

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(With Independent Accountants' Audit Report Thereon)

Address: 5F., No.76, Ligong St., Beitou District, Taipei City 112, Taiwan

Telephone: 886-2-8143-9001

TABLE OF CONTENTS

Contents	Page
COVER PAGE	1
TABLE OF CONTENTS	2
INDEPENDENT ACCOUNTANTS' AUDIT REPORT	3
BALANCE SHEETS	4
STATEMENTS OF INCOME	5
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY	6
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	
(1) ORGANIZATION AND BUSINESS	8
(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	8~16
(3) REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES	17
(4) SUMMARY OF MAJOR ACCOUNTS	17~32
(5) RELATED-PARTY TRANSACTIONS	33~39
(6) PLEDGED ASSETS	40
(7) SIGNIFICANT COMMITMENTS AND CONTINGENCIES	40
(8) SIGNIFICANT CATASTROPHIC LOSSES	40
(9) SIGNIFICANT SUBSEQUENT EVENTS	40
(10) OTHERS	41
(11) FINANCIAL INFORMATION BY SEGMENT	41

(English Translation of Financial Report Originally Issued in Chinese)

AUDIT REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Pegatron Corporation

We have audited the accompanying balance sheet of Pegatron Corporation (the “Company”) as of June 30, 2011 and 2010, and the related statements of income, changes in stockholders’ equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express the audit report based on our audits. We did not audit the financial statements of certain investees accounted for under the equity method, in which the Company’s long-term equity investments amounted to NT\$ 14,085,673 thousand and NT\$ 13,722,795 thousand, representing 7.66% and 7.58% of total assets as of June 30, 2011 and 2010, respectively, and related investment gain was NT\$ 957,659 thousand and NT\$ 1,009,081 thousand, representing (78.31)% and 23.05% of net income (loss) before tax for the six months ended June 30, 2011 and 2010, respectively. The financial statements of these investees were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, is based solely on the reports of other auditors.

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

As described in Note (4) (d) to the financial statements, the long-term equity investments accounted for by the equity method of NT\$ 35,922,647 thousand and NT\$ 49,017,177 thousand as of June 30, 2011 and 2010, respectively, and the related investment gain (loss) of NT\$ (493,354) thousand and NT\$ 760,738 thousand for the six months ended June 30, 2011 and 2010, respectively, were recognized based on unaudited financial statements of the investees.

In our opinion, based on our audit and the report of other auditors, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to obtain the audited financial statements of certain investees as described in the preceding paragraph, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Pegatron Corporation as of June 30, 2011 and 2010, the results of its operations and its cash flows for the six months then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and accounting principles generally accepted in the Republic of China.

We have also reviewed the consolidated financial statements of the Company as of and for the six months ended June 30, 2011 and 2010 and have issued qualified review reports thereon.



Taipei, Taiwan, R.O.C

July 29, 2011

Note to Readers

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

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in Taiwan, the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

BALANCE SHEETS

June 30, 2011 and 2010

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	June 30, 2011		June 30, 2010	
	Amount	%	Amount	%
ASSETS				
Current Assets:				
Cash (Note (4)(a))	\$ 8,158,465	4	7,289,673	4
Notes receivable, net – non-related parties (Note (4)(b))	7,269	-	95	-
Accounts receivable, net – non-related parties (Note (4)(b))	29,357,146	16	9,516,711	5
Accounts receivable, net – related parties (Note (5))	53,472,392	29	59,971,985	34
Other receivables – non-related parties	5,212	-	251,089	-
Other receivables – related parties (Note (5))	14,772	-	740,399	-
Other financial assets – current (Note (6))	72,003	-	441,639	-
Inventories (Note (4)(c))	4,829,029	3	7,260,951	4
Other current assets (Note (5))	85,866	-	122,539	-
Deferred income tax assets – current (Note (4)(i))	233,529	-	434,176	-
	<u>96,235,683</u>	<u>52</u>	<u>86,029,257</u>	<u>47</u>
Investments:				
Long-term investments under the equity method (Note (4)(d))	<u>82,722,393</u>	<u>45</u>	<u>89,027,894</u>	<u>50</u>
Other Financial Assets – Noncurrent (Note (6))	<u>33,268</u>	<u>-</u>	<u>11,144</u>	<u>-</u>
Property, Plant and Equipment, at cost :				
Land	2,150,317	1	2,141,236	1
Buildings	1,745,891	1	1,710,514	1
Machinery and equipment	234,839	-	284,710	-
Warehousing equipment	600	-	1,199	-
Instrument equipment	159,283	-	322,246	-
Transportation equipment	24,332	-	19,002	-
Office equipment	3,951	-	3,951	-
Leased assets	14,026	-	28,839	-
Miscellaneous equipment	396,589	-	386,415	-
	<u>4,729,828</u>	<u>2</u>	<u>4,898,112</u>	<u>2</u>
Less: Accumulated depreciation	(862,480)	-	(838,663)	-
Construction in progress	566	-	-	-
	<u>3,867,914</u>	<u>2</u>	<u>4,059,449</u>	<u>2</u>
Intangible Assets	<u>151,635</u>	<u>-</u>	<u>200,796</u>	<u>-</u>
Other Assets – others (Note (4)(e))	<u>944,635</u>	<u>1</u>	<u>1,670,561</u>	<u>1</u>
TOTAL ASSETS	<u>\$ 183,955,528</u>	<u>100</u>	<u>180,999,101</u>	<u>100</u>

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

BALANCE SHEETS (CONT'D)

