4(14))	221,599	-	111,324	-
Other assets － others (Note 4(7) and 4(9))	1,737,638	-	1,303,255	-
	3,779,456	1	3,523,521	1
TOTAL ASSETS	**$ 355,553,546**	**100**	**258,546,637**	**100**

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY	June 30, 2012 Amount	%	June 30, 2011 Amount	%
Current Liabilities:				
Short-term loans (Note 4(10))	$ 30,712,934	9	21,754,573	8
Short-term notes and bills payable	179,845	-	49,908	-
Financial liabilities at fair value through profit or loss — current (Note 4(2) and 4(18))	73,142	-	61,169	-
Notes and accounts payable	126,963,661	36	75,204,475	29
Notes and accounts payable – Related parties (Note 5)	2,224,677	1	1,756,682	1
Income tax payable	1,787,744	1	1,637,881	1
Accrued expenses (Note 5)	13,600,456	4	11,848,954	5
Dividends payable (Note 4(15))	2,175,410	1	5,865,963	2
Other financial liabilities — current (Note 5)	5,366,183	1	2,435,820	1
Long-term loans payable — current portion (Notes 4(11), 4(13) and 4(18))	2,678,877	1	692,782	-
Other current liabilities (Note 4(14) and 5)	8,859,929	2	3,831,894	1
	194,622,858	56	125,140,101	48
Long-Term Liabilities:				
Financial liabilities at fair value through profit or loss — noncurrent (Note 4(2), 4(12) and 4(18))	9,762	-	-	-
Bonds payable (Notes 4(11) and 4(18))	8,605,241	3	1,389,254	1
Long-term loans (Notes 4(12) and 4(18))	26,430,583	7	18,239,007	7
Long-term accounts payable (Note 4(8))	1,532,605	-	1,977,096	1
Other financial liabilities — noncurrent	501,801	-	328,957	-
	37,079,992	10	21,934,314	9
Other Liabilities:				
Deferred income tax liabilities — noncurrent (Note 4(14))	810,183	-	602,535	-
Other liabilities — others (Note 4(13))	43,324	-	85,608	-
	853,507	-	688,143	-
Total Liabilities	232,556,357	66	147,762,558	57
Stockholders' Equity (Note 4(15)):				
Common stock	22,563,669	6	22,563,669	9
Capital surplus				
Premium on capital stock	60,393,247	17	60,393,247	23
Others	3,610,649	1	2,836,953	1
	64,003,896	18	63,230,200	24
Retained earnings:				
Legal reserve	1,847,737	1	1,836,601	1
Special reserve	734,859	-	4,327,629	1
Retained earnings (accumulated deficit)	5,825,074	2	(1,197,278)	-
	8,407,670	3	4,966,952	2
Other adjustments to stockholders' equity:				
Cumulative translation adjustments	(1,835,688)	(1)	(5,084,788)	(2)
Unrecognized past service cost	440	-	(16)	-
Unrealized gain on financial assets	154,668	-	479,266	-
Treasury stock	(18,794)	-	(9,322)	-
	(1,699,374)	(1)	(4,614,860)	(2)
Total Parent Company's Equity	93,275,861	26	86,145,961	33
Minority interest	29,721,328	8	24,638,118	10
Total Stockholders' Equity	122,997,189	34	110,784,079	43
Commitments and Contingencies (Note 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 355,553,546**	**100**	**258,546,637**	**100**

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

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

	For the Six Months ended June 30			
	2012		2011	
	Amount	%	Amount	%
Operating revenues (Note 5)	$ 393,228,210	101	242,715,993	101
Less: Sales returns and allowances	2,119,500	1	3,006,040	1
Net sales	391,108,710	100	239,709,953	100
Cost of sales (Notes 4(4) and 5)	372,134,952	95	229,031,076	96
Gross profit	18,973,758	5	10,678,877	4
Operating expenses (Notes 5)				
Selling expenses	5,042,842	1	4,145,993	2
General and administrative expenses	3,805,854	1	3,332,698	1
Research and development expenses	5,580,863	1	4,437,606	2
	14,429,559	3	11,916,297	5
Income (Loss) from operations	4,544,199	2	(1,237,420)	(1)
Non-operating income				
Interest revenue	400,032	-	203,344	-
Investment income under the equity method (Note 4(5))	45,891	-	22,339	-
Dividend income	5,600	-	33,891	-
Gain on disposal of fixed assets	-	-	57,485	-
Gain on disposal of investments (Note 4(2) and 4(6))	59,709	-	362,092	-
Foreign exchange gain, net	-	-	1,123,491	1
Gain on reversal of allowance for uncollectible accounts	11,883	-	-	-
Gain on reversal of impairment (Notes 4(2) and 4(7))	-	-	7,808	-
Gain on valuation of financial asset (Notes 4(2) and 4(18))	52,929	-	-	-
Gain on valuation of financial liability (Notes 4(2) and 4(18))	38,771	-	-	-
Others (Notes 4(7) and 5)	1,266,275	-	1,099,735	-
	1,881,090	-	2,910,185	1
Non-operating expenses				
Interest expense (Note 4(11))	558,840	-	211,731	-
Loss on disposal of fixed assets	125,266	-	-	-
Foreign exchange loss, net	48,336	-	-	-
Impairment loss (Notes 4(2) and 4(7))	74,121	-	-	-
Loss on valuation of financial asset (Notes 4(2) and 4(18))	-	-	13,433	-
Loss on valuation of financial liability (Notes 4(2) and 4(18))	-	-	47,111	-
Others (Note 5)	440,468	-	207,852	-
	1,247,031	-	480,127	-
Income before income tax	5,178,258	2	1,192,638	-
Income tax expense (Note 4(14))	1,380,860	-	926,094	-
Consolidated income	**$ 3,797,398**	**2**	**266,544**	**-**
Income (Loss) attributable to :				
Shareholders of parent company	$ 2,098,974	2	(1,230,379)	(1)
Minority interest	1,698,424	-	1,496,923	1
	$ 3,797,398	**2**	**266,544**	**-**

	2012 Before Income Tax	2012 After Income Tax	2011 Before Income Tax	2011 After Income Tax
Earnings (Losses) per share attributable to parent company (Note 4(17))				
Primary earnings (losses) per share	**$ 1.00**	**0.93**	**(0.54)**	**(0.55)**
Diluted earnings per share	**$ 0.96**	**0.89**		

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

(English Translations of Financial Statements Originally Issued in Chinese)
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PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(Expressed in Thousands of New Taiwan Dollars)

			Retained earnings			Other adjustments of stockholders' equity					
	Common stock	Capital surplus	Legal reserve	Special reserve	Regained earnings (accumulated deficits)	Cumulative translation adjustments	Unrecognized past service cost	Unrealized gain(loss) of financial assets	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
Consolidated income (loss) for the six months ended June 30, 2011	-	-	-	-	(1,230,379)	-	-	-	-	1,496,923	266,544
Appropriations and distributions of 2010 earnings (Note A)											
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	-	84,752	-	-	-	(203,943)	-	(443,310)	-	-	(562,501)
Cumulative translation adjustments	-	-	-	-	-	369,343	-	-	-	24,227	393,570
Cash dividends for minority interest	-	-	-	-	-	-	-	-	-	(2,594,231)	(2,594,231)
Capital increase in cash and repurchasing in cash of minority interest	-	-	-	-	-	-	-	-	-	179,073	179,073
Changes in interest of minority shareholders	-	-	-	-	-	-	-	-	-	(244,144)	(244,144)
Balance, June 30, 2011	**$ 22,563,669**	**63,230,200**	**1,836,601**	**4,327,629**	**(1,197,278)**	**(5,084,788)**	**(16)**	**479,266**	**(9,322)**	**24,638,118**	**110,784,079**
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
Equity component of convertible corporate bonds － stock option	-	329,225	-	-	-	-	-	-	-	-	329,225
Employee compensation cost	-	56,623	-	-	-	-	-	-	-	-	56,623
Consolidated income for the six months ended June 30, 2012	-	-	-	-	2,098,974	-	-	-	-	1,698,424	3,797,398
Appropriations and distributions of 2011earnings (Note B)											
Legal reserve	-	-	11,136	-	(11,136)	-	-	-	-	-	-
Special reserve	-	-	-	(3,592,770)	3,592,770	-	-	-	-	-	-
Adjustment arising from long-term equity investments	-	152,552	-	-	-	(519,493)	-	105,732	-	-	(261,209)
Cumulative translation adjustments	-	-	-	-	-	(531,961)	-	-	-	(104,607)	(636,568)
Cash dividends for minority interest	-	-	-	-	-	-	-	-	-	(2,175,410)	(2,175,410)
Capital increase in cash of minority interest	-	-	-	-	-	-	-	-	-	3,679,495	3,679,495
Changes in interest of minority interest	-	-	-	-	-	-	-	-	-	10,906	10,906
Balance, June 30, 2012	**$ 22,563,669**	**64,003,896**	**1,847,737**	**734,859**	**5,825,074**	**(1,835,688)**	**440**	**154,668**	**(18,794)**	**29,721,328**	**122,997,189**

Note A: 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 six months ended June 30, 2011.

Note B: The directors' and supervisors' remuneration of $0 and employees' bonuses of $12,100 for the year ended December 31, 2011 had been deducted from net income for the six months ended June 30, 2012.

