

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

**PEGATRON CORPORATION**

**FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

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

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**(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 June 30, 2012 and 2011, and the related statements of income, changes in stockholders’ equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express the audit report 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\$ 11,930,540 thousand and NT\$ 14,085,673 thousand, representing 4.12% and 7.66% of total assets as of June 30, 2012 and 2011, respectively, and related investment gain was NT\$ 843,620 thousand and NT\$ 957,659 thousand, representing 37.38% and (78.31)% of net income (loss) before tax for the six months ended June 30, 2012 and 2011, 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.

Except as discussed in the third paragraph, 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.

As described in Note 4 (d) to the financial statements, long-term equity investments accounted for by the equity method of NT\$ 34,220,619 thousand and NT\$ 35,922,647 thousand as of June 30, 2012 and 2011, respectively, and the related investment loss of NT\$ 522,144 thousand and NT\$ 493,354 thousand for the six months ended June 30, 2012 and 2011, respectively, were recognized based on unaudited financial statements of the investees.

In our opinion, based on our audits and the reports of other auditors, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to obtain the audited financial statements of certain investees as described in the preceding paragraph, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Pegatron Corporation as of June 30, 2012 and 2011, the results of its operations and its cash flows for the six months 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 reviewed the consolidated financial statements of the Company as of and for the six months ended June 30, 2012 and 2011 and have issued qualified review reports thereon.

CPA: Ulyos Maa  
Securities and Futures Commission,  
Ministry of Finance, R.O.C. regulation  
(88) Tai-Tsai-Jung (6) No. 18311

August 23, 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.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' report and financial statements shall prevail. Also, please refer to the original Chinese version for certain disclosures not translated into English as they are not required under generally accepted accounting principles in the Republic of China.

(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION**  
**BALANCE SHEETS**  
**June 30, 2012 and 2011**  
**(All Amounts Expressed in Thousands of New Taiwan Dollars)**

ASSETS	June 30, 2012		June 30, 2011	
	Amount	%	Amount	%
<b>Current Assets:</b>				
Cash (Note 4(a))	\$ 6,959,805	2	8,158,465	4
Notes receivable—Non-related parties, net of allowance for uncollectible accounts (Note 4(b))	6,365	-	7,269	-
Accounts receivable—Non-related parties, net of allowance for uncollectible accounts (Note 4(b))	72,463,168	25	29,357,146	16
Accounts receivable—Related parties, net of allowance for uncollectible accounts (Note 5)	106,791,131	37	53,472,392	29
Other receivables—Non-related parties	38,658	-	5,212	-
Other receivables—Related parties (Note 5)	11,081	-	14,772	-
Other financial assets—current (Note 6)	76,204	-	72,003	-
Inventories (Note 4(c))	7,985,243	3	4,829,029	3
Other current assets (Note 5)	399,970	-	85,866	-
Deferred income tax assets—current (Note 4(k))	280,702	-	233,529	-
	<u>195,012,327</u>	<u>67</u>	<u>96,235,683</u>	<u>52</u>
<b>Investments:</b>				
Long-term investments under the equity method (Note 4(d))	89,775,007	31	82,722,393	45
	<u>28,830</u>	<u>-</u>	<u>33,268</u>	<u>-</u>
<b>Other Financial Assets—Noncurrent (Note 6)</b>				
<b>Property, Plant and Equipment, at cost :</b>				
Land	2,167,308	1	2,150,317	1
Buildings	1,885,828	1	1,745,891	1
Machinery and equipment	44,334	-	234,839	-
Warehousing equipment	600	-	600	-
Instrument equipment	140,259	-	159,283	-
Transportation equipment	20,200	-	24,332	-
Office equipment	2,718	-	3,951	-
Leased assets	6,003	-	14,026	-
Miscellaneous equipment	389,002	-	396,589	-
	<u>4,656,252</u>	<u>2</u>	<u>4,729,828</u>	<u>2</u>
Less: Accumulated depreciation	(789,495)	-	(862,480)	-
Construction in progress	-	-	566	-
Prepayment for equipment	30,406	-	-	-
	<u>3,897,163</u>	<u>2</u>	<u>3,867,914</u>	<u>2</u>
	<u>96,162</u>	<u>-</u>	<u>151,635</u>	<u>-</u>
<b>Intangible Assets</b>				
<b>Other Assets—others (Note 4(e))</b>	<u>616,705</u>	<u>-</u>	<u>944,635</u>	<u>1</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 289,426,194</u></b>	<b><u>100</u></b>	<b><u>183,955,528</u></b>	<b><u>100</u></b>

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)

