

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(With Independent Accountants' Audit Report Thereon)

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

Telephone: 886-2-8143-9001

TABLE OF CONTENTS

Contents	Page
COVER PAGE	1
TABLE OF CONTENTS	2
INDEPENDENT ACCOUNTANTS' AUDIT REPORT	3
BALANCE SHEETS	4
STATEMENTS OF INCOME	5
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY	6
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	
(1) ORGANIZATION AND BUSINESS	8
(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	8~17
(3) REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES	17~18
(4) SUMMARY OF MAJOR ACCOUNTS	18~34
(5) RELATED-PARTY TRANSACTIONS	35~42
(6) PLEDGED ASSETS	42
(7) SIGNIFICANT COMMITMENTS AND CONTINGENCIES	42
(8) SIGNIFICANT CATASTROPHIC LOSSES	42
(9) SIGNIFICANT SUBSEQUENT EVENTS	42~43
(10) OTHERS	43
(11) FINANCIAL INFORMATION BY SEGMENT	43

(English Translation of Financial Report Originally Issued in Chinese)

AUDIT REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Pegatron Corporation

We have audited the accompanying balance sheets of Pegatron Corporation (the “Company”) as of December 31, 2011 and 2010, and the related statements of income, changes in stockholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain investees accounted for under the equity method, in which the Company’s long-term equity investments amounted to NT\$ 18,996,148 thousand and NT\$ 21,591,166 thousand, representing 8.65% and 14.55% of total assets as of December 31, 2011 and 2010, respectively, and related investment income thereon was NT\$ 2,044,432 thousand and NT\$ 2,336,755 thousand, representing 3,493.90% and 31.94% of net income before tax for the year ended December 31, 2011 and 2010, respectively. The financial statements of these investees were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, is based solely on the reports of other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Pegatron Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of the Company as of and for the years ended December 31, 2011 and 2010 and have issued modified unqualified audit report thereon.

Handwritten signature of KPMG in black ink.

Taipei, Taiwan, R.O.C
March 19, 2012

Note to Readers

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

BALANCE SHEETS

December 31, 2011 and 2010

(All Amounts Expressed in Thousands of New Taiwan Dollars)

ASSETS	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
Current Assets:				
Cash (Note (4)(a))	\$ 6,815,955	3	8,808,075	6
Notes receivable, net of allowance for uncollectible accounts – Non-related parties (Note (4)(b))	-	-	259	-
Accounts receivable, net of allowance for uncollectible accounts – Non-related parties (Note (4)(b))	40,736,056	19	7,690,768	6
Accounts receivable, net of allowance for uncollectible accounts – Related parties (Note (5))	70,676,143	32	34,921,360	25
Other receivables – Non-related parties	40,427	-	18,871	-
Other receivables – Related parties (Note (5))	9,842	-	21,774	-
Other financial assets – current (Note (6))	72,003	-	71,887	-
Inventories (Note (4)(c))	9,252,961	4	7,169,808	5
Other current assets (Note (5))	133,332	-	72,729	-
Deferred income tax assets – current (Note (4)(i))	277,270	-	243,383	-
	<u>128,013,989</u>	<u>58</u>	<u>59,018,914</u>	<u>42</u>
Investments:				
Long-term investments under the equity method (Note (4)(d))	86,765,900	40	83,573,594	56
	<u>29,271</u>	<u>-</u>	<u>28,637</u>	<u>-</u>
Other Financial Assets – Noncurrent (Note (6))				
Property, Plant and Equipment, at cost :				
Land	2,167,308	1	2,150,317	1
Buildings	1,886,473	1	1,745,891	1
Machinery and equipment	45,169	-	285,708	-
Warehousing equipment	600	-	600	-
Instrument equipment	146,286	-	273,977	-
Transportation equipment	23,339	-	21,752	-
Office equipment	3,951	-	3,951	-
Leased assets	6,003	-	27,423	-
Miscellaneous equipment	386,816	-	398,450	-
	<u>4,665,945</u>	<u>2</u>	<u>4,908,069</u>	<u>2</u>
Less: Accumulated depreciation	(731,088)	-	(916,653)	(1)
Prepayment for equipment	56,958	-	50,130	-
	<u>3,991,815</u>	<u>2</u>	<u>4,041,546</u>	<u>1</u>
	<u>121,223</u>	<u>-</u>	<u>181,820</u>	<u>-</u>
	<u>706,543</u>	<u>-</u>	<u>1,512,580</u>	<u>1</u>
Intangible Assets				
Other Assets – others (Note (4)(e))				
TOTAL ASSETS	<u>\$ 219,628,741</u>	<u>100</u>	<u>148,357,091</u>	<u>100</u>

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

BALANCE SHEETS (CONT'D)