June 30, 2011 and 2010

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	June 30, 2011		June 30, 2010	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Short-term loans (Note (4)(f))	\$ 7,468,500	4	-	-
Notes and accounts payable – non-related parties	26,166,499	14	13,062,497	7
Notes and accounts payable – related parties (Note (5))	40,741,550	22	46,506,522	26
Accrued expenses – non-related parties	2,404,909	1	3,602,725	2
Accrued expenses – related parties (Note (5))	6,064,818	3	11,744,821	6
Dividend payable (Note (4)(j))	3,271,731	2	-	-
Other current liabilities (Note (5))	2,710,633	2	3,153,986	2
	<u>88,828,640</u>	<u>48</u>	<u>78,070,551</u>	<u>43</u>
Long-Term Loans:				
Long-term loans (Note (4)(g))	<u>8,617,500</u>	<u>5</u>	<u>7,200,000</u>	<u>4</u>
Other Liabilities:				
Other financial liabilities – noncurrent	12,996	-	17,193	-
Deferred income tax liabilities – noncurrent (Note (4)(i))	299,841	-	304,894	-
Other long-term liabilities – other	50,590	-	69,292	-
	<u>363,427</u>	<u>-</u>	<u>391,379</u>	<u>-</u>
Total Liabilities	<u>97,809,567</u>	<u>53</u>	<u>85,661,930</u>	<u>47</u>
Stockholders' Equity:				
Common stock (Note (4)(j))	<u>22,563,669</u>	<u>12</u>	<u>22,860,639</u>	<u>13</u>
Capital surplus (Note (4)(j))				
Premium on capital stock	60,393,247	33	61,188,108	34
Other	2,836,953	2	2,609,666	1
	<u>63,230,200</u>	<u>35</u>	<u>63,797,774</u>	<u>35</u>
Retained earnings (Note (4)(j)):				
Legal reserve	1,836,601	1	1,215,457	1
Special reserve	4,327,629	2	-	-
Accumulated earnings (deficits)	(1,197,278)	(1)	5,515,556	3
	<u>4,966,952</u>	<u>2</u>	<u>6,731,013</u>	<u>4</u>
Other adjustments to stockholders' equity:				
Cumulative translation adjustments	(5,084,788)	(2)	555,566	-
Unrecognized loss on pension cost	(16)	-	(3,202)	-
Unrealized profit on financial assets	479,266	-	1,395,381	1
Treasury stock (Note(4)(j))	(9,322)	-	-	-
	<u>(4,614,860)</u>	<u>(2)</u>	<u>1,947,745</u>	<u>1</u>
Total Stockholders' Equity	<u>86,145,961</u>	<u>47</u>	<u>95,337,171</u>	<u>53</u>
Commitments and Contingencies (Note (7))				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 183,955,528</u>	<u>100</u>	<u>180,999,101</u>	<u>100</u>

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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

	For the Six Months Ended June 30			
	2011		2010	
	Amount	%	Amount	%
Operating revenues (Note (5))	\$ 143,778,395	101	160,712,888	100
Less: Sales returns	967,102	1	100,346	-
Sales allowances	137,811	-	487,255	-
Net sales	142,673,482	100	160,125,287	100
Cost of sales (Notes (4)(c) and (5))	140,335,994	98	153,253,189	96
Gross profit	2,337,488	2	6,872,098	4
Less: Realized (Unrealized) profit on inter-affiliate account (Note (5))	(40,210)	-	1,230	-
	2,297,278	2	6,870,868	4
Operating expenses (Note (5))				
Selling expenses	788,953	1	1,044,345	1
General and administrative expenses	576,138	-	689,756	-
Research and development expenses	1,850,845	1	1,745,124	1
	3,215,936	2	3,479,225	2
Income (Loss) from operations	(918,658)	-	3,391,643	2
Non-operating income				
Interest revenue	4,930	-	6,315	-
Investment gain under the equity method (Note (4)(d))	-	-	429,323	-
Gain on disposal of fixed assets (Note (4)(e))	108,316	-	-	-
Foreign exchange gain, net	157,244	-	126,974	-
Rental revenue	32,726	-	31,513	-
Others	459,474	-	555,498	-
	762,690	-	1,149,623	-
Non-operating expenses				
Interest expense	51,075	-	43,644	-
Investment loss under the equity method (Note (4)(d))	916,043	1	-	-
Loss on disposal of fixed assets (Note (4)(e))	-	-	251	-
Others	99,773	-	119,564	-
	1,066,891	1	163,459	-
Income (Loss) before income tax	(1,222,859)	(1)	4,377,807	2
Income tax expense (Note (4)(i))	(7,520)	-	(904,420)	(1)
Net income (loss)	<u>\$ (1,230,379)</u>	<u>(1)</u>	<u>3,473,387</u>	<u>1</u>

	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Earnings (Losses) per share (Notes (4)(k))				
Primary earnings (losses) per share	<u>\$ (0.54)</u>	<u>(0.55)</u>	<u>1.92</u>	<u>1.52</u>
Diluted earnings per share			<u>\$ 1.91</u>	<u>1.51</u>

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

	Before Income Tax	After Income Tax
Net loss	<u>\$ (1,222,859)</u>	<u>(1,230,379)</u>
Losses per share(Notes (4)(k))	<u>\$ (0.54)</u>	<u>(0.55)</u>

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

(English Translations of Financial Statements Originally Issued in Chinese)
PEGATRON CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(Expressed in Thousands of New Taiwan Dollars)

	Common stock	Capital surplus	Retained earnings			Other adjustments to stockholders' equity			Treasury stock	Total
			Legal reserve	Special reserve	Accumulated earnings (deficits)	Cumulative translation adjustments	Unrecognized loss on pension cost	Unrealized gain(loss) of financial assets		
Balance, January 1, 2010	\$ 22,860,539	63,776,623	545,570	-	6,712,650	198,092	(3,202)	1,680,205	-	95,770,477
Issuance of new shares in merge of the organization reorganization	100	307	-	-	-	-	-	-	-	407
Net income for the six months ended June 30, 2010	-	-	-	-	3,473,387	-	-	-	-	3,473,387
Appropriations and distributions of 2009 earnings:										
Legal reserve	-	-	669,887	-	(669,887)	-	-	-	-	-
Cash dividends	-	-	-	-	(4,000,594)	-	-	-	-	(4,000,594)
Adjustment arising from long-term equity investments	-	20,844	-	-	-	227,157	-	(284,824)	-	(36,823)
Cumulative translation adjustments	-	-	-	-	-	130,317	-	-	-	130,317
Balance, June 30, 2010	<u>\$ 22,860,639</u>	<u>63,797,774</u>	<u>1,215,457</u>	<u>-</u>	<u>5,515,556</u>	<u>555,566</u>	<u>(3,202)</u>	<u>1,395,381</u>	<u>-</u>	<u>95,337,171</u>
Balance, January 1, 2011	\$ 22,563,669	63,145,448	1,215,457	-	8,253,605	(5,250,188)	(16)	922,576	(9,322)	90,841,229
Net loss for the six months ended June 30, 2011	-	-	-	-	(1,230,379)	-	-	-	-	(1,230,379)
Appropriations and distributions of 2010 earnings:										
Legal reserve	-	-	621,144	-	(621,144)	-	-	-	-	-
Special reserve	-	-	-	4,327,629	(4,327,629)	-	-	-	-	-
Cash dividends	-	-	-	-	(3,271,731)	-	-	-	-	(3,271,731)
Adjustment arising from long-term equity investments	-	84,752	-	-	-	(203,943)	-	(443,310)	-	(562,501)
Cumulative translation adjustments	-	-	-	-	-	369,343	-	-	-	369,343
Balance, June 30, 2011	<u>\$ 22,563,669</u>	<u>63,230,200</u>	<u>1,836,601</u>	<u>4,327,629</u>	<u>(1,197,278)</u>	<u>(5,084,788)</u>	<u>(16)</u>	<u>479,266</u>	<u>(9,322)</u>	<u>86,145,961</u>

