

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

**Address: 5F., No.76, Ligong St., Beitou District, Taipei City 112, Taiwan**  
**Telephone: 886-2-8143-9001**

## TABLE OF CONTENTS

| <b>Contents</b>  | <b>Page</b> |
|--|-------------|
| COVER PAGE   | 1           |
| TABLE OF CONTENTS  | 2           |
| INDEPENDENT AUDITORS' REVIEW REPORT                        | 3           |
| CONSOLIDATED BALANCE SHEETS                                | 4           |
| CONSOLIDATED STATEMENTS OF INCOME                          | 5           |
| CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY | 6           |
| CONSOLIDATED STATEMENTS OF CASH FLOWS                      | 7           |
| NOTES TO CONSOLIDATED FINANCIAL STATEMENTS                 |             |
| (1) ORGANIZATION AND BUSINESS                              | 8           |
| (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES             | 8~39        |
| (3) REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES          | 39~40       |
| (4) SUMMARY OF MAJOR ACCOUNTS                              | 40~76       |
| (5) RELATED-PARTY TRANSACTIONS                             | 77~83       |
| (6) PLEDGED ASSETS   | 83~84       |
| (7) SIGNIFICANT COMMITMENTS AND CONTINGENCIES              | 84~85       |
| (8) SIGNIFICANT CATASTROPHIC LOSSES                        | 85          |
| (9) SIGNIFICANT SUBSEQUENT EVENTS                          | 85          |
| (10) OTHERS  | 86          |
| (11) BUSINESS SEGMENT FINANCIAL INFORMATION                | 87          |

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

**REVIEW REPORT OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors of  
Pegatron Corporation

We have reviewed the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries (the Consolidated Company) as of June 30, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Consolidated Company's management. Our responsibility is to express the review report based on our review. We did not review the financial statements of certain consolidated subsidiaries with total assets of NT\$ 68,163,271 thousand and NT\$ 61,309,726 thousand, representing 26.38% and 27.83% and net sales of NT\$ 38,260,385 thousand and NT\$ 38,112,088 thousand, representing 15.96% and 14.74% of the related consolidated total as of and for the six months ended June 30, 2011 and 2010, respectively. Those statements were reviewed by others auditors whose reports have furnished to us, and our opinion, insofar as it relates to the amounts included for certain subsidiaries, were based solely on the report of the other auditors.

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

The consolidated financial statements of certain subsidiaries were consolidated based on their unreviewed financial statements as of and for the six months ended June 30, 2011 and 2010. The total assets of these subsidiaries amounted to NT\$29,018,039 thousand and NT\$ 42,949,648 thousand, representing 11.23% and 19.49% of the related consolidated total assets and the total liabilities amounted to NT\$6,142,765 thousand and NT\$8,961,284 thousand, representing 4.16% and 8.89% of the related consolidated liabilities as of June 30, 2011 and

2010, respectively. The operating revenues of these subsidiaries amounted to NT\$12,953,842 thousand and NT\$20,106,708 thousand, representing 5.40% and 7.78% of the consolidated operating revenues for the six months ended June 30, 2011 and 2010, respectively, and their net income (loss) amounted to NT\$(201,973) thousand and NT\$882,444 thousand, representing (75.77)% and 15.24% of the related consolidated net income, respectively. As disclosed in Note 4(5) to the consolidated financial statement, the financial statements of certain long-term investments accounted for under the equity method were not reviewed by independent accountants. Long-term investments in these companies amounted to NT\$1,619,638 thousand and NT\$1,315,187 thousand as of June 30, 2011 and 2010, respectively, and the related investment gain (loss) thereon amounted to NT\$(8,206) thousand and NT\$67,420 thousand, respectively.

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



Taipei, Taiwan, R.O.C  
July 29, 2011

#### **Note to Readers**

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

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

**(English Translation of Financial Report Originally Issued in Chinese)**  
**Reviewed only, not audited in accordance with generally accepted auditing standards.**  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**JUNE 30, 2011 AND 2010**  
**(All Amounts Expressed in Thousands of New Taiwan Dollars)**

|  | <b>June 30, 2011</b>         |                   | <b>June 30, 2010</b>      |                   |
|--|------------------------------|-------------------|---------------------------|-------------------|
|  | <b>Amount</b>                | <b>%</b>          | <b>Amount</b>             | <b>%</b>          |
| <b>ASSETS</b>  |                              |                   |                           |                   |
| <b>Current Assets:</b>   |                              |                   |                           |                   |
| Cash (Note 4(1))   | \$ 45,759,013                | 18                | 38,637,001                | 18                |
| Financial assets reported at fair value through profit or loss – current (Note 4(2)) | 7,823,463                    | 3                 | 7,393,576                 | 3                 |
| Derivative financial assets for hedging – current (Note 4(2))                        | -                            | -                 | 8,858                     | -                 |
| Available-for-sale financial assets – current (Note 4(2))                            | 583,911                      | -                 | 881,895                   | 1                 |
| Accounts receivable, net – Non-related parties (Note 4(3))                           | 59,450,257                   | 23                | 42,200,505                | 19                |
| Accounts receivable, net – Related parties (Note 5)                                  | 4,852,614                    | 2                 | 11,666,214                | 5                 |
| Other receivable – Non-related parties   | 2,084,676                    | 1                 | 1,760,787                 | 1                 |
| Other receivable – Related parties (Note 5)  | 240,072                      | -                 | 83,460                    | -                 |
| Other financial assets – current (Note 6)  | 109,632                      | -                 | 488,104                   | -                 |
| Inventories (Notes 4(4))   | 64,459,782                   | 25                | 48,555,826                | 22                |
| Other current assets (Note 5)  | 2,930,280                    | 1                 | 1,600,940                 | 1                 |
| Deferred income tax assets – current (Note 4(14))                                    | 883,960                      | -                 | 788,816                   | -                 |
|  | <u>189,177,660</u>           | <u>73</u>         | <u>154,065,982</u>        | <u>70</u>         |
| <b>Investments:</b>  |                              |                   |                           |                   |
| Available-for-sale financial assets – noncurrent (Note 4(2))                         | 1,308,152                    | 1                 | 1,916,270                 | 1                 |
| Financial assets carried at cost – noncurrent (Note 4(2))                            | 787,219                      | -                 | 766,099                   | -                 |
| Long-term investments under the equity method (Note 4(5))                            | 2,365,377                    | 1                 | 2,084,063                 | 1                 |
| Held-to-maturity financial assets – noncurrent (Note 4(2))                           | 185,164                      | -                 | -                         | -                 |
|  | <u>4,645,912</u>             | <u>2</u>          | <u>4,766,432</u>          | <u>2</u>          |
| <b>Other financial assets - noncurrent (Note 6)</b>                                  | <u>322,249</u>               | <u>-</u>          | <u>200,854</u>            | <u>-</u>          |
| <b>Property, Plant and Equipment, at cost (Note 4(7))</b>                            |                              |                   |                           |                   |
| Land   | 4,157,583                    | 2                 | 2,800,896                 | 1                 |
| Buildings  | 24,083,941                   | 9                 | 23,350,377                | 10                |
| Machinery and equipment  | 43,465,975                   | 17                | 46,318,680                | 21                |
| Warehousing equipment  | 118,216                      | -                 | 117,007                   | -                 |
| Instrument equipment   | 1,495,557                    | -                 | 1,712,533                 | 1                 |
| Transportation equipment   | 224,161                      | -                 | 213,004                   | -                 |
| Office equipment   | 2,169,790                    | 1                 | 1,077,848                 | 1                 |
| Miscellaneous equipment  | 10,615,336                   | 4                 | 6,263,251                 | 3                 |
|  | <u>86,330,559</u>            | <u>33</u>         | <u>81,853,596</u>         | <u>37</u>         |
| Less: Accumulated depreciation   | (35,426,821)                 | (14)              | (31,356,196)              | (14)              |
| Less: Accumulated impairment   | (50,746)                     | -                 | (100,191)                 | -                 |
| Prepayments on purchase of equipment   | 4,226,430                    | 2                 | 2,537,313                 | 1                 |
|  | <u>55,079,422</u>            | <u>21</u>         | <u>52,934,522</u>         | <u>24</u>         |
| <b>Intangible Assets</b>   |                              |                   |                           |                   |
| Goodwill (Note 4(8))   | 1,874,245                    | 1                 | 890,608                   | 1                 |
| Deferred pension costs   | 379                          | -                 | 4,894                     | -                 |
| Land use rights (Note 4(8))  | 2,347,264                    | 1                 | 2,391,181                 | 1                 |
| Other intangible assets (Note 4(8))  | 1,575,904                    | 1                 | 405,064                   | -                 |
|  | <u>5,797,792</u>             | <u>3</u>          | <u>3,691,747</u>          | <u>2</u>          |
| <b>Other Assets</b>  |                              |                   |                           |                   |
| Deferred expenses (Note 4(9))  | 2,108,942                    | 1                 | 2,821,034                 | 1                 |
| Other assets – others (Note 4(7) and 4(9))   | 1,303,255                    | -                 | 1,826,706                 | 1                 |
|  | <u>3,412,197</u>             | <u>1</u>          | <u>4,647,740</u>          | <u>2</u>          |
| <b>TOTAL ASSETS</b>  | <u><b>\$ 258,435,232</b></u> | <u><b>100</b></u> | <u><b>220,307,277</b></u> | <u><b>100</b></u> |

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

(English Translation of Financial Report Originally Issued in Chinese)  
Reviewed only, not audited in accordance with generally accepted auditing standards.

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (CON'T)**

JUNE 30, 2011 AND 2010

(All Amounts Expressed in Thousands of New Taiwan Dollars)

|  | June 30, 2011         |            | June 30, 2010      |            |
|--|-----------------------|------------|--------------------|------------|
|  | Amount                | %          | Amount             | %          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                      |                       |            |                    |            |
| <b>Current Liabilities:</b>  |                       |            |                    |            |
| Short-term loans (Note 4(10))  | \$ 21,754,573         | 8          | 14,954,720         | 7          |
| Short-term notes and bills payable   | 49,908                | -          | 49,923             | -          |
| Financial liabilities at fair value through profit or loss — current (Note 4(2)) | 61,169                | -          | 25,963             | -          |
| Notes and accounts payable — Non-related parties                                 | 75,204,475            | 29         | 53,483,695         | 24         |
| Notes and accounts payable — Related parties (Note 5)                            | 1,756,682             | 1          | 1,508,329          | 1          |
| Income tax payable   | 1,637,881             | 1          | 1,571,353          | 1          |
| Accounts expenses (Note 5)   | 11,848,954            | 5          | 10,197,092         | 4          |
| Dividends payable (Note 4(15))   | 5,865,963             | 2          | 2,660,322          | 1          |
| Current portion of long-term loans (Note 4(12))                                  | 692,782               | -          | 96,275             | -          |
| Other financial liabilities — current (Note 4(8) and 5)                          | 2,435,820             | 1          | 1,461,968          | 1          |
| Other current liabilities (Note 5)   | 3,831,814             | 1          | 4,564,288          | 2          |
|  | <u>125,140,021</u>    | <u>48</u>  | <u>90,573,928</u>  | <u>41</u>  |
| <b>Long-Term Liabilities:</b>  |                       |            |                    |            |
| Bonds payable (Note 4(11))   | 1,389,254             | 1          | 1,358,348          | 1          |
| Long-term loans (Note 4(12))   | 18,239,007            | 7          | 8,081,930          | 4          |
| Long-term notes and accounts payable — related parties (Note 4(8))               | 2,306,054             | 1          | 247,635            | -          |
|  | <u>21,934,315</u>     | <u>9</u>   | <u>9,687,913</u>   | <u>5</u>   |
| <b>Other Liabilities:</b>  |                       |            |                    |            |
| Deferred income tax liabilities — noncurrent (Note 4(14))                        | 491,209               | -          | 514,121            | -          |
| Other liabilities — other  | 85,608                | -          | 50,949             | -          |
|  | <u>576,817</u>        | <u>-</u>   | <u>565,070</u>     | <u>-</u>   |
| <b>Total Liabilities</b>   | <u>147,651,153</u>    | <u>57</u>  | <u>100,826,911</u> | <u>46</u>  |
| <b>Stockholders' Equity:</b>   |                       |            |                    |            |
| <b>Common stock (Note 4(15))</b>   | <u>22,563,669</u>     | <u>9</u>   | <u>22,860,639</u>  | <u>10</u>  |
| <b>Capital surplus (Note 4(15))</b>  |                       |            |                    |            |
| Premium on capital stock   | 60,393,247            | 23         | 61,188,108         | 28         |
| Others   | 2,836,953             | 1          | 2,609,666          | 1          |
|  | <u>63,230,200</u>     | <u>24</u>  | <u>63,797,774</u>  | <u>29</u>  |
| <b>Retained earnings (Note 4(15)):</b>   |                       |            |                    |            |
| Legal reserve  | 1,836,601             | 1          | 1,215,457          | 1          |
| Special reserve  | 4,327,629             | 1          | -                  | -          |
| Unappropriated earnings  | (1,197,278)           | -          | 5,515,556          | 2          |
|  | <u>4,966,952</u>      | <u>2</u>   | <u>6,731,013</u>   | <u>3</u>   |
| <b>Other adjustments to stockholders' equity:</b>                                |                       |            |                    |            |
| Cumulative translation adjustments   | (5,084,788)           | (2)        | 555,566            | -          |
| Unrecognized loss on pension cost  | (16)                  | -          | (3,202)            | -          |
| Unrealized gain on financial assets  | 479,266               | -          | 1,395,381          | 1          |
| Treasury stock (Note 4(15))  | (9,322)               | -          | -                  | -          |
|  | <u>(4,614,860)</u>    | <u>(2)</u> | <u>1,947,745</u>   | <u>1</u>   |
| <b>Total Parent Company's Equity</b>   | <u>86,145,961</u>     | <u>33</u>  | <u>95,337,171</u>  | <u>43</u>  |
| <b>Minority interest</b>   | <u>24,638,118</u>     | <u>10</u>  | <u>24,143,195</u>  | <u>11</u>  |
| <b>Total Stockholders' Equity</b>  | <u>110,784,079</u>    | <u>43</u>  | <u>119,480,366</u> | <u>54</u>  |
| <b>Commitments and Contingencies (Note 7)</b>                                    |                       |            |                    |            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                | <u>\$ 258,435,232</u> | <u>100</u> | <u>220,307,277</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)  
Reviewed only, not audited in accordance with generally accepted auditing standards.  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010**  
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

