

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2010 AND 2009**

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

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**AUDIT REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors of  
Pegatron Corporation

We have audited the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries (the Consolidated Company) as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Consolidated Company's management. Our responsibility is to express the audit report based on our audits. We did not audit the financial statements of certain consolidated subsidiaries with total assets of NT\$75,268,389 thousand, representing 34.85% and net sales of NT\$105,254,946 thousand, representing 19.84% of the related consolidated total as of and for the year ended December 31, 2010. The financial statements of these subsidiaries and investees accounted for under the equity method were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, were based solely on the reports of other auditors. Long-term investments in these companies amounted to NT\$2,086,553 thousand as of December 31, 2010 representing 0.97% of consolidated total assets, and related investment income was NT\$198,623 thousand for the years then ended, representing 1.53% of consolidated net income before tax.

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

In our opinion, based on our audit and the report of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Pegatron Corporation and its Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines

Governing the Preparation of Financial Reports by Securities Issuers and the related financial accounting standards of the “Business Entity Accounting Act” and of the “Regulation on Handling Business Entity Accounting” , and accounting principles generally accepted in the Republic of China.

As described in Note 3, to the financial statements effective January 1, 2009, the Company adopted the amendment of Statement of Financial Accounting Standard No.10 (SFAS 10) “Inventories.” The effect of this change in accounting principle had decreased the after-tax income and earnings per share by NT\$143,272 thousand and NT\$0.06, respectively, for the year ended December 31, 2009.

A handwritten signature in black ink, appearing to be 'KPMG' with a stylized flourish at the end.

Taipei, Taiwan, R.O.C  
March 7, 2011

#### **Note to Readers**

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

For the convenience of readers, the accountants' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' report and financial statements shall prevail.

**(English Translation of Financial Report Originally Issued in Chinese)**  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**DECEMBER 31, 2010 AND 2009**  
**(All Amounts Expressed in Thousands of New Taiwan Dollars)**

ASSETS	December 31, 2010		December 31, 2009	
	Amount	%	Amount	%
<b>Current Assets:</b>				
Cash (Note 4(1))	\$ 42,264,007	20	31,846,280	14
Financial assets reported at fair value through profit or loss — current (Note 4(2))	6,377,118	3	7,337,537	3
Available-for-sale financial assets — current (Note 4(2))	765,417	-	1,021,413	1
Held-to-maturity financial assets — current (Note 4(2))	262,170	-	-	-
Notes receivable, net of allowance for uncollectible (Note 4(3) and 5)				
— Non-related parties	134,100	-	64,401	-
— Related parties	-	-	9,390	-
Accounts receivable, net of allowance for uncollectible (Note 4(3) and 5)				
— Non-related parties	43,330,542	20	54,140,039	24
— Related parties	9,455,545	4	13,598,323	6
Other receivable (Note 5)				
— Non-related parties	1,051,593	-	1,238,616	1
— Related parties	7,484	-	196,313	-
Other financial assets — current (Note 6)	1,341,807	1	196,127	-
Inventories (Notes 4(4))	42,067,753	19	43,409,932	19
Other current assets (Note 5)	2,192,599	3	1,812,360	1
Deferred income tax assets — current (Note 4(14))	687,871	-	935,910	-
	<u>149,938,006</u>	<u>70</u>	<u>155,806,641</u>	<u>69</u>
<b>Investments:</b>				
Available-for-sale financial assets — noncurrent (Note 4(2))	1,824,246	1	2,245,648	1
Financial assets carried at cost - noncurrent (Note 4(2))	763,763	-	609,243	-
Long-term investments under the equity method (Note 4(5))	2,471,100	1	1,996,644	1
	<u>5,059,109</u>	<u>2</u>	<u>4,851,535</u>	<u>2</u>
<b>Other financial assets - noncurrent (Note 6)</b>	<u>273,349</u>	<u>-</u>	<u>468,308</u>	<u>-</u>
<b>Property, Plant and Equipment, at cost (Note 4(7))</b>				
Land	5,272,587	2	2,830,983	1
Buildings	22,723,956	11	23,975,458	11
Machinery and equipment	44,150,061	21	45,331,786	21
Warehousing equipment	116,552	-	112,268	-
Instrument equipment	1,589,863	1	1,630,341	1
Transportation equipment	240,450	-	198,608	-
Office equipment	2,036,983	1	1,039,897	-
Miscellaneous equipment	7,083,942	3	5,508,471	3
	<u>83,214,394</u>	<u>39</u>	<u>80,627,812</u>	<u>37</u>
Less: Accumulated depreciation	(32,573,035)	(15)	(28,277,988)	(13)
Less: Accumulated impairment	(70,140)	-	(86,691)	-
Prepayments on purchase of equipment	2,531,514	1	2,403,392	1
	<u>53,102,733</u>	<u>25</u>	<u>54,666,525</u>	<u>25</u>
<b>Intangible Assets</b>				
Goodwill (Note 4(8))	885,682	-	890,311	1
Deferred pension costs	379	-	4,894	-
Land use rights (Note 4(8))	2,198,848	1	2,387,720	1
Other intangible assets	358,334	-	465,826	-
	<u>3,443,243</u>	<u>1</u>	<u>3,748,751</u>	<u>2</u>
<b>Other Assets</b>				
Deferred expenses (Note 4(9))	2,442,013	1	3,257,467	1
Other assets - others (Note 4(7) and 4(9))	1,733,202	1	1,738,313	1
	<u>4,175,215</u>	<u>2</u>	<u>4,995,780</u>	<u>2</u>
<b>TOTAL ASSETS</b>	<u>\$ 215,991,655</u>	<u>100</u>	<u>224,537,540</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 BALANCE SHEET (CON'T)

DECEMBER 31, 2010 AND 2009

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2010		December 31, 2009	
	Amount	%	Amount	%
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Short-term loan (Note 4(10))	\$ 14,351,784	7	10,879,039	5
Short-term notes and bills payable	49,924	-	49,933	-
Financial liabilities at fair value through profit or loss — current (Note 4(2))	11,142	-	-	-
Notes payable	58,124	-	79,147	-
Accrued payable (Note 5)				
– Non-related parties	53,280,023	25	64,658,372	29
– Related parties	1,731,136	1	1,305,645	1
Income tax payable	2,046,517	1	1,276,165	1
Accounts expenses (Note 5)	7,402,686	3	10,083,664	4
Current portion of long-term loans payable (Note 4(12))	407,007	-	48,006	-
Other financial liabilities — current (Note 5)	3,165,224	1	1,592,246	1
Other current liabilities (Note 5)	4,600,056	2	5,728,335	2
	<u>87,103,623</u>	<u>40</u>	<u>95,700,552</u>	<u>43</u>
<b>Long-Term Liabilities:</b>				
Bonds payable (Note 4(11))	1,373,801	1	-	-
Long-term loans payable (Note 4(12))	10,143,380	5	8,078,551	3
Other financial liabilities — noncurrent	342,875	-	241,305	-
	<u>11,860,056</u>	<u>6</u>	<u>8,319,856</u>	<u>3</u>
<b>Other Liabilities:</b>				
Deferred income tax liabilities — noncurrent (Note 4(14))	351,848	-	312,252	-
Other liabilities — other (Note 4(13))	58,629	-	51,210	-
	<u>410,477</u>	<u>-</u>	<u>363,462</u>	<u>-</u>
<b>Total Liabilities</b>	<u>99,374,156</u>	<u>46</u>	<u>104,383,870</u>	<u>46</u>
<b>Stockholders' Equity:</b>				
<b>Common stock (Note 4(15))</b>	<u>22,563,669</u>	<u>10</u>	<u>22,860,539</u>	<u>10</u>
<b>Capital surplus (Note 4(15))</b>				
Premium on capital stock	60,393,247	28	61,188,108	28
Others	2,752,201	1	2,588,515	1
	<u>63,145,448</u>	<u>29</u>	<u>63,776,623</u>	<u>29</u>
<b>Retained earnings (Note 4(15)):</b>				
Legal reserve	1,215,457	1	545,570	-
Unappropriated earnings	8,253,605	4	6,712,650	3
	<u>9,469,062</u>	<u>5</u>	<u>7,258,220</u>	<u>3</u>
<b>Other adjustments to stockholders' equity:</b>				
Cumulative translation adjustments	(5,250,188)	(2)	198,092	-
Unrecognized loss on pension cost	(16)	-	(3,202)	-
Unrealized gain on financial assets	922,576	-	1,680,205	1
Treasury Stock (Note 4(15))	(9,322)	-	-	-
	<u>(4,336,950)</u>	<u>(2)</u>	<u>1,875,095</u>	<u>1</u>
<b>Total Parent Company's Equity</b>	<u>90,841,229</u>	<u>42</u>	<u>95,770,477</u>	<u>43</u>
<b>Minority interest</b>	<u>25,776,270</u>	<u>12</u>	<u>24,383,193</u>	<u>11</u>
<b>Total Stockholders' Equity</b>	<u>116,617,499</u>	<u>54</u>	<u>120,153,670</u>	<u>54</u>
<b>Commitments and Contingencies (Note 7)</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 215,991,655</u>	<u>100</u>	<u>224,537,540</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 STATEMENT OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**  
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Year Ended December 31,			
	2010		2009	
	Amount	%	Amount	%
<b>Operating revenues (Note 5)</b>	\$ 533,464,406	101	542,355,154	101
Less: Sales returns and allowances	2,933,055	1	4,273,493	1
<b>Net sales</b>	530,531,351	100	538,081,661	100
<b>Cost of sales (Notes 4(4) and 5)</b>	500,366,095	94	505,715,364	94
<b>Gross profit</b>	30,165,256	6	32,366,297	6
<b>Operating expenses (Notes 5)</b>				
Selling expenses	7,617,094	1	6,340,717	1
General and administrative expenses	5,671,517	1	6,487,296	1
Research and development expenses	8,182,704	2	8,963,234	2
	21,471,315	4	21,791,247	4
<b>Income from operations</b>	8,693,941	2	10,575,050	2
<b>Non-operating income</b>				
Interest revenue	182,606	-	120,681	-
Investment gain under the equity method (Note 4(5))	207,292	-	312,360	-
Dividend income	551,988	-	13,561	-
Gain on disposal of investments	758,002	-	457,126	-
Foreign exchange gain, net	999,131	-	-	-
Gain on valuation of financial asset (Note 4(2))	47,110	-	194,577	-
Others (Note 4(2), 4(7) and 4(9))	2,654,607	1	3,035,816	1
	5,400,736	1	4,134,121	1
<b>Non-operating expenses</b>				
Interest expense	224,770	-	153,355	-
Loss on valuation of financial liability (Note 4(2))	12,720	-	-	-
Foreign exchange loss, net	-	-	115,074	-
Loss on disposal of assets (Note 4(2) and 4(7))	-	-	478,402	-
Others	886,843	-	1,060,051	-
	1,124,333	-	1,806,882	-
<b>Income before income tax</b>	12,970,344	3	12,902,289	3
<b>Income tax expense (Note 4(14))</b>	2,363,578	1	2,354,902	1
<b>Consolidated net income</b>	<b>\$ 10,606,766</b>	<b>2</b>	<b>10,547,387</b>	<b>2</b>
<b>Income attributable to :</b>				
Shareholders of parent company	\$ 6,211,436	1	6,751,588	1
Minority interest income	4,395,330	1	3,795,799	1
	<b>\$ 10,606,766</b>	<b>2</b>	<b>10,547,387</b>	<b>2</b>
	<b>Before</b>	<b>After</b>	<b>Before</b>	<b>After</b>
	<b>Income Tax</b>	<b>Income Tax</b>	<b>Income Tax</b>	<b>Income Tax</b>
<b>Earnings per share attributable to parent company (Note 4(17))</b>				
<b>Primary earnings per share</b>	<b>\$ 3.22</b>	<b>2.73</b>	<b>3.15</b>	<b>2.95</b>
<b>Diluted earnings per share</b>	<b>\$ 3.21</b>	<b>2.72</b>	<b>3.10</b>	<b>2.91</b>

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

(English Translations of Financial Statements Originally Issued in Chinese)  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**  
(Expressed in Thousands of New Taiwan Dollars)

