

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010
(With Independent Accountants' Review Report Thereon)

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(English Translation of Financial Report Originally Issued in Chinese)

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of

Pegatron Corporation

We have reviewed the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries (the Consolidated Company) as of September 30, 2011 and 2010, and the related consolidated statements of income and cash flows for the nine months then ended. These consolidated financial statements are the responsibility of the Consolidated Company's management. Our responsibility is to express the review report based on our review. We did not review the financial statements of certain consolidated subsidiaries with total assets of NT\$27,352,378 thousand, representing 9.07% and net sales of NT\$15,616,798 thousand, representing 3.70% of the related consolidated total as of and for the nine months ended September 30, 2011 and 2010, respectively. Those statements were reviewed by others auditors whose reports have furnished to us, and our opinion, insofar as it relates to the amounts included for certain subsidiaries, were based solely on the report of the other auditors.

Except as discussed in the following paragraph, we conducted our review in accordance with Statement of Auditing Standards No. 36 "Engagements to Review Financial Statements." A review consists principally of inquiries of consolidated 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 prepared by the management of the subsidiaries as of and for the nine months ended September 30, 2011 and 2010. The total assets of these subsidiaries amounted to NT\$210,557,195 thousand and NT\$185,531,459 thousand, representing 69.80% and 82.40% of the related consolidated total assets and the total liabilities amounted to NT\$113,347,144 thousand and NT\$76,925,661 thousand, representing 61.59% and 73.43% of the related consolidated liabilities as of September 30, 2011 and 2010, respectively. The

operating revenues of these subsidiaries amounted to NT\$161,703,930 thousand and NT\$174,896,078 thousand, representing 38.26% and 43.95% of the consolidated operating revenues for the nine months ended September 30, 2011 and 2010, respectively, and their net income amounted to NT\$198,045 thousand and NT\$4,399,796 thousand, representing 12.30% and 51.72% 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 prepared by the management of the investees which were not reviewed by independent accountants. Long-term investments in these companies amounted to NT\$2,449,665 thousand and NT\$2,097,659 thousand as of September 30, 2011 and 2010, respectively, and the related investment gain for the nine months ended September 30, 2011 and 2010 amounted to NT\$78,571 thousand and NT\$178,940 thousand, respectively.

Based on our reviews and the report of other auditors, excepted 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 as described in the preceding paragraph been reviewed by independent accountants, we are not aware of any material modifications that should be made to the consolidated financial statements referred to the first paragraph for them to be in conformity with Order VI-0960064020 issued by the Financial Supervisory Commission under the Executive Yuan dated November 15, 2007 and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the accounting principles generally accepted in the Republic of China.



Taipei, Taiwan, R.O.C
October 20, 2011

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.

(English Translation of Financial Report Originally Issued in Chinese)
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PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2011 AND 2010
(All Amounts Expressed in Thousands of New Taiwan Dollars)

	September 30, 2011		September 30, 2010	
	Amount	%	Amount	%
ASSETS				
Current Assets:				
Cash (Note 4(1))	\$ 40,757,710	14	36,172,519	16
Financial assets reported at fair value through profit or loss — current (Note 4(2))	5,815,111	2	7,844,169	4
Available-for-sale financial assets — current (Note 4(2))	393,929	-	886,308	-
Derivative financial assets for hedging — current (Note 4(2))	-	-	6,649	-
Notes and accounts receivable, net of allowance for uncollectible accounts (Notes (4)(3))	80,533,627	27	46,265,392	21
Accounts receivable, net — Related parties (Note 5)	9,659,357	3	10,703,637	5
Other receivable — Non-related parties	2,358,447	1	1,821,227	1
Other receivable — Related parties (Note 5)	38,689	-	36,376	-
Other financial assets — current (Note 6)	109,691	-	118,604	-
Inventories (Notes 4(4))	78,884,487	26	52,861,180	23
Other current assets (Note 5)	3,761,194	1	1,763,043	1
Deferred income tax assets — current	889,549	-	774,896	-
	<u>223,201,791</u>	<u>74</u>	<u>159,254,000</u>	<u>71</u>
Investments:				
Available-for-sale financial assets — noncurrent (Note 4(2))	1,198,634	-	2,006,556	1
Financial assets carried at cost — noncurrent (Note 4(2))	922,482	-	825,082	-
Long-term investments under the equity method (Note 4(5))	2,449,665	1	2,097,659	1
Held-to-maturity financial assets — noncurrent (Note 4(2))	338,841	-	-	-
	<u>4,909,622</u>	<u>1</u>	<u>4,929,297</u>	<u>2</u>
Other financial assets - noncurrent (Note 6)	<u>273,215</u>	<u>-</u>	<u>201,458</u>	<u>-</u>
Property, Plant and Equipment, at cost (Note 4(7) and 6)				
Land	4,438,350	1	2,811,832	1
Buildings	26,185,230	9	24,269,433	11
Machinery and equipment	48,802,752	16	46,235,121	21
Warehousing equipment	127,658	-	117,972	-
Instrument equipment	1,991,865	1	1,751,412	1
Transportation equipment	247,740	-	228,823	-
Office equipment	2,586,335	1	1,103,245	-
Miscellaneous equipment	11,606,548	4	6,705,223	3
	<u>95,986,478</u>	<u>32</u>	<u>83,223,061</u>	<u>37</u>
Less: Accumulated depreciation	(40,223,605)	(13)	(32,709,153)	(14)
Less: Accumulated impairment	(140,439)	-	(198,016)	-
Prepayments on purchase of equipment	8,289,849	3	2,481,010	1
	<u>63,912,283</u>	<u>22</u>	<u>52,796,902</u>	<u>24</u>
Intangible Assets (Note 4(8))				
Goodwill	1,940,817	1	889,156	-
Deferred pension costs	379	-	4,894	-
Land use rights	2,613,005	1	2,345,860	1
Other intangible assets	1,519,576	-	388,087	-
	<u>6,073,777</u>	<u>2</u>	<u>3,627,997</u>	<u>1</u>
Other Assets				
Deferred expenses (Note 4(9))	2,234,297	1	2,597,402	1
Other assets — others (Note 4(7), 4(9), and 6)	1,035,727	-	1,757,562	1
	<u>3,270,024</u>	<u>1</u>	<u>4,354,964</u>	<u>2</u>
TOTAL ASSETS	<u>\$ 301,640,712</u>	<u>100</u>	<u>225,164,618</u>	<u>100</u>

The accompanying notes are an integral part of the consolidated financial statements.
(With KPMG review report dated October 20, 2011.)

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CON'T)
SEPTEMBER 30, 2011 AND 2010

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	September 30, 2011		September 30, 2010	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Short-term loans (Note 4(10))	\$ 25,110,401	8	15,685,471	7
Short-term notes and bills payable	159,908	-	49,923	-
Financial liabilities at fair value through profit or loss – current (Note 4(2))	173,275	-	17,757	-
Notes and accounts payable – Non-related parties	106,125,354	35	58,720,104	26
Notes and accounts payable – Related parties (Note 5)	2,523,864	1	1,279,457	1
Income tax payable	1,686,965	1	1,909,567	1
Accrued expenses (Note 5)	13,401,562	4	9,025,880	4
Other financial liabilities – current (Note 4(10))	4,159,209	2	1,596,394	1
Current portion of long-term loans (Note 4(12))	996,411	-	148,135	-
Other current liabilities (Note 5)	4,544,625	2	4,815,423	2
	<u>158,881,574</u>	<u>53</u>	<u>93,248,111</u>	<u>42</u>
Long-Term Liabilities:				
Bonds payable (Note 4(11))	1,396,981	-	1,366,075	1
Long-term loans (Note 4(12))	23,024,895	8	9,398,466	4
Other financial liabilities – noncurrent	329,768	-	227,797	-
	<u>24,751,644</u>	<u>8</u>	<u>10,992,338</u>	<u>5</u>
Other Liabilities:				
Deferred income tax liabilities – noncurrent	299,300	-	475,090	-
Other liabilities – others	101,252	-	49,710	-
	<u>400,552</u>	<u>-</u>	<u>524,800</u>	<u>-</u>
Total Liabilities	<u>184,033,770</u>	<u>61</u>	<u>104,765,249</u>	<u>47</u>
Stockholders' Equity:				
Common stock (Note 4(15))	<u>22,563,669</u>	<u>7</u>	<u>22,860,639</u>	<u>10</u>
Capital surplus (Note 4(15))				
Premium on capital stock	60,393,247	20	61,188,108	27
Others	3,051,557	1	2,659,306	1
	<u>63,444,804</u>	<u>21</u>	<u>63,847,414</u>	<u>28</u>
Retained earnings (Note 4(15)):				
Legal reserve	1,836,601	1	1,215,457	1
Special reserve	4,327,629	1	-	-
Unappropriated earnings	(830,749)	-	6,963,458	3
	<u>5,333,481</u>	<u>2</u>	<u>8,178,915</u>	<u>4</u>
Other adjustments to stockholders' equity:				
Cumulative translation adjustments	(321,643)	-	(703,320)	-
Unrecognized loss on pension cost	(16)	-	(3,203)	-
Unrealized gain on financial assets	391,331	-	1,497,510	1
	<u>69,672</u>	<u>-</u>	<u>790,987</u>	<u>1</u>
Treasury stock (Note 4(15))	(18,794)	-	(1,016,184)	(1)
Total Parent Company's Equity	<u>91,392,832</u>	<u>30</u>	<u>94,661,771</u>	<u>42</u>
Minority interest	<u>26,214,110</u>	<u>9</u>	<u>25,737,598</u>	<u>11</u>
Total Stockholders' Equity	<u>117,606,942</u>	<u>39</u>	<u>120,399,369</u>	<u>53</u>
Commitments and Contingencies (Note 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 301,640,712</u>	<u>100</u>	<u>225,164,618</u>	<u>100</u>

