

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2009 AND 2008**

**(With Independent Auditors' Report Thereon)**

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

To the Board of Directors of  
Pegatron Corporation

We have audited the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries (the Consolidated Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Consolidated Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The accompanying consolidated balance sheet of Pegatron Corporation as of December 31, 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended were audited by other auditors whose report dated March 24, 2009, expressed a modified unqualified opinion.

We conducted our audit in accordance with "Rules 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 consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidences supporting the amounts and disclosures in the consolidated 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 provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pegatron Corporation and its subsidiaries as of December 31, 2009 and the results of its operations and its consolidated cash flows for the year then ended in conformity with Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

As stated in Note 3, to the consolidated financial statements, effective January 1, 2009, the Consolidated Company adopted Republic of China Statement of Financial Accounting Standards (SFAS) No. 10 "Inventories", resulting in a decrease of \$143,272 thousand in net income and \$0.06 in earnings per share for the year ended December 31, 2009.



KPMG

CPA: Charlotte Lin  
Ulyos Maa

Taipei, Taiwan, ROC  
March 3, 2010

**Notes to Readers**

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

*The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in 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 consolidated financial statements, the Chinese version shall prevail.*

(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2009 AND 2008**  
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>Current Asset:</b>				
Cash (Notes (2) and (4)(1))	\$ 31,846,280	14	26,274,861	12
Financial assets reported at fair value through profit or loss — current (Notes (2) and (4)(b))	7,337,537	3	3,952,004	2
Available-for-sale financial assets — current (Notes (2) and (4)(b))	1,021,413	1	8,881	-
Notes receivable, net of allowance for doubtful accounts (Notes (2), (4)(c) and (5))				
– Non-related parties	64,401	-	11,861	-
– Related parties	9,390	-	-	-
Accounts receivable, net of allowance for doubtful accounts (Notes (2), (4)(c) and (5))				
– Non-related parties	54,140,039	24	54,426,084	25
– Related parties	13,598,323	6	9,412,008	4
Other receivables, net of allowance for doubtful accounts (Note (5))				
– Non-related parties	1,238,616	1	2,928,642	1
– Related parties	196,313	-	1,694,333	1
Other financial asset — current (Note (6))	196,127	-	178,461	-
Inventories (Notes (2), (4)(d) and (6))	43,409,932	19	40,975,383	19
Non-current assets held for sale (Notes (2) and (4)(h))	-	-	182,876	-
Other current assets	1,812,360	1	1,462,134	1
Deferred income tax assets — current (Notes (2) and (4)(n))	936,214	-	1,265,686	1
	<u>155,806,945</u>	<u>69</u>	<u>142,773,214</u>	<u>66</u>
<b>Investments:</b>				
Available-for-sale financial assets — noncurrent (Notes (2) and (4)(b))	2,245,648	1	837,958	-
Financial assets carried at cost — noncurrent (Notes (2) and (4)(b))	609,243	-	1,295,298	1
Long-term investments under the equity method (Notes (2), (4)(e) and (4)(f))	1,996,644	1	2,665,994	1
	<u>4,851,535</u>	<u>2</u>	<u>4,799,250</u>	<u>2</u>
<b>Other financial assets — noncurrent (Note (6))</b>	<u>468,308</u>	<u>-</u>	<u>542,317</u>	<u>-</u>
<b>Property, Plant and Equipment, at cost (Notes (2), (4)(g) and (6)):</b>				
Land	2,830,983	1	3,248,728	2
Buildings and structures	23,975,458	11	21,144,123	10
Machinery and equipment	45,331,786	21	46,462,058	22
Warehousing equipment	112,268	-	82,247	-
Instrument equipment	1,630,341	1	2,095,122	1
Transportation equipment	198,608	-	186,983	-
Office equipment	1,039,897	-	1,090,000	-
Miscellaneous equipment	5,508,471	3	3,960,795	2
	<u>80,627,812</u>	<u>37</u>	<u>78,270,056</u>	<u>37</u>
Less: Accumulated depreciation	(28,277,988)	(13)	(23,623,114)	(11)
Less: Accumulated impairment	(86,691)	-	(454,082)	-
Prepayments for equipment	2,403,392	1	5,088,121	2
	<u>54,666,525</u>	<u>25</u>	<u>59,280,981</u>	<u>28</u>
<b>Intangible Assets (Notes (2), (4)(j) and (6))</b>				
Consolidated debit	890,311	1	882,284	1
Deferred pension cost	4,894	-	8,029	-
Land use rights	2,387,720	1	2,333,541	1
Other intangible assets	465,826	-	479,685	-
	<u>3,748,751</u>	<u>2</u>	<u>3,703,539</u>	<u>2</u>
<b>Other Assets</b>				
Deferred expenses (Notes (2) and (4)(j))	3,257,467	1	3,127,472	1
Deferred income tax assets — noncurrent (Notes (2) and (4)(n))	16,988	-	33,338	-
Other assets (Notes (2), (4)(g), (4)(i) and (6))	1,738,313	1	905,313	1
	<u>5,012,768</u>	<u>2</u>	<u>4,066,123</u>	<u>2</u>
<b>TOTAL ASSETS</b>	<b>\$ 224,554,832</b>	<b>100</b>	<b>215,165,424</b>	<b>100</b>

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

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

## PEGATRON CORPORATION AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (CONT'D)

DECEMBER 31, 2009 AND 2008

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

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Short-term loans (Note (4)(k))	\$ 10,879,039	5	14,288,407	7
Short-term notes and bills payable	49,933	-	-	-
Financial liabilities reported at fair value through profit or loss — current (Notes (2) and (4)(b))	-	-	409	-
Notes payable	79,147	-	96,876	-
Accounts payable				
– Non-related parties	64,658,372	29	58,816,628	27
– Related parties (Note (5))	1,305,645	1	5,593,849	2
Income tax payable	1,276,165	1	1,598,570	1
Accrued expenses				
– Non-related parties	10,059,126	4	7,963,481	4
– Related parties (Note (5))	24,538	-	64,007	-
Current portion of long-term loans (Note (4)(l))	48,006	-	118,751	-
Other financial liabilities — current	1,592,246	1	2,034,544	1
Other current liabilities (Note (5))	5,728,335	2	5,678,089	3
Deferred income tax liabilities (Notes (2) and (4)(n))	304	-	16,921	-
	<u>95,700,856</u>	<u>43</u>	<u>96,270,532</u>	<u>45</u>
<b>Long-Term Loans:</b>				
Long-term loans (Note (4)(l))	8,078,551	3	8,212,695	4
Other financial liabilities — noncurrent	241,305	-	251,665	-
	<u>8,319,856</u>	<u>3</u>	<u>8,464,360</u>	<u>4</u>
<b>Other Liabilities:</b>				
Deferred income tax liabilities — noncurrent (Notes (2) and (4)(n))	329,240	-	195,190	-
Other liabilities (Notes (2) and (4)(m))	51,210	-	59,788	-
	<u>380,450</u>	<u>-</u>	<u>254,978</u>	<u>-</u>
<b>Total Liabilities</b>	<u>104,401,162</u>	<u>46</u>	<u>104,989,870</u>	<u>49</u>
<b>Stockholders' Equity:</b>				
Common stock — authorized 2,500,000 thousand shares, 2,286,054 thousand shares issued and outstanding in 2009; 1,884,628 thousand shares issued and outstanding in 2008 (Note (4)(o))	22,860,539	10	18,846,281	9
Capital Surplus (Note (4)(o))				
Premium on capital stock	61,188,108	28	61,188,108	29
Others	2,588,515	1	2,393,989	1
	<u>63,776,623</u>	<u>29</u>	<u>63,582,097</u>	<u>30</u>
Retained Earnings: (Note (4)(o))				
Legal reserve	545,570	-	-	-
Unappropriated earnings	6,712,650	3	5,455,699	2
	<u>7,258,220</u>	<u>3</u>	<u>5,455,699</u>	<u>2</u>
Other Adjustments to Stockholders' Equity:				
Cumulative translation adjustments	198,092	-	1,849,737	1
Unrecognized loss on pension cost	(3,202)	-	(1,128)	-
Unrealized gain on financial assets	1,680,205	1	241,398	-
	<u>1,875,095</u>	<u>1</u>	<u>2,090,007</u>	<u>1</u>
<b>Total Parent Company's Equity</b>	<u>95,770,477</u>	<u>43</u>	<u>89,974,084</u>	<u>42</u>
<b>Minority interest</b>	<u>24,383,193</u>	<u>11</u>	<u>20,201,470</u>	<u>9</u>
<b>Total Stockholders' Equity</b>	<u>120,153,670</u>	<u>54</u>	<u>110,175,554</u>	<u>51</u>
<b>Commitments and Contingencies (Note (7))</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 224,554,832</u>	<u>100</u>	<u>215,165,424</u>	<u>100</u>

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

(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER, 2009 AND 2008**  
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For The Year Ended December 31			
	2009		2008	
	Amount	%	Amount	%
<b>Operating Revenues (Note (5))</b>	\$ 542,355,154	101	516,434,810	101
Less: Sales returns and allowances	(4,273,493)	(1)	(3,140,655)	(1)
<b>Net sales</b>	538,081,661	100	513,294,155	100
<b>Cost of goods sold (Notes (2), (4)(d) and (5), (10)(a))</b>	(505,715,364)	(94)	(486,285,510)	(95)
<b>Gross profit</b>	32,366,297	6	27,008,645	5
<b>Operating expenses (Notes (5) and (10)(a))</b>				
Selling expenses	(6,340,717)	(1)	(7,383,043)	(1)
General and administrative expenses	(6,487,296)	(1)	(5,351,049)	(1)
Research and development expenses	(8,963,234)	(2)	(6,480,557)	(1)
	(21,791,247)	(4)	(19,214,649)	(3)
<b>Income from operations</b>	10,575,050	2	7,793,996	2
<b>Non-operating incomes</b>				
Interest income	120,681	-	475,472	-
Investment income under the equity method (Note (4)(e))	312,360	-	84,927	-
Dividend income	13,561	-	89,254	-
Gain on disposal of investments	534,823	-	210,530	-
Gain on valuation of financial assets (Note (4)(b))	116,880	-	-	-
Others (Note (5))	3,035,816	1	2,480,287	-
	4,134,121	1	3,340,470	-
<b>Non-operating expenses</b>				
Interest expense	(153,355)	-	(283,371)	-
Foreign exchange loss, net	(115,074)	-	(168,638)	-
Impairment loss	(478,402)	-	(754,957)	-
Loss on valuation of financial assets (Note (4)(b))	-	-	(52,570)	-
Others	(1,060,051)	-	(729,456)	-
	(1,806,882)	-	(1,988,992)	-
<b>Income before income tax</b>	12,902,289	3	9,145,474	2
Income tax expense (Note (4)(n))	(2,354,902)	(1)	(1,217,835)	-
<b>Consolidated net income</b>	<b>\$ 10,547,387</b>	<b>2</b>	<b>7,927,639</b>	<b>2</b>
<b>Income attributable to :</b>				
Shareholders of parent company	\$ 6,751,588	1	5,526,317	1
Minority interest income	3,795,799	1	2,401,322	1
	<b>\$ 10,547,387</b>	<b>2</b>	<b>7,927,639</b>	<b>2</b>
	<b>Before</b>	<b>After</b>	<b>Before</b>	<b>After</b>
	<b>Income Tax</b>	<b>Income</b>	<b>Income Tax</b>	<b>Income</b>
<b>Earnings per share attributable to parent company</b> (Notes (2) and (4)(q))				
<b>Primary earnings per share</b>	<b>\$ 3.15</b>	<b>2.95</b>	<b>2.80</b>	<b>3.08</b>
<b>Primary earnings per share — retroactively adjusted</b>			<b>\$ 2.31</b>	<b>2.54</b>
<b>Diluted earnings per share</b>	<b>\$ 3.10</b>	<b>2.91</b>	<b>2.79</b>	<b>3.07</b>
<b>Diluted earnings per share — retroactively adjusted</b>			<b>\$ 2.30</b>	<b>2.53</b>