|  | For the Six Months ended June 30 |                   |                   |                   |
|--|----------------------------------|-------------------|-------------------|-------------------|
|  | 2011                             |                   | 2010              |                   |
|  | Amount                           | %                 | Amount            | %                 |
| <b>Operating revenues (Note 5)</b>   | \$ 242,715,993                   | 101               | 259,870,304       | 101               |
| Less: Sales returns and allowances   | 3,006,040                        | 1                 | 1,373,339         | 1                 |
| <b>Net sales</b>   | 239,709,953                      | 100               | 258,496,965       | 100               |
| <b>Cost of sales (Notes 4(4) and 5)</b>  | 229,031,076                      | 96                | 241,958,213       | 94                |
| <b>Gross profit</b>  | 10,678,877                       | 4                 | 16,538,752        | 6                 |
| <b>Operating expenses (Notes 5)</b>  |                                  |                   |                   |                   |
| Selling expenses   | 4,145,993                        | 2                 | 3,737,373         | 1                 |
| General and administrative expenses  | 3,332,698                        | 1                 | 2,911,985         | 1                 |
| Research and development expenses  | 4,437,606                        | 2                 | 4,203,259         | 2                 |
|  | 11,916,297                       | 5                 | 10,852,617        | 4                 |
| <b>Income (loss) from operations</b>   | (1,237,420)                      | (1)               | 5,686,135         | 2                 |
| <b>Non-operating income</b>  |                                  |                   |                   |                   |
| Interest revenue   | 203,344                          | -                 | 62,837            | -                 |
| Investment gain under the equity method (Note 4(5))                            | 22,339                           | -                 | 140,656           | -                 |
| Dividend income  | 33,891                           | -                 | 7,915             | -                 |
| Gain on disposal of fixed assets   | 57,485                           | -                 | -                 | -                 |
| Gain on disposal of investments (Note 4(2))                                    | 362,092                          | -                 | 706,313           | -                 |
| Foreign exchange gain, net   | 1,123,491                        | 1                 | -                 | -                 |
| Gain on reversal of impairment (Note 4(2), 4(7) and 4(8))                      | 7,808                            | -                 | -                 | -                 |
| Others   | 1,099,735                        | -                 | 1,184,291         | -                 |
|  | 2,910,185                        | 1                 | 2,102,012         | -                 |
| <b>Non-operating expenses</b>  |                                  |                   |                   |                   |
| Interest expense   | 211,731                          | -                 | 85,310            | -                 |
| Loss on disposal of fixed assets   | -                                | -                 | 80,032            | -                 |
| Foreign exchange loss, net   | -                                | -                 | 128,460           | -                 |
| Impairment loss (Note 4(2) and 4(7))   | -                                | -                 | 99,742            | -                 |
| Loss on valuation of financial asset (Note 4(2))                               | 13,433                           | -                 | 4,677             | -                 |
| Loss on valuation of financial liability (Note 4(2))                           | 47,111                           | -                 | 9,126             | -                 |
| Others   | 207,852                          | -                 | 265,962           | -                 |
|  | 480,127                          | -                 | 673,309           | -                 |
| <b>Income before income tax</b>  | 1,192,638                        | -                 | 7,114,838         | 2                 |
| <b>Income tax expense (Note 4(14))</b>   | 926,094                          | -                 | 1,323,984         | 1                 |
| <b>Consolidated net income</b>   | <u>\$ 266,544</u>                | <u>-</u>          | <u>5,790,854</u>  | <u>1</u>          |
| <b>Income (Loss) attributable to :</b>   |                                  |                   |                   |                   |
| Shareholders of parent company   | \$ (1,230,379)                   | (1)               | 3,473,387         | -                 |
| Minority interest income   | 1,496,923                        | 1                 | 2,317,467         | 1                 |
|  | <u>\$ 266,544</u>                | <u>-</u>          | <u>5,790,854</u>  | <u>1</u>          |
|  | <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 (Losses) per share attributable to parent company (Note 4(17))</b> |                                  |                   |                   |                   |
| Primary earnings (losses) per share  | <u>\$ (0.54)</u>                 | <u>(0.55)</u>     | <u>1.92</u>       | <u>1.52</u>       |
| Diluted earnings per share   |                                  |                   | <u>\$ 1.91</u>    | <u>1.51</u>       |

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

(English Translations of Financial Statements Originally Issued in Chinese)  
Reviewed only, not audited in accordance with generally accepted auditing standards.  
PEGATRON CORPORATION AND ITS SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010  
(Expressed in Thousands of New Taiwan Dollars)

|   | Common stock         | Capital surplus   | Retained earnings |                  |                                 | Other adjustments of stockholders' equity |                                   |   | Treasury Stock | Minority interest | Total              |
|---|----------------------|-------------------|-------------------|------------------|---------------------------------|---|-----------------------------------|---|----------------|-------------------|--------------------|
|   |                      |                   | Legal reserve     | Special Reserve  | Accumulated earnings (deficits) | Cumulative translation adjustments        | Unrecognized loss on pension cost | Unrealized gain(loss) of financial assets |                |                   |                    |
| Balance, January 1, 2010  | \$ 22,860,539        | 63,776,623        | 545,570           | -                | 6,712,650                       | 198,092                                   | (3,202)                           | 1,680,205                                 | -              | 24,383,193        | 120,153,670        |
| Issuance of new share resulting from organizations reorganization | 100                  | 307               | -                 | -                | -                               | -   | -                                 | -   | -              | -                 | 407                |
| Consolidated net income for the year ended June 30, 2010          | -                    | -                 | -                 | -                | 3,473,387                       | -   | -                                 | -   | -              | 2,317,467         | 5,790,854          |
| Appropriations and distributions of 2009 earnings:                |                      |                   |                   |                  |                                 |   |                                   |   |                |                   |                    |
| Legal reserve   | -                    | -                 | 669,887           | -                | (669,887)                       | -   | -                                 | -   | -              | -                 | -                  |
| Cash dividends  | -                    | -                 | -                 | -                | (4,000,594)                     | -   | -                                 | -   | -              | -                 | (4,000,594)        |
| Effect of consolidation of minority interest                      | -                    | -                 | -                 | -                | -                               | -   | -                                 | -   | -              | (2,557,465)       | (2,557,465)        |
| Adjustment arising from long-term equity investments              | -                    | 20,844            | -                 | -                | -                               | 227,157                                   | -                                 | (284,824)                                 | -              | -                 | (36,823)           |
| Cumulative translation adjustments                                | -                    | -                 | -                 | -                | -                               | 130,317                                   | -                                 | -   | -              | -                 | 130,317            |
| Balance, June 30, 2010  | <u>22,860,639</u>    | <u>63,797,774</u> | <u>1,215,457</u>  | <u>-</u>         | <u>5,515,556</u>                | <u>555,566</u>                            | <u>(3,202)</u>                    | <u>1,395,381</u>                          | <u>-</u>       | <u>24,143,195</u> | <u>119,480,366</u> |
| Balance, January 1, 2011  | \$ 22,563,669        | 63,145,448        | 1,215,457         | -                | 8,253,605                       | (5,250,188)                               | (16)                              | 922,576                                   | (9,322)        | 25,776,270        | 116,617,499        |
| Consolidated net loss for the year ended June 30, 2011            | -                    | -                 | -                 | -                | (1,230,379)                     | -   | -                                 | -   | -              | 1,496,923         | 266,544            |
| Appropriations and distributions of 2010 earnings:                |                      |                   |                   |                  |                                 |   |                                   |   |                |                   |                    |
| Legal reserve   | -                    | -                 | 621,144           | -                | (621,144)                       | -   | -                                 | -   | -              | -                 | -                  |
| Special reserve   | -                    | -                 | -                 | 4,327,629        | (4,327,629)                     | -   | -                                 | -   | -              | -                 | -                  |
| Cash dividends  | -                    | -                 | -                 | -                | (3,271,731)                     | -   | -                                 | -   | -              | -                 | (3,271,731)        |
| Effect of consolidation of minority interest                      | -                    | -                 | -                 | -                | -                               | -   | -                                 | -   | -              | (2,635,075)       | (2,635,075)        |
| Adjustment arising from long-term equity investments              | -                    | 84,752            | -                 | -                | -                               | (203,943)                                 | -                                 | (443,310)                                 | -              | -                 | (562,501)          |
| Cumulative translation adjustments                                | -                    | -                 | -                 | -                | -                               | 369,343                                   | -                                 | -   | -              | -                 | 369,343            |
| Balance, December 31, 2010  | <u>\$ 22,563,669</u> | <u>63,230,200</u> | <u>1,836,601</u>  | <u>4,327,629</u> | <u>(1,197,278)</u>              | <u>(5,084,788)</u>                        | <u>(16)</u>                       | <u>479,266</u>                            | <u>(9,322)</u> | <u>24,638,118</u> | <u>110,784,079</u> |

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



(English Translation of Financial Report Originally Issued in Chinese)  
Reviewed only, not audited in accordance with generally accepted auditing standards.

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

|  | <b>For the Six Months Ended June 30</b> |                    |
|--|---|--------------------|
|  | <b>2011</b>                             | <b>2010</b>        |
| <b>Cash flows from operating activities:</b>   |   |                    |
| <b>Consolidated net income</b>   | \$ 266,544                              | 5,790,854          |
| <b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b> |   |                    |
| Depreciation   | 3,992,340                               | 3,937,368          |
| Amortization   | 1,237,150                               | 1,164,706          |
| Ownership of employee stock option transferred to employee as compensation cost                    | 6,756                                   | 10,866             |
| Amortization of discount on bonds payable  | 15,453                                  | 12,877             |
| Loss on inventory market price decline and obsolescence, and for impairment                        | 991,826                                 | 191,055            |
| Gain (loss) on physical inventory  | 2,419                                   | 16,369             |
| Investment gain under equity method  | (22,339)                                | (140,656)          |
| Gain on disposal of investment   | (362,092)                               | (706,313)          |
| Loss on sale of fixed assets   | (57,485)                                | 80,032             |
| Loss on retirement of assets (accounted under other expense)                                       | 59,125                                  | 31,282             |
| Loss on valuation of financial asset   | 60,544                                  | 13,803             |
| Impairment loss (gain)   | (7,808)                                 | 99,742             |
| Cash dividends from investment under equity method   | 83,357                                  | 97,015             |
| <b>Change in assets and liabilities:</b>   |   |                    |
| <b>Change in assets:</b>   |   |                    |
| Decrease in financial assets reported at fair value through profit or loss — current               | (1,458,571)                             | (60,716)           |
| Derivative financial assets for hedging — current  | -                                       | (8,858)            |
| Notes and accounts receivable  | (8,426,683)                             | 13,945,434         |
| Other accounts receivable  | (454,111)                               | (409,318)          |
| Other financial assets — current   | -                                       | (339,752)          |
| Inventories  | (22,625,088)                            | (5,353,317)        |
| Other current assets   | (473,900)                               | 296,093            |
| Deferred income tax asset and liability  | (142,982)                               | 348,962            |
| <b>Change in liabilities:</b>  |   |                    |
| Financial liabilities reported at fair value through profit or loss — current                      | 1,969                                   | 18,415             |
| Notes and accounts payable   | 18,244,735                              | (12,929,893)       |
| Income tax payable   | (579,855)                               | 295,189            |
| Accrued expenses   | 4,079,351                               | 2,045,654          |
| Other financial liabilities  | (2,228,109)                             | (308,884)          |
| Other current liabilities  | (760,513)                               | (597,675)          |
| Other liabilities — other  | 26,979                                  | (270)              |
| <b>Net cash provided by (used in) operating activities</b>   | <b>(8,530,988)</b>                      | <b>7,540,064</b>   |
| <b>Cash flows from investing activities:</b>   |   |                    |
| Acquisition of financial assets available-for-sale   | (80,002)                                | (118,083)          |
| Proceeds from disposal of financial assets available-for-sale                                      | 866,276                                 | 198,013            |
| Acquisition of financial assets held-to-maturity   | (185,164)                               | -                  |
| Acquisition of financial assets carried at cost  | (244,788)                               | (120,543)          |
| Proceeds from disposal of financial assets carried at cost   | 118,023                                 | 28,169             |
| Acquisition of subsidiaries  | (1,565,125)                             | -                  |
| Proceeds from disposal of subsidiaries   | 18,505                                  | -                  |
| Purchase of property, plant and equipment  | (4,392,502)                             | (3,602,185)        |
| Proceeds from disposal of property, plant and equipment  | 723,883                                 | 1,282,622          |
| Increase in deferred expenses  | (422,620)                               | (553,991)          |
| Purchase of intangible assets  | (52,451)                                | (31,682)           |
| Proceeds from disposal of assets, idle assets and deferred expenses                                | 706,884                                 | 1,208              |
| Decrease in other financial assets — current   | 1,232,176                               | 47,774             |
| Decrease (Increase) in other financial assets — noncurrent   | (32,654)                                | 267,455            |
| Decrease (Increase) in other assets — other  | (195,114)                               | 87,661             |
| <b>Net cash used in investing activities</b>   | <b>(3,504,673)</b>                      | <b>(2,513,582)</b> |

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

(English Translation of Financial Report Originally Issued in Chinese)  
Reviewed only, not audited in accordance with generally accepted auditing standards.  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 and 2009**  
(All Amount Expressed in Thousands of New Taiwan Dollars)

|   | For the Six Months Ended June 30 |                      |
|---|----------------------------------|----------------------|
|   | 2011                             | 2010                 |
| <b>Cash flows from financing activities:</b>                              |                                  |                      |
| Increase in short-term loans  | 6,977,016                        | 4,075,680            |
| Decrease in short-term notes and bills payable                            | (16)                             | (10)                 |
| Increase in bonds payable   | -                                | 1,497,401            |
| Increase in long-term loans   | 9,734,048                        | 64,300               |
| Decrease in long-term loans   | (1,224,208)                      | (14,132)             |
| Increase (decrease) in guarantee deposits received                        | (22,713)                         | 6,330                |
| Distribution of cash dividend and remuneration of board of directors      | -                                | (4,000,594)          |
| Issuance of new share resulting from organizations reorganization         | -                                | 407                  |
| Ownership of treasury stock transferred to employee                       | 49,539                           | -                    |
| Increase in minority interest   | 94,111                           | 10,000               |
| <b>Net cash provided by financing activities</b>                          | <b>15,607,777</b>                | <b>1,639,382</b>     |
| <b>Foreign exchange rate effects</b>                                      | <b>(77,109)</b>                  | <b>128,717</b>       |
| <b>Effect of changes in certain subsidiaries</b>                          | <b>-</b>                         | <b>(3,860)</b>       |
| <b>Net increase in cash</b>   | <b>3,495,007</b>                 | <b>6,790,721</b>     |
| <b>Cash, beginning of the period</b>                                      | <b>42,264,006</b>                | <b>31,846,280</b>    |
| <b>Cash, end of the period</b>  | <b>\$ 45,759,013</b>             | <b>\$ 38,637,001</b> |
| <b>Supplemental disclosures of cash flow information:</b>                 |                                  |                      |
| <b>Cash paid during the period for:</b>                                   |                                  |                      |
| Interest  | <b>\$ 172,714</b>                | <b>74,017</b>        |
| Income tax  | <b>\$ 1,668,125</b>              | <b>748,699</b>       |
| <b>Non-cash investing and financing</b>                                   |                                  |                      |
| Current portion of long-term loans  | <b>\$ 1,665,226</b>              | <b>96,275</b>        |
| Dividend payable  | <b>\$ 5,865,963</b>              | <b>2,660,322</b>     |
| <b>Cash received from disposal of property:</b>                           |                                  |                      |
| Proceeds from disposal of property  | \$ 1,343,883                     | 1,282,622            |
| Less: Accounts payable, end of the period                                 | (620,000)                        | -                    |
| <b>Cash Received</b>  | <b>\$ 723,883</b>                | <b>1,282,622</b>     |
| <b>Purchase of property and equipment with cash and other payables:</b>   |                                  |                      |
| Property, plant and equipment   | \$ 4,273,562                     | 3,727,320            |
| Add: Other payables, beginning of the period                              | 468,687                          | 97,397               |
| Effect of consolidation   | 473,027                          | -                    |
| Less: Other payables, end of the period                                   | (822,774)                        | (222,532)            |
| <b>Cash paid</b>  | <b>\$ 4,392,502</b>              | <b>3,602,185</b>     |
| <b>Cash received from acquisition of subsidiaries:</b>                    |                                  |                      |
| Cash received   | \$ 1,346,439                     |                      |
| Acquisition of non-monetary assets  | 9,406,144                        |                      |
| Liabilities assumed   | (5,868,307)                      |                      |
| Goodwill arising from acquisition   | 976,828                          |                      |
| Acquisition cost  | 5,861,104                        |                      |
| Less: Proceeds payables, end of the period                                | (2,949,540)                      |                      |
| Proceeds paid during the period   | 2,911,564                        |                      |
| Less: Cash balance from consolidation of subsidiary                       | (1,346,439)                      |                      |
| <b>Cash paid</b>  | <b>\$ 1,565,125</b>              |                      |
| <b>Cash received from disposal of equity investments in subsidiaries:</b> |                                  |                      |
| Proceed of disposal   | \$ 66,613                        |                      |
| Less: cash decreased in subsidiaries                                      | (48,108)                         |                      |
| <b>Cash Received</b>  | <b>\$ 18,505</b>                 |                      |

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

(English Translation of Financial Report Originally Issued in Chinese)

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2011 AND 2010**

**(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 into 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., effective 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.