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

(English Translation of Financial Report Originally Issued in Chinese)

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Six Months Ended June 30	
	2012	2011
Cash flows from operating activities:		
Consolidated net income	$ 3,797,398	266,544
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	4,992,892	3,992,340
Amortization	1,277,932	1,237,150
Allowance for uncollectable accounts	(282,076)	(9,213)
Loss on inventory market price decline and obsolescence, and for impairment	2,529,881	994,245
Employee compensation cost	82,308	6,756
Amortization of discount on bonds payable	30,251	15,453
Gain on foreign currency exchange on bonds payable	86,487	-
Amortization of issuance costs on bonds payable	5,144	-
Investment income under equity method	(45,891)	(22,339)
Loss on disposal and retirement of assets	41,130	59,125
Gain on disposal of investments	(59,709)	(362,092)
Loss (gain) on sale of fixed assets	125,266	(57,485)
Loss (gain) on valuation of financial assets and liabilities	(91,700)	60,544
Impairment loss (reversal gain)	74,121	(7,808)
Cash dividends from investment under equity method	7,371	83,357
Amortization of difference between cost and net equity	1,114	-
Change in assets and liabilities:		
Change in assets:		
Financial assets reported at fair value through profit or loss	(181,748)	(1,458,571)
Notes and accounts receivable	(34,733,768)	(8,410,978)
Other accounts receivable	(1,172,992)	(460,603)
Inventories	(14,469,816)	(22,625,088)
Other current assets	(1,417,588)	(473,900)
Deferred income tax asset and liability	211,409	(142,982)
Other assets － other	(769,920)	(195,114)
Change in liabilities:		
Financial liabilities reported at fair value through profit or loss	(1,318)	1,969
Notes and accounts payable	29,167,113	18,244,735
Income tax payable	(74,506)	(579,855)
Accrued expenses	346,741	4,079,351
Other financial liabilities － current	1,421,939	(2,228,109)
Other current liabilities	4,381,517	(760,513)
Other liabilities － others	(8,327)	26,979
Net cash used in operating activities	(4,729,345)	(8,726,102)
Cash flows from investing activities:		
Acquisition of financial assets available-for-sale	-	(80,002)
Proceeds from disposal of financial assets available-for-sale	11,187	866,276
Acquisition of financial assets held-to-maturity	-	(185,164)
Acquisition of financial assets carried at cost	-	(244,788)
Proceeds from disposal of financial assets carried at cost	-	118,023
Acquisition of subsidiaries	-	(1,565,125)
Proceeds from disposal of subsidiaries	180,836	18,505
Purchase of property, plant and equipment	(12,163,154)	(4,392,502)
Proceeds from disposal of property, plant and equipment, idle assets and deferred charges	248,953	723,883
Proceeds from disposal of rental and idle assets.	10,208	706,884
Increase in deferred charges	(435,574)	(422,620)
Purchase of intangible assets	(290,461)	(52,451)
Proceeds from disposal of intangible assets	737	-
Other financial assets － current	(8,302)	1,232,176
Other financial assets － noncurrent	(3,736)	(32,654)
Net cash used in investing activities	(12,449,306)	(3,309,559)

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011

(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Six Months Ended June 30	
	2012	2011
Cash flows from financing activities:		
Increase in short-term loans	7,939,568	6,977,016
Decrease in short-term notes and bills payable	(40,090)	(16)
Increase in long-term loans	518,868	9,734,048
Decrease in long-term loans	(759,237)	(1,224,208)
Issuance of bonds payable	8,835,640	-
Increase (decrease) in guarantee deposits received	81,009	(22,713)
Ownership of treasury stock transferred to employee	1,391	49,539
Increase in minority interest	3,745,354	94,111
Net cash provided by financing activities	20,322,503	15,607,777
Foreign exchange rate effects	(267,982)	(77,109)
Net increase in cash	2,875,870	3,495,007
Cash, beginning of the period	50,453,433	42,264,006
Cash, end of the period	**$ 53,329,303**	**45,759,013**
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	**$ 481,909**	**172,714**
Income tax	**$ 950,151**	**1,668,125**
Non-cash investing and financing		
Current portion of long-term loans (including current portion of long-term account payable)	**$ 2,678,877**	**1,665,226**
Dividend payable	**$ 2,175,410**	**5,865,963**
Purchase of property and equipment with cash and other payables:		
Property, plant and equipment	$ 9,992,225	4,273,562
Add: Other payable, beginning of the period	4,943,219	468,687
Add: Balance from subsidiary acquired	-	473,027
Less: Other payable, end of the period	(2,772,290)	(822,774)
Cash paid	**$ 12,163,154**	**4,392,502**
Cash received from disposal of property:		
Proceeds from disposal of property	$ 248,953	1,343,883
Less: Other payable, end of the period	-	(620,000)
Cash Received	**$ 248,953**	**723,883**
Cash received from disposal of equity investments in subsidiaries:		
Proceed of disposal	$ 311,431	66,613
Less: cash decreased in subsidiaries	(130,595)	(48,108)
Cash Received	**$ 180,836**	**18,505**
Cash received from acquisition of subsidiaries:		
Cash received		$ 1,346,439
Acquisition of non-monetary assets		9,406,144
Goodwill arising from acquisition		976,828
Liabilities assumed		(5,868,307)
Acquisition cost		5,861,104
Less: Proceeds payables, end of the period		(2,949,540)
Proceeds paid during the period		2,911,564
Less: Cash balance from consolidated subsidiary		(1,346,439)
Cash paid		**$ 1,565,125**

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

(English Translation of Financial Report Originally Issued in Chinese)

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

(Amounts Expressed in Thousands of New Taiwan Dollars,

Except for Per Share Information and Unless Otherwise Stated)

1. ORGANIZATION AND BUSINESS :

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 June 30, 2012 and 2011, the Company and its subsidiaries (the "Consolidated Company") had 175,736 and 126,183 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 June 30, 2012 and 2011, the consolidated subsidiaries were as follows:

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
The Company	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	100.00%	100.00%	The Company directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
UNIHAN AND ASUSPOWER INVESTMENT	ABILITY ENTERPRISE CO., LTD. (Ability(TW))	Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products and leasing	12.35%	12.40%	Subsidiary has de facto control
Ability (TW)	ABILITY ENTERPRISE (BVI) CO., LTD. (ABILITY)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Ability (TW)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Ability (TW)	VIEWQUEST TECHNOLOGIES INTERNATIONAL INC.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Ability (TW)	ASSOCIATION INTERNATIONAL LTD.	Investing activities	100.00%	100.00%	Subsidiary 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%	Subsidiary directly owns over 50% of equity
Ability (TW)	Ability International Investment Co., Ltd.(ABILITY INVESTMENT)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Ability (TW)	E-PIN OPTICAL INDUSTRY CO. LTD.(E-PIN)	Selling electronic components of optical products	53.01%	-	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
ABILITY	Ability Technology (Dongguan) Co., Ltd	Manufacturing and selling digital cameras	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ABILITY	Jiujiang Viewquest Electronics Inc.	Manufacturing and selling digital cameras	100.00%	100.00%	Subsidiary directly owns over 50% of equity
VQ(BVI)	VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD.	Manufacturing and selling digital cameras	100.00%	100.00%	Subsidiary directly owns over 50% of equity
E-PIN	E-PIN INTERNATIONAL TECH CO., LTD.	Manufacturing optical instruments	65.10%	-	Subsidiary directly owns over 50% of equity
E-PIN	E-PIN OPTICAL INDUSTRY CO., LTD.	Trading activities	100.00%	-	Subsidiary directly owns over 50% of equity
E-PIN	E-PIN OPTICAL INDUSTRY (M.) SDN. BHD.	Manufacturing precision lenses	100.00%	-	Subsidiary directly owns over 50% of equity
E-PIN	ALL VISION TECHNOLOGY SDN. BHD.	Manufacturing precision lenses	100.00%	-	Subsidiary directly owns over 50% of equity
E-PIN	ALL VISION HOLDING LTD. (AV)	Investing activities	100.00%	-	Subsidiary directly owns over 50% of equity
AV	EVERLIGHT DEVELOPMENT CORPORATION (ED)	Investing activities	100.00%	-	Subsidiary directly owns over 50% of equity
AV	E-SKY HOLDING LTD. (ES)	Investing activities	73.04%	-	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
ED	WEIHAI E-SKY OPTICAL-ELECTRICAL CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	-	Subsidiary directly owns over 50% of equity
ED	NANJING CHANGMING PHOTOELECTRIC TECHNOLOGY CO., LTD.	Manufacturing and developing precision optical lenses	55.45%	-	Subsidiary directly owns over 50% of equity
ES	ZHONGSHAN SANXIN PRECISION INDUSTRY CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	-	Subsidiary directly owns over 50% of equity
ES	NANJING E-PIN OPTOTECH CO., LTD.	Manufacturing and developing precision optical lenses	72.22%	-	Subsidiary directly owns over 50% of equity
UNIHAN	UNIHAN HOLDING LTD. (UNIHAN HOLDING)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDING)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
CASETEK HOLDING	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
CASETEK HOLDING	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00%	100.00%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
CASETEK HOLDING	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDING)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
CASETEK HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KAEDAR HOLDING	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00%	100.00%	Subsidiary directly owns over 50% of equity
CASETEK HOLDING	KAEDAR TRADING LTD.	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
CASETEK HOLDING	CORE-TEK (SHANGHAI) LIMITED	Researching and producing spare parts for notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00%	100.00%	Subsidiary 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%	Subsidiary has de facto control