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

(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
 (All Amounts Expressed of New Taiwan Dollars in Thousands, Except for Share Data)

	Retained Earnings					Stock holders' Equity Adjustments				Total
	Capital Stock	Capital Surplus	Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrecognized Loss on Pension Cost	Gain on Financial Instruments	Minority Interest		
<b>Balance as of January 1, 2008</b>	\$ 50,000	165,375	-	(3,705)	-	-	-	-	211,570	
Consolidated net income for the year ended December 31, 2008	-	-	-	5,526,317	-	-	-	2,401,322	7,927,639	
Issuance of new stocks in exchange of spin-off assets	16,000,000	54,121,343	-	-	(535,174)	(826)	414,657	13,562,537	83,562,537	
Issuance of new stocks in exchange of subsidiary capital	2,796,281	9,339,718	-	(23,806)	(14,235)	537	(216)	6,379,850	18,478,129	
Interest expense generated from the trust of shareholders of parent Company	-	156,850	-	-	-	-	-	-	156,850	
Cumulative translation adjustments	-	-	-	-	2,399,146	-	-	-	2,399,146	
Adjustment arising from changes in percentage of ownership in long-term equity investments	-	(201,189)	-	(43,107)	-	(839)	(173,043)	-	(418,178)	
Change in minority interests	-	-	-	-	-	-	-	(2,142,239)	(2,142,239)	
<b>Balance as of December 31, 2008</b>	18,846,281	63,582,097	-	5,455,699	1,849,737	(1,128)	241,398	20,201,470	110,175,554	
2008 earnings distribution and appropriation:										
Legal reserve	-	-	545,570	(545,570)	-	-	-	-	-	
Cash dividends	-	-	-	(882,092)	-	-	-	-	(882,092)	
Stock dividends	4,014,258	-	-	(4,014,258)	-	-	-	-	-	
Consolidated net income for the year ended December 31, 2009	-	-	-	6,751,588	-	-	-	3,795,799	10,547,387	
Cash dividends distributed by minority interests	-	-	-	-	-	-	-	(1,765,838)	(1,765,838)	
Returned investments by decreasing in capital for minority interests	-	-	-	-	-	-	-	(985,909)	(985,909)	
Issuance of new shares for cash from minority interests	-	-	-	-	-	-	-	441,894	441,894	
Changes in minority interests	-	-	-	-	-	-	-	479,826	479,826	
Effect of initial merge to minority interests	-	-	-	-	-	-	-	2,215,951	2,215,951	
Interest expense generated from the trust of shareholders of parent Company	-	38,022	-	-	-	-	-	-	38,022	
Cumulative translation adjustments	-	-	-	-	(1,651,645)	-	-	-	(1,651,645)	
Adjustment arising from changes in percentage of ownership in long-term equity investments	-	156,504	-	(52,717)	-	-	-	-	103,787	
Unrealized gain on available-for-sale financial assets of subsidiaries	-	-	-	-	-	-	1,438,807	-	1,438,807	
Unrecognized loss on pension cost	-	-	-	-	-	(2,074)	-	-	(2,074)	
<b>Balance as of December 31, 2009</b>	\$ 22,860,539	63,776,623	545,570	6,712,650	198,092	(3,202)	1,680,205	24,383,193	120,153,670	

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



(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	<u>For The Year Ended December 31</u>	
	<u>2009</u>	<u>2008</u>
	<u>Amount</u>	<u>Amount</u>
<b>Cash flows from operating activities:</b>		
<b>Consolidated net income</b>	\$ 10,547,387	7,927,639
Adjustments to reconcile net income to net cash provided by (used in) operating activities activities:		
Depreciation	8,304,441	6,827,594
Amortization	2,305,900	1,300,625
Loss on disposal and retirement of assets, net	114,521	45,700
Impairment loss	478,402	754,957
Income from long-term equity investments over cash dividends received	(229,861)	271,724
Gain on disposal of investments	(457,126)	(155,922)
Interest expense generated from the trust of shareholders of parent Company	38,022	154,881
Ownership of employee stock option and treasury stock were transferred to employee compensation cost	133,384	4,929
Change in assets and liabilities:		
Financial assets reported at fair value through profit or loss — current	(2,712,294)	853,278
Notes and accounts receivable	(3,185,334)	(42,013,018)
Other receivables	3,183,799	19,743,597
Inventories	(1,973,976)	15,733,976
Other financial assets — current	-	-
Other current assets	(151,988)	38,855
Deferred income tax assets and liabilities, net	486,044	(884,938)
Financial liabilities reported at fair value through profit or loss — current	(409)	371
Notes and accounts payable	2,243,798	(18,155,790)
Accrued expenses	230,524	(8,189,741)
Other financial liabilities — current	(449,772)	14,061,834
Income tax payable	(356,536)	32,535
Other current liabilities	(96,184)	3,091,138
Accrued pension liabilities / Deferred pension cost	153	(15,885)
<b>Net cash provided by operating activities</b>	<u>18,452,895</u>	<u>1,428,339</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 CASH FLOWS (CONT'D)**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	<b>For The Year Ended December 31</b>	
	<b>2009</b>	<b>2008</b>
	<b>Amount</b>	<b>Amount</b>
<b>Cash flows from investing activities:</b>		
Increase in funds and investments	\$ (1,726,866)	(2,244,016)
Proceeds from disposal of investments	2,387,316	1,472,034
Purchase of intangible assets	(126,445)	(965,828)
Purchase of deferred charges	(1,802,159)	(2,030,042)
Purchase of property, plant and equipment	(6,002,266)	(10,123,755)
Proceeds from sale of assets	689,201	440,298
Returned investments due to subsidiary company's capital decrease	933	151,838
Increase in other financial assets — current	(16,535)	(191,961)
Decrease (Increase) in other financial assets — noncurrent	153,569	(459,350)
Others	97,499	235,537
	<b>(6,345,753)</b>	<b>(13,715,245)</b>
<b>Net cash used in investing activities</b>		
<b>Cash flows from financing activities:</b>		
(Decrease) Increase in short-term loans	(3,295,203)	7,953,771
(Decrease) Increase in long-term loans	(192,647)	7,848,548
Increase in short-term notes and bills payable	49,933	-
(Decrease) Increase in other financial liabilities — noncurrent	(10,359)	93,678
(Decrease) Increase in other liabilities	(17,777)	5,405
Cash dividends, employee bonuses and remuneration to directors and supervisors	(2,647,930)	(2,649,848)
Returned investments by decreasing in capital of subsidiary company	(985,909)	-
Redemption of treasury stock	(30,550)	(405,206)
Transfer treasury stock to employees	380,256	-
Issuance of stock for cash	441,894	200,900
Cash provided by spin-off	-	22,997,146
	<b>(6,308,292)</b>	<b>36,044,394</b>
<b>Net cash (used in) provided by financing activities</b>		
Foreign exchange rate effects	(918,727)	(27,504)
Effect of changes of certain subsidiaries	(265,407)	(124,034)
Effect of initial consolidation of subsidiaries	956,703	2,665,816
<b>Net increase in cash</b>	5,571,419	26,271,766
<b>Cash, beginning of the year</b>	26,274,861	3,095
<b>Cash, end of the year</b>	<b>\$ 31,846,280</b>	<b>26,274,861</b>
 <b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the year for:</b>		
Interest	<b>\$ 173,609</b>	<b>267,108</b>
Income tax	<b>\$ 2,040,095</b>	<b>2,169,587</b>
<b>Non-cash investing and financing activities:</b>		
Current portion of long-term loans	<b>\$ 48,006</b>	<b>118,751</b>
<b>Purchase of property and equipment with cash and other payables:</b>		
Property, plant and equipment	\$ 6,395,935	10,098,942
Add: Other payables, beginning of the year	138,654	163,467
Less: Other payables, end of the year	(97,397)	(138,654)
<b>Cash paid</b>	<b>\$ 6,437,192</b>	<b>10,123,755</b>

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**  
**(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 accept the OEM business from ASUSTeK Computer Inc. on January 1, 2008 to restructure the Company’s business. ASUSALPHA Computer Inc. was merged by the Company on April 1, 2008. The main activities of the Company are to produce, design and sell OEM business. The Company’s parent company is ASUSTeK Computer Inc.

As of December 31, 2009 and 2008, the Company and its subsidiaries (the “Consolidated Company”) had 96,534 and 83,323 employees, respectively.

**2. Summary of Significant Accounting Policies**

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

**a. Basis of consolidation**

When the Consolidated Company holds more than 50% of the voting rights of investees (including the exercisable and convertible potential voting rights owned by the Consolidated Company except when there is any evidence indicating that the Consolidated Company has no controlling power considering their percentage of ownership) or when any one of the criteria listed below is met, the Consolidated Company is considered to have control over the investees. The Consolidated Company not only accounts for such investments under the equity method but also consolidates them into the Company’s consolidated financial statements quarterly.

- 1) Has ability to have more than half of investee’s voting rights with agreement of other investors.
- 2) Has ability to control the financial, operating and human resources functions of investee according to regulations or agreements.
- 3) Has authority to appoint more than half of the members of the board of directors (or its equivalent) to control the board (or its equivalent).
- 4) Has authority to secure more than half of the voting rights of the board of directors (or its equivalent) to control the board (or its equivalent).
- 5) Has other circumstances that prove the controlling power.

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As of December 31, 2009 and 2008, the consolidated subsidiaries were as follows:

Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
The Company	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	100.00%	100.00%
UNIHAN AND ASUSPOWER INVESTMENT	Ability Enterprise Co., Ltd. (Ability (tw))	Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products leasing	12.63%	12.99%
Ability (tw)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%
Ability (tw)	VIEWQUEST TECHNOLOGIES INTERNATIONAL LTD.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%
Ability (tw)	ASSOCIATION INTERNATIONAL LTD.	Investing activities	100.00%	100.00%
Ability (tw)	ABILITY ENTERPRISE (BVI) CO., LTD.(ABILITY)	Investing activities	100.00%	100.00%
ABILITY	Ability Technology (Dongguan) Co., Ltd	Producing and selling digital cameras	100.00%	100.00%
Ability (tw)	VIEQUEST TECHNOLOGIES (BVI) INC.	Manufacturing and selling computer peripherals, digital cameras and electronic components	100.00%	100.00%

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Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
Ability (tw)	Ability International Investment Co., Ltd.	Investing activities	100.00%	100.00%
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 HOLDING	CASETEK COMPUTER (SUZHOU) CO., LTD	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00%	100.00%
CASETEK HOLDING	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDING)	Investing and trading activities	100.00%	100.00%
KAEDAR HOLDING	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD	Tooling module 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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Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
CASETEK HOLDING	CORE-TEK (SHANGHAI) LIMITED	Researching and producing the parts of notebooks, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00%	100.00%
CASETEK HOLDING	UNITED NEW LIMITED (UNITED)	Investing and trading activities	51.00%	-%
UNITED	AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	-%
UNIHAN and ASUSTEK INVESTMENT	AzureWave Technologies, Inc. (AzureWave)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	43.56%	58.09%
AzureWave	Eminent Star Company Limited (Eminent)	Investing activities	100.00%	100.00%
Eminent	Hannex International Limited (Hannex)	Investing activities	100.00%	100.00%
Hannex	Scientek. Nanjing Co.,Ltd	Designing, researching 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	
			2009.12.31	2008.12.31
Eminent and Jade	Azurewave Technology (Shenzhen) Co., Ltd.	Designing, researching and selling computer products	100.00%	100.00%
AzureWave	EZWAVE TECHNOLOGIES, INC.	Selling computer peripherals	100.00%	100.00%
AzureWave	Azwave Holding (Samoa) Inc. (Azwave Samoa)	Investing activities	100.00%	100.00%
Azwave Samoa	AzureWave Technologies (Shanghai) Inc.	Manufacturing electronic parts	100.00%	100.00%
Azwave Samoa	AzureLighting Technologies ,INC (Yangzhou)	Manufacturing electronic parts	100.00%	-%
AzureWave	EZWAVE TECHNOLOGIES, INC.	Manufacturing electronic parts	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 PRECISION	AMA Holdings Limited (AMA)	Investing activities	100.00%	100.00%