As of June 30, 2011 and 2010, the Company and its subsidiaries (the “Consolidated Company”) had 126,183 and 98,019 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 Issuers, the Business Entity Accounting Act, and the Guidelines Governing Business Accounting and generally accepted accounting principles of the Republic of China. The significant accounting policies and their measurement basis are as follows:

**(1) Basis of consolidation**

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

| Investor    | Subsidiary                  | Nature of business  | Shareholding ratio |            | Notes  |
|-------------|-----------------------------|---|--------------------|------------|--|
|             |                             |   | 2011.06.30         | 2010.06.30 |  |
| The Company | UNIHAN CORPORATION (UNIHAN) | Designing, manufacturing, maintaining and selling computer peripherals and audio-video products | 100.00%            | 100.00%    | The Company directly owns over 50% of equity |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor                        | Subsidiary                                      | Nature of business  | Shareholding ratio |            | Notes                                       |
|---------------------------------|---|---|--------------------|------------|---|
|                                 |   |   | 2011.06.30         | 2010.06.30 |   |
| UNIHAN AND ASUSPOWER INVESTMENT | Ability Enterprise Co., LTD.<br>(Ability(tw))   | Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products leasing | 12.40%             | 12.63%     | Subsidiary has de facto control             |
| Ability (tw)                    | ACTION PIONEER INTERNATIONAL LTD.               | Trading activities  | 100.00%            | 100.00%    | Subsidiary directly owns over 50% of equity |
| "                               | VIEWQUEST TECHNOLOGIES INTERNATIONAL LTD.       | Selling computer peripherals, digital cameras and electronic components   | 100.00%            | 100.00%    | "   |
| "                               | ASSOCIATION INTERNATIONAL LTD.                  | Investing activities  | 100.00%            | 100.00%    | "   |
| "                               | ABILITY ENTERPRISE (BVI) CO., LTD.<br>(ABILITY) | Investing activities  | 100.00%            | 100.00%    | "   |
| "                               | VIEWQUEST TECHNOLOGIES (BVI) INC.<br>(VQ(BVI))  | 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%            | 100.00%    | "   |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor                                   | Subsidiary                                  | Nature of business  | Shareholding ratio |            | Notes                                       |
|--|---|---|--------------------|------------|---|
|  |   |   | 2011.06.30         | 2010.06.30 |   |
| Ability International Investment Co., Ltd. | NOENA CORPORATION (NOENA)                   | Selling computer peripherals and optical products   | -                  | 80.00%     | Subsidiary directly owns over 50% of equity |
| VQ(BVI)                                    | VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. | Producing and selling digital cameras   | 100.00%            | -          | "   |
| UNIHAN                                     | Unihan Holding Ltd. (Unihan Holding)        | Investing activities  | 100.00%            | 100.00%    | "   |
| Unihan Holding                             | CASETEK HOLDINGS LIMITED (CASETEK HOLDING)  | Investing and trading activities  | 100.00%            | 100.00%    | "   |
| CASETEK HOLDING                            | SLITEK HOLDINGS LIMITED                     | Investing and trading activities  | 100.00%            | 100.00%    | "   |
| "  | CASETEK COMPUTER (SUZHOU) CO., LTD          | Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service | 100.00%            | 100.00%    | "   |
| "  | GRAND UPRIGHT TECHNOLOGY LIMITED            | Trading activities  | 100.00%            | -          | "   |
| "  | KAEDAR HOLDINGS LIMITED (KAEDAR HOLDING)    | Investing and trading activities  | 100.00%            | 100.00%    | "   |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor                        | Subsidiary                                 | Nature of business   | Shareholding ratio |            | Notes                                       |
|---------------------------------|--|--|--------------------|------------|---|
|                                 |  |  | 2011.06.30         | 2010.06.30 |   |
| KAEDAR HOLDING                  | KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.     | Tooling molds of stainless steel computer cases  | 100.00%            | 100.00%    | Subsidiary directly owns over 50% of equity |
| CASETEK HOLDING                 | KAEDAR TRADING LTD.                        | Investing and trading activities   | 100.00%            | 100.00%    | "   |
| "                               | 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%    | "   |
| "                               | APLUS PRECISION LTD. (APLUS)               | Investing and trading activities   | -                  | 51.00%     | Note B                                      |
| UNIHAN AND ASUSPOWER INVESTMENT | AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE) | Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras   | 38.65%             | 43.56%     | Subsidiary has de facto control             |
| AZURE WAVE                      | EMINENT STAR COMPANY LIMITED (EMINENT)     | Investing activities   | 100.00%            | 100.00%    | Subsidiary directly owns over 50% of equity |
| EMINENT                         | HANNEX INTERNATIONAL LIMITED (HANNEX)      | Investing activities   | 100.00%            | 100.00%    | "   |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor        | Subsidiary   | Nature of business  | Shareholding ratio |            | Notes   |
|-----------------|--|---|--------------------|------------|---|
|                 |  |   | 2011.06.30         | 2010.06.30 |   |
| HANNEX          | SCIENTEK.<br>NANJING CO.,<br>LTD.                      | Designing,<br>manufacturing and<br>selling computer<br>products                               | 100.00%            | 100.00%    | Subsidiary<br>directly owns<br>over 50% of<br>equity            |
| EMINENT         | JADE<br>TECHNOLOGIES<br>LIMITED (JADE)                 | Investing activities  | 100.00%            | 100.00%    | "   |
| EMINENT·JADE    | AZUREWAVE<br>TECHNOLOGY<br>(SHENZHEN) CO.,<br>LTD.     | Designing,<br>researching and<br>selling computer<br>products                                 | 100.00%            | 100.00%    | Subsidiary<br>directly and<br>indirectly held<br>100% of equity |
| AZURE WAVE      | EZWAVE<br>TECHNOLOGIES,<br>INC.                        | Manufacturing office<br>machinery, electronic<br>parts and computer<br>peripherals            | 100.00%            | 100.00%    | Subsidiary<br>directly owns<br>over 50% of<br>equity            |
| "               | AZWAVE<br>HOLDING<br>(SAMOA) INC.<br>(AZWAVE<br>SAMOA) | Investing activities  | 100.00%            | 100.00%    | "   |
| AZWAVE<br>SAMOA | AZURE WAVE<br>TECHNOLOGIES<br>(SHANGHAI) INC.          | Designing,<br>manufacturing and<br>selling computer<br>products                               | 100.00%            | 100.00%    | "   |
| "               | AZURE LIGHTING<br>TECHNOLOGIES,<br>INC (YANGZHOU)      | Manufacturing<br>electronic parts   | 100.00%            | 100.00%    | "   |
| "               | AIGALE<br>CORPORATION<br>(SHANGHAI)                    | Developing,<br>designing and selling<br>communication<br>equipment and<br>electronic products | 100.00%            | -          | "   |
| AZURE WAVE      | AZURE LIGHTING<br>TECHNOLOGIES,<br>INC.                | Selling electronic<br>parts   | 100.00%            | 100.00%    | "   |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor                        | Subsidiary                                 | Nature of business  | Shareholding ratio |            | Notes  |
|---------------------------------|--|---|--------------------|------------|--|
|                                 |  |   | 2011.06.30         | 2010.06.30 |  |
| UNIHAN                          | AMA PRECISION INC.(AMA PRECISION)          | Designing and developing computer parts                             | 100.00%            | 100.00%    | Subsidiary directly owns over 50% of equity            |
| AMA PRECISION                   | AMA TECHNOLOGY CORPORATION                 | Trading computer peripherals  | 100.00%            | 100.00%    | "  |
| "                               | AMA HOLDINGS LIMITED (AMA)                 | Investing activities  | 100.00%            | 100.00%    | "  |
| AMA                             | METAL TRADINGS LTD.(METAL)                 | Trading activities  | 100.00%            | 100.00%    | "  |
| METAL                           | FENGSHUO TRADING (TONGZHOU) CO. LTD        | Trading activities  | 100.00%            | 100.00%    | "  |
| AMA                             | EXTECH LTD.                                | Trading electronic parts  | 90.51%             | 90.51%     | "  |
| EXTECH LTD.                     | GRANDTECH PRECISION (TONGZHOU) CO., LTD    | Manufacturing, developing and selling electronic parts              | 100.00%            | 100.00%    | "  |
| AMA                             | TOPTEK PRECISION LNDUSTRY(SUZHOU) CO., LTD | Manufacturing and selling new electronic parts and premium hardware | 100.00%            | 100.00%    | "  |
| THE COMPANY AND ASUS INVESTMENT | ASUS HOLLAND HOLDING B.V.(AHH)             | Investing activities  | 100.00%            | 100.00%    | Subsidiary directly and indirectly held 100% of equity |
| AHH                             | PEGATRON CZECH S.R.O.                      | Installing, repairing and selling electronic products               | 100.00%            | 100.00%    | Subsidiary directly owns over 50% of equity            |



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor                       | Subsidiary  | Nature of business   | Shareholding ratio |            | Notes  |
|--------------------------------|---|--|--------------------|------------|--|
|                                |   |  | 2011.06.30         | 2010.06.30 |  |
| THE COMPANY                    | PEGATRON HOLDING LTD.<br>(PEGATRON HOLDING)         | Investing activities   | 100.00%            | 100.00%    | The Company directly owns over 50% of equity |
| PEGATRON HOLDING               | POWTEK HOLDINGS LIMITED<br>(POWTEK)                 | Investing and trading activities   | 100.00%            | 100.00%    | Subsidiary directly owns over 50% of equity  |
| POWTEK                         | POWTEK (SHANGHAI) CO., LTD.                         | Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service                           | 100.00%            | 100.00%    | "  |
| PEGATRON HOLDING, KINSUS SAMOA | PIOTEK HOLDINGS LTD.<br>(CAYMAN)<br>(PIOTEK CAYMAN) | Investing and holding activities   | 100.00%            | 100.00%    | "  |
| PIOTEK CAYMAN                  | PIOTEK HOLDING LIMITED (PIOTEK HOLDING)             | Investing and trading activities   | 100.00%            | 100.00%    | "  |
| "                              | 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%    | "  |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor            | Subsidiary  | Nature of business   | Shareholding ratio |            | Notes  |
|---------------------|---|--|--------------------|------------|--|
|                     |   |  | 2011.06.30         | 2010.06.30 |  |
| PIOTEK<br>CAYMAN    | PIOTEK (H.K)<br>TRADING<br>LIMITED                    | Trading activities   | 100.00%            | 100.00%    | Subsidiary<br>directly owns<br>over 50% of<br>equity |
| PEGATRON<br>HOLDING | ASLINK<br>PRECISION CO.,<br>LTD (ASLINK)              | Investing and trading<br>activities  | 100.00%            | 100.00%    | "  |
| ASLINK              | ASLINK (H.K.)<br>PRECISION CO.,<br>LIMITED            | Investing and trading<br>activities  | 100.00%            | 100.00%    | "  |
| "                   | ASAP<br>INTERNATIONAL<br>CO., LIMITED<br>(ASAP)       | Investing activities   | -                  | 59.17%     | "  |
| ASAP                | ASAP<br>TECHNOLOGY<br>(JIANGXI) CO.,<br>LIMITED       | Manufacturing and<br>selling data transmit<br>wire and cable   | -                  | 100.00%    | "  |
| PEGATRON<br>HOLDING | DIGITEK GLOBAL<br>HOLDINGS<br>LIMITED                 | Investing and trading<br>activities  | 100.00%            | 100.00%    | "  |
| DIGITEK             | DIGITEK<br>(CHONGQING)<br>LTD.                        | Manufacturing,<br>developing, and<br>selling GPS,<br>computer electronic<br>devices, and<br>after-sales services | 100.00%            | -          | "  |
| PEGATRON<br>HOLDING | MAGNIFICENT<br>BRIGHTNESS<br>LIMITED<br>(MAGNIFICENT) | Investing and trading<br>activities  | 100.00%            | 100.00%    | "  |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor         | Subsidiary                           | Nature of business  | Shareholding ratio |            | Notes                                       |
|------------------|--------------------------------------|---|--------------------|------------|---|
|                  |                                      |   | 2011.06.30         | 2010.06.30 |   |
| MAGNIFICENT      | MAINTEK COMPUTER (SUZHOU) CO., LTD.  | Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service | 100.00%            | 100.00%    | Subsidiary directly owns over 50% of equity |
| PEGATRON HOLDING | PROTEK GLOBAL HOLDINGS LTD. (PROTEK) | Investing and trading activities  | 100.00%            | 100.00%    | "   |
| "                | NORTH TEC ASIA LIMITED (NORTH)       | Investing and trading activities  | -                  | 100.00%    | "   |
| PROTEK AND NORTH | PROTEK (SHANGHAI) LIMITED            | Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service  | 100.00%            | 100.00%    | "   |
| PEGATRON HOLDING | COTEK HOLDINGS LIMITED (COTEK)       | Investing and trading activities  | 100.00%            | 100.00%    | "   |
| 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%    | "   |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor   | Subsidiary                     | Nature of business  | Shareholding ratio |            | Notes  |
|--|--------------------------------|---|--------------------|------------|--|
|  |                                |   | 2011.06.30         | 2010.06.30 |  |
| PEGATRON HOLDING   | TOP QUARK LIMITED (TOP QUARK)  | Investing and holding activities  | 100.00%            | 100.00%    | Subsidiary directly owns over 50% of equity  |
| 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 soling of computer equipment and electronic components                       | 58.65%             | 58.65%     | Subsidiary directly owns over 50% of equity  |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor   | Subsidiary                                      | Nature of business  | Shareholding ratio |            | Notes  |
|--|---|---|--------------------|------------|--|
|  |   |   | 2011.06.30         | 2010.06.30 |  |
| 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%    | "  |
| "  | 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            |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor   | Subsidiary                                      | Nature of business  | Shareholding ratio |            | Notes  |
|--|---|---|--------------------|------------|--|
|  |   |   | 2011.06.30         | 2010.06.30 |  |
| KINSUS INVESTMENT AND ASUSPOWER INVESTMENT                   | PEGAVISION CORPORATION                          | Manufacturing medical appliances  | 84.45%             | 84.45%     | Subsidiary directly owns over 50% of equity            |
| KINSUS   | KINSUS CORP. (USA)                              | Developing and designing new technology and products; analyzing marketing strategy and developing new customers | 100.00%            | 100.00%    | "  |
| "  | KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)   | Investing activities  | 100.00%            | 100.00%    | "  |
| KINSUS SAMOA   | KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN) | Investing activities  | 100.00%            | 100.00%    | "  |
| KINSUS CAYMAN  | KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.   | Manufacturing and selling circuit boards  | 100.00%            | 100.00%    | "  |
| 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%    | "  |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor              | Subsidiary  | Nature of business  | Shareholding ratio |            | Notes                                       |
|-----------------------|---|---|--------------------|------------|---|
|                       |   |   | 2011.06.30         | 2010.06.30 |   |
| ASUSPOWER CORPORATION | CASETEK HOLDINGS LIMITED (CAYMAN) (CASETEK CAYMAN)        | Investing activities  | 100.00%            | -          | Subsidiary directly owns over 50% of equity |
| CASETEK CAYMAN        | RIH LI INTERNATIONAL LIMITED (RIH LI)                     | Investing activities  | 100.00%            | -          | "   |
| "                     | RIH KUAN METAL CORPORATION (RIH KUAN)                     | Manufacturing iron and aluminum products                                    | 100.00%            | -          | "   |
| "                     | APLUS PRECISION (CAYMAN) LIMITED (APLUS)                  | Investing and trading activities  | 70.00%             | -          | Note B                                      |
| APLUS                 | UNITED NEW LIMITED (UNITED)                               | Investing and trading activities  | 100.00%            | 100.00%    | "   |
| UNITED                | AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.           | Manufacturing and selling electronic and camera components, and accessories | 100.00%            | 100.00%    | Subsidiary directly owns over 50% of equity |
| RIH LI                | GLOBAL EXPERT LIMITED                                     | Investing and trading activities  | 100.00%            | -          | "   |
| "                     | RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG) | Manufacturing and selling electronic components                             | 100.00%            | -          | "   |
| "                     | RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.               | Manufacturing and selling electronic components                             | 100.00%            | -          | "   |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor   | Subsidiary                                 | Nature of business  | Shareholding ratio |            | Notes                                       |
|--|--|---|--------------------|------------|---|
|  |  |   | 2011.06.30         | 2010.06.30 |   |
| RIH LI   | RI-MING (SHANGHAI) CO.,LTD.                | Manufacturing and selling electronic components   | 100.00%            | -          | Subsidiary directly owns over 50% of equity |
| STARLINK   | STRATEGY Technology Co., Ltd.              | Investing and trading activities  | -                  | -          | "   |
| ASUS INVESTMENT  | ASFLY TRAVEL SERVICE LIMITED               | Travel agency   | 100.00%            | 100.00%    | "   |
| ASUSPOWER INVESTMENT   | PEGATRON TECHNOLOGY SERVICE INC. (PTSI)    | Sales and repair service center in North America  | 100.00%            | 100.00%    | "   |
| PTSI   | PEGATRON SERVICOS DE INFORMATICA LTDA.     | Maintenance service   | 100.00%            | -          | "   |
| ASUSPOWER INVESTMENT   | PEGA INTERNATIONAL LIMITED                 | Design service and sales  | 100.00%            | 100.00%    | "   |
| "  | 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%    | "   |