	Common stock	Capital surplus	Retained earnings		Other adjustments of stockholders' equity		Treasury stock	Minority interest	Total
			Legal reserve	Unappropriated earnings	Cumulative translation adjustments	Unrecognized loss on pension cost			
Balance, January 1, 2009	\$ 18,846,281	63,582,097	-	5,455,699	1,849,737	-	-	20,201,470	110,175,554
Net income for the year ended December 31, 2009	-	-	-	6,751,588	-	-	-	3,795,799	10,547,387
Appropriations and distributions of 2008 earnings:									
Legal reserve	-	-	545,570	(545,570)	-	-	-	-	(882,092)
Cash dividends	-	-	-	(882,092)	-	-	-	-	-
Stock dividends	4,014,258	-	-	(4,014,258)	-	-	-	-	-
Adjustment arising from long-term equity investments	-	156,504	-	(52,717)	-	-	-	-	103,787
Change in unrealized profit (loss) of financial assets available-for-sale	-	-	-	-	-	1,438,807	-	-	1,438,807
Unrecognized loss on pension cost	-	-	-	-	(2,074)	-	-	-	(2,074)
Cumulative translation adjustments	-	-	-	-	(1,651,645)	-	-	-	(1,651,645)
Interest expense generated from trust of shareholders of parent company	-	38,022	-	-	-	-	-	(1,765,838)	38,022
Cash dividends from minority interest	-	-	-	-	-	-	-	(985,909)	(985,909)
Interest returned from capital decrease of minority interest	-	-	-	-	-	-	-	441,894	441,894
Capital increase in cash of minority interest	-	-	-	-	-	-	-	479,826	479,826
Changes in interest of minority shareholders	-	-	-	-	-	-	-	2,215,951	2,215,951
Effect of consolidation of minority interest	-	-	-	-	-	-	-	-	-
Balance, December 31, 2009	22,860,539	63,776,623	545,570	6,712,650	198,092	1,680,205	-	24,383,193	120,153,670
Issuance of new share resulting from organizations reorganization	100	307	-	-	-	-	-	-	407
Repurchase of treasury stock	-	-	-	-	-	-	(1,006,862)	-	(1,006,862)
Retirement of treasury stock	(296,970)	(709,892)	-	-	-	-	1,006,862	-	-
Net income for the year ended December 31, 2010	-	-	-	6,211,436	-	-	-	4,395,330	10,606,766
Appropriations and distributions of 2010 earnings:									
Legal reserve	-	-	669,887	(669,887)	-	-	-	-	-
Cash dividends	-	-	-	(4,000,594)	-	-	-	-	(4,000,594)
Adjustment arising from long-term equity investments	-	47,779	-	-	-	(757,629)	-	-	(706,664)
Cumulative translation adjustments	-	-	-	-	3,186	-	-	-	(518,260)
Equity of the company held by investee	-	-	-	-	(5,448,280)	-	(9,322)	-	(5,966,540)
Interest expense generated from trust of shareholders of parent company	-	-	-	-	-	-	-	(2,660,402)	(2,660,402)
Cash dividends from minority interest	-	30,631	-	-	-	-	-	355,674	355,674
Capital increase in cash of minority interest	-	-	-	-	-	-	-	67,398	67,398
Changes in interest of minority shareholders	-	-	-	-	-	-	-	(246,663)	(246,663)
Effect of consolidation of minority interest	-	-	-	-	-	-	-	-	-
Balance, December 31, 2010	\$ 22,563,669	63,145,448	1,215,457	8,253,605	(5,250,188)	922,576	(9,322)	25,776,270	116,617,499

The accompany 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 STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 and 2009**  
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Year Ended December 31,	
	2010	2009
<b>Cash flows from operating activities:</b>		
<b>Consolidated net income</b>	\$ 10,606,766	10,547,387
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>		
Depreciation	8,025,085	8,304,441
Amortization	2,329,104	2,305,900
Ownership of employee stock option transferred to employee as compensation cost	36,316	133,384
Decrease in loss on unrecognized pension cost	12,162	-
Loss on inventory market price decline and obsolescence, and for impairment	122,429	290,490
Investment gain under equity method	(207,292)	(312,360)
Loss on retirement of assets (accounted under other expense)	259,998	114,521
Cash dividend from investments under equity method	118,221	82,499
Gain on disposal of investment	(758,002)	(457,126)
Unrealized gain on financial assets and liabilities valuation	(34,390)	(194,577)
Impairment loss (gain)	(7,506)	478,402
Interest expense generated from trust of shareholders of parent company	37,931	38,022
Amortization of discount on bonds payable	28,330	-
<b>Change in assets and liabilities:</b>		
<b>Change in assets:</b>		
Increase (decrease) in financial assets reported at fair value through profit or loss-current	1,007,528	(2,518,126)
Increase (decrease) in notes and accounts receivable	8,123,757	(3,185,334)
Increase (decrease) in other accounts receivable	(544,471)	3,183,799
Increase in inventories	(623,346)	(2,264,466)
Increase in other current assets	(476,933)	(151,988)
Decrease (increase) in deferred income tax asset and liability	287,538	486,044
<b>Change in liabilities:</b>		
Increase (decrease) in notes and accounts payable	(3,952,717)	2,243,798
Increase (decrease) in income tax payable	801,923	(356,536)
Increase (decrease) in accrued expenses	(2,400,547)	230,524
Increase (decrease) in other financial liabilities	1,465,025	(449,772)
Increase (decrease) in other current liabilities	(516,715)	(96,184)
Decrease in other liabilities - other	(756)	(17,624)
<b>Net cash provided by operating activities</b>	<u>23,739,438</u>	<u>18,435,118</u>
<b>Cash flows from investing activities:</b>		
Acquisition of financial assets available-for-sale	(703,929)	(49,187)
Proceeds from disposal of financial assets available-for-sale	367,488	399,018
Acquisition of financial assets held-to-maturity	(262,170)	-
Acquisition of financial assets carried at cost	(198,958)	-
Proceeds from disposal of financial assets carried at cost	25,883	281,468
Proceeds from capital reduction of financial assets carried at cost	50,400	933
Purchase of long-term investments under the equity method	(335,404)	(1,677,679)
Proceeds from disposal of long-term investments under the equity method	283,329	1,706,830
Purchase of property, plant and equipment	(10,729,319)	(6,002,266)
Proceeds from disposal of assets, idle assets and deferred expenses	1,531,923	689,201
Increase in deferred expenses	(1,298,351)	(1,802,159)
Purchase of intangible assets	(80,923)	(126,445)
Increase in other financial assets— current	(1,145,680)	(16,535)
Decrease in other financial assets— noncurrent	194,530	153,569
Decrease in other assets - other	7,739	97,499
<b>Net cash used in investing activities</b>	<u>(12,293,442)</u>	<u>(6,345,753)</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**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 and 2009**  
**(All Amount Expressed in Thousands of New Taiwan Dollars)**

	For the Year Ended December 31,	
	2010	2009
<b>Cash flows from financing activities:</b>		
Increase in short-term loans	3,472,745	(3,295,203)
Retirement of treasury stock	(1,006,862)	(30,550)
Decrease (increase) in short-term notes and bills payable	(9)	49,933
Increase in long-term loans	10,039,016	-
Decrease in long-term loans	(7,323,294)	(192,647)
Increase in bonds payable	1,497,401	-
Increase (Decrease) in other financial liabilities - noncurrent	101,570	(10,359)
Distribution of cash dividend and remuneration of board of directors	(6,660,996)	(2,647,930)
Increase in cash capital (including minority equity )	356,080	441,894
Ownership of treasury stock transferred to employee	-	380,256
Refunds from capital reduction of investments under the equity method	-	(985,909)
<b>Net cash provided by financing activities</b>	<u>475,651</u>	<u>(6,290,515)</u>
<b>Foreign exchange rate effects</b>	(1,336,393)	(918,727)
<b>Effect of changes in certain subsidiaries</b>	(167,527)	691,296
<b>Net increase in cash</b>	10,417,727	5,571,419
<b>Cash, beginning of the year</b>	31,846,280	26,274,861
<b>Cash, end of the year</b>	<u>\$ 42,264,007</u>	<u>31,846,280</u>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the year for:</b>		
Interest	<u>\$ 179,115</u>	<u>173,609</u>
Income tax	<u>\$ 1,400,182</u>	<u>2,040,095</u>
<b>Non-cash investing and financing</b>		
Current portion of long-term loans payable	<u>\$ 407,007</u>	<u>48,006</u>
<b>Purchase of property and equipment with cash and other payables:</b>		
Property, plant and equipment	\$ 11,100,609	5,961,009
Add: Other payables, beginning of the year	97,397	138,654
Less: Other payables, end of the year	(468,687)	(97,397)
<b>Cash paid</b>	<u>\$ 10,729,319</u>	<u>6,002,266</u>

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PEGATRON CORPORATION AND ITS SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009

(Amounts Expressed in Thousands of New Taiwan Dollars,  
Except for Per Share Information and Unless Otherwise Stated)

**1. ORGANIZATION AND BUSINESS :**

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

The company's parent company: None

As of December 31, 2010 and 2009, the Company and its subsidiaries (the "Consolidated Company") had 104,608 and 96,534 employees, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Consolidated Company's financial statements were prepared in accordance with Guidelines Governing the Preparation of Financial 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:

**(1) Basis of consolidation**

- a. The consolidated financial statements include the Company and its controlled subsidiaries. The significant inter-company transactions were eliminated. As of December 31, 2010 and 2009, the consolidated subsidiaries were as follows:

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2010.12.31	2009.12.31	
The Company	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	100.00%	100.00%	The Company directly owns over 50% of equity

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**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2010.12.31	2009.12.31	
UNIHAN AND ASUSPOWER INVESTMENT	Ability Enterprise Co., LTD. (Ability(tw))	Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products leasing	12.46%	12.63%	Subsidiary has de facto control
Ability (tw)	ABILITY ENTERPRISE (BVI) CO., LTD. (ABILITY)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
"	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%	"
"	VIEWQUEST TECHNOLOGIES INTERNATIONAL LTD.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%	"
"	ASSOCIATION INTERNATIONAL LTD.	Investing activities	100.00%	100.00%	"
"	VIEWQUEST TECHNOLOGIES (BVI) INC.	Manufacturing and trading computer peripherals, digital cameras and electronic components	100.00%	100.00%	"
"	Ability International Investment Co., Ltd.	Investing activities	100.00%	100.00%	"
ABILITY	Ability Technology (Dongguan) Co., Ltd	Producing and selling digital cameras	100.00%	100.00%	"
"	Jiujiang Viewquest Electronics Inc	Producing and selling digital cameras	100.00%	-	"
Ability International Investment Co., Ltd.	NOENA CORPORATION (NOENA)	Selling computer peripherals and optical products	80.00%	-	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2010.12.31	2009.12.31	
UNIHAN	Unihan Holding Ltd. (Unihan Holding)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Unihan Holding	CASETEK HOLDINGS LIMITED (CASETEK HOLDING)	Investing and trading activities	100.00%	100.00%	"
CASETEK HOLDING	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	"
"	CASETEK COMPUTER (SUZHOU) CO., LTD	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00%	100.00%	"
CASETEK HOLDING	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDING)	Investing and trading activities	100.00%	100.00%	"
"	GRAND UPRIGHT TECHNOLOGY LIMITED	Trading activities	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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**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2010.12.31	2009.12.31	
CASETEK HOLDING	CORE-TEK (SHANGHAI) LIMITED	Researching and producing the spare parts of notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00%	100.00%	Subsidiary directly owns over 50% of equity
"	APLUS PRECISION LTD. (APLUS)	Investing and trading activities	51.00%	-	"
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	-	"
UNITED	AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	100.00%	"
UNIHAN AND ASUSPOWER INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	43.56%	43.56%	Subsidiary has de facto control
AZURE WAVE	EMINENT STAR COMPANY LIMITED (EMINENT)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
EMINENT	HANNEX INTERNATIONAL LIMITED (HANNEX)	Investing activities	100.00%	100.00%	"
HANNEX	SCIENTEK, NANJING CO., LTD	Designing, manufacturing and selling computer products	100.00%	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2010.12.31	2009.12.31	
EMINENT	JADE TECHNOLOGIES LIMITED (JADE)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
EMINENT - JADE	AZUREWAVE TECHNOLOGY (SHENZHEN) CO., LTD	Designing, researching and selling computer products	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00%	100.00%	Subsidiary directly owns over 50% of equity
"	AZWAVE HOLDING (SAMOA) INC. (AZWAVE SAMOA)	Investing activities	100.00%	100.00%	"
AZWAVE SAMOA	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and selling computer products	100.00%	100.00%	"
"	AZURE LIGHTING TECHNOLOGIES, INC (YANGZHOU)	Manufacturing electronic parts	100.00%	100.00%	"
"	AIGALE CORPORATION (SHANGHAI)	Developing, designing and selling communication equipment and electronic products	100.00%	-	"
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC	Selling electronic parts	100.00%	100.00%	"
UNIHAN	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	100.00%	"
AMA PRECISION	AMA TECHNOLOGY CORPORATION	Trading computer peripherals	100.00%	100.00%	"
"	AMA HOLDINGS LIMITED (AMA)	Investing activities	100.00%	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2010.12.31	2009.12.31	
AMA	METAL TRADINGS LTD.(METAL)	Trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
METAL	FENGSHUO TRADING (TONGZHOU) CO. LTD	Trading activities	100.00%	100.00%	"
AMA	EXTECH LTD.	Trading electronic parts	90.51%	90.49%	"
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD	Manufacturing, developing and selling electronic parts	100.00%	100.00%	"
AMA	TOPTED PRECISION LNDUSTRY(SUZ HOU) CO., LTD	Manufacturing and selling new electronic parts and premium hardware	100.00%	100.00%	"
THE COMPANY AND ASUS INVESTMENT	ASUS HOLLAND HOLDING B.V.(AHH)	Investing activities	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
AHH	PEGATRON CZECH S.R.O.	Installing, repairing and selling electronic products	100.00%	100.00%	Subsidiary directly owns over 50% of equity
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00%	100.00%	"
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00%	100.00%	"
POWTEK	POWTEK (SHANGHAI) CO., LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00%	100.00%	"