December 31, 2011 and 2010

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Short-term loans (Note (4)(f))	\$ 6,176,100	3	2,665,200	2
Notes and accounts payable – Non-related parties	42,449,007	19	12,469,050	8
Notes and accounts payable – Related parties (Note (5))	57,939,610	26	21,903,630	15
Accrued expenses – Non-related parties	2,345,724	1	2,821,046	2
Accrued expenses – Related parties (Note (5))	3,588,099	2	7,509,146	5
Other current liabilities (Note (5))	3,034,004	1	2,834,993	1
	<u>115,532,544</u>	<u>52</u>	<u>50,203,065</u>	<u>33</u>
Long-Term Loans:				
Long-term loans (Note (4)(g))	<u>12,110,000</u>	<u>6</u>	<u>6,991,200</u>	<u>5</u>
Other Liabilities:				
Refundable guarantee deposits	10,232	-	16,211	-
Deferred income tax liabilities – noncurrent (Note (4)(i))	334,145	-	295,006	-
Other long-term liabilities— others	57,611	-	10,380	-
	<u>401,988</u>	<u>-</u>	<u>321,597</u>	<u>-</u>
Total Liabilities	<u>128,044,532</u>	<u>58</u>	<u>57,515,862</u>	<u>38</u>
Stockholders' Equity:				
Common stock (Note (4)(j))	<u>22,563,669</u>	<u>10</u>	<u>22,563,669</u>	<u>15</u>
Capital surplus (Note (4)(j))				
Premium on capital stock	60,393,247	28	60,393,247	41
Other	3,072,249	1	2,752,201	2
	<u>63,465,496</u>	<u>29</u>	<u>63,145,448</u>	<u>43</u>
Retained earnings (Note (4)(j)):				
Legal reserve	1,836,601	1	1,215,457	1
Special reserve	4,327,629	2	-	-
Accumulated earnings	144,466	-	8,253,605	6
	<u>6,308,696</u>	<u>3</u>	<u>9,469,062</u>	<u>7</u>
Other adjustments to stockholders' equity:				
Cumulative translation adjustments	(784,234)	-	(5,250,188)	(4)
Unrecognized gain (loss) on pension	440	-	(16)	-
Unrealized gain on financial assets	48,936	-	922,576	-
Treasury stock (Note(4)(j))	(18,794)	-	(9,322)	1
	<u>(753,652)</u>	<u>-</u>	<u>(4,336,950)</u>	<u>(3)</u>
Total Stockholders' Equity	<u>91,584,209</u>	<u>42</u>	<u>90,841,229</u>	<u>62</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 219,628,741</u>	<u>100</u>	<u>148,357,091</u>	<u>100</u>

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data))

	For the Years Ended December 31,			
	2011		2010	
	Amount	%	Amount	%
Operating revenues (Note (5))	\$ 373,745,393	101	298,795,302	100
Less: Sales returns	1,741,657	1	176,833	-
Sales allowances	291,073	-	856,700	-
Net sales	<u>371,712,663</u>	<u>100</u>	<u>297,761,769</u>	<u>100</u>
Cost of sales (Notes (4)(c) and (5))	<u>366,365,728</u>	<u>99</u>	<u>287,193,000</u>	<u>96</u>
Gross profit	5,346,935	1	10,568,769	4
Less: Realized (Unrealized) profit on intercompany transactions (Note (5))	(47,231)	-	57,683	-
	<u>5,299,704</u>	<u>1</u>	<u>10,626,452</u>	<u>4</u>
Operating expenses (Note (5))				
Selling expenses	1,835,805	1	1,858,165	1
General and administrative expenses	1,328,621	-	1,397,175	-
Research and development expenses	3,958,773	1	3,339,007	1
	<u>7,123,199</u>	<u>2</u>	<u>6,594,347</u>	<u>2</u>
Income (Loss) from operations	<u>(1,823,495)</u>	<u>(1)</u>	<u>4,032,105</u>	<u>2</u>
Non-operating income				
Interest revenue	20,558	-	11,546	-
Investment income under the equity method (Note (4)(d))	1,516,472	1	2,458,713	1
Gain on disposal of fixed assets (Note (4)(e))	108,345	-	-	-
Rental revenue	65,994	-	62,077	-
Reversal of allowance for uncollectable accounts	25,999	-	-	-
Reversal of impairment loss (Note (4)(e))	28,450	-	-	-
Gain on valuation of financial assets	843	-	-	-
Others	910,621	-	1,225,772	-
	<u>2,677,282</u>	<u>1</u>	<u>3,758,108</u>	<u>1</u>
Non-operating expenses				
Interest expenses	210,687	-	94,815	-
Foreign exchange loss, net	310,723	-	79,123	-
Others	273,863	-	299,865	-
	<u>795,273</u>	<u>-</u>	<u>473,803</u>	<u>-</u>
Income before income tax	58,514	-	7,316,410	3
Income tax expense (Note (4)(i))	(52,851)	-	1,104,974	-
Net income	<u>\$ 111,365</u>	<u>-</u>	<u>6,211,436</u>	<u>2</u>
			Before	After
			Income Tax	Income Tax
Earnings per share (Note (4)(k))				
Primary earnings per share	\$ 0.03	0.05	3.22	2.73
Diluted earnings per share	\$ 0.03	0.05	3.21	2.72
			Before	After
			Income Tax	Income Tax
Pro forma result assuming the company's shares of stock held by its subsidiary do not count as treasury stock:				
Net income	\$ 58,514	111,365	7,316,410	6,211,436
Earnings per share (Note (4)(k))	\$ 0.03	0.05	3.22	2.73

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

(English Translations of Financial Statements Originally Issued in Chinese)
PEGATRON CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Expressed in Thousands of New Taiwan Dollars)