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor        | Subsidiary                                   | Nature of business  | Shareholding ratio |            | Notes   |
|-----------------|--|---|--------------------|------------|---|
|                 |  |   | 2011.06.30         | 2010.06.30 |   |
| Lumens Optics   | Lumens Digital Image Inc.(SAMOA)<br>(Lumens) | Investing activities  | 100.00%            | 100.00%    | Subsidiary directly owns over 50% of equity           |
| 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%     | "   |
| ASUS INVESTMENT | HUA-YUAN INVESTMENT LIMITED                  | Investing activities  | 100.00%            | 100.00%    | "   |
| The Company     | ADVANSUS CORP.                               | Manufacturing computer peripherals  | 50.00%             | 50.00%     | The Company directly owns over 50% of equity (Note A) |
| The Company     | PEGATRON USA, INC.                           | Sales and repair service center in North America  | 100.00%            | 100.00%    | "   |

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

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Note B: As of June 30, 2010, CASETEK HOLDING LIMITED (CASETEK HOLDINGS) acquired 51% of total issued shares of APLUS PRECISION (Cayman) LIMITED (“APLUS”) in exchange of its long-term equity investment. As of June 30, 2011, CASETEK HOLDINGS acquired another 19% of total issued shares of APLUS from Avy Precision Technology Inc. for US\$10,280,900, which increased its total equity ownership in APLUS to 70%. Also, CASETEK HOLDINGS sold its equity ownership of APLUS at book value to CASETEK HOLDINGS LIMITED (CAYMAN), a subsidiary of the Company, due to the Group’s organizational restructuring.

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

1. Ability Enterprise Co., Ltd. invested and acquired 100% of the equity ownership of Jiujiang Viewquest Electronic Inc. through ABILITY ENTERPRISE (BVI) CO., LTD.
2. In August 2010, UNIHAN HOLDING acquired 100% equity ownership of GRAND UPRIGHT TECHNOLOGY LIMITED for US\$1,326 thousand through CASETEK HOLDINGS LIMITED.
3. 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 US\$87,755 thousand the equity ownership of PIOTEK HOLDING LTD. with carrying value of \$6,554 thousand. 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 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 June 30, 2011. However, the equity of KINSUS HOLDING LIMITED held by the Consolidated Company was 68.89%, thereby holding the ability to exercise control.
4. Azware Holding (Samoa) Inc. acquired for RMB 1,361 thousand the 100% equity ownership of AIGALE CORPORATION in August 2010.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

5. PEGATRON TECHNOLOGY SERVICE INC. established PEGATRON SERVICIO DE INFORMATICA LTDA. and invested US\$650 thousand in exchange for its 100% equity ownership in November 2010.
6. In January 2011, ASUSPOWER CORPORATION acquired 100% equity ownership of CASETEK HOLDING LIMITED (CASETEK HOLDING) for US\$95,000 thousand. Following its acquisition of equity ownership for US\$201,205 thousand, ASUSPOWER CORPORATION obtained control over RIH-LI International Limited (Samoa), RI-KUAN METAL CORPORATION, GLOBAL EXPERT LIMITED, RI-TENG SHANGHAI and RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD. through CASETEK HOLDING.
7. In June 2011, Ability Enterprise Co., Ltd. has invested and established VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. in Mainland China through VIEWQUEST TECHNOLOGIES (BVI) INC. Ability Enterprise Co., Ltd acquired 100% equity ownership of VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. for US\$3,300 thousand.
8. In June 2011, the Company has invested and established DIGITEK (CHONGQING) LTD. in Mainland China through DIGITEK GLOBAL HOLDINGS LIMITED. The Company acquired 100% equity ownership of DIGITEK (CHONGQING) LTD. for US\$ 10,000 thousand.
9. In April 2011, Ability Enterprise Co., Ltd. sold its entire equity ownership in NOENA CORPORATION to a non-related party.

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

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

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

Hannex International Limited, Ability Enterprise Co., Ltd. and Kinsus Interconnect Technology Corp., were included in the consolidated financial statements even if the Consolidated Company holds 38.65%, 12.40% and 39.00%, respectively, or less than 50% of their total issued shares because the Consolidated Company has acquired more than 50% of voting shares of each of these entities and has the ability to exercise control over their respective board of directors.

- d. Subsidiaries excluded from consolidation

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

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

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

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

**(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.

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.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**(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 annually 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.

**(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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**(7) Financial Instruments**

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

Financial instruments are classified into this category if the purpose of acquisition is principally for selling or repurchasing in the near term. All financial instruments that does not meet the criteria for hedge accounting is classified as this category. Financial instruments are measured at fair value at initial recognition. Transaction cost is charged to current expense. Subsequent to initial recognition, changes in fair value are recognized in profit or loss. All regular way purchase or sale of financial assets is recognized using trade date accounting.

b. Available-for-sale financial assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Available-for-sale financial assets are subsequently measured at fair value, and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized in earnings. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

c. Held-to-maturity financial assets

Held-to-maturity financial assets are financial instruments that the Consolidated Company has the positive intention and ability to hold to maturity. At initial recognition, held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, held-to-maturity financial assets are carried at amortized cost. Profit or loss is recognized when these financial assets are derecognized, impaired, or amortized. Acquisition or sale of these financial assets is measured using trade-date accounting.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

d. Financial assets carried at cost

Investments in equity securities without reliable market prices, including emerging and other unlisted shares of stock, are measured at cost. If objective evidence of impairment exists, the Consolidated Company recognizes impairment loss, which is not reversed in subsequent periods.

e. Notes and Account receivables, and other receivables

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date impairment is reversed. The amount of the reversal shall be recognized in profit or loss.



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

f. Financial liabilities reported at fair value through profit or loss

Financial instruments are classified into this category if the purpose of acquisition is principally for selling or repurchasing in the near term. All financial instruments that does not meet the criteria for hedge accounting is classified as this category. Financial instruments are measured at fair value at initial recognition. Transaction cost is charged to current expense. Subsequent to initial recognition, changes in fair value are recognized in profit or loss.

**(8) Hedging Accounting**

Hedge accounting recognizes the offsetting effects on profits or losses of changes in the fair values of the hedging instrument and the hedged item as the hedging relationships, such as fair value hedge, cash flow hedge, or hedge of a net investment in a foreign operation, qualify for hedge accounting.

a. Fair value hedges

Changes in the fair value of a hedging instrument designated as a fair value hedge are recognized in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged, with any gain or loss being recognized in profit or loss.

b. Cash flow hedges

The profit or loss of a hedging instrument is recognized as an adjustment in shareholders' equity. If a financial asset or a liability is recognized by forecast transaction, the amount that has been recognized in equity is reclassified to profit or loss in the same period. For cash flow hedges other than aforesaid, amount that has been recognized in equity is reclassified to profit or loss directly in the same period.

**(9) Notes and Accounts Receivable, and Allowance for Uncollectible Accounts**

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

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

**(10) Inventories**

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

**(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 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. 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 arising from the 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.

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

**(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-operating income or loss.

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**(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- 10years |
| Trademark rights      | 5years     |
| Patents               | 2-5years   |
| Land usage rights     | 45-50years |
| Customer relationship | 3-6years   |
| Technology            | 3-5years   |
| Development           | 5years     |

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**(14) Deferred Expense**

The costs of renovation project, molds, fixtures and office decorations are deferred and amortized equally over 4 months to 10 years.

**(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 the amortized amount 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 above mentioned liability component plus the book value of the stock warrants.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

d. Costs incurred on issuance of convertible bonds are proportionately charged to the liability and equity components 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, amortization of net transition asset or obligation, prior service cost and amortization of unrecognized gain (loss) on pension plan on straight-line basis over the expected average remaining service period of the employees in accordance with the rules set by the SFB. Under this plan, these entities contribute monthly an amount equal to certain percentage of gross salary to a pension fund, which is deposited into a designated depository account with the Bank of Taiwan.

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

The Consolidated Company adopted a defined contribution pension plan according to the regulations of their respective jurisdiction and recognize pension contributions as current expenses when the service is rendered. According to the regulations of the Peoples Republic of China government, the subsidiaries in mainland China contribute basic retirement insurance fees equal to the legal percentages of employee’s salary and recognize these fees as current expenses on accrual basis.

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

**(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.

**(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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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 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, loss is recognized from transferred assets which are impaired.

**(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 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 purchase 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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

**(27) Operating Segments**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance for which discrete financial information is available

**(28) Business Combinations**

According to SFAS No. 25 "Business Combination," the equity of the acquiring corporation in a business combination in acquired in cash is valued either at the fair value of the assets contributed or at the fair value of the property acquired, whichever is more objectively evident. All identified assets acquired and liability assumed in a business combination, whether or not shown in the financial statement of the acquired corporation, are measured based upon their fair value at the acquisition date.

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

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

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

Effective from January 1, 2011, the Consolidated Company adopted SFAS No. 41 "Operating Segments." In accordance with SFAS No. 41, information is disclosed to enable users of the Consolidated Company's financial statements to evaluate the nature and financial effects of the business activities in which the Consolidated Company engages and the economic environment in

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

which it operates. Accordingly, the Consolidated Company determines and presents operating segments based on the information that internally is provided to the chief operating decision maker. This new accounting standard superseded SFAS No. 20 "Segment Reporting." The adoption of this accounting standard did not have any cumulative effect for the six months ended June 30, 2011. The comparative information for the initial year of application has been restated.

4. Summary of Major Accounts

(1) Cash

|                 | <b>June 30, 2011</b> | <b>June 30, 2010</b> |
|-----------------|----------------------|----------------------|
| Cash on hand    | \$ 17,414            | 33,850               |
| Demand deposits | 15,943,413           | 24,335,294           |
| Time deposits   | 29,798,186           | 14,267,857           |
| Total           | <b>\$ 45,759,013</b> | <b>38,637,001</b>    |

(2) Financial Instruments

a. The components of financial instruments were as follows:

|   | <b>June 30, 2011</b> | <b>June 30, 2010</b> |
|---|----------------------|----------------------|
| Financial assets reported at fair value through profit or loss - current: |                      |                      |
| Financial assets held-for-trading - current                               |                      |                      |
| Stock of listed companies   | \$ 234,969           | 188,864              |
| Beneficiary certificates  | 6,221,346            | 6,388,863            |
| Forward exchange contracts  | 2,373                | 60                   |
| Foreign exchange swap contracts   | 19,862               | -                    |
| Option exchange   | 27,227               | -                    |
| Depository receipts   | -                    | 14,065               |
| Corporate bonds   | 567,576              | 527,915              |
| Principal guaranteed product (interest rate-linked)                       | 750,110              | -                    |
| Bonds with repurchase agreement   | -                    | 273,809              |
|   | <b>\$ 7,823,463</b>  | <b>7,393,576</b>     |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

|  | <b>June 30, 2011</b> | <b>June 30, 2010</b> |
|--|----------------------|----------------------|
| Derivative financial asset for hedging - current:                              |                      |                      |
| Forward exchange contracts   | \$ -                 | 8,858                |
| Available-for-sale financial assets - current:                                 |                      |                      |
| Stock of listed companies  | \$ -                 | 44,405               |
| Stock of overseas listed companies   | 583,911              | 837,490              |
| Total  | <b>\$ 583,911</b>    | <b>881,895</b>       |
| Available-for-sale financial assets - noncurrent:                              |                      |                      |
| Stock of listed companies  | \$ 1,308,152         | 1,523,377            |
| Stock of overseas listed companies   | -                    | 392,893              |
| Total  | <b>\$ 1,308,152</b>  | <b>1,916,270</b>     |
| Financial assets carried at cost - noncurrent:                                 |                      |                      |
| Equity securities – common stock   | \$ 434,226           | 666,099              |
| Equity securities – preferred stock  | 252,993              | -                    |
| Corporate bonds  | 85,435               | 85,435               |
| Option   | 14,565               | 14,565               |
|  | <b>\$ 787,219</b>    | <b>766,099</b>       |
| Held-to-maturity financial assets - current:                                   |                      |                      |
| Investment bonds   | <b>\$ 185,164</b>    | -                    |
| Financial liabilities reported at fair value through profit or loss - current: |                      |                      |
| Financial liabilities held-for-trading - current                               |                      |                      |
| Foreign exchange swap contracts  | \$ -                 | 18,415               |
| Forward exchange contracts   | 2,163                | -                    |
| Subtotal   | <b>\$ 2,163</b>      | <b>18,415</b>        |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

|  | <u>June 30, 2011</u> | <u>June 30, 2010</u> |
|--|----------------------|----------------------|
| Financial liabilities reported at fair value |                      |                      |
| Domestic convertible bonds                   | \$ (1,578)           | (1,578)              |
| Adjustments                                  | 60,584               | 9,126                |
| Subtotal                                     | <u>59,006</u>        | <u>7,548</u>         |
| Total  | <u>\$ 61,169</u>     | <u>25,963</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 six months ended June 30, 2011 and 2010, Ability Enterprise Co., Ltd. recognized a loss on financial liability reported at fair value through profit or loss of \$47,864 and \$9,126, respectively, 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 six months ended June 30, 2011 and 2010, the Consolidated Company recognized a net loss on financial assets reported at fair value through profit or loss of \$60,544 and \$4,677, respectively.
- d. For six months ended June 30, 2011 and 2010, the unrealized losses on available-for-sale financial assets amounted to \$443,310 and \$284,824, respectively.
- e. The investments in equity securities held by Consolidated Company with no quoted price from active market and the fair value cannot be measured reliably, were reported as financial assets carried at cost-noncurrent. The Consolidated Company evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of \$21,434 and \$72,442 for the six months ended June 30, 2011 and 2010, respectively. Following the resolution by the shareholders during their Annual Meeting, ADDTEK Corporation carried out a capital reduction of \$98,125 and \$158,000, divided into 9,812 and 15,800 shares, in order to cover its accumulated deficit at March 30, 2010 and December 21, 2010, respectively.
- f. During the first quarter of 2011, KINSUS sold all of its equity ownership in KINMAC SOLAR CO., LTD., of 10,710,869 shares to WIN Semiconductors Corporation and 50,000 shares to a third party, totaling 10,760,869 shares, for a total selling price of \$118,015 at \$11 per share, net of securities transaction tax.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

