

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

**PEGATRON CORPORATION**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011 AND 2010**

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

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**REVIEW REPORT OF INDEPENDENT ACCOUNTANTS**

**To the Board of Directors of  
Pegatron Corporation**

We have reviewed the accompanying balance sheets of Pegatron Corporation (the “Company”) as of September 30, 2011 and 2010, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to issue the review report based on our reviews.

Except as discussed in the following paragraph, we conducted our reviews 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.

As described in Note (4)(d) to the financial statements, the long-term equity investments accounted for under the equity method of NT\$ 86,822,660 and NT\$ 88,330,202 thousand as of September 30, 2011 and 2010, respectively and the related investment gain of NT\$ 925,322 and NT\$814,632 thousand for the nine months ended September 30, 2011 and 2010, were recognized based on unreviewed financial statements prepared by the management of the investees.

Based on our reviews, except for the effects of any adjustments that might have emerged had the financial statements of investees as of and for the nine months ended September 30, 2011 and 2010 described above been reviewed by independent accountants, we are not aware of any material modifications that should be made to accompanying financial statements for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Entity Accounting Act and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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

A handwritten signature in black ink, appearing to be the letters 'KPMG' in a stylized, cursive font.

Taipei, Taiwan, R.O.C

October 20, 2011

**Note to Readers**

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

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

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

**PEGATRON CORPORATION**  
**BALANCE SHEETS**

September 30, 2011 and 2010

(All Amounts Expressed in Thousands of New Taiwan Dollars)

ASSETS	September 30, 2011		September 30, 2010	
	Amount	%	Amount	%
<b>Current Assets:</b>				
Cash (Note (4)(a))	\$ 5,885,665	3	5,833,379	3
Notes receivable, net of allowance for uncollectible accounts – Non-related parties (Note (4)(b))	2,025	-	118	-
Accounts receivable, net of allowance for uncollectible accounts – Non-related parties (Note (4)(b))	33,212,253	15	8,451,925	5
Accounts receivable, net of allowance for uncollectible accounts – Related parties (Note (5))	76,998,997	35	54,813,193	32
Other receivables – Non-related parties	1,902	-	94,570	-
Other receivables – Related parties (Note (5))	5,942	-	347,582	-
Other financial assets – current (Note (6))	72,003	-	71,887	-
Inventories (Note (4)(c))	10,331,068	5	8,785,549	5
Other current assets (Note (5))	95,602	-	85,044	-
Deferred income tax assets – current (Note (4)(i))	273,858	-	210,508	-
	<u>126,879,315</u>	<u>58</u>	<u>78,693,755</u>	<u>45</u>
<b>Investments:</b>				
Long-term investments under the equity method (Note (4)(d))	86,822,660	40	88,330,202	53
	<u>26,840</u>	<u>-</u>	<u>11,480</u>	<u>-</u>
<b>Other Financial Assets – Noncurrent (Note (6))</b>				
	<u>26,840</u>	<u>-</u>	<u>11,480</u>	<u>-</u>
<b>Property, Plant and Equipment, at cost :</b>				
Land	2,167,308	1	2,150,317	1
Buildings	1,886,473	1	1,745,891	1
Machinery and equipment	45,348	-	284,240	-
Warehousing equipment	600	-	1,199	-
Instrument equipment	136,007	-	295,822	-
Transportation equipment	23,832	-	20,452	-
Office equipment	3,951	-	3,951	-
Leased assets	8,067	-	28,839	-
Miscellaneous equipment	388,554	-	388,270	-
	<u>4,660,140</u>	<u>2</u>	<u>4,918,981</u>	<u>2</u>
Less: Accumulated depreciation	(716,488)	-	(878,639)	(1)
Construction in progress	2,286	-	-	-
	<u>3,945,938</u>	<u>2</u>	<u>4,040,342</u>	<u>1</u>
<b>Intangible Assets</b>				
	<u>132,549</u>	<u>-</u>	<u>204,772</u>	<u>-</u>
<b>Other Assets – others (Note (4)(e))</b>				
	<u>788,297</u>	<u>-</u>	<u>1,610,646</u>	<u>1</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 218,595,599</b></u>	<u><b>100</b></u>	<u><b>172,891,197</b></u>	<u><b>100</b></u>

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

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**PEGATRON CORPORATION**  
**BALANCE SHEETS (CONT'D)**

**September 30, 2011 and 2010**

**(All Amounts Expressed in Thousands of New Taiwan Dollars)**

	<b>September 30, 2011</b>		<b>September 30, 2010</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Short-term loans (Note (4)(f))	\$ 6,827,520	3	-	-
Notes and accounts payable – Non-related parties	37,006,439	17	13,301,340	8
Notes and accounts payable – Related parties (Note (5))	60,209,959	28	39,872,612	23
Accrued expenses – Non-related parties	2,486,371	1	3,232,761	2
Accrued expenses – Related parties (Note (5))	5,126,699	2	11,316,455	7
Other current liabilities (Note (5))	3,016,868	1	2,991,160	1
	<u>114,673,856</u>	<u>52</u>	<u>70,714,328</u>	<u>41</u>
<b>Long-Term Loans:</b>				
Long-term loans (Note (4)(g))	12,192,000	6	7,200,000	4
<b>Other Liabilities:</b>				
Other financial liabilities – noncurrent	9,770	-	13,816	-
Deferred income tax liabilities – noncurrent (Note (4)(i))	299,855	-	294,989	-
Other long-term liabilities	27,286	-	6,293	-
	<u>336,911</u>	<u>-</u>	<u>315,098</u>	<u>-</u>
<b>Total Liabilities</b>	<u>127,202,767</u>	<u>58</u>	<u>78,229,426</u>	<u>45</u>
<b>Stockholders' Equity:</b>				
<b>Common stock (Note (4)(j))</b>	<u>22,563,669</u>	<u>10</u>	<u>22,860,639</u>	<u>13</u>
<b>Capital surplus (Note (4)(j))</b>				
Premium on capital stock	60,393,247	28	61,188,108	35
Other	3,051,557	1	2,659,306	2
	<u>63,444,804</u>	<u>29</u>	<u>63,847,414</u>	<u>37</u>
<b>Retained earnings (Note (4)(j)):</b>				
Legal reserve	1,836,601	1	1,215,457	1
Special reserve	4,327,629	2	-	-
Accumulated earnings (deficits)	(830,749)	-	6,963,458	4
	<u>5,333,481</u>	<u>3</u>	<u>8,178,915</u>	<u>5</u>
<b>Other adjustments to stockholders' equity:</b>				
Cumulative translation adjustments	(321,643)	-	(703,320)	-
Unrecognized loss on pension cost	(16)	-	(3,203)	-
Unrealized profit on financial assets	391,331	-	1,497,510	1
	<u>69,672</u>	<u>-</u>	<u>790,987</u>	<u>1</u>
<b>Treasury stock (Note (4)(j))</b>	<u>(18,794)</u>	<u>-</u>	<u>(1,016,184)</u>	<u>(1)</u>
<b>Total Stockholders' Equity</b>	<u>91,392,832</u>	<u>42</u>	<u>94,661,771</u>	<u>55</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 218,595,599</u>	<u>100</u>	<u>172,891,197</u>	<u>100</u>