	Common stock	Capital surplus	Retained earnings			Other adjustments to stockholders' equity			Treasury stock	Total
			Legal reserve	Special reserve	Accumulated earnings	Cumulative translation adjustments	Unrecognized loss on pension cost	Unrealized gain(loss) of financial assets		
Balance, January 1, 2010	\$ 22,860,539	63,776,623	545,570	-	6,712,650	198,092	(3,202)	1,680,205	-	95,770,477
Issuance of new shares from reorganization	100	307	-	-	-	-	-	-	-	407
Purchase of treasury stock	-	-	-	-	-	-	-	-	(1,006,862)	(1,006,862)
Retirement of treasury stock	(296,970)	(709,892)	-	-	-	-	-	-	1,006,862	-
Equity held by investee	-	-	-	-	-	-	-	-	(9,322)	(9,322)
Net income for the year ended December 31, 2010	-	-	-	-	6,211,436	-	-	-	-	6,211,436
Appropriations and distributions of 2009 earnings (Note 1):										
Legal reserve	-	-	669,887	-	(669,887)	-	-	-	-	-
Cash dividends	-	-	-	-	(4,000,594)	-	-	-	-	(4,000,594)
Adjustment arising from long-term equity investments	-	47,779	-	-	-	-	3,186	(757,629)	-	(706,664)
Cumulative translation adjustments	-	-	-	-	-	(5,448,280)	-	-	-	(5,448,280)
Interest expense incurred from trust of shareholders of parent company	-	30,631	-	-	-	-	-	-	-	30,631
Balance, December 31, 2010	<u>\$ 22,563,669</u>	<u>63,145,448</u>	<u>1,215,457</u>	<u>-</u>	<u>8,253,605</u>	<u>(5,250,188)</u>	<u>(16)</u>	<u>922,576</u>	<u>(9,322)</u>	<u>90,841,229</u>
Balance, January 1, 2011	\$ 22,563,669	63,145,448	1,215,457	-	8,253,605	(5,250,188)	(16)	922,576	(9,322)	90,841,229
Equity held by investee	-	-	-	-	-	-	-	-	(9,472)	(9,472)
Employee compensation cost	-	49,513	-	-	-	-	-	-	-	49,513
Net income for the year ended December 31, 2011	-	-	-	-	111,365	-	-	-	-	111,365
Appropriations and distributions of 2010 earnings (Note 2):										
Legal reserve	-	-	621,144	-	(621,144)	-	-	-	-	-
Special reserve	-	-	-	4,327,629	(4,327,629)	-	-	-	-	-
Cash dividends	-	-	-	-	(3,271,731)	-	-	-	-	(3,271,731)
Adjustment arising from long-term equity investments	-	121,024	-	-	-	1,986,855	456	(873,640)	-	1,234,695
Cumulative translation adjustments	-	-	-	-	-	2,479,099	-	-	-	2,479,099
Interest expense incurred from trust of shareholders of parent company	-	149,511	-	-	-	-	-	-	-	149,511
Balance, December 31, 2011	<u>\$ 22,563,669</u>	<u>63,465,496</u>	<u>1,836,601</u>	<u>4,327,629</u>	<u>144,466</u>	<u>(784,234)</u>	<u>440</u>	<u>48,936</u>	<u>(18,794)</u>	<u>91,584,209</u>

Note 1: The directors' and supervisors' remuneration of \$60,290 and employees' bonuses of \$1,205,797 had been deducted from net income for the year.

Note 2: The directors' and supervisors' remuneration of \$12,000 and employees' bonuses of \$127,000 had been deducted from net income for the year.

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 111,365	6,211,436
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	205,342	262,831
Amortization	471,361	654,549
Reversal of impairment loss	(28,450)	(9,647)
Reversal of allowance for uncollectable accounts	(25,999)	(47,666)
Reversal of contingent service cost	(259,509)	(126,000)
Provision (Reversal) for inventory market price decline and obsolescence, and impairment loss	(186,652)	58,888
Investment income under equity method	(1,516,472)	(2,458,713)
Cash dividends from investments under equity method	2,055,436	3,419,062
Loss (Gain) on disposal and retirement of assets, net	(10,491)	40,867
Unrealized (Realized) profit on intercompany transactions	47,231	(57,683)
Employee compensation cost	199,024	30,631
Change in assets and liabilities:		
Notes and accounts receivable	(68,773,813)	40,979,922
Other receivables	(9,624)	986,596
Inventories	(1,896,501)	3,288,512
Other current assets	(60,603)	3,723
Deferred income tax assets and liabilities, net	(45,641)	691,080
Notes and accounts payable	66,031,937	(38,814,292)
Accrued expenses	(4,259,795)	(4,309,920)
Other current liabilities	199,011	(358,656)
Other liabilities	-	(30)
Net cash provided by (used in) operating activities	(7,752,843)	10,445,490
Cash flows from investing activities:		
Increase in long-term investment under the equity method	(294,000)	(103,364)
Proceeds from disposal of long-term investment under the equity method	440,880	-
Purchase of property, plant and equipment	(127,179)	(75,374)
Proceeds from disposal of assets, idle assets, deferred charges	711,319	2,134
Increase in deferred charges	(288,617)	(241,604)
Decrease in other accounts receivable – Related parties	-	639,800
Purchase of intangible assets	(32,920)	(43,267)
Decrease (Increase) in other financial assets	(750)	244,723
Net cash provided by investing activities	408,733	423,048
Cash flows from financing activities:		
Increase (Decrease) in short-term loans	3,510,900	(357,855)
Increase in long-term loans	5,118,800	6,991,200
Decrease in long-term loans	-	(7,200,000)
Increase (Decrease) in other financial liabilities	(5,979)	493
Distribution of cash dividends	(3,271,731)	(4,000,594)
Repurchase of treasury stock	-	(1,006,862)
Shares of stock issued from reorganization	-	407
Net cash provided by (used in) financing activities	5,351,990	(5,573,211)
Net increase (decrease) in cash	(1,992,120)	5,295,327
Cash, beginning of the year	8,808,075	3,512,748
Cash, end of the year	\$ 6,815,955	8,808,075
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest exclude interest capitalized	\$ 158,264	93,618
Income tax	\$ 408,046	726
Cash paid from acquisition of subsidiaries:		
Increase in long-term investment under the equity method	\$ 416,935	103,364
Less: Accounts payable, end of the year	(122,935)	-
	\$ 294,000	103,364

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 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 December 31, 2011 and 2010, the Company had 5,035 and 4,505 employees, respectively.

2. Summary of Significant Accounting Policies

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

a. Use of Estimates

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

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

b. Foreign Currency Translation

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

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

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

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

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

d. Asset Impairment

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

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

e. Financial Instruments

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

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

ii. Notes and Account receivables, and other receivables

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

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

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

The 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. Effective from January 1, 2011, the recognition, subsequent measurement and impairment of loans and receivables are accounted for in accordance with SFAS No. 34 "Accounting for the Financial Instruments: Recognition and Measurement."

g. 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. 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.

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

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

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 partial disposition of long-term equity investments are determined by the weighted-average method. Capital surplus from partial 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.

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

j. Intangible Assets

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

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

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

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

k. Deferred Charges

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 with warranty are sold and is estimated based on warranty service cost and in consideration of past experience.

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

n. Revenue and Cost Recognition

Revenue is recognized when title to the product and the risks and rewards of ownership are transferred to the customer; otherwise revenue recognition is deferred until these criteria are met. The related cost and expenses are recognized as the revenue is recognized. The expenses are recognized on accrual basis. Also, allowances for sales returns and discounts are estimated based on historical experience. Such allowances are recognized in the same period in which sales are made.