g. As of June 30, 2011 and 2010, the components of financial derivatives of Ability Enterprise Co., Ltd. and United New Limited were as follows:

|  | June 30, 2011 |                                   |                                   |
|--|---------------|-----------------------------------|-----------------------------------|
|  | Book Value    | Notional Principal<br>(thousands) | Maturity Date/<br>Contract Period |
| Derivative financial assets not<br>for hedge           |               |                                   |                                   |
| Foreign exchange swap<br>contracts                     | \$ 19,862     | USD 98,843                        | 2011.01~2011.11                   |
| Forward exchange contracts                             | \$ 2,373      | USD 26,000                        | 2011.05~2011.08                   |
| Option exchange (long call)                            | \$ 27,227     | USD 9,500                         | 2011.01~2011.11                   |
| Principal guaranteed product<br>(interest rate-linked) | \$ 750,110    | NTD 750,000                       | 2011.06~2011.07                   |
| Forward exchange contracts                             | \$ (2,163)    | USD 18,000                        | 2011.06~2011.08                   |
|  |               |                                   |                                   |
|  | June 30, 2010 |                                   |                                   |
|  | Book Value    | Notional Principal<br>(thousands) | Maturity Date/<br>Contract Period |
| Derivative financial assets not<br>for hedge           |               |                                   |                                   |
| Foreign exchange swap<br>contracts                     | \$ (18,415)   | USD 106,970                       | 2010.06~2010.07                   |
| Forward exchange contracts                             | \$ 60         | USD 4,000                         | 2010.06~2010.07                   |
| Derivative financial assets for<br>hedge               |               |                                   |                                   |
| Currency swap contracts                                | \$ 8,858      | USD 8,708                         | 2010.09~2010.10                   |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Ability Enterprise Co., Ltd. entered into derivative contracts during the six months ended June 30, 2011 and 2010 to manage exposures due to the fluctuations of exchange rate and interest rate. However, no hedge accounting is adopted as these derivatives do not meet the criteria for hedge accounting.

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

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

|  | <b>June 30, 2011</b> | <b>June 30, 2010</b> |
|--|----------------------|----------------------|
| Notes receivable                           | \$ 19,893            | 76,955               |
| Less: Allowance for uncollectible accounts | (73)                 | -                    |
| Net  | 19,820               | 76,955               |
| Account receivable                         | \$ 60,084,291        | 42,873,281           |
| Less: Allowance for uncollectible accounts | (653,854)            | (749,731)            |
| Net  | 59,430,437           | 42,123,550           |
| Total                                      | <b>\$ 59,450,257</b> | <b>42,200,505</b>    |

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

| <b>Purchaser</b>              | <b>Amount derecognized</b> |                      | <b>Credit advanced</b> |                      | <b>Collateral</b> | <b>Credit (thousands)</b> |                      |
|-------------------------------|----------------------------|----------------------|------------------------|----------------------|-------------------|---------------------------|----------------------|
|                               | <b>June 30, 2011</b>       | <b>June 30, 2010</b> | <b>June 30, 2011</b>   | <b>June 30, 2010</b> |                   | <b>June 30, 2011</b>      | <b>June 30, 2010</b> |
| Mega                          | \$ 529,473                 | 693,365              | 275,565                | 429,462              | None              | USD 30,000                | USD 30,000           |
| International Commercial Bank |                            |                      |                        |                      |                   |                           |                      |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Inventories

|   | <b>June 30, 2011</b>        | <b>June 30, 2010</b>     |
|---|-----------------------------|--------------------------|
| Merchandise   | \$ 2,568,615                | 2,021,268                |
| Less: Allowance for inventory market decline and obsolescence | (25,503)                    | (175,560)                |
| Sub-total   | <u>2,543,112</u>            | <u>1,845,708</u>         |
| Finished goods and merchandise                                | 18,377,065                  | 15,007,057               |
| Less: Allowance for inventory market decline and obsolescence | (1,209,063)                 | (453,724)                |
| Sub-total   | <u>17,168,002</u>           | <u>14,553,333</u>        |
| Work in process and merchandise                               | 7,911,762                   | 3,499,840                |
| Less: Allowance for inventory market decline and obsolescence | (656,294)                   | (383,052)                |
| Sub-total   | <u>7,255,468</u>            | <u>3,116,788</u>         |
| Raw materials and merchandise                                 | 38,419,102                  | 28,461,465               |
| Less: Allowance for inventory market decline and obsolescence | (1,890,965)                 | (1,609,174)              |
| Sub-total   | <u>36,528,137</u>           | <u>26,852,291</u>        |
| Inventory-in-transit  | 965,063                     | 2,187,706                |
| Total   | <u><b>\$ 64,459,782</b></u> | <u><b>48,555,826</b></u> |

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

|  | <b>For the Six Months Ended June 30</b> |                           |
|--|---|---------------------------|
|  | <b>2011</b>                             | <b>2010</b>               |
| Cost of goods sold                           | \$ 227,587,345                          | 242,104,853               |
| Loss on inventory valuation and obsolescence | 83,337                                  | 173,022                   |
| Idle capacity                                | 449,486                                 | 47,863                    |
| Loss (Gain) on disposal of scrapping         | 784,960                                 | (401,927)                 |
| Loss on physical inventory                   | 2,419                                   | 16,369                    |
| Loss on slow moving inventories              | 123,529                                 | 18,033                    |
|  | <u><b>\$ 229,031,076</b></u>            | <u><b>241,958,213</b></u> |



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(5) Long-Term Equity Investments

| Name of Investee Company                                     | June 30, 2011  |                     | June 30, 2010  |                  |
|--|----------------|---------------------|----------------|------------------|
|  | Equity Holding | Book Value          | Equity Holding | Book Value       |
| INDEED HOLDINGS LIMITED                                      | 49.00%         | \$ 694,745          | 49.00%         | 777,378          |
| AVY PRECISION TECHNOLOGY INC.                                | 20.25%         | 745,739             | 20.39%         | 758,247          |
| WILSON HOLDINGS LIMITED                                      | 49.00%         | 151,458             | 49.00%         | 168,661          |
| EVER PINE INTERNATIONAL LTD. (BVI)                           | 34.65%         | 102,526             | 34.65%         | 127,804          |
| PENTAX VQ CO., LTD.  | - %            | -                   | 40.00%         | 71,559           |
| WISE INVESTMENT LIMITED                                      | 48.78%         | 35,635              | 48.78%         | 36,941           |
| SHIN-EI YORKEY INTERNATIONAL LTD. (BVI)                      | 50.00%         | 14,624              | 50.00%         | 21,106           |
| ZHANGJIAGANG DONGBU HIGH TECHNOLOGY METAL PRODUCTS CO., LTD. | 20.00%         | 45,661              | 20.00%         | 49,906           |
| YOFREE TECHNOLOGY CO., LTD.                                  | 17.50%         | 12,260              | 17.50%         | 10,629           |
| EBIZPRISE INC.   | 31.76%         | 65,855              | - %            | -                |
| ASAP TECHNOLOGY (JIANGXI) CO., LTD.                          | 25.00%         | 184,605             | - %            | -                |
| E-PACKING HOLDING LIMITED                                    | 30.00%         | 250,437             | - %            | -                |
| Subtotal   |                | 2,303,545           |                | 2,022,231        |
| Add: Fair value adjustment for identifiable assets           |                | 61,832              |                | 61,832           |
| Total  |                | <u>\$ 2,365,377</u> |                | <u>2,084,063</u> |

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- a. For the six months ended June 30, 2011 and 2010, the Consolidated Company recognized investment gain under equity method of \$22,339 and \$140,656, respectively. Some of the investment gain under equity method was recognized based on the investees' financial statements which were reviewed by other auditors and furnished to us, but others were recognized based on the investees' financial statements, which were not audited by an independent accountant.
- b. For the six months ended June 30, 2011 and 2010, the Consolidated Company held less than 50% shares of Shin-Ei Yorkey International Ltd. (BVI) and had no significant control thus Shin-Ei Yorkey International Ltd. (BVI) was excluded from the consolidated financial statements.
- c. Avy Precision Technology Inc., a subsidiary of Ability Enterprise Co., Ltd., had swapped its equity shares with Azure Wave Technologies, Inc., which resulted in a difference between acquisition cost and fair value of the identifiable long-term investment. Since the Consolidated Company has the ability to control Ability Enterprise Co., Ltd., such difference of \$61,832 both as of June 30, 2011 and 2010, was adjusted using the equity method of accounting based on the percentage of ownership of the Consolidated Company, in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 25 "Business Combinations".
- d. In November 2010, the Consolidated Company had participated in the capital increase of eBizprise Inc. by acquiring new shares worth \$99,000, divided into 5,500 thousand shares with par value of \$18 per share. As the result, the Consolidated Company increased its equity ownership to 31.76%.
- e. The Consolidated Company acquired 25% equity ownership of ASAP TECHNOLOGY (JIANGXI) CO., LTD. through equity swap, which enables it to exercise significant influence over ASAP TECHNOLOGY (JIANGXI) CO., LTD. Please refer to Note 2(1) for details.
- f. CASETEK HOLDING LIMITED (BVI), a subsidiary of the Consolidated Company, had participated in E-PACKING HOLDING's capital increase by purchasing additional equity shares by US\$8,115,484, and its ownership percentage increased to 30% after the capital increase.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- g. The Consolidated Company invested PENTAX VQ CO., LTD. through ASSOCIATION INTERNATIONAL LTD. (ASSOCIATION) of US\$1,200, was approved by the Investment Commission of the Ministry of Economic Affairs. During the first quarter of 2011, the ASSOCIATION is liquidated and the liquidation proceeds of US\$1,432 thousand were remitted to the Consolidated Company. A loss of US\$63 thousand was recognized from the difference of the book value and amount remitted.
- (6) The Company had equity investment in ADVANSUS CORP., which is a joint venture entity. The financial accounts of ADVANSUS CORP., which were included in the Company's consolidated financial statements, were as follows:

|                     | <u>June 30, 2011</u> | <u>June 30, 2010</u> |
|---------------------|----------------------|----------------------|
| Current assets      | \$ 552,619           | 689,496              |
| Non-current assets  | 12,282               | 15,524               |
| Current liabilities | 336,555              | 481,353              |

  

|          | <u>For the Six Months Ended June 30</u> |             |
|----------|---|-------------|
|          | <u>2011</u>                             | <u>2010</u> |
| Revenues | \$ 785,382                              | 1,096,357   |
| Expenses | 768,858                                 | 1,064,289   |

(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 \$759 and \$(122,016) for six months ended June 30, 2011 and 2010, 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. On May 5, 2011, pursuant to the resolutions of the board of directors, Ability sold 50% of the aforesaid land for \$1,239,706 for the purpose of joint development with builder and recognized a gain thereon of \$5,532 which was accounted under other income. As of June 30, 2011, according to the contract, Ability has received an amount of \$619,706. Also, Ability will receive payment for the remaining amount of \$620,000 in two installments with annual interest of 1% within six months of ownership transfer. Ability has also obtained the mortgage right on the aforesaid land sold.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

b. Rental assets

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

|  | <b>June 30, 2011</b> | <b>June 30, 2010</b> |
|--|----------------------|----------------------|
| Land   | \$ 286,573           | 345,749              |
| Buildings  | 579,063              | 623,417              |
| Less: Accumulated depreciation                     | (124,826)            | (127,740)            |
| Less: Accumulated impairment                       | (12,030)             | (69,061)             |
| Add: Fair value adjustment for identifiable assets | 7,133                | 8,839                |
|  | <b>\$ 735,913</b>    | <b>781,204</b>       |

(b) In accordance with SFAS 25, as the Consolidated Company has the ability to control Ability Enterprise Co., Ltd. through a share swap, the difference between the acquisition cost and the fair value of the rental assets was adjusted based on the Consolidated Company's percentage of ownership. As of June 30, 2011 and 2010, the fair value adjustment for identifiable assets amounted to \$7,133 and \$8,839, respectively.

c. Idle assets

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

|                                | <b>June 30, 2011</b> | <b>June 30, 2010</b> |
|--------------------------------|----------------------|----------------------|
| Land                           | \$ 56,969            | 394,645              |
| Buildings                      | 346,427              | 740,901              |
| Machinery and others           | 1,562,098            | 1,704,582            |
| Less: Accumulated depreciation | (1,235,240)          | (1,293,488)          |
| Less: Accumulated impairment   | (390,172)            | (578,281)            |
|                                | <b>\$ 340,082</b>    | <b>968,359</b>       |

(b) As these idle assets were not used in operation, the Consolidated Company valued these assets based on the recoverable amount. For the six months ended June 30, 2011 and 2010, a gain of \$28,483 and \$94,716, respectively, was recognized from impairment loss recovery for these idle assets.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(8) Intangible assets

- a. Goodwill is assessed periodically for impairment in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets". As of June 30, 2011 and 2010, the carrying value of goodwill amounted to \$1,874,245 and \$890,608, respectively.
- b. 'Land use rights' are rights granted to the Company to use government-owned land. These rights were paid in lump sum, which was capitalized and amortized equally over their useful lives. As of June 30, 2011 and 2010, the unamortized amount of land use rights was \$2,347,264 and \$2,391,181, respectively. Please refer to Note 6 for details of the intangible assets pledged as collateral.
- c. Identifiable intangible assets from customer relationships, technology and developments are amortized equally over 3 to 5 years based on their respective expected economic benefits. As of June 30, 2011, the unamortized amount was \$1,264,859.
- d. For the six months ended June 30, 2011, the Consolidated Company acquired 100% ownership of RIH LI for \$6,000,000 (equivalently US\$201,205 thousand) with equity premium of US\$120,763 thousand. As of June 30, 2011, the amount payable was \$2,949,540 (equivalent to US\$102,682 thousand), of which \$972,444 was due within a year, in accordance with the installment payment schedule stated in the contract. In accordance with SFAS No. 25 "Business Combinations," the Consolidated Company allocates the acquisition costs to the assets acquired and liabilities assumed based upon their fair values at the acquisition date within one year after the date of acquisition. If the acquisition price exceeds the fair value of identifiable net assets acquired, the excess is recognized as goodwill.

As of June 30, 2011, the acquisition price which was determined based on the report of independent appraiser was allocated as follows:

|  | (unit: USD thousand) |
|--|----------------------|
| Acquisition price                              | \$ 201,205           |
| Less: Fair value of identifiable net assets    |                      |
| - Current assets                               | 212,588              |
| - Current liabilities                          | (196,143)            |
| - Fixed assets                                 | 98,783               |
| - Other identifiable net assets                | 659                  |
| - Other identifiable net liabilities           | (5,309)              |
| - Intangible assets with definite useful lives | 57,094               |
| Subtotal                                       | 167,672              |
| Goodwill                                       | <u>\$ 33,533</u>     |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(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 June 30, 2011 and 2010, the unamortized amount of deferred expenses was \$2,108,942 and \$2,821,034, respectively.