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2011 and 2010
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Six Months Ended June 30	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	\$ (1,230,379)	3,473,387
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	115,828	132,346
Amortization	240,829	334,225
Reversal for impairment loss (accounted under non-operating income)	(28,390)	(9,647)
Reversal (Provision) for allowance for uncollectable accounts	(3,703)	8,140
Reversal of allowance for inventory market price decline	(213,912)	(79,366)
Loss on inventory obsolescence	5,207	57,525
Investment loss (gain) under equity method	916,043	(429,323)
Cash dividend from investments under equity method	36,000	2,129,062
Loss (Gain) on disposal and retirement of assets	(65,201)	22,440
Realized (Unrealized) profit on inter-affiliate account	40,210	(1,230)
Change in assets and liabilities:		
Notes and accounts receivable	(40,220,717)	14,047,712
Other receivables	20,661	675,553
Inventories	2,631,005	3,278,098
Other current assets	(11,567)	4,041
Deferred income tax assets and liabilities, net	14,689	510,175
Notes and accounts payable	32,535,369	(13,617,953)
Accrued expenses	(1,860,465)	707,434
Other current liabilities	(124,360)	(163,234)
Net cash provided by (used in) operating activities	(7,202,853)	11,079,385
Cash flows from investing activities:		
Increase in long-term investment under the equity method	(294,000)	(39,294)
Purchase of property, plant and equipment	(30,944)	(38,587)
Proceeds from disposal of assets, idle assets, deferred charges	709,607	1,450
Increase in deferred charges	(96,173)	(85,773)
Purchase of intangible assets	(21,194)	(10,952)
Increase in other financial assets	(4,747)	(107,536)
Increases in other assets	(135,691)	-
Net cash provided by (used in) investing activities	126,858	(280,692)
Cash flows from financing activities:		
Increase (decrease) in short-term loans	4,803,300	(3,023,055)
Increase in long-term loans	1,626,300	-
Increase (decrease) in guarantee deposits received	(3,215)	1,475
Distribution of cash dividends	-	(4,000,594)
Share issued from reorganization	-	406
Net cash provided by (used in) financing activities	6,426,385	(7,021,768)
Net increase (decrease) in cash	(649,610)	3,776,925
Cash, beginning of the period	8,808,075	3,512,748
Cash, end of the period	\$ 8,158,465	7,289,673
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest exclude interest capitalized	\$ 41,814	46,650
Income tax	\$ 406,448	311
Non-cash investing and financing:		
Reclassification of fixed assets to idle assets	\$ 3,815	-
Cash dividends payable	\$ 3,271,731	-

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2011 AND 2010
(Amounts Expressed in New Taiwan Dollars in Thousands,
Except for Per Share Information and Unless Otherwise Stated)

1. Organization and Business

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

The company’s parent company: None

As of June 30, 2011 and 2010, the Company had 4,708 and 4,171 employees, respectively.

2. Summary of Significant Accounting Policies

The Company’s financial statements were prepared in accordance with Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Entity Accounting Act, and the Guidelines Governing Business Accounting and generally accepted accounting principles of the Republic of China. The significant accounting policies and their measurement basis are as follows:

a. Use of Estimates

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

b. Foreign Currency Translation

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

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

c. Basis for Classifying Assets and Liabilities as Current or Non-current

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

d. Asset Impairment

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

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

e. Financial Instruments

i. Financial assets or liabilities reported at fair value through profit or loss

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

ii. Notes and Account receivables, and other receivables

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

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

The amount of the loss is measured as difference between the asset's carrying amount and the present value of estimated future cash flows discounted by the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss. Upon determining the amount of impairment, the present value of the estimated future cash flows shall include collateralized financial asset and related insurance recoverable amount.

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. Notes and Accounts Receivable, and Allowance for Uncollectible Accounts

Allowance for uncollectible accounts is based on the aging analysis and results of the Company's evaluation of the collectability of outstanding receivable balances.

g. Inventories

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

h. Long-Term Equity Investments (Including Joint Ventures)

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

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

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

i. Property, Plant, and Equipment, Rental Assets, Idle Assets, and Depreciation

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

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

Buildings and structures	5 to 50 years
Machinery and equipment	3 to 6 years
Warehousing equipment	8 years
Instrument equipment	1 to 3 years
Transportation equipment	1 to 5 years
Office equipment	5 years
Miscellaneous equipment	1 to 15 years

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

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

j. Intangible Assets

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

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

Computer software cost	3 to 5 years
------------------------	--------------

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

k. Deferred Expenses

The costs of renovation project and office decorations are deferred and amortized equally over 3 years, and the costs of molds and fixtures are deferred and amortized equally over 2 years.

l. Pension Plan

In accordance with the “Labor Pension Act”, that prescribes a defined contribution plan, the Company contributes monthly to the Labor Pension Fund at the rate of 6% of the employees' monthly wages. These contributions are accrued and recognized as pension expense for the current period when the service rendered.

m. Warranty Reserve

A warranty reserve is provided when products are sold with a warranty and is estimated based on warranty service cost and in consideration of past experience.