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 NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Nine Months ended September 30			
	2011		2010	
	Amount	%	Amount	%
Operating revenues (Note 5)	\$ 428,594,982	101	400,166,087	101
Less: Sales returns and allowances	5,958,099	1	2,211,187	1
Net sales	<u>422,636,883</u>	100	<u>397,954,900</u>	100
Cost of sales (Notes 4(4) and 5)	<u>404,352,153</u>	96	<u>374,006,757</u>	94
Gross profit	<u>18,284,730</u>	4	<u>23,948,143</u>	6
Operating expenses (Notes 5)				
Selling expenses	6,443,038	1	5,889,223	1
General and administrative expenses	5,156,874	1	4,108,298	1
Research and development expenses	7,026,123	2	6,073,036	2
	<u>18,626,035</u>	4	<u>16,070,557</u>	4
Income (Loss) from operations	<u>(341,305)</u>	-	<u>7,877,586</u>	2
Non-operating income				
Interest revenue	408,574	-	101,319	-
Investment gain under the equity method (Note 4(5))	78,571	-	178,940	-
Dividend income	132,230	-	72,814	-
Gain on disposal of fixed assets	79,749	-	-	-
Gain on disposal of investments (Note 4(2))	417,119	-	773,882	-
Foreign exchange gain, net	1,549,152	1	324,320	-
Gain on reversal of impairment (Note 4(2) and 4(7))	8,586	-	-	-
Gain on valuation of financial asset	-	-	18,956	-
Others	1,585,208	-	1,839,374	1
	<u>4,259,189</u>	1	<u>3,309,605</u>	1
Non-operating expenses				
Interest expense	457,431	-	147,108	-
Loss on disposal of fixed assets	-	-	120,873	-
Impairment loss (Note 4(2) and 4(7))	-	-	113,564	-
Loss on valuation of financial asset (Note 4(2))	46,897	-	-	-
Loss on valuation of financial liability (Note 4(2))	81,966	-	19,335	-
Others	377,869	-	326,080	-
	<u>964,163</u>	-	<u>726,960</u>	-
Income before income tax	2,953,721	1	10,460,231	3
Income tax expense	1,343,082	-	1,953,778	1
Consolidated income	<u>\$ 1,610,639</u>	<u>1</u>	<u>8,506,453</u>	<u>2</u>
Income (Loss) attributable to :				
Shareholders of parent company	\$ (863,850)	-	4,921,289	1
Minority interest income	2,474,489	1	3,585,164	1
	<u>\$ 1,610,639</u>	<u>1</u>	<u>8,506,453</u>	<u>2</u>
	<u>Before</u>	<u>After</u>	<u>Before</u>	<u>After</u>
	<u>Income Tax</u>	<u>Income Tax</u>	<u>Income Tax</u>	<u>Income Tax</u>
Earnings (Losses) per share attributable to parent company (Note 4(17))				
Primary earnings (losses) per share	<u>\$ (0.40)</u>	<u>(0.38)</u>	<u>2.68</u>	<u>2.16</u>
Diluted earnings per share			<u>\$ 2.66</u>	<u>2.15</u>

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2011	2010
Cash flows from operating activities:		
Consolidated net income	\$ 1,610,639	8,506,453
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	6,088,107	5,877,541
Amortization	1,883,888	1,758,515
Amortization of discount on bonds payable	23,180	20,604
Loss on inventory market price decline and obsolescence, and for impairment	2,763,720	1,302,326
Investment gain under equity method	(78,571)	(178,940)
Cash dividends from investment under equity method	138,416	96,421
Employee compensation cost	220,799	138,793
Loss on disposal and retirement of assets	117,975	42,029
Loss (gain) on disposal of fixed assets	(79,749)	120,873
Gain on disposal of investments	(417,119)	(773,882)
Loss on valuation of financial asset	128,863	379
Impairment loss (gain)	(8,586)	113,564
Amortization of difference between investment cost and net value of equity (accounted under other losses)	24,337	-
Interest revenue offset the cost of financial instruments	617	-
Change in assets and liabilities:		
Change in assets:		
Financial assets reported at fair value through profit or loss — current	516,317	(487,676)
Notes and accounts receivable (including related parties)	(29,904,578)	10,843,124
Other accounts receivable (including related parties)	(426,148)	(422,674)
Inventories	(36,119,337)	(10,753,574)
Other current assets	(1,137,219)	49,318
Deferred income tax asset and liability, net	(271,058)	323,852
Change in liabilities:		
Financial liabilities reported at fair value through profit or loss — current	79,220	-
Notes and accounts payable (including related parties)	44,254,458	(7,922,356)
Income tax payable	(530,771)	633,402
Accrued expenses (including related parties)	3,682,201	874,442
Other financial liabilities — current	277,091	(102,879)
Other current liabilities	(126,986)	(346,540)
Other liabilities — others	41,094	(1,509)
Net cash provided by (used in) operating activities	<u>(7,249,200)</u>	<u>9,711,606</u>
Cash flows from investing activities:		
Acquisition of financial assets available-for-sale	(94,817)	(175,384)
Proceeds from disposal of financial assets available-for-sale	972,268	295,651
Acquisition of financial assets held-to-maturity	(324,827)	-
Acquisition of financial assets carried at cost	(316,600)	(200,023)
Proceeds from disposal of financial assets carried at cost	118,740	27,495
Acquisition of derivative hedging instrument	-	(6,649)
Proceeds from disposal of subsidiaries and long-term equity investments	18,505	15,245
Acquisition of subsidiaries	(4,574,570)	-
Purchase of property, plant and equipment	(9,477,869)	(5,977,371)
Proceeds from disposal of property, plant and equipment	1,080,440	1,300,122
Proceeds from disposal of idle assets	706,884	1,208
Increase in deferred expenses	(971,006)	(842,190)
Purchase of intangible assets	(167,732)	(61,993)
Proceeds from disposal of deferred expenses	2,557	-
Other financial assets — current	1,232,116	77,523
Other financial assets — noncurrent	19,020	266,850
Decrease in other assets — other	22,930	109,869
Net cash used in investing activities	<u>(11,753,961)</u>	<u>(5,169,647)</u>

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CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2011	2010
Cash flows from financing activities:		
Increase in short-term loans	10,173,321	4,806,432
Increase (Decrease) in short-term notes and bills payable	109,984	(10)
Increase in bonds payable	-	1,497,401
Increase in long-term loans	12,681,116	1,478,953
Decrease in long-term loans	(315,579)	(31,728)
Decrease in guarantee deposits received	(21,903)	(13,508)
Decrease in other accounts payable — Related parties	(200,000)	-
Distribution of cash dividend	(5,874,937)	(6,584,567)
Employee stock option	49,623	-
Retirement of treasury stock	(9,472)	(1,006,862)
Issuance of new share resulting from capital increment of the parent company	-	407
Proceeds from acquisition of minority interest	(295,319)	-
Increase in minority interest	389,520	348,808
Net cash provided by financing activities	16,686,354	495,326
Foreign exchange rate effects	810,511	(707,186)
Effect of changes in certain subsidiaries	-	(3,860)
Net increase in cash	(1,506,296)	4,326,239
Cash, beginning of the period	42,264,006	31,846,280
Cash, end of the period	\$ 40,757,710	\$ 36,172,519
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 386,916	122,612
Income tax	\$ 2,133,559	1,222,232
Non-cash investing and financing		
Current portion of long-term loans	\$ 996,411	148,135
Cash received from disposal of property:		
Proceeds from disposal of property	\$ 1,390,440	1,300,122
Less: Accounts payable, end of the period	(310,000)	-
Cash Received	\$ 1,080,440	1,300,122
Purchase of property and equipment with cash and other payables:		
Property, plant and equipment	\$ 10,872,187	5,954,500
Add: Other payables, beginning of the period	468,687	97,397
Effect of consolidation	473,027	-
Less: Other payables, end of the period	(2,336,032)	(74,526)
Cash paid	\$ 9,477,869	5,977,371
Cash received from acquisition of subsidiaries:		
Cash received	\$ 1,653,198	
Acquisition of non-monetary assets	11,360,052	
Goodwill arising from acquisition	976,828	
Liabilities	(7,466,549)	
Minority interest	(295,761)	
Proceeds paid during the period	6,227,768	
Less: Cash balance from consolidation of subsidiary	(1,653,198)	
Cash paid	\$ 4,574,570	
Cash received from disposal of equity investments in subsidiaries:		
Proceed of disposal	\$ 66,613	
Less: cash decreased in subsidiaries	(48,108)	
Cash Received	\$ 18,505	

The accompanying notes are an integral part of the consolidated financial statements.
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Reviewed only, not audited in accordance with generally accepted auditing standards

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

(Amounts Expressed in Thousands of New Taiwan Dollars,

Except for Per Share Information and Unless Otherwise Stated)

1. ORGANIZATION AND BUSINESS :

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Company’s financial statements were prepared in accordance with the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan on November 15, 2007, Guidelines Governing the Preparation of Financial Reports by Securities, and generally accepted accounting principles of the Republic of China. Except for the following significant accounting policies, other significant policies which are not disclosed herein are the same as those in the 2010 annual consolidated financial statements.

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

(1) Basis of consolidation

- a. The consolidated financial statements include the Company and its controlled subsidiaries, in which the significant inter-company transactions were eliminated. As of September 30, 2011 and 2010, the consolidated subsidiaries were as follows:

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
The Company	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	100.00%	100.00%	The Company directly owns over 50% of equity
UNIHAN AND ASUSPOWER INVESTMENT	Ability Enterprise Co., LTD. (Ability(TW))	Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products leasing	12.40%	12.54%	Subsidiary has de facto control