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

(10) Short - Term Loans

|                        | <b>June 30, 2011</b> | <b>June 30, 2010</b> |
|------------------------|----------------------|----------------------|
| Credit loans           | \$ 21,290,481        | 14,883,706           |
| Collateralized loans   | 464,092              | 71,014               |
|                        | <b>\$ 21,754,573</b> | <b>14,954,720</b>    |
| Range of interest rate | <b>0.50% ~ 5.00%</b> | <b>0.55% ~ 5.04%</b> |

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

|                                  | <b>June 30, 2011</b> | <b>June 30, 2010</b> |
|----------------------------------|----------------------|----------------------|
| Bond payable                     | \$ 1,500,000         | 1,500,000            |
| Less: Discounts on bonds payable | (110,746)            | (141,652)            |
| Total                            | <b>\$ 1,389,254</b>  | <b>1,358,348</b>     |

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

- (a) Ability Enterprise Co., Ltd. (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.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (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 Ability (TW)'s common stock. Under the terms of the convertible bonds, the rights and obligations of the new shares converted from convertible bonds are the same as the issued and outstanding common stock.
- (c) The conversion price will be adjusted based on the terms of the conversion plan, and will be reset based on the prescribed formula upon the occurrence of certain events that will have a dilutive effect on the bondholders' rights. The conversion price is \$60 and as Ability (TW) distributes cash dividend on 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) Ability (TW) may purchase the outstanding bonds at face value after the following events, provided that (i) the closing price of the shares for a period of 30 consecutive trading day is above 130% of the conversion price (ii) the amount of the outstanding bonds is less than 10% of the initial issuance amount of convertible bonds, from the day after the first month of issuance of the bonds to 40 days prior to the maturity date.
- (f) Under the terms of the convertible bonds, the convertible bonds of Ability (TW) which are repurchased, redeemed, or converted to common shares will be retired and cannot be sold or re-issued.
- b. In accordance with SFAS No. 36, convertible bonds are initially treated as compound financial instruments, of which the equity and liability components are separately accounted for. As of June 30, 2011, the issuance of convertible bonds resulted in "additional paid-in capital-stock option" of \$153,508. In addition, the fair value of call options and put options embedded in bonds payable was separated from bonds payable, and was recognized as "Financial assets or liabilities at fair value through profit or loss" in accordance with SFAS No. 34. The effective annual interest rate of the bonds ranges from 2.122% to 2.263%.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

c. As of June 30, 2011, Ability Enterprise Co., Ltd.'s convertible bonds have not yet been converted into common shares nor repurchased.

(12) Long - Term Loans

| <u>Creditor</u>   | <u>Usage and redemption duration</u>  | <u>June 30, 2011</u> | <u>June 30, 2010</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.  | \$ 8,617,500         | -                    |
| 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.   | -                    | 142,029              |
| The Shanghai Commercial & Saving Bank, Ltd.   | 2010.09.21~2015.09.20 payable in 10 quarterly installments from the thirty-first month.   | 1,005,375            | -                    |
| The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch                          | 2006.12.08 ~2013.12.08, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.  | 11,969               | 18,731               |
| 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.  | 64,631               | 96,330               |
| The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch                          | 2009.07.23 ~2014.07.23, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.  | 17,504               | 24,083               |



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| <b>Creditor</b>  | <b>Usage and redemption duration</b>  | <b>June 30, 2011</b> | <b>June 30, 2010</b> |
|--|---|----------------------|----------------------|
| The Shanghai Commercial & Savings Bank, Ltd. —<br>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.                                | 182,224              | 232,798              |
| The Shanghai Commercial & Savings Bank, Ltd. —<br>Chung - Li Branch                      | 2010.07.22~2015.07.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.                                 | 158,706              | -                    |
| The Shanghai Commercial & Savings Bank, Ltd. —<br>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.                                 | 143,625              | -                    |
| The Shanghai Commercial & Savings Bank, Ltd. —<br>International Financial Service Branch | 2010.04.20~2013.04.19, payable in 8 quarterly installments, commencing from May 20, 2011. As of June 2011, redeeming method has changed to 8 quarterly installments commencing from September 21, 2011. | 57,450               | 64,300               |
| The Shanghai Commercial & Savings Bank, Ltd. —<br>Chung - Li Branch                      | 2011.01.24~2016.01.24, payable in 12 quarterly installments, commencing from the date of borrowing (with a two year grace period).  | 15,000               | -                    |
| The Shanghai Commercial & Savings Bank, Ltd. —<br>Chung - Li Branch                      | 2011.03.11~2015.03.10, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.                                 | 143,625              | -                    |
| Mega International Commercial Bank —<br>Lan-Ya Branch                                    | 2004.12.31~2011.12.31, payable in 20 quarterly installments, commencing from January, April, August, October 15 which date is the nearest date of borrowing.  | 2,407                | 8,072                |
| Mega International Commercial Bank —<br>Lan-Ya Branch                                    | 2005.01.31~2012.01.31, payable in 20 quarterly installments, commencing from the date of borrowing.   | 16,050               | 41,863               |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| <u>Creditor</u>                                    | <u>Usage and redemption duration</u>   | <u>June 30, 2011</u> | <u>June 30, 2010</u> |
|--|--|----------------------|----------------------|
| 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).                                       | 313,103              | 349,999              |
| 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. | 201,075              | -                    |
| Mega International Commercial Bank — Lan-Ya Branch | 2010.10.28~2015.10.27, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period).                                       | 114,900              | -                    |
| Mega International Commercial Bank — Lan-Ya Branch | 2010.12.20~2015.12.20, payable in 20 quarterly installments, commencing from May 20, 2011.   | 904,838              | -                    |
| Mega International Commercial Bank — Lan-Ya Branch | 2011.02.16~2016.02.15, payable in 20 quarterly installments, commencing from the date of borrowing.  | 545,775              | -                    |
| Mega International Commercial Bank — Lan-Ya Branch | 2011.03.11~2016.03.10, payable in 20 quarterly installments, commencing from the date of borrowing.  | 387,787              | -                    |
| Mega International Commercial Bank — Lan-Ya Branch | 2011.04.07~2014.04.07, payable in 20 quarterly installments, commencing from the date of borrowing.  | 10,000               | -                    |
| Mega International Commercial Bank                 | 2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.  | 1,436,250            | -                    |
| Land Bank — Chung - Li Branch                      | 2010.12.24~2015.12.24, payable in 60 monthly installments, commencing from May 20, 2011.   | 129,620              | -                    |
| Land Bank — Chung - Li Branch                      | 2011.03.11~2014.03.10, payable at maturity date.   | 143,625              | -                    |
| ANZ  | 2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.  | 1,436,250            | -                    |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| <b>Creditor</b>        | <b>Usage and redemption duration</b>  | <b>June 30, 2011</b> | <b>June 30, 2010</b> |
|------------------------|---|----------------------|----------------------|
| DBS                    | 2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013. | 1,436,250            | -                    |
| HSBC (Taiwan)          | 2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013. | 1,436,250            | -                    |
| Total                  |   | 18,931,789           | 8,178,205            |
| Less: Current portion  |   | (692,782)            | (96,275)             |
|                        |   | <b>\$ 18,239,007</b> | <b>8,081,930</b>     |
| Range of interest rate |   | <b>0.78%~2.20%</b>   | <b>0.80%~4.86%</b>   |

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 \$90,000,000.

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

The Company was in compliance with the above financial covenants as of June 30, 2011 and 2010. 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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(13) Pension Plan

For the six months ended June 30, 2011 and 2010, the pension costs and related information were as follows:

|                                     | <b>June 30, 2011</b> | <b>June 30, 2010</b> |
|-------------------------------------|----------------------|----------------------|
| Balance of pension fund – ending    | \$ 120,124           | 102,245              |
| Current pension expenses:           |                      |                      |
| Defined benefit pension plan        | \$ 6,327             | 4,984                |
| Defined contribution pension plan   | \$ 479,753           | 502,551              |
| Balance of pension payable – ending | \$ 42,858            | 21,702               |
| Balance of pension prepaid – ending | \$ 3,414             | 3,198                |

(14) Income Tax :

- a. According to the revised Income Tax Law announced on June 15, 2010, the statutory income tax rate is reduced further to 17% effective January 1, 2010. Therefore, the Company is subject to statutory income tax rate of 17% for both the six months ended June 30, 2011 and 2010. The Company also complies with the Basic Income Tax Act when calculating its income tax.
- b. For the six months ended June 30, 2011 and 2010, the components of income tax expense were as follows:

|                                      | <b>For the Six Months Ended June 30</b> |                  |
|--------------------------------------|---|------------------|
|                                      | <b>2011</b>                             | <b>2010</b>      |
| Current income tax expense           | \$ 844,926                              | 757,384          |
| Deferred income tax expense          | (56,728)                                | 348,962          |
| 10% surtax on undistributed earnings | 137,896                                 | 217,638          |
| Income tax expense                   | <b>\$ 926,094</b>                       | <b>1,323,984</b> |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The components of deferred income tax expense were as follows:

|  | For the Six Months Ended June 30 |                |
|--|----------------------------------|----------------|
|  | 2011                             | 2010           |
| Provision for loss on inventory              | \$ (8,395)                       | (31,055)       |
| Reversal (Provision) for warranty reserve    | (56,541)                         | 29,881         |
| Loss carry-forward                           | (492,448)                        | (156,521)      |
| Provision for loss on uncollectible accounts | (10,727)                         | 9,450          |
| Unrealized profits on sales                  | (26,558)                         | (1,524)        |
| Impairment loss of assets                    | 10,341                           | 1,958          |
| Investment tax credits                       | 309,627                          | 266,488        |
| Unrealized exchange gain                     | (87,126)                         | (121,694)      |
| Unrealized expenses                          | (93,970)                         | -              |
| Cumulative translation adjustments           | (47,490)                         | -              |
| The effect of income tax rate changes        | -                                | 8,901          |
| Unrealized gain on foreign investment loss   | 215,135                          | 240,600        |
| Valuation allowance for deferred tax assets  | 248,755                          | 113,738        |
| Others                                       | (17,331)                         | (11,260)       |
| Deferred income tax expense                  | <u>\$ (56,728)</u>               | <u>348,962</u> |

- 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 six months ended June 30, 2011 and 2010 as follows:

|  | For the Six Months Ended June 30 |                  |
|--|----------------------------------|------------------|
|  | 2011                             | 2010             |
| Income tax expense calculated on pre-tax | \$ 708,539                       | 1,336,595        |
| Permanent differences                    | (133,815)                        | (87,027)         |
| Investment tax credits (increase)        | 147,866                          | (101,215)        |
| Prior year tax adjustment                | 71,415                           | (17,936)         |
| 10% surtax on undistributed earnings     | 137,896                          | 217,638          |
| Impairment loss on assets                | -                                | (31,450)         |
| Others                                   | (5,807)                          | 57,896           |
| The effect of income tax rate changes    | -                                | (50,517)         |
| Income tax expense                       | <u>\$ 926,094</u>                | <u>1,323,984</u> |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

|  | June 30, 2011 |                    | June 30, 2010 |                    |
|--|---------------|--------------------|---------------|--------------------|
|  | Amount        | Income Tax Effects | Amount        | Income Tax Effects |
| Temporary differences resulting in deferred income tax assets (liabilities) - current: |               |                    |               |                    |
| Unrealized foreign exchange loss: deductible (taxable)                                 | \$ (781,680)  | (132,886)          | 198,908       | 33,873             |
| Allowance for loss on inventory market decline and obsolescence: deductible            | 1,924,212     | 344,236            | 1,220,473     | 208,317            |
| Unrealized intercompany profit: deductible   | 39,473        | 6,710              | 64,111        | 10,899             |
| Deferred employee benefits for tax: deductible   | 902           | 153                | 6,337         | 1,645              |
| Warranty reserve: deductible   | 575,299       | 97,801             | 1,217,181     | 207,539            |
| Unrealized sales discount: deductible  | 33,892        | 5,762              | -             | -                  |
| Organization costs: deductible   | -             | -                  | 34            | 6                  |
| Unrealized expenses: deductible  | 110,723       | 27,681             | -             | -                  |
| Unused balance of investment tax credits: deductible                                   | 668,898       | 668,898            | 298,135       | 298,135            |
| Loss carry-forward: deductible   | 2,613,667     | 450,456            | 993,450       | 169,811            |
| Depreciation of assets: deductible (taxable)   | (119,692)     | (23,967)           | 32,739        | 4,861              |
| Allowance for uncollectible accounts: deductible                                       | 175,062       | 30,827             | 7,401         | 1,258              |
| Capitalization of expenses: deductible   | 8,300         | 1,411              | 12,867        | 3,396              |
| Others   | 3,187         | 989                | (17,965)      | (4,554)            |
| The effect of income tax rate changes  |               | -                  | -             | (902)              |
| Valuation Allowance  |               | (594,111)          |               | (145,468)          |
| Net deferred income tax assets   |               | <u>\$ 883,960</u>  |               | <u>788,816</u>     |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

|  | June 30, 2011 |                     | June 30, 2010 |                    |
|--|---------------|---------------------|---------------|--------------------|
|  | Amount        | Income Tax Effects  | Amount        | Income Tax Effects |
| Temporary difference of deferred income tax assets (liabilities) – noncurrent: |               |                     |               |                    |
| Unrealized impairment loss on assets: deductible                               | \$ 81,861     | 12,616              | 84,000        | 14,281             |
| Deferred employee benefits for tax: deductible                                 | 6,159         | 1,635               | 2,322         | 395                |
| Unrealized gain on foreign investments: taxable                                | (3,126,730)   | (407,852)           | (2,030,692)   | (345,218)          |
| Reserve for overseas investment losses: deductible                             | (1,015,494)   | (172,634)           | (1,160,597)   | (197,302)          |
| Organization costs: deductible   | 10,619        | 1,292               | 62            | 12                 |
| Unused balance of investment tax credits: deductible                           | 504,415       | 504,415             | 604,175       | 604,175            |
| Cumulative translation adjustment: deductible                                  | 279,354       | 47,490              | -             | -                  |
| Loss carry-forward: deductible   | 2,798,873     | 367,282             | 190,027       | 38,005             |
| Unrealized loss on inventory: deductible                                       | 113,929       | 15,045              | 82            | 16                 |
| Pension over the limited amount: deductible                                    | 12,292        | 2,090               | 12,292        | 2,090              |
| Impairment loss on long-term investment: deductible                            | 173,642       | 29,519              | -             | -                  |
| Allowance for uncollectable accounts: deductible                               | 29,202        | 4,964               | -             | -                  |
| Depreciation of assets: deductible   | (8,205)       | (2,338)             | -             | -                  |
| Deferred expenses: deductible  | 122,708       | 18,406              | -             | -                  |
| Warranty reserve: deductible   | 621,013       | 77,627              | -             | -                  |
| Unrealized expenses: deductible  | 530,307       | 66,288              | -             | -                  |
| Accrued interest expense of bonds payable: deductible                          | 43,783        | 7,443               | 12,877        | 2,189              |
| Capitalization of expenses: deductible   | 18,141        | 4,810               | 1,798         | 208                |
| Others   | 1,811         | 308                 | -             | -                  |
| The effect of income tax rate changes  |               | -                   | -             | (734)              |
| Valuation allowance  |               | (1,069,615)         |               | (632,238)          |
| Net deferred income tax liabilities  |               | <u>\$ (491,209)</u> |               | <u>(514,121)</u>   |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- e. The Company's tax returns through 2007 have been assessed and approved by the Tax Authority.
- f. As of June 30, 2011, 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         | 2008~2011                 | \$ 510,090            | 2011~2013          |
| UNIHAN              | 2009~2011                 | 36,010                | 2011~2013          |
| KINSUS              | 2007~2010                 | 602,195               | 2012~2014          |
| ASUS Investment     | 2007                      | 14,749                | 2011               |
| ADVANSUS            | 2009                      | 6,063                 | 2013               |
| AMA PRECISION       | 2009                      | 4,206                 | 2013               |
|                     |                           | <u>\$ 1,173,313</u>   |                    |

- g. As of June 30, 2011, according to ROC Income Tax Act, unused loss carry-forward which may be applied to offset against taxable income 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         | 2011                      | \$ 341,430            | 2021               |
| PROTEK              | 2010~2011                 | 2,411,702             | 2015~2016          |
| PCM                 | 2010~2011                 | 47,176                | Note               |
| UNIHAN              | 2010~2011                 | 2,225,061             | 2010~2021          |
| STARLINK            | 2004~2010                 | 149,152               | 2014~2020          |
| PEGAVISION          | 2009~2011                 | 135,925               | 2019~2021          |
| AMA PRECISION       | 2009~2011                 | 102,094               | 2019~2021          |
|                     |                           | <u>\$ 5,412,540</u>   |                    |

Note: In accordance with its local income tax act.