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Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
AMA	METAL TRADINGS LTD. (METAL)	Trading activities	100.00%	100.00%
METAL	FENGSHUO TRADING (TONGZHOU) CO. LTD	Trading activities	100.00%	100.00%
AMA	EXTECH LTD.	Trading electronic parts	90.49%	88.91%
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%	-%
The Company and ASUS INVESTMENT	ASUS HOLLAND HOLDING B.V. (AHH)	Investing activities	100.00%	100.00%
AHH	PEGATRON Czech s.r.o.	Installing, repairing and selling electronic products	100.00%	100.00%
The Company	Pegatron Holding Ltd. (Pegatron Holding)	Investing activities	100.00%	100.00%
Pegatron Holding	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00% (Note (A))	-%
POWTEK	Powtek (Shanghai) Co., Ltd.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00%	-%



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Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
Pegatron Holding	BOARDTEK HOLDINGS LTD. (CAYMAN) (BOARDTEK CAYMAN)	Investing and holding activities	100.00%	-%
BOARDTEK CAYMAN	BOARDTEK HOLDING LIMITED (BOARDTEK HOLDING)	Investing and trading activities	100.00%	100.00%
BOARDTEK HOLDING	BOARDTEK 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%
BOARDTEK HOLDING	BOARDTEK(H.K.) TRADING LIMITED	Trading activities	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%
ASLINK	ASAP INTERNATIONAL CO., LIMITED (ASAP)	Investing activities	59.17%	51.00%
ASAP	ASAP TECHNOLOGY (JIANGXI) CO., LIMITED	Manufacturing and selling date transit wire and cable	100.00%	100.00%

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Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
Pegatron Holding	DIGITEK GLOBAL HOLDINGS LIMITED	Investing and trading activities	100.00%	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%
Pegatron Holding	NORTH TEC ASIA LIMITED (NORTH)	Investing and trading activities	100.00%	100.00%
PROTEK AND NORTH	Protek (ShangHai) Limited	Manufacturing, developing and selling computers, printers and electronic components, and providing after-sales service	100.00%	100.00%
Pegatron Holding (Note (C))	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%

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Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	R&D, manufacturing and selling new electronic components, providing mold technology, and after-sales service	100.00%	100.00%
Pegatron Holding	TOP QUARK LIMITED (TOP QUARK)	Investing and holding activities	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%	-%
The Company	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%
The Company	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%
The Company	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK Incorporation (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole soling of computer equipment and electronic components	58.65%	58.41%

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Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
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%
ASIAROCK	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing activities	100.00%	100.00%
Leader	Firstplace International Ltd. (Firstplace)	Investing 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%
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%
KINSUS	KINSUS INVESTMENT CO., LTD (KINSUS INVESTMENT)	Investing activities	100.00%	-%

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Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
KINSUS INVESTMENT AND ASUSPOWER INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	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	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%
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00%	100.00%
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION (STARLINK)	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	100.00%

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Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
STARLINK	STRATEGY Technology Co., Ltd.	Investing and trading activities	100.00%	100.00%
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC.	Sales and repair service center in North America	100.00%	100.00%
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	-%
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00%	100.00%
ASUSPOWER INVESTMENT , ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens)	Researching, manufacturing and selling computer data projectors and related peripherals	56.52% (Note (C))	-%
Lumens	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	-%
Lumens	Lumens Digit Image Inc. (SOMOA)(Lumens SOMOA)	Investing activities	100.00%	-%
Lumens SOMOA	Lumens (Suzhou) Digital Image Inc.	Researching, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	-%

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Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
Lumens	Lumens Europe BVBA	Selling computer communication products and peripherals	100.00%	-%
Lumens	Jie Xin Inc.	Manufacturing and wholesaling electronic parts	94.00%	-%
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%
The Company	ADVANSUS CORP.	Manufacturing computer peripherals	50.00% (Note (D))	50.00% (Note (D))
The Company	PEGATRON USA, INC.	Sales and repair service center in North America	100.00%	100.00%
NORTH	NORTH TEC ASIA (SHANGHAI) LIMITED	Manufacturing, developing and selling mobile phones, computers, routers, DTV and electronic components, and after-sales service	-% (Note (F))	100.00%
Pegatron Holding	STRONG CHOICE GROUP LIMITED	Investing and trading activities	-% (Note (E))	100.00%
Pegatron Holding	WEST TEC ASIA LIMITED	Investing and trading activities	-% (Note (E))	100.00%

Subsidiaries, which were not included in the consolidated financial statements were as follows:

Subsidiary	Note	Shareholding ratio	
		2009.12.31	2008.12.31
Azurewave (Cayman) Holding Inc.	This entity is under liquidation, therefore, its profit or loss had not been included in the consolidated financial statements from the date following the effective date of its liquidation.	-%	60.49%

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Subsidiary	Note	Shareholding ratio	
		2009.12.31	2008.12.31
Enertronix, Inc.	Due to organization restructuring	-%	100.00%
Entertronix International Limited	Due to organization restructuring	-%	100.00%
Asus Service Canada, Inc.	Ceased controlling power	-%	100.00%
LINKTEK PRECISION (SUZHOU) CO., LIMITED	This entity is under liquidation, therefore, its profit or loss had not been included in the consolidated financial statements from the date following the effective date of its liquidation.	-%	100.00%

Note A: Due to the organization restructuring.

Note B: Due to the reorganization, the investee was transferred from Strategy Technology Co., Ltd to Pegatron Holding.

Note C: The investee was accounted for as financial assets carried at cost; then, the ability to control is achieved this year.

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

Note E: STRONG CHOICE GROUP LIMITED and WEST TEC ASIA LIMITED merged with MAGNIFICENT BRIGHTNESS LIMITED in 2009.

Note F: NORTH TEC ASIA (SHANGHAI) LIMITED merged with Protek (ShangHai) Limited in 2009.

All significant inter-company accounts and transactions have been eliminated.

**b. Use of Estimates**

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



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**c. Foreign Currency Translation**

The Consolidated Company records its transactions in New Taiwan dollars. All foreign currency-denominated consolidated subsidiaries record their transactions in their functional currency. 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.

**d. 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.

**e. Asset Impairment**

The Consolidated 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 Consolidated 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.

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The Consolidated Company assesses the goodwill and intangible assets that have indefinite lives or that is not yet available for use periodically on an annual basis and recognizes an impairment loss on the carrying value in excess of the recoverable amount. The loss is first recorded against the goodwill allocated to the CGU, with any remaining loss allocated to other assets on a pro rata basis proportionate to their carrying amounts. The write-down of goodwill cannot be reversed in subsequent periods under any circumstances.

**f. Financial Instruments**

The Consolidated Company classifies investments in financial assets as financial assets / liabilities reported at fair value through profit or loss or financial assets carried at cost.

Financial instrument transactions are recorded at the trading date. Financial instruments other than those held for trading are initially recognized at fair value plus transaction costs, while those held for trading are carried at fair value.

Subsequent to initial recognition, financial instruments are classified, depending on the Company's intention, as follows:

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

These financial assets and liabilities are subsequently measured at fair value with changes in fair value recognized in profit and loss. Stocks of listed companies, convertible bonds and closed-end funds are measured at closing prices on the balance sheet date. Open-end funds are measured at the unit price of the net assets on the balance sheet date.

A financial asset or financial liability may be designated as at fair value through profit or loss only when either of the following conditions is met:

(1) The financial asset or financial liability designated is a hybrid financial instrument.

(2) It eliminates or significantly reduces a measurement or recognition inconsistency.

(3) A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

ii. Financial assets carried at cost

Equity investments without reliable market prices, including emerging and other unlisted stocks, 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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iii. Available-for-sale financial assets

Available-for-sale financial assets are 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.

**g. Notes and Accounts Receivable, and Allowance for Doubtful Accounts**

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

**h. 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. Market value is determined by replacement value. A provision for inventory devaluation is recorded when the market value of inventories is less than cost. The fair value of finished goods, merchandise and work in process is determined on the basis of net realizable value, while the fair value of raw material is determined by replacement value. A provision for inventory devaluation and obsolescence is recorded as allowance for loss based on certain percentages according to the aging of inventories.

Effective January 1, 2009, the Consolidated Company adopts Republic of China Statement of Financial Accounting Standards (SFAS) No. 10 "Inventories". 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. Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle. Net realizable value 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.

**i. Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amounts are recoverable through a sale transaction within one year rather than through continuing use. Non-current assets held for sale (disposal group) are measured at the lower of carrying amount or fair value less costs to sell.

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**j. 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 a joint venture investment in which the Company has the ability to control is accounted for under the equity method. Also, such investment is included in the consolidated financial statements by using the proportionate consolidation method on balance sheet date.

Unrealized profits/losses on inter-company transactions are eliminated and deferred. Regardless of whether inter-company transactions are downstream or upstream transactions, unrealized inter-company gains and losses are eliminated in proportion to the shareholding ratio, except for those in downstream transactions, where gain or loss is fully eliminated when controlling interests exist. Unrealized gains and losses resulting from transactions between investee companies are eliminated in proportion to shareholding ratio if controlling interests exist. Otherwise, the unrealized gains or losses are eliminated according to the shareholding ratio. 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.

**k. Property, Plant, and Equipment, 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.

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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	3 to 60 years
Machinery and equipment	2 to 10 years
Warehousing equipment	5 to 10 years
Instrument equipment	1 to 5 years
Transportation equipment	1 to 20 years
Office equipment	1 to 7 years
Miscellaneous equipment	1 to 20 years

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

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

**I. Intangible Assets**

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

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

Computer software cost	1 to 5 years
Trademarks	5 to 20 years
Patent	2 to 10 years
Land using right	20 to 50 years

The residual value, the amortization period, and the 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.

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

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

**m. Deferred Expenses**

The costs of renovation project, molds, fixtures and office decorations are deferred and amortized equally over 9 months to 10 years.

**n. Pension Plan**

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

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

The Company and some subsidiaries adopt a defined contribution pension plan according to the regulations of their respective jurisdiction and recognize monthly pension contributions as current expenses. According to the regulations of the Peoples Republic of China government, the subsidiaries in mainland China contribute basic retirement insurance fees equal to the legal percentages of employee's salary and recognize these fees as current expenses.

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

**o. Warranty Reserve**

A warranty reserve provided for products sold with a warranty based on estimated warranty service cost and in consideration of past experience, such as historical return rates, repair costs, failure rates and warranty period.

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**p. Revenue 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.

**q. Classification of Capital and Operating Expenditures**

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

**r. Commitments and Contingencies**

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

**s. Income Tax**

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

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

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

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

The income tax for each consolidated entity is reported on an individual basis with the relevant jurisdiction and is not reported on a consolidated basis. The consolidated income tax expense is the total of income tax expenses for all consolidated entities.

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**t. Employee Stock Option**

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

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

**u. 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.

**v. Spin-Off Transactions**

Spin-off transactions are accounted for by the Interpretation (91) 128 issued by the ROC Accounting Research and Development Foundation, under which a transferee company recognizes at book value the assets received and liabilities assumed from a transferor company. However, if there is any impairment loss happened, the capitalized cost of transferee company shall be net of impairment losses. Based on the net value of assets and liabilities the transferee company recognized, the amount equaled to net value is accounted for capital stock and the amount excess of net value is accounted for paid-in capital.



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**w. Business Combinations**

Combination transaction is accounted for by the Interpretation (91) 243 and (91) 244 issued by the ROC Accounting Research and Development Foundation. The Consolidated Company made the combination transaction for group restructuring purpose, which according to the Interpretation. On the effective date of combination, the survival company acquired assets from terminated company and credits the long term investment account.