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
Ability (TW)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
"	VIEWQUEST TECHNOLOGIES INTERNATIONAL LTD.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%	"
"	ASSOCIATION INTERNATIONAL LTD.	Investing activities	100.00%	100.00%	"
"	ABILITY ENTERPRISE (BVI) CO., LTD. (ABILITY)	Investing activities	100.00%	100.00%	"
"	VIEWQUEST TECHNOLOGIES (BVI) INC. (VQ(BVI))	Manufacturing and trading computer peripherals, digital cameras and electronic components	100.00%	100.00%	"
"	Ability International Investment Co., Ltd.(ABILITY INVESTMENT)	Investing activities	100.00%	100.00%	"
Ability (TW) and ABILITY INVESTMENT	E-Pin Optical Industry Co. Ltd.(E-PIN)	Selling electronic components of optical products	53.01%	-	"
ABILITY	Ability Technology (Dongguan) Co., Ltd	Producing and selling digital cameras	100.00%	100.00%	"
"	Jiujiang Viewquest Electronics Inc.	Producing and selling digital cameras	100.00%	100.00%	"
ABILITY INVESTMENT	NOENA CORPORATION (NOENA)	Selling computer peripherals and optical products	-	80.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
VQ(BVI)	VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD.	Producing and selling digital cameras	100.00%	-	Subsidiary directly owns over 50% of equity
E-PIN	E-PIN INTERNATIONAL TECH CO., LTD.	Manufacturing optical instruments	65.10%	-	"
"	E-PIN OPTICAL INDUSTRY CO., LTD. (Mauritius)	Trading activities	100.00%	-	"
"	E-PIN OPTICAL INDUSTRY (M.) SDN. BHD.(Malaysia)	Manufacturing precision lenses	100.00%	-	"
"	ALL VISION TECHNOLOGY SDN. BHD.	Manufacturing precision lenses	100.00%	-	"
"	ALL VISION HOLDING LTD. (AV)	Investing activities	100.00%	-	"
AV	EVERLIGHT DEVELOPMENT CORPORATION (ED)	Investing activities	100.00%	-	"
"	E-SKY HOLDING LTD. (ES)	Investing activities	73.04%	-	"
ED	WEIHAI E-SKY OPTICAL-ELECTRICAL CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	-	"
"	NANJING CHANGMING PHOTOELECTRIC TECHNOLOGY CO., LTD.	Manufacturing and developing precision optical lenses	55.45%	-	"
ES	ZHONGSHAN SANXIN PRECISION INDUSTRY CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	-	"

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
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%	"
Unihan Holding	CASETEK HOLDINGS LIMITED (CASETEK HOLDING)	Investing and trading activities	100.00%	100.00%	"
CASETEK HOLDING	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	"
"	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00%	100.00%	"
"	GRAND UPRIGHT TECHNOLOGY LIMITED	Trading activities	100.00%	100.00%	"
"	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDING)	Investing and trading activities	100.00%	100.00%	"
KAEDAR HOLDING	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00%	100.00%	"
CASETEK HOLDING	KAEDAR TRADING LTD.	Investing and trading activities	100.00%	100.00%	"

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
CASETEK HOLDING	CORE-TEK (SHANGHAI) LIMITED	Researching and producing the spare parts of 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
"	APLUS PRECISION LTD. (APLUS)	Investing and trading activities	-	51.00%	Note B
UNIHAN AND ASUSPOWER INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	38.65%	43.56%	Subsidiary has de facto control
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%	"
HANNEX	SCIENTEK. NANJING CO., LTD.	Designing, manufacturing and selling computer products	100.00%	100.00%	"
EMINENT	JADE TECHNOLOGIES LIMITED (JADE)	Investing activities	100.00%	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
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
"	AZWAVE HOLDING (SAMOA) INC. (AZWAVE SAMOA)	Investing activities	100.00%	100.00%	"
AZWAVE SAMOA	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and selling computer products	100.00%	100.00%	"
"	AZURE LIGHTING TECHNOLOGIES, INC (YANGZHOU)	Manufacturing electronic parts	100.00%	100.00%	"
"	AIGALE CORPORATION (SHANGHAI)	Developing, designing and selling communication equipment and electronic products	100.00%	100.00%	"
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00%	100.00%	"
UNIHAN	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	100.00%	"
AMA PRECISION	AMA TECHNOLOGY CORPORATION	Trading computer peripherals	100.00%	100.00%	"
"	AMA HOLDINGS LIMITED (AMA)	Investing activities	100.00%	100.00%	"
AMA	METAL TRADINGS LTD.(METAL)	Trading activities	100.00%	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
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%	"
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	100.00%	100.00%	"
AMA	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD	Manufacturing and selling new electronic parts and premium hardware	100.00%	100.00%	"
THE COMPANY AND ASUS INVESTMENT	ASUS HOLLAND HOLDING B.V.(AHH)	Investing activities	100.00%	100.00%	Subsidiary 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%	"

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
PEGATRON HOLDING, KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing and holding 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
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	"
"	PIOTEK (H.K) TRADING LIMITED	Trading activities	100.00%	100.00%	"
PEGATRON HOLDING	ASLINK PRECISION CO., LTD (ASLINK)	Investing and trading activities	100.00%	100.00%	"
ASLINK	ASLINK (H.K.) PRECISION CO., LIMITED	Investing and trading activities	100.00%	100.00%	"
"	ASAP INTERNATIONAL CO., LIMITED (ASAP)	Investing activities	-	59.17%	"
ASAP	ASAP TECHNOLOGY (JIANGXI) CO., LIMITED	Manufacturing and selling data transmit wire and cable	-	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
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%	-	"
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%	"
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00%	100.00%	"
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00%	100.00%	"
"	NORTH TEC ASIA LIMITED (NORTH)	Investing and trading activities	-	100.00%	"
PROTEK AND NORTH	PROTEK (SHANGHAI) LIMITED	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
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%	"
PEGATRON HOLDING	TOP QUARK LIMITED (TOP QUARK)	Investing and holding activities	100.00%	100.00%	"
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00%	100.00%	"
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
"	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	"
"	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole soling 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%	"
ASIAROCK	ASROCK EUROPE B.V.	Database service and trading electronic components	100.00%	100.00%	"
"	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%	"
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing and holding activities	100.00%	100.00%	"
Leader	Firstplace International Ltd. (Firstplace)	Investing and holding activities	100.00%	100.00%	"
Firstplace	ASROCK America., Inc.	Database service and trading electronic components	100.00%	100.00%	"
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

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, wholesaling 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%	"
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%	"
"	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	"
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	100.00%	"
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
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
"	STARLINK ELECTRONICS CORPORATION (STARLINK)	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	100.00%	"
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED (CAYMAN) (CASETEK CAYMAN)	Investing activities	100.00%	-	Subsidiary directly owns over 50% of equity
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00%	-	"
"	RIH KUAN METAL CORPORATION (RIH KUAN)	Manufacturing iron and aluminum products	100.00%	-	"
"	APLUS PRECISION (CAYMAN) LIMITED (APLUS)	Investing and trading activities	70.00%	-	Note B
"	MEGA MERIT LIMITED	Trading activities	100.00%	-	"
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
UNITED	AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
RIH LI	GLOBAL EXPERT LIMITED	Trading activities	100.00%	-	Subsidiary directly owns over 50% of equity
"	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	Manufacturing and selling electronic components	100.00%	-	"
"	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	-	"
"	RI-MING (SHANGHAI) CO.,LTD.	Manufacturing and selling electronic components	100.00%	-	"
"	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Manufacturing and selling electronic components	100.00%	-	"
STARLINK	STRATEGY Technology Co., Ltd.	Investing and trading activities	-	-	"
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%	"
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00%	100.00%	"
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.	Maintenance service	100.00%	-	"
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
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, 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%	"
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	100.00%	"
"	Lumens Digital Image Inc.(SAMOA) (Lumens)	Investing activities	100.00%	100.00%	"
Lumens	Lumens (Suzhou) Digital Image Inc.	Developing, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	100.00%	"
Lumens Optics	Lumens Europe BVBA	Selling computer communication products and peripherals	100.00%	100.00%	"
"	Jie Xin Inc.	Manufacturing and wholesaling electronic parts	94.00%	94.00%	"
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.09.30	2010.09.30	
The Company	ADVANSUS CORP.	Manufacturing computer peripherals	50.00%	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%	"

Note A: The consolidated financial statements include only a proportion of the joint venture owned by the Company.

Note B: For the year 2010, CASETEK HOLDING LIMITED (CASETEK HOLDINGS) acquired 51% of total issued shares of APLUS PRECISION (Cayman) LIMITED ("APLUS") in exchange of its long-term equity investment. In April 2011, CASETEK HOLDINGS acquired another 19% of total issued shares of APLUS from Avy Precision Technology Inc. for US\$10,280,900, 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.

b. Increases or decreases in the number of consolidated subsidiaries as of June 31, 2011 were summarized as follows:

1. PEGATRON TECHNOLOGY SERVICE INC. established PEGATRON SERVICIO DE INFORMATICA LTDA. and invested US\$650 thousand in exchange for its 100% equity ownership in November 2010.
2. In January 2011, ASUSPOWER CORPORATION acquired 100% equity ownership of CASETEK HOLDING LIMITED (CAYMAN) for US\$95,000 thousand. Following its acquisition of 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).

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3. For the nine months ended September 2011, Asuspower Investment Co., Ltd., Asus Investment Co., Ltd. and Asustek Investment Co., Ltd. has invested and established 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 for US\$5,000 thousand, US\$8,000 thousand, NT\$300,000 thousand and US\$1,000 thousand, 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.
4. For the nine months ended September 30, 2011, Ability Enterprise Co., Ltd. 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.
5. For the nine months ended September 30, 2011, the Company has invested and established DIGITEK (CHONGQING) LTD. in Mainland China through DIGITEK GLOBAL HOLDINGS LIMITED. The Company acquired 100% equity ownership of DIGITEK (CHONGQING) LTD. for US\$ 10,000 thousand.
6. In September 2011, Ability Enterprise Co., Ltd. acquired 52.24% equity ownership of E-Pin Optical Industry Co. Ltd. for NT\$366,664. Following the acquisition, Ability Enterprise Co., Ltd. obtained control over E-Pin optical Industry Co. Ltd. and its subsidiaries.
7. In April 2011, Ability Enterprise Co., Ltd. sold its entire equity ownership in NOENA CORPORATION to a non-related party.

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:

Hannex International Limited, Ability Enterprise Co., Ltd. and Kinsus Interconnect Technology Corp., were included in the consolidated financial statements even if the Consolidated Company holds 38.65%, 12.40% 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 exercise control over their respective board of directors.

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d. Subsidiaries excluded from consolidation

1. STRATEGY Technology Co., Ltd. went into liquidation on March 26, 2010. Therefore, the net income (loss) of this investee company was excluded in the consolidated financial statements commencing from March 26, 2010.
2. NORTH TEC ASIA LIMITED, an investee company wholly owned by Pegatron Holding, merged with PROTEK GLOBAL HOLDING LTD. in 2010, and PROTEK GLOBAL HOLDING LTD. was the surviving entity from such merger.
3. Due to organizational restructuring, ASLINK PRECISION CO., LTD (ASLINK PRECISION) acquired 25% equity ownership of ASAP TECHNOLOGY (JIANGXI) CO., LTD through equity swap on December 31, 2010. Consequently, ASLINK PRECISION's equity ownership in ASAP INTERNATIONAL CO., LIMITED decreased from 59.17% to 45.56%. Following the equity swap, ASLINK PRECISION sold its equity ownership in ASAP INTERNATIONAL CO., LTD to a non-related party, and thereby the Consolidated Company lost its significant influence on ASAP PRECISION CO., LTD. and ASAP TECHNOLOGY (JIANGXI) CO., LTD.