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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2010.12.31	2009.12.31	
PEGATRON HOLDING, KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing and holding activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing and trading activities	100.00%	100.00%	"
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	"
"	PIOTEK (H.K) TRADING LIMITED	Trading activities	100.00%	100.00%	"
PEGATRON HOLDING	ASLINK PRECISION CO., LTD (ASLINK)	Investing and trading activities	100.00%	100.00%	"
ASLINK	ASLINK (H.K.) PRECISION CO., LIMITED	Investing and trading activities	100.00%	100.00%	"
"	ASAP INTERNATIONAL CO., LIMITED (ASAP)	Investing activities	-	59.17%	"
ASAP	ASAP TECHNOLOGY (JIANGXI) CO., LIMITED	Manufacturing and selling data transmit wire and cable	-	100.00%	"
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2010.12.31	2009.12.31	
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
"	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	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	NORTH TEC ASIA LIMITED (NORTH)	Investing and trading activities	-	100.00%	"
PROTEK AND NORTH	PROTEK (SHANGHAI) LIMITED	Researching and producing the spare parts of notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
PEGATRON HOLDING	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2010.12.31	2009.12.31	
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PEGATRON HOLDING	TOP QUARK LIMITED (TOP QUARK)	Investing and holding activities	100.00%	100.00%	"
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00%	100.00%	"
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
"	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	"
"	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	"
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	58.65%	58.65%	Subsidiary directly owns over 50% of equity

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2010.12.31	2009.12.31	
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Manufacturing and selling database storage and processing equipments	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASIAROCK	ASROCK EUROPE B.V.	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 and holding activities	100.00%	100.00%	"
Leader	Firstplace International Ltd. (Firstplace)	Investing and holding activities	100.00%	100.00%	"
Firstplace	ASRock America, Inc.	Database service and trading electronic components	100.00%	100.00%	"
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, wholesaling and retailing electronic components, and providing business management consultant service	39.00%	39.00%	Subsidiary has de facto control
KINSUS	KINSUS INVESTMENT CO., LTD (KINSUS INVESTMENT)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KINSUS INVESTMENT AND ASUSPOWER INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	84.45%	84.45%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2010.12.31	2009.12.31	
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	"
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%	Subsidiary directly and indirectly held 100% of equity
"	STARLINK ELECTRONICS CORPORATION (STARLINK)	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	100.00%	"
STARLINK	STRATEGY Technology Co., Ltd.	Investing and trading activities	-	100.00%	Subsidiary directly owns over 50% of equity
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2010.12.31	2009.12.31	
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.	Maintenance service	100.00%	-	"
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	100.00%	"
"	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 Optics)	Researching, manufacturing and selling computer data projectors and related peripherals	56.52%	56.52%	"
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	100.00%	"
"	Lumens Digital Image Inc. (Lumens)	Investing activities	100.00%	100.00%	"
Lumens	Lumens (Suzhou) Digital Image Inc.	Researching, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	100.00%	
Lumens Optics	Lumens Europe BVBA	Selling computer communication products and peripherals	100.00%	100.00%	"
"	Jie Xin Inc.	Manufacturing and wholesaling electronic parts	94.00%	94.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2010.12.31	2009.12.31	
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
The Company	ADVANSUS CORP.	Manufacturing computer peripherals	50.00%	50.00%	The Company directly owns over 50% of equity (Note A)
The Company	PEGATRON USA, INC.	Sales and repair service center in North America	100.00%	100.00%	The Company directly owns over 50% of equity

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

- b. Increases or decreases in the number of consolidated subsidiaries as of December 31, 2010 were summarized as follows:
- (a) CASETEK HOLDING LIMITED acquired 51% of total issued shares of APLUS PRECISION (Cayman) LIMITED (“APLUS”) by exchanging its long-term investment.
  - (b) Ability (tw) invested \$40,000 in exchange for an 80% equity ownership of a newly established company named, NOENA CORPORATION (NOENA). Furthermore, Ability (tw) invested and acquired 100% of the equity ownership of Jiujiang Viewquest Electronics Inc. through a third party.
  - (c) UNIHAN HOLDING acquired the 100% equity ownership of GRAND UPRIGHT TECHNOLOGY LIMITED amounted to USD 1,326 thousand dollars in August, 2010.
  - (d) For the year ended December 31, 2010, KINSUS HOLDING (SAMOA) LIMITED has participated in the capital increase in cash of PIOTEK HOLDING LTD., whose former name was BOARDTEK HOLDING LTD (CAYMAN). Since the third quarter of 2010, KINSUS HOLDING (SAMOA) LIMITED has purchased from Pegatron Holding for USD 87,755 thousand dollars the equity ownership of PIOTEK HOLDING LTD. with carrying value of USD 6,554 thousand dollars. This equity ownership acquisition increased the equity investment of KINSUS HOLDING (SAMOA) LIMITED in PIOTEK HOLDING LTD. to 51%. As Pegatron Holding did not participate in the capital

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increase in cash of KINSUS HOLDING (SAMOA) LIMITED according to its equity holding percentage, the direct equity ownership of the Company has dropped from 100% to 49% as of December 31, 2010. However, the equity of KINSUS HOLDING LIMITED held by the Consolidated Company was 68.89%, thereby holding the ability to exercise control.

- (e) Azware Holding (Samoa) Inc. acquired the 100% equity ownership of AIGALE CORPORATION amounted to RMB 1,361 thousand dollars in August 2010.
- (f) PEGATRON TECHNOLOGY SERVICE INC. established PEGATRON SERVICIO DE INFORMATION LTDA. and owned 100% equity ownership amounted to USD 650 thousand dollars in November 2010.

According to SFAS No. 7 “Consolidated Financial Statements”, if the Consolidated Company has controlling power over entities described above, those entities are treated as subsidiaries and are included in consolidation financial statements.

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

Hannex International Limited, Ability Enterprise Co., Ltd. and Kinsus Interconnect Technology Corp., were included in the consolidated financial statements even if the Consolidated Company holds 43.56%, 12.63% and 39%, respectively, or less than 50% of their total issued shares because the Consolidated Company has acquired more than 50% of voting shares of each of these entities and has the ability to exercise control over their respective board of directors.

4. Subsidiaries excluded from consolidation

- (a) STRATEGY Technology Co., Ltd. went into liquidation on March 26, 2010. Therefore, the net income (loss) of this investee company was excluded in the consolidated financial statements as of March 26, 2010. The process of liquidating STRATEGY Technology Co., Ltd. had been completed in April, 2010
- (b) NORTHTEK ASIA LIMITED, an investee company wholly owned by Pegatron Holding, merged with PROTEK GLOBAL HOLDING LTD in 2010, and PROTEK GLOBAL HOLDING LTD was the surviving entity from such merger.
- (c) Due to organizational restructuring, ASLINK PRECISION CO., LTD (ASLINK PRECISION) acquired 25% equity ownership of ASAP TECHNOLOGY (JIANGXI) CO., LTD through equity swap on December 31, 2010. Consequently, ASLINK



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PRECISION's equity ownership in ASAP INTERNATIONAL CO., LIMITED decreased from 59.17% to 45.56%. Following the equity swap, ASLINK PRECISION sold its equity ownership in ASAP INTERNATIONAL CO., LTD to a non-related party, and thereby the Consolidated Company lost its significant influence on ASAP PRECISION CO., LTD and ASAP TECHNOLOGY (JIANGXI) CO., LTD.

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

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

**(2) Use of Estimates**

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

**(3) Foreign Currency and Financial Report Translation**

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

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

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

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

**(5) Assets Impairment**

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

The Consolidated Company assesses for impairment 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 if the carrying value exceeds the recoverable amount. The loss is first recorded against the goodwill allocated to the CGU, with any remaining loss allocated to other assets on a pro rata basis proportionate to their carrying amounts. The write-down of goodwill cannot be reversed in subsequent periods under any circumstances.

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**(6) Cash and Cash Equivalents**

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

**(7) Financial Instruments**

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 and measured, depending on the Consolidated Company's intention for holding, as follows:

a 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:

- i The financial asset or financial liability designated is a hybrid financial instrument.
- ii It eliminates or significantly reduces a measurement or recognition inconsistency.
- iii 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.

b. 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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c. 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.

**(8) Financial derivatives and hedging**

If a cash flow hedge meets the criteria for hedge accounting, the consolidated company recognized the offsetting effects on profit or loss of changes in the fair value of the hedging instrument and the hedged item. Under hedging accounting, the changes in the fair value of a hedging instrument designated as a fair value hedge are recognized in profit or loss. The hedged items are also stated at fair value in respect of the risk being hedged, with any gain or loss being recognized in profit or loss.

**(9) 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.

**(10) 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

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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 is determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

**(11) Long-Term Investments at Equity (Including Joint Ventures)**

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

Investment in a joint venture 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.

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**(12) 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.

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 15 years
Instrument equipment	1 to 5 years
Transportation equipment	1 to 20 years
Office equipment	1 to 20 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.

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**(13) 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	1- 5years
Trademark Rights	5years
Patents	2-5years
Land usage rights	45-50years

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

Under the purchase method, the excess of acquisition costs over the fair value of identifiable assets 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".

**(14) Deferred Expense**

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

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**(15) Bonds Payable**

Bonds payable issued after January 1, 2006, is classified on initial recognition as a financial liability, a financial asset or an equity instrument (capital reserve from stock warrants). These bonds are accounted for as follows:

The bond embedded with conversion option, call option and put option issued after January 1, 2006, is treated as compound financial instruments, with equity and liability components which are accounted for as follows:

- a. The difference between the issue price and face value of bonds payable is accounted for as premium or discount which is amortized over the period from the date of issuance to maturity date using the interest method or straight line method and is recorded as “interest expense”. However, the straight line method is used if the results are not materially different than those resulting from the interest method.
- b. The value of any derivative features (such as a call option and put option) embedded in a compound financial instrument is recognized as “financial assets and financial liabilities at fair value through profit or loss”. At the maturity of redemption period, if the fair value of common stock exceeds the redemption price, the fair value of the derivative is recognized as “capital surplus”; however if the fair value of common stock is lower than the redemption price, the fair value of the derivative is recognized as “gain or loss”.
- c. A conversion option embedded in the bonds issued by the Consolidated Company, which is convertible to an equity instrument, is recognized and included in “capital surplus”, net of income tax effect. When a bondholder exercises the conversion rights, the liability component of the bonds (including corporate bonds and embedded derivatives) are revalued at fair value, and the resulting difference between book value and fair value of bonds is recognized as “gain or loss” in the current period. The fair value of the common stock issued due to the conversion is based on the fair value of the abovementioned liability component plus the book value of the stock warrants.
- d. Costs incurred on issuance of convertible bonds are proportionately charged to the liabilities and equities of the underlying instruments based on initial recognition costs.

**(16) 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,



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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 Consolidated Company 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.

**(17) Warranty Reserve**

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

**(18) Revenue and Cost Recognition**

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

**(19) 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.

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**(20) 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.

**(21) Income Tax**

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

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

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

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

The income tax 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.

**(22) 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

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compensation cost. Compensation costs are recognized as expenses over the employees' service period as defined in the Employees Stock Option Rules. Relevant changes in owner's equity resulting from the recognition of compensation costs from employee stock options are also reflected in the consolidated statements.

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

**(23) Earnings per Share ("EPS")**

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

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

**(24) Spin-Off Transactions**

Spin-off transactions are accounted for by the Interpretation (91) 128 issued by the ROC Accounting Research and Development Foundation. If a transferor company and a transferee company are affiliated and the nature of the transfer is group reorganization, the assets and liabilities are recognized by the transferee based on the book value of the assets and liabilities of the transferor company without recognizing any transfer gain/loss. However, if the book value of the assets has any impairment loss, it shall be considered.