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 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 and similar instruments at grant date 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.

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

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.

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

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 Stock

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

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

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 income (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. If the Company cannot get further information to identify and determine the fair value of assets acquired and liability assumed, the period for the allocation 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 income for the year ended December 31, 2011.

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

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 year ended December 31, 2011.

4. Summary of Major Accounts:

a. Cash

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Cash on hand	\$ 50	-
Demand deposits	773,503	869,674
Foreign currency deposits	3,424,527	5,171,051
Foreign currency time deposits	1,967,875	2,767,350
Time deposits	650,000	-
Total	<u>\$ 6,815,955</u>	<u>8,808,075</u>

b. Notes and Accounts Receivable — Non-related parties

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Notes receivable	\$ -	262
Less: Allowance for uncollectible accounts	-	(3)
Net	-	259
Accounts receivable	40,788,850	7,734,368
Less: Allowance for uncollectible accounts	(17,604)	(43,600)
Less: Allowance for sales returns and discounts	(35,190)	-
Net	40,736,056	7,690,768
Total	<u>\$ 40,736,056</u>	<u>7,691,027</u>

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

c. Inventories

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Merchandise (including inventory-in-transit)	\$ 7,486,732	-
Less: Allowance for inventory market decline and obsolescence	(135,912)	-
Sub-total	<u>7,350,820</u>	<u>-</u>
Finished goods	254,019	3,516,640
Less: Allowance for inventory market decline and obsolescence	(4,719)	(85,565)
Sub-total	<u>249,300</u>	<u>3,431,075</u>
Work in process	70,921	338,461
Less: Allowance for inventory market decline and obsolescence	(21,665)	(31,913)
Sub-total	<u>49,256</u>	<u>306,548</u>
Raw materials	1,704,361	3,769,637
Less: Allowance for inventory market decline and obsolescence	(100,776)	(337,452)
Sub-total	<u>1,603,585</u>	<u>3,432,185</u>
Total	<u>\$ 9,252,961</u>	<u>7,169,808</u>

For the years ended December 31, 2011 and 2010, the components of cost of goods sold were as follows:

	<u>For the Years Ended December 31</u>	
	<u>2011</u>	<u>2010</u>
Cost of goods sold	\$ 366,552,380	287,134,112
Provision (Reversal) for inventory market price decline	(191,859)	24,434
Loss on inventory disposal and obsolescence	5,207	34,454
	<u>\$ 366,365,728</u>	<u>287,193,000</u>

For the year ended December 31, 2011, 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.

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

d. Long-Term Equity Investments

Name of Investee Company	December 31, 2011			December 31, 2010		
	Equity Holding	Book Value	Original Investment	Equity Holding	Book Value	Original Investment
PEGATRON HOLDING LTD.	100.00%	\$ 29,398,324	24,238,150	100.00%	27,580,026	24,385,030
UNIHAN CORPORATION	100.00%	12,031,272	12,098,279	100.00%	11,997,517	12,098,279
ASUSPOWER INVESTMENT CO., LTD.	100.00%	14,031,301	13,033,429	100.00%	14,052,812	13,033,429
ASUS INVESTMENT CO., LTD.	100.00%	15,379,992	16,184,982	100.00%	14,759,695	16,184,982
ASUSTEK INVESTMENT CO., LTD	100.00%	14,281,002	14,593,543	100.00%	13,682,791	14,593,543
ADVANSUS CORP.	50.00%	243,069	166,364	50.00%	247,822	166,364
ASUS HOLLAND HOLDING B.V.	100.00%	1,383,843	1,276,436	92.45%	1,236,667	1,153,501
PEGATRON USA, INC.	100.00%	17,097	16,085	100.00%	16,264	16,085
		\$ 86,765,900			83,573,594	

- i. The investment income recognized under the equity method amounted to \$1,516,472 and \$2,458,713 for the years ended December 31, 2011 and 2010, respectively.
- ii. For the year ended December 31, 2011, the Company was refunded for reduction in PEGATRON HOLDING LTD.'s share capital of \$440,880.
- iii. For the years ended December 31, 2011 and 2010, the Company received cash dividends of \$2,055,436 and \$3,419,062, respectively, from its investee companies accounted under equity method.
- iv. For the purpose of restructuring the organization, the Company acquired 7.55% equity ownership of Asus Holland Holding (B.V.) from ASUS INVESTMENT CO., LTD. for \$122,935 which is equal to the carrying value of ASUS INVESTMENT CO., LTD.'s long-term investment in Asus Holland Holding (B.V.).
- v. For the years ended December 31, 2011 and 2010, the Company's shares held by its subsidiaries are treated as treasury stock in accordance with ROC SFAS 30 as described in Note (4)(j).
- vi. Investees, in which the Company has controlling interest over their operation, are included in the Company's consolidated financial statements, except for ADVANSUS CORP.

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

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

	December 31, 2011	December 31, 2010
Current Assets	\$ 411,541	523,492
Non-current Assets	11,471	14,317
Current Liabilities	179,889	289,987
For the Years Ended December 31		
	2011	2010
Revenues	\$ 1,447,598	2,358,362
Expenses	1,416,366	2,302,139

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 December 31, 2011 and 2010, respectively.
- (ii) For the years ended December 31, 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

Nature of the loan	December 31, 2011	December 31, 2010
Credit loan	\$ 6,176,100	2,665,200
Range of interest rate	0.70%~1.56%	0.40%~0.87%

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.

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

g. Long-Term Loans

Creditor	Types of Debt	Credit Line	Repayment Schedule	December 31, 2011	December 31, 2010
Citibank Taiwan and 14 other banks	Credit loan	<u>USD400,000,000</u>	2010.10.25~2015.10.25 Credit line is repayable in 5 semi-annual installments, commencing October 25, 2013.	<u>\$ 12,110,000</u>	<u>\$ 6,991,200</u>
				<u>USD 240,000,000</u>	<u>USD 240,000,000</u>

For the years ended December 31, 2011 and 2010, long-term loans bore interest at average rates of 1.0647% ~ 2.3256% and 0.8926% ~1.0647%, respectively. 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 December 31, 2011 and 2010, the Company were 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 December 31, 2011 and 2010.

h. Pension Plan

For the years ended December 31, 2011 and 2010, the pension costs for the defined contribution pension plan of the Company amounted to \$179,349 and \$147,364, respectively.