According to SFAS No. 7 "Consolidated Financial Statements", if the Consolidated Company has lost its ability to control the entities described above, those entities are excluded in consolidated financial statements.

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

(2) Financial Instruments

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

Financial instruments are classified into this category if the purpose of acquisition is principally for selling or repurchasing in the near term. All financial instruments that does not meet the criteria for hedge accounting is classified as 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.

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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, the Consolidated Company recognizes impairment loss, which is not reversed in subsequent periods.

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e. Notes and Account receivables, and other receivables

Notes and Account 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 assets 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 assets 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 at the date impairment is reversed. The amount of the reversal shall be 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 does not meet the criteria for hedge accounting is classified as 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.

(3) Share-based payment transactions

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

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- i. An equity-settled share-based payment transaction is measured based on the fair value of the award at the grant date, and recognized as expenses over the vesting period with a corresponding increase in equity. The vesting period is estimated based on the vesting conditions under the share-based payment arrangement. Vesting conditions include service conditions and performance conditions (including market conditions). In estimating the fair value of an equity-settled share-based award, only the effect of market conditions is taken into consideration.
- ii. A cash-settled share-based payment transaction is measured at the balance sheet date and the settlement date based on the fair value of the award as of those dates and is recorded as a liability incurred for the goods and services received. Changes in fair values are recognized in profit or loss for the period.
- iii. The fair value of employee share options on the grant date and similar instruments 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 estimation of the expected term, the expected volatility, the expected dividends, and the risk-free interest rate.
- iv. According to SFAS No. 39 "Share-based Payment", the Company did not need to apply SFAS No. 39 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.

(4) 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

(5) Business Combinations

According to SFAS No. 25 "Business Combination," the equity of the acquiring corporation in a business combination in 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 statement of the acquired corporation, are measured based upon their fair value at the acquisition date.

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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.

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 net income for the nine months ended September 30, 2011.

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

4. Summary of Major Accounts

(1) Cash and Deposit

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Cash on hand	\$ 25,000	13,515
Demand deposits	14,068,555	15,494,283
Time deposits	26,664,155	20,664,721
Total	<u>\$ 40,757,710</u>	<u>36,172,519</u>

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(2) Financial Instruments

a. The components of financial instruments were as follows:

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Financial assets reported at fair value through profit or loss — current:		
Financial assets held-for-trading - current		
Stock of listed companies	\$ 161,801	283,341
Beneficiary certificates	5,084,582	6,453,170
Forward exchange contracts	18,650	733
Foreign exchange swap contracts	-	26,720
Option exchange	27,684	-
Depository receipts	-	17,144
Corporate bonds	522,394	529,924
Bonds with repurchase agreement	-	533,137
	<u>\$ 5,815,111</u>	<u>7,844,169</u>
Derivative financial asset for hedging — current:		
Forward exchange contracts	\$ -	<u>6,649</u>
Available-for-sale financial assets — current:		
Stock of listed companies	\$ -	11,573
Stock of overseas listed companies	393,929	874,735
Total	<u>\$ 393,929</u>	<u>886,308</u>
Available-for-sale financial assets — noncurrent:		
Stock of listed companies	\$ 1,198,634	1,641,046
Stock of overseas listed companies	-	365,510
Total	<u>\$ 1,198,634</u>	<u>2,006,556</u>

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	September 30, 2011	September 30, 2010
Financial assets carried at cost — noncurrent:		
Equity securities – common stock	\$ 596,800	725,082
Equity securities – preferred stock	325,682	-
Convertible bonds	-	85,435
Convertible option	-	14,565
	<u>\$ 922,482</u>	<u>825,082</u>
Held-to-maturity financial assets — current:		
Corporate bonds	<u>\$ 338,841</u>	<u>-</u>
Financial liabilities reported at fair value through profit or loss — current:		
Financial liabilities held-for-trading — current		
Foreign exchange swap contracts	\$ 54,384	-
Forward exchange contracts	25,029	-
Subtotal	<u>\$ 79,413</u>	<u>-</u>
Financial liabilities reported at fair value through profit or loss — current:		
Domestic convertible bonds	\$ (1,578)	(1,578)
Adjustments	95,440	19,335
Subtotal	<u>93,862</u>	<u>17,757</u>
Total	<u>\$ 173,275</u>	<u>17,757</u>

- b. The convertible bond issued by Ability Enterprise Co., Ltd. was treated as a compound financial instrument, which was partly classified as an equity and the rest as a liability. 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. For nine months ended September 30, 2011 and 2010, Ability Enterprise Co., Ltd. recognized a loss on financial liability reported at fair value through profit or loss of \$82,720 and \$19,335, respectively, please refer to note 4(11) for the main terms and conditions of the 1st unsecured domestic convertible bonds issued by Ability Enterprise Co., Ltd.

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- c. For nine months ended September 30, 2011 and 2010, the Consolidated Company recognized a net loss on financial assets reported at fair value through profit or loss of \$46,143 and \$18,956, respectively.
- d. For nine months ended September 30, 2011 and 2010, the unrealized losses on available-for-sale financial assets amounted to \$531,245 and \$182,695, respectively.
- e. The investments in equity securities held by 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 \$21,435 and \$92,886 for the nine months ended September 30, 2011 and 2010, respectively. Following the resolution by the shareholders during their Annual Meeting, ADDTEK Corporation carried out a capital reduction of \$98,125 and \$158,000, divided into 9,812 and 15,800 shares, in order to cover its accumulated deficit at March 30, 2010 and December 31, 2010, respectively.
- f. During the first quarter of 2011, KINSUS sold all of its equity ownership in KINMAC SOLAR CO., LTD., of 10,710,869 shares to WIN Semiconductors Corporation and 50,000 shares to a third party, totaling 10,760,869 shares, for a total selling price of \$118,015 at \$11 per share, net of securities transaction tax.
- g. During the first quarter of 2011, ASUSPOWER INVESTMENT CO., LTD. sold for US\$18,904 thousand to a third party all of its equity ownership in Atheros Communications Inc. of 443,741 shares and recognized a gain thereon of \$331,781 at US\$ 42.6 per share.
- h. As of September 30, 2011 and 2010, the components of financial derivatives of Ability Enterprise Co., Ltd. and United New Limited were as follows:

	September 30, 2011		
	Book Value	Notional Principal (thousands)	Maturity Date/ Contract Period
Derivative financial assets not for hedge			
Forward exchange contract (buy)	\$ 18,650	USD 10,000	2011.08~2011.10
Option exchange (long call)	\$ 27,684	USD 5,700	2011.04~2012.02
Forward exchange contract (sell)	\$ (25,029)	USD 19,000	2011.08~2011.10
Currency swap contracts	\$ (54,384)	USD 90,133	2011.04~2012.02

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September 30, 2010

	<u>Book Value</u>	<u>Notional Principal (thousands)</u>	<u>Maturity Date/ Contract Period</u>
Derivative financial assets not for hedge			
Foreign exchange swap contracts	\$ 26,720	USD 133,660	2010.09~2010.10
Forward exchange contracts (sell)	\$ 733	USD 2,000	2010.09~2010.10
Derivative financial assets for hedge			
Forward exchange contracts (sell)	\$ 6,649	USD 2,000	2010.09~2010.10

Ability Enterprise Co., Ltd. entered into derivative contracts during the nine months ended September 30, 2011 and 2010 to manage exposures due to the fluctuations of exchange rate and interest rate. However, no hedge accounting is 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 – Non-related parties

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Notes receivable	\$ 145,556	86,850
Less: Allowance for uncollectible accounts	(20)	-
Net	145,536	86,850
Account receivable	\$ 81,181,154	46,904,584
Less: Allowance for uncollectible accounts	(793,063)	(726,042)
Net	80,388,091	46,178,542
Total	\$ 80,533,627	46,265,392

As of September 30, 2011 and 2010, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

Purchaser	Amount derecognized		Credit advanced		Collateral	Credit (thousands)	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010		September 30, 2011	September 30, 2010
Mega	\$ 722,285	595,870	76,928	369,996	None	USD 30,000	USD 30,000
International Commercial Bank							

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Inventories

	September 30, 2011	September 30, 2010
Merchandise	\$ 3,377,540	1,976,961
Less: Allowance for inventory market decline and obsolescence	(181,886)	(199,157)
Sub-total	<u>3,195,654</u>	<u>1,777,804</u>
Finished goods and merchandise	24,986,878	17,244,900
Less: Allowance for inventory market decline and obsolescence	(1,117,522)	(670,084)
Sub-total	<u>23,869,356</u>	<u>16,574,816</u>
Work in process and merchandise	12,181,209	6,414,208
Less: Allowance for inventory market decline and obsolescence	(1,143,526)	(421,640)
Sub-total	<u>11,037,683</u>	<u>5,992,568</u>
Raw materials and merchandise	41,518,831	29,710,102
Less: Allowance for inventory market decline and obsolescence	(2,381,021)	(2,052,600)
Sub-total	<u>39,137,810</u>	<u>27,657,502</u>
Inventory-in-transit	1,643,984	858,490
Total	<u>\$ 78,884,487</u>	<u>52,861,180</u>

For nine months ended September 30, 2011 and 2010, the components of cost of goods sold were as follows:

	For the Nine Months Ended September 30	
	2011	2010
Cost of goods sold	\$ 403,072,209	373,254,288
Loss on inventory valuation, disposal and obsolescence	2,763,720	1,302,326
Others	(1,483,776)	(549,857)
	<u>\$ 404,352,153</u>	<u>374,006,757</u>

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(5) Long-Term Equity Investments