**(25) Employee Bonuses and Remuneration to Directors and Supervisors**

Appropriations for employee bonuses and remuneration to directors and supervisors appropriated are accounted for in accordance with Interpretation (96) 052 issued by the ROC Accounting Research and Development Foundation. According to this Interpretation, the

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Consolidated 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.

**(26) Treasury Stock**

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

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

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

**(27) Business Combinations**

A business 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 had a business combination transaction for group restructuring purpose, and accounted for it according to the Interpretation. On the effective date of combination, the surviving entity acquired the assets from the dissolved entity and credited then to long term entity's investment account.

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

Effective January 1, 2009, the Consolidated Company adopted the amended Republic of China Statement of Financial Accounting Standards (SFAS) No. 10 "Inventories." In accordance with this revised standard, fixed costs are allocated to finished goods and work in process on the basis of the normal capacity utilization, and inventories are measured individually at the lower of cost and net realizable value. The effects of the adoption of this revised accounting standard on net income (NI) and earnings per share (EPS) for the year ended December 31, 2009 were as follows:

<u>Effect of Accounting Change</u>	<u>Account affected</u>	<u>Decrease in Net Income</u>	<u>Decrease in EPS</u>
Fixed costs allocated based on normal capacity utilization	Cost of goods sold	\$ 116,562	0.05
Inventories are measured individually at the lower of cost and net realizable value	Cost of goods sold	26,710	0.01
Total		<u>\$ 143,272</u>	<u>0.06</u>

**4. Summary of Major Accounts**

(1) Cash

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Cash on hand	\$ 23,068	40,329
Demand deposits	21,551,078	17,738,019
Time deposits	20,689,861	14,067,932
Total	<u>\$ 42,264,007</u>	<u>31,846,280</u>

(2) Financial Instruments

a. The components of financial instruments were as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Financial assets reported at fair value through profit or loss - current:		
Financial assets held-for-trading - current		
Stock of listed companies	\$ 257,800	209,202
Beneficiary certificates	5,547,942	6,263,933
Forward exchange contracts	18,049	12,112
Overseas equity securities	-	301,862
Depository receipts	24,155	10,389
Callable bonds	529,172	540,039
	<u>\$ 6,377,118</u>	<u>7,337,537</u>

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	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Available-for-sale financial assets - current:		
Stock of listed companies	-	77,925
Stock of overseas listed companies	765,417	943,488
Total	<u>\$ 765,417</u>	<u>1,021,413</u>
Available-for-sale financial assets - noncurrent:		
Stock of listed companies	\$ 1,359,938	1,693,881
Stock of overseas listed companies	464,308	551,767
Total	<u>\$ 1,824,246</u>	<u>2,245,648</u>
Held-to-maturity financial assets - current:		
Investment bonds	<u>\$ 262,170</u>	<u>-</u>
Financial assets carried at cost - noncurrent:		
Equity securities – common stock	\$ 628,655	609,243
Equity securities – preferred stock	35,108	-
Corporate bonds	100,000	-
	<u>\$ 763,763</u>	<u>609,243</u>
Financial liabilities reported at fair value through profit or loss - current:		
Domestic convertible bonds	\$ (1,578)	-
Adjustments	12,720	-
	<u>\$ 11,142</u>	<u>-</u>

- b. The convertible bond issued by Ability Enterprise Co., Ltd. was treated as a compound financial instrument, which was partly classified as an equity and the rest as a liability. The fair value of call options and put options embedded in bonds payable was separated from bonds payable, and was recognized as "Financial assets or liabilities at fair value through profit or loss" in accordance with SFAS No.34. For year ended December 31, 2010, Ability Enterprise Co., Ltd. recognized a loss on financial liability reported at fair value through profit or loss of \$12,720, please refer to note 4(11) for the main terms and conditions of the 1<sup>st</sup> unsecured domestic convertible bonds issued by Ability Enterprise Co., Ltd.
- c. For years ended December 31, 2010 and 2009, the Consolidated Company recognized a loss on financial assets reported at fair value through profit or loss of \$47,110 and \$194,577, respectively.
- d. For years ended December 31, 2010 and 2009, the unrealized losses on available-for-sale financial assets amounted to \$885,976 and \$1,574,634, respectively.

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- e. The common stock held by Consolidated Company with no quoted price from active market and the fair value cannot be measured reliably, were reported as financial assets carried at cost-non current. Following the resolution by the Annual Meeting of Shareholders, ADDTEK Corporation carried out a capital reduction of \$98,125 and \$158,000, divided into 9,812 and 15,800 shares, in order to cover its accumulated deficit at March 30, 2010 and December 21, 2010, respectively.
- f. Impairment loss of \$61,662 was recognized on available-for-sale financial assets for the year ended December 31, 2009.
- g. Impairment loss of \$109,117 and \$38,788 was recognized on financial assets carried at cost for the years ended December 31, 2010 and 2009, respectively.
- h. As of December 31, 2010 and 2009, the components of financial derivatives of Ability Enterprise Co., Ltd. and United New Limited were as follows:

<b>December 31, 2010</b>			
	<b>Book Value</b>	<b>Nominal Principal (thousands)</b>	<b>Maturity Date/ Contract Period</b>
Derivative financial assets not for hedge			
Currency swap contracts	<b>\$ 18,049</b>	<b>USD 46,700</b>	2010.12 ~ 2011.01

<b>December 31, 2009</b>			
	<b>Book Value</b>	<b>Nominal Principal (thousands)</b>	<b>Maturity Date/ Contract Period</b>
Derivative financial assets not for hedge			
Currency swap contracts	<b>\$ 12,112</b>	<b>USD 49,600</b>	2009.12 ~ 2010.01

Ability (tw) entered into derivative contracts during the years ended December 31, 2010 and 2009 to manage exposures due to the fluctuations of exchange rate and interest rate. However, no hedge accounting is adopted as these derivatives do not meet the criteria for hedge accounting.

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

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(3) Notes and Accounts Receivable – non-related parties

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Notes receivable	\$ 134,100	64,740
Less: Allowance for doubtful accounts	-	(339)
Net	<u>134,100</u>	<u>64,401</u>
Account receivable	\$ 44,000,174	54,843,416
Less: Allowance for doubtful accounts	(669,632)	(703,377)
Net	<u>43,330,542</u>	<u>54,140,039</u>
Total	<b><u>\$ 43,464,642</u></b>	<b><u>54,204,440</u></b>

As of December 31, 2010 and 2009, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

Purchaser	Amount derecognized		Credit advanced		Collateral	Credit (thousands)	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009		December 31, 2010	December 31, 2009
Mega	\$ 557,560	313,090	345,599	192,404	None	USD 30,000	USD 30,000
International Commercial Bank							

(4) Inventories

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Finished goods	\$ 13,721,704	14,447,390
Less: Allowance for inventory market decline and obsolescence	(806,498)	(616,867)
Sub-total	<u>12,915,206</u>	<u>13,860,523</u>
Work in process	5,347,180	3,497,250
Less: Allowance for inventory market decline and obsolescence	(337,607)	(291,715)
Sub-total	<u>5,009,573</u>	<u>3,205,535</u>
Raw materials	23,563,377	25,767,794
Less: Allowance for inventory market decline and obsolescence	(2,363,778)	(1,562,447)
Sub-total	<u>23,199,599</u>	<u>24,205,317</u>
Inventory-in-transit	<u>943,375</u>	<u>2,138,557</u>
Total	<b><u>\$ 42,067,753</u></b>	<b><u>43,409,932</u></b>



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For years ended December 31, 2010 and 2009, the components of cost of goods sold were as follows:

	<b>For the year ended December 31,</b>	
	<b>2010</b>	<b>2,009</b>
Cost of goods sold	\$ 499,877,356	505,441,633
Loss (Gain) on inventory valuation and obsolescence	1,036,824	(31,274)
Loss (Gain) on disposal from scrapping	(914,395)	321,764
Idle capacity	92,492	105,375
Others	273,818	(122,134)
	<b>\$ 500,366,095</b>	<b>505,715,364</b>

(5) Long-Term Equity Investments

<b>Name of Investee Company</b>	<b>December 31, 2010</b>		<b>December 31, 2009</b>	
	<b>Equity Holding</b>	<b>Book Value</b>	<b>Equity Holding</b>	<b>Book Value</b>
INDEED HOLDINGS LIMITED	49.00%	\$ 740,759	49.00%	726,939
AVY PRECISION TECHNOLOGY INC.	20.25%	768,479	20.39%	750,051
EBIZPRISE INC.	31.76%	86,448	- %	-
ASAP TECHNOLOGY (JIANGXI) CO., LTD.	25.00%	149,407	- %	-
WILSON HOLDINGS LIMITED	49.00%	156,040	49.00%	160,340
EVER PINE INTERNATIONAL LTD. (BVI)	34.65%	113,325	34.65%	121,206
PENTAX VQ CO., LTD.	40.00%	41,866	40.00%	58,531
WISE INVESTMENT LIMITED	48.78%	35,808	48.78%	37,125
SHIN-EI YORKEY INTERNATIONAL LTD. (BVI)	50.00%	14,818	50.00%	28,420
ZHANGJIAGANG DONGBU HIGH TECHNOLOGY METAL PRODUCTS CO., LTD.	20.00%	43,292	20.00%	42,333
E-PACKING HOLDING LIMITED	30.00%	248,215	- %	-
YOFREE TECHNOLOGY CO., LTD.	17.50%	10,811	17.50%	9,867
Subtotal		2,409,268		1,934,812
Add: Fair value adjustment for identifiable assets		61,832		61,832
Total		<b>\$ 2,471,100</b>		<b>1,996,644</b>

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For the years ended December 31, 2010 and 2009, some of the investment gain (loss) under equity method was recognized based on the financial statements prepared by the investees which were audited by the auditors. The components of this investment gain (loss) were as follows:

<u>Name of Investee Companies</u>	<u>Investment gain (loss)</u>	
	<u>For the year ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.	\$ -	48,063
INDEED HOLDINGS LIMITED	58,103	111,427
AVY PRECISION TECHNOLOGY	141,367	140,015
WILSON HOLDINGS LIMITED	6,230	10,852
EVER PINE INTERNATIONAL LTD. (BVI)	3,199	(12,530)
ASHINE PRECISION CO., LTD.	-	1,841
PENTAX VQ CO., LTD.	12,011	(2,124)
WISE INVESTMENT LIMITED	(1,315)	(415)
EBIZPRISE INC.	(12,211)	-
CHANGJIAGANG DONGBU HIGH TECHNOLOGY METAL PRODUCTS CO., LTD.	3,755	13,478
SHIN-EI YORKEY INTERNATIONAL LTD. (BVI)	(11,976)	(822)
E-PACKING HOLDING LIMITED	7,185	-
YOFREE TECHNOLOGY CO., LTD.	944	2,575
Total	<u>\$ 207,292</u>	<u>312,360</u>

- a. For the years ended December 31, 2010 and 2009, the Consolidated Company held less than 50% shares of Shin-Ei Yorkey international Ltd. (BVI) and had no significant control thus Shin-Ei Yorkey international Ltd. (BVI) was excluded from the consolidated financial statements.
- b. Avy Precision Technology Inc., a subsidiary of Ability Enterprise Co., Ltd., had swapped its equity shares with Azure Wave Technologies, Inc., which resulted in a difference between acquisition cost and fair value of the identifiable long-term investment. Since the Consolidated Company has the ability to control Ability Enterprise Co., Ltd., such difference of \$61,832 both as of December 31, 2010 and 2009, 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".