**x. Employee Bonuses and Remuneration to Directors and Supervisors**

Appropriations for employee bonuses and remuneration to directors and supervisors appropriated are accounted for by 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.

**3. Reasons for and Effect of Accounting Changes:**

Effective January 1, 2009, the Consolidated Company adopts Republic of China Statement of Financial Accounting Standards (SFAS) No. 10 "Inventories". According to SFAS 10, fixed production overheads are allocated to finished goods and work in process inventories based on the normal capacity of production facilities. Inventories are measured individually at the lower of cost or net realizable value. The effects of the adoption of this new accounting principle on net income and earnings per share for the year ended December 31, 2009, were as follows:

<b>Nature of change in accounting principle</b>	<b>Effect of account</b>	<b>Decrease in net income (after income tax)</b>	<b>Decrease in EPS</b>
Allocation of fixed production overheads based on the normal capacity	Cost of goods sold	\$ 116,562	0.05
Measurement of inventories individually	"	26,710	0.01
<b>Total</b>		<b>\$ 143,272</b>	<b>0.06</b>

Effective January 1, 2008, the Consolidated Company adopts Republic of China Statement of Financial Accounting Standards (SFAS) No. 39 "Share-based Payment" and Interpretation (96)052 issued by the ROC Accounting Research and Development Foundation (ARDF) in the accounting of employees bonuses and directors' and supervisors' remuneration. The adoption of these new accounting principles decreased net income attributable to stockholders of the parent and earnings per share by \$906,597 and \$0.51(NT dollars), respectively, for the year ended December 31, 2008.

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**4. Summary of Major Accounts**

**a. Cash**

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Cash on hand	\$ 40,329	148,154
Demand deposits	17,738,019	7,885,664
Time deposits	14,067,932	18,241,043
Total	<u>\$ 31,846,280</u>	<u>26,274,861</u>

**b. Financial Instruments**

(i) The components of financial instruments were as follows:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Financial assets reported at fair value through profit or loss — current		
Financial assets held for trading — current:		
Stocks of listed companies	\$ 209,202	34,873
Beneficiary certificates	6,263,933	2,867,440
Currency swap contracts	12,112	4,264
Overseas notes	301,862	289,167
Depositary receipts	10,389	16,171
Corporate bonds	540,039	699,351
Sub-total	<u>7,337,537</u>	<u>3,911,266</u>
Financial assets designated as at fair value through profit or loss — current:		
Structure notes	-	40,738
Total	<u>\$ 7,337,537</u>	<u>3,952,004</u>
Available-for-sale financial assets — current:		
Stocks of listed companies	\$ 77,925	8,881
Stock of overseas listed companies	943,488	-
Total	<u>\$ 1,021,413</u>	<u>8,881</u>

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	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Available-for-sale financial assets		
— noncurrent:		
Stocks of listed companies	\$ 1,693,881	837,958
Stock of overseas listed companies	551,767	-
Total	<b>\$ 2,245,648</b>	<b>837,958</b>
 Financial assets carried at cost		
— noncurrent:		
Equity securities-common stock	<b>\$ 609,243</b>	<b>1,295,298</b>
 Financial liabilities reported at fair value through profit or loss — current		
Financial liabilities held for trading		
— current:		
Forward exchange contracts	<b>\$ -</b>	<b>409</b>

(ii) Financial assets reported at fair value through profit or loss

For the years ended December 31, 2009 and 2008, the Consolidated Company recognized a gain and a loss on financial assets reported at fair value through profit or loss of \$116,880 and \$52,570, respectively.

(iii) Available-for-sale financial assets

Based on the results of its impairment assessment, the Consolidated Company recognized an impairment loss on available-for-sale financial assets of \$61,662 and \$132,143 for the years ended December 31, 2009 and 2008, respectively.

For the years ended December 31, 2009 and 2008, the unrealized gains and losses on available-for-sale financial assets amounted to \$1,574,634 and \$238,408, respectively.

(iv) Financial assets carried at cost

Impairment loss recognized on financial assets carried at cost amounted to \$38,788 and \$158,771 for the years ended December 31, 2009 and 2008, respectively.

On June 10, 2009, KINSUS INTERCONNECT TECHNOLOGY CORP (KINSUS) had formally contracted with Solar Technology Investment (Cayman) Corp., under which, KINSUS will sell its ownership of the shares of Kinmacsolar Co., Ltd. to Solar Technology Investment (Cayman) Corp. for \$236,739, purposely to subscribe to the new issued shares from Solargiga Energy Holdings Limited. However, this contract was terminated as of December 31, 2009, because the procedures for the transfer of ownership were not completed.

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- (v) As of December 31, 2009 and 2008, the components of financial derivatives of Ability Enterprise Co., Ltd. were as follows:

<u>Financial Instruments</u>	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Book Value</u>	<u>Nominal Principal (thousands)</u>	<u>Book Value</u>	<u>Nominal Principal (thousands)</u>
Derivative financial assets:				
Currency swap contracts	<u>\$ 12,112</u>	USD 49,600	<u>4,264</u>	USD 31,740
Derivative financial liability:				
Forward exchange contracts	<u>\$ -</u>	-	<u>409</u>	EUR 2,509

For the years ended December 31, 2009 and 2008, Ability Enterprise Co., Ltd. entered into forward exchange contracts and currency swap contracts with financial institutions in order to hedge the exchange rate risk. For the years ended December 31, 2009 and 2008, the gains from valuation of financial assets reported at fair value through profit or loss were \$12,112 and \$3,855, respectively.

**c. Notes and Accounts Receivable**

- (i) Non-related parties

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Notes receivable	\$ 64,740	12,102
Less: Allowance for doubtful accounts	(339)	(241)
Net	64,401	11,861
Accounts receivable	54,843,416	55,222,875
Less: Allowance for doubtful accounts	(703,377)	(796,791)
Net	54,140,039	54,426,084
Total	<u>\$ 54,204,440</u>	<u>54,437,945</u>

- (ii) Related parties

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Notes receivable	\$ 9,390	-
Accounts receivable	13,599,030	9,412,008
Less: Allowance for doubtful accounts	(707)	-
Net	13,598,323	9,412,008
Total	<u>\$ 13,607,713</u>	<u>9,412,008</u>

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(iii) As of December 31, 2009 and 2008, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

Purchaser	Amount Derecognized		Credit Advanced		Collateral	Credit (thousands)	
	December 31		December 31			December 31	
	2009	2008	2009	2008		2009	2008
Mega International Commercial Bank	\$ 313,090	233,717	192,404	-	None	USD 30,000	USD 30,000

**d. Inventories**

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Merchandise	\$ 1,824,315	1,644,878
Finished goods	14,477,390	15,612,544
Work in process	3,497,250	4,030,017
Raw materials	23,943,479	21,116,379
Inventories-in-transit	2,138,557	1,227,206
Subtotal	45,880,991	43,631,024
Less: Allowance for inventory market decline and obsolescence	(2,471,059)	(2,655,641)
Total	<u>\$ 43,409,932</u>	<u>40,975,383</u>

For the years ended December 31, 2009 and 2008, the components of cost of goods sold were as follows:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Cost of goods sold	\$ 505,441,633	484,755,195
Loss on disposal of scrapping	321,764	156,913
Idle capacity	105,375	-
(Gain) Loss on inventory valuation and obsolescence	(31,274)	1,926,682
Others	(122,134)	(553,280)
	<u>\$ 505,715,364</u>	<u>486,285,510</u>

In accordance with Statement of Financial Accounting Standards (SFAS) No. 10, the loss on physical inventory and revenue from disposal of scraps (originally reflected under non-operating income and expense) of \$18,983 and \$572,263, respectively, in 2008 were both reclassified to the cost of goods sold for the year ended December 31, 2008.

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**e. Long-Term Equity Investments**

<u>Name of Investee Company</u>	<b>December 31, 2009</b>		<b>December 31, 2008</b>	
	<b>Equity Holding</b>	<b>Book Value</b>	<b>Equity Holding</b>	<b>Book Value</b>
YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.	-%	\$ -	20.69%	1,169,211
INDEED HOLDINGS LIMITED	49.00%	726,939	49.00%	471,971
Avy Precision Technology Inc.	20.39%	750,051	19.60%	359,343
WILSON HOLDINGS LIMITED	49.00%	160,340	49.00%	153,279
ASHINE PRECISION CO., LTD.	-%	-	40.00%	141,989
EVER PINE INTERNATIONAL LTD. (BVI)	34.65%	121,207	34.65%	136,963
PENTAX VQ CO., LTD.	40.00%	58,530	40.00%	62,164
WISE INVESTMENT LIMITED	48.78%	37,125	48.78%	35,758
SHIN-EI YORKEY INTERNATIONAL LTD. (BVI)	50.00%	28,420	50.00%	29,971
ZhangJiaGang Dongbu High Technology Metal Products Co., LTD	20.00%	42,333	20.00%	29,723
YOFREE TECHNOLOGY CO., LTD.	17.50%	9,867	33.33%	4,282
Subtotal		1,934,812		2,594,654
Add: Fair value adjustment for identifiable assets		61,832		71,340
Total		<b>\$ 1,996,644</b>		<b>2,665,994</b>

Investment income of \$312,360 and \$84,927 for the years ended December 31, 2009 and 2008, respectively, were recognized under the equity method based upon the financial statements of investee companies audited by independent accountants.

Avy Precision Technology Inc., a subsidiary of Ability Enterprise Co., Ltd., had swapped its equity shares with AzureWave 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 \$61,832 and \$71,340 as of December 31, 2009 and 2008, 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".

In accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets", an impairment loss of \$217,745 was recognized on goodwill generated from the acquisition of Ability Enterprise Co., Ltd. for the year ended December 31, 2008, which was accounted for under purchasing method.

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Since August, 2009, the Consolidated Company had continuously disposed the shares of YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD. Consequently, its equity ownership was reduced to less than 20% of the investee's voting shares and lost significant influence over the investee's operating and financial decisions. Therefore, the Consolidated Company discontinued accounting for its investment on this investee under the equity method. Moreover, pursuant to the resolutions of the board of directors, the Consolidated Company reclassified this investment from long-term equity investment under the equity method to available for sale financial assets – current.

In February 2008, Ability Enterprise Co., Ltd subscribed for 5,000 thousand shares at \$13.5 par share from the issuance of new shares for cash by ASHINE PRECISION CO., LTD., an investee of Ability Enterprise Co., Ltd. Ability Enterprise Co., Ltd sold to its related party, Avy Precision Technology Inc., its entire ownership of 10,000 thousand shares of ASHINE PRECISION CO., LTD. for \$17.8 par share and recognized a gain and unrealized gain thereon of \$26,166 and \$7,488, respectively. (Unrealized gain was accounted for other liabilities-other).

**f. Joint Venture Investments**

The Company had equity investment in ADVANSUS CORP., which is a joint venture entity. As of December 31, 2009 and 2008, the issued capital of ADVANSUS CORP., amounted to \$360,000 and \$600,000, respectively, of which 50% was held by the Company as of the same dates. The financial accounts of ADVANSUS CORP., which were included in the Company's consolidated financial statements, were as follows:

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Current assets	\$ 487,823	420,029
Noncurrent assets	17,290	24,495
Current liabilities	283,972	134,951
Other liabilities	742	345
	<b>For the Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Revenues	\$ 1,473,862	978,070
Expenses	1,442,692	955,173

**g. Property, Plant and Equipment, Idle Assets, and Rental Assets**

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

Based on the results of its evaluation of the recoverability of property, plant and equipment, the Consolidated Company recognized a gain on recovery of impairment of assets amounted to \$564,687 and a loss on impairment of assets amounted to \$135,825 for the years ended December 31, 2009 and 2008, respectively.