Name of Investee Company	September 30, 2011		September 30, 2010	
	Equity Holding	Book Value	Equity Holding	Book Value
INDEED HOLDINGS LIMITED	49.00%	\$ 756,343	49.00%	769,247
AVY PRECISION TECHNOLOGY INC.	20.25%	765,004	20.25%	793,398
WILSON HOLDINGS LIMITED	49.00%	166,188	49.00%	164,832
EVER PINE INTERNATIONAL LTD. (BVI)	34.65%	104,623	34.65%	122,939
PENTAX VQ CO., LTD.	- %	-	40.00%	70,242
WISE INVESTMENT LIMITED	48.78%	40,062	48.78%	36,849
SHIN-EI YORKEY INTERNATIONAL LTD. (BVI)	50.00%	13,943	50.00%	18,211
ZHANGJIAGANG DONGBU HIGH TECHNOLOGY METAL PRODUCTS CO., LTD.	20.00%	48,911	20.00%	48,785
YOFREE TECHNOLOGY CO., LTD.	17.50%	12,260	17.50%	11,324
ASAP TECHNOLOGY (JIANGXI) CO., LTD.	25.00%	213,484	- %	-
E-PACKING HOLDING LIMITED	30.00%	291,352	- %	-
Subtotal		2,412,170		2,035,827
Add: Fair value adjustment for identifiable assets		37,495		61,832
Total		<u>\$ 2,449,665</u>		<u>2,097,659</u>

- a. For the nine months ended September 30, 2011 and 2010, the Consolidated Company recognized investment gain under equity method of \$78,571 and \$178,940, respectively. Some of the investment gain under equity method was recognized based on the investees' financial statements which were reviewed by other auditors and furnished to us, but others were recognized based on the investees' financial statements, which were not audited by an independent accountant.
- b. For the nine months ended September 30, 2011 and 2010, the Consolidated Company held less than 50% shares of Shin-Ei Yorkey International Ltd. (BVI) and had no significant control thus Shin-Ei Yorkey International Ltd. (BVI) was excluded from the consolidated financial statements.

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- 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 \$37,495 and \$61,832 as of September 30, 2011 and 2010, 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. In November 2010, the Consolidated Company had participated in the capital increase of eBizprise Inc. by acquiring new shares worth \$99,000, divided into 5,500 thousand shares with par value of \$18 per share. As the result, the Consolidated Company increased its equity ownership to 31.76%. 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 to 12.93%. Consequently, the Consolidated Company lost its ability to exercise control of eBizprise Inc. The equity investment in eBizprise Inc. has been transferred to financial assets carried at cost.
- e. The Consolidated Company acquired 25% equity ownership of ASAP TECHNOLOGY (JIANGXI) CO., LTD. through equity swap, which enables it to exercise significant influence over ASAP TECHNOLOGY (JIANGXI) CO., LTD. Please refer to Note 2(1) for details.
- f. In November 2010, CASETEK HOLDING LIMITED (BVI), a subsidiary of the Consolidated Company, had participated in E-PACKING HOLDING’s capital increase by purchasing additional equity shares by US\$8,115 thousand, and its ownership percentage increased to 30% after the capital increase.
- g. The Consolidated Company invested PENTAX VQ CO., LTD. through ASSOCIATION INTERNATIONAL LTD. (ASSOCIATION) of US\$1,200 thousand, was approved by the Investment Commission of the Ministry of Economic Affairs. During the first quarter of 2011, the ASSOCIATION is liquidated and the liquidation proceeds of US\$1,432 thousand were remitted to the Consolidated Company. A loss of US\$63 thousand was recognized from the difference of the book value and amount remitted.

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- (6) The Company had equity investment in ADVANSUS CORP., which is a joint venture entity. The financial accounts of ADVANSUS CORP., which were included in the Company's consolidated financial statements, were as follows:

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Current assets	\$ 471,548	685,131
Non-current assets	11,551	14,637
Current liabilities	243,367	457,318

	<u>For the Nine Months Ended September 30</u>	
	<u>2011</u>	<u>2010</u>
Revenues	\$ 1,181,848	1,816,220
Expenses	1,153,938	1,765,368

- (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 gain (loss) on recovery of impairment of assets amounting to \$1,571 and \$(114,770) for nine months ended September 30, 2011 and 2010, 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 accounted under other income. As of September 30, 2011, according to the contract, Ability(TW) has received an amount of \$929,706. Also, Ability(TW) will receive payment for the remaining amount of \$310,000 with annual interest of 1% within six months of ownership transfer. Ability(TW) has also obtained the mortgage right on the aforesaid land sold.
- (c) Please refer to Note 6 for details regarding the property, plant, and equipment pledged as collateral.

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b. Rental assets

(a) As of September 30, 2011 and 2010, the components of rental assets were as follows:

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Land	\$ 286,573	345,749
Buildings	579,063	623,417
Less: Accumulated depreciation	(127,662)	(135,844)
Less: Accumulated impairment	(12,030)	(69,061)
Add: Fair value adjustment for identifiable assets	6,706	13,483
	<u>\$ 732,650</u>	<u>777,744</u>

(b) In accordance with SFAS 25, as the Consolidated Company has the ability to control Ability Enterprise Co., Ltd. through a share swap, the difference between the acquisition cost and the fair value of the rental assets was adjusted based on the Consolidated Company's percentage of ownership. As of September 30, 2011 and 2010, the fair value adjustment for identifiable assets amounted to \$6,706 and \$13,483, respectively.

c. Idle assets

(a) As of September 30, 2011 and 2010, the components of idle assets were as follows:

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Land	\$ 39,978	385,564
Buildings	205,845	705,524
Machinery and others	1,227,601	1,679,919
Less: Accumulated depreciation	(926,707)	(1,275,793)
Less: Accumulated impairment	(341,105)	(570,329)
	<u>\$ 205,612</u>	<u>924,885</u>

(b) As these idle assets were not used in operation, the Consolidated Company valued these assets based on the recoverable amount. For the nine months ended September 30, 2011 and 2010, a gain of \$28,450 and \$94,092, respectively, was recognized from impairment loss recovery for these idle assets.

(8) Intangible assets

a. Goodwill is assessed periodically for impairment in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets." As of September 30, 2011 and 2010, the carrying value of goodwill amounted to \$1,940,817 and \$889,156, respectively.

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- b. 'Land use rights' are rights granted to the Company to use government-owned land. These rights were paid in lump sum, which was capitalized and amortized equally over their useful lives. As of September 30, 2011 and 2010, the unamortized amount of land use rights was \$2,613,005 and \$2,345,860, respectively. Please refer to Note 6 for details of the intangible assets pledged as collateral.
- c. Identifiable intangible assets from customer relationships, technology and developments are amortized equally over 3 to 5 years based on their respective expected economic benefits. As of September 30, 2011, the unamortized amount was \$1,224,982.
- d. For the nine months ended September 30, 2011, the Consolidated Company acquired 100% ownership of RIH LI for \$6,000,000 (equivalently US\$201,205 thousand) with equity premium of US\$120,763 thousand. As of June 30, 2011, the amount payable was \$2,949,540 (equivalent to US\$102,682 thousand), of which \$972,444 was due within a year, 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, so that the balance of payable was \$0 as of September 30, 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. If the acquisition price exceeds the fair value of identifiable net assets acquired, the excess is recognized as goodwill.

As of September 30, 2011, 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
Subtotal	167,672
Goodwill	<u>\$ 33,533</u>

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e. Supplementary Pro Forma Information for Business Combinations

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

	For the Nine Months Ended September 30	
	2011	2010
Consolidated net sales	\$ 424,048,947	408,950,727
Consolidated net income before tax	\$ 2,419,285	11,233,068
Consolidated net income	\$ 1,067,510	9,090,381
Pro forma primary earnings (losses) per share	\$ (0.40)	2.52

(9) Other Assets – Others

Deferred expenses consist of capitalized costs of small molds, fixtures and office decorations, which are amortized equally over 9 months to 10 years. As of September 30, 2011 and 2010, the unamortized amount of deferred expenses was \$2,234,297 and \$2,597,402, respectively.

Due to the restriction imposed by local government, KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS) purchased a farm land in the name of KINSUS's chairman instead of KINSUS. Before KINSUS can have the title to the farmland as well as complete the registration procedures, the land is temporarily recorded as other assets. As of September 30, 2011 and 2010, the carrying value of this farmland was both \$30,784.

(10) Short - Term Loans

	September 30, 2011	September 30, 2010
Credit loans	\$ 24,950,979	15,463,312
Collateralized loans	159,422	222,159
	\$ 25,110,401	15,685,471
Range of interest rate	0.05% ~ 5.04%	0.50% ~ 5.04%

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

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(11) Bonds Payable

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Bond payable	\$ 1,500,000	1,500,000
Less: Discounts on bonds payable	(103,019)	(133,925)
Total	<u>\$ 1,396,981</u>	<u>1,366,075</u>

a. The key terms and conditions of the 1st unsecured domestic convertible bonds were as follows:

(a) Ability Enterprise Co., Ltd. (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 is \$60 and as Ability (TW) distributes cash dividend on September 6, 2011, the exercise price will be adjusted from \$55.7 to \$50.7 on that date.

(d) After 3 years from issue date (Feb 6th, 2013), the bondholders shall have the right at such bondholders' option to require the Company 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 after the following events, provided that (i) the closing price of the shares for a period of 30 consecutive trading day is above 130% of the conversion price (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.

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- (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.
- b. In accordance with SFAS No. 36, convertible bonds are initially treated as compound financial instruments, of which the equity and liability components are separately accounted for. As of September 30, 2011, the issuance of convertible bonds resulted in “additional pain-in capital-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%.
- c. As of September 30, 2011, Ability Enterprise Co., Ltd.’s convertible bonds have not yet been converted into common shares nor repurchased.