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 (With KPMG review report dated October 20, 2011.)

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**PEGATRON CORPORATION**  
**STATEMENTS OF INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**  
( All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data))

	For the Nine Months Ended September 30,			
	2011		2010	
	Amount	%	Amount	%
<b>Operating revenues (Note (5))</b>	\$ 253,960,372	101	232,200,344	100
Less: Sales returns	1,618,896	1	122,126	-
Sales allowances	200,239	-	796,532	-
<b>Net sales</b>	<u>252,141,237</u>	100	<u>231,281,686</u>	100
<b>Cost of sales (Notes (4)(c) and (5))</b>	<u>249,130,686</u>	99	<u>221,854,227</u>	96
<b>Gross profit</b>	3,010,551	1	9,427,459	4
Less: Realized (Unrealized) profit on inter-affiliate account (Note (5))	(16,906)	-	61,770	-
	<u>2,993,645</u>	1	<u>9,489,229</u>	4
<b>Operating expenses (Note (5))</b>				
Selling expenses	1,214,499	-	1,387,901	1
General and administrative expenses	1,084,395	-	1,048,797	-
Research and development expenses	2,872,239	1	2,435,350	1
	<u>5,171,133</u>	1	<u>4,872,048</u>	2
<b>Income (Loss) from operations</b>	<u>(2,177,488)</u>	-	<u>4,617,181</u>	2
<b>Non-operating income</b>				
Interest revenue	13,990	-	8,601	-
Investment gain under the equity method (Note (4)(d))	925,322	-	814,632	-
Gain on disposal of fixed assets (Note (4)(e))	108,439	-	-	-
Foreign exchange gain, net	-	-	9,212	-
Rental revenue	49,205	-	46,565	-
Reversal for impairment loss (Note (4)(e))	28,450	-	9,647	-
Others	679,749	-	861,616	-
	<u>1,805,155</u>	-	<u>1,750,273</u>	-
<b>Non-operating expenses</b>				
Interest expenses	116,753	-	70,774	-
Foreign exchange loss, net	238,105	-	-	-
Others	169,493	-	195,940	-
	<u>524,351</u>	-	<u>266,714</u>	-
<b>Income (Loss) before income tax</b>	<u>(896,684)</u>	-	<u>6,100,740</u>	2
<b>Income tax expense (benefit) (Note (4)(i))</b>	<u>(32,834)</u>	-	<u>1,179,451</u>	1
<b>Net income (loss)</b>	<u>\$ (863,850)</u>	-	<u>4,921,289</u>	1

	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
<b>Earnings (Losses) per share (Note (4)(k))</b>				
Primary earnings (losses) per share	<u>\$ (0.40)</u>	<u>(0.38)</u>	<u>2.68</u>	<u>2.16</u>
Diluted earnings per share			<u>\$ 2.66</u>	<u>2.15</u>

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

	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
<b>Net income (loss)</b>	<u>\$ (896,684)</u>	<u>(863,850)</u>	<u>6,100,740</u>	<u>4,921,289</u>
<b>Earnings (Losses) per share (Note (4)(k))</b>	<u>\$ (0.40)</u>	<u>(0.38)</u>	<u>2.68</u>	<u>2.16</u>

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

	<b>For the Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (863,850)	4,921,289
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	161,761	198,020
Amortization	353,372	502,288
Reversal for impairment loss (accounted under non-operating income)	(28,450)	(9,647)
Reversal of allowance for uncollectable accounts	(9,845)	(30,879)
Reversal for contingent service cost	(52,509)	(120,000)
Reversal of allowance for inventory market price decline	(186,557)	(35,418)
Investment gain under equity method	(925,322)	(814,632)
Cash dividend from investments under equity method	2,042,381	2,129,062
Loss (gain) on disposal and retirement of assets, net	(18,115)	30,933
Unrealized (Realized) profits on inter-affiliate account	16,906	(61,770)
Employee compensation cost	174,180	30,632
Change in assets and liabilities:		
Notes and accounts receivable	(67,591,043)	20,310,286
Other receivables	32,801	899,639
Inventories	(2,876,576)	1,767,077
Other current assets	(23,449)	(1,063)
Deferred income tax assets and liabilities, net	(25,626)	723,937
Notes and accounts payable	62,843,718	(20,013,020)
Income tax payable	(413,168)	455,044
Accrued expenses	(2,664,613)	29,104
Other current liabilities	595,043	(783,563)
<b>Net cash provided by (used in) operating activities</b>	<b>(9,458,961)</b>	<b>10,127,319</b>
<b>Cash flows from investing activities:</b>		
Decrease (Increase) in long-term investment under the equity method	146,879	(103,364)
Purchase of property, plant and equipment and intangible assets	(56,449)	(52,033)
Proceeds from disposal of assets, idle assets, deferred charges	711,319	1,679
Increase in deferred charges	(327,998)	(168,029)
Decrease in other account receivable – related parties	-	325,250
Purchase of intangible assets	(23,829)	(40,064)
Decrease in other financial assets	1,681	261,880
<b>Net cash provided by investing activities</b>	<b>451,603</b>	<b>225,319</b>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term loans	4,162,320	(3,023,055)
Increase in long-term loans	5,200,800	-
Increase in other financial liabilities	(6,441)	(1,902)
Distribution of cash dividends	(3,271,731)	(4,000,594)
Repurchase of treasury stock	-	(1,006,862)
Share issued from reorganization	-	406
<b>Net cash provided by (used in) financing activities</b>	<b>6,084,948</b>	<b>(8,032,007)</b>
<b>Net increase (decrease) in cash</b>	<b>(2,922,410)</b>	<b>2,320,631</b>
<b>Cash, beginning of the period</b>	<b>8,808,075</b>	<b>3,512,748</b>
<b>Cash, end of the period</b>	<b>\$ 5,885,665</b>	<b>5,833,379</b>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest exclude interest capitalized	<b>\$ 80,382</b>	<b>70,565</b>
Income tax	<b>\$ 407,362</b>	<b>469</b>