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

i. Income Tax

- (i) According to the revised Income Tax Law announced on June 15, 2010, the statutory income tax rate is reduced further to 17% effective January 1, 2010. Therefore, the Company is subject to statutory income tax rate of 17% for both the years ended December 31, 2011 and 2010. The Company also complies with the Basic Income Tax Act when calculating its income tax.
- (ii) For the years ended December 31, 2011 and 2010, the components of income tax expense (benefit) were as follows:

	For the Years Ended December 31	
	2011	2010
Current income tax expense (benefit)	\$ (58,102)	311,786
Deferred income tax expense	5,251	691,080
10% surtax on undistributed earnings	-	102,108
Income tax expense (benefit)	\$ (52,851)	1,104,974

The components of deferred income tax expense were as follows:

	For the Years Ended December 31	
	2011	2010
Unrealized exchange gain	\$ (188,884)	82,510
Reversal of allowance for loss on inventory market decline and obsolescence	32,616	(4,154)
Unrealized profits on sales	(8,029)	9,806
Amortization of employee benefits	17	17
Reversal of warranty reserve	44,117	113,813
Investment tax credits	249,252	(204,858)
Reversal of impairment loss on assets	4,836	1,640
Loss carry-forward	-	11,296
Unrealized foreign investment income	34,285	141,670
Effect on deferred tax of the change in statutory tax rate	-	12,960
Reversal of valuation on allowance for deferred tax assets	(162,959)	526,380
Deferred income tax expense	\$ 5,251	691,080

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

(iii) The income tax calculated on pretax financial income at a statutory income tax rate was reconciled with the income tax expense (benefit) as reported in the accompanying financial statements for the years ended December 31, 2011 and 2010 as follows:

	For the Years Ended December 31	
	2011	2010
Income tax calculated on pre-tax financial income at statutory tax rate	\$ 9,947	1,243,790
Permanent differences	(241,093)	(406,793)
10% surtax on undistributed earnings	-	102,108
Investment tax credits	85,203	103,198
Non deductible loss carry-forward	100,301	-
Effect on deferred tax of the change in statutory tax rate	-	12,960
Others	(7,209)	49,711
Income tax expense (benefit)	\$ (52,851)	1,104,974

(iv) As of December 31, 2011 and 2010, the temporary differences, loss carry-forwards and income tax credits and the related income tax effect thereof resulting in deferred income tax assets (liabilities) were as follows:

Temporary differences of deferred income tax assets (liabilities) - current	December 31, 2011		December 31, 2010	
	Amount	Income Tax Effect	Amount	Income Tax Effect
Unrealized foreign exchange loss (gain): taxable (deductible)	\$ 409,543	69,622	(701,536)	(119,261)
Allowance for loss on inventory market decline and obsolescence: deductible	263,071	44,722	454,931	77,338
Deferred employee benefits for tax: deductible	100	17	100	17
Warranty reserve: deductible	46,339	7,878	305,848	51,994
Unrealized intercompany profits: deductible	57,611	9,794	10,380	1,764
Unused balance of investment tax credits: deductible	-	508,659	-	757,911
Valuation on allowance		(363,422)		(526,380)
Net deferred income tax assets		\$ 277,270		243,383

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

Temporary differences of deferred income tax assets (liabilities) - noncurrent	December 31, 2011		December 31, 2010	
	Amount	Income Tax Effect	Amount	Income Tax Effect
Unrealized impairment loss on assets: deductible	\$ 8,038	1,366	36,487	6,203
Deferred employee benefits for tax: deductible	-	-	100	17
Unrealized gain on foreign investments including cumulative translation adjustments: taxable	(1,325,062)	(225,261)	(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)		\$ (334,145)		(295,006)

(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 a 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 year subsequent to the tax credit application, however, such limit for the tax credit application shall not apply to the final year. The Company was granted investment tax credits from funds invested in equipment for automation of production, equipment for pollution control, R&D and personnel training, and newly emerging, important and strategic industries which are deemed tax credit under the statute. As of December 31, 2011, unused investment tax credits which may be applied to offset against income tax in the future were as follows:

Year of occurrence	Unused investment tax credits	Year of expiration
2008	\$ 14,224	2013
2009	407,903	2014
2011	86,532	2011
	\$ 508,659	

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

(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 December 31, 2011, the five year income tax exemption periods were as follows:

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

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

Undistributed earnings:	December 31, 2011	December 31, 2010
Accumulated in 1997 and prior years	\$ -	-
Accumulated in 1998 and thereafter	144,466	8,253,605
Total	\$ 144,466	8,253,605
Stockholders’ imputation tax credit account	\$ 3,448	200,504
	2011 (Expected)	2010 (Actual)
Expected or actual deductible tax ratio	0.09%	9.32%

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%

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

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 December 31, 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 both consisted of 2,256,367 thousand shares.

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 December 31, 2011, the Company has listed, in total, 9,900 thousand units of GDR on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 shares, the Company has listed Company shares totaling 49,501 thousand shares. Major terms and conditions for GDRs were as follows:

1. Voting Rights

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

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

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

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

(ii) Share-based payment transactions

1. Information about share-based payment transaction as of December 31, 2011 were as follows:

	Employee Stock Option Plan
Grant date	July 1, 2011
Thousand units granted	40,679
Contractual life	3 years
Vesting period	2 years
Actual turnover rate of employees	7.9%
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 at 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 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.

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

	For the Year ended December 31, 2011
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.