(12) Long - Term Loans

<u>Creditor</u>	<u>Usage and redemption duration</u>	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Citibank Taiwan and 14 other participating financial institutions (Note A)	2010.10.25~2015.10.25, Credit line is repayable in 5 semi-annual installments, commencing from October 25, 2013.	\$ 12,192,000	-
ANZ, Mega International Commercial Bank and 14 other participating financial institutions	2008.10.31~2011.10.30, \$1.5 billion is payable in 3 semi-annual installments, commencing on April 30, 2010 and the remaining amount is payable on maturity date and the remaining balance has been repaid in advance on November 23, 2010.	-	7,200,000
Industrial and Commercial Bank of China — Ji-An Branch	2009.10.09~2011.10.08, interest is payable quarterly, and total outstanding amount is payable on maturity date.	-	137,380
Industrial and Commercial Bank of China — Ji-An Branch	2010.09.27~2012.09.17, interest is payable quarterly, and total outstanding amount is payable on maturity date.	-	95,865
The Shanghai Commercial & Saving Bank, Ltd.	2010.09.21~2015.09.20 payable in 10 quarterly installments from the thirty-first month.	1,066,800	1,094,100

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Creditor	Usage and redemption duration	September 30, 2011	September 30, 2010
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.	11,430	16,922
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.	62,865	87,862
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.	17,145	23,430
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.	179,546	226,490
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.	158,496	220,060
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.	241,300	-
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.	53,340	62,520
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.01.24~2016.01.24, payable in 12 quarterly installments, commencing from the date of borrowing (with a two year grace period).	15,000	-

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Creditor	Usage and redemption duration	September 30, 2011	September 30, 2010
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.	215,900	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.04.12~2016.04.11, payable in 20 quarterly installments, commencing from the date of borrowing (with a one year grace period).	304,800	-
Mega International Commercial Bank — Lan-Ya Branch	2004.12.31~2011.12.31, payable in 20 quarterly installments, commencing from January, April, August, October 15 which date is the nearest date of borrowing.	2,554	6,545
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).	11,354	34,911
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).	332,232	340,516
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.	213,360	-
Mega International Commercial Bank — Lan-Ya Branch	2010.10.28~2015.10.27, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period).	121,920	-
Mega International Commercial Bank — Lan-Ya Branch	2010.12.20~2015.12.20, payable in 20 quarterly installments, commencing from the date of borrowing.	906,780	-
Mega International Commercial Bank — Lan-Ya Branch	2011.02.16~2016.02.15, payable in 20 quarterly installments, commencing from the date of borrowing.	548,640	-
Mega International Commercial Bank — Lan-Ya Branch	2011.03.11~2016.03.10, payable in 20 quarterly installments, commencing from the date of borrowing.	388,620	-

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Creditor	Usage and redemption duration	September 30, 2011	September 30, 2010
Mega International Commercial Bank — Lan-Ya Branch	2011.04.07~2014.04.07, payable in 20 quarterly installments, commencing from the date of borrowing.	10,000	-
Mega International Commercial Bank	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,524,000	-
Mega International Commercial Bank — Lan-Ya Branch	2011.08.15~2014.08.15, payable in 12 monthly installments, commencing from the date of borrowing (with a one year grace period).	14,000	-
The Land Bank of Taiwan — Chung - Li Branch	2010.12.24~2015.12.24, payable in 60 monthly installments, commencing from May 20, 2011.	130,076	-
Hua Nan Bank and 6 other banks (Note B)	2009.08.31~2014.08.31, payable in 6 semi-annual installments, commencing from August 31, 2011. The repayment schedule is 10% for first 4 installments, 15% for the following 2 installments and the remaining amount is payable on maturity date.	360,000	-
Hua Nan Bank and 6 other banks (Note B)	2009.08.31~2014.08.31, payable in 5 diminishing semi-annual installments, commencing from August 31, 2011.	25,000	-
The Shanghai Commercial & Savings Bank, Ltd. — Tian - Mu Branch	2009.06.23~2019.06.23, payable in equal monthly installment.	27,703	-
The Shanghai Commercial & Savings Bank, Ltd. — Tian - Mu Branch	2009.08.31~2014.08.31, payable in equal monthly installment.	2,145	-
The Shanghai Commercial & Savings Bank, Ltd. — Tian - Mu Branch	2010.09.07~2013.09.07, payable in equal monthly installment.	7,500	-
The Land Bank of Taiwan — Chung - Li Branch	2011.04.28~2016.04.27, interest is payable monthly commencing from the date of borrowing and principal is payable in 16 quarterly installments commencing from April 28, 2012.	304,800	-

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Creditor	Usage and redemption duration	September 30, 2011	September 30, 2010
ANZ	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,524,000	-
DBS	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,524,000	-
HSBC (Taiwan)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,524,000	-
Total		24,021,306	9,546,601
Less: Current portion		(996,411)	(148,135)
		\$ 23,024,895	9,398,466
Range of interest rate		0.78%~3.55%	0.98%~4.87%

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

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

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

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

The Company was in compliance with the above financial covenants as of September 30, 2011 and 2010. The Consolidated Company's promissory notes were pledged as a guarantee for the credit loan facility.

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

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

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

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

- a. Current ratio (current assets/current liabilities): should not be less than 100%.
- b. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 120%
- c. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$1,000,000.
- d. Interest coverage ratio (EBITDA/interest expenses): should not be less than 200%.

(13) Pension Plan

In accordance with the order VI-0960064020 issued by the Financial Supervisory Commission, Executive Yuan, Roc, and the related information on pension plan is not required to be disclosed.

(14) Income Tax

In accordance with the order VI-0960064020 issued by the Financial Supervisory Commission, Executive Yuan, Roc, and the related information on income tax is not required to be disclosed.

(15) Stockholders' Equity

a. Capital Stock

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

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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 total outstanding capital amounted to \$22,860,639, divided into 2,286,064 thousand shares with par value of \$10 per share.

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares valued at \$296,970. As of September 30, 2011 and 2010, 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 consisted of 2,256,367 thousand shares and 2,286,064 thousand shares, respectively.

ASUSTeK GDR holders who surrendered 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 Issuing Guidelines". As of September 30, 2011, the Company has listed GDRs totaling 9,776 thousand units on the Luxembourg Stock Exchange. As each unit of GDR represents 5 shares, the Company has listed Company shares totaling 48,882 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 GDR's have same rights on dividend distribution and share distribution as the Company's existing common shareholders.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

b. Share-based payment transactions

- (a) Information about share-based payment transaction as of September 30, 2011 were as follows:

	<u>Employee Stock Option Plan</u>
Grant date	July 1, 2011
Thousand units granted	40,679
Contractual life	3 years
Vesting period	2 years
Actual turnover rate of employees	4.57%
Estimated future turnover rate of employees	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 on the grant date. The expected life of the stock options is estimated to be 3 years, and option granted to an employee shall not be transferable to any person. The employee shall forego his/her right to exercise the vested options after the expiry of the exercise period, the employee may no longer claim the right to exercise the option and purchase those shares. Except for the forfeiture of vested options, all stock options shall be vest from the second year of the grant date, and the employees should exercise the right to apply for shares against the option vested in them in pursuance of the stock options.

- (b) The Company adopted the Black-Scholes model to compute the fair value on the grant date, and the assumptions were as follows:

	<u>For the Nine Months ended September 30, 2011</u>
Exercise price (Note)	\$ 30
Current market price	30
Expected dividend yield rate (Note)	- %
Expected volatility	37.0531%
Risk-free interest rate	1.0838%
Expected life of the option	3 years

Note: After the issuance of the employee stock option, if the Company increases its capital by 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.

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- (c) The information of employee stock option plan and the weighted-average exercise price as of September 30, 2011 were as follows:

	For the Nine Months ended September 30, 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of period	-	\$ -
Granted	40,679	28.38
Exercised	-	-
Forfeited	1,770	-
Expired	-	-
Balance, end of period	38,909	28.38
Exercisable, end of period	38,909	
Weighted-average fair value of options granted	7.9	

The exercise price of share option outstanding as of September 30, 2011 was \$28.38 with remaining contractual life of 1.75 years. The expenses incurred in share-based payment transactions amounted to \$24,668 for the nine months ended September 30, 2011.

c. Legal reserve and capital surplus

Legal reserve can only be used exclusively to offset a deficit or to increase capital. Capitalization of legal reserve is permitted only until it reaches 50% of total issued capital, of which only 50% can be capitalized.

In accordance with the ROC Company Law, capital surplus can only be used exclusively to offset a deficit and increase capital. Capital surplus resulting from long-term equity investments cannot be used to increase 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 \$225,503 which were credited to capital surplus-others as of September 30, 2011 and 2010, respectively.

d. 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 shares of the Company. Also, the total amount of the treasury shares 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

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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 not bear the shareholder's right prior to being sold to third parties.
- (c) As of September 30, 2011, the Company's shares held by its subsidiaries were 1,700 thousand shares amounting to \$48,620 at fair value.

e. 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, should be distributed as follows:

- (a) No less than 10% as employees' bonuses which are distributable in cash or stock. In the event that the employee bonus is distributed in the form 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 shall be 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 Commission, a special reserve is set aside from the current net income and prior unappropriated earnings at an amount equal to each of the contract accounts in the shareholders' equity such as the unrealized loss on financial instruments and cumulative translation adjustments. When the contra accounts in the shareholders' equity are reversed, the set-aside special reserve can be distributed.

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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 of all dividends, if the distributions include cash dividends.

On June 24, 2011 and March 10, 2010, the Company's shareholders' meeting and the shareholders' meeting on behalf of shareholders' meeting resolved to appropriate the 2010 and 2009 earnings. The distributions of dividends per share and employee bonuses and remuneration to directors and supervisors from the distributable earnings in 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Dividends per share for common stock shareholders (dollars)		
-Cash	\$ 1.45	1.75
Employee bonus - cash	\$ 127,000	1,205,797
Remuneration to directors and supervisors	12,000	60,290
Total	<u>\$ 139,000</u>	<u>1,266,087</u>

The approved earnings distribution above agreed with the accrued amounts reflected in the financial statements for the years ended December 31, 2010 and 2009. Related information can be accessed from the Market Observation Post System on the web site..

For the nine months ended September, 2010, the estimated employee bonuses and directors' and supervisors' remuneration amounted to \$442,916 and \$44,292, respectively, which were recognized as current expenses. Differences between the amounts approved in the shareholders' meeting and recognized in the financial statements, if any, are to be accounted for as changes in accounting estimates and recognized in profit or loss. For the nine months ended September 30, 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.

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(16) Employee Stock Option

a. The details of the first batch of employee stock options of the Ability Enterprise Co., Ltd. in 2007 were as follows:

(a) On November 20, 2007, pursuant to the resolutions of its board of directors, Ability Enterprise Co., Ltd. (Ability(TW)) had issued employee stock options covering a total number of 19,500 units. Each unit bears an option to subscribe for one thousand share of Ability(TW)'s common stock. Therefore, 10,000 thousand shares of new common stock were issued from the exercise of 10,000 units of employee stock option. Following the issuance of employee stock options, any event, such as additional change to common stock of Ability(TW), distributions of cash dividends, and occurrence of merger and acquisition will result in adjustments in the price of the stock options. The employee stock options cover a contractual life of 7 years, and are exercisable in accordance with certain schedules as prescribed by the plan starting 2 years from the date of grant. As of September 30, 2011 and 2010, the weighted-average expected life of the employee stock options was 3.49 years and 4.49 years, respectively.