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- c. Commencing from August 2009, the Consolidated Company has gradually disposed the equity ownership of YORKEY OPTICAL INTERNAIONAL (CAYMAN) LTD. Consequently, the Consolidated Company holds less than 20% of the equity with voting rights and lost its significant influence over YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD. As the adoption of the equity method thereon is no longer applicable, this equity investment is now accounted for under financial assets available for sale - current pursuant to the resolution of the board of directors.
- d. In February, 2008, the Consolidated Company had participated in the capital increase in cash of ASHINE Precision Co., Ltd, an investee of the Consolidated Company, by purchasing 5,000,000 shares at a purchase price of \$13.5 per share. In February 2009, the Consolidated Company sold all its equity ownership, 10,000,000 shares, to its related party, Avy Precision Technology Inc. at a selling price of \$17.8 per share. As a result, the Consolidated Company recognized a gain on disposal of investment amounting to \$26,166 and an unrealized gain on disposal investment amounting to \$7,488 which was accounted for under other liabilities – other.
- e. In November 2010, the Consolidated Company had participated in the capital increase of eBizprise Inc. by acquiring new shares worth \$99,000, divided into 5,500 thousand shares with par value of \$18 per share. As the result, the Consolidated Company holds 31.76% of equity ownership.
- f. The Consolidated Company acquired 25% equity ownership of ASAP TECHNOLOGY (JIANGXI) CO., LTD. through equity swap, which enables it to exercise significant influence over ASAP TECHNOLOGY (JIANGXI) CO., LTD. Please refer to Note 2(1) for more details.
- g. CASETEK HOLDING LIMITED, a subsidiary of the Consolidated Company, had participated in E-PACKING HOLDING's capital increase by purchasing additional equity shares by USD\$8,115,484, and its ownership percentage after the capital increased to 30%.
- h. The Consolidated Company acquired 2,500 thousand shares of Avy Precision Technology Inc. from its related party, Avy Co., with par value of \$71.2 per share in February 2009. As of December 31, 2010 and 2009, the Consolidated Company holds 20.25% and 20.39% of equity ownership, respectively.
- i. For the year ended December 31, 2009, the Consolidated Company increased its investment in YOFREE Technology Co., Ltd by \$1,500. However, the increase of investment was not in accordance with the Consolidated Company's ownership percentage, the Consolidated

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Company's ownership percentage thus declined to 17.50%, and capital surplus – long-term equity investment increased by \$1,510.

**(6) Joint Venture Investments**

The Company had equity investment in ADVANSUS CORP., which is a joint venture entity. As of December 31, 2010 and 2009, the issued capital of ADVANSUS CORP., amounted to \$360,000 of which 50% was held by the Company as of the same date. The financial accounts of ADVANSUS CORP., which were included in the Company's consolidated financial statements, were as follows:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Current assets	\$ 523,492	487,823
Non current assets	14,317	17,290
Current liabilities	289,987	283,972
Non current liabilities	-	742
<b>For the Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>
Revenues	\$ 2,358,362	1,473,862
Expenses	2,302,139	1,442,692

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

**a. Property, plant and equipment**

- (a) Based on the results of its evaluation of the recoverability of property, plant and equipment, the Consolidated Company recognized a gain (loss) on recovery of impairment of assets amounting to \$(64,130) and \$564,687 for years ended December 31, 2010 and 2009, respectively.
- (b) In order to construct operational headquarter and research and development center, Ability Enterprise Co., Ltd. (Ability) participated in Xinzhuang land auction and acquired a parcel of land worth \$2,468,329 which was accounted under land. The legal process for the registration of this land has been completed. Also, in March 2009, Ability signed a contract of selling the real estate at Fuxing N. Rd., Songshand Dist., Taipei City for \$360,000, and recognized a gain thereon of \$178,573, accounted for under gain on disposal of fixed assets.
- (c) Please refer to Note 6 for details regarding the property, plant, and equipment pledged as collateral.

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b. Rental assets

(a) As of December 31, 2010 and 2009, the components of rental assets were as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Land	\$ 286,573	336,171
Buildings	579,063	575,303
Less: Accumulated depreciation	(119,155)	(114,077)
Less: Accumulated impairment	(12,030)	(69,061)
Add: Fair value adjustment for identifiable assets	7,986	9,692
	<u>\$ 742,437</u>	<u>738,028</u>

(b) In accordance with SFAS 25, the Consolidated Company has 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, 2010 and 2009, the fair value adjustment for identifiable assets amounted to \$7,986 and \$9,692, respectively.

(c) In October 2010, Ability Enterprise Co., Ltd sold portion of its leased real estate located in Wuquan W. Rd., Nantun Dist., Taichung City and recognized a gain thereon of \$10,221, net of accumulated impairment of \$57,031 and related expenses.

c. Idle assets

(a) As of December 31, 2010 and 2009, the components of idle assets were as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Land	\$ 385,564	374,609
Buildings	705,523	612,220
Machinery and others	1,560,458	1,873,455
Less: Accumulated depreciation	(1,253,312)	(1,301,559)
Less: Accumulated impairment	(477,734)	(711,467)
	<u>\$ 920,499</u>	<u>847,258</u>

(b) As these idle assets were not used in operation, the Consolidated Company recognized fair value based on recoverable amount. For the years ended December 31, 2010 and 2009, a gain (loss) of \$232,177 and \$(942,639), respectively, was recognized from recovery of impairment for these idle assets.

(8) Intangible assets

Goodwill is assessed periodically for impairment in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets". As of

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December 31, 2010 and 2009, the carrying value of goodwill amounted to \$885,682 and \$890,311, respectively.

'Land use rights' are rights for the company to use government-owned land. These rights were paid in lump sum, which was capitalized and amortized equally over their useful lives. As of December 31, 2010 and 2009, the unamortized amount of land use rights was \$2,198,848 and \$2,387,720, respectively.

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

**(9) Other Assets – Other**

Deferred expenses consist of capitalized costs of small molds, fixtures and office decorations, which are amortized equally over 9 months to 10 years. As of December 31, 2010 and 2009, the unamortized amount of deferred expenses was \$2,442,013 and \$3,257,467, respectively.

Due to the restriction imposed by local government, KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS) purchased a farm land in the name of KINSUS's chairman instead of KINSUS. Before KINSUS can 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, 2010 and 2009, the carrying value of this farmland was both \$30,784.

Based on the results of impairment test on carrying value of other assets and their fair value, an impairment loss of \$51,424 was recognized thereon for the year ended December 31, 2010.

**(10) Short - Term Loans**

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Credit loans	\$ 14,252,818	10,799,394
Collateralized loan	98,966	79,645
	<u>\$ 14,351,784</u>	<u>10,879,039</u>
Range of interest rate	<u>0.40% ~ 5.00%</u>	<u>0.44% ~ 5.04%</u>

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

**(11) Bonds Payable**

Bond payable	<u>\$ 1,500,000</u>
Less: Discounts on bonds payable	(126,199)
Total	<u>\$ 1,373,801</u>

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- a. The key terms and conditions of the 1<sup>st</sup> unsecured domestic convertible bonds were as follows:
- (a) Ability (TW) issued the 1<sup>st</sup> unsecured domestic convertible bonds of NT\$1,500 million with each bond having coupon rate of 0%, an issue price of 100.2% over par value, and maturing in 5 years (During Feb 6<sup>th</sup>, 2010 to Feb 6<sup>th</sup>, 2015). These convertible bonds are payable in full at par on maturity date and are listed on Over-the-Counter Market on February 8<sup>th</sup>, 2010.
  - (b) After 30 days from issue date (March 7<sup>th</sup>, 2010) and 10 days prior to maturity date (January 27<sup>th</sup>, 2015), the bondholders can exercise their right to convert the bonds into the Company's common stock. Under the terms of the convertible bonds, the rights and obligations of the new shares converted from convertible bonds are the same as the issued and outstanding common stock.
  - (c) The conversion price will be adjusted based on the terms of the conversion plan, and will be reset based on the prescribed formula upon the occurrence of certain events that will have a dilutive effect on the bondholders' rights. As of December 31, 2010, the conversion price is \$60 and as Ability (TW) will distribute cash dividend at August 1, 2010, the exercise price will be adjusted from \$60 to \$55.7 on that date.
  - (d) After 3 years from issue date (Feb 6<sup>th</sup>, 2013), the bondholders shall have the right at such bondholders' option to require the Company to redeem all or some of the convertible bonds at a price equal to 100% of the principal amount plus interest at the rate of 0.3% per annum, payable annually.
  - (e) The Company may purchase the outstanding bonds at face value after the following events, provided that (i) the closing price of the shares for a period of 30 consecutive trading day is above 130% of the conversion price (ii) the amount of the outstanding bonds is less than 10% of the initial issuance amount of convertible bonds, from the day after the first month of issuance of the bonds to 40 days prior to the maturity date.
  - (f) Under the terms of the convertible bonds, the convertible bonds which are repurchased, redeemed, or converted to common shares will be retired and cannot be sold or re-issued.
- b. In accordance with SFAS No. 36, convertible bonds are initially treated as compound financial instruments, which are partly classified in equity and the rest as a liability. As of December 31, 2010, the issuance of convertible bonds resulted in "additional paid-in

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capital-stock option” of \$153,508. In addition, the fair value of call options and put options embedded in bonds payable was separated from bonds payable, and was recognized as “Financial assets or liabilities at fair value through profit or loss” in accordance with SFAS No. 34. The effective annual interest rate of the bonds ranges from 2.122% to 2.263%.

- c. As of December 31, 2010, Ability Enterprise Co., Ltd.’s convertible bonds have not yet been converted into common shares nor repurchased.

(12) Long - Term Loans

<u>Creditor</u>	<u>Usage and redemption duration</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Citibank Taiwan and 15 other participating financial institutions (Note A)	2010.10.25~2015.10.25, Credit line is repayable in 5 semi-annual installments, commencing from October 25, 2013.	\$ 6,991,200	-
ANZ, Mega International Commercial Bank and 14 other participating financial institutions	2008.10.31~2011.10.30, \$1.5 billion is payable in 3 semi-annual installments, commencing on April 30, 2010 and the remaining amount is payable on maturity date and the remaining balance has been repaid in advance on November 23, 2010.	-	7,200,000
Industrial and Commercial Bank of China — Ji-An Branch	2009.10.09~2011.10.08, interest is payable quarterly, and total outstanding amount is payable on maturity date.	-	140,549
The Shanghai Commercial & Saving Bank, Ltd.	2010.09.21~2015.09.20 payable in 10 quarterly installments from the thirty-first month.	1,019,550	-
Mega International Commercial Bank — Lan-Ya Branch	2004.12.31~2011.12.31, payable in 20 quarterly installments, commencing from January, April, August, October 15 which date is the nearest date of borrowing.	4,873	10,720
Mega International Commercial Bank — Lan-Ya Branch	2005.01.31~2012.01.31, payable in 20 quarterly installments, commencing from the date of borrowing.	27,081	53,606
Mega International Commercial Bank — Lan-Ya Branch	2009.12.16~2016.12.15, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period).	316,972	348,582



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<u>Creditor</u>	<u>Usage and redemption duration</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Mega International Commercial Bank — Lan-Ya Branch	2010.10.28 ~2015.10.27, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	203,560	-
Mega International Commercial Bank — Lan-Ya Branch	2010.10.28~2015.10.27, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period).	116,320	-
Mega International Commercial Bank — Lan-Ya Branch	2010.12.20~2015.12.20, payable in 20 quarterly installments, commencing from May 20, 2011.	1,019,550	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch	2006.12.08 ~2013.12.08, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	14,540	21,320
The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch	2009.06.23 ~2014.06.23, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	76,335	95,940
The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch	2009.07.23 ~2014.07.23, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	20,447	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 from the date of borrowing.	210,830	231,855
The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch	2010.07.22~2015.07.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	179,569	-
The Shanghai Commercial & Savings Bank, Ltd. — International Financial Service Branch	2010.12.10~2014.12.09, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	145,650	-

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<u>Creditor</u>	<u>Usage and redemption duration</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
The Shanghai Commercial & Savings Bank, Ltd. — International Financial Service Branch	2010.04.20~2013.04.19, payable in 8 quarterly installments, commencing from May 20, 2011.	58,260	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch	2010.12.24~2015.12.24, payable in 60 monthly installments, commencing from May 20, 2011.	145,650	-
Total		<u>10,550,387</u>	<u>8,126,557</u>
Less: Current portion		<u>(407,007)</u>	<u>(48,006)</u>
		<u>\$ 10,143,380</u>	<u>8,078,551</u>
Range of interest rate		<u>0.85%~1.33%</u>	<u>0.89%~4.86%</u>

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

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

The Company was in compliance with the above financial covenants as of December 31, 2010 and 2009. The Consolidated 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.

(13) Pension Plan :

The Company has established an employee non-contributory defined benefit pension plan covering all regular employees. According to this plan, payments of pension benefits are based on the employee's of service years and average monthly salary during the six months before the employee's retirement. Each employee earns two months' salary for the first 15 years of service and one month's salary for each service year starting from the sixteenth year. According to the retirement plan, the payments of retirement benefits are the responsibility of the Company. Under the Labor Pension Act (the "Act"), effective July 1, 2005, employees of the Company (who were hired prior to July 1, 2005) may elect to be subject to either the Act, and maintain their

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seniority before the enforcement of the Act, or the pension mechanism of the Labor Standard Law. Employees who are hired by the Company after July 1, 2005, shall comply with the provisions of this Act. For employees subject to this Act, the Company contributes monthly to the employees' individual pension accounts an amount equal to not less than 6% of the employees' monthly wage and deposits it in a personal retirement benefit account with Bank of Taiwan. However, if there are provisions of the Act which are not yet included in the existing retirement plans of domestic subsidiaries, those domestic subsidiaries still need to comply with those provisions of the Act.