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

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(ii) Rental assets

1) As of December 31, 2009 and 2008, the components of rental assets were as follows:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Land	\$ 336,171	210,743
Buildings	575,303	426,981
Less: accumulated depreciation	(114,077)	(71,842)
Less: accumulated impairment	(69,061)	-
Add: fair value adjustment for identifiable assets	9,692	11,104
	<u>\$ 738,028</u>	<u>576,986</u>

2) In accordance with SFAS 25, the Consolidated Company owned control over Ability Enterprise Co., Ltd. through a share swap and adjusted the difference between the acquisition cost and the fair value of the rental assets based on the Consolidated Company's percentage of ownership. As of December 31, 2009 and 2008, the fair value adjustments for identifiable assets were amounted to \$9,692 and 11,104, respectively.

(iii) Idle assets

1) As of December, 2009 and 2008, the components of idle assets were as follows:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Land	\$ 374,609	78,998
Buildings	612,220	54,250
Machinery and others	1,873,455	462,221
Less: accumulated depreciation	(1,024,369)	(327,250)
Less: accumulated impairment	(988,657)	(187,670)
	<u>\$ 847,258</u>	<u>80,549</u>

2) As these idle assets were not used in operation, the Consolidated Company recognized their net fair value as the recoverable amount. For the years ended December 31, 2009 and 2008, impairment loss recognized for these idle assets amounted to \$942,639 and 110,473, respectively.

3) Please refer to Note (6) for details of idle assets pledged as collateral.



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**h. Non-Current Assets Held-for-Sale**

Items	December 31, 2008		
	Cost	Accumulated Depreciation	Book Value
Land	\$ 110,115	-	110,115
Buildings and structures	58,203	18,064	40,139
	<b>168,318</b>	<b>18,064</b>	150,254
Add: Fair value adjustment for identifiable assets			32,622
			<b>\$ 182,876</b>

The Consolidated Company achieved control over Ability Enterprise Co., Ltd. through a share swap and adjusted the difference between the acquisition cost and the fair value of the non-current assets held for sale based on the Consolidated Company's percentage of ownership, in accordance with SFAS 35. As of December 31, 2008, the fair value adjustment amounted to \$32,622.

In March 2009, Ability Enterprise Co., Ltd. formally contracted with non-related parties to sell its non-current assets held-for-sale for \$360,000. The gain on disposal thereof amounted to \$178,573, after deducting the carrying value and related expenses.

**i. Other Assets – Other**

Due to the restriction imposed by local government, KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS) purchased farmland in the name of KINSUS's chairman instead of KINSUS. Before KINSUS may take over the title to the farmland as well as completing the registration procedures, the land is temporarily recorded as other assets. As of December 31, 2009 and 2008, the book values of the farmland were both \$30,784.

**j. Intangible assets and deferred expense**

Consolidated debit, which is goodwill, was assessed periodically for impairment in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets". As of December 31, 2009 and 2008, the book values of consolidated debit were \$890,311 and \$882,284, respectively.

Land use rights, are rights to use government-owned' land. These rights were paid in lump sum, which was capitalized and amortized equally over their useful lives. As of December 31, 2009 and 2008, the unamortized amounts of land use rights were \$2,387,720 and \$2,333,541, respectively.

Deferred expenses consist of capitalized costs of small molds, fixtures and office decorations, which are amortized equally over 9 to 10 years. As of December 31, 2009 and 2008, the unamortized amounts were \$3,257,467 and \$3,127,472, respectively.

Please refer to Note (6) for details of intangible assets pledged as collateral.

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**k. Short - Term Loans**

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Credit loans	\$ 10,799,394	13,940,407
Collocteralized loan	79,645	348,000
Total	<u>\$ 10,879,039</u>	<u>14,288,407</u>
Range of interest rate	<u>0.44%~5.04%</u>	<u>1.16%~5.82%</u>

The Company issued promissory notes as guarantee for part of credit loan facility.

Please refer to Note (6) for details regarding the related assets pledged as collateral.

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**I. Long - Term Loans**

<u>Creditor</u>	<u>Usage and redemption duration</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
ABN AMRO, Mega International Commercial Bank and 14 other participating financial institutions (Note A)	2008.10.30~2011.10.30, \$1.5 billion is repayable in 3 semi-annual installments, commencing on April 30, 2010 and the remaining amount is payable on maturity date.	\$ 7,200,000	8,000,000
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.	140,549	-
Mega International Commercial Bank – Lan-Ya Branch	2004.03.31~2009.07.30, interest is payable quarterly, and total outstanding amount is payable on maturity date. The entire debt was paid in advance in 2009.	-	26,750
Mega International Commercial Bank – Lan-Ya Branch	2004.12.31~2011.12.31, payable in 20 quarterly installments, commencing the closest 15th of January, April, July or October of the date of borrowing.	10,720	248,221
Mega International Commercial Bank – Lan-Ya Branch	2005.01.31~2012.01.31, payable in 20 quarterly installments, commencing the date of borrowing with an extension of two years.	53,606	-
Mega International Commercial Bank – Lan-Ya Branch	2009.12.16~2016.12.15, payable in 20 quarterly installments, commencing the date of borrowing with an extension of two years.	348,582	-
The Shanghai Commercial & Savings Bank, Ltd. – Chung – Li Branch	2006.12.08 ~2013.10.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing.	21,320	29,167
The Shanghai Commercial & Savings Bank, Ltd. – Chung – Li Branch	2006.12.08 ~2013.10.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing in December 2006. The entire debt was fully paid in advance on June 30, 2009.	-	27,308
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 the date of borrowing.	95,940	-
The Shanghai Commercial & Savings Bank, Ltd. – Chung – Li Branch	2009.07.23 ~2014.07.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing.	23,985	-
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 the date of borrowing.	231,855	-
Subtotal		8,126,557	8,331,446
Less: Current portion		(48,006)	(118,751)
		<b>\$ 8,078,551</b>	<b>8,212,695</b>
Range of interest rate		<b>0.89%~4.86%</b>	<b>1.84%~5.82%</b>

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Note A: 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:

- (1) Current ratio (current assets/current liabilities): should not be no less than 100%.
- (2) Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.
- (3) Interest coverage ratio (EBITDA/interest expenses): should not be no less than 400%.
- (4) Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90 billion.

As of December 31, 2009, 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.

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

**m. Pension Plan**

Domestic subsidiaries, which are public or listed, maintain and fund a retirement plan covering all regular employees. Payments of pension benefits are calculated based on the average monthly salary and numbers of year service received for the last six months prior to approve retirement and base point (b.p.) entitlement. Each employee earns 2 b.p. each year for the first 15 years of completed service, and 1 b.p. each year commencing from the 16th year and thereafter. The Labor Pension Act of R.O.C. ("the Act"), which adopts a defined contribution pension plan, takes effect from July 1, 2005. In accordance with this Act, employees of the domestic subsidiaries, which are public or listed, (who were hired prior to July 1, 2005) may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. Employees who are hired by the domestic subsidiaries after July 1, 2005, shall comply with the provisions of this Act. For employees subject to this Act, the domestic subsidiaries contribute monthly to the employees' individual pension accounts an amount equal to not less than 6% of the employees' monthly wages and deposits it in a personal retirement benefit account with Bank of Taiwan. However, if there are provisions of the Act which are not yet included in the existing retirement plans of domestic subsidiaries, those domestic subsidiaries still need to comply with those provisions of the Act.

In accordance with The Labor Pension Act of R.O.C. ("the Act"), which adopts a defined contribution pension plan, takes effect from July 1, 2005, domestic subsidiaries, which are private, contribute monthly to the employees' individual pension accounts an amount equal to not less than 6% of the employees' monthly wages and deposits it in a personal retirement benefit account with Bank of Taiwan.

Overseas companies contribute monthly an amount equal to certain percentage of gross salary to a pension fund in accordance with the policy of each local government.

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For the years ended December 31, 2009 and 2008, the pension costs and related information were as follows:

	<b>For the Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Balance of pension fund-ending	\$ 94,894	78,972
Current pension costs:		
Defined benefit pension plan	8,819	10,940
Defined contribution pension plan	1,156,290	306,333

(i) The actuarial assumptions used in actuarial calculation were as follows:

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Discount rate	2.00%~2.25%	2.50%~2.75%
Future salary increase rate	2.00%~3.00%	2.00%~3.00%
Expected long-term rate of return on pension fund assets	2.00%~2.25%	2.50%~2.75%

(ii) As of December 31, 2009 and 2008, the funded status was reconciled with accrued pension liabilities per books as follows:

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Benefit obligation:		
Vested benefit obligation	\$ (2,543)	-
Non vested benefits obligation	(81,994)	(75,227)
Accumulated benefit obligation	(84,537)	(75,227)
Effect of future salary increase	(72,002)	(66,689)
Estimated benefit obligation	(156,539)	(141,916)
Fair value of pension fund assets	94,894	78,972
Funded status	(61,645)	(62,944)
Additional minimum pension liability	(23,599)	(20,087)
Unrecognized net transition obligation	5,180	8,372
Unrecognized gain (loss) on pension fund	61,310	54,526
Accrued pension liability	<b>\$ (18,754)</b>	<b>(20,133)</b>

As of December 31, 2009 and 2008, vested benefit obligations of the Consolidated Company under its pension plan were \$2,780 and \$0, respectively.

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(iii) The net pension costs for the years ended December 31, 2009 and 2008 were as follows:

	<b>For the Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Service cost	\$ 1,609	1,918
Interest cost	3,548	4,066
Expected return on pension fund assets	(1,984)	(1,770)
Amortization and deferral	5,646	6,726
Net pension costs	<b>\$ 8,819</b>	<b>10,940</b>

**n. Income Tax**

(i) As of December 31, 2009 and 2008, deferred income tax assets and liabilities were as follows:

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
1) Total deferred income tax assets	\$ 1,709,260	1,990,896
2) Total deferred income tax liabilities	329,544	212,111
3) Allowance for deferred income tax assets	756,058	691,872
4) Deductible temporary differences due to:		
-Unrealized foreign exchange (gain) loss: (taxable) deductible	(80,728)	158,008
- Allowance for inventory market decline and obsolescence: deductible	196,519	471,303
- Unrealized gain on investments: taxable	(358,874)	(207,622)
- Unrealized intercompany profits: (taxable) deductible	(2,257)	12,060
- Recognition of impairment loss on assets: deductible	18,974	23,536
- Warranty reserve: deductible	265,370	321,866
- Allowance for doubtful accounts : deductible	25,727	37,032
- Recognition of retirement reserve: deductible	2,458	3,073
- Others: deductible	17,250	126,656
- Unused balance of investment tax credits	1,221,246	809,463
- Loss carry-forward	74,031	23,410

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	<u>December 31, 2009</u>	<u>December 31, 2008</u>
(ii) Deferred income tax assets — current	\$ 1,108,391	1,560,128
Allowance for deferred income tax		
assets — current	(172,177)	(294,442)
Deferred income tax liabilities — current	(304)	(16,921)
(iii) Deferred income tax assets — noncurrent	\$ 600,869	430,768
Allowance for deferred income tax		
assets — noncurrent	(583,881)	(397,430)
Deferred income tax liabilities — noncurrent	(329,240)	(195,190)

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

	<u>For the Year Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Current income tax expense	\$ 2,076,587	2,539,909
Deferred income tax expense (benefit)	28,821	(1,316,520)
Under - accrual of prior years' income tax	249,494	(5,554)
Income tax expense	<u>\$ 2,354,902</u>	<u>1,217,835</u>

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

	<u>For the Year Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Reversal (Provisions) for warranty reserve	\$ 105,489	(149,236)
Unrealized exchange gain (loss)	243,627	(158,296)
Unrealized foreign investment gain	141,039	11,307
Loss on doubtful accounts	17,756	(3,502)
Unrealized profits on sales	29,354	(3,067)
Reversal (Provisions) for loss on allowance for inventory		
market decline and obsolescence	321,151	(325,239)
Investment tax credits	(964,543)	(629,702)
Loss carry-forward	(27,547)	150,802
Reversal (Provisions) for impairment loss on assets	2,152	-
Others	108,059	(117,314)
Valuation allowance for deferred income tax assets	52,284	(92,273)
Total	<u>\$ 28,821</u>	<u>(1,316,520)</u>

(v) The Company and subsidiaries in R.O.C. are subject to income tax at a statutory rate of 25%. The Company and subsidiaries in R.O.C. are also subject to the Income Basic Tax Act to calculate income tax. According to the revised tax law issued on May 27, 2009, this statutory income rate will be reduced to 20% commencing from 2010. Those subsidiaries of the Company located outside of the R.O.C. are subject to income tax according to the tax laws of the related foreign jurisdiction.