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

	For the Nine Months Ended September 30			
	2011		2010	
	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	6,678	\$ 38.3	10,000	41.3
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	(1,599)	38.3	(3,246)	38.3
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>5,079</u>	34.9	<u>6,754</u>	38.3
Exercisable at the end of the period	<u>1,079</u>		<u>754</u>	

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

	For the Nine Months Ended	
	September 30	
	2011	2010
Net income		
Net income	\$ 807,709	2,054,285
Pro forma net income	793,908	2,030,219
Basic earnings per share		
Earnings per share	1.81 dollars	4.69 dollars
Pro forma earnings per share	1.78 dollars	4.64 dollars
Diluted earnings per share		
Earnings per share	1.72 dollars	4.38 dollars
Pro forma earnings per share	1.69 dollars	4.30 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 Enterprise Co., Ltd. in 2007 were as follows:

- (a) On November 20, 2007, pursuant to resolutions of its board of directors, Ability Enterprise Co., Ltd. (Ability(TW)) had issued employee stock options covering a total number of 19,500 units. The second batch of employee stock option 9,500 units was issued on October 13, 2008. Each unit bears an option to subscribe for one shares of Ability(TW)'s common stock at an exercise price of \$22.2 per share. As of September 30, 2011 and 2010, the weighted-average expected life of the employee stock options was 3.49 years and 4.49 years, respectively.

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

	For the Nine Months Ended September 30			
	2011		2010	
	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	6,802	\$ 19.3	9,500	20.8
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	(470)	19.3	-	-
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>6,332</u>	17.6	<u>9,500</u>	19.3
Exercisable at the end of the period	<u>632</u>		<u>-</u>	

- (c) The Trinomial Tree Option Valuation Model was adopted by the Ability Enterprise Co. Ltd. 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 deviation resulting from past three years' (starting on the measurement date) return rate on stock price.

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

	For the Nine Months Ended September 30	
	2011	2010
Equity transaction	<u>\$ 9,912</u>	<u>16,299</u>

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(17) Earnings per Share (EPS)

For nine months ended September 30, 2011 and 2010, the Parent company's basic earnings per share, and diluted earnings per share were computed as follows:

(Note: shares in thousands)

For the Nine Months Ended September 30

	2011		2010	
	Before income tax	After income tax	Before income tax	After income tax
Net income (loss)	\$ (896,684)	(863,850)	6,100,740	4,921,289
Weighted-average common shares outstanding	2,255,367	2,255,367	2,279,221	2,279,221
Dilutive potential common shares			11,196	11,196
Diluted shares			2,290,417	2,290,417
Primary earnings (losses) per share	\$ (0.40)	(0.38)	2.68	2.16
Diluted earnings per share			\$ 2.66	2.15

(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 instrument has a short maturity period, the face value is adopted as reasonable basis for establishing its fair value. This method is applied to cash, accounts receivable, accounts payable, short-term bank loans, and other payables.

As of September 30, 2011 and 2010, except for the financial assets liabilities described as above, the Consolidated Company's other financial assets and liabilities were as follows:

Non-Financial Instruments	September 30, 2011		September 30, 2010	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets				
Financial assets carried at cost — noncurrent	\$ 922,482	-	825,082	-
Financial assets held-to-maturity — noncurrent	338,841	-	-	-
Financial Liabilities				
Bonds payable	1,396,981	1,396,981	1,366,075	1,366,075
Long-term loans (including current portion)	24,021,306	24,021,306	9,546,601	9,546,601

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Financial Instruments	September 30, 2011		September 30, 2010	
	Book Value	Fair Value	Book Value	Fair Value
Financial Asses				
Currency swap contracts – non hedging	\$ -	-	26,720	26,720
Forward exchange contracts – non hedging	18,650	18,650	733	733
Forward exchange contracts – hedging	-	-	6,649	6,649
Option exchange contracts (long call)	27,684	27,684	-	-
Financial Instruments				
Financial Liabilities				
Embedded derivatives - convertible bonds	93,862	93,862	17,757	17,757
Foreign exchange swap contracts – non hedging	54,384	54,384	-	-
Forward exchange contract – non hedging	25,029	25,029	-	-

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

- (a) The fair value of financial instruments, which are carried at fair value through profit or loss and traded in active markets, is based on quoted market prices. If the financial instruments are not traded in an active market, then the fair value is determined by using valuation techniques, under which, the estimates and assumptions used are consistent with prevailing market conditions.
- (b) Financial assets carried at cost, are measured at carrying value, as their market price is difficult to determine, due to lack of objective evidences, in practice.
- (c) The fair value of call options and put options embedded in the convertible bonds, which were issued after January 1st, 2006, is determined by their fair market value.
- (d) The fair market value of long-term loans is determined by the present value of future cash flow. As the value derived by using floating interest rate in discounting is close to the book value, the book value is adopted as the fair market value.
- (e) The fair value of the derivatives is determined by their book 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.

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c. Loss recognized from changes in the fair values of financial assets and liabilities, which were estimated by using valuation techniques, amounted to \$128,863 and \$379, for the nine months ended September 30, 2011 and 2010, respectively.

d. Information on financial risks

(a) Market risk

The Consolidated Company's purchases and sales are denominated mainly in US dollars, and as a consequence, it is exposed to the current and future foreign currency 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. 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 only transacted with the approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Consolidated Company would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Consolidated Company believes that there is no significant credit risk. According to the Consolidated Company's customer credibility evaluation policies, the Consolidated Company has to evaluate the customer's credibility and evaluate the collectability of notes and account receivables regularly before doing business. Thus, management is not expecting any significant issue on doubtful account.

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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 nonhedging 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 the approximate market price. 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.

e. Procedure of financial risk control and hedge

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 account.

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.

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- (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 the derivatives undertaken to limit potential loss.
- (4) Derivative counterparties are limited to high-credit-quality international financial institutions. 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 to fulfill contract obligations.
- (6) Ability (TW) has policies to avoid significant concentration of credit risk on cash, securities and linked notes held.

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

For hedging purposes, UNITED NEW entered into derivatives to avoid the exchange rate risk exposed by operating activities. If the derivatives do not meet the criteria for hedge accounting, they are classified as held-for-trading financial assets or liabilities.

UNITED NEW held accounts payable in foreign currency and its fair value will float with the exchange rate. UNITED NEW's management believes that the exchange rate risk is reduced by entering into forward exchange contracts.

As of September 30, 2010, financial instruments transactions accounted for using the hedge accounting were as follows:

		September 30, 2010
Hedged item	Derivative Financial Instruments	Hedging instrument designated at fair value
Payables-foreign currency	Forward exchange contracts	\$ 6,649

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

As of September 30, 2011 and 2010, guarantee and endorsements for bank loans were provided by the Consolidated Company for related parties, as discussed in Note 5.

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(19)Others

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

	September 30, 2011			September 30, 2010		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	\$2,865,916	30.48	87,353,120	1,983,977	31.26	62,019,121
RMB	1,595,874	4.7963	7,654,290	1,090,000	4.6649	5,084,741
Long-term Equity Investments						
USD	52,748	30.48	1,607,759	38,621	31.26	1,207,292
Financial Liabilities						
Monetary Items						
USD	4,784,373	30.48	145,827,689	2,187,774	31.26	68,389,815
RMB	1,350,231	4.7963	6,476,113	622,842	4.6649	2,905,496

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.	An investor company that ceased to be a parent company effective May 31, 2010.
ASUS HOLLAND B.V.	An investee company accounted for under the equity method by ASUSTeK Computer Inc. (Note)
ASUS TECHNOLOGY PTE. LIMITED	"
ASUS COMPUTER INTERNATIONAL	"
BIG PROFIT LIMITED	"
ASKEY COMPUTER CORPORATION	"
ASUS TECHNOLOGY INCORPORATION	"
ASMEDIA TECHNOLOGY INC.	"
ASUS COMPUTER (SHANGHAI) CO., LTD. (ASUS UNITED TECHNOLOGY (SHANGHAI) CO., LTD. FORMERLY) (ASUS COMPUTER (SHANGHAI))	"

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<u>Name of Related Party</u>	<u>Relationship with the Company</u>
SHINEWAVE INTERNATIONAL INC.	An investee company accounted for under the equity method by ASUSTeK Computer Inc. (Note)
ENERTRONIX, INC.	"
EMES (SUZHOU) CO., LTD.	"
ASKEY TECHNOLOGY (JIANG SU) LTD. (ASKEY TECHNOLOGY)	"
INTERNATIONAL UNITED TECHNOLOGY CO., LTD.	"
UNIMAX ELECTRONICS INCORPORATION	"
ASUS TECHNOLOGY (SUZHOU) CO., LTD.	"
SHINEWAVE GROUP	"
AGAIT TECHNOLOGY CRPORATION	"
AAEON TECHNOLOGY INC.	"
ASHINE PRECISION CO., LTD.	An investee company accounted for under the equity method
AVY PRECISION TECHNOLOGY INC. (AVY PRECISION)	"
AVY CO., LTD.	"
DONGGUAN AVY PRECISION METAL COMPONENTS CO., LTD.	"
DONGGUAN CHENGGUANGP PRECISION HARDWARE CO., LTD.	"
AVY PRECISION METAL COMPONENTS (SUZHOU) CO., LTD.	"
CRYSTAL ART ENTERPRISE CO., LTD.	"
SHANGHAI INDEED TECHNOLOGY CO., LTD. (SHANGHAI INDEED)	"
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	"
GING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	"
HOLD JUMPER PACKING (SUZHOU) CO., LTD.	"

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<u>Name of Related Party</u>	<u>Relationship with the Company</u>
HOLD JUMPER PACKING (SHANGHAI) CO., LTD.	An investee company accounted for under the equity method
SUZHOU DELUXE PACKING PRODUCTION CO., LTD.	//
AVY HIGH TECH LIMITED	//
BLACKROCK MARYLAND INTERNATIONAL CORP.	//
GREEN PACKING LIMITED	//
PENTAX VQ CO., LTD. (PVQ)	//
SHINE TRADE INTERNATIONAL LTD.	//
YORKEY OPTICAL TECHNOLOGY LTD. (SAMOA)	//
ABICO (GUANGZHOU) INTERNATIONAL TRADING CO., LTD.	//
TAISHIBA INTERNATIONAL CO., LTD.	An affiliate of Ability Enterprise Co., Ltd
All directors, supervisors, general manager and vice president	The company management

Note: As ASUSTek COMPUTER INC. (ASUSTEK) has lost 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.