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

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

For the years ended December 31, 2010 and 2009, the pension costs and related information were as follows:

	<b>2010</b>	<b>2009</b>
Balance of pension fund - ending	\$ 111,237	94,894
Current pension expenses:		
Defined benefit pension plan	8,971	8,819
Defined contribution pension plan	1,011,287	1,156,290

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

	<b>2010</b>	<b>2009</b>
Discount rate	2.00%	2.00% ~ 2.25%
Future salary increase rate	2.75% ~ 3.00%	2.00% ~ 3.00%
Estimated long-term rate of return on pension fund	2.00%	2.00% ~ 2.25%

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b. As of December 31, 2010 and 2009, of the funded status was reconciled with accrued pension liability per books as follows:

	<b>As of December 31,</b>	
	<b>2010</b>	<b>2009</b>
Benefit obligation		
Vested benefit obligation	\$ (14,369)	(2,543)
Non-vested benefit obligation	(108,606)	(81,994)
Accumulated benefit obligation	(122,975)	(84,537)
Effect of future salary increase	(107,020)	(72,002)
Estimated benefit obligation	(229,995)	(156,539)
Fair value of pension fund assets	111,428	94,894
Funded status	(118,567)	(61,645)
Unrecognized net transitional benefit obligation	1,989	5,180
Unrecognized gain on pension fund	126,784	61,310
Additional pension liability	(19,603)	(23,599)
Accrued pension liability	<b>\$ (9,397)</b>	<b>(18,754)</b>

As of December 31, 2010 and 2009, the Consolidated Company's vested benefit obligation under the Consolidated Company's pension plan was \$14,369 and \$2,543, respectively.

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

	<b>2010</b>	<b>2009</b>
Service cost	\$ 1,827	1,609
Interest cost	3,523	3,548
Estimated return on pension fund assets	(2,114)	(1,984)
Amortization of unrecognized net transitional benefit obligation	5,735	5,646
Net periodic pension cost	<b>\$ 8,971</b>	<b>8,819</b>

(14) Income Tax :

a. According to the revised income tax law announced on June 15, 2010, this statutory income tax rate is reduced further to 17% effective January 1, 2010. Therefore, the Company and its domestic subsidiaries were subject to statutory income tax rate of 17% and 25% for the years ended December 31, 2010 and 2009, respectively. The Company also complied with the Basic

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Income Tax Act when calculating its income tax. Other foreign subsidiaries are subject to income tax in compliance with their respective local income tax law.

b. For the years 2010 and 2009, the components of income tax expense were as follows:

	<u>2010</u>	<u>2009</u>
Current income tax expense	\$ 1,917,230	1,905,261
Deferred income tax expense	287,635	28,821
10% surtax on undistributed earnings	216,277	171,326
Prior years income tax adjustment	(57,564)	249,494
Income tax expense	<u>\$ 2,363,578</u>	<u>2,354,902</u>

The components of deferred income tax expense were as follows:

	<u>2010</u>	<u>2009</u>
Unrealized exchange gain	\$ 160,750	243,627
Reversal (Provision) for loss on allowance for inventory market decline and obsolescence	(178,794)	321,151
Unrealized profits on sales	19,972	29,354
Reversal of warranty reserve	107,628	105,489
Reversal (Provision) for doubtful accounts and sales allowance	(1,652)	17,756
Unrealized allowance for sales discount	2,993	-
Investment tax credits	(261,694)	(964,543)
Reversal (Provision) for impairment loss of assets	(12,312)	2,152
Loss carry-forward	(254,392)	(27,547)
Unrealized gain on foreign investment loss	36,886	141,039
Valuation allowance for deferred tax assets	658,912	52,284
The effect of income tax rate changes	25,438	-
Others	(16,100)	108,059
Deferred income tax expense	<u>\$ 287,635</u>	<u>28,821</u>

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c. 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 2010 and 2009 as follows:

	<b>2010</b>	<b>2009</b>
Income tax expense calculated on pre-tax financial at the statutory tax rate	\$ 3,342,505	4,741,062
Permanent differences	(929,994)	(1,676,340)
Tax-exempt income	(175,148)	(100,390)
Investment tax credits (increase)	(73,434)	(538,579)
Unused investment tax credit	27,232	(581,870)
Adjustment to prior year's income tax	(181,247)	(20,657)
Undervalue of income tax in prior year	3,314	249,494
Valuation allowance of deferred income tax assets	62,144	53,048
Basic income tax	840	30,342
The effect of income tax rate changes	25,438	27,466
Others	45,651	-
10% surtax on undistributed earnings	216,277	171,326
Income tax expense	<b>\$ 2,363,578</b>	<b>2,354,902</b>

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d. As of December, 2010 and 2009, the temporary differences, loss carry-forwards and income tax credits, resulting in deferred income tax assets(liabilities), and the related income tax effect thereof were as follows:

	December 31, 2010		December 31, 2009	
	Amount	Income Tax Effects	Amount	Income Tax Effects
Temporary differences of deferred income tax assets (liabilities) - current:				
Recognition of unrealized foreign exchange loss: taxable	\$(1,294,192)	(220,012)	(403,934)	(80,728)
Recognition of loss on allowance for inventory market decline and obsolescence: deductible	2,059,241	349,976	978,870	195,851
Recognition of unrealized intercompany profit: deductible	(116,751)	(19,848)	(79,348)	(15,870)
Recognition of warranty reserve: deductible	699,335	118,887	1,326,851	265,370
Unused balance of investment tax credits	951,682	951,682	693,469	693,469
Loss carry-forward	1,573,219	268,663	66,452	13,290
Allowance for doubtful accounts	118,254	20,100	99,515	19,903
Depreciation of assets: deductible	(107,684)	(21,631)	-	-
Others	62,606	10,643	84,010	16,802
Valuation Allowance		(770,589)		(172,177)
Net deferred income tax assets		<u>\$ 687,871</u>		<u>935,910</u>
Temporary difference of deferred income tax assets (liabilities) - noncurrent:				
Recognition of impairment loss on assets: deductible	\$ 147,752	22,957	46,659	9,332
Recognition of unrealized intercompany profit: deductible	-	-	68,065	13,613
Recognition of gain on foreign investments: taxable	(1,133,627)	(192,717)	(1,794,370)	(358,874)
Unused balance of investment tax credits	531,258	531,258	527,777	527,777
Loss carry-forward	333,102	56,627	303,707	60,741
Reserve for overseas investment losses	(1,015,494)	(172,634)	-	-
Recognition of impairment loss on long-term investment	173,644	29,519	48,207	9,642
Unrealized allowance for sales discount	29,198	4,964	29,119	5,824
Recognition of loss on allowance for inventory market decline and obsolescence: deductible	5,351	910	3,340	668
Others	59,614	11,650	14,535	2,907
Valuation Allowance		(644,382)		(583,882)
Net deferred income tax assets (liabilities)		<u>\$ (351,848)</u>		<u>(312,252)</u>

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- e. The Company's tax returns through 2007 have been assessed and approved by the Tax Authority.
- f. For the status of the requests for administrative proceedings formally filed by the Consolidated Company, please refer to notes 7(8) and 7(10).
- g. As of December 31, 2010, 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:

<u>Company Name</u>	<u>Year of occurrence</u>	<u>Unused balance</u>	<u>Expiry year</u>
The Company	2008~2009	\$ 757,911	2012~2013
KINSUS	2007~2010	664,858	2011~2014
ASUS Investment	2007	14,750	2011
ADVANSUS	2009	6,064	2013
AMA PRECISION	2008~2009	11,890	2012~2013
UNIHAN	2009	27,467	2013
		<b>\$ 1,482,940</b>	

- h. As of December 31, 2010, according to ROC Income Tax Act, unused loss carry-forward which may be applied to offset against income tax in the future are as follows:

<u>Company Name</u>	<u>Year of occurrence</u>	<u>Unused balance</u>	<u>Expiry year</u>
PCM	2010	\$ 9,352	Note
UNIHAN	2010	1,563,867	2020
STARLINK	2004~2010	149,152	2014~2020
AMA PRECISION	2009~2010	99,756	2019~2020
PEGAVISION	2009~2010	84,194	2019~2020
		<b>\$ 1,906,321</b>	

Note: In accordance with its local income tax act.



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i. Five year income tax exemption period

- (a) Due to the increase in its investments in new equipment, the Company was granted several income tax exemptions for its manufacturing and sales of “motherboard” out of the new equipment purchased from the proceeds of capital increase. As of December 31, 2010, the five year income tax exemption periods were as follows:

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

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

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

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j. Stockholders' imputation tax credit account and tax rate:

<u>Undistributed earnings</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Accumulated in 1997 and prior years	\$ -	-
Accumulated in 1998 and thereafter	8,253,605	6,712,650
Total	<u>\$ 8,253,605</u>	<u>6,712,650</u>
Stockholders' imputation tax credit account	<u>\$ 200,504</u>	<u>5,240</u>
	<u>2010 (Expected)</u>	<u>2009 (Actual)</u>
Expected or actual deductible tax ratio	<u>7.45 %</u>	<u>3.17%</u>

(15) Stockholders' Equity

a. 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 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 new shares with par value of \$10 par 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 had 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 new shares, resulting in additional capital of \$2,796,281.

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

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Pegatron International Investment Co., Ltd. (Pegatron Investment), which is being held by ASUSTeK. Pegatron Investment will issue new shares to ASUSTeK and all shareholders of ASUSTeK, for which, ASUSTeK and all other shareholders of ASUSTeK will acquire 25% ownership and 75% ownership, respectively, of the equity of Pegatron Investment. The record date of this spin-off is June 1, 2010. Following the spin-off, the Company merged with Pegatron Investment. The Company issued 10 new shares, resulting in additional capital of \$100. Thereafter, the total outstanding capital amounted to \$22,860,639, divided into 2,286,064 shares with par value of \$10 per share.

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares valued at \$296,970. As of December 31, 2010 and 2009, the authorized capital of the Company both consisted of 2,500,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,256,367 thousand shares and 2,286,054 thousand shares, respectively.

ASUSTeK GDR holders who surrender their ASUSTeK GDRs on or after the Effective Date of Spin-off and Merger in Taiwan will receive the new ASUSTeK GDRs and the Company's entitlement. The Company's entitlement represents the rights to receive 60,819,026 the Company's common shares in Taiwan. The Company may issue new GDRs with no more than 60,819,020 Pegatron common shares and delivered them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines". As of December 31, 2010, the Company has listed, in total, 10,181 thousand units of GDR on the Luxembourg Stock Exchange. Each unit of deposit receipt represents 5 shares and thereby the Company has listed 50,905 thousand shares in total. Major terms and conditions for GDR were as follows:

(a) Voting Rights

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

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

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

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b. 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 arising from long-term equity investments cannot be used to increase capital.

As of December 31, 2010 and 2009, 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 \$232,803 and \$194,872, respectively, which were debited to salary expense and credited to capital surplus — others.

c. Treasury Stock

(a) For the year ended December 31, 2010, in order to maintain the Company's credit standing and shareholders' equity, the Company bought back 29,697 thousand shares in accordance with Securities and Exchange Act Article 28-2. As of December 31, 2010, the treasury stock of the Company was retired completely.

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

(c) In accordance with Securities and Exchange Act, treasury shares cannot be pledged. Also, treasury shares do not bear the shareholder's right prior to being sold to third parties.

(d) As of December 31, 2010, the number of Company's shares held by its subsidiaries was 800 thousand shares amounting to \$33,600 at fair value.

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d. Earnings Distribution and Dividend Policy

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

- (a) No less than 10% as employees' bonuses which are distributable in cash or stock . In the event that the employee bonus is distributed in the form of stock, employees qualifying for such distribution may include the employees of subsidiaries of the Company who meet certain specific requirements. Such qualified employees and distribution ratio shall be decided by the Board of Directors.
- (b) Up to 1% as remuneration to directors and supervisors.
- (c) The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

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 March 10, 2010 and June 30, 2009 (resolution on such date was amended on December 25, 2009), the Company's board of directors resolved the appropriation of earnings for 2008 and 2009. The distributions of dividends per share and employee bonuses and remuneration to directors and supervisors from the distributable earnings in 2009 and 2008 were as follows:

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

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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. Related information can be acquired from the Observation Post and other pipeline inquiry.

For the year ended December 31, 2010, the estimated employee bonuses and directors' and supervisors' remuneration amounted to \$127,000 and \$12,000, respectively, which were recognized as current expenses. Differences between the amounts approved in the shareholders' meeting and recognized in the financial statements, if any, are to be accounted for as changes in accounting estimates and recognized in profit or loss.