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

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**PEGATRON CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2011 AND 2010**  
**(Amounts Expressed in New Taiwan Dollars in Thousands,**  
**Except for Per Share Information and Unless Otherwise Stated)**

**1. Organization and Business**

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

The company’s parent company: None

As of September 30, 2011 and 2010, the Company had 4,990 and 4,289 employees, respectively.

**2. Summary of Significant Accounting Policies**

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

**a. Use of Estimates**

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

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**PEGATRON CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**b. Foreign Currency Translation**

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

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

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

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

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

**d. Asset Impairment**

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

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

**e. Financial Instruments**

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

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

ii. Notes and Account receivables, and other receivables

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

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

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

The asset impairment loss is determined based on difference between the asset's carrying amount and the present value of estimated future cash flows discounted by the financial asset's original effective interest rate. The carrying amount of the asset is reduced for impairment through the use of an allowance account. Impairment loss is recognized in profit or loss. In determining the amount of asset impairment, the collateralized financial asset and related insurance recoverable amount are included in calculating the present value of the estimated future cash flows.

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

**f. Notes and Accounts Receivable, and Allowance for Uncollectible Accounts**

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

**g. Inventories**

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

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

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

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

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

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

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

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

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

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

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

Buildings and structures	5 to 50 years
Machinery and equipment	2 to 6 years
Warehousing equipment	8 years
Instrument equipment	2 to 3 years
Transportation equipment	1 to 5 years
Office equipment	5 years
Miscellaneous equipment	1 to 15 years

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

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

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**j. Intangible Assets**

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

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

Computer software cost	3 to 5 years
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The residual value, amortization period, and amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Any changes thereof are accounted for as changes in accounting estimates.

**k. Deferred Expenses**

The costs of renovation project and office decorations are deferred and amortized equally over 3 years, and the costs of molds and fixtures are deferred and amortized equally over 1 to 2 years.

**l. Pension Plan**

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

**m. Warranty Reserve**

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

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**n. Revenue and Cost Recognition**

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

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

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

**p. Share-based payment transactions**

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

- i. An equity-settled share-based payment transaction is measured based on the fair value of the award at the grant date, and recognized as expenses over the vesting period with a corresponding increase in equity. The vesting period is estimated based on the vesting conditions under the share-based payment arrangement. Vesting conditions include service conditions and performance conditions (including market conditions). In estimating the fair value of an equity-settled share-based award, only the effect of market conditions is taken into consideration.
- ii. A cash-settled shared-based payment transaction is measured at the balance sheet date and the settlement date based on the fair value of the award as of those dates and is recorded as a liability incurred for the goods and services received. Changes in fair values are recognized in profit or loss for the period.
- iii. The fair value of employee share options on the grant date and similar instruments is estimated using the Black-Scholes option-pricing model, taking into account the exercise price, the current market price of the underlying shares, management's best estimation of the expected term, the expected volatility, the expected dividends, and the risk-free interest rate.
- iv. According to SFAS No. 39 "Share-based Payment", the Company did not need to apply SFAS No. 39 retroactively to the share-based payments that were granted before January 1, 2008; however, the pro forma net income and net income per share should be disclosed.

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

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

**r. Commitments and Contingencies**

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

**s. Income Tax**

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

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

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

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



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**t. 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.

**u. Spin-Off Transactions**

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

**v. Treasury Stocks**

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

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

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

**w. Operating Segments**

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

**x. Business Combinations**

According to SFAS No.25 “Business Combination,” the equity of the acquiring corporation in a business acquisition 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 statements of the acquired corporation, are measured based on their fair value at the acquisition date.

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

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

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

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

**4. Summary of Major Accounts:**

**a. Cash**

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Cash on hand	\$ 50	-
Demand deposits	1,102,124	2,513,551
Time deposits	2,050,000	30,000
Foreign currency deposits	1,096,715	342,010
Foreign currency time deposits	1,636,776	2,947,818
Total	<u>\$ 5,885,665</u>	<u>5,833,379</u>

**b. Notes and Accounts Receivable — Non-related parties**

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Notes receivable	\$ 2,045	137
Less: Allowance for uncollectible accounts	(20)	(19)
Net	<u>2,025</u>	<u>118</u>
Accounts receivable	33,245,991	8,512,297
Less: Allowance for uncollectible accounts	(33,738)	(60,372)
Net	<u>33,212,253</u>	<u>8,451,925</u>
Total	<u>\$ 33,214,278</u>	<u>8,452,043</u>

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**c. Inventories**

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Merchandise	\$ 8,286,098	65,891
Less: Allowance for inventory market decline and obsolescence	(158,409)	-
Sub-total	<u>8,127,689</u>	<u>65,891</u>
Finished goods	279,825	3,949,861
Less: Allowance for inventory market decline and obsolescence	(4,460)	(30,182)
Sub-total	<u>275,365</u>	<u>3,919,679</u>
Work in process	117,985	577,248
Less: Allowance for inventory market decline and obsolescence	(21,364)	(34,686)
Sub-total	<u>96,621</u>	<u>542,562</u>
Raw material	1,915,534	4,587,627
Less: Allowance for inventory market decline and obsolescence	(84,141)	(330,210)
Sub-total	<u>1,831,393</u>	<u>4,257,417</u>
Total	<u><b>\$ 10,331,068</b></u>	<u><b>8,785,549</b></u>

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

	<u>For the Nine Months Ended September 30</u>	
	<u>2011</u>	<u>2010</u>
Cost of goods sold	\$ 249,311,798	221,860,406
Gain from reversal of allowance for inventory market price decline	(186,557)	(35,418)
Others	5,445	29,239
	<u><b>\$ 249,130,686</b></u>	<u><b>221,854,227</b></u>

For the nine months ended September 30, 2011 and 2010, the factors that previously caused inventories to be written down below cost had disappeared due to inventories disposal, so that the related allowance for loss on decline in the value of inventories was reversed, thus generated a reversal gain on inventory valuation allowance.