June 30, 2012 and 2011

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	June 30, 2012		June 30, 2011	
	Amount	%	Amount	%
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Short-term loans (Note 4(f))	\$ 12,938,040	4	7,468,500	4
Notes and accounts payable—Non-related parties	62,428,214	22	26,166,499	14
Notes and accounts payable—Related parties (Note 5)	86,784,101	30	40,741,550	22
Income tax payable	335,980	-	-	-
Accrued expenses—Non-related parties	2,951,032	1	2,404,909	1
Accrued expenses—Related parties (Note 5)	2,317,543	1	6,064,818	3
Dividend payable (Note 4(l))	-	-	3,271,731	2
Other current liabilities (Note 5)	7,450,150	3	2,710,633	2
	<u>175,205,060</u>	<u>61</u>	<u>88,828,640</u>	<u>48</u>
<b>Long-Term Loans:</b>				
Financial liabilities at fair value through profit or loss (Note 4(g))	9,762	-	-	-
Long-term loans (Note 4(h))	11,952,000	4	8,617,500	5
	<u>11,961,762</u>	<u>4</u>	<u>8,617,500</u>	<u>5</u>
<b>Other Liabilities:</b>				
Bonds payable (Note 4(i))	8,605,241	3	-	-
Refundable guarantee deposits	9,651	-	12,996	-
Deferred income tax liabilities—Noncurrent (Note 4(k))	310,714	-	299,841	-
Other long-term liabilities—others (Note 5)	57,905	-	50,590	-
	<u>8,983,511</u>	<u>3</u>	<u>363,427</u>	<u>-</u>
<b>Total Liabilities</b>	<u>196,150,333</u>	<u>68</u>	<u>97,809,567</u>	<u>53</u>
<b>Stockholders' Equity (Note 4(i) and 4(l)):</b>				
<b>Common stock</b>	<u>22,563,669</u>	<u>8</u>	<u>22,563,669</u>	<u>12</u>
<b>Capital surplus</b>				
Premium on capital stock	60,393,247	21	60,393,247	33
Other	3,610,649	1	2,836,953	2
	<u>64,003,896</u>	<u>22</u>	<u>63,230,200</u>	<u>35</u>
<b>Retained earnings:</b>				
Legal reserve	1,847,737	1	1,836,601	1
Special reserve	734,859	-	4,327,629	2
Retained earnings (accumulated deficit)	5,825,074	2	(1,197,278)	(1)
	<u>8,407,670</u>	<u>3</u>	<u>4,966,952</u>	<u>2</u>
<b>Other adjustments to stockholders' equity:</b>				
Cumulative translation adjustments	(1,835,688)	(1)	(5,084,788)	(2)
Unrecognized gain (loss) on pension	440	-	(16)	-
Unrealized gain on financial assets	154,668	-	479,266	-
Treasury stock	(18,794)	-	(9,322)	-
	<u>(1,699,374)</u>	<u>(1)</u>	<u>(4,614,860)</u>	<u>(2)</u>
<b>Total Stockholders' Equity</b>	<u>93,275,861</u>	<u>32</u>	<u>86,145,961</u>	<u>47</u>
<b>Commitments and Contingencies (Note 7)</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 289,426,194</u>	<u>100</u>	<u>183,955,528</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 SIX MONTHS ENDED JUNE 30, 2012 AND 2011**  
( All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data))

	For the Six Months Ended June 30,			
	2012		2011	
	Amount	%	Amount	%
<b>Operating revenues (Note 5)</b>	\$ 269,643,129	100	143,778,395	101
Less: Sales returns	302,562	-	967,102	1
Sales allowances	357,088	-	137,811	-
<b>Net sales</b>	268,983,479	100	142,673,482	100
<b>Cost of sales (Notes 4(c) and 5)</b>	266,493,150	99	140,335,994	98
<b>Gross profit</b>	2,490,329	1	2,337,488	2
Less: Unrealized profit on intercompany transactions (Note 5)	(294)	-	(40,210)	-
	2,490,035	1	2,297,278	2
<b>Operating expenses (Note 5)</b>				
Selling expenses	1,110,708	-	788,953	1
General and administrative expenses	633,191	-	576,138	-
Research and development expenses	2,223,341	1	1,850,845	1
	3,967,240	1	3,215,936	2
<b>Loss from operations</b>	(1,477,205)	-	(918,658)	-
<b>Non-operating income</b>				
Interest revenue	15,987	-	4,930	-
Investment income under the equity method (Note 4(d))	3,455,879	1	-	-
Gain on disposal of fixed assets (Note 5)	448	-	108,316	-
Foreign exchange gain, net	268	-	157,244	-
Rental revenue (Note 5)	38,635	-	32,726	-
Reversal of impairment loss (Note 4(e))	2,177	-	-	-
Gain on valuation of financial liability (Note 4(g) and 4(i))	10,648	-	-	-
Gains on disposal of investments (Note 4(d))	62,028	-	-	-
Others (Note 5)	754,835	-	459,474	-
	4,340,905	1	762,690	-
<b>Non-operating expenses</b>				
Interest expenses (Note 4(i))	223,198	-	51,075	-
Investment losses under the equity method (Note 4(d))	-	-	916,043	1
Others	383,740	-	99,773	-
	606,938	-	1,066,891	1
<b>Income (Loss) before income tax</b>	2,256,762	1	(1,222,859)	(1)
<b>Income tax expense (Note 4(k))</b>	157,788	-	7,520	-
<b>Net income (loss)</b>	<b>\$ 2,098,974</b>	<b>1</b>	<b>(1,230,379)</b>	<b>(1)</b>