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
AZURE WAVE	EMINENT STAR COMPANY LIMITED (EMINENT)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
EMINENT	HANNEX INTERNATIONAL LIMITED (HANNEX)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
HANNEX	SCIENTEK. NANJING CO., LTD.	Designing, manufacturing and selling computer products	100.00%	100.00%	Subsidiary directly owns over 50% of equity
EMINENT	JADE TECHNOLOGIES LIMITED (JADE)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
EMINENT、JADE	AZUREWAVE TECHNOLOGY (SHENZHEN) CO., LTD.	Designing, researching and selling computer products	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AZURE WAVE	AZWAVE HOLDING (SAMOA) INC. (AZWAVE SAMOA)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AZWAVE SAMOA	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and selling computer products	100.00%	100.00%	Subsidiary 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%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
AZWAVE SAMOA	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00%	100.00%	Subsidiary directly owns over 50% of equity
UNIHAN	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AMA PRECISION	AMA TECHNOLOGY CORPORATION	Trading computer peripherals	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AMA PRECISION	AMA HOLDINGS LIMITED (AMA)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AMA	METAL TRADINGS LTD.(METAL)	Trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
METAL	FENGSHUO TRADING (TONGZHOU) CO., LTD.	Trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AMA	EXTECH LTD.	Trading electronic parts	90.51%	90.51%	Subsidiary directly owns over 50% of equity
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	100.00%	100.00%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
AMA	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD	Manufacturing and selling new electronic parts and premium hardware	100.00%	100.00%	Subsidiary directly owns over 50% of equity
THE COMPANY AND ASUS INVESTMENT	ASUS HOLLAND HOLDING B.V.(AHH)	Investing activities	100.00%	100.00%	The Company directly and indirectly held 100% of equity
AHH	PEGATRON CZECH S.R.O.	Installing, repairing and selling electronic products	100.00%	100.00%	Subsidiary 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%	Subsidiary 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%	Subsidiary directly owns over 50% of equity
PEGATRON HOLDING, KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing activities	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
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%	Subsidiary directly owns over 50% of equity
PIOTEK HOLDING	PIOTEK (H.K) TRADING LIMITED	Trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASLINK	ASLINK (H.K.) PRECISION CO., LIMITED	Investing and trading activities	-	100.00%	Subsidiary directly owns over 50% of equity(Note B)
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00%	100.00%	Subsidiary 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%	Subsidiary directly owns over 50% of equity
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
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%	Subsidiary 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%	Subsidiary directly and indirectly held 100% of equity
PEGATRON HOLDING	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%	Subsidiary 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%	Subsidiary directly owns over 50% of equity
PEGATRON HOLDING	TOP QUARK LIMITED (TOP QUARK)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
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%	Subsidiary 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%	Subsidiary directly owns over 50% of equity
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Manufacturing and selling database storage and processing equipments	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASIAROCK	ASROCK EUROPE B.V.	Manufacturing and selling database service and trading electronic components	100.00%	100.00%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
ASIAROCK	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing and holding activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Leader	Firstplace International Ltd. (Firstplace)	Investing and holding activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Firstplace	ASROCK America., Inc.	Database service and trading electronic components	100.00%	100.00%	Subsidiary 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%	Subsidiary 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%	Subsidiary has de facto control
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KINSUS INVESTMENT AND ASUSPOWER INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	84.45%	84.45%	Subsidiary directly owns over 50% of equity
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION	Investing activities	100.00%	-	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION (STARLINK)	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED (CAYMAN) (CASETEK CAYMAN)	Investing activities	75.95%	100.00%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (SAMOA) (RIH LI)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
CASETEK CAYMAN	RIH KUAN METAL CORPORATION (RIH KUAN)	Selling iron and aluminum products	100.00%	100.00%	Subsidiary directly owns over 50% of equity
CASETEK CAYMAN	APLUS PRECISION (CAYMAN) LIMITED (APLUS)	Investing and trading activities	100.00%	70.00%	Subsidiary directly owns over 50% of equity(Note C)
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00%	-	Subsidiary directly owns over 50% of equity
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity(Note C)
UNITED	AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	100.00%	Subsidiary directly owns over 50% of equity
RIH LI	GLOBAL EXPERT LIMITED	Trading activities	-	100.00%	Subsidiary directly owns over 50% of equity (Note D)
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	Manufacturing and selling electronic components	100.00%	100.00%	Subsidiary directly owns over 50% of equity
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	100.00%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	100.00%	Subsidiary directly owns over 50% of equity
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Manufacturing and selling electronic components	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.(PCBR)	Maintenance service	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00%	-	Subsidiary 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%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.06.30	2011.06.30	
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Lumens Optics	Lumens Digital Image Inc.(SAMOA) (Lumens)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Lumens	Lumens (Suzhou) Digital Image Inc.	Developing, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Lumens Optics	Lumens Europe BVBA	Selling computer communication products and peripherals	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Lumens Optics	Jie Xin Inc.	Manufacturing and wholesaling electronic parts	94.00%	94.00%	Subsidiary directly owns over 50% of equity
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
The Company	ADVANSUS CORP.	Manufacturing computer peripherals	-	50.00%	The Company directly owns over 50% of equity (Note A)
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

Note A: The consolidated financial statements as of and for the six months ended June 30, 2011 include only a proportion of the joint venture owned by the Company. As of June 30, 2012, ADVANSUS CORP. was excluded from the consolidated financial statements due to disposal of the Company's entire equity ownership.

Note B: In February 2012, ASLINK (H.K.) PRECISION CO., LIMITED completed the legal process for its company deregistration.

Note C: In 2010, CASETEK HOLDING LIMITED ("CASETEK HOLDINGS") acquired ownership of 51% of total issued shares of APLUS PRECISION ("APLUS") in exchange of its long-term equity investment. In April 2011, CASETEK HOLDINGS acquired ownership of another 19% of total issued shares of APLUS from Avy Precision Technology Inc. for US$10,281 thousand, which increased its total equity ownership in APLUS to 70%. Also, CASETEK HOLDINGS sold its equity ownership of APLUS at book value to CASETEK HOLDINGS LIMITED (CAYMAN), a subsidiary of the Company, due to the Group's organizational restructuring in June 2011. In November 2011, CASETEK HOLDING LIMITED (CAYMAN) acquired the remaining 30% of equity ownership in APLUS from Avy Precision Technology Inc. APLUS becomes a wholly owned subsidiary of CASETEK HOLDING LIMITED (CAYMAN) following the acquisition.

Note D: GLOBAL EXPERT LTD. was liquidated in November 2011.

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

1. In January 2011, ASUSPOWER CORPORATION acquired 100% equity ownership of CASETEK HOLDING LIMITED (CAYMAN) for US$95,000 thousand. Following its acquisition of the equity ownership for US$201,205 thousand, ASUSPOWER CORPORATION obtained control over RIH LI INTERNATIONAL LIMITED (SAMOA) and its subsidiaries GLOBAL EXPERT LIMITED, RI-TENG SHANGHAI and RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD. through CASETEK 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 US$5,000 thousand, US$10,000 thousand, NT$300,000 thousand and US$1,000 thousand in SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LTD. and RI-MING (SHANGHAI) CO., LTD. in Mainland China and RI-KUAN METAL CORPORATION and MEGA MERIT LIMITED in Taiwan through ASUSPOWER CORPORATION, respectively. ASUSPOWER INVESTMENT CO., LTD., ASUS INVESTMENT CO., LTD. and ASUSTEK INVESTMENT CO., LTD. thus acquired 100% equity ownership of the aforesaid newly established subsidiaries.

3. For the year ended December 31, 2011, Ability (TW) has invested and established VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. in Mainland China through VIEWQUEST TECHNOLOGIES (BVI) INC. Ability Enterprise Co., Ltd. acquired 100% equity ownership of VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. for US$3,300 thousand. Moreover, Ability (TW) has increased its equity investment in VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. by US$3,000 for the six months ended June 30, 2012.

4. 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.

5. For the year ended December 31, 2011, ASUSPOWER INVESTMENT CO., LTD. has invested and established PEGATRON LOGISTIC SERVICES INC. for US$1,000, and directly owned 100% of its equity.

6. 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.

7. For the three months ended March 31, 2012, PEGAVISION CORPORATION has invested and established PEGAVISION HOLDINGS CORPORATION for US$120 thousand and directly owned 100% equity of the aforesaid subsidiary.

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

9. For the six months ended June 30, 2012, the Consolidated Company disposed all equity ownership in ADVANSUS CORP. Please refer to Note 4(6) for details of the disposal.

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%, 12.35% and 39.00%, respectively, or less than 50% of their total issued shares because the Consolidated Company has acquired more than 50% of voting shares of each of these entities and has the ability to excise control over their respective board of directors.

d. 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 non-current 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 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) 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.

(9) 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.

(10) 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	2 to 20 years
Office equipment	3 to 20 years
Miscellaneous equipment	3 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.

(11) 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."

(12) Deferred Charges

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

(13) 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.

(14) 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.

(15) 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.

(16) 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.

(17) Employee Stock Option

The Consolidated Company uses the intrinsic value method to recognize compensation costs for its employee stock options whose grant date is after January 1, 2004 and before December 31, 2007. Under this method, the difference between the market price of the stock on date of grant and the exercise price of its employee stock option is recognized as compensation cost. Compensation costs are recognized as expenses over the employees' service period as defined in the Employees Stock Option Rules. Relevant changes in owner's equity resulting from the recognition of compensation costs from employee stock options are also reflected in the consolidated statements.