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**d. Long-Term Equity Investments**

Name of Investee Company	September 30, 2011			September 30, 2010		
	Equity Holding	Book Value	Original Investment	Equity Holding	Book Value	Original Investment
PEGATRON HOLDING LTD.	100.00%	\$ 29,426,568	24,238,150	100.00%	29,114,325	24,385,030
UNIHAN CORPORATION	100.00%	11,657,407	12,098,279	100.00%	11,680,092	12,098,279
ASUSPOWER INVESTMENT CO., LTD.	100.00%	14,200,257	13,033,429	100.00%	15,146,637	13,033,429
ASUS INVESTMENT CO., LTD.	100.00%	15,417,641	16,184,982	100.00%	15,992,692	16,184,982
ASUSTEK INVESTMENT CO., LTD	100.00%	14,361,128	14,593,543	100.00%	14,591,589	14,593,543
ADVANSUS CORP.	50.00%	239,732	166,364	50.00%	242,450	166,364
ASUS HOLLAND HOLDING B.V.	92.45%	1,502,661	1,153,501	92.45%	1,544,592	1,153,501
PEGATRON USA, INC.	100.00%	17,266	16,085	100.00%	17,825	16,085
		<u>\$ 86,822,660</u>			<u>88,330,202</u>	

- i. The investment gain recognized under the equity method amounted to \$925,322 and \$814,632 for the nine months ended September 30, 2011 and 2010, respectively. Part of the long-term investments accounted for under the equity method of \$86,822,660 and \$88,330,202 and the related investment gain of \$925,322 and \$814,632, respectively, were recognized based on the investees' financial statements, which were not audited by an independent accountant.
- ii. For the nine months ended September 30, 2011, the Company was refunded for reduction in PEGATRON HOLDING LTD.'s share capital of \$387,787 and earnings distribution of \$147,825.
- iii. For the nine months ended September 30, 2011 and 2010, the Company received cash dividend from its investee companies accounted under equity method amounted to \$2,042,381 and \$2,129,062, respectively.

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Investees, in which the Company has controlling interest over their operation, are included in the Company's consolidated financial statements, except for ADVANSUS CORP.

ADVANSUS CORP. is a joint venture entity of the Company, which held the assets and liabilities of ADVANSUS CORP as follows:

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Current Assets	\$ 471,548	685,131
Non-current Assets	11,551	14,637
Current Liabilities	243,367	457,318
	<u>For the Nine Months Ended September 30</u>	
	<u>2011</u>	<u>2010</u>
Revenues	\$ 1,181,848	1,816,220
Expenses	1,153,938	1,765,368

**e. Idle Assets**

- (i) In accordance with Statement of Financial Accounting Standards No. 35 (SFAS 35) "Accounting for Asset Impairment", the Company performed asset impairment test by comparing the recoverable amount with the carrying value of idle assets. Based on the results of such assessment, the Company recognized provisions for impairment loss of \$8,038 and \$36,487 as of September 30, 2011 and 2010, respectively.
- (ii) For the nine months ended September 30, 2011 and 2010, the Company recognized a gain from impairment recovery of \$28,450 and \$9,647, respectively, and a gain (loss) on disposal of idle assets of \$107,964 and \$(6,784), respectively.

**f. Short-Term Loans**

<u>Nature of the loan</u>	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Credit loan	<u>\$ 6,827,520</u>	<u>-</u>
Range of interest rate	<u>0.45%~1.38%</u>	<u>0.47%~0.70%</u>

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

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**g. Long-Term Loans**

Types of Debt	Creditor	September 30, 2011	Repayment Schedule	Credit Line
Credit loan	Citibank Taiwan and 14 other banks	\$ 12,192,000	2010.10.25~2015.10.25 Credit line is repayable in 5 semi-annual installments, commencing October 25, 2013.	12,192,000
		USD 400,000,000		USD 400,000,000

For the nine months ended September 30, 2011, long-term loans bore interest at average rates of 1.07% ~ 2.33%. According to the agreement, during the loan repayment periods, the Company must comply with certain financial covenants based on the audited consolidated financial statements on the balance sheet date (June 30 and December 31) as follows:

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

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

As of September 30, 2011, the Company was in compliance with the loan covenants mentioned above.

The Company's promissory notes were pledged as a guarantee for the credit loan facility as of September 30, 2011.

Types of Debt	Creditor	September 30, 2010	Repayment Schedule	Credit Line
Credit loan	ANZ, Mega International Commercial Bank and 15 other banks	\$ 7,200,000	2008.10.30~2011.10.30 \$1.5 billion is repayable in 4 semi-annual installments, commencing on April 30, 2010 and the remaining balance has been repaid in advance on November 23, 2010.	10,500,000

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For the nine months ended September 30, 2010, credit loans bore interest at average rates of 1.23%. According to the agreement, during the loan repayment periods, the Company must comply with certain financial covenants based on the audited consolidated financial statements on the balance sheet date (June 30 and December 31) as follows:

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

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

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

**h. Pension Plan**

For the nine months ended September 30, 2011 and 2010, the pension costs for the defined contribution pension plan of the Company amounted to \$127,999 and \$108,697, respectively.