	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
<b>Earnings (Losses) per share (Note 4(m))</b>				
Basic earnings (losses) per share	\$ 1.00	0.93	(0.54)	(0.55)
Diluted earnings per share	\$ 0.96	0.89		

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>	\$ 2,256,762	2,098,974	(1,222,859)	(1,230,379)
<b>Earnings (Losses) per share (Note 4(m))</b>	\$ 1.00	0.93	(0.54)	(0.55)
<b>Diluted earnings per share (Note 4(m))</b>	\$ 0.96	0.89		

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 SIX MONTHS ENDED JUNE 30, 2012 AND 2011**  
(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	Retained earnings (accumulated deficit)	Cumulative translation adjustments	Unrecognized loss on pension	Unrealized gain(loss) of financial assets		
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
Net loss for the six months ended June 30, 2011	-	-	-	-	(1,230,379)	-	-	-	-	(1,230,379)
Appropriations and distributions of 2010 earnings (Note 1):										
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	-	84,752	-	-	-	(203,943)	-	(443,310)	-	(562,501)
Cumulative translation adjustments	-	-	-	-	-	369,343	-	-	-	369,343
Balance, June 30, 2011	<u>\$ 22,563,669</u>	<u>63,230,200</u>	<u>1,836,601</u>	<u>4,327,629</u>	<u>(1,197,278)</u>	<u>(5,084,788)</u>	<u>(16)</u>	<u>479,266</u>	<u>(9,322)</u>	<u>86,145,961</u>
Balance, January 1, 2012	\$ 22,563,669	63,465,496	1,836,601	4,327,629	144,466	(784,234)	440	48,936	(18,794)	91,584,209
Service cost recognized from granting convertible corporate bonds – stock option	-	329,225	-	-	-	-	-	-	-	329,225
Employee compensation cost	-	56,623	-	-	-	-	-	-	-	56,623
Net income for the six months ended June 30, 2012	-	-	-	-	2,098,974	-	-	-	-	2,098,974
Appropriations and distributions of 2011 earnings (Note 2):										
Legal reserve	-	-	11,136	-	(11,136)	-	-	-	-	-
Special reserve	-	-	-	(3,592,770)	3,592,770	-	-	-	-	-
Adjustment arising from long-term equity investments	-	152,552	-	-	-	(519,493)	-	105,732	-	(261,209)
Cumulative translation adjustments	-	-	-	-	-	(531,961)	-	-	-	(531,961)
Balance, June 30, 2012	<u>\$ 22,563,669</u>	<u>64,003,896</u>	<u>1,847,737</u>	<u>734,859</u>	<u>5,825,074</u>	<u>(1,835,688)</u>	<u>440</u>	<u>154,668</u>	<u>(18,794)</u>	<u>93,275,861</u>

Note 1: The directors' and supervisors' remuneration of \$12,000 and employees' bonuses of \$127,000 for the year ended December 31, 2010 had been deducted from net loss for the six months ended June 30, 2011.

Note 2: The directors' and supervisors' remuneration of \$0 and employees' bonuses of \$12,100 for the year ended December 31, 2011 had been deducted from net income for the six months ended June 30, 2012.

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 SIX MONTHS ENDED JUNE 30, 2012 and 2011