Equity-settled share-based payments of the Consolidated Company granted on or after January, 1 2008 are measured at fair value at the date of grant. The fair value determined at grant date of the equity-settled share-based payments is expensed over the vesting period, with a corresponding increase in equity.

(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 stock option 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 stock option 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. 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 six months ended June 30, 2011.

Effective from January 1, 2011, the Consolidated Company adopted SFAS No. 41 "Operating Segments." In accordance with SFAS No. 41, information is disclosed to enable users of the 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 six months ended June 30, 2011.

4. Summary of Major Accounts

(1)Cash and Cash Equivalents

		June 30, 2012	June 30, 2011
Cash on hand	$	14,018	17,414
Demand deposits		20,849,569	15,943,413
Time deposits		31,803,596	29,798,186
Cash equivalents — RP Bonds		662,120	-
Total	**$**	**53,329,303**	**45,759,013**

a. The aforesaid RP Bonds cover a redemption period from July 5, 2012 to August 2, 2012 and bear interest at annual rate of 0.68%.

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

a. The components of financial instruments were as follows:

		June 30, 2012	June 30, 2011
Financial assets reported at fair value through profit or loss — current:			
Financial assets held-for-trading — current			
Stock of listed companies	$	386,143	234,969
Beneficiary certificates		6,229,792	6,221,346
Forward exchange contracts		1,382	2,373
Option exchange		-	27,227
Foreign exchange swap contracts		1,682	19,862
Corporate bonds		33,233	567,576
Principal guaranteed product (interest rate-linked)		-	750,110
	$	**6,652,232**	**7,823,463**

		June 30, 2012	June 30, 2011
Available-for-sale financial assets — current:			
Stock of overseas listed companies	**$**	**471,008**	**583,911**
Available-for-sale financial assets — noncurrent:			
Stock of listed companies	**$**	**541,241**	**1,308,152**
Held-to-maturity financial assets — noncurrent:			
Corporate bonds	**$**	**-**	**185,164**
Financial assets carried at cost — noncurrent:			
Equity securities – common stock	$	424,832	434,226
Equity securities – preferred stock		284,570	252,993
Corporate bonds		-	85,435
Option		-	14,565
	$	**709,402**	**787,219**
Financial liabilities reported at fair value through profit or loss — current:			
Financial liabilities held-for-trading — current			
Forward exchange contracts	$	281	2,163
Financial liabilities reported at fair value through profit or loss — current:			
Domestic convertible bonds — put and call options	$	(1,578)	(1,578)
Adjustments		74,439	60,584
Sub-total		72,861	59,006
Total	**$**	**73,142**	**61,169**

	June 30, 2012	June 30, 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	(10,648)	-
Total	**$ 9,762**	**-**

b. The convertible bond issued by ABILITY ENTERPRISE CO., LTD. (Ability (TW)) was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put options embedded in bonds payable were separated from bonds payable, and were recognized as "Financial assets or liabilities at fair value through profit or loss" in accordance with SFAS No.34. For the six months ended June 30, 2012 and 2011, Ability (TW) recognized a gain (loss) on financial liability reported at fair value through profit or loss of $28,123 and $(47,864), respectively. Please refer to Note 4(11) for the main terms and conditions of the 1st unsecured domestic convertible bonds issued by Ability (TW).

c. For the six months ended June 30, 2012 and 2011, the Consolidated Company recognized a net gain (loss) on financial assets reported at fair value through profit or loss of $91,700 and $(60,544), respectively.

d. For the six months ended June 30, 2012 and 2011, the unrealized gain (loss) on available-for-sale financial assets amounted to $105,732 and $(443,310), respectively.

e. The investments in equity securities held by the Consolidated Company with no quoted price from active market and the fair value cannot be measured reliably, were reported as financial assets carried at cost－noncurrent. The Consolidated Company evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of $40,812 and $21,434 for the six months ended June 30, 2012 and 2011, respectively.

f. For the six months ended June 30, 2011, the Consolidated Company sold for US$18,904 thousand to a third party all of its equity ownership in Atheros Communications Inc. of 443,741 shares at US$ 42.6 per share and recognized a gain thereon of $331,781.

g. 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.

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 June 30, 2012 and 2011, the components of financial derivatives of Ability (TW) and GLOBAL EXPERT LIMITED were as follows:

	June 30, 2012		
	Book Value	**Notional Principal (thousands)**	**Maturity Date/ Contract Period**
Derivative financial assets not for hedge			
Foreign exchange swap contracts	**$ 1,682**	**USD 42,450**	2012.06~2012.07
Forward exchange contract	**$ 1,382**	**USD 20,000**	2012.06~2012.07
Forward exchange contract (sell)	**$ (281)**	**USD 10,000**	2012.06~2012.07

	June 30, 2011		
	Book Value	**Notional Principal (thousands)**	**Maturity Date/ Contract Period**
Derivative financial assets not for hedge			
Foreign exchange swap contracts	**$ 19,862**	**USD 98,843**	2011.01~2011.11
Forward exchange contract (sell)	**$ 2,373**	**USD 26,000**	2011.05~2011.08
Option exchange (long call)	**$ 27,227**	**USD 9,500**	2011.01~2011.11
Principal guaranteed product (interest rate-linked)	**$ 750,110**	**USD 750,000**	2011.06~2011.07
Forward exchange contract (sell)	**$ (2,163)**	**USD 18,000**	2011.06~2011.08

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

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

(3) Notes and Accounts Receivable

	June 30, 2012	June 30, 2011
Notes receivable	$ 107,543	19,893
Less: Allowance for uncollectible accounts	-	(73)
Net	107,543	19,820
Accounts receivable	113,058,893	60,084,291
Less: Allowance for uncollectible accounts	(1,016,963)	(653,854)
Less: Allowance for sales returns and discounts	(117,235)	-
Net	111,924,695	59,430,437
Total	**$ 112,032,238**	**59,450,257**

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

	Amount derecognized		Credit advanced			Credit (thousands)	
Purchaser	**June 30, 2012**	**June 30, 2011**	**June 30, 2012**	**June 30, 2011**	**Collateral**	**June 30, 2012**	**June 30, 2011**
Mega International Commercial Bank	$ 580,183	529,473	134,460	275,565	None	USD 30,000	USD 30,000

(4) Inventories

	June 30, 2012	June 30, 2011
Merchandise	$ 2,706,296	2,568,615
Less: Allowance for inventory market decline and obsolescence	(66,290)	(25,503)
Sub-total	2,640,006	2,543,112
Finished goods	26,737,004	18,377,065
Less: Allowance for inventory market decline and obsolescence	(1,008,372)	(1,209,063)
Sub-total	25,728,632	17,168,002
Work in process	9,803,525	7,911,762
Less: Allowance for inventory market decline and obsolescence	(980,787)	(656,294)
Sub-total	8,822,738	7,255,468
Raw materials	40,891,577	38,419,102
Less: Allowance for inventory market decline and obsolescence	(2,055,546)	(1,890,965)
Sub-total	38,836,031	36,528,137
Inventory-in-transit	1,450,598	965,063
Total	**$ 77,478,005**	**64,459,782**

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

	For the Six Months Ended June 30	
	2012	2011
Cost of goods sold	$ 369,008,610	227,587,345
Loss on physical inventory	24,255	2,419
Reversal (provision) of inventory market price decline	(385,800)	206,866
Loss on disposal of inventory	2,891,426	784,960
Idle capacity	596,461	449,486
	$ 372,134,952	**229,031,076**

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

(5) Long-Term Equity Investments

	June 30, 2012		June 30, 2011	
Name of Investee Company	**Equity Holding**	**Book Value**	**Equity Holding**	**Book Value**
INDEED HOLDINGS LTD.	49.00%	$ 766,211	49.00%	694,745
AVY PRECISION TECHNOLOGY INC.	20.25%	782,895	20.25%	745,739
eBIZPRISE INC.	- %	-	31.76%	65,855
ASAP TECHNOLOGY (JIANGXI) CO., LTD.	25.00%	253,107	25.00%	184,605
WILSON HOLDINGS LTD.	49.00%	158,963	49.00%	151,458
EVER PINE INTERNATIONAL LTD. (BVI)	34.65%	59,638	34.65%	102,526
WISE INVESTMENT LTD.	48.78%	41,920	48.78%	35,635
SHIN-EI YORKEY INTERNATIONAL LTD. (BVI)	50.00%	18,109	50.00%	14,624
ZHANGJIAGANG DONGBU HIGH TECHNOLOGY METAL PRODUCTS CO., LTD.	20.00%	44,403	20.00%	45,661
E-PACKING HOLDING LTD.	30.00%	295,139	30.00%	250,437
YOFREE TECHNOLOGY CO., LTD.	- %	-	17.50%	12,260
Sub-total		2,420,385		2,303,545
Add: Fair value adjustment for identifiable assets		-		61,832
Total		**$ 2,420,385**		**2,365,377**

a. For the six months ended June 30, 2012 and 2011, the Consolidated Company recognized investment income under equity method of $45,891 and $22,339, respectively. The long-term equity investments, except for AVY PRECISION TECHNOLOGY INC., were recognized based on the investees' financial statements, which were not reviewed by independent accountants. Long-term investments in these companies amounted to $1,637,490 and $1,619,638 as of June 30, 2012 and 2011, respectively, and the related investment income (loss) thereon amounted to $23,098 and $(8,206), respectively.

b. For the six months ended June 30, 2012 and 2011, the Consolidated Company held less than 50% equity shares of SHIN-EI YORKEY INTERNATIONAL LTD. (BVI) and had no significant control thereof thus SHIN-EI YORKEY INTERNATIONAL LTD. (BVI) was excluded from the consolidated financial statements.

c. Avy Precision Technology Inc., a subsidiary of Ability Enterprise Co., Ltd., had swapped its equity shares with Azure Wave Technologies, Inc., 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 Enterprise Co., Ltd., such difference of $0 and $61,832 as of June 30, 2012 and 2011, respectively, was adjusted using the equity method of accounting based on the percentage of ownership of the Consolidated Company, in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 25 "Business Combinations."