(2) Significant Transactions with Related Parties

a. Sales

Name of Related Party	For the Nine Months Ended September 30					
	2011			2010		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTEK	\$ 121,184,409	28.67	Open account 60 days	162,073,229	40.73	30~60 days from receipt of goods Open account 30~120 days
Others	70,323	0.02	30~90 days from receipt of goods Open account 30~90 days	145,646	0.03	30~60 days from receipt of goods Open account 30~120 days
Total	<u>\$ 121,254,732</u>	<u>28.69</u>		<u>162,218,875</u>	<u>40.76</u>	

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

b. Purchases

Name of Related Party	For the Nine Months Ended September 30					
	2011			2010		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$ 91,650,572	22.17	Open account 60 days	118,341,666	31.86	30~60 days from receipt of goods Open account 60~120 days
Others	5,709,296	1.38	30~90 days from receipt of goods Open account 30~120 days	4,371,370	1.17	30~90 days from receipt of goods Open account 30~120 days
Total	<u>\$ 97,359,868</u>	<u>23.55</u>		<u>122,713,036</u>	<u>33.03</u>	

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

For nine months ended September 30, 2011 and 2010, the Company purchased raw materials from vendors through ASUSTeK.

c. Others

	For the Nine Months Ended September 30	
	2011	2010
(a) After-sales warranty repair expense paid to:		
ASTP	\$ -	95,236
ASUS COMPUTER (SHANGHAI)	268	29,144
Others	138	3,339
Total	<u>\$ 406</u>	<u>127,719</u>
	For the Nine Months Ended September 30	
	2011	2010
(b) Other income from:		
ASUSTeK	\$ 386,794	427,289
Others	4,332	2,505
Total	<u>\$ 391,126</u>	<u>429,794</u>

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(c) For the nine months ended September 30, 2011 and 2010, the Consolidated Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, professional service fee, etc, amounting to \$24,331 and \$70,189, respectively.

(d) For the nine months ended September 30, 2010, the Consolidated Company incurred other related party transactions recorded as processing revenue and repair revenue, which amounted to \$95,907.

d. Property Transactions

(a) Purchase of properties

i. For the nine months ended September 30, 2011 and 2010, molds and properties purchased from other related parties amounted to \$91,511 and \$114,248, respectively.

ii. For the nine months ended September 30, 2011, the Consolidated Company sold its equity ownership of NOEA CORPORATION to Avy Precision Technology Inc. for \$38,042 and recognized a loss on disposal of investment for \$44.

(b) Disposal of properties

For the nine months ended September 30, 2010, properties disposed to other related parties amounted to \$109.

(c) Rental revenue

For the nine months ended September 30, 2011 and 2010, the Consolidated Company incurred other related party transactions of \$21,177 and \$20,012, respectively, which were accounted for as rental revenue.

e. Accounts Receivable (Payable)

Accounts Receivable:	September 30, 2011		September 30, 2010	
	Amount	%	Amount	%
ASUSTeK	\$ 9,618,257	10.57	11,689,308	18.76
Others	41,100	0.05	14,329	0.03
Total	\$ 9,659,357	10.62	10,703,637	18.79
Other Receivables:				
ASUSTeK	\$ 34,258	1.43	24,776	1.33
Others	4,431	0.18	11,600	0.63
Total	\$ 38,689	1.61	36,376	1.96

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Note and Account Payable:	September 30, 2011		September 30, 2010	
	Amount	%	Amount	%
AVY PRECISION	\$ 446,617	0.41	577,610	0.96
ASKEY TECHNOLOGY	815,445	0.75	-	-
SHANGHAI INDEED	772,910	0.71	322,873	0.54
Others	488,892	0.45	378,974	0.63
Total	\$ 2,523,864	2.32	1,279,457	2.13
Accrued Expenses:				
ASUS COMPUTER (SHANGHAI)	\$ 7,611	0.06	5,278	0.06
ASUSTeK	984,886	7.35	3,736	0.04
Others	19	-	863	0.01
Total	\$ 992,516	7.41	9,877	0.11

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

	September 30, 2011	September 30, 2010
Assets:		
Temporary payments	\$ 175	5,748
Liabilities:		
Other accrued expenses	\$ 320	224
Temporary receipts	3,395	53,719
	\$ 3,715	53,943

f. Endorsement Guarantee

As of September 30, 2010, the endorsement guarantees provided by a related party for the Consolidated Company's purchases were as follows:

Name of Related Party Guarantee	Amount of Guarantee (thousands)	
	September 30, 2010	
ASUSTeK	USD	300,000

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6. Pledged Assets

As of September 30, 2011 and 2010, pledged assets were as follows:

Asset	September 30		Purpose of pledge
	2011	2010	
Restricted deposit	\$ 112,217	118,604	Customs duty guarantee, bank loans, rental deposits, credit contracts, issued letter of credit, travel agency guarantee, etc.
Property, plant and equipment	1,752,723	1,562,691	Bank loans
Idle assets	-	-	Lawsuit collateral (Note A)
Inventories	-	-	Lawsuit collateral (Note B)
Refundable deposits	119,896	108,177	Deposits for performance guarantee
	\$ 1,984,836	1,789,472	

Note A: The original book value was \$118. Due to recognition of impairment loss, the book value of idle assets has decreased to zero.

Note B: The original book value was \$16,410. 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 September 30, 2011 and 2010, major commitments and contingencies were as follows:

Unused standby letters of credit	September 30, 2011	September 30, 2010
NTD	\$ -	17,944
EUR	3,927	2,617
JPY	3,413,350	2,849,017
USD	204,001	58,106

(2) As of September 30, 2011 and 2010, promissory notes and certificate of deposit obtained for business purpose amounted to \$16,776 and \$13,785, respectively.

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

Year	Future lease commitments				
	2012	2013	2014	2015	2016
Future Lease Commitments	\$ 379,589	367,032	190,478	164,502	144,977

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

	September 30, 2011		September 30, 2010	
Jointly issued with VQ (BVI)	USD	10,000	USD	12,000
Jointly issued with VQ (BVI)	NTD	175,000	NTD	562,000
Jointly issued with ABILITY (BVI)		-	USD	16,000
Jointly issued with E-PIN	NTD	700,000	USD	16,000

- (5) For details of Ability Enterprise Co., Ltd.'s construction of operational headquarter and research and development center in Xinzhuang, please refer to Note 4(7).
- (6) As of September 30, 2011 and 2010, the significant contracts for purchase of properties signed by the Consolidated Company amounted to \$7,248,818 and \$948,695, of which \$3,055,257 and \$310,950 were unpaid, respectively.
- (7) AVerMedia Technologies Inc. filed an attachment for damage loss against Lumens Digital Optics Inc. with the Taiwan HsinChu District court on January 3, 2005. Lumens Digital Optics Inc. pledged a deposit of \$90,000 as counter-security to the Court for rescinding the attachment. In addition, AVerMedia Technologies Inc., again, filed an attachment for the same reason with the court. HsinChu District court has seized the inventory of Lumens Digital Optics Inc. amounting to \$16,410 for which loss on valuation allowance had been recognized on June 4, 2010. Lumens Digital Optics Inc. lost its first instance lawsuit and expected that there is no material loss thereon except for the allowance of inventories on the aforementioned case.
- (8) As of September 30, 2011, the tax returns of the Ability Enterprise Co., Ltd. (Ability(TW)) through 2009 have been assessed and approved by the tax authority except 2008. Ability disagreed with the examination results of the 2007 and 2009 income tax returns, in which the tax authority reduced the company's tax incentives by \$271,624 in total. Ability(TW) has estimated relative income tax liability and filed a formal appeal to the tax authority which is undergoing a review process.

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8. SIGNIFICANT CATASTROPHIC LOSSES: None.

9. SIGNIFICANT SUBSEQUENT EVENTS: None.

10. OTHERS:

In accordance with the order VI-0960064020 issued by the Financial Supervisory Commission, Executive Yuan, Roc, the information about personnel, depreciation, and amortization expense would not be disclosed.

11. BUSINESS SEGMENT FINANCIAL INFORMATION:

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

For the nine months ended September 30, 2011 and 2010, 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, the Consolidated Company's strategic investments and other related investments. 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 assessed performance of the segments based on the segments' profit, and report the amounts of revenues based on the financial information used to prepare the consolidated financial statements.

For the Nine Months Ended September 30, 2011	DMS	Strategic Investment Group	Adjustment and eliminations	Total
External Revenue	\$ 344,437,781	78,199,102	-	422,636,883
Intra-Group Revenue	2,072,509	7,074,705	(9,147,214)	-
Total segment revenue	<u>\$ 346,510,290</u>	<u>85,273,807</u>	<u>(9,147,214)</u>	<u>422,636,883</u>
Segment profit (loss)	<u>\$ (852,168)</u>	<u>5,956,314</u>	<u>(2,150,425)</u>	<u>2,953,721</u>
Segment assets	<u>\$ 230,178,729</u>	<u>173,640,530</u>	<u>(102,178,547)</u>	<u>301,640,712</u>
For the Nine Months Ended September 30, 2010	DMS	Strategic Investment Group	Adjustment and eliminations	Total
External Revenue	\$ 328,593,049	69,361,851	-	397,954,900
Intra-Group Revenue	892,419	9,163,844	(10,056,263)	-
Total segment revenue	<u>\$ 329,485,468</u>	<u>78,525,695</u>	<u>(10,056,263)</u>	<u>397,954,900</u>
Segment profit	<u>\$ 5,899,944</u>	<u>6,537,731</u>	<u>(1,977,444)</u>	<u>10,460,231</u>
Segment assets	<u>\$ 179,516,093</u>	<u>138,524,363</u>	<u>(92,875,838)</u>	<u>225,164,618</u>