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

3. The components of employee stock option plan and the weighted-average exercise price as of December 31, 2011 were as follows:

	For the Year ended December 31, 2011	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of year	-	\$ -
Granted	40,679	28.38
Exercised	-	-
Forfeited	3,031	-
Expired	-	-
Balance, end of year	<u>37,648</u>	28.38
Exercisable, end of year	<u>37,648</u>	
Weighted-average fair value of options granted	<u>7.9</u>	

The exercise price of share option outstanding as of December 31, 2011 was \$28.38 with remaining contractual life of 1.50 years. The expenses incurred in share-based payment transactions amounted to \$49,513 for the year ended December 31, 2011.

(iii) Legal reserve and capital surplus

In accordance with the ROC Company Law, as amended in January 2012 and the Company's Articles of Incorporation, 10% of the annual earnings (net of losses of prior years, if any) are retained as statutory reserve until the reserve equals the amount of the Company's paid-in capital. The distribution of remaining earnings, either as stock dividends or cash dividends, are subject to the approval of the Company's stockholders. However, the legal reserve appropriation from annual earnings can not exceed 25% of the Company's paid-in capital.

In accordance with the ROC Company Law, as amended in January 2012, capital surplus can not be distributed as dividends in cash or shares unless it offsets deficit. The realized capital surplus are included the reserves generated from donation and the excess of the issuance price over the par value of capital stock. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, when capital reserve is capitalized, the combined amount of any portions capitalized in any one year can not exceed 10 % of paid-in 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 \$232,803 which were credited to capital surplus - others as of December 31, 2011 and 2010, respectively.

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

(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 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 December 31, 2011, the Company's shares held by its subsidiaries were 1,700 thousand shares amounting to \$56,015 at 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 shares of stock. In the event that the employee bonus is distributed in the form of stock, employees qualifying for such distribution may include the employees of subsidiaries of the Company who meet certain specific requirements. Such qualified employees and distribution ratio shall be decided by the Board of Directors.
2. Up to 1% as remuneration to directors and supervisors.
3. The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

Pursuant to the Regulations of Securities and Futures Bureau Commission, a special reserve is set aside from the current year's net income after tax and prior year's 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.

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

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's meeting on behalf of shareholders' meeting resolved to appropriate the 2010 and 2009 earnings. These earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

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

For the years ended December 31, 2011 and 2010, employee bonuses of \$12,100 and \$127,000, and directors' and supervisors' remuneration of \$1,000 and \$12,000, respectively, were estimated and recognized as current expenses. Differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are to be accounted for as changes in accounting estimates and recognized in profit or loss.

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

k. Earnings per Share (EPS)

For the years ended December 31, 2011 and 2010, the primary earnings per share, diluted earnings per share and the retroactively adjusted primary and diluted earnings per share were computed as follows:

(Note: shares in thousands)

	For the Years Ended December 31			
	2011		2010	
	Before income tax	After income tax	Before income tax	After income tax
Net income	\$ 58,514	111,365	7,316,410	6,211,436
Weighted-average common shares outstanding	2,255,192	2,255,192	2,273,429	2,273,429
Dilutive potential common shares	7,981	7,981	7,821	7,821
Diluted shares	2,263,173	2,263,173	2,281,250	2,281,250
Primary earnings per share	\$ 0.03	0.05	3.22	2.73
Diluted earnings per share	\$ 0.03	0.05	3.21	2.72

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

	For the Years Ended December 31			
	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Net income	\$ 58,514	111,365	7,316,410	6,211,436
Weighted-average outstanding shares	2,256,367	2,256,367	2,273,585	2,273,585
Earnings per share	\$ 0.03	0.05	3.22	2.73

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

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 December 31, 2011 and 2010, except for the financial assets and liabilities described above, the Company's other financial assets and liabilities were as follows:

<u>Financial Liabilities</u>	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Bank loans	\$ 12,110,000	12,110,000	6,991,200	6,991,200

(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

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

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, management 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 December 31, 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:

	December 31, 2011			December 31, 2010		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
<u>Monetary Items</u>						
USD	\$3,853,347	30.275	16,660,080	1,730,048	29.130	50,396,298
<u>Long-term Equity Investments</u>						
USD	971,608	30.275	29,415,421	947,349	29.130	27,596,276
EUR	35,320	39.18	1,383,843	31,775	38.920	1,236,683
Financial Liabilities						
<u>Monetary Items</u>						
USD	4,042,144	30.275	122,375,910	1,721,985	29.130	50,161,423

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

5. Related-Party Transactions

a. Names and relationships of related parties with the Company

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
ASUSTEK COMPUTER INC. (ASUSTEK)	An investor company that ceased to be a parent company effective May 31, 2010.
ASUS HOLLAND B.V.	An investee company accounted for under the equity method by ASUSTeK Computer Inc.
ASKEY COMPUTER CORP.(ASKEY)	"
ASUS TECHNOLOGY INC.	"
ASMEDIA TECHNOLOGY INC.	"
ASUSTEK COMPUTER (SHANGHAI) CO., LTD.	"
ASUS COMPUTER (SHANGHAI) CO., LTD.	"
SHINEWAVE INTERNATIONAL INC.	"
UNIMAX ELECTRONICS INC.	"
ASUS COMPUTER INTERNATIONAL (ACI)	"
AAEON TECHNOLOGY INC.	"
AGAIT TECHNOLOGY CORP.	"
ENERTRONIX, INC.	An investee company which became a wholly owned subsidiary of ASUSTeK following reorganization in July 2009.
ASHINE TECHNOLOGY (SUZHOU) LTD.	An investee company accounted for under the equity method by ASUSTeK Computer Inc.
ASKEY TECHNOLOGY (JIANG SU) LTD.	"
POWTEK (SHANGHAI) CO., LTD. (POWTEK)	An investee company which became a wholly owned subsidiary of the company following reorganization in July 2009.
ASIAROCK TECHNOLOGY LTD.	An investee company accounted for under the equity method
ASUSPOWER CORP. (ASUSPOWER)	"
PEGATRON CZECH S.R.O (PCZ)	"
PEGATRON JAPAN INC. (PCJ)	"
PEGATRON MEXICO, S.A. DE C.V.(PCM)	"
PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	"
PEGATRON USA, INC.	"
ADVANSUS CORP. (ADVANSUS)	"
ASROCK INC.	"
ABILITY ENTERPRISE CO., LTD.	"
PEGA INTERNATIONAL LTD.	"
UNIHAN CORPORATION (UNIHAN)	"