**(16) Employee Stock Option**

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

(a) On November 20, 2007, pursuant to the resolutions of its board of directors, Ability Enterprise Co., Ltd. (Ability) 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. Following the issuance of employee stock options, any event, such as additional change to common stock of Ability, distributions of cash dividends, and occurrence of merger and acquisition will result in adjustments in the price of the stock options. The employee stock options cover a contractual life of 7 years, and are exercisable in accordance with certain schedules as prescribed by the plan starting 2 years from the date of grant. As of December 31, 2010 and 2009, the weighted-average expected life of the employee stock options was 4.24 years and 5.24 years, respectively.

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

	2010		2009	
	Quantity of stock option (thousand shares)	Weighted- average exercise price	Quantity of stock option (thousand shares)	Weighted- average exercise price
Outstanding at the beginning of the period	10,000	\$ 41.3	10,000	44.2
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	(3,322)	38.3	-	-
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>6,678</u>	38.3	<u>10,000</u>	41.3
Exercisable at the end of the period	<u>2,678</u>		<u>4,000</u>	

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

	<b>2010</b>	<b>2009</b>
Net income		
Net income	\$ 2,364,919	2,152,046
Pro forma net income	2,332,829	2,079,218
Basic earnings per share		
Earnings per share	5.39 dollars	5.00 dollars
Pro forma earnings per share	5.31 dollars	4.84 dollars
Diluted earnings per share		
Earnings per share	5.03 dollars	4.89 dollars
Pro forma earnings per share	4.92 dollars	4.73 dollars

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

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

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

- (a) On November 20, 2007, pursuant to resolutions of its board of directors, Ability Enterprise Co., Ltd. (Ability) had issued employee stock options covering a total number of 19,500 units. The second batch of employee stock option 9,500 units was issued on October 13, 2008. Each unit bears an option to subscribe for one shares of Ability's common stock at an exercise price of \$22.2 per share. As of December 31, 2010 and 2009, the weighted-average expected life of the employee stock options was 4.75 years and 5.75 years, respectively.

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

	2010		2009	
	Quantity of stock option (thousand shares)	Weighted-average exercise price	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	9,500	\$ 20.8	9,500	22.2
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	(2,698)	19.3	-	-
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>6,802</u>	19.3	<u>9,500</u>	20.8
Exercisable at the end of the period	<u>1,102</u>		<u>-</u>	

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

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

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

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

	2010	2009
Equity transaction	<u>\$ 36,316</u>	<u>21,732</u>

- c. The details of treasury stock transferred to in 2009 were as follows

- (a) On July 30, 2009, pursuant to the resolution of its board of directors and in accordance with its policy of treasury stock transfer, Ability Enterprise Co., Ltd. transferred to its employees 10,000 thousand of its own shares worth \$426,209 which represent the seventh batch of repurchased shares. The transfer price after the adjustment was \$38.14, which was calculated based on the average cost of treasury stock plus an amount adjusted from the proportionate increase of ex-dividend for 2009 and 2008.



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- (b) 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	Grand date	Stock Price	Exercise Price	Volatility factors of the expected market price	Weighted-average expected life of the options	Dividend yields	Risk-free interest rate	Fair value per unit
Treasury stocks transferred to employees	2009.07.30	\$49.30	38.14	39.23% (Note)	0.0417 years	-%	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 grant date.

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

	<b>2010</b>
Equity transaction	<b>\$ 111,652</b>

- (d) The relevant registration processes for changes of capital resulting from the exercise of employee stock options and conversion of convertible bonds should be completed within at least each quarter when those changes occur. As of December 31, 2010, Ability increased its capital by \$27,740 due to the exercise of employee stock options, which was accounted for under advance receipts for common stock

**(17) Earnings per Share (EPS)**

For years ended December 31, 2010 and 2009, the Parent company's basic earnings per share, and diluted earnings per share were computed as follows:

	(Note: shares in thousands)			
	2010		2009	
	Before income tax	After income tax	Before income tax	After income tax
Net income	\$ 7,316,410	6,211,436	7,195,049	6,751,588
Weighted-average common shares outstanding	2,273,429	2,273,429	2,286,054	2,286,054
Dilutive potential common shares	7,821	7,821	33,953	33,953
Diluted shares	<b>2,281,250</b>	<b>2,281,250</b>	<b>2,320,007</b>	<b>2,320,007</b>
Primary earnings per share	\$ 3.22	2.73	3.15	2.95
Diluted earnings per share	<b>\$ 3.21</b>	<b>2.72</b>	<b>3.10</b>	<b>2.91</b>

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(18) Financial Instruments

a. Fair value of financial instruments

The carrying amounts of the following non-derivative short-term financial instruments such as cash, accounts receivable, accounts payable, short-term bank loans and other payables are estimated based on their fair value as of balance sheet date.

As of December 31, 2010 and 2009, except for the financial assets liabilities described as above, the Consolidated Company's other financial assets and liabilities were as follows:

<b>Non-Financial Instruments</b>	<b>December 31, 2010</b>		<b>December 31, 2009</b>	
<b>Financial Assets</b>	<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>
Financial assets held-to-maturity	\$ 262,170	-	-	-
Financial assets carried a cost	763,753	-	609,243	-
<b>Financial Liabilities</b>				
Bonds payable	1,373,801	1,373,801	-	-
Long-term loans (including current portion)	10,550,387	10,550,387	8,126,557	8,126,557

<b>Financial Instruments</b>	<b>December 31, 2010</b>		<b>December 31, 2009</b>	
<b>Financial Asses</b>	<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>
Currency swap contract-hedging	18,049	18,049	12,112	12,112
<b>Financial Liabilities</b>				
Embedded derivatives - convertible bonds	11,142	11,142	-	-

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

- (a) The fair value of financial instruments, which are carried at fair value through profit or loss and traded in active markets, is based on quoted market prices. If the financial instruments are not traded in an active market, then the fair value is determined by using valuation techniques, under which, the estimates and assumptions used are consistent with prevailing market conditions.
- (b) Financial assets carried at cost, are measured at carrying value, as their market price is difficult to determine, due to lack of objective evidences, in practice.
- (c) The fair value of call options and put options embedded in the convertible bonds, which were issued after January 1<sup>st</sup>, 2006, is determined by their book value.

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- (d) The fair market value of long-term loan is determined by the present value of future cash flow. As the value derived by using floating interest rate in discounting is close to the book value, the book value is adopted as the fair market value.
  - (e) The fair value of the derivatives is determined by their book value on the balance sheet date. If the derivatives are not traded in active markets, then the fair value is determined by using valuation techniques, under which the estimates and assumptions used are consistent with prevailing market conditions.
- c. Loss recognized from changes in the fair values of financial assets and liabilities, which were estimated by using valuation techniques, amounted to \$47,110 and \$194,577, for the years 2010 and 2009, respectively.
- d. Information on financial risks

(a) Market risk

The Consolidated Company's purchases and sales are denominated mainly in US dollars, and as a consequence, it is exposed to the current and future foreign currency risk that arises from cash flows of foreign currency assets and liabilities. However, the risks may be regarded as insignificant, because foreign currency losses from sales are subsequently offset by the foreign currency gain from purchases. In addition, the 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.

(b) Credit risk

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

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

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The Consolidated Company only transacted with the approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Consolidated Company would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Consolidated Company believes that there is no significant credit risk. According to the Company's customer credibility evaluation policies, the Consolidated Company has to evaluate the customer's credibility and evaluate the collectability of notes and account receivables 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 Consolidated Company evaluates the financial conditions of these customers continually to reduce credit risk from accounts receivable. Moreover, the Consolidated Company also periodically evaluates the customers' financial positions and the possibility of collecting trade receivables. Thus, there is no significant credit risk.

(c) Liquidity risk

The capital and working funds of the Consolidated Company are sufficient to meet its entire contractual obligations and non-hedging forward exchange contracts; therefore, 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.

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

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

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(e) Risk control, hedging strategies and related activities

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

UNITED NEW held accounts payable in foreign exchange and its fair value will float with the exchange rate. UNITED NEW reduced the exchange rate risk by entering to forward exchange contracts.

As of December 31, 2010, the Consolidated Company has no unexpired forward exchange contracts.

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

As of December 31, 2010 and 2009, guarantee and endorsements of bank loans were provided by the Consolidated Company for related parties, as discussed in Note 5.

(19)Others

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

	December 31, 2010			December 31, 2009		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<b>Financial Assets</b>						
<u>Monetary Items</u>						
USD	\$1,678,967	29.13	48,908,309	2,141,803	31.99	68,516,278
RMB	1,510,878	4.4405	6,709,054	1,117,272	4.6850	5,234,419
<u>Long-term Equity Investments</u>						
USD	51,758	29.13	1,507,711	35,566	31.99	1,137,756
<b>Financial Liabilities</b>						
<u>Monetary Items</u>						
USD	1,936,867	29.13	56,420,936	2,184,578	31.99	69,884,650
RMB	170,808	4.4405	758,473	269,606	4.6850	1,263,104

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**5. Related-Party Transactions**

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

Name of Related Party	Relationship with the Company
ASUSTEK COMPUTER INC.	An investor company that ceased to be a parent company effective May 31, 2010.
ASUS HOLLAND B.V.(ACH)	An investee company accounted for under the equity method by ASUSTeK Computer Inc.
ASKEY INTERNATIONAL CORP	//
ASUS COMPUTER INTERNATIONAL	//
ASUS TECHNOLOGY PTE. LIMITED	//
BIG PROFIT LIMITED	//
OPENBASE LIMITED (OPENBASE)	//
ENERTRONIX, INC.	//
ASMEDIA TECHNOLOGY INC.	//
UNIMAX ELECTRONICS INCORPORATION	//
ASKEY TECHNOLOGY (JIANG SU) LTD	//
ASKEY COMPUTER CORPORATION	//
AGAIT TECHNOLOGY CRPORATION	//
INTERNATIONAL UNITED TECHNOLOGY CO., LTD	
SHINEWAVE INTERNATIONAL INC.	
ASUS TECHNOLOGY (SUZHOU) CO.,LTD	//
ASUS COMPUTER (SHANGHAI) CO., LTD (ASUS UNITED Technology (Shanghai) Co., Ltd. formerly)	//
ASUS TECHNOLOGY INCORPORATION	//
EMES (SUZHOU) CO., LTD	//
AVY HIGH TECH LIMITED	//
BLACKROCK MARYLAND INT'L CORP	//
HOLD JUMPER INTERNATIONAL CO., LTD	//
SHINE TRADE INTERNATIONAL LTD	//
YORKEY OPTICAL TECHNOLOGY LTD. (SAMOA)	//
SHANGHAI INDEED TECHNOLOGY CO., LTD.	//
HOLD JUMPER PACKING (SHANGHAI) CO., LTD.	
HOLD JUMPER PACKING (SUZHOU) CO., LTD.	
ASHINE PRECISION CO., LTD	//
DONGGUAN CHENGGUANGP PRECISION HARDWARE CO., LTD	//
DONGGUAN AVY PRECISION METAL COMPONENTS CO., LTD	//

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Name of Related Party	Relationship with the Company
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	An investee company accounted for under the equity method by ASUSTeK Computer Inc.
ASAP TECHNOLOGY (JIANGXI) CO., LIMITED	"
GING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	"
AVY PRECISION TECHNOLOGY INC. Avy Co., Ltd.	An investee company accounted for under the indirect equity method
AVY PRECISION METAL COMPONENTS(SUZHOU)	"
CRYSTAL ART ENTERPRISE CO., LTD. SUZHOU DELUXE PACKING PRODUCTION CO., LTD.	"
TAISHIBA INTERNATIONAL CO., LTD. ALL DIRECTORS, SUPERVISORS, GENERAL MANAGER AND VICE PRESIDENT.	An affiliate of Ability Enterprise Co., Ltd The company's key management.

(2) Significant Transactions with Related Parties

a. Sales

Name of Related Party	2010			2009		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTEK	\$ 210,769,021	39.73	Open account 60 days	199,243,981	37.03	30 days from receipt of goods Open account 30~120 days
Others	139,408	0.02	30~90 days from receipt of goods Open account 30~90 days	2,784,092	0.52	30~60 days from receipt of goods Open account 30~120 days
Total	\$ 210,908,429	39.75		202,028,073	37.55	

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

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b. Purchases

Name of Related Party	2010			2009		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$ 151,316,954	31.50	Open account 60 days	137,317,191	21.19	30~60 days from receipt of goods Open account 60~120 days
Others	6,200,221	1.29	30~90 days from receipt of goods Open account 30~120 days	5,089,090	0.79	30~90 days from receipt of goods Open account 30~120 days
Total	<u>\$ 157,517,175</u>	<u>32.79</u>		<u>142,406,281</u>	<u>21.98</u>	

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

For years 2010 and 2009, the Company purchased raw materials from vendors through ASUSTek.

c. Others

	2010	2009
(a) <u>After-sales warranty repair expense paid to:</u>		
ASTP	\$ 93,162	-
ASUS COMPUTER (SHANGHAI)	14,531	85,505
ASUSTEK COMPUTER (SHANGHAI)	3,688	10,601
Others	646	327
Total	<u>\$ 112,027</u>	<u>96,433</u>
	2010	2009
(b) <u>Other income from:</u>		
ASUSTeK	\$ 614,203	768,628
Others	3,497	16,726
Total	<u>\$ 617,700</u>	<u>785,354</u>

(c) For the years 2010 and 2009, the Consolidated Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, professional service fee, etc, amounting to \$144,918 and \$163,308, respectively.