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

n. Revenue and Cost Recognition

Revenue is recognized when title to the product and the risks and rewards of ownership are transferred to the customer; otherwise revenue recognition is deferred until these criteria are met. The related cost and expenses are recognized as the revenue is recognized. The expenses are recognized on accrual basis.

o. Classification of Capital and Operating Expenditures

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

p. Commitments and Contingencies

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

q. Income Tax

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

r. Earnings per Share (“EPS”)

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

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

s. Spin-Off Transactions

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

t. Employee Bonuses and Remuneration to Directors and Supervisors

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

u. Treasury Stocks

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

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

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

v. Operating Segments

Segment information is disclosed in the consolidated financial statements, and need not be presented in the individual financial statements.

w. 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.

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

3. Reasons for and Effect of Accounting Changes:

Effective from January 1, 2011, the Company adopted the third revision of SFAS No. 34 “Financial Instrument Recognition and Measurement” on the recognition, subsequent measurement and impairment testing of originated loans and receivables and on trouble debt restructuring and modification of debt agreement commencing from January 1, 2011. The adoption of this amended accounting principle disclosed no significant influences on the net loss for the six months ended June 30, 2011.

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

4. Summary of Major Accounts:

a. Cash

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Cash on hand	\$ 50	-
Demand deposits	709,313	308,774
Time deposits	4,751,225	1,280,186
Foreign currency deposits	2,697,877	5,700,713
Total	<u>\$ 8,158,465</u>	<u>7,289,673</u>

b. Notes and Accounts Receivable — Non-related parties

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Notes receivable	\$ 7,342	131
Less: Allowance for uncollectible accounts	(73)	(36)
Net	<u>7,269</u>	<u>95</u>
Accounts receivable	29,396,973	9,599,804
Less: Allowance for uncollectible accounts	(39,827)	(83,093)
Net	<u>29,357,146</u>	<u>9,516,711</u>
Total	<u>\$ 29,364,415</u>	<u>9,516,806</u>

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

c. Inventories

	June 30, 2011	June 30, 2010
Finished goods	\$ 167,267	4,376,309
Less: Allowance for inventory market decline and obsolescence	(6,265)	(262,175)
Sub-total	<u>161,002</u>	<u>4,114,134</u>
Work in process	68,425	550,740
Less: Allowance for inventory market decline and obsolescence	(15,335)	(58,127)
Sub-total	<u>53,090</u>	<u>492,613</u>
Raw material	1,054,720	2,674,619
Less: Allowance for inventory market decline and obsolescence	(77,284)	(30,828)
Sub-total	<u>977,436</u>	<u>2,643,791</u>
Merchandise	3,799,635	10,413
Less: Allowance for inventory market decline and obsolescence	(142,134)	-
Sub-total	<u>3,637,501</u>	<u>10,413</u>
Total	<u>\$ 4,829,029</u>	<u>7,260,951</u>

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

	For the Six Months Ended June 30	
	2011	2010
Cost of goods sold	\$ 140,544,699	153,275,030
Loss on inventory obsolescence	5,207	57,525
Gain from reversal of allowance for inventory market price decline	(213,912)	(79,366)
	<u>\$ 140,335,994</u>	<u>153,253,189</u>

For the six months ended June 30, 2011 and 2010, the factors that previously caused inventories to be written down below cost had been disappeared due to inventories disposal or obsolescence, and the amount of write-down had been reversed against the allowance for loss on decline in value of the inventories, thus generates a reversal gain on inventory valuation allowance.

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

e. Idle Assets

- (i) In accordance with Statement of Financial Accounting Standards No. 35 (SFAS 35) "Accounting for Asset Impairment", the Company performed asset impairment test by comparing the recoverable amount with the carrying value of the idle assets amount. Based on the results of such assessment, the Company recognized provisions for impairment loss of \$8,097 and \$36,487 as of June 30, 2011 and 2010, respectively.
- (ii) For the six months ended June 30, 2011 and 2010, the Company recognized a gain from impairment recovery of \$28,390 and \$9,647, respectively, and a gain (loss) on disposal of idle assets of \$107,964 and \$(6,784), respectively.

f. Short-Term Loans

<u>Nature of the loan</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Credit loan	<u>\$ 7,468,500</u>	<u>-</u>
Range of interest rate	<u>0.45%~0.68%</u>	<u>0.47%~0.70%</u>

The Company issued promissory notes as guarantee for part of credit loan facility. The majority of the credit loan lines were used jointly by the Company and Unihan Corporation.

g. Long-Term Loans

<u>Types of Debt</u>	<u>Creditor</u>	<u>June 30, 2011</u>	<u>Repayment Schedule</u>	<u>Credit Line</u>
Credit loan	Citibank Taiwan and 14 other banks	<u>\$ 8,617,500</u> <u>USD 300,000,000</u>	2010.10.25~2015.10.25 Credit line is repayable in 5 semi-annual installments, commencing October 25, 2013.	<u>11,490,000</u> <u>USD 400,000,000</u>

For the six months ended June 30, 2011, long-term loans bore interest at average rates of 1.0647% ~ 1.5856%. According to the agreement, during the loan repayment periods, the Company must comply with certain financial covenants based on the audited consolidated financial statements on the balance sheet date (June 30 and December 31) as follows:

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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.

As of June 30, 2011, the Company was in compliance with the loan covenants mentioned above. The Company's promissory notes were pledged as a guarantee for the credit loan facility as of June 30, 2011.

<u>Types of Debt</u>	<u>Creditor</u>	<u>June 30, 2010</u>	<u>Repayment Schedule</u>	<u>Credit Line</u>
Credit loan	ANZ, Mega International Commercial Bank and 15 other banks	<u>\$ 7,200,000</u>	2008.10.30~2011.10.30 \$1.5 billion is repayable in 3 semi-annual installments, commencing on April 30, 2010 and the remaining balance has been repaid in advance on November 23, 2010.	<u>10,500,000</u>

For the six months ended June 30, 2010, credit loans bore interest at average rates of 1.15% ~ 1.167%. According to the agreement, during the loan repayment periods, the Company must comply with certain financial covenants based on the audited consolidated financial statements on the balance sheet date (June 30 and December 31) as follows:

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

As of June 30, 2010, the Company was in compliance with the loan covenants mentioned above.