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

e. In July 2011, eBizprise Inc. has undergone a capital reduction and capital increment. 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.

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

(6) Joint Venture Investments

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

	June 30, 2011
Current Assets	$ 552,619
Non-current Assets	12,282
Current Liabilities	336,555

	For the Six Months Ended June 30, 2011
Revenues	$ 785,382
Expenses	768,858

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 $20,528 and $759 for the six months ended June 30, 2012 and 2011, respectively.

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

(c) For the six months ended June 30, 2012, Ability(TW) capitalized interest amounted to $12,808.

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

b. Rental assets

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

		June 30, 2012	June 30, 2011
Land	$	294,555	286,573
Buildings		639,478	579,063
Less: Accumulated depreciation		(147,963)	(124,826)
Less: Accumulated impairment		(12,030)	(12,030)
Add: Fair value adjustment for identifiable assets		5,426	7,133
	$	**779,466**	**735,913**

(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 June 30, 2012 and 2011, the fair value adjustment for identifiable assets amounted to $5,426 and $7,133, respectively.

c. Idle assets

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

		June 30, 2012	June 30, 2011
Land	$	39,978	56,969
Buildings		205,845	346,427
Machinery and others		1,879,872	1,562,098
Less: Accumulated depreciation		(1,602,359)	(1,235,240)
Less: Accumulated impairment		(320,644)	(390,172)
	$	**202,512**	**340,082**

(b) As these idle assets were not used in operation, the Consolidated Company revalued these assets based on the recoverable amount. For the six months ended June 30, 2012 and 2011, an impairment loss of $53,837 and a gain from impairment loss recovery of $28,483, respectively, was recognized for these idle assets.

(8) Intangible assets

a. Goodwill is assessed periodically for impairment in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets." As of June 30, 2012 and 2011, the carrying value of goodwill amounted to $1,882,989 and $1,874,245, respectively.

b. 'Land use rights' are rights granted to the Company to use government-owned land. These rights were paid in lump sum, which was capitalized and amortized equally over their useful lives. As of June 30, 2012 and 2011, the unamortized amount of land use rights was $2,977,477 and $2,347,264, 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 June 30, 2012 and 2011, the unamortized amount was $856,318 and $1,264,859, respectively.

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

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

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

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

e. Supplementary Pro Forma Information for Business Combinations

On September 1, 2011, Consolidated Company acquired equity ownership and obtained a significant control of E-PIN OPTICAL INDUSTRY CO. LTD. This investee was included in the consolidated financial statements from the date when the Consolidated Company's control over it commences. The supplementary pro forma information as if the business combination occurred on January 1, 2011 was as follows:

	For the Six Months Ended June 30, 2011	
Consolidated net sales	**$**	**240,671,632**
Consolidated net income before tax	**$**	**777,371**
Consolidated net loss	**$**	**(173,705)**
Pro forma primary losses per share	**$**	**(0.55)**

(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 June 30, 2012 and 2011, the unamortized amount of deferred charges was $1,820,219 and $2,108,942, 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 June 30, 2012 and 2011, the carrying value of this farmland was both $30,784.

(10) Short - Term Loans

	June 30, 2012		June 30, 2011
Credit loans	$	30,458,181	21,290,481
Collateralized loans		254,753	464,092
	$	**30,712,934**	**21,754,573**
Range of interest rate		**0.70% ~ 6.56%**	**0.50% ~ 5.00%**

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

	June 30, 2012	June 30, 2011	Collateral
Overseas convertible bonds payable	$ 8,874,000	-	None
Less: Discount on overseas bonds payable	(355,246)	-	
Less: Foreign currency valuation, end of the period	86,487	-	
Net	8,605,241	-	
Less: Current portion of bonds payable	-	-	
Sub-total	8,605,241	-	
Domestic convertible bonds payable	1,500,000	1,500,000	None
Less: Discount on domestic bonds payable	(79,840)	(110,746)	
Net	1,420,160	1,389,254	
Less: Current portion of bonds payable	(1,420,160)	-	
Sub-total	-	1,389,254	
Total	**$ 8,605,241**	**1,389,254**	

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

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

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 will be NT$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012.
	(3) Conversion to common shares Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT$29.761 = US$1.00) divided by the conversion price on the conversion date.

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

1st overseas unsecured convertible bonds issued in 2012	June 30, 2012
Total issue price	$ 8,874,000
Discount on bonds payable	(322,030)
Discount on bonds payable － transaction cost	(33,216)
Accumulated converted amount	-
Accumulated redeemed amount	-
Bonds payable, end of the period	8,518,754
Less: Valuation of bonds payable	86,487
Less: Current portion of bonds payable	-
Bonds payable, net, end of the period	**$ 8,605,241**
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	**$ 9,762**

	For the Six Months Ended June 30, 2012
Liability components － gain on valuation	**$ (10,648)**
Interest expense	**$ 81,118**

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 and September 6, 2011, the exercise price was adjusted from $60 to $55.7 and $55.7 to $50.7, respectively, on the effective dates. As of August 14, 2012, the exercise price was adjusted from $50.7 to $47.4 on the effective date.

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

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

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

c. In accordance with SFAS No. 36, convertible bonds are initially treated as compound financial instruments, of which the equity and liability components are separately accounted for. As of 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 June 30, 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	June 30, 2012	June 30, 2011
Citibank Taiwan and 14 other participating financial institutions (Note A)	2010.10.25~2015.10.25, payable in 5 semi-annual installments, commencing from October 25, 2013.	$ 11,952,000	8,617,500
The Shanghai Commercial & Saving Bank, Ltd.	2010.09.21~2015.09.20 payable in 10 quarterly installments, commencing from April 2013.	1,045,800	1,005,375
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.	7,470	11,969
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.	44,820	64,631
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.	12,605	17,504
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.	135,394	182,224
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.	126,243	158,706
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.	112,050	143,625

Creditor	Usage and redemption duration	June 30, 2012	June 30, 2011
The Shanghai Commercial & Savings Bank, Ltd. — International Financial Service Branch	2010.04.20~2013.04.19, payable in 8 quarterly installments, commencing from May 20, 2011. As of June 2011, redeeming method has changed to 8 quarterly installments, commencing from September 21, 2011.	29,881	57,450
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.01.25~2016.01.24, 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	2011.03.11~2015.03.10, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	136,950	143,625
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.11.29~2015.11.28, payable in 12 quarterly installments, commencing from the date of borrowing.	149,400	-
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.	298,799	-
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	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2012.01.18~2017.01.05, 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	-

Creditor	Usage and redemption duration	June 30, 2012	June 30, 2011
E.Sun Bank	101.03.12~104.03.11, interest is payable in 12 quarterly installments and principal is payable on maturity.	149,400	-
Mega International Commercial Bank － Lan-Ya Branch	2004.12.31~2011.12.31, payable in 20 quarterly installments, commencing from January, April, July, October 15 which date is the nearest date of borrowing.	-	2,407
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).	-	16,050
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).	199,001	313,103
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.	156,870	201,075
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).	253,980	114,900
Mega International Commercial Bank － Lan-Ya Branch	2010.12.20~2015.12.20, payable in 20 quarterly installments, commencing from the date of borrowing.	732,058	904,838
Mega International Commercial Bank － Lan-Ya Branch	2011.02.14~2016.02.13, payable in 20 quarterly installments, commencing from the date of borrowing.	448,200	545,775
Mega International Commercial Bank － Lan-Ya Branch	2011.03.11~2016.03.10, payable in 20 quarterly installments, commencing from the date of borrowing.	313,740	387,787
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).	10,000	10,000

Creditor	Usage and redemption duration	June 30, 2012	June 30, 2011
Mega International Commercial Bank — Lan-Ya Branch	2011.08.15~2014.08.15, payable in 8 quarterly installments, commencing from the date of borrowing (with a one year grace period).	14,000	-
Mega International Commercial Bank (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,494,400	1,436,250
Mega International Commercial Bank	2011.10.12~2016.10.12, payable in 8 quarterly installments, commencing from January 2015.	1,195,200	-
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.	237,081	129,620
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.	298,799	143,625
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.	149,400	-
The Land Bank of Taiwan — Chung - Li Branch	2011.07.04~2016.07.03, interest is payable monthly and principal is payable in quarterly installments from the 13^{th} month, commencing from the date of borrowing.	298,799	-
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	-
ANZ (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,494,000	1,436,250

Creditor	Usage and redemption duration	June 30, 2012	June 30, 2011
DBS (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,494,000	1,436,250
DBS	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 .	1,195,200	-
Taiwan Cooperative Bank OBU Branch	2011.10.13~2016.10.13, payable in 4 semi-annual installments, commencing from April 2015.	1,494,000	-
HSBC (Taiwan) (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,494,000	1,436,250
Total		27,689,300	18,931,789
Less: Current portion		(1,258,717)	(692,782)
		$ 26,430,583	**18,239,007**
Range of interest rate		**0.91%~2.38%**	**0.78%~2.20%**

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.