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

h. 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 out of the proceeds from the capital increase. As of June 30, 2011, the five year income tax exemption periods were as follows:

| Description   | Exemption                |
|---|--------------------------|
| Tenth capital increase used for investment in new equipment.    | 07/31/2006 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 | 09605016580              | 09/30/2006~09/29/2011 |
| 2    | Industrial Development Bureau | 09605016590              | 09/30/2006~09/29/2011 |
| 3    | Industrial Development Bureau | 09605034400              | 08/31/2007~08/30/2012 |
| 4    | Industrial Development Bureau | 09805018460              | 09/30/2008~09/29/2013 |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

(15) Stockholders' Equity

a. Capital Stock

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

In order to enhance own-brand business and boost productivity, the board of directors of ASUSTeK Computer Inc. (ASUSTek) resolved on December 11, 2009 but revised it on January 1, 2010, to spin-off or cede its OEM group (Pegatron Corporation (the Company)) to Pegatron International Investment Co., Ltd. (Pegatron Investment), which is being held by ASUSTeK. Pegatron Investment will issue new shares to ASUSTeK and all shareholders of ASUSTek, for which, ASUSTek and all other shareholders of ASUSTek will acquire 25% ownership and 75% ownership, respectively, of the equity of Pegatron Investment. The record date of this spin-off is June 1, 2010. Following the spin-off, the Company merged with Pegatron Investment. The Company issued 10 thousands new shares, resulting in additional capital of \$100. Thereafter, the total outstanding capital amounted to \$22,860,639, divided into 2,286,064 thousand shares with par value of \$10 per share.

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares valued at \$296,970. As of June 30, 2011 and 2010, the authorized capital of the Company both consisted of 2,500,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,256,367 thousand shares and 2,286,064 thousand shares, respectively.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

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

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

(a) Voting Rights

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

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

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

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, of which only 50% can be capitalized.

In accordance with the ROC Company Law, capital surplus can only be used exclusively to offset a deficit and increase capital. Capital surplus resulting from long-term equity investments cannot be used to increase capital.

Dividends yield by the trust of the shareholders of parent company were distributed to the employees of the Company as bonuses. These bonuses amounted to \$232,803 and \$194,872 which were credited to capital surplus-others as of June 30, 2011 and 2010, respectively.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

c. Treasury Stock

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

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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Pursuant to the regulations of Securities and Futures Commission, a special reserve is set aside from the current net income and prior unappropriated earnings at an amount equal to each of the contract accounts in the shareholders' equity such as the unrealized loss on financial instruments and cumulative translation adjustments. When the contra accounts in the shareholders' equity are reversed, the set-aside special reserve can be distributed.

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

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

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

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

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

For the six months ended June, 2010, the estimated employee bonuses and directors' and supervisors' remuneration amounted to \$312,605 and \$31,260, respectively, which were recognized as current expenses. Differences between the amounts approved in the shareholders' meeting and recognized in the financial statements, if any, are to be accounted for as changes in accounting estimates and recognized in profit or loss. For the six months ended June 30, 2011, the Company did not estimate and recognize employee bonuses and directors' and supervisors' remuneration due to the net loss after tax incurred for such period.

**(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 June 30, 2011 and 2010, the weighted-average expected life of the employee stock options was 3.74 years and 4.74 years, respectively.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

|  | For the Six Months Ended June 30           |                                 |  |                                 |
|--|--|---------------------------------|--|---------------------------------|
|  | 2011                                       |                                 | 2010                                       |                                 |
|  | Quantity of stock option (thousand shares) | Weighted-average exercise price | Quantity of stock option (thousand shares) | Weighted-average exercise price |
| Outstanding at the beginning of the period | 6,678                                      | \$ 38.3                         | 10,000                                     | 41.3                            |
| Granted                                    | -  | -                               | -  | -                               |
| Added or adjusted                          | -  | -                               | -  | -                               |
| Exercised                                  | (1,599)                                    | 38.3                            | -  | -                               |
| Forfeited                                  | -  | -                               | -  | -                               |
| Outstanding at the end of the period       | <u>5,079</u>                               | 38.3                            | <u>10,000</u>                              | 41.3                            |
| Exercisable at the end of the period       | <u>1,079</u>                               |                                 | <u>4,000</u>                               |                                 |

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

|                              | For the Six Months Ended June 30 |              |
|------------------------------|----------------------------------|--------------|
|                              | 2011                             | 2010         |
| Net income                   |                                  |              |
| Net income                   | \$ 393,197                       | 1,329,656    |
| Pro forma net income         | 383,996                          | 1,313,612    |
| Basic earnings per share     |                                  |              |
| Earnings per share           | 0.88 dollars                     | 3.04 dollars |
| Pro forma earnings per share | 0.86 dollars                     | 3.00 dollars |
| Diluted earnings per share   |                                  |              |
| Earnings per share           | 0.85 dollars                     | 2.87 dollars |
| Pro forma earnings per share | 0.81 dollars                     | 2.82 dollars |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (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:

|   | <u>November 20, 2007</u> |
|---|--------------------------|
| 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 June 30, 2011 and 2010, the weighted-average expected life of the employee stock options was 4.25 years and 5.25 years, respectively.



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

|  | For the Six Months Ended June 30           |                                 |  |                                 |
|--|--|---------------------------------|--|---------------------------------|
|  | 2011                                       |                                 | 2010                                       |                                 |
|  | Quantity of stock option (thousand shares) | Weighted-average exercise price | Quantity of stock option (thousand shares) | Weighted-average exercise price |
| Outstanding at the beginning of the period | 6,802                                      | \$ 19.3                         | 9,500                                      | 20.8                            |
| Granted                                    | -  | -                               | -  | -                               |
| Added or adjusted                          | -  | -                               | -  | -                               |
| Exercised                                  | (461)                                      | 19.3                            | -  | -                               |
| Forfeited                                  | -  | -                               | -  | -                               |
| Outstanding at the end of the period       | <u>6,341</u>                               | 19.3                            | <u>9,500</u>                               | 20.8                            |
| Exercisable at the end of the period       | <u>641</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%<br>(Note)                                | 7 years                                       | -%              | 2.2101%                 | 8.88 dollars        |

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

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

|                    | For the Six Months Ended June 30 |               |
|--------------------|----------------------------------|---------------|
|                    | 2011                             | 2010          |
| Equity transaction | <u>\$ 6,608</u>                  | <u>10,866</u> |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(17) Earnings per Share (EPS)

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

(Note: shares in thousands)

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

(18) Financial Instruments

a. Fair value of financial instruments

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

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

| Non-Financial Instruments                      | June 30, 2011 |            | June 30, 2010 |            |
|--|---------------|------------|---------------|------------|
|  | Book Value    | Fair Value | Book Value    | Fair Value |
| <b>Financial Assets</b>                        |               |            |               |            |
| Financial assets carried at<br>cost            | \$ 787,219    | -          | 766,099       | -          |
| Financial assets<br>held-to-maturity           | 185,164       | -          | -             | -          |
| <b>Financial Liabilities</b>                   |               |            |               |            |
| Bonds payable                                  | 1,389,254     | 1,389,254  | 1,358,348     | 1,358,348  |
| Long-term loans (including<br>current portion) | 18,931,789    | 18,931,789 | 8,178,205     | 8,178,205  |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Financial Instruments                               | June 30, 2011 |            | June 30, 2010 |            |
|---|---------------|------------|---------------|------------|
|   | Book Value    | Fair Value | Book Value    | Fair Value |
| <b>Financial Assets</b>                             |               |            |               |            |
| Currency swap contracts - hedging                   | \$ -          | -          | 8,858         | 8,858      |
| Forward exchange contracts                          | 2,373         | 2,373      | 60            | 60         |
| Foreign exchange swap contracts                     | 19,862        | 19,862     | -             | -          |
| Option exchange contracts (long call)               | 27,227        | 27,227     | -             | -          |
| Principal guaranteed product (interest rate-linked) | 750,110       | 750,110    | -             | -          |
| <b>Financial Instruments</b>                        |               |            |               |            |
| <b>Financial Liabilities</b>                        |               |            |               |            |
| Foreign exchange swap contracts                     | -             | -          | 18,415        | 18,415     |
| Embedded derivatives - convertible bonds            | 59,006        | 59,006     | 7,548         | 7,548      |
| Forward exchange contract                           | 2,163         | 2,163      | -             | -          |

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 fair market value.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (d) The fair market value of long-term loans is determined by the present value of future cash flow. As the value derived by using floating interest rate in discounting is close to the book value, the book value is adopted as the fair market value.
  - (e) The fair value of the derivatives is determined by their book value on the balance sheet date. If the derivatives are not traded in active markets, then the fair value is determined by using valuation techniques, under which the estimates and assumptions used are consistent with prevailing market conditions.
- c. Loss recognized from changes in the fair values of financial assets and liabilities, which were estimated by using valuation techniques, amounted to \$60,544 and \$13,803, for the six months ended June 30, 2011 and 2010, respectively.

d. Information on financial risks

(a) Market risk

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

The equity securities held by the Consolidated Company are classified as financial assets measured at fair value through profit or loss and available-for-sale financial assets. As these assets are measured at fair value, the Consolidated Company is exposed to the risk of changes in fair value in an equity securities market.

(b) Credit risk

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

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

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

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

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

**(c) Liquidity risk**

The capital and working funds of the Consolidated Company are sufficient to meet its entire contractual obligations and non-hedging forward exchange contracts; therefore, management is not expecting any significant issue on liquidity risk.

The funds and marketable securities investments held by the Consolidated Company have publicly quoted prices and could be sold at 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.

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

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

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

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

e. Procedure of financial risk control and hedge

Ability Enterprise Co., Ltd. (Ability (TW)) adopted overall risk management and control system to identify all the risks, including market risk, credit risk and operational risk, so that Ability (TW)'s management is not expecting any significant issue on doubtful account.

The Chief Financial Officer is mainly responsible for the financial risk control. Ability (TW) adopts the following strategies to control financial risks:

- (1) Ability (TW) undertakes derivative financial instruments to manage cash flow risk, fair value risk and other risks arising from fluctuations in prices, interest rates and foreign exchange rates.
- (2) To hedge cash flow fair value risk arising from fluctuations in exchange rates, Ability (TW) undertakes derivative financial instruments such as forward exchange contracts to manage import and export transactions denominated in foreign currencies.
- (3) To mitigate price risk, Ability (TW) sets a stop-loss point on the derivatives undertaken to limit potential loss.
- (4) Derivative counterparties are limited to high-credit-quality international financial institutions. Ability (TW) has policies that limit the amount of credit exposure to any financial institution.
- (5) Ability (TW) has sufficient working capital on hand to avoid liquidity risk arising from insufficient funds to fulfill contract obligations.
- (6) Ability (TW) has policies to avoid significant concentration of credit risk on cash, securities and linked notes held

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

| Hedged item               | Derivative Financial Instruments | June 30, 2010                               |       |
|---------------------------|----------------------------------|---|-------|
|                           |                                  | Hedging instrument designated at fair value |       |
| Payables-foreign currency | Forward exchange contracts       | \$  | 8,858 |

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

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

(19)Others

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

|                              | June 30, 2011    |               |             | June 30, 2010    |               |            |
|------------------------------|------------------|---------------|-------------|------------------|---------------|------------|
|                              | Foreign Currency | Exchange Rate | NTD         | Foreign Currency | Exchange Rate | NTD        |
| <b>Financial Assets</b>      |                  |               |             |                  |               |            |
| Monetary Items               |                  |               |             |                  |               |            |
| USD                          | \$2,693,978      | 28.725        | 77,354,518  | 2,127,160        | 32.15         | 63,388,194 |
| RMB                          | 2,377,207        | 4.4386        | 10,551,471  | 984,109          | 4.7343        | 4,659,067  |
| Long-term Equity Investments |                  |               |             |                  |               |            |
| USD                          | 42,256           | 28.725        | 1,213,804   | 36,283           | 32.15         | 1,166,498  |
| <b>Financial Liabilities</b> |                  |               |             |                  |               |            |
| Monetary Items               |                  |               |             |                  |               |            |
| USD                          | 3,921,462        | 28.725        | 112,643,996 | 2,170,817        | 32.15         | 69,791,767 |
| RMB                          | 1,826,915        | 4.4386        | 8,108,945   | 346,490          | 4.7343        | 1,640,388  |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

5. Related-Party Transactions

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

| <u>Name of Related Party</u>  | <u>Relationship with the Company</u>  |
|---|---|
| ASUSTEK COMPUTER INC.   | An investor company that ceased to be a parent company effective May 31, 2010.            |
| ASUS HOLLAND B.V.   | An investee company accounted for under the equity method by ASUSTeK Computer Inc. (Note) |
| ASUS TECHNOLOGY PTE. LIMITED  | "   |
| ASUS COMPUTER INTERNATIONAL   | "   |
| ASUS TECHNOLOGY (VIETNAM) CO.LTD  | "   |
| BIG PROFIT LIMITED  | "   |
| ASKEY COMPUTER CORPORATION  | "   |
| ASUS TECHNOLOGY INCORPORATION   | "   |
| ASMEDIA TECHNOLOGY INC.   | "   |
| ASUS COMPUTER (SHANGHAI) CO., LTD (ASUS UNITED TECHNOLOGY (SHANGHAI) CO., LTD. FORMERLY) (ASUS COMPUTER (SHANGHAI)) | "   |
| SHINEWAVE INTERNATIONAL INC.  | "   |
| ENERTRONIX, INC.  | "   |
| EMES (SUZHOU) CO., LTD  | "   |
| ASKEY TECHNOLOGY (JIANG SU) LTD   | "   |
| INTERNATIONAL UNITED TECHNOLOGY CO., LTD.   | "   |
| UNIMAX ELECTRONICS INCORPORATION  | "   |
| ASUS TECHNOLOGY (SUZHOU) CO.,LTD  | "   |
| SHINEW AVE GROUP  | "   |
| AGAIT TECHNOLOGY CRPORATION   | "   |