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

h. Pension Plan

For the six months ended June 30, 2011 and 2010, the pension costs for the defined contribution pension plan of the Company amounted to \$87,076 and \$72,270, respectively.

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

i. Income Tax

(i) According to the revised Income Tax Law announced on June 15, 2010, the statutory income tax rate is reduced further to 17% effective January 1, 2010. Therefore, the Company is subject to statutory income tax rate of 17% for both the six months ended June 30, 2011 and 2010. The Company also complies with the Basic Income Tax Act when calculating its income tax.

(ii) For the six months ended June 30, 2011 and 2010, the components of income tax expense were as follows:

	For the Six Months Ended June 30	
	2011	2010
Current income tax expense (benefit)	\$ (7,169)	292,137
Deferred income tax expense	14,689	510,175
10% surtax on undistributed earnings	-	102,108
Income tax expense	\$ 7,520	904,420

The components of deferred income tax expense were as follows:

	For the Six Months Ended June 30	
	2011	2010
Unrealized exchange gain	\$ (68,868)	(127,218)
Reversal of allowance for loss on inventory market decline and obsolescence	36,365	15,873
Unrealized profits on sales	(6,836)	(246)
Amortization of employee benefits	9	10
Reversal of warranty reserve	22,032	37,897
Investment tax credits	247,821	395,334
Reversal of impairment loss on assets	4,826	1,930
Loss carry-forward	(58,043)	13,289
Unrealized foreign investment gain	-	178,324
Effect on deferred tax of the change in statutory tax rate	-	(5,018)
Reversal of allowance for deferred tax asset	(162,617)	-
Deferred income tax expense	\$ 14,689	510,175

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(iii) The income tax calculated on pretax financial income at a statutory income tax rate was reconciled with the income tax expense as reported in the accompanying financial statements for the six months ended June 30, 2011 and 2010 as follows:

	For the Six Months Ended June 30	
	2011	2010
Income tax expense calculated on pre-tax financial income (loss) at the statutory tax rate	\$ (207,886)	744,227
Permanent differences	137,372	(66,874)
10% surtax on undistributed earnings	-	102,108
Investment tax credits	85,203	103,198
Others	(7,169)	21,761
Income tax expense	\$ 7,520	904,420

(iv) As of June 30, 2011 and 2010, the temporary differences, loss carry-forwards and income tax credits and the related income tax effect thereof resulting in deferred income tax assets (liabilities) were as follows:

Temporary differences of deferred income tax assets (liabilities) - current	June 30, 2011		June 30, 2010	
	Amount	Income Tax Effect	Amount	Income Tax Effect
Unrealized foreign exchange loss (gain): taxable (deductible)	\$ (296,432)	(50,393)	419,899	71,383
Allowance for loss on inventory market decline and obsolescence: deductible	241,019	40,973	351,130	56,692
Deferred employee benefits for tax: deductible	100	17	50	9
Warranty reserve: deductible	176,247	29,962	785,848	133,594
Unrealized intercompany profits: deductible	50,590	8,600	69,293	11,780
Loss carry-forward: deductible	341,430	58,043	-	-
Unused balance of investment tax credits: deductible	510,090	510,090	157,718	157,718
Valuation allowance		(363,763)		-
Net deferred income tax assets		\$ 233,529		434,176

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Temporary differences of deferred income tax assets (liabilities) - noncurrent	June 30, 2011		June 30, 2010	
	Amount	Income Tax Effect	Amount	Income Tax Effect
Unrealized impairment loss on assets: deductible	\$ 8,097	1,377	36,487	6,203
Deferred employee benefits for tax: deductible	50	8	200	34
Unrealized income on foreign investments: taxable	(1,123,388)	(190,976)	(1,181,652)	(200,881)
Reserve for foreign investment losses: taxable	(648,527)	(110,250)	(648,527)	(110,250)
Net deferred income tax assets (liabilities)		\$ (299,841)		(304,894)

- (v) The Company's tax returns through 2007 have been assessed and approved by the Tax Authority.
- (vi) The ROC Income Tax Act allows net losses, as assessed by tax authorities, for offset against taxable income over a period of ten years for local tax reporting purposes. The Company's estimated unused loss carry-forward benefits were as follows:

Year of occurrence	Amount	Year of expiration
2011 (estimated)	\$ 341,430	2021

- (vii) In accordance with Statute for Industrial Innovation, the Company is allowed to avail of tax credit from R&D expenditure, but this tax credit cannot exceed 30% of the business income tax paid in the given year. Pursuant to Statute for Upgrading Industries, the Company can credit up to 50% of the amount of funds invested for R&D expenditure against the amount of business income tax payable within five years commencing from the subsequent year of tax credit application, however, such limit for the tax credit application shall not apply to the final year. The Company was granted investment tax credits from funds invested in equipment for automation of production, equipment for pollution control, R&D and personnel training, and newly emerging, important and strategic industries which deemed tax credit under the statute. As of June 30, 2011, unused investment tax credits which may be applied to offset against income tax in the future were as follows:

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Year of occurrence	Unused investment tax credits	Year of expiration
2008	\$ 14,224	2012
2009	454,734	2013
For the six months ended June 30, 2011	41,132	2011
	\$ 510,090	

(viii) Due to the increase in its investments in new equipment, the Company was granted several income tax exemptions for its manufacturing and sales of “motherboard” out of the new equipment purchased from the proceeds of capital increase. As of June 30, 2011, the five year income tax exemption periods were as follows:

Description	Exemption
Tenth capital increase used for investment in new equipment.	07/31/2006 ~ 07/30/2011
Eleventh capital increase used for investment in new equipment.	04/30/2007 ~ 04/29/2012

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

Undistributed earnings:	June 30, 2011	June 30, 2010
Accumulated in 1997 and prior years	\$ -	-
Accumulated in 1998 and thereafter	(1,197,278)	5,515,556
Total	\$ (1,197,278)	5,515,556
Stockholders’ imputation tax credit account	\$ 2,734	69,729
	2010(Expected)	2009 (Actual)
Expected or actual deductible tax ratio	7.40%	3.17%

j. Stockholders’ Equity

(i) Capital Stock

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

The Company may issue new GDRs with no more than 60,819,020 Pegatron common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines". As of June 30, 2011, the Company has listed GDRs totaling 9,922 thousand units on the Luxembourg Stock Exchange. As each unit of deposit receipt represents 5 shares, the Company has listed Company shares totaling 49,612 thousand shares. Major terms and conditions for GDRs were as follows:

1. Voting Rights

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

2. Dividend Distributions, Pre-emptive Rights, and Other Rights

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(ii) 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 \$232,803 and \$194,872 which were credited to capital surplus - others as of June 30, 2011 and 2010, respectively.