As of June 30, 2012 and 2011, the Company was in compliance with the loan covenants mentioned above except for the debt ratio based on the Company's financial statements as of June 30, 2012. The Company has notified the syndicated banks through the lead arranger and applied for waiver of such breach of covenant. Therefore, the loan was still accounted for under long-term loans according to the repayment schedule of the original syndicated loan agreement.

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

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

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

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

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

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

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

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

(13) Pension Plan

For the six months ended June 30, 2012 and 2011, the pension costs and related information were as follows:

	June 30, 2012	June 30, 2011
Balance of pension fund – ending	$ 153,558	120,124
Current pension expenses:		
Defined benefit pension plan	$ 8,302	6,327
Defined contribution pension plan	$ 1,160,987	479,753
Balance of pension payable – ending	$ 43,569	42,858
Balance of pension prepaid – ending	$ 3,682	3,414

(14) Income Tax

(i) The Company and its domestic subsidiary are subject to statutory income tax rate of 17% for both the six months ended June 30, 2012 and 2011. The Company also complies with the Basic Income Tax Act when calculating its income tax.

(ii) For the six months ended June 30, 2012 and 2011, the components of income tax expense were as follows:

	For the Six Months Ended June 30	
	2012	2011
Current income tax expense	$ 807,626	844,926
Deferred income tax expense (benefit)	211,409	(56,728)
10% surtax on undistributed earnings	361,825	137,896
Income tax expense	$ 1,380,860	926,094

The components of deferred income tax expense (benefit) were as follows:

	For the Six Months Ended June 30	
	2012	2011
Unrealized exchange gain (loss)	$ 142,860	(87,126)
Reversal (Provision) of allowance for loss on inventory market decline and obsolescence	124,894	(8,395)
Realized profits on sales	(55,269)	(26,558)
Reversal (Provision) of warranty reserve	23,189	(56,541)
Reversal (Provision) of allowance for loss on uncollectible accounts	8,256	(10,727)
Investment tax credits	284,577	309,627
Provision (Reversal) of impairment loss on assets	(85,375)	10,341
Loss carry-forward	42,454	(492,448)
Unrealized foreign investment income	124,786	215,135
Valuation on allowance for deferred tax assets	(185,432)	248,755
Cumulative translation adjustments	(23,802)	(47,490)
Unrealized expenses	(144,758)	(93,970)
Others	(47,971)	(17,331)
Deferred income tax expense (benefit)	**$ 211,409**	**(56,728)**

(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 six months ended June 30, 2012 and 2011 as follows:

	For the Six Months Ended June 30	
	2012	2011
Income tax calculated on pre-tax financial income at statutory tax rate	$ 1,552,612	708,539
Permanent differences	(296,140)	(76,304)
Tax-exempt income	(187,944)	(57,511)
Investment tax credits	49,067	147,866
Adjustment to prior year's income tax	16,449	71,415
Others	(115,009)	(5,807)
10% surtax on undistributed earnings	361,825	137,896
Income tax expense	**$ 1,380,860**	**926,094**

(iv) As of June 30, 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:

	June 30, 2012		June 30, 2011	
Temporary differences of deferred income tax assets - current	**Amount**	**Income Tax Effect**	**Amount**	**Income Tax Effect**
Unrealized foreign exchange gain: taxable	$ (417,401)	(70,958)	(781,681)	(132,886)
Allowance for loss on inventory market decline and obsolescence: deductible	2,896,677	454,663	1,924,212	344,236
Unrealized intercompany profit: deductible	411,602	80,664	39,473	6,711
Deferred employee benefits for tax: deductible	850	145	902	153
Warranty reserve: deductible	1,431,265	199,283	575,299	97,801
Unrealized expenses: deductible	1,112,193	185,314	110,723	27,681
Capitalization of expenses: deductible	3,476	591	8,300	1,411
Unused balance of investment tax credits: deductible	710,953	710,953	668,898	668,898
Loss carry-forward: deductible	1,566,046	272,004	2,613,667	450,456
Allowance for uncollectible accounts: deductible	192,145	32,711	175,063	30,827
Unrealized sales discount: deductible	144,758	24,516	33,892	5,762
Depreciation of assets: taxable	(77,015)	(14,633)	(119,421)	(23,879)
Others	464,090	83,919	3,164	981
Valuation on allowance		(814,986)		(594,111)
Net deferred income tax assets－current		**$ 1,144,186**		**884,041**

Temporary differences of deferred income tax assets - noncurrent	**Amount**	**Income Tax Effect**	**Amount**	**Income Tax Effect**
Unrealized impairment loss on assets: deductible	$ 407,441	95,960	73,764	11,239
Amortization of employee benefits: deductible	7,791	1,990	6,109	1,626
Recognition of gain on foreign investments: taxable	933,115	158,631	159,387	27,096
Reserve for overseas investment loss: taxable	(13,112)	(2,229)	(13,112)	(2,229)
Organization costs: deductible	-	-	10,619	1,292
Unused balance of investment tax credits: deductible	72,040	72,040	504,415	504,415
Cumulative translation adjustment: deductible	11,406	1,939	270,923	46,057
Loss carry-forward: deductible	1,840,582	393,992	2,798,873	367,281
Allowance for loss on inventory market decline and obsolescence: deductible	201,446	49,216	113,929	15,045
Pension over the limited amount: deductible	12,292	2,090	12,292	2,090
Recognition of impairment loss on long-term investment: deductible	152,642	25,949	173,642	29,519
Recognition of loss on allowance for uncollectible accounts: deductible	81,910	19,836	29,202	4,964
Depreciation of assets: deductible (taxable)	37,353	12,421	(8,205)	(2,338)
Unrealized gain on deferred rent: deductible	13,443	3,831	15,007	4,277
Warranty reserve: deductible (taxable)	(103,358)	(25,839)	621,013	77,627
Unrealized expenses: deductible	462,410	113,396	530,307	66,288
Interest expense of bonds payable: deductible	55,509	9,437	43,783	7,443
Capitalization of expenses: deductible	5,758	979	3,135	533
Others	118,299	24,984	123,792	18,714
Valuation on allowance		(737,024)		(1,069,615)
Net deferred income tax assets — noncurrent		**$ 221,599**		**111,324**
Temporary differences of deferred income tax liabilities - current				
Unrealized foreign exchange gain: taxable	$ (8,163)	(1,388)	-	-
Others	(675)	(140)	(249)	(81)
Net deferred income tax liabilities — current		**$ (1,528)**		**(81)**

Temporary differences of deferred income tax liabilities - noncurrent	Amount	Income Tax Effect	Amount	Income Tax Effect
Unrealized impairment loss on assets: deductible	$ 5,861	996	8,097	1,376
Recognition of gain on foreign investments: taxable	(4,683,201)	(663,358)	(3,286,117)	(434,948)
Reserve for overseas investment loss: taxable	(1,021,684)	(173,686)	(1,002,382)	(170,405)
Others	152,145	25,865	8,481	1,442
Net deferred income tax liabilities－noncurrent		**$ (810,183)**		**(602,535)**

(v) Income Tax

a. The Company's income tax returns through 2009 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), and KINSUS through 2009 have been assessed and approved by the Tax Authority. Also, the income tax return of AZUREWAVE and its subsidiaries EZWAVE Technologies, Inc. and AZURE Lighting Technologies, Inc. through 2010 and 2009, respectively, have been assessed and approved by the Tax Authority.

c. The income tax returns of Asrock Incorporation through 2008 have been assessed and approved by the Tax Authority.

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 six months ended June 30, 2012 and 2011, Ability Technology (Dongguan) Co., Ltd. recognized tax expenses of $5,268 and $493, respectively.

(vi) As of June 30, 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	2008~2009	$ 296,428	2012~2013
UNIHAN	2010~2012	17,908	2012~2013
KINSUS	2008~2011	438,757	2012~2015
ABILITY	2011	27,213	2013
AMA PRECISION	2009	2,687	2013
		$ 782,993	

(vii) As of June 30, 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
The Company	2011	$ 1,509,456	2021
STARLINK	2004~2010	124,866	2014~2020
PEGAVISION	2009~2012	206,243	2019~2022
AMA PRECISION	2009~2012	141,060	2019~2022
PCM	2011	44,429	2016 (Note)
PCBR	2011	38,915	2016 (Note)
ABILITY	2005~2012	762,231	2015~2022
AZUREWAVE	2011	12,161	2021
AVY	2007~2012	567,267	2012~2017
		$ 3,406,628	

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 June 30, 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	unknown

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

Accumulated earnings:		**June 30, 2012**	**June 30, 2011**
Accumulated in 1997 and prior years	$	-	-
Accumulated in 1998 and thereafter		5,825,074	(1,197,278)
Total	**$**	**5,825,074**	**(1,197,278)**
Stockholders' imputation tax credit account	**$**	**3,438**	**2,734**
		2012 (Expected)	**2011 (Actual)**
Expected or actual deductible tax ratio		**3.20%**	**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 is June 1, 2010. Following the spin-off, the Company merged with Pegatron Investment. The Company issued 10 thousands new shares, resulting in additional capital of $100. Thereafter, the Company's total outstanding capital amounted to $22,860,639, divided into 2,286,064 thousand shares with par value of $10 per share.