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

Name of Related Party	Relationship with the Company
AMA PRECISION INC.	An investee company accounted for under the equity method
CRYSTAL ART ENTERPRISE CO., LTD.	//
STARLINK ELECTRONICS CORP.	//
ASFLY TRAVEL SERVICE LTD.	//
AZUREWAVE TECHNOLOGIES, INC.	//
PROTEK (SHANGHAI) LTD. (PROTEK)	//
SHANGHAI INDEED TECHNOGLY CO., LTD. (SHANGHAI INDEED)	//
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD. (KAEDAR ELECTRONICS)	//
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) LTD.	//
PEGAVISION CORP.	An investee company accounted for under the equity method by Kinsus Interconnect Technology Corp.
ASAP INTERNATIONAL CO., LTD.	An investee company accounted for under the equity method
RUNTOP(SHANGHAI) CO., LTD. (RUNTOP)	//
UNITED NEW LTD.	//
TOPTEK PRECISION INDUSTRY (SUZHOU) CO., LTD.	//
LUMENS DIGITAL OPTICS INC.	//
BLACKROCK MARYLAND INT'L CORP.	//
HOLD JUMPER PACKING (SUZHOU) CO., LTD.	//
HOLD JUMPER PACKING (SHANGHAI) CO., LTD.	//
SUZHOU DELUXE PACKING PRODUCTION CO., LTD.	//
COTEK ELECTRONICS (SUZHOU) CO., LTD.	//
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	//

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

Name of Related Party	Relationship with the Company
RI-KUAN METAL CORP.	An investee company accounted for under the equity method
VIEWQUEST TECHNOLOGIES (BVI) INC.	//
GREEN PACKING LIMITED	//
DIGITEK (CHONGQING) LTD.	//
PEGATRON SERVICOS DE INFORMATICA LTDA.	//
KINSUS INTERCONNECT CORP.	//
ASUS INVESTMENT CO., LTD.	//
PIOTEK (HK) TRADING LTD. (PIOTEK)	//
KAEDAR TRADING LTD.	//
HOLD JUMPER INTERNATIONAL CO., LTD.	//
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 Years Ended December 31					
	2011			2010		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTEK	\$ 168,460,748	45.32	Open account 60 days	207,982,648	69.85	Open account 60 days
PCZ	5,239,652	1.41	120 days from receipt of goods	5,694,792	1.91	120 days from receipt of goods
POWTEK	3,485,967	0.94	45 days from receipt of goods	2,933,277	0.99	45 days from receipt of goods
Others	718,062	0.19	30~90 days from receipt of goods Open account 30~90 days	1,703,020	0.57	30~90 days from receipt of goods Open account 30~90 days
Total	<u>\$ 177,904,429</u>	<u>47.86</u>		<u>218,313,737</u>	<u>73.32</u>	

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

The collection term of third-party customer is L/C, T/T or 7 to 120 days from receipt of goods. For the years ended December 31, 2011 and 2010, the Company adjusted the double recording of sales to and purchases from related parties, which amounted to \$309,257,679 and \$186,242,785, respectively.

As of December 31, 2011 and 2010, unrealized profits from sales to related parties were \$57,611 and \$10,380, respectively.

(ii) Purchases

Name of Related Party	For the Years Ended December 31					
	2011			2010		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$ 125,809,844	34.37	Open account 60 days	151,112,664	54.42	Open account 60 days
PROTEK	56,064,625	15.32	Open account 60 days	35,363,947	12.73	90 days from receipt of goods
Others	8,628,233	2.35	30~90 days from receipt of goods Open account 30~120 days	8,428,225	3.03	30~90 days from receipt of goods Open account 30~120 days
Total	<u>\$ 190,502,702</u>	<u>52.04%</u>		<u>194,904,836</u>	<u>70.18%</u>	

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

For the years ended December 31, 2011 and 2010, the Company purchased raw materials from vendors through ASUSTek.

(iii) Others

	For the Years Ended December 31	
	2011	2010
(1) After-sales warranty repair expense paid to:		
PTSI	\$ 106,908	206,018
PCZ	54,438	45,725
PCJ	16,531	18,872
ASUS COMPUTER (SHANGHAI) CO., LTD.	1,245	14,531
Others	1,236	10,112
Total	<u>\$ 178,358</u>	<u>295,258</u>

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

	For the Years Ended December 31	
	2011	2010
(2) Processing fee paid to:		
ASUSPOWER	\$ 1,347,287	4,930,999
PCM	155,214	279,023
RUNTOP	47,325	24,252
Others	132	-
Total	\$ 1,549,958	5,234,274
(3) Other income from:		
ASUSTeK	\$ 527,204	598,238
UNIHAN	28,884	28,697
PCJ	26,119	47,843
Others	19,684	51,965
Total	\$ 601,891	726,743

(4) For the years ended December 31, 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 \$111,662 and \$132,772, respectively.

(5) For the years ended December 31, 2011 and 2010, the Company incurred other related party transactions recorded as rental revenue, amounting to \$56,048 and \$52,533, respectively.

(6) For the years ended December 31, 2011 and 2010, the Company incurred other related party transactions recorded as non-operating expense, amounting to \$31,779 and \$22,750, respectively.

(7) For the years ended December 31, 2011 and 2010, the Company sold for \$3,032 and \$1,768 to other related party fixed assets with carrying value of \$2,606 and \$1,609, which resulted in gain on disposal of fixed assets of \$426 and \$159, respectively.