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The income tax calculated on pretax financial income at a statutory income tax rate was reconciled with the income tax expense as reported in the accompanying financial statements for the years ended December 31, 2009 and 2008 as follows:

	<b>For the Year ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Income tax expense calculated on pre-tax financial income at the statutory tax rate	\$ 4,741,062	3,419,176
Permanent differences	(1,676,340)	(1,495,580)
Tax-exempt income	(100,390)	(5,325)
10% surtax on undistributed earnings	171,326	147,542
Investment tax credits	(538,579)	(527,694)
Unused investment tax credits	(581,870)	(157,938)
Adjustments to deferred tax assets previously	(20,657)	(106,021)
Effect on deferred tax of the change in statutory tax rate	27,466	-
Under - accrual of prior years' income tax	249,494	(5,554)
Valuation allowance for deferred income tax assets	53,048	(51,526)
Basic tax	30,342	755
Income tax expense (benefit)	<b>\$ 2,354,902</b>	<b>1,217,835</b>

- (vi) The Company's tax returns through 2007 have been assessed and approved by the Tax Authority.
- (vii) According to ROC Income Tax Act, unused investment tax credits which may be applied to offset against income tax in the future are as follows:

<b>Name of Companies</b>	<b>Year of occurrence</b>	<b>Unused investment tax credits</b>	<b>Year of expiration</b>
The Company	2008~2009	\$ 553,053	2012~2013
KINSUS INTERCONNECT TECHNOLOGY CORP.	2006~2009	627,526	2010~2013
ASUS INVESTMENT CO.,LTD.	2007	18,725	2011
ADVANSUS CORP.	2008~2009	7,614	2012~2013
STARLINK ELECTRONICS CORPOATION	2006	2,431	2010
AMA PRECISION INC.	2008~2009	11,897	2012~2013
		<b>\$ 1,221,246</b>	



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(viii) According to ROC Income Tax Act, unused operating loss carry-forwards which can be applied to offset against income tax in the future are as follows:

<u>Name of Companies</u>	<u>Year of occurrence</u>	<u>Unused tax credits</u>	<u>Year of expiration</u>
The Company	2009	\$ 13,289	2019
KINSUS INTERCONNECT TECHNOLOGY CORP.	2009	3,575	2019
STARLINK ELECTRONICS CORPORATION	2003~2009	48,127	2013~2019
HUA-YUAN INVESTMENT LIMITED	2007	1	2017
AMA PRECISION INC.	2009	9,039	2019
		<u>\$ 74,031</u>	

(ix) According to ROC Income Tax Act, unused operating losses carry forwards may be applied to offset against income tax in the future are as follows:

1) Due to the increase in its investments in new equipment, the Company granted several income tax exemptions for its manufacturing and sales of "motherboard" out of the new equipment purchased from the proceeds of capital increase. As of December 31, 2009, the five year income tax exemption periods are as follows:

<u>Description</u>	<u>Exemption period</u>
Ninth capital increase used for investment in new equipment	01/31/2005 ~ 01/30/2010
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

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

<u>Item</u>	<u>Approving Office</u>	<u>Approval document number</u>	<u>Tax exemption period</u>
1	Industrial Development Bureau	09305055510	07/01/2004~06/30/2009
2	Industrial Development Bureau	09505017710	07/01/2005~06/30/2010
3	Industrial Development Bureau	09605016580	09/30/2006~09/29/2011
4	Industrial Development Bureau	09605016590	09/30/2006~09/29/2011
5	Industrial Development Bureau	09605034400	08/31/2007~08/30/2012
6	Industrial Development Bureau	09805018460	09/30/2008~09/29/2013

(x) Tax appeals of the Consolidated Company:

1) Ability Enterprise disagreed with the tax office’s income tax assessment for the years 2004, 2005 and 2006 regarding investment tax credits. Therefore, Ability Enterprise has filed formal tax appeals thereon.

2) TWINHAN Technology Co., Ltd (liquidated after its merger with AzureWave in 2008) disagreed with the tax office’s assessment on its tax exemption periods from 2002 to 2004. After it was turned down during the administrative proceeding, AzureWave has appealed such assessment to the Supreme Court in December 2008. However, AzureWave has recognized the possible additional tax liabilities from the said assessment.

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

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Stockholders’ imputation tax credit account	\$ <b>5,331</b>	<b>199,647</b>
Expected or actual deductible tax ratio	<b>0.12%</b>	<b>18.31%</b>
<b>Undistributed earnings:</b>	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Accumulated in 1997 and prior years	\$ -	-
Accumulated in 1998 and thereafter	6,712,650	5,455,699
Total	<b>\$ 6,712,650</b>	<b>5,455,699</b>

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**o. Stockholders' Equity**

**(i) Capital Stock**

On June 30, 2009, pursuant to the resolutions of the board of directors (acting on behalf of stockholders), the Company capitalized the earnings of \$4,014,258, divided into 401,426 thousand common stock with par value of \$10 per share. The record date of this capital increase was October 16, 2009 and the Company completed the process for the relevant registration thereof.

On July 2, 2007, pursuant to resolutions of the board of directors, the Company decided January 1, 2008 as the effective date for the spin-off of the OEM business from ASUSTeK Computer Inc.. In exchange for the net assets acquired and liabilities assumed from this OEM business worth \$70,000,000, the Company issued 1,600,000 thousand new shares with par value of \$10 per share, which resulted in additional capital of \$16,000,000. Those new shares were issued at a premium of \$43.75 per share. The Company already completed the relevant registration thereof.

In order to integrate the group's OEM business and boost productivity, on April 24, 2008, pursuant to resolutions of the board of directors, the Company proceeded the share swap with UNIHAN CORPORATION ( a 100% owned entity of ASUSTek Computer Inc.) effective on May 1, 2008. The share swap ratio was 2.8613 shares of UNIHAN CORPORATION to 1 share of the Company. In accordance with the share swap arrangement, the Company issued 279,628 thousand new shares, resulting in additional capital of \$2,796,281. Thereafter, the total outstanding capital amounted to \$18,846,281, divided into 1,884,628 thousand shares with par value of \$10 per share. This capital increase was approved by central authority, and the Company completed the process for the registration thereof.

**(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, and only 50% of it 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.

In 2009 and 2008, interest revenues generated from the trust of shareholders of parent company were distributed to the employees of the Company as bonuses. These bonuses amounted to \$194,872 and \$156,850, respectively, which were debited to salary expense and credited to capital surplus – others.

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(iii) 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.

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 30, 2009 (resolution on such date was amended on December 25, 2009) and February 5, 2010, the Company's board of directors resolved the appropriation of earnings for 2008 and 2009. The distributions of employee bonuses and remuneration to directors and supervisors from the distributable earnings in 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>
Common stock dividends per share (dollars)		
-Cash	\$ 0.47	1.75
-Stock (at par)	2.13	-
Total	<u>\$ 2.60</u>	<u>1.75</u>
	<u>2008</u>	<u>2009</u>
Employee bonus - cash	\$ 497,369	1,205,797
Remuneration to directors and supervisors	49,737	60,290
Total	<u>\$ 547,106</u>	<u>1,266,087</u>

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There were no differences between the actual results of earnings distributed in 2009 and those estimated and accrued in the financial statements of 2008.

The distribution for employee bonus and remuneration to directors and supervisors from the distributable earnings in 2009 was approved by the board of directors on February 5, 2010. 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 in 2010.

**p. Employee Stock Option**

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

1) On November 20, 2007, pursuant to the resolutions of its board of directors, Ability Enterprise Co., Ltd. (Ability) 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'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. After the issuance of employee stock option, any situation happened, such as additional change to common stock of Ability, distributions of cash dividends, and occurrence of merging and acquisition will result in adjustments in the price of the stock options. The employee stock options cover a contractual life of 7 years, and are exercisable in accordance with certain schedules as prescribed by the plan starting 2 years from the date of grant. As of December 31, 2009 and 2008, the weighted-average expected life of the employee stock options was 5.24 years and 6.24 years, respectively.

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

	For the Year Ended December 31,			
	2009		2008	
	Quantity of stock option (thousand shares)	Weighted- average exercise price (dollars)	Quantity of stock option (thousand shares)	Weighted- average exercise price (dollars)
Outstanding at the beginning of the year	10,000	\$ 44.2	10,000	\$ 52.8
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at the end of the year	<u>10,000</u>	41.3	<u>10,000</u>	44.2
Exercisable at the end of the year	<u>2,000</u>		<u>-</u>	

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- 3) The pro forma net income and earnings per share of Ability Enterprise Co., Ltd.'s employee stock option, whose grant date after January 1, 2004 and before December 31, 2007, evaluated under fair value method were as follows:

	<b>For the Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Net Income:		
Net income	\$ 2,152,046	1,355,528
Pro forma net income	2,079,218	1,282,046
Basic earning per share		
Earnings per share	5.00 dollars	3.17 dollars
Pro forma earning per share	4.84 dollars	2.99 dollars
Diluted earning per share		
Earnings per share	4.89 dollars	3.09 dollars
Pro forma earning per share	4.73 dollars	2.92 dollars

- 4) The Black-Schole 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:

	<b>November 20, 2007</b>
Dividend yields	-%
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

- (ii) The details of the second batch of employee stock option of the Ability Enterprise Co., Ltd. in 2007 were as follows:

- 1) On November 20, 2007, pursuant to resolutions of its board of directors, Ability Enterprise Co., Ltd. (Ability) had issued employee stock options covering a total number of 19,500 units. The residual part of employee stock option, 9,500 units, was actual issued until October 13, 2008. Each unit bears an option to subscribe for one thousand shares of Ability's common stock at an exercise price of \$22.2 per share. As of December 31, 2009 and 2008, the weighted-average expected life of the employee stock options was 5.75 years and 6.75 years, respectively.

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

	For the Year Ended December 31,			
	2009		2008	
	Quantity of stock option (thousand shares)	Weighted- average exercise price (dollars)	Quantity of stock option (thousand shares)	Weighted- average exercise price (dollars)
Outstanding at the beginning of the year	9,500	\$ 22.2	-	\$ -
Granted	-	-	9,500	22.2
Added or adjusted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at the end of the year	9,500	20.8	9,500	22.2
Exercisable at the end of the year	-		-	

- 3) 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	Grant 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 opinion	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 resulted from past three years' return rate on stock price, started from the measure date of employee stock opinion.

- 4) The expenses resulted from the transactions of the share-based payment agreement were as follows:

	For the Year Ended December 31,	
	2009	2008
Equity transaction	\$ 21,732	5,433

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(iii) The transfer of treasury stock by Ability Enterprise Co., Ltd. to its employees in 2009:

- 1) On July 30, 2009, pursuant to the resolutions of its board of directors and in accordance with its policy of treasury stock of transfer, Ability Enterprise Co., Ltd. transferred 10,000 thousand of its own shares, which was in the seventh purchase-back, to its employees for \$426,209. The transfer price after the adjustment was \$38.14, which was calculated by the average cost of treasury stock plus an amount adjusted from the proportion of increase of ex-dividend for 2009 and 2008.
- 2) The Black-Schole 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	Grant 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
Treasury stocks transferred to employees	2009.07.30	\$ 49.30	38.14	39.23% (Note)	0.0417years	-%	0.29%	11.1652 dollars

Note: Volatility factors of the expected market price were estimated by volatility of historical stock price for the past three months from the grant date.