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares valued at $296,970. As of June 30, 2012 and 2011, the authorized capital of the Company both consisted of 2,500,000 thousand shares, with par value of $10 per share, and its outstanding capital both consisted of 2,256,367 thousand shares.

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

The Company may issue new GDRs with no more than 60,819,020 Pegatron common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines." As of June 30, 2012, the Company has listed, in total, 10,014 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 50,069 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 June 30, 2012 were as follows:

	For the Six Months Ended June 30	
	2012	**2011**
Grant date	04/02/2012	07/01/2011
Units granted (in thousands)	8,053	40,679
Contractual life	3 years	3 years
Vesting period	2 years	2 years
Actual turnover rate of employees	4.33%	15.51%
Estimated future turnover rate of employees	19.01%	16.28%

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

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

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

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

3. The components of employee stock option plan and the weighted-average exercise price as of June 30, 2012 and 2011 were as follows:

	For the Six Months ended June 30, 2012	
	Number of Exercisable Thousand Shares	**Weighted-average Exercise Price**
Balance, beginning of the period	-	$ -
Granted	8,053	44.85
Exercised	-	-
Forfeited	278	-
Expired	-	-
Balance, end of the period	**7,775**	44.85
Exercisable, end of the period	**7,775**	
Weighted-average fair value of options granted	**13.8**	
Exercise price of share option outstanding, end of the period	**44.85**	
Remaining contractual life	**2.75**	
Expenses incurred in share-based payment transactions	**7,341**	

	For the Six Months ended June 30, 2011	
	Number of Exercisable Thousand Shares	**Weighted-average Exercise Price**
Balance, beginning of the period	37,648	$ 28.38
Granted	-	-
Exercised	-	-
Forfeited	2,873	-
Expired	-	-
Balance, end of the period	**34,775**	28.38
Exercisable, end of the period	**34,775**	
Weighted-average fair value of options granted	**7.90**	
Exercise price of share option outstanding, end of the period	**28.38**	
Remaining contractual life	**2**	
Expenses incurred in share-based payment transactions	**49,281**	

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

1. Information on cash-settled share-based payment transaction as of June 30, 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	3.96%
Estimated future turnover rate of employees	8.97%

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

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

	Stock Appreciation Rights
Valuation date	06/29/2012
Base price	44.85
Expected volatility	44.32%
Risk-free interest rate	1.40%
Expected life of the option	2.244 years
Remaining life of the option	2.28 years

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

	Number of Exercisable Thousand Shares
Balance, beginning of the period	-
Granted	22,214
Exercised	-
Forfeited	755
Expired	-
Balance, end of the period	**21,459**
Exercisable, end of the period	**21,459**
Weighted-average fair value of options granted	**2,021**

The expenses incurred in cash-settled share-based payment transaction amounted to $8,173 for the six months ended June 30, 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, 10% of its net income (after covering up losses of prior years, if any) shall be first set aside 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 amounted to $409,917 and $232,803, which were credited to capital surplus － others as of June 30, 2012 and 2011, respectively.

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 June 30, 2012, the Company's shares held by its subsidiaries were 1,700 thousand shares amounting to $66,130 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 six months ended June 2011, the Company did not estimate and recognize employee bonuses and directors' and supervisors' remuneration due to the net loss after tax incurred for such period.

For the six months ended June 30, 2012, employee bonuses of $189,000 and directors' and supervisors' remuneration of $15,000 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.

(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 June 30, 2012 and 2011, the weighted-average expected life of the employee stock options was 2.74 years and 3.74 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 Six Months Ended June 30			
	2012		2011	
	Quantity of stock option (thousand shares)	Weighted-average exercise price	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	5,079	$ 34.9	6,678	38.3
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	-	-	(1,599)	38.3
Forfeited	-	-	-	-
Outstanding at the end of the period	**5,079**	34.9	**5,079**	38.3
Exercisable at the end of the period	**3,079**	34.9	**1,079**	38.3

(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 Six Months Ended June 30	
	2012	2011
Net income		
Net income	$ 721,233	393,197
Pro forma net income	717,169	383,966
Basic earnings per share		
Earnings per share	1.61 dollars	0.88 dollars
Pro forma earnings per share	1.60 dollars	0.86 dollars
Diluted earnings per share		
Earnings per share	1.50 dollars	0.85 dollars
Pro forma earnings per share	1.49 dollars	0.81 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 June 30, 2012 and 2011, the weighted-average expected life of the employee stock options was 3.25 years and 4.25 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 Six Months Ended June 30			
	2012		2011	
	Quantity of stock option (thousand shares)	Weighted-average exercise price	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	4,888	$ 17.6	6,802	19.3
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	(183)	17.6	(461)	19.3
Forfeited	-	-	-	-
Outstanding at the end of the period	**4,750**	17.6	**6,341**	19.3
Exercisable at the end of the period	**905**	17.6	**641**	19.3

(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 Six Months Ended June 30	
	2012	2011
Equity transaction	**$ 3,796**	**6,608**

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 June 30, 2012, Ability (TW) increased its capital by $450 due to the exercise of employee stock options.

(17) Earnings per Share (EPS)

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

(Note: shares in thousands)

	For the Six Months Ended June 30			
	2012		2011	
	Before income tax	After income tax	Before income tax	After income tax
Net income (loss)	$ 2,256,762	2,098,974	**(1,222,859)**	**(1,230,379)**
Effect of potentially dilutive common shares	81,119	67,329		
Diluted net income	**$ 2,337,881**	**2,166,303**		
Weighted-average common shares outstanding	2,254,667	2,254,667	**2,255,567**	**2,255,567**
Potentially dilutive common shares	185,574	185,574		
Diluted shares	**2,440,241**	**2,440,241**		
Primary earnings (losses) per share	**$ 1.00**	**0.93**	**(0.54)**	**(0.55)**
Diluted earnings per share	**$ 0.96**	**0.89**		

(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, short-term loans, and accrued expenses.

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

Non-Financial Instruments	**June 30, 2012**		**June 30, 2011**	
Financial Assets	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Financial asset reported at fair value through profit or loss － current	$ 6,652,232	6,652,232	7,823,463	7,823,463
Available-for-sale financial asset － current	471,008	471,008	583,911	583,911
Financial assets held-to-maturity － current	-	-	185,164	185,164
Available-for-sale financial asset － noncurrent	541,241	541,241	1,308,152	1,308,152
Financial assets carried at cost － noncurrent	709,402	-	787,219	-
Non-Financial Instruments				
Financial Liabilities				
Financial liability reported at fair value through profit or loss － current	$ 73,142	73,142	61,169	61,169
Bonds payable	10,025,401	10,097,741	1,389,254	1,500,750
Long-term account payable (including current portion)	1,532,605	1,532,605	1,977,096	1,977,096
Long-term loans (including current portion)	27,689,300	27,689,300	18,931,789	18,931,789
Financial Instruments				
Financial Assets				
Foreign exchange swap contracts	$ 1,682	1,682	19,862	19,862
Forward exchange contracts	1,382	1,382	2,373	2,373
Option exchange	-	-	27,227	27,227
Principal guaranteed product (interest rate-linked)	-	-	750,110	750,110

Financial Instruments	**June 30, 2012**		**June 30, 2011**	
Financial Liabilities	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Foreign exchange swap contracts	$ 281	281	2,163	2,163
Embedded derivatives — convertible bonds	82,623	82,623	59,006	59,006

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 evidence~~s~~, 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 $52,929 and $(13,433), for the six months ended June 30, 2012 and 2011, respectively.

d. Gain (Loss) recognized from changes in the fair values of financial liabilities, which were estimated by using valuation techniques, amounted to $38,771 and $(47,111), for the six months ended June 30, 2012 and 2011, respectively.

e. Information on financial risks

(a) Market risk

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

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.

(6) Ability (TW) has policies to avoid significant concentration of credit risk on cash, securities and linked notes held.

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 June 30, 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:

	June 30, 2012			June 30, 2011		
	Foreign Currency	**Exchange Rate**	**NTD**	**Foreign Currency**	**Exchange Rate**	**NTD**
Financial Assets						
Monetary Items						
USD	$4,684,637	29.88	139,976,954	2,693,978	28.725	77,354,518
RMB	2,038,157	4.7242	9,628,662	2,377,207	4.4386	10,551,471
Long-term Equity Investments						
USD	43,442	29.88	1,298,060	42,256	28.725	1,213,790
Financial Liabilities						
Monetary Items						
USD	5,958,057	29.88	178,026,743	3,921,462	28.725	112,643,996
RMB	1,613,200	4.7242	7,621,079	1,826,915	4.4386	8,108,945

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.	〃
EMES (SUZHOU) CO., LTD.	〃
ASKEY TECHNOLOGY (JIANG SU) LTD. (ASKEY TECHNOLOGY)	〃
UNIMAX ELECTRONICS INC.	〃
ASHINE PRECISION CO., LTD.	An investee company accounted for under the equity method
AVY PRECISION TECHNOLOGY INC. (AVY PRECISION)	〃
AVY CO., LTD.	〃
E-PIN OPTICAL INDUSTRY CO., LTD. (E-PIN)	An investee company accounted for under the equity method (Note2)
DONGGUAN AVY PRECISION METAL COMPONENTS CO., LTD. (DONGGUAN AVY)	An investee company accounted for under the equity method
DONGGUAN CHENGGUANGP PRECISION HARDWARE CO., LTD.	〃
AVY PRECISION METAL COMPONENTS (SUZHOU) CO., LTD.	〃

Name of Related Party	Relationship with the Company
SHANGHAI INDEED TECHNOLOGY CO., LTD. (SHANGHAI INDEED)	An investee company accounted for under the equity method
GING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	〃
HOLD JUMPER PACKING (SUZHOU) CO., LTD.	〃
HOLD JUMPER PACKING (SHANGHAI) 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.