(iii) Treasury Stock

1. In accordance with Securities and Exchange Act, the number of treasury shares shall not exceed ten percent of the total number of issued and outstanding 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 plus realized capital reserve. The repurchased shares held by the Company amounted to \$1,006,862, divided into 29,697 thousand shares as of December 31, 2010 which conformed to Securities and Exchange Act. The number of shares the Company can repurchase from the active market is limited to up to 228,605 thousand shares amounting to \$66,221,050 which is calculated according to financial reports for the latest accounting period prior to a resolution of a meeting of the board of directors.
2. In accordance with Securities and Exchange Act, treasury shares cannot be pledged. Also, treasury shares do not bear the shareholder's right prior to being sold to third parties.
3. As of June 30, 2011, the Company's shares held by its subsidiaries were 800 thousand shares amounting to \$23,800 a fair value.

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(iv) 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:

1. 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.
2. Up to 1% as remuneration to directors and supervisors.
3. The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

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

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

On June 24, 2011 and March 10, 2010, the Company's shareholders' meeting and the board' meeting on behalf of shareholders' meeting resolved the appropriation of earning for 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>
Common stock dividends per share (dollars)		
-Cash	<u>\$ 1.45</u>	<u>1.75</u>
Employee bonus - cash	\$ 127,000	1,205,797
Remuneration to directors and supervisors	<u>12,000</u>	<u>60,290</u>
Total	<u><u>\$ 139,000</u></u>	<u><u>1,266,087</u></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 six months ended June, 2010, the estimated employee bonuses and directors' and supervisors' remuneration amounted to \$312,605 and \$31,260, 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 six months ended June 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.

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

k. Earnings per Share (EPS)

For the six months ended June 30, 2011 and 2010, the primary earnings per share, diluted earnings per share and the retroactively adjusted primary and diluted earnings per share were computed as follows:

(Note: shares in thousands)

	For the Six Months Ended June 30			
	2011		2010	
	Before income tax	After income tax	Before income tax	After income tax
Net income (loss)	\$ (1,222,859)	(1,230,379)	4,377,807	3,473,387
Weighted-average common shares outstanding	2,255,567	2,255,567	2,286,056	2,286,056
Dilutive potential common shares			10,898	10,898
Diluted shares			2,296,954	2,296,954
Primary earnings (losses) per share	\$ (0.54)	(0.55)	1.92	1.52
Diluted earnings per share			1.91	1.51

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

	For the Six Months Ended June 30, 2011	
	Before Income Tax	After Income Tax
Net loss	\$ (1,222,859)	(1,230,379)
Weighted-average outstanding shares (thousand)	2,256,367	2,256,367
Losses per share	\$ (0.54)	(0.55)

l. Financial Instruments

(i) Fair value of financial instruments

The fair value of short-term financial instruments is determined by their face value on balance sheet date. As this type of financial instrument has a short maturity period, the face value is adopted as a reasonable basis for establishing its fair value. This method is applied to cash, accounts receivable, accounts payable, short-term bank loans, and other payables.

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

<u>Financial Liabilities</u>	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Bank loans	<u>\$ 16,086,000</u>	<u>16,086,000</u>	<u>7,200,000</u>	<u>7,200,000</u>

- (ii) Methods and assumptions used by the Company to evaluate the fair value of financial instruments were as follows:

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

- (iii) Information on financial risks

1. Market risk

The Company's purchases and sales are denominated mainly in US dollars. Consequently it is exposed to the current and future foreign currency 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.

2. Credit risk

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

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

3. Liquidity risk

The capital and working funds of the Company are sufficient to meet its entire contractual obligations; therefore, managements is not expecting any significant issue on liquidity risk.

4. Cash flow and interest rate risk

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

(iv) Financial Instruments with Off-Balance-Sheet Credit Risk:

As of June 30, 2011 and 2010, guarantees and endorsements provided by the Company for bank loans obtained by related parties, were discussed in Note (5).

m. Others

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

	June 30, 2011			June 30, 2010		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
<u>Monetary Items</u>						
USD	\$3,071,602	28.725	88,231,767	2,336,602	32.15	75,121,754
<u>Long-term Equity Investments</u>						
USD	932,394	28.725	26,783,010	903,700	32.15	29,053,957
EUR	38,374	41.63	1,597,516	30,613	39.32	1,203,719
Financial Liabilities						
<u>Monetary Items</u>						
USD	3,104,923	28.725	89,188,913	2,284,672	32.15	73,452,205

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

5. Related-Party Transactions

a. Names and relationships of related parties with the Company

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
ASUSTEK COMPUTER INC. (ASUSTEK)	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.
ASUS TECHNOLOGY PTE. LIMITED	"
DOUBLE TECH LTD.	"
ASKEY COMPUTER CORP.(ASKEY)	"
ASUS TECHNOLOGY INCORPORATION	"
ASMEDIA TECHNOLOGY INC.	"
ASUS COMPUTER (SHANGHAI) CO., LTD.	"
ASUSTEK COMPUTER (SHANGHAI) CO., LTD.	"
SHINEWAVE INTERNATIONAL INC.	"
ENERTRONIX, INC.	An investee company which became a wholly owned subsidiary of ASUSTeK following reorganization in July 2009.
ASHINE TECHNOLOGY (SUZHOU) LTD.	An investee company accounted for under the equity method by the ASUSTeK computer Inc.
ASKEY TECHNOLOGY (JIANG SU) LTD.	"
POWTEK (SHANGHAI) CO., LTD. (POWTEK)	An investee company which became a wholly owned subsidiary of the company following reorganization in July 2009.
BIG PROFIT LIMITED	An investee company accounted for under the equity method by ASUSTeK Computer Inc.
ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	An investee company accounted for under the equity method
ASLINK (H.K.) PRECISION CO., LTD.	"
ASUSPOWER CORPORATION (ASUSPOWER)	"
DIGITEK GLOBAL HOLDINGS LIMITED	"
KAEDAR TRADING LTD.	"
PEGATRON CZECH S.R.O (PCZ)	"
PEGATRON JAPAN INC. (PCJ)	"
PEGATRON MEXICO, S.A. DE C.V.(PCM)	"
PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	"
PEGATRON USA, INC.	"
PEGATRON SERVICOS DE INFORMATICA LTDA.	"