**i. Income Tax**

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

	<b>For the Nine Months Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Current income tax expense (benefit)	\$ (7,209)	353,405
Deferred income tax expense (benefit)	(25,625)	723,938
10% surtax on undistributed earnings	-	102,108
Income tax expense (benefit)	<b>\$ (32,834)</b>	<b>1,179,451</b>



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

	<b>For the Nine Months Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Unrealized exchange gain	\$ (179,665)	(2,108)
Reversal of allowance for loss on inventory market decline and obsolescence	31,714	6,021
Unrealized profits on sales	(2,874)	10,501
Amortization of employee benefits	13	13
Reversal of warranty reserve	35,147	85,342
Valuation allowance for deferred tax assets	(187,920)	241,622
Investment tax credits	273,124	214,980
Reversal of impairment loss on assets	4,836	1,640
Loss carry-forward	-	11,296
Unrealized foreign investment gain	-	31,421
Effect on deferred tax of the change in statutory tax rate	-	12,960
Foreign investment loss reserve	-	110,250
Deferred income tax expense (benefit)	<b>\$ (25,625)</b>	<b>723,938</b>

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

	<b>For the Nine Months Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Income tax expense calculated on pre-tax financial income (loss) at the statutory tax rate	\$ (152,436)	1,038,763
Permanent differences	(125,113)	(127,288)
10% surtax on undistributed earnings	-	102,108
Investment tax credits	85,203	103,198
Recognition of unrealized foreign investment gain or loss	-	31,421
Non deductible loss carry-forward	166,721	-
Effect on deferred tax of the change in statutory tax rate	-	12,960
Others	(7,209)	18,289
Income tax expense (benefit)	<b>\$ (32,834)</b>	<b>1,179,451</b>

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(iv) As of September 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:

<b>Temporary differences of deferred income tax assets (liabilities) - current</b>	<b>September 30, 2011</b>		<b>September 30, 2010</b>	
	<b>Amount</b>	<b>Income Tax Effect</b>	<b>Amount</b>	<b>Income Tax Effect</b>
Unrealized foreign exchange loss (gain): taxable (deductible)	\$ 355,318	60,404	(203,792)	(34,645)
Allowance for loss on inventory market decline and obsolescence: deductible	268,374	45,624	395,078	67,163
Deferred employee benefits for tax: deductible	100	17	25	4
Warranty reserve: deductible	99,101	16,847	473,321	80,466
Unrealized intercompany profits: deductible	27,287	4,639	6,293	1,070
Unused balance of investment tax credits: deductible		484,788		338,072
Valuation allowance		(338,461)		(241,622)
Net deferred income tax assets		<b>\$ 273,858</b>		<b>210,508</b>
<b>Temporary differences of deferred income tax assets (liabilities) - noncurrent</b>				
Unrealized impairment loss on assets: deductible	\$ 8,038	1,367	36,487	6,203
Deferred employee benefits for tax: deductible	25	4	200	34
Unrealized income on foreign investments: taxable	(1,123,388)	(190,976)	(1,123,388)	(190,976)
Reserve for foreign investment losses: taxable	(648,527)	(110,250)	(648,527)	(110,250)
Net deferred income tax assets (liabilities)		<b>\$ (299,855)</b>		<b>(294,989)</b>

(v) The Company's tax returns through 2009 have been assessed and approved by the Tax Authority. However, the tax return for 2008 is still under review.

(vi) In accordance with Statute for Industrial Innovation, the Company is allowed to avail of tax credit from R&D expenditure, but this tax credit cannot exceed 30% of the business income tax paid in the given year. Pursuant to Statute for Upgrading Industries, the Company can credit up to 50% of the amount of funds invested for R&D expenditure against the amount of business income tax payable within five years commencing from the subsequent year of tax credit application, however, such limit for the tax credit application shall not apply to the final year. The Company was granted investment tax credits from funds invested in equipment for

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automation of production, equipment for pollution control, R&D and personnel training, and newly emerging, important and strategic industries which deemed tax credit under the statute. As of September 30, 2011, unused investment tax credits which may be applied to offset against income tax in the future were as follows:

<u>Year of occurrence</u>	<u>Unused investment tax credits</u>	<u>Year of expiration</u>
2008	\$ 14,224	2012
2009	407,903	2013
For the nine months ended September 30, 2011	62,661	2011
	<u>\$ 484,788</u>	

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

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

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

<u>Undistributed earnings:</u>	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Accumulated in 1997 and prior years	\$ -	-
Accumulated in 1998 and thereafter	(830,749)	6,963,458
Total	<u>\$ (830,749)</u>	<u>6,963,458</u>
Stockholders’ imputation tax credit account	<u>\$ 3,448</u>	<u>69,729</u>
	<u>2011 (Expected)</u>	<u>2010 (Actual)</u>
Expected or actual deductible tax ratio	- %	<u>9.32%</u>

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**j. Stockholders' Equity**

(i) Capital Stock

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

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

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares valued at \$296,970. As of September 30, 2011 and 2010, the authorized capital of the Company both consisted of 2,500,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,256,367 thousand shares and 2,286,064 thousand shares, respectively. ASUSTeK GDR holders who surrender their ASUSTeK GDRs on or after the Effective Date of Spin-off and Merger in Taiwan will receive the new ASUSTeK GDRs and the Company's entitlement. The Company's entitlement represents the rights to receive 60,819,026 of the Company's common shares in Taiwan.

The Company may issue new GDRs with no more than 60,819,020 Pegatron common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines". As of September 30, 2011, the Company has listed GDRs totaling 9,776 thousand units on the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 shares, the Company has listed Company shares totaling 48,882 thousand shares. Major terms and conditions for GDRs were as follows:

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1. Voting Rights

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

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

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

(ii) Share-based payment transactions

1. Information about share-based payment transaction as of September 30, 2011 were as follows:

	<u><b>Employee Stock Option Plan</b></u>
Grant date	July 1, 2011
Thousand units granted	40,679
Contractual life	3 years
Vesting period	2 years
Actual turnover rate of employees	4.57%
Estimated future turnover rate of employees	16.28%

The Company obtained the approval from the Financial Supervisory Commission and issued 50,000 units of Employee Stock Options with an exercisable right of 1,000 shares of the Company's common shares per unit on April 14, 2011. The Company will issue its own new common shares on settlement, and the exercise price of all stock options shall be equal to the closing price of the Company's common stock on the grant date. The expected life of the stock options is estimated to be 3 years, and option granted to an employee shall not be transferable to any person. The employee shall forego his/her right to exercise the vested options after the expiry of the exercise period, the employee may no longer claim the right to exercise the option and purchase those shares. Except for the forfeiture of vested options, all stock options shall be vest from the second year of the grant date, and the employees should exercise the right to apply for shares against the option vested in them in pursuance of the stock options.

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

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

Note: After the issuance of the employee stock option, if the Company increases its capital by surplus and/or capital reserve, the exercise price will be adjusted accordingly. Therefore, the expected dividend yield rate is excluded in calculating the fair value of the stock option.

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

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

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

(iii) 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.