- 3) The expenses resulted from the transactions of the share-based payment agreement were as follows:

	<b>For the Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Equity transaction	\$ 111,652	-
Cash transaction	-	-
<b>Total</b>	<b>\$ 111,652</b>	<b>-</b>

- 4) The relevant registration processes for changes of capital resulting from the exercise of employee stock options and conversion of convertible bonds should be completed with in at least each quarter when those changes occur.



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**q. Earnings per Share (EPS)**

For the years ended December 31, 2009 and 2008, the Parent company's basic earnings per share, diluted earnings per share and adjustments were computed as follows:

(Note: shares in thousands)

	For the Year Ended December 31,			
	2009		2008	
	Before income tax	After income tax	Before income tax	After income tax
Net income	\$ 7,195,049	6,751,588	5,023,700	5,526,317
Weighted-average common shares outstanding	2,286,054	2,286,054	1,791,419	1,791,419
Dilutive potential common shares	33,953	33,953	10,418	10,418
Diluted shares	<u>2,320,007</u>	<u>2,320,007</u>	<u>1,801,837</u>	<u>1,801,837</u>
Weighted-average common shares outstanding-retroactively adjusted			2,172,991	2,172,991
Dilutive potential common shares-retroactively adjusted			12,637	12,637
Diluted shares-retroactively adjusted			<u>2,185,628</u>	<u>2,185,628</u>
Primary earnings per share	\$ 3.15	2.95	2.80	3.08
Diluted earnings per share	<u>\$ 3.10</u>	<u>2.91</u>	<u>2.79</u>	<u>3.07</u>
Primary earnings per share-retroactively adjusted			2.31	2.54
Diluted earnings per share-retroactively adjusted			<u>2.30</u>	<u>2.53</u>

**r. Financial Instruments**

**(i) Fair value of financial instruments**

	December 31, 2009		December 31, 2008	
	Book Value	Fair Value	Book Value	Fair Value
<b>Financial Assets</b>				
Financial assets reported at fair value through profit or loss — current	\$ 7,337,537	7,337,537	3,952,004	3,952,004
Available-for-sale financial assets — current	1,021,413	1,021,413	8,881	8,881
Available-for-sale financial assets — noncurrent	2,245,648	2,245,648	837,958	837,958
Financial assets carried at cost — noncurrent	609,243	-	1,295,298	-
Book value equal to fair value	101,757,797	101,757,797	95,651,443	95,651,443
Total financial assets	<u>\$ 112,971,638</u>		<u>101,745,584</u>	
<b>Financial Liabilities</b>				
Financial liabilities reported at fair value through profit or loss — current	\$ -	-	409	409
Long-term loans (includes current portion)	8,126,557	8,126,557	8,331,446	8,331,446
Book value equal to fair value	88,889,351	88,889,351	89,109,457	89,109,457
Total financial liabilities	<u>\$ 97,015,908</u>		<u>97,441,312</u>	

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- (ii) Methods and assumptions used by the Consolidated Company to evaluate the fair value of financial instruments were as follows:
- 1) The fair value of short-term financial instruments is determined by their book value on the balance sheet date. As these instruments have short term maturity period, the book value serves as a reasonable basis for establishing the fair value. This method is applied to cash, accounts receivable, other receivables, other financial assets – current, non – current assets held for sale short-term loans, accounts payable, other payables, accrued expenses, and other financial liabilities – current, etc. (Both income tax refund receivable and income tax payable are legal obligations, not contract obligations, so they do not belong to financial assets and financial liabilities.)
  - 2) With respect to financial instruments such as refundable deposits that are an indispensable guarantee for the on-going operation of the Consolidated Company, it is impossible to estimate the time necessary to accomplish the exchange of assets. Consequently, the fair market value of such financial instruments can not be established. Therefore, the book value is used as the fair market value.
  - 3) 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.
  - 4) 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.
  - 5) The fair market value of long-term debt 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.

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- (iii) The fair values of financial assets/ liabilities, which were measured at quoted market value or estimated by using evaluation techniques, were as follows:

	December 31, 2009		December 31, 2008	
	Measured at quoted market price	Estimate using evaluation techniques	Measured at quoted market price	Estimate using evaluation techniques
Financial Assets:				
Financial assets reported at fair value through profit or loss — current	\$ 209,202	7,128,335	34,873	3,917,131
Available-for-sale financial assets — current	1,021,413	-	8,881	-
Available-for-sale financial assets — noncurrent	2,245,648	-	837,958	-
	<u>\$ 3,476,263</u>	<u>7,128,335</u>	<u>881,712</u>	<u>3,917,131</u>
Financial Liabilities:				
Financial liabilities reported at fair value through profit or loss — current	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>409</u>

- (iv) Gain and loss recognized from changes in the fair values of financial assets and liabilities, which were estimated by using valuation techniques, amounted to \$119,083 and \$52,570, for the years ended December 31, 2009 and 2008, respectively.
- (v) Information on financial risk

1) Market risk

The Company's purchases and sales are denominated mainly in US dollars, and in 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 Company conducts foreign exchange activities on spot market in order to hedge 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.

2) 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.

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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 Company only transacted with the 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. Account to the Company's customer credibility evaluation policies, the Company has to evaluate the customer's credibility and evaluate the collectability of notes and account receivables constantly before doing business. Thus, there is no significant issue on doubtful accounts.

The major customers of the Consolidated 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 also periodically evaluates the Company's financial positions and the possibility of collecting trade receivables. Thus, there is no significant credit risk.

3) Liquidity risk

The capital and working funds of the Consolidated Company are sufficient to meet its entire contractual obligations and un-hedging forward exchange contracts; therefore, no liquidity risk exists.

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.

4) 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.

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

As of December 31, 2009 and 2008, guarantee and endorsements of bank loans were provided by the Consolidated Company for related parties, as discussed in Note (5).

**5. Related-Party Transactions**

**a. Names and Relationships of Related Parties with the Consolidated Company**

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
ASUSTeK Computer Inc.	The parent company
Askey Computer Corp.	An investee company accounted for under the equity method by the parent
ASMEDIA TECHNOLOGY INC.	//
International United Technology Co., Ltd. (Taiwan)	//
Shinewave International Inc.	//
UNIMAX ELECTRONICS INCORPORATION	//
ASUS TECHNOLOGY INCORPORATION	//
ASUS TECHNOLOGY PTE. LIMITED	//
ASUS Computer (Shanghai) CO., LTD.	//
Powtek (Shanghai) Co., Ltd.	An investee company accounted for under the equity method by the parent company formerly. Due to oversea organization restructuring of the group, an investee company was incorporated into the Company's consolidated financial statements in 2009.
Toptek Precision Industry (SuZhou) Co., Ltd.	//
ASUS Technology (Suzhou) Co., Ltd.	An investee company accounted for under the equity method by the parent
eMES (SUZHOU) CO., LTD.	//
ASHINE TECHNOLOGY (SUZHOU) LTD.	//
Shandong Enertronix Co., Ltd.	//
Huizhou Enertronix Co., Ltd.	//

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<b>Name of Related Party</b>	<b>Relationship with the Company</b>
Enertronix, Inc.	An investee company accounted for under the equity method by the parent
ASUS COMPUTER INTERNATIONAL	//
ASUS HOLLAND B.V.	//
ASUS INTERNATIONAL LIMITED	//
ASUS TECHNOLOGY PTE. LIMITED	//
Double Tech Ltd.	//
DEEP DELIGHT LIMITED	//
ASKEY INTERNATIONAL CORP	//
OPENBASE LIMITED	//
ASKEY TECHNOLOGY (JIANGSU) LTD.	//
ASUSTEK COMPUTER (SHANGHAI) CO., LTD.	//
(ASUS UNITED Technology (Shanghai) Co., Ltd. formerly)	
ASUSTEK HOLDINGS LIMITED	//
AMA CORPORATION	//
AGAiT Technology Corporation	//
ASHINE PRECISION CO., LTD.	//
Avy Precision Technology Inc.	An investee company accounted for under the equity method.
PENTAX VQ CO., LTD.	//
YOFREE TECHNOLOGY CO., LTD.	//
PEGA INTERNATIONAL LIMITED	Formerly, an investee company accounted for under the equity method. Due to organization restructuring of the Group overseas, this investee company was incorporated into the Company's consolidated financial statements in 2009.
AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	//

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<u>Name of Related Party</u>	<u>Relationship with the Company</u>
Avy Co., Ltd.	An investee company accounted for under the equity method.
DongGuan Avy Precision Metal Components Co., Ltd.	//
DongGuan ChengGuangp Precision Hardware Co., Ltd.	//
CRYSTAL ART ENTERPRISE CO., LTD.	//
AVY PRECISION METAL COMPONENTS (SUZHOU)	//
Ability Investment Co., Ltd.	//
SHINE TRADE INTERNATIONAL LTD.	//
YORKEY OPTICAL TECHNOLOGY LTD. (SAMOA)	//
AVY HIGH TECH LIMITED	//
SHANGHAI INDEED TECHNOLOGY CO., LTD.	//
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	//
GHING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD	//
Taishiba International Co., Ltd.	An affiliate of Ability Enterprise Co., Ltd.
LINKTEK PRECISION (SUZHOU) CO., LIMITED	In the process of liquidation. An investee company was reclassified as financial assets carried at cost in 2009.
All board directors、supervisors、general managers and deputy general managers	The Company's key management

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**b. Significant Transactions with Related Parties**

(i) Sales

Name of Related Party	For the Year Ended December 31,					
	2009			2008		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTeK	\$ 199,243,981	37.03%	30 days from receipt of goods Open account 30~120 days	184,180,390	35.88%	7~90 days from receipt of goods Open account 30~90 days
Others	2,784,092	0.52%	30~60 days from receipt of goods Open account 30~120 days	5,567,026	1.09%	7~60 days from receipt of goods Open account 30~60 days
Total	<u>\$ 202,028,073</u>	<u>37.55%</u>		<u>189,747,416</u>	<u>36.97%</u>	

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

(ii) Purchases

Name of Related Party	For the Year Ended December 31,					
	2009			2008		
	Amount	Gross Purchases	Purchase term	Amount	Gross Purchases	Purchase term
ASUSTeK	\$ 137,317,191	21.19%	30~60 days from receipt of goods Open account 60~120 days	102,314,601	19.22%	7~120 days from receipt of goods Open account 30~120 days
Others	5,089,090	0.79%	30~90 days from receipt of goods Open account 30~120 days	6,398,820	1.20%	90~120 days from receipt of goods Open account 30~120 days
Total	<u>\$ 142,406,281</u>	<u>21.98%</u>		<u>108,713,421</u>	<u>20.42%</u>	

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

In 2009 and 2008, the Company purchased raw materials from vendors through ASUSTek.



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(iii) Others

1)	<b>For the Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
After-sales warranty repair expense paid to:		
ASUS Computer (Shanghai)	\$ 85,505	91,786
ASUSTEK COMPUTER (SHANGHAI)	10,601	21,977
Others	327	1,766
<b>Total</b>	<b>\$ 96,433</b>	<b>115,529</b>
2) Other income from:		
ASUSTeK	\$ 768,628	384,958
Others	16,726	8,230
<b>Total</b>	<b>\$ 785,354</b>	<b>393,188</b>

- 3) The Consolidated Company accepted the OEM business from ASUSTeK Computer Inc. effective January 1, 2008. The assets and liabilities acquired by the Consolidated Company from this spin-off were as follows:

	<b>The Company</b>	<b>UNIHAN</b>	<b>Total</b>
<b>Assets:</b>			
Current assets	\$ 21,999,830	12,555,287	34,555,117
Long-term investments	66,867,161	7,060,209	73,927,370
Property, plant and equipment	4,761,981	127,143	4,889,124
Other assets	353,066	126,822	479,888
<b>Total</b>	<b>93,982,038</b>	<b>19,869,461</b>	<b>113,851,499</b>
<b>Liabilities:</b>			
Current liabilities	(23,982,038)	(7,869,461)	(31,851,499)
<b>Net assets</b>	<b>\$ 70,000,000</b>	<b>12,000,000</b>	<b>82,000,000</b>

- 4) To mitigate the foreign currency risk from the change in net-assets and inventory denominated in foreign currencies, the Consolidated Company signed an agreement with ASUSTeK Computer Inc. requiring whoever benefits from foreign currency translation arising from the spin-off transaction shall compensate the other, where appropriate, for the loss due to exchange rate fluctuation, for the period from December 28, 2007 to December 31, 2008. As of December 31, 2008, ASUSTeK Computer Inc. was compensated by the Consolidated Company for \$1,858,459, which was recognized as "credit to foreign exchange gain". However, ASUSTeK Computer Inc. also compensated the Consolidated Company for \$474,573, for the loss on valuation of inventory, which was adjusted to "cost of sales". Such agreement was valid until March 31, 2008. As of December 31, 2008, the net compensation payable of \$1,383,886 from such agreement was fully paid.