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Name of Related Party	Relationship with the Company
STRATEGY TECHNOLOGY CO., LTD.	An investee company accounted for under the equity method. (Liquidation is completed in 2010)
ADVANSUS CORP.	An investee company accounted for under the equity method
ASROCK INCORPORATION	"
ABILITY ENTERPRISE CO., LTD.	"
PEGA INTERNATIONAL LIMITED	"
UNIHAN CORPORATION (UNIHAN)	"
AMA PRECISION INC.	"
CRYSTAL ART ENTERPRISE CO., LTD.	"
STARLINK ELECTRONICS CORPORATION	"
ASFLY TRAVEL SERVICE LIMITED	"
AZUREWAVE TECHNOLOGIES, INC.	"
ASLINK PRECISION CO., LTD.	"
PROTEK (SHANGHAI) LIMITED (PROTEK)	"
SHANGHAI INDEED TECHNOGLY CO.,LTD. (SHANGHAI INDEED)	"
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD. (KAEDAR ELECTRONICS)	"
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	"
GHING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	"
MAINTEK COMPUTER (SUZHOU) CO., LTD. (MAINTEK)	"
BOARDTEK COMPUTER (SUZHOU) CO., LTD.	"
CASETEK COMPUTER (SUZHOU) CO., LTD. (CASETEK)	"
AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	"
CORE-TEK (SHANGHAI) LIMITED	"
PEGAVISION CORPORATION	An investee company accounted for under the equity method by Kinsus Interconnect Technology Corp.
PIOTEK (HK) TRADING LIMITED (PIOTEK)	An investee company accounted for under the equity method
ASAP INTERNATION CO.,LIMITED	"
RUNTOP(SHANGHAI) CO. LTD (RUNTOP)	"
UNITED NEW LIMITED	"

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Name of Related Party	Relationship with the Company
TOPTEK PRECISION INDUSTRY (SUZHOU) CO., LTD	An investee company accounted for under the equity method
LUMENS DIGITAL OPTICS INC.	"
BLACKROCK MARYLAND INT'L CORP	"
HOLD JUMPER PACKING (SUZHOU) CO., LTD	"
HOLD JUMPER PACKING (SHANGHAI) CO., LTD	"
SUZHOU DELUXE PACKING PRODUCTION CO., LTD	"
COTEK ELECTRONICS (SUZHOU) CO., LTD	"
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	"
RI-KUAN METAL CORPORATION	"
VIEWQUEST TECHNOLOGIES (BVI) INC.	"
GREEN PACKING LIMITED	"
DIGITEK (CHONGQING) LIMITED	"
All directors, supervisors, general manager and vice president	The company management

b. Significant Transactions with Related Parties

(i) Sales

Name of Related Party	For the Six Months Ended June 30					
	2011			2010		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTEK	\$ 67,300,987	47.17	Open account 60 days	106,794,258	66.69	Open account 60 days
POWTEK	2,085,423	1.46	45 days from receipt of goods	1,958,248	1.22	45 days from receipt of goods
PCZ	1,689,218	1.18	120 days from receipt of goods	3,707,898	2.32	120 days from receipt of goods
Others	481,141	0.34	30~90 days from receipt of goods Open account 30~90 days	922,289	0.58	30~90 days from receipt of goods Open account 30~90 days
Total	<u>\$ 71,556,769</u>	<u>50.15</u>		<u>113,382,693</u>	<u>70.81</u>	

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

The collection term of third-party customer is L/C, T/T or 7 to 120 days from receipt of goods. For the six months ended June 30, 2011 and 2010, the Company adjusted the double recording of sales to and purchases from related parties, which amounted to \$125,376,277 and \$96,664,016, respectively.

As of June 30, 2011 and 2010, unrealized profits from sales to related parties were \$50,590 and \$69,292, respectively.

(ii) Purchases

Name of Related Party	For the Six Months Ended June 30					
	2011			2010		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$ 52,376,161	38.27	Open account 60 days	76,408,446	52.02	Open account 60 days
PROTEK	15,542,508	11.36	90 days from receipt of goods	18,822,441	12.81	90 days from receipt of goods
MAINTEK (Note)	(3,976,048)	(2.91)		-	-	
Others	4,548,986	3.33	30~90 days from receipt of goods Open account 30~120 days	4,635,239	3.15	30~90 days from receipt of goods Open account 30~120 days
Total	<u><u>\$ 68,491,607</u></u>	<u><u>50.05</u></u>		<u><u>99,866,126</u></u>	<u><u>67.98</u></u>	

Note: The Company sells raw materials to overseas factories for fabrication and buys back the finished goods for selling purposes. In order to avoid double recording of sales, the revenues and cost of goods sold are written off in proportion to the repurchase ratio. As the repurchase amount is less than the sales amount for the six months ended June 30, 2011, the net balance becomes a negative amount.

The purchase term of third-party customer is 90 days from receipt of goods or open account 30~90 days.

For the six months ended June 30, 2011 and 2010, the Company purchased raw materials from vendors through ASUSTek.

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(iii) Others

	For the Six Months Ended June 30	
	2011	2010
(1) <u>After-sales warranty repair expense paid to:</u>		
PTSI	\$ 73,489	118,309
PCZ	32,848	22,528
ASUS Computer (Shanghai) Co., Ltd.	268	21,044
Others	138	12,267
Total	\$ 106,743	174,148
(2) <u>Processing fee paid to:</u>		
ASUSPOWER	\$ 727,966	2,389,462
PCM	71,557	207,484
RUNTOP	24,252	-
Total	\$ 823,775	2,596,946
(3) <u>Other income from:</u>		
ASUSTeK	\$ 254,699	339,655
PCJ	14,484	26,852
UNIHAN	14,256	14,132
Others	13,605	24,338
Total	\$ 297,044	404,977

(4) For the six months ended June 30, 2011 and 2010, the 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 \$54,307 and \$75,483, respectively.