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

(iv) Accounts receivable (payable)

	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
<u>Notes and Accounts Receivable:</u>				
PROTEK	\$ 53,627,766	48.11	24,247,523	56.84
ASUSTeK	9,116,587	8.18	8,646,081	20.27
MAINTEK	2,763,233	2.48	-	-
PCZ	2,616,432	2.35	1,281,826	3.01
DIGITEK (CHONGQING)	2,241,367	2.01	-	-
POWTEK	203,350	0.18	360,545	0.85
Others	107,408	0.10	385,385	0.90
Total	\$ 70,676,143	63.41	34,921,360	81.87
<u>Other Receivables:</u>				
UNIHAN	\$ 9,053	18.01	12,980	31.93
AMA	326	0.65	325	0.80
ASUSTeK	287	0.57	4,837	11.90
ADVANSUS	105	0.21	449	1.10
Others	71	0.14	3,183	8.94
Total	\$ 9,842	19.58	21,774	54.67
<u>Notes and Accounts Payable:</u>				
PROTEK	\$ 53,236,449	53.03	19,920,632	57.95
Others	4,703,161	4.69	1,982,998	5.77
Total	\$ 57,939,610	57.72	21,903,630	63.72
<u>Accrued Expenses:</u>				
ASUSPOWER	\$ 2,274,830	38.64	6,667,741	64.55
ASUSTeK	396,675	6.74	181	-
PROTEK	362,841	6.16	283,746	2.75
PCM	359,402	6.10	343,320	3.32
Others	194,351	3.30	214,158	2.08
Total	\$ 3,588,099	60.94	7,509,146	72.70

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

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

	December 31, 2011	December 31, 2010
Assets:		
Prepayments	\$ 75	-
Liabilities:		
Temporary receipts	\$ 24,527	38,563

(v) Endorsement Guarantee

As of December 31, 2011 and 2010, the Company provided endorsement guarantee for bank loans obtained by related parties as follows:

Name of Related Party Guaranteed	Amount of Guarantee (thousands)	
	December 31, 2011	December 31, 2010
ASUSPOWER	USD 80,000	USD 20,000
PCZ	USD 10,000	USD 10,000
PIOTEK	USD 49,000	USD 49,000
UNITED NEW LTD.	USD 20,000	
AVY	USD 75,000	
PROTEK	USD 200,000	
RI-TENG	USD 90,000	

As of December 31, 2011 and 2010, endorsement guarantees provided by a related party for the Company's purchases were as follows:

Name of Related Party Guarantor	Amount of Guarantee (thousands)	
	December 31, 2011	December 31, 2010
ASUSTeK	USD -	USD 300,000

(vi) Financing

As of December 31, 2011, the details of financing provided by the Company to a related party were as follows:

	December 31, 2010	
	Ending Balance	The Highest Balance
PCZ	\$ -	643,300

The loan to PCZ bears annual interest of 1%.

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

(vii) Remuneration

For the years ended December 31, 2011 and 2010, the total remuneration paid to the members of Board of Directors and Supervisors and of Executive management were as follows:

	December 31, 2011	December 31, 2010
Salary and Bonus (including BODS remuneration)	\$ 196,127	176,203
Employee Bonus	20,791	21,129
	\$ 216,918	197,332

6. Pledged Assets

As of December 31, 2011 and 2010, pledged assets were as follows:

Asset	December 31		Purpose of pledge
	2011	2010	
Restricted deposits	\$ 72,003	71,887	Deposits for customs duties
Refundable deposits	29,271	28,637	Deposits for performance guarantee
	\$ 101,274	100,524	

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

- (a) As of December 31, 2011 and 2010, the Company had unused letters of credit of EUR\$ 267 and US\$1,000, and EUR\$ 267 and US\$ 132, respectively.
- (b) As of December 31, 2011 and 2010, the Company had promissory notes and certificate of deposit obtained for business purpose of \$11,537 and \$13,216, respectively.
- (c) Rental expense and future lease commitments of the operating lease agreements were as follows:

Year	Rent expense	Future lease commitments			
		2012	2013	2014	2015
For the year ended					
December 31, 2011	\$ 85,879	81,229	28,562	1,000	-

8. Significant Catastrophic Losses: None.

9. Significant Subsequent Events

- (a) For the purpose of raising future working capital, the Company's Board of directors had approved the offering and the issuance of Overseas Unsecured Convertible Corporate Bonds on December 1, 2011, and the offering was approved by the Financial Supervisory Commission Executive Yuan on December 30, 2011.

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

The Company has completed the pricing of its Overseas Unsecured Convertible Corporate Bonds on January 30, 2012 and offered US\$300,000 thousand dollars aggregate principle amount of Zero Coupon Convertible Bonds with the principle amount US\$200 thousand dollars on February 6, 2012. These Convertible Bonds, with an initial conversion price of NT\$42.11, will mature on February 5, 2017. Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on the Maturity Date at an amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on a semi-annual basis.

- (b) In order to strengthen the cooperative relations of the Company and ADVANSUS CORP. (ADVANSUS), the Company coordinated with ADVANSUS and the other party of joint venture's resources integration, and the Company sold all its equity ownership in ADVANSUS to the other party of joint venture for \$306,000 on January 5, 2012 and proposed to complete the equity settlement in June 2012.

10. Others

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

Categorized as Nature	For the Year Ended December 31, 2011			For the Year Ended December 31, 2010		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salary expense	689,436	3,526,462	4,215,898	634,605	3,226,513	3,861,118
Health and labor	51,656	241,016	292,672	47,375	187,781	235,156
Insurance expense						
Pension expense	30,848	149,395	180,243	29,008	118,356	147,364
Other expense	41,823	161,138	202,961	34,446	125,665	160,111
Depreciation expense (Note A)	38,055	155,600	193,655	51,223	190,557	241,780
Amortization expense	247,913	223,448	471,361	423,284	231,265	654,549

Note A: For the years ended December 31, 2011 and 2010, the Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle-assets, of \$11,687 and \$21,051, respectively.

- b. Certain accounts in the financial statements as of and for the year ended December 31, 2010, were reclassified to conform to the presentation adopted in the financial statements as of and for the year ended December 31, 2011.

11. Financial Information by Segment

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