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- 5) For the years ended December 31, 2009 and 2008, the Consolidated Company incurred other related party transactions recorded as expenses such as processing fee, rental expense, other expense, royalty payment, storage expense, professional service fee, etc, which amounted to \$163,308 and \$139,488, respectively.
- 6) For the years ended December 31, 2009 and 2008, the Consolidated Company incurred other related party transactions recorded as processing revenue and repair revenue, which amounted to \$279,331 and \$68,700, respectively.

(iv) Property Transactions

1. Properties sold

<b>For the Year Ended December 31, 2009</b>			
<b>Transaction Party</b>	<b>Sales Price</b>	<b>Book Value</b>	<b>Disposal Gain (Loss)</b>
Others	\$ 1,640	1,325	315

<b>For the Year Ended December 31, 2008</b>			
<b>Transaction Party</b>	<b>Sales Price</b>	<b>Book Value</b>	<b>Disposal Gain (Loss)</b>
Others	\$ 1,254	1,210	.44

2. Properties Purchased

In 2009 and 2008, the prices of the properties purchased from other related parties were \$105,028, of which \$9,635 accounted for prepayment for equipment, and \$80,668, respectively.

3. Rental Revenue

For the years ended December 31, 2009 and 2008, the Consolidated Company incurred other related party transactions recorded as rental revenue, which amounted to \$36,704 and \$26,428, respectively.

4. Disposal and transfer shares

Due to the reorganization in July 2009, the Company transferred all the shares of Enertronix, Inc. for \$313,785 to ASUSTeK Computer Inc..

On January 8, 2009, Enertronix, Inc. acquired 100% ownership of ENERTRONIX HOLDING LIMITED from ASUSTEK HOLDINGS LIMITED for USD 5,696 thousand dollars.

On January 21, 2009, ASUSPOWER INVESTMENT CO., LTD. acquired 100% ownership of PEGA INTERNATIONAL LIMITED from WISE INVESTMENT LIMITED for \$1,885.

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On July 1, 2009, CASETEK HOLDINGS LIMITED acquired 51% ownership of UNITED NEW LIMITED from ASUSTEK HOLDINGS LIMITED for USD 15,220 thousand dollars.

On July 1, 2009, Pegatron Holding Ltd. acquired 100% ownership of POWTEK HOLDINGS LIMITED from ASUSTEK HOLDINGS LIMITED, which amounted to USD 13,146 thousand dollars.

On February 5, 2009, AMA HOLDINGS LIMITED acquired 100% ownership of Toptek Precision Industry (SuZhou) Co., Ltd from AMA CORPORATION for USD 1,109 thousand dollars.

On May 13, 2008, ASUSPOWER INVESTMENT CO., LTD., ASUS INVESTMENT CO., LTD., and ASUSTEK INVESTMENT CO., LTD. sold their ownerships of all the 6,460, 6,372, and 1,250 thousand shares of International United Technology Co., Ltd. (Taiwan) to ASUSTeK Computer Inc., for \$56,072, \$55,307, and \$10,850, respectively.

In 2008, a subsidiary of Ability Enterprise Co., Ltd. sold for USD 5,276 thousand dollars its non-current assets held for sale - DongGuan Avy Precision Metal Components Co., Ltd. to AVY HIGH TECH LIMITED, with book value USD 4,514 thousand dollars, which resulted in a gain on assets disposal of USD 762 thousand dollars.

On March 31, 2008, Unihan Holding Limited. acquired ownership of the 12,099 thousand shares of Azurewave (Cayman) Holding Inc. from ASUS INTERNATIONAL LIMITED., for USD 14,258 thousand dollars. Following the acquisition of those shares, the Company owns 60.49% of the equity of Azurewave (Cayman) Holding Limited.

(v) Accounts Receivable (Payable)

	<b>December 31, 2009</b>		<b>December 31, 2008</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<u>Notes and Accounts Receivable:</u>				
ASUSTeK	\$ 13,164,371	19.21%	8,490,651	13.13%
Protek (Shanghai)	-	-%	531,952	0.82%
Others	444,049	0.65%	389,405	0.61%
Sub-total	13,608,420	<b>19.86%</b>	9,412,008	<b>14.56%</b>
Less: Allowance for doubtful accounts	(707)		-	
Total	<b>\$ 13,607,713</b>		<b>9,412,008</b>	

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	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Other Receivables:</u>				
ASUSTeK	\$ 179,761	11.80%	1,604,840	34.71%
Others	16,552	1.09%	89,493	1.94%
Total	<u>\$ 196,313</u>	<u>12.89%</u>	<u>1,694,333</u>	<u>36.65%</u>
<u>Notes and Accounts Payable:</u>				
DEEP DELIGHT LIMITED	\$ -	-%	4,150,115	6.43%
Others	1,305,645	1.98%	1,443,734	2.24%
Total	<u>\$ 1,305,645</u>	<u>1.98%</u>	<u>5,593,849</u>	<u>8.67%</u>

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

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
<u>Assets:</u>		
Prepayments	\$ 130	19,211
Other current assets	6,224	8,439
Other financial assets — noncurrent	-	3,660
	<u>\$ 6,354</u>	<u>31,310</u>
<u>Liabilities:</u>		
Accrued expenses	\$ 24,538	64,007
Other financial liabilities — current	8,478	201
Other current liabilities	18,671	12,029
	<u>\$ 51,687</u>	<u>76,237</u>

(vi) Endorsement Guarantee

As of December 31, 2009 and 2008, the Consolidated Company provided endorsement guarantee for bank loans obtained by a related party as follows:

<u>Name of Related Party Guaranteed</u>	<u>Amount of Guarantee (thousands)</u>	
	<u>December 31, 2009</u>	<u>December 31, 2008</u>
LINKTEK (SUZHOU)	<u>USD 800</u>	<u>USD 705,331</u>

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As of December 31, 2009 and 2008, the endorsement guarantees provided by a related party for the Consolidated Company's purchases were as follows:

<u>Name of Related Party Guarantee</u>	<u>Amount of Guarantee (thousands)</u>	
	<u>December 31, 2009</u>	<u>December 31, 2008</u>
ASUSTeK	<u>USD 300,000</u>	<u>USD 422,200</u>

(vii) Key Management Compensation Costs.

For the years ended December 31, 2009 and 2008, the details of management compensation costs were as follows:

	<u>For the Year Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Payroll expense and bonus (including remuneration of directors and supervisors)	\$ 208,504	163,136
Professional execution	153	-
Employee bonus	151,520	90,010
Total	<u>\$ 360,177</u>	<u>253,146</u>

**6. Pledged Assets**

As of December 31, 2009 and 2008, pledged assets were as follows:

<u>Asset</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>	<u>Purpose of pledge</u>
Restricted deposit	\$ 197,627	191,961	Customs duty guarantee, bank loans, rental deposits, credit contracts, issued letter of credit, travel agency guarantee, etc.
Property, plant and equipment	2,955,155	309,984	Bank loans
Idle assets	-	-	" (Note A)
Intangible Assets	605,487	-	"
Inventories	16,410	-	Lawsuit collateral (Note B)
Refundable deposits	291,189	53,057	Deposits for performance guarantee
	<u>\$ 4,065,868</u>	<u>555,002</u>	

Note A: As of December 31, 2009 and 2008, the unadjusted book value of idle assets amounted to \$7 and \$100, respectively. After recognizing the impairment losses, the net book value was reduced to zero as of the same dates.

Note B: Accounted for restricted assets, included in other current assets.

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

As of December 31, 2009 and 2008, major commitments and contingencies were as follows:

(Thousands dollars)

(a) <u>Unused standby letters of credit:</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
NTD	\$ 5,141	-
EUR	497	210
JPY	3,112,833	1,525,135
USD	38,079	5,870
GBP	9	-

(b) <u>Promissory notes and certificate of deposit obtained for business purpose:</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
NTD	\$ 18,719	18,684

(c) Rental expense and future lease commitments of the lease agreements of buildings are as follows:

	<u>Future lease commitments</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Future lease commitments	206,869	158,546	125,117	65,143	40,717

(d) As of December 31, 2009 and 2008, the significant contracts for purchasing properties signed by the Consolidated Company amounted to \$3,834,469 and \$2,492,935, of which \$185,385 and \$ 603,296 were unpaid, respectively.

(e) Considering its acquisition of the OEM business spun off from its parent company effective from January 1, 2008, the Company assumed the related liabilities from its parent company based on the range of the amount of capital invested. In addition, debt holders' rights of claim on previous parent company are forfeited if such claim is not executed within two years.

(f) In December, 2007, a US company named the Company as a defendant in the patents infringement suit filed in United States International Trade Commission. The investigation had been completed in July, 2009 by the United States International Trade Commission. The result of the investigation revealed that the product of the Company did not infringe the patent for which the US company is accusing the Company for infringing it. However, both parties had subscribed to the reconciliation agreement in September, 2009.

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- (g) AVerMedia Technologies Inc. filed an attachment for damage loss against Lumens Digital Optics Inc. with 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. This case is currently under investigation and Lumens Digital Optics Inc. believes that there is no material loss on the aforementioned case.
- (h) One of ASUSPOWER CORPORATION's American customers voluntarily filed for bankruptcy with United States Bankruptcy Court of California District. The customer has made payments for goods amounting to US\$1,439,484 to ASUSPOWER COPORATION 90 days before filing for bankruptcy. Insolvency administrator of the customer filed a lawsuit with California court later on claiming that according to United States Bankruptcy Code § 547, the payments could be returned and requested ASUSPOWER CORPORATION to return the amount paid. ASUSPOWER CORPORATION received a notice from the court in September 2009, and entered a plea. This lawsuit is still under investigation.

**8. Significant Catastrophic Losses: None.**

**9. Significant Subsequent Events:**

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 will merge with Pegatron Investment. As a surviving entity from this merger, the Company will apply for the initial public offering (IPO) to the Taiwan Stock Exchange Corporation. This merger plan has been resolved by both the board of directors of the Company and Pegatron Investment on January 1, 2010, and resolved by both shareholders' meetings of the Company and Pegatron Investment on January 17, 2010. The record date for this merger is June 10, 2010.

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**10. Others**

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

Categorized as Nature	For the year ended December 31, 2009			For the year ended December 31, 2008		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salary expense	12,253,027	9,763,772	22,016,799	13,243,757	6,307,931	19,551,688
Health and labor insurance expense	381,099	424,267	805,366	524,364	321,198	845,562
Pension expense	810,118	354,991	1,165,109	139,664	177,609	317,273
Other expense	151,206	287,301	438,507	228,035	241,040	469,075
Depreciation expense	6,856,639	1,345,263	8,201,902	5,604,254	1,207,722	6,811,976
Amortization expense	1,345,628	960,272	2,305,900	731,912	568,713	1,300,625

Note A: For the years ended December 31, 2009 and 2008, the Consolidated Company recognized depreciation expense of rental assets and idle assets amounting to \$102,539 and \$15,618, respectively (accounted for as non-operating expense). Those depreciation expenses were excluded from the depreciation expense listed above.

- b. Account reclassification:

Certain accounts in the financial statements as of and for the year ended December 31, 2008, were reclassified to conform to the financial presentation adopted in the statements as of and for the year ended December 31, 2009.