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

Dividends yield by the trust of the shareholders of parent company were distributed to the employees of the Company as bonuses. These bonuses amounted to \$409,917 and \$225,503 which were credited to capital surplus - others as of September 30, 2011 and 2010, respectively.

(iv) Treasury Stock

1. In accordance with Securities and Exchange Act, the number of treasury shares shall not exceed ten percent of the total number of issued and outstanding shares of the Company. Also, the total amount of the treasury shares may not exceed the amount of retained earnings plus premium on capital stock plus realized capital reserve. The repurchased shares shall not exceed the amount of retained earnings plus premium on capital stock plus realized capital reserve. The repurchased shares held by the Company amounted to \$1,006,862, divided into 29,697 thousand shares as of December 31, 2010 which conformed to Securities and Exchange Act. The number of shares the Company can repurchase from the active market is limited to up to 228,605 thousand shares amounting to \$66,221,050 which is calculated according to financial reports for the latest accounting period prior to a resolution of a meeting of the board of directors.
2. In accordance with Securities and Exchange Act, treasury shares cannot be pledged. Also, treasury shares do not bear the shareholder's right prior to being sold to third parties.
3. As of September 30, 2011, the Company's shares held by its subsidiaries were 1,700 thousand shares amounting to \$48,620 a fair value.

(v) Earnings Distribution and Dividend Policy

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

1. No less than 10% as employees' bonuses which are distributable in cash or stock. In the event that the employee bonus is distributed in the form of stock, employees qualifying for such distribution may include the employees of subsidiaries of the Company who meet certain specific requirements. Such qualified employees and distribution ratio shall be decided by the Board of Directors.

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

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

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

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

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

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.



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For the nine months ended September 30, 2010, the estimated employee bonuses and directors' and supervisors' remuneration amounted to \$442,916 and \$44,292, respectively, which were recognized as current expenses. Differences between the amounts approved in the shareholders' meeting and recognized in the financial statements, if any, are to be accounted for as changes in accounting estimates and recognized in profit or loss. For the nine months ended September 30, 2011, the Company did not estimate and recognize employee bonuses and directors' and supervisors' remuneration due to the net loss after tax incurred for such period.

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

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

(Note: shares in thousands)

	<b>For the Nine Months Ended September 30</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Before income tax</b>	<b>After income tax</b>	<b>Before income tax</b>	<b>After income tax</b>
Net income (loss)	<b>\$ (896,684)</b>	<b>(863,850)</b>	<b>6,100,740</b>	<b>4,921,289</b>
Weighted-average common shares outstanding	<b>2,256,367</b>	<b>2,256,367</b>	2,279,221	2,279,221
Dilutive potential common shares			11,196	11,196
Diluted shares			<b>2,290,417</b>	<b>2,290,417</b>
Primary earnings (losses) per share	<b>\$ (0.40)</b>	<b>(0.38)</b>	<b>2.68</b>	<b>2.16</b>
Diluted earnings per share			<b>2.66</b>	<b>2.15</b>

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

	<b>For the Nine Months Ended September 30</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
Net income (loss)	<b>(896,684)</b>	<b>(863,850)</b>	<b>6,100,740</b>	<b>4,921,289</b>
Weighted-average outstanding shares (thousand)	<b>2,256,367</b>	<b>2,256,367</b>	<b>2,279,325</b>	<b>2,279,325</b>
Earnings (Losses) per share	<b>(0.40)</b>	<b>(0.38)</b>	<b>2.68</b>	<b>2.16</b>

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**I. Financial Instruments**

(i) Fair value of financial instruments

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

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

<u>Financial Liabilities</u>	<u>September 30, 2011</u>		<u>September 30, 2010</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Bank loans	\$ 12,192,000	12,192,000	7,200,000	7,200,000

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

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

(iii) Information on financial risks

1. Market risk

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

2. Credit risk

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

The Company only transacted with approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Company would

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transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Company believes that there is no significant credit risk. In compliance with the Company's customer credit evaluation policies, the Company evaluates the customer's credibility and collectability of notes and account receivables regularly before doing business. Thus, management is not expecting any significant issue on uncollectible accounts.

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

3. Liquidity risk

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

4. Cash flow and interest rate risk

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

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

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

**m. Others**

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

	September 30, 2011			September 30, 2010		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<b>Financial Assets</b>						
<u>Monetary Items</u>						
USD	\$3,697,516	30.48	112,700,288	2,120,780	31.26	66,295,583
<u>Long-term Equity Investments</u>						
USD	966,005	30.48	29,443,834	931,931	31.26	29,132,150
EUR	36,446	41.23	1,502,661	36,275	42.58	1,544,592
<b>Financial Liabilities</b>						
<u>Monetary Items</u>						
USD	3,987,662	30.48	121,543,938	2,066,746	31.26	64,606,480

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**5. Related-Party Transactions**

a. Names and relationships of related parties with the Company

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
ASUSTEK COMPUTER INC. (ASUSTEK)	An investor company that ceased to be a parent company effective May 31, 2010.
ASUS HOLLAND B.V	An investee company accounted for under the equity method by ASUSTeK Computer Inc.
ASUS TECHNOLOGY PTE. LIMITED	"
BIG PROFIT LIMITED	"
DOUBLE TECH LTD.	"
ASKEY COMPUTER CORP.(ASKEY)	"
ASUS TECHNOLOGY INCORPORATION	"
ASMEDIA TECHNOLOGY INC.	"
ASUS COMPUTER (SHANGHAI) CO., LTD.	"
SHINEWAVE INTERNATIONAL INC.	"
ASUSTEK COMPUTER (SHANGHAI) CO., LTD.	"
ASHINE TECHNOLOGY (SUZHOU) LTD.	"
ASUSTEK TECHNOLOGY (SUZHOU) CO., LTD.	"
ASKEY TECHNOLOGY (JIANG SU) LTD.	"
AGAIT TECHNOLOGY CORPORATION	"
POWTEK (SHANGHAI) CO., LTD. (POWTEK)	An investee company which became a wholly owned subsidiary of the company following reorganization in July 2009.
ENERTRONIX, INC.	An investee company which became a wholly owned subsidiary of ASUSTeK following reorganization in July 2009.
ASUS COMPUTER INTERNATIONAL (ACI)	An investee company accounted for under the equity method
ASIAROCK TECHNOLOGY LIMITED	"
ASLINK (H.K.) PRECISION CO., LTD.	"
ASUSPOWER CORPORATION (ASUSPOWER)	"
ASAP INTERNATIONAL CO., LIMITED	"
BLACKROCK MARYLAND INT'L CORP	"
DIGITEK GLOBAL HOLDINGS LIMITED	"
GREEN PACKING LIMITED	"
KAEDAR TRADING LTD.	"
PEGATRON CZECH S.R.O (PCZ)	"
PEGATRON JAPAN INC. (PCJ)	"
PEGATRON MEXICO, S.A. DE C.V.(PCM)	"