(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| <u>Name of Related Party</u>                        | <u>Relationship with the Company</u>                      |
|---|---|
| ASHINE PRECISION CO., LTD                           | An investee company accounted for under the equity method |
| AVY PRECISION TECHNOLOGY INC.                       | "   |
| AVY CO., LTD.                                       | "   |
| DONGGUAN AVY PRECISION METAL COMPONENTS CO., LTD    | "   |
| DONGGUAN CHENGGUANGP PRECISION HARDWARE CO., LTD    | "   |
| AVY PRECISION METAL COMPONENTS(SUZHOU)              | "   |
| E-PIN OPTICAL INDUSTRY CO., LTD.                    | "   |
| CRYSTAL ART ENTERPRISE CO., LTD.                    | "   |
| SHANGHAI INDEED TECHNOLOGY CO., LTD.                | "   |
| HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.              | "   |
| GING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD. | "   |
| HOLD JUMPER PACKING (SUZHOU) CO., LTD.              | "   |
| HOLD JUMPER PACKING (SHANGHAI) CO., LTD.            | "   |
| SUZHOU DELUXE PACKING PRODUCTION CO., LTD.          | "   |
| AVY HIGH TECH LIMITED                               | "   |
| BLACKROCK MARYLAND INTERNATIONAL CORP               | "   |
| GREEN PACKING LIMITED                               | "   |
| PENTAX VQ CO., LTD.(PVQ)                            | "   |
| SHINE TRADE INTERNATIONAL LTD.                      | "   |
| YORKEY OPTICAL TECHNOLOGY LTD. (SAMOA)              | "   |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| <b>Name of Related Party</b>     | <b>Relationship with the Company</b>        |
|----------------------------------|---|
| TAISHIBA INTERNATIONAL CO., LTD. | An affiliate of Ability Enterprise Co., Ltd |

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

(2) Significant Transactions with Related Parties

a. Sales

| <b>Name of Related Party</b> | <b>For the Six Months Ended June 30, 2011</b> |                       |   | <b>For the Six Months Ended June 30, 2010</b> |                       |  |
|------------------------------|---|-----------------------|---|---|-----------------------|--|
|                              | <b>Amount</b>                                 | <b>% of Net Sales</b> | <b>The collection term</b>  | <b>Amount</b>                                 | <b>% of Net Sales</b> | <b>The collection term</b>   |
| ASUSTEK                      | \$ 68,406,018                                 | 28.54                 | Open account<br>60 days   | 108,188,638                                   | 41.85                 | 30~60 days from<br>receipt of goods<br><br>Open account<br>30~120 days |
| Others                       | 5,874   | -                     | 30~90 days from<br>receipt of goods<br><br>Open account<br>30~90 days | 128,370                                       | 0.05                  | 30~60 days from<br>receipt of goods<br><br>Open account<br>30~120 days |
| Total                        | <b>\$ 68,411,892</b>                          | <b>28.54</b>          |   | <b>108,317,088</b>                            | <b>41.90</b>          |  |

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

b. Purchases

| Name of<br>Related<br>Party | For the Six Months Ended June 30, 2011 |                         |  | For the Six Months Ended June 30, 2010 |                         |  |
|-----------------------------|--|-------------------------|--|--|-------------------------|--|
|                             | Amount                                 | % of Gross<br>Purchases | Purchase<br>term   | Amount                                 | % of Gross<br>Purchases | Purchase<br>term   |
| ASUSTeK                     | \$ 52,543,831                          | 22.24                   | Open account<br>60 days  | 76,508,041                             | 32.06                   | 30~60 days from<br>receipt of goods<br>Open account<br>60~120 days |
| Others                      | 3,405,317                              | 1.44                    | 30~90 days from<br>receipt of goods<br>Open account<br>30~120 days | 2,878,479                              | 1.21                    | 30~90 days from<br>receipt of goods<br>Open account<br>30~120 days |
| Total                       | <u>\$ 55,949,148</u>                   | <u>23.68</u>            |  | <u>79,386,520</u>                      | <u>33.27</u>            |  |

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

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

c. Others

|  | For the Six Months Ended June 30 |                |
|--|----------------------------------|----------------|
|  | 2011                             | 2010           |
| (a) After-sales warranty repair expense paid to: |                                  |                |
| ASTP   | \$ -                             | 95,236         |
| ASUS COMPUTER (SHANGHAI)                         | 268                              | 21,044         |
| ASUSTEK COMPUTER (SHANGHAI)                      | 138                              | 1,784          |
| Total  | <u>\$ 406</u>                    | <u>118,064</u> |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

|                        | For the Six Months Ended June 30 |                |
|------------------------|----------------------------------|----------------|
|                        | 2011                             | 2010           |
| (b) Other income from: |                                  |                |
| ASUSTeK                | \$ 254,782                       | 340,921        |
| Others                 | 3,337                            | 1,264          |
| Total                  | <b>\$ 258,119</b>                | <b>342,185</b> |

(c) For the six months ended June 30, 2011 and 2010, the Consolidated Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, professional service fee, etc, amounting to \$12,511 and \$54,390, respectively.

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

d. Property Transactions

(a) Purchase of properties

i. For the six months ended June 30, 2011 and 2010, molds and properties purchased from other related parties amounted to \$86,456 and \$84,277, respectively.

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

(b) Rental revenue

For the six months ended June 30, 2011 and 2010, the Consolidated Company incurred other related party transactions of \$14,168 and \$14,344, respectively, which were accounted for as rental revenue.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

e. Accounts Receivable (Payable)

|                                  | June 30, 2011       |             | June 30, 2010     |              |
|----------------------------------|---------------------|-------------|-------------------|--------------|
|                                  | Amount              | %           | Amount            | %            |
| <b>Accounts Receivable:</b>      |                     |             |                   |              |
| ASUSTeK                          | \$ 4,849,348        | 7.54        | 11,630,692        | 21.30        |
| Others                           | 3,266               | -           | 35,522            | 0.06         |
| Total                            | <b>\$ 4,852,614</b> | <b>7.54</b> | <b>11,666,214</b> | <b>21.36</b> |
| <b>Other Receivables:</b>        |                     |             |                   |              |
| ASUSTeK                          | \$ 35,634           | 1.53        | 75,210            | 4.08         |
| Others                           | 4,438               | 0.20        | 8,250             | 0.45         |
| Total                            | <b>\$ 40,072</b>    | <b>1.73</b> | <b>83,460</b>     | <b>4.53</b>  |
| <b>Note and Account Payable:</b> |                     |             |                   |              |
| AVY PRECISION                    | \$ 510,227          | 0.66        | 614,838           | 1.12         |
| ASKEY TECHNOLOGY                 | 463,408             | 0.60        | 176,928           | 0.32         |
| SHANGHAI INDEED                  | 400,288             | 0.52        | 239,805           | 0.43         |
| Others                           | 383,039             | 0.50        | 476,758           | 0.87         |
| Total                            | <b>\$ 1,756,962</b> | <b>2.28</b> | <b>1,508,329</b>  | <b>2.74</b>  |
| <b>Accrued Expenses:</b>         |                     |             |                   |              |
| ASUSTeK                          | \$ 375,186          | 3.20        | 32,063            | -            |
| Others                           | 4,207               | -           | 11,784            | -            |
| Total                            | <b>\$ 379,393</b>   | <b>3.20</b> | <b>43,847</b>     | <b>-</b>     |

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

|                                       | June 30, 2011    | June 30, 2010 |
|---------------------------------------|------------------|---------------|
| <b>Assets:</b>                        |                  |               |
| Other current asset                   | <b>\$ 280</b>    | <b>11</b>     |
| <b>Liabilities:</b>                   |                  |               |
| Other financial liabilities - current | 300              | 274           |
| Other current liabilities             | 10,222           | 34,051        |
|                                       | <b>\$ 10,522</b> | <b>34,325</b> |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

f. Financing

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

|                                  | <u>Ending<br/>Balance</u> | <u>Maximum<br/>Balance</u> | <u>Interest<br/>Rate</u> | <u>Current<br/>Interest</u> |
|----------------------------------|---------------------------|----------------------------|--------------------------|-----------------------------|
| E-Pin Optical Industry Co., Ltd. | \$ 200,000                | 200,000                    | 1.5%                     | -                           |

g. Endorsement Guarantee

As of June 30, 2010, 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>June 30, 2010</u>                   |                |
| ASUSTeK                                | <u>USD</u>                             | <u>300,000</u> |

6. Pledged Assets

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

| <u>Asset</u>                  | <u>June 30</u>      |                  | <u>Purpose of pledge</u>  |
|-------------------------------|---------------------|------------------|---|
|                               | <u>2011</u>         | <u>2010</u>      |   |
| Restricted deposit            | \$ 112,047          | 148,352          | Customs duty guarantee, bank loans, rental deposits, credit contracts, issued letter of credit, travel agency guarantee, etc. |
| Property, plant and equipment | 1,386,910           | 1,062,804        | Bank loans  |
| Idle assets                   | -                   | -                | Lawsuit collateral (Note A)   |
| Inventories                   | -                   | -                | Lawsuit collateral (Note B)   |
| Refundable deposits           | 126,325             | 107,882          | Deposits for performance guarantee  |
|                               | <u>\$ 1,625,282</u> | <u>1,319,038</u> |   |

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

Note B: The original book value was \$16,410. A loss on valuation allowance for inventory market decline and obsolescence was recognized for these inventories.

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

(1) As of June 30, 2011 and 2010, major commitments and contingencies were as follows:

| Unused standby letters of credit | June 30, 2011 | June 30, 2010 |
|----------------------------------|---------------|---------------|
| NTD                              | \$ -          | 17,944        |
| EUR                              | 2,747         | 2,808         |
| JPY                              | 5,209,893     | 2,767,212     |
| USD                              | 16,530        | 58,299        |

(2) As of June 30, 2011 and 2010, promissory notes and certificate of deposit obtained for business purpose amounted to \$13,458 and \$14,432, respectively.

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

| Year                     | Future lease commitments |         |         |        |         |
|--------------------------|--------------------------|---------|---------|--------|---------|
|                          | 2012                     | 2013    | 2014    | 2015   | 2016    |
| Future Lease Commitments | \$ 374,230               | 335,710 | 148,095 | 82,266 | 138,043 |

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

|                                   | June 30, 2011 |         | June 30, 2010 |         |
|-----------------------------------|---------------|---------|---------------|---------|
|                                   | USD           | 9,000   | USD           | 12,000  |
| Jointly issued with VQ (BVI)      | NTD           | 562,000 | NTD           | 569,800 |
| Jointly issued with ABILITY (BVI) | USD           | 13,000  | USD           | 19,000  |

(5) For details of Ability Enterprise Co., Ltd.'s construction of operational headquarter and research and development center in Xinzhuang, please refer to Note 4(7).

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (6) As of June 30, 2011 and 2010, the significant contracts for purchase of properties signed by the Consolidated Company amounted to \$4,203,109 and \$1,747,788, of which \$2,157,787 and \$523,196 were unpaid, respectively.
- (7) AVerMedia Technologies Inc. filed an attachment for damage loss against Lumens Digital Optics Inc. with the Taiwan HsinChu District court on January 3, 2005. Lumens Digital Optics Inc. pledged a deposit of \$90,000 as counter-security to the Court for rescinding the attachment. In addition, AVerMedia Technologies Inc., again, filed an attachment for the same reason with the court. HsinChu District court has seized the inventory of Lumens Digital Optics Inc. amounting to \$16,410 for which loss on valuation allowance had been recognized on June 4, 2010. Lumens Digital Optics Inc. lost its first instance lawsuit and expected that there is no material loss thereon except for the allowance of inventories on the aforementioned case.
- (8) As of June 30, 2011, the tax returns of the Ability Enterprise Co., Ltd. through 2007 have been assessed and approved by the tax authority. Ability disagreed with the examination results of the 2005, 2006 and 2007 income tax returns, in which the tax authority reduced the company's tax incentives by \$107,332 in total. Ability Enterprise Co., Ltd. has estimated relative income tax liability and filed a formal appeal to the tax authority which is undergoing a review process.

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

**9. SIGNIFICANT SUBSEQUENT EVENTS: None.**



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

**10. OTHERS:**

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

| Categorized as<br>Nature              | For the Six Months Ended June 30, 2010 |                      |            | For the Six Months Ended June 30, 2011 |                      |            |
|---------------------------------------|--|----------------------|------------|--|----------------------|------------|
|                                       | Operating<br>Cost                      | Operating<br>Expense | Total      | Operating<br>Cost                      | Operating<br>Expense | Total      |
| Personnel expense                     |  |                      |            |  |                      |            |
| Salary expense                        | 7,436,143                              | 4,244,204            | 11,680,347 | 6,511,817                              | 4,105,495            | 10,617,312 |
| Health and labor<br>insurance expense | 535,352                                | 295,079              | 830,431    | 438,927                                | 248,301              | 687,228    |
| Pension expense                       | 290,282                                | 195,798              | 486,080    | 330,004                                | 177,531              | 507,535    |
| Other expense                         | 574,435                                | 245,027              | 819,462    | 438,800                                | 158,845              | 597,645    |
| Depreciation expense<br>(Note A)      | 3,362,374                              | 617,316              | 3,979,690  | 3,038,374                              | 794,184              | 3,832,558  |
| Amortization expense                  | 598,735                                | 638,415              | 1,237,150  | 749,426                                | 415,280              | 1,164,706  |

Note A: For the six months ended June 30, 2011 and 2010, the Consolidated Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle-assets of \$12,650 and \$104,810, respectively.

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**11. BUSINESS SEGMENT FINANCIAL INFORMATION:**

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

For the six months ended June 30, 2011 and 2010, operating segments required to be disclosed are categorized as DMS (Design Manufacturing Service) and Strategic Investment Group. DMS's main operating activities are designing and manufacturing computer, communication and consumer electronics' end products, and providing after-sales service. Strategic Investment Group is DMS's upstream and downstream supply chain, the Consolidated Company's strategic investments and other related investments. The chief operating decision maker's main responsibility is to integrate strategy that creates operating synergy throughout the supply chain and to allocate the profit from the operating result. The Consolidated Company assessed performance of the segments based on the segments' profit, and report the amounts of revenues based on the financial information used to prepare the consolidated financial statements.

| <b>For the Six Months<br/>Ended June 30, 2011</b> | <b>DMS</b>            | <b>Strategic<br/>Investment<br/>Group</b> | <b>Adjustment<br/>and<br/>eliminations</b> | <b>Total</b>       |
|---|-----------------------|---|--|--------------------|
| External Revenue                                  | \$ 189,497,804        | 50,212,149                                | -  | 239,709,953        |
| Intra-Group Revenue                               | 906,392               | 5,638,566                                 | (6,544,958)                                | -                  |
| Total segment revenue                             | <b>\$ 190,404,196</b> | <b>55,850,715</b>                         | <b>(6,544,958)</b>                         | <b>239,709,953</b> |
| Segment profit (loss)                             | <b>\$ (1,104,961)</b> | <b>4,947,950</b>                          | <b>(2,650,351)</b>                         | <b>1,192,638</b>   |
| Segment assets                                    | <b>\$ 193,407,973</b> | <b>110,957,853</b>                        | <b>(45,930,594)</b>                        | <b>258,435,232</b> |
| <b>For the Six Months<br/>Ended June 30, 2010</b> | <b>DMS</b>            | <b>Strategic<br/>Investment<br/>Group</b> | <b>Adjustment<br/>and<br/>eliminations</b> | <b>Total</b>       |
| External Revenue                                  | \$ 213,570,993        | 44,925,972                                | -  | 258,496,965        |
| Intra-Group Revenue                               | 515,483               | 5,612,483                                 | (6,127,966)                                | -                  |
| Total segment revenue                             | <b>\$ 214,086,476</b> | <b>50,538,455</b>                         | <b>(6,127,966)</b>                         | <b>258,496,965</b> |
| Segment profit                                    | <b>\$ 4,170,661</b>   | <b>5,330,332</b>                          | <b>(2,386,155)</b>                         | <b>7,114,838</b>   |
| Segment assets                                    | <b>\$ 165,651,666</b> | <b>126,063,279</b>                        | <b>(71,407,668)</b>                        | <b>220,307,277</b> |