(5) For the six months ended June 30, 2011 and 2010, the Company incurred other related party transactions recorded as rental revenue, amounting to \$27,598 and \$25,800, respectively.

(6) For the six months ended June 30, 2011 and 2010, the Company had other related party transactions recorded as non-operating expense amounting to \$17,249 and \$10,079, respectively.

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(iv) Accounts receivable (payable)

	June 30, 2011		June 30, 2010	
	Amount	%	Amount	%
<u>Notes and Accounts Receivable:</u>				
PROTEK	\$ 45,680,873	55.12	45,859,238	65.92
ASUSTeK	4,078,877	4.92	11,173,090	16.06
MAINTEK	1,986,666	2.40	1	-
PCZ	938,878	1.13	2,249,458	3.23
POWTEK	562,231	0.68	283,674	0.41
Others	224,867	0.27	406,524	0.58
Total	\$ 53,472,392	64.52	59,971,985	86.20
<u>Other Receivables:</u>				
UNIHAN	\$ 10,562	52.81	9,275	0.94
ASUSTeK	3,565	15.79	73,365	7.40
PCZ	-	-	643,060	64.85
Others	645	5.32	14,699	1.49
Total	\$ 14,772	73.92	740,399	74.68
<u>Notes and Accounts Payable:</u>				
PROTEK	\$ 38,728,346	57.88	45,161,359	75.82
ASKEY	463,408	0.69	176,928	0.30
SHANGHAI INDEED	400,288	0.60	239,805	0.40
CASETEK	326,632	0.49	291,709	0.49
RI-TENG	238,715	0.36	-	-
KAEDAR ELECTRONICS	168,793	0.25	196,990	0.33
PIOTEK	161,452	0.24	161,164	0.27
Others	253,916	0.38	278,567	0.46
Total	\$ 40,741,550	60.89	46,506,522	78.07
<u>Accrued Expenses:</u>				
ASUSPOWER	\$ 5,218,683	61.62	10,895,221	70.99
PCM	345,131	4.07	376,511	2.45
PROTEK	50,486	0.60	357,993	2.33
ASUSTeK	374,075	4.42	116	-
Others	76,443	0.90	114,980	0.76
Total	\$ 6,064,818	71.61	11,744,821	76.53

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

Other related party transactions accounted for as other assets or liabilities in balance sheets were as follows:

	June 30, 2011	June 30, 2010
Assets:		
Prepayments	\$ 43,915	9,838
Temporary payments	5,620	5,319
	\$ 49,535	15,157
Liabilities:		
Temporary receipts	\$ 123,217	212,281

(v) Endorsement Guarantee

As of June 30, 2011 and 2010, the Company provided endorsement guarantee for bank loans obtained by related parties as follows:

Name of Related Party Guaranteed	Amount of Guarantee (thousands)	
	June 30, 2011	June 30, 2010
ASUSPOWER	USD 80,000	USD 25,000
PCZ	USD 10,000	USD -
PIOTEK	USD 49,000	USD -
PROTEK	USD 200,000	USD -

As of June 30, 2011 and 2010, endorsement guarantees provided by a related party for the Company's purchases were as follow:

Name of Related Party Guarantor	Amount of Guarantee (thousands)	
	June 30, 2011	June 30, 2010
ASUSTeK	USD -	USD 300,000

(vi) Financing

As of June 30, 2010, financing provided by the Company to a related party were as follows:

	June 30, 2010	
	Ending Balance	The Highest Balance
PCZ	\$ 643,000	643,000

The loan to PCZ bears annual interest of 1%.

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

6. Pledged Assets

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

<u>Asset</u>	<u>June 30</u>		<u>Purpose of pledge</u>
	<u>2011</u>	<u>2010</u>	
Restricted deposits	\$ 72,003	101,887	Deposits for customs duties
Refundable deposits	33,268	11,144	Deposits for performance guarantee
	<u>\$ 105,271</u>	<u>113,031</u>	

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

- (a) As of June 30, 2011 and 2010, the Company had unused letters of credit of EUR\$267 and US\$ 1,000 and EUR\$ 402 and NT\$ 15,000, respectively.
- (b) As of June 30, 2011 and 2010, the Company had promissory notes and certificate of deposit obtained for business purpose of \$13,258 and \$13,974, respectively.
- (c) Rental expense and future lease commitments of the operating lease agreements were as follows:

<u>Year</u>	<u>Rent expense</u>	<u>Future lease commitments</u>			
		<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
For the six months ended					
June 30, 2011	<u>\$ 39,836</u>	<u>71,688</u>	<u>57,348</u>	<u>5,876</u>	<u>-</u>

8. Significant Catastrophic Losses: None.

9. Significant Subsequent Events: None.

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONT'D)

10. Others

- a. Personnel, depreciation, and amortization expense incurred, categorized as operating cost or expense, were as follows:

Categorized as Nature	For the Six Months Ended June 30, 2011			For the Six Months Ended June 30, 2010		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salary expense	347,419	1,690,046	2,037,465	366,551	1,815,865	2,182,416
Health and labor	25,355	116,477	141,832	23,726	89,306	113,032
Insurance expense						
Pension expense	15,316	72,157	87,473	14,903	57,367	72,270
Other expense	16,293	62,672	78,965	18,695	67,086	85,781
Depreciation expense (Note A)	25,333	82,878	108,211	26,027	95,652	121,679
Amortization expense	119,235	121,594	240,829	222,936	111,289	334,225

Note A: For the six months ended June 30, 2011 and 2010, the Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle assets, of \$7,617 and \$10,667, respectively.

- b. Certain accounts in the financial statements as of and for the six months ended June 30, 2010, were reclassified to conform to the presentation adopted in the financial statements as of and for the six months ended June 30, 2011.

11. Financial Information by Segment

As segment information is disclosed in the consolidated financial statements, it need not be presented in the individual financial statements.