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<b>Name of Related Party</b>	<b>Relationship with the Company</b>
PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	An investee company accounted for under the equity method
PEGATRON SERVICOS DE INFORMATICA LTDA.	"
PEGATRON USA, INC.	"
PIOTEK (HK) TRADING LIMITED (PIOTEK)	"
STRATEGY TECHNOLOGY CO., LTD.	An investee company accounted for under the equity method. (Liquidation is completed in 2010)
UNITED NEW LIMITED	An investee company accounted for under the equity method
VIEWQUEST TECHNOLOGIES (BVI) INC.	"
ADVANSUS CORP.	"
ASROCK INCORPORATION	"
ABILITY ENTERPRISE CO., LTD.	"
PEGA INTERNATIONAL LIMITED	"
UNIHAN CORPORATION (UNIHAN)	"
CRYSTAL ART ENTERPRISE CO., LTD.	"
AMA PRECISION INC.	"
STARLINK ELECTRONICS CORPORATION	"
ASFLY TRAVEL SERVICE LIMITED	"
AZUREWAVE TECHNOLOGIES, INC.	"
PROTEK (SHANGHAI) LIMITED (PROTEK)	"
SHANGHAI INDEED TECHNOLOGY CO., LTD. (SHANGHAI INDEED)	"
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD. (KAEDAR ELECTRONICS)	"
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	"
GHING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	"
MAINTEK COMPUTER (SUZHOU) CO., LTD. (MAINTEK)	"
BOARDTEK COMPUTER (SUZHOU) CO., LTD.	"
CASETEK COMPUTER (SUZHOU) CO., LTD. (CASETEK)	"
AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD. (AVY)	"
CORE-TEK (SHANGHAI) LIMITED	"

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Name of Related Party	Relationship with the Company
RUNTOP(SHANGHAI) CO., LTD. (RUNTOP)	An investee company accounted for under the equity method
TOPTEK PRECISION INDUSTRY (SUZHOU) CO., LTD.	//
LUMENS DIGITAL OPTICS INC.	//
HOLD JUMPER PACKING (SUZHOU) CO., LTD.	//
HOLD JUMPER PACKING (SHANGHAI) CO., LTD.	//
SUZHOU DELUXE PACKING PRODUCTION CO., LTD.	//
COTEK ELECTRONICS (SUZHOU) CO., LTD.	//
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	//
RI-KUAN METAL CORPORATION	//
DIGITEK (CHONGQING) LIMITED	//
AAEON TECHNOLOGY INC.	//
KINSUS INTERCONNECT CORP.	//
PEGAVISION CORPORATION	An investee company accounted for under the equity method by Kinsus Interconnect Technology Corp.
All directors, supervisors, general manager and vice president	The company management

b. Significant Transactions with Related Parties

(i) Sales

Name of Related Party	For the Nine Months Ended September 30					
	2011			2010		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTEK	\$ 119,727,268	47.48	Open account 60 days	160,927,684	69.58	Open account 60 days
PCZ	3,203,421	1.27	120 days from receipt of goods	4,481,640	1.94	120 days from receipt of goods
POWTEK	2,990,034	1.19	45 days from receipt of goods	2,497,722	1.08	45 days from receipt of goods
Others	644,702	0.26	30~90 days from receipt of goods Open account 30~90 days	1,280,024	0.55	30~90 days from receipt of goods Open account 30~90 days
Total	<u>\$ 126,565,425</u>	<u>50.20</u>		<u>169,187,070</u>	<u>73.15</u>	

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The collection term of third-party customer is L/C, T/T or 7 to 120 days from receipt of goods. For the nine months ended September 30, 2011 and 2010, the Company adjusted the double recording of sales to and purchases from related parties, which amounted to \$218,782,626 and \$145,909,361, respectively.

As of September 30, 2011 and 2010, unrealized profits from sales to related parties were \$27,286 and \$6,293, respectively.

(ii) Purchases

Name of Related Party	For the Nine Months Ended September 30					
	2011			2010		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$ 91,479,138	36.52	Open account 60 days	117,973,116	54.76	Open account 60 days
PROTEK	34,196,664	13.65	90 days from receipt of goods	26,223,219	12.17	90 days from receipt of goods
MAINTEK (Note)	(5,204,811)	(2.08)		-	-	
Others	7,666,350	3.06	30~90 days from receipt of goods Open account 30~120 days	6,345,419	2.95	30~90 days from receipt of goods Open account 30~120 days
<b>Total</b>	<b>\$ 128,137,341</b>	<b>51.15%</b>		<b>150,541,754</b>	<b>69.88%</b>	

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

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

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

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(iii) Others

	<b>For the Nine Months Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
<b>(1) After-sales warranty repair expense paid to:</b>		
PTSI	\$ 80,575	146,647
PCZ	38,920	30,920
PCJ	11,844	13,773
ASUS Computer (Shanghai) Co., Ltd.	268	29,144
Others	307	3,468
<b>Total</b>	<b>\$ 131,914</b>	<b>223,952</b>
<b>(2) Processing fee paid to:</b>		
ASUSPOWER	\$ 1,074,691	3,699,663
PCM	116,041	244,830
RUNTOP	24,252	-
<b>Total</b>	<b>\$ 1,214,984</b>	<b>3,944,493</b>
<b>(3) Other income from:</b>		
ASUSTeK	\$ 370,415	416,236
UNIHAN	21,867	21,285
PCJ	20,157	36,232
Others	16,729	36,868
<b>Total</b>	<b>\$ 429,168</b>	<b>510,621</b>

- (4) For the nine months ended September 30, 2011 and 2010, the Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, professional service fee, etc, amounting to \$81,865 and \$98,263, respectively.