(d) For years 2010 and 2009, the Consolidated Company incurred other related party transactions recorded as processing revenue and repair revenue, which amounted to \$94,417 and \$279,331, respectively.



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d. Property Transactions

(a) Purchase of properties

For years 2010 and 2009, properties purchased from other related parties amounted to \$143,218 and \$105,028 (of which \$9,635 was accounted under prepayment for equipment), respectively.

(b) Disposal of properties

For the years 2010 and 2009, properties disposed to other related parties amounted to \$109 and \$1,640, respectively

(c) Rental revenue

For years 2010 and 2009, the Consolidated Company incurred other related party transactions, which were accounted for as rental revenue of \$27,148 and \$36,704, respectively.

(d) Equity Transactions

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.

CASETEK HOLDING LIMITED acquired 51% of total issued shares of UNITED NEW LIMITED from ASUSTEK HOLDINGS LIMITED amounted to USD 15,220 thousand dollars on July 1, 2009.

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.

AMA Holdings Limited acquired the 100% equity ownership of Toptek Precision Industry (Suzhou) Co., Ltd. from AMA Corporation amounted to USD 1,109 thousand on February 5, 2009.

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Ability Enterprise Co., Ltd acquired 2,500 thousand shares of Avy Precision Technology Inc. from Avy Co., Ltd for \$178,067 in February 2009.

For the year ended December 31, 2009, the Company's subsidiary sold the long-term investment to AVY Precision Technology Inc. with carrying value of \$143,812 for \$177,466, and recognized a gain of \$33,654.

e. Accounts Receivable (Payable)

	<b>December 31, 2010</b>		<b>December 31, 2009</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Accounts Receivable:</b>				
ASUSTeK	\$ 9,448,413	17.68	13,164,371	19.21
Others	7,132	0.01	444,049	0.65
Sub-total	9,455,545	<b>17.69</b>	13,608,420	<b>19.86</b>
Less: Allowance for doubtful accounts	-		(707)	
Total	<b>\$ 9,455,545</b>		<b>13,607,713</b>	
<b>Other Receivables:</b>				
ASUSTeK	\$ 5,775	0.54	179,761	11.80
Others	1,709	0.10	16,552	1.09
Total	<b>\$ 7,484</b>	<b>0.64</b>	<b>196,313</b>	<b>12.89</b>
<b>Note and Account Payable:</b>				
AVY PRECISION	\$ 507,525	0.92	220,798	0.33
SHANGHAI INDEED	441,994	0.81	421,073	0.64
ASKEY TECHNOLOGY	334,634	0.61	43,368	0.07
Others	446,983	0.81	620,406	0.94
Total	<b>\$ 1,731,136</b>	<b>3.15</b>	<b>1,305,645</b>	<b>1.98</b>

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

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
<b>Assets:</b>		
Prepayments	\$ 5,243	130
Other current asset	5,254	6,224
	<b>\$ 10,497</b>	<b>6,354</b>
<b>Liabilities:</b>		
Accrued expenses	\$ 63,246	24,538
Other financial liabilities - current	232	8,478
Other current liabilities	4,770	18,671
	<b>\$ 68,248</b>	<b>51,687</b>

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f. Endorsement Guarantee

As of December 31, 2010 and 2009, 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, 2010</u>	<u>December 31, 2009</u>
ASUSTeK	<u>USD      300,000</u>	<u>USD      300,000</u>

As of December 31, 2010 and 2009, 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, 2010</u>	<u>December 31, 2009</u>
LINKTEK PRECISION	<u>USD      -</u>	<u>USD      800</u>

g. Remuneration

For the years ended December 2010 and 2009, the total remuneration paid to the members of Board of Directors and Supervisors and of Executive management were as follow:

	<u>2010</u>	<u>2009</u>
Salary and Bonus (including BODS remuneration)	\$      295,248	208,504
Professional execution	210	153
Employee Bonus	148,162	152,510
Total	<u>\$      443,620</u>	<u>361,167</u>

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**6. Pledged Assets**

As of December 31, 2010 and 2009, pledged assets were as follows:

<u>Asset</u>	<u>December 31,</u>		<u>Purpose of pledge</u>
	<u>2010</u>	<u>2009</u>	
Restricted deposit	\$ 1,343,307	197,627	Customs duty guarantee, bank loans, rental deposits, credit contracts, issued letter of credit, travel agency guarantee, etc.
Property, plant and equipment	1,464,747	2,955,155	Bank loans
Intangible asset	-	605,487	Bank loans
Inventories	16,410	16,410	Lawsuit collateral (Note A)
Refundable deposits	126,694	291,189	Deposits for performance guarantee
	<u>\$ 2,951,158</u>	<u>4,065,868</u>	

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

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

(1) As of December 31, 2010 and 2009, major commitments and contingencies were as follows:

<u>Unused standby letters of credit</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
NTD	\$ 400	5,141
EUR	2,575	497
JPY	2,245,366	3,112,833
USD	20,508	38,079
GBP	-	9

(2) As of December 31, 2010 and 2009, promissory notes and certificate of deposit obtained for business purpose amounted to \$13,674 and \$18,719, respectively.

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

Year	Future lease commitments				
	2011	2012	2013	2014	2015
2010	\$ 306,540	201,742	108,253	74,045	56,440

- (4) As of December 31, 2010 and 2009, the significant contracts for purchase of properties signed by the Consolidated Company amounted to \$1,374,565 and \$3,834,469, of which \$269,577 and \$185,385 were unpaid, respectively.
- (5) AVerMedia Technologies Inc. filed an attachment for damage loss against Lumens Digital Optics Inc. with the Taiwan HsinChu District court on January 3, 2005. Lumens Digital Optics Inc. pledged a deposit of \$90,000 as counter-security to the Court for rescinding the attachment. In addition, AVerMedia Technologies Inc., again, filed an attachment for the same reason with the court. HsinChu District court has seized the inventory of Lumens Digital Optics Inc. amounting to \$16,410 which had been recognized as the loss on valuation allowance on June 4, 2010. Lumens Digital Optics Inc. lost its first instance lawsuit and expected that there is no material loss thereon except for the allowance of inventories on the aforementioned case.
- (6) On May 24, 2010, Lumens Digital Optics Inc. filled a law suit accusing Aver Media Information Inc. for patent infringement. This case is currently under investigation as of December 31, 2010.
- (7) One of ASUSPOWER CORPORATION's American customers voluntarily filed for bankruptcy with the 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) As of December 31, 2010, the tax returns of the Ability Enterprise Co., Ltd through 2006 have been assessed and approved by the tax authority. The Company disagreed with the examination results of the 2004, 2005, 2006 and 2007 income tax return, in which the tax authority reduced the company's tax benefits amounted to \$248,999 in total. The relative estimated income tax liability was approximately \$124,499.

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- (9) American Kodak Company filed a civil lawsuit against sued Canon Enterprise on June 22, 2010. Canon Enterprise and Kodak Company have been settled and withdrawn the lawsuit on October 4, 2010. The lawsuit and settlement has no significant influence over Canon Enterprise's operating and financing position.
- (10) AzureWave Technologies, INC.'s (AzureWave) tax returns through 2008 have been assessed and approved by the Tax Authority. TWINHAN Technology Co., Ltd. (TWINHAN) has liquidated after its merger with AzureWave in December 2008. TWINHAN's tax returns through 2008 have been assessed and approved by the Tax Authority where TWINHAN appealed an administrative remedy against the tax authority's assessment from 2002 to 2004. The Supreme Court had rejected the appeal in September 2010. AzureWave has recognized the possible additional tax liabilities from the said statement.

**8. SIGNIFICANT CATASTROPHIC LOSSES: None.**

**9. SIGNIFICANT SUBSEQUENT EVENTS: None**

**10. OTHERS:**

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

Categorized as Nature	For the Year Ended December 31, 2010			For the Year Ended December 31, 2009		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salary expense	13,070,982	8,175,749	21,246,731	12,253,027	9,763,772	22,016,799
Health and labor insurance expense	841,701	494,983	1,336,684	381,099	424,267	805,366
Pension expense	659,016	361,242	1,020,258	810,118	354,991	1,165,109
Other expense	716,288	336,533	1,052,821	151,206	287,301	438,507
Depreciation expense (Note A)	6,637,381	1,133,461	7,770,842	6,856,639	1,345,263	8,201,902
Amortization expense	1,494,012	835,065	2,329,104	1,345,628	960,272	2,305,900

Note A: For the years 2010 and 2009, the Consolidated Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle-assets of \$254,243 and \$102,539, respectively.

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- (2) Certain accounts in the financial statements as of and for the year ended December 31, 2009, were reclassified to conform to the presentation adopted in the financial statements as of and for the year ended December 31, 2010.

**11. BUSINESS SEGMENT FINANCIAL INFORMATION:**

(1) Business Segment

The Company operates in electrical industry only.

(2) Geographical Segment

<u>For the year ended December 31, 2010</u>	<u>Domestic</u>	<u>Asia</u>	<u>Others</u>	<u>Adjustment and eliminations</u>	<u>Total</u>
External Revenue	\$ 216,477,456	160,627,685	153,426,210	-	\$ 530,531,351
Intra-Group Revenue	259,991,139	18,606,635	7,375,222	(285,972,996)	-
Total segment revenue	<u>\$ 476,468,595</u>	<u>179,234,320</u>	<u>160,801,432</u>	<u>(285,972,996)</u>	<u>\$ 530,531,351</u>
Segment profit	<u>\$ 12,048,194</u>	<u>697,011</u>	<u>95,427</u>	<u>147,190</u>	12,987,822
Investment gain under equity method					207,292
Interest expenses					(224,770)
Profit in continuing operations					<u>\$ 12,970,345</u>
Segment assets	<u>\$ 180,900,681</u>	<u>111,590,503</u>	<u>34,478,170</u>	<u>(114,334,481)</u>	\$ 212,634,873
Long-term investment under equity method					2,471,100
Goodwill					885,682
Total assets					<u>\$ 215,991,655</u>

<u>For the year ended December 31, 2009</u>	<u>Domestic</u>	<u>Asia</u>	<u>Others</u>	<u>Adjustment and eliminations</u>	<u>Total</u>
External Revenue	\$ 206,678,061	165,104,986	166,298,614	-	\$ 538,081,661
Intra-Group Revenue	194,660,174	22,674,825	5,153,550	(222,488,549)	-
Total segment revenue	<u>\$ 401,338,235</u>	<u>187,779,811</u>	<u>171,452,164</u>	<u>(222,488,549)</u>	<u>\$ 538,081,661</u>
Segment profit	<u>\$ 11,131,727</u>	<u>1,844,395</u>	<u>(287,128)</u>	<u>54,290</u>	\$ 12,743,284
Investment gain under equity method					312,360
Interest expenses					(153,355)
Profit in continuing operations					<u>\$ 12,902,289</u>
Segment assets	<u>\$ 202,427,955</u>	<u>124,843,665</u>	<u>43,160,225</u>	<u>(148,781,260)</u>	\$ 221,650,585
Long-term investment under equity method					1,996,644
Goodwill					890,311
Total assets					<u>\$ 224,537,540</u>

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(3) Export Sales

<u>Region</u>	<u>2010</u>	<u>2009</u>
America	\$ 63,169,567	78,170,726
Asia	160,627,685	165,104,986
Europe	88,295,262	87,867,264
Other	1,961,380	260,624
<b>Total</b>	<b>\$ 314,053,894</b>	<b>331,403,600</b>

(4) Major Customer

The customers whose accounts exceeded more than 10% of the Company's operating revenues for the years 2010 and 2009 were as follows:

<u>Customer</u>	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>% of total operating revenues</u>	<u>Amount</u>	<u>% of total operating revenue</u>
A	\$ 210,769,021	39.73	199,243,981	37.03
B	70,316,794	13.25	80,201,365	14.91
	<b>\$ 281,085,815</b>	<b>52.98</b>	<b>279,445,346</b>	<b>51.94</b>