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

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

(2) Significant Transactions with Related Parties

a. Sales

	For the Six Months Ended June 30					
	2012			2011		
Name of Related Party	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTeK	$ 80,091,845	20.48	Open account 60 days	68,406,018	28.54	Open account 60 days
Others	14,457	-	30~90 days from receipt of goods Open account 30~90 days	5,874	-	30~90 days from receipt of goods Open account 30~90 days
Total	**$ 80,106,302**	**20.48**		**68,411,892**	**28.54**	

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

b. Purchases

	For the Six Months Ended June 30					
	2012			2011		
Name of Related Party	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	$ 62,519,983	17.20	Open account 60 days	52,543,831	22.24	Open account 60 days
Others	3,814,753	1.05	30~90 days from receipt of goods Open account 30~120 days	3,405,317	1.44	30~90 days from receipt of goods Open account 30~120 days
Total	**$ 66,334,736**	**18.25**		**55,949,148**	**23.68**	

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

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

c. Others

	For the Six Months Ended June 30	
	2012	2011
(a) After-sales warranty repair expense paid to :		
ASUSTeK	$ 10,242	268
ASUS COMPUTER (SHANGHAI)	-	138
Total	**$ 10,242**	**406**
(b) Other income from:		
ASUSTeK	$ 120,006	254,782
Others	4,175	3,337
Total	**$ 124,181**	**258,119**

(c) For the six months ended June 30, 2012 and 2011, the Consolidated Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, and professional service fee, etc, amounting to $8,678 and $12,511, respectively.

d. Property Transactions

(a) Purchase of properties

For the six months ended June 30, 2012 and 2011, properties purchased from other related parties amounted to $77,632 and $86,455, respectively.

(b) Rental revenue

For the six months ended June 30, 2012 and 2011, the Consolidated Company incurred other related party transactions of $14,260 and $14,168, respectively, which were accounted as rental revenue.

e. Accounts Receivable (Payable)

	June 30, 2012		June 30, 2011	
Accounts Receivable:	**Amount**	**%**	**Amount**	**%**
ASUSTeK	$ 7,269,567	6.04	4,849,348	7.54
Others	15,572	0.01	3,266	-
Total	**$ 7,285,139**	**6.05**	**4,852,614**	**7.54**
Other Receivable:				
ASUSTeK	$ 51,432	1.57	35,634	1.53
E-PIN	-	-	200,000	8.60
Others	5,682	0.17	4,438	0.20
Total	**$ 57,114**	**1.74**	**240,072**	**10.33**
Accounts Payable:				
ASKEY TECHNOLOGY	$ 784,006	0.61	463,408	0.60
AVY PRECISION	581,906	0.45	510,227	0.66
SHANGHAI INDEED	578,306	0.45	400,288	0.52
Others	280,459	0.22	382,759	0.50
Total	**$ 2,224,677**	**1.73**	**1,756,682**	**2.28**

	June 30, 2012			June 30, 2011	
Accrued Expenses:		**Amount**	**%**	**Amount**	**%**
ASUSTEK COMPUTER (SHANGHAI)	$	8,726	0.06	4,166	-
ASUSTeK		2,166	0.02	375,186	3.20
Others		46	-	41	-
Total	**$**	**10,938**	**0.08**	**379,393**	**3.20**

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

		June 30, 2012	June 30, 2011
Other current assets	**$**	**-**	**280**
Liabilities:			
Other financial liabilities — current	$	320	300
Other current liabilities		3,562	10,222
	$	**3,882**	**10,522**

f. Financing

As of June 30, 2011, financing provided by the Consolidated Company to related parties were as follows:

		Ending Balance	Maximum Balance	Interest Rate	Current Interest
E-PIN OPTICAL INDUSTRY CO., LTD.	$	200,000	200,000	1.5%	-

6. Pledged Assets

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

	June 30		
Asset	**2012**	**2011**	**Purpose of pledge**
Restricted deposit	$ 118,323	112,047	Customs duty guarantee, rental deposits, travel agency guarantee, etc.
Property, plant and equipment	2,053,590	1,386,910	Bank loans
Inventories	-	-	Lawsuit collateral (Note)
Refundable deposits	37,968	126,325	Customs duty guarantee, outsourcing guarantee, custom deposits, batch declaration guarantee, and deposits for performance guarantee
	$ 2,209,881	**1,625,282**	

Note : A loss on valuation allowance for inventory market decline and obsolescence was recognized for these inventories.

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

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

Unused standby letters of credit	**June 30, 2012**	**June 30, 2011**
NTD	$ 3,699	-
EUR	2,693	2,747
JPY	6,449,033	5,209,893
USD	23,978	16,530

(2) As of June 30, 2012 and 2011, promissory notes and certificate of deposit obtained for business purpose amounted to $17,297 and $13,458, respectively.

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

	Future lease commitments					
Year	**2012**	**2013**	**2014**	**2015**	**2016**	**After 2017**
Future lease commitments	**$ 173,721**	**525,130**	**477,929**	**250,183**	**232,919**	**109,257**

The present value of the future lease commitments of CASETEK HOLDINGS LIMIED and its subsidiaries, 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
07/01/2017~06/30/2025	**$ 134,430**	**118,583**

(4) As of June 30, 2012 and 2011, the significant contracts for purchase of properties by the Consolidated Company amounted to $11,819,240 and $4,203,109, of which $2,749,818 and $2,157,787, respectively, were unpaid.

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

	June 30, 2012	June 30, 2011
Jointly issued with VQ (BVI)	**USD 10,000**	**USD 9,000**
Jointly issued with VQ (BVI)	-	**NTD 562,000**
Jointly issued with ABILITY (BVI)	-	**USD 13,000**
Jointly issued with E-PIN	**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 June 30, 2012, Azure Wave Technologies Inc. issued a tariff guarantee of $10,000 to the bank for the purpose of importing goods.

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

8. SIGNIFICANT CATASTROPHIC LOSSES

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

9. SIGNIFICANT SUBSEQUENT EVENTS: None.

10. OTHERS

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

	For the Six Months Ended June 30, 2012			For the Six Months Ended June 30, 2011		
Categorized as Nature	**Operating Cost**	**Operating Cost**	**Operating Cost**	**Operating Cost**	**Operating Expense**	**Total**
Personnel expense						
Salary expense	10,239,343	5,485,667	15,725,010	7,436,143	4,244,204	11,680,347
Health and labor insurance expense	432,437	325,672	758,109	535,352	295,079	830,431
Pension expense	883,071	286,218	1,169,289	290,282	195,798	486,080
Other expense	837,024	337,028	1,174,052	574,435	245,027	819,462
Depreciation expense (Note A)	4,345,314	637,694	4,983,008	3,362,374	617,316	3,979,690
Amortization expense	778,600	449,332	1,227,932	598,735	638,415	1,237,150

Note A: For the six months ended June 30, 2012 and 2011, the Consolidated Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle-assets of $9,884 and $12,650, respectively

(2) Certain accounts in the consolidated financial statements as of and for the six months ended June 30, 2011, were reclassified to conform to the presentation adopted in the consolidated financial statements as of and for the six months ended June 30, 2012.

11. BUSINESS SEGMENT FINANCIAL INFORMATION

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

For the six months ended June 30, 2012 and 2011, operating segments required to be disclosed are categorized as DMS (Design Manufacturing Service) and Strategic Investment Group. DMS's main operating activities are designing and manufacturing computer, communication and consumer electronics' end products, and providing after-sales service. Strategic Investment Group is DMS's upstream and downstream supply chain, strategic investments and other related investments arms. The chief operating decision maker's main responsibility is to integrate strategy that creates operating synergy throughout the supply chain and to allocate the profit from the operating result. The Consolidated Company assess performance of the segments based on the segments' profit, and report the amounts of revenues based on the financial information used to prepare the consolidated financial statements.

For the Six Months Ended June 30, 2012	DMS	Strategic Investment Group	Adjustment and eliminations	Total
External Revenue	$ 334,334,908	56,773,802	-	391,108,710
Intra-Group Revenue	2,443,736	4,952,474	(7,396,210)	-
Total segment Revenue	**$ 336,778,644**	**61,726,276**	**(7,396,210)**	**391,108,710**
Segment profit (loss)	**$ 2,559,019**	**5,660,416**	**(3,041,177)**	**5,178,258**
Segment assets	**$ 277,326,613**	**189,712,404**	**(111,485,471)**	**355,553,546**

For the Six Months Ended June 30, 2011	DMS	Strategic Investment Group	Adjustment and eliminations	Total
External Revenue	$ 189,456,445	50,253,508	-	239,709,953
Intra-Group Revenue	947,751	4,587,470	(5,535,221)	-
Total segment Revenue	**$ 190,404,196**	**54,840,978**	**(5,535,221)**	**239,709,953**
Segment profit (loss)	**$ (1,104,961)**	**2,409,404**	**(111,805)**	**1,192,638**
Segment assets	**$ 193,407,972**	**161,415,311**	**(96,276,646)**	**258,546,637**

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