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(5) For the nine months ended September 30, 2011 and 2010, the Company incurred other related party transactions recorded as rental revenue, amounting to \$41,400 and \$36,582, respectively.

(6) For the nine months ended September 30, 2011 and 2010, the Company had other related party transactions recorded as non-operating expense amounting to \$7,353 and \$21,625, respectively.

(iv) Accounts receivable (payable)

	September 30, 2011		September 30, 2010	
	Amount	%	Amount	%
<u>Notes and Accounts Receivable:</u>				
PROTEK	\$ 60,688,358	55.05	42,698,477	67.43
ASUSTeK	8,958,140	8.13	10,050,335	15.87
MAINTEK	4,341,363	3.94	-	-
PCZ	1,846,265	1.67	1,559,503	2.46
DIGITEK (CHONGQING)	537,249	0.49	-	-
POWTEK	442,111	0.40	-	-
Others	185,511	0.16	504,878	0.80
Total	<b>\$ 76,998,997</b>	<b>69.84</b>	<b>54,813,193</b>	<b>86.56</b>
<u>Other Receivables:</u>				
UNIHAN	\$ 3,219	41.04	8,748	1.98
ASUSTeK	1,901	24.24	7,469	1.69
AMA	324	4.13	-	-
ASROCK	280	3.57	-	-
PCZ	-	-	312,932	70.77
PROTEK	-	-	334	0.08
Others	218	2.77	18,099	4.09
Total	<b>\$ 5,942</b>	<b>75.75</b>	<b>347,582</b>	<b>78.61</b>
<u>Notes and Accounts Payable:</u>				
PROTEK	\$ 56,457,912	58.07	38,592,193	72.58
ASKEY	815,445	0.84	-	-
SHANGHAI INDEED	750,000	0.77	322,449	0.61
CASETEK	601,866	0.62	223,284	0.42
RI-TENG	589,811	0.61	-	-
PIOTEK	311,306	0.32	133,808	0.25
Others	683,619	0.70	600,878	1.13
Total	<b>\$ 60,209,959</b>	<b>61.93</b>	<b>39,872,612</b>	<b>74.99</b>

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	<u>September 30, 2011</u>		<u>September 30, 2010</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Accrued Expenses:</u>				
ASUSPOWER	\$ 3,217,237	42.22	10,730,912	73.76
ASUSTeK	983,815	12.91	-	-
PROTEK	460,784	6.05	167,476	1.15
PCM	412,827	5.42	333,114	2.29
Others	52,036	0.67	84,953	0.58
<b>Total</b>	<b>\$ 5,126,699</b>	<b>67.27</b>	<b>11,316,455</b>	<b>77.78</b>

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

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
<u>Assets:</u>		
Prepayments	\$ 1,832	14,196
Temporary payments	1,315	12,161
	<b>\$ 3,147</b>	<b>26,357</b>
<u>Liabilities:</u>		
Temporary receipts	<b>\$ 78,956</b>	<b>76,180</b>

(v) Endorsement Guarantee

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

<u>Name of Related Party Guaranteed</u>	<u>Amount of Guarantee (thousands)</u>	
	<u>September 30, 2011</u>	<u>September 30, 2010</u>
ASUSPOWER	<b>USD 80,000</b>	<b>USD 15,000</b>
PCZ	<b>USD 10,000</b>	<b>USD 10,000</b>
UNITED NEW	<b>USD 10,000</b>	
AVY	<b>USD 24,500</b>	
PIOTEK	<b>USD 49,000</b>	
PROTEK	<b>USD 200,000</b>	

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

<u>Name of Related Party Guarantor</u>	<u>Amount of Guarantee (thousands)</u>	
	<u>September 30, 2011</u>	<u>September 30, 2010</u>
ASUSTeK	<b>USD -</b>	<b>USD 300,000</b>

(vi) Financing

As of September 30, 2011, the details of financing provided by the Company to a related party were as follows:

	<u>September 30, 2011</u>		<u>September 30, 2010</u>	
	<u>Ending Balance</u>	<u>The Highest Balance</u>	<u>Ending Balance</u>	<u>The Highest Balance</u>
PCZ	<b>USD -</b>	<b>USD -</b>	<b>USD 10,000</b>	<b>USD 20,000</b>

The loan to PCZ bears annual interest of 1%.

**6. Pledged Assets**

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

<u>Asset</u>	<u>September 30</u>		<u>Purpose of pledge</u>
	<u>2011</u>	<u>2010</u>	
Restricted deposits	\$ 72,003	71,887	Deposits for customs duties
Refundable deposits	26,840	11,480	Deposits for performance guarantee
	<b>\$ 98,843</b>	<b>83,367</b>	

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

(a) As of September 30, 2011 and 2010, the Company had unused letters of credit of US\$ 1,000 and EUR\$267 and US\$ 926, EUR\$ 267, and NT\$ 15,000, respectively.

(b) As of September 30, 2011 and 2010, the Company had promissory notes and certificate of deposit obtained for business purpose of \$10,816 and \$13,327, respectively.

(c) Rental expense and future lease commitments of the operating lease agreements were as follows:

<u>Year</u>	<u>Rent expense</u>	<u>Future lease commitments</u>			
		<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
For the nine months ended					
September 30, 2011	<b>\$ 61,965</b>	<b>86,926</b>	<b>43,107</b>	<b>3,438</b>	<b>-</b>

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

**9. Significant Subsequent Events: None.**

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**10. Others**

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

Categorized as Nature	For the Nine Months Ended September 30, 2011			For the Nine Months Ended September 30, 2010		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salary expense	533,889	2,717,136	3,251,025	488,148	2,505,184	2,993,332
Health and labor	38,450	177,824	216,274	35,395	137,027	172,422
Insurance expense						
Pension expense	23,065	110,251	133,316	21,903	86,794	108,697
Other expense	29,058	109,903	138,961	26,579	97,797	124,376
Depreciation expense (Note A)	32,881	118,998	151,879	38,597	143,529	182,126
Amortization expense	178,890	174,482	353,372	331,676	170,612	502,288

Note A: For the nine months ended September 30, 2011 and 2010, the Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle-assets, of \$9,882 and \$15,894, respectively.

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

**11. Financial Information by Segment**

As segment information is disclosed in the Company's consolidated financial statements, it need not present such information in its stand-alone or individual financial statements.