(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the six months Ended June 30	
	2012	2011
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 2,098,974	(1,230,379)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	89,550	115,828
Amortization	225,469	240,829
Reversal of impairment loss	(2,177)	(28,390)
Reversal (Provision) for allowance for uncollectable accounts	67,772	(3,703)
Amortization of discount on bonds payable	27,606	-
Gain on foreign currency exchange on bonds payable	86,487	-
Amortization of issuance costs on bonds payable	5,144	-
Provision (Reversal) for inventory market price decline and obsolescence, and impairment loss	7,089	(208,705)
Investment loss (income) under equity method	(3,455,879)	916,043
Cash dividends from investments under equity method	-	36,000
Loss (Gain) on disposal and retirement of assets, net	6,296	(65,201)
Gain on disposal of long-term investments under the equity method	(62,028)	-
Gain on valuation of financial liability	(10,648)	-
Realized profit on intercompany transactions	294	40,210
Employee compensation cost	56,623	-
<b>Change in assets and liabilities:</b>		
Notes and accounts receivable	(67,916,237)	(40,220,717)
Other receivables	530	20,661
Inventories	1,260,629	2,631,005
Other current assets	(369,850)	(11,567)
Deferred income tax assets and liabilities, net	(26,862)	14,689
Notes and accounts payable	48,832,084	32,535,369
Income tax payable	183,087	-
Accrued expenses	(665,248)	(1,860,465)
Other current liabilities	4,569,037	(124,360)
<b>Net cash used in operating activities</b>	<b>(14,992,258)</b>	<b>(7,202,853)</b>
<b>Cash flows from investing activities:</b>		
Increase in long-term investment under the equity method	(589,451)	(294,000)
Proceeds from disposal of long-term investments under the equity method	305,082	-
Purchase of property, plant and equipment	(4,490)	(30,944)
Proceeds from disposal of assets, idle assets, deferred charges	10,476	709,607
Increase in deferred charges	(6,594)	(96,173)
Purchase of intangible assets	(14,154)	(21,194)
Other financial assets — current	(4,201)	(4,747)
Other financial assets — noncurrent	441	(135,691)
<b>Net cash (used in) provided by investing activities</b>	<b>(302,891)</b>	<b>126,858</b>
<b>Cash flows from financing activities:</b>		
Increase in short-term loans	6,761,940	4,803,300
Issuance of bonds payable	8,835,640	-
Increase (Decrease) in long-term loans	(158,000)	1,626,300
Decrease in guarantee deposits received	(581)	(3,215)
<b>Net cash provided by financing activities</b>	<b>15,438,999</b>	<b>6,426,385</b>
<b>Net increase (decrease) in cash</b>	<b>143,850</b>	<b>(649,610)</b>
<b>Cash, beginning of the period</b>	<b>6,815,955</b>	<b>8,808,075</b>
<b>Cash, end of the period</b>	<b>\$ 6,959,805</b>	<b>8,158,465</b>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest expense (excluding capitalized interest)	\$ 162,893	41,814
Income tax	\$ 1,563	406,448
<b>Non-cash investing and financing</b>		
Reclassification of fixed assets to idle assets	\$ -	3,815
Cash dividend payable	\$ -	3,271,731

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

**(English Translation of Financial Report Originally Issued in Chinese)**  
**RPEGATRON CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2012 AND 2011**  
**(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 respective board of directors, the Company merged with Pegatron International Investment Co., Ltd., effective June 10, 2010. As the surviving entity from this merger, the Company applied for initial public offering (IPO) to TSEC. The Company’s shares were listed on TSEC on June 24, 2010.

As of June 30, 2012 and 2011, the Company had 5,208 and 4,708 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 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.

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**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.

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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. The amount of the reversal is recognized in profit or loss.

iii. Compound financial instruments

Compound financial instruments issued by the Company comprise both financial liabilities and convertible notes that can be converted into share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized based on the excess of the fair value of the compound financial instrument as a whole over the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method, unless it is designated at fair value through profit or loss. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

**f. 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.

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**g. 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.

Unrealized profits/losses on intercompany 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.

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

Property, plant, and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. 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:

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Buildings	5 to 50 years
Machinery and equipment	1 to 6 years
Warehousing equipment	8 years
Instrument equipment	3 years
Transportation equipment	2 to 5 years
Office equipment	5 years
Leased assets	3 years
Miscellaneous equipment	3 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.

**i. Intangible Assets**

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

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

Computer software cost	1 to 5 years
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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.

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**j. 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.

**k. 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 in the period when the service is rendered.

**l. Warranty Reserve**

For products under warranty, warranty costs are accrued based on the past record of the cost of returns for repair, failure rate and warranty period. Warranty costs are accounted for as current expenses when the sales are recognized.

**m. 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.

**n. 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 when incurred.

**o. 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.



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- i. An equity-settled share-based payment transaction is measured based on the fair value of the award at grant date, and is 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 share-based payment transaction is measured at the balance sheet date and the settlement date based on the fair value of the stock option 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 stock 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 estimate of the expected term, the expected volatility, the expected dividends, and the risk-free interest rate.

**p. 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.

**q. 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.

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**r. 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 when the new tax rate is announced. 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.

**s. 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.

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**t. 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.

**u. 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 of stock, 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.

When treasury stock is cancelled, "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 less 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 of stock held by its subsidiaries are deemed as treasury stock when recognizing investment income (loss) and when preparing the financial statements.

**v. Operating Segments**

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

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**w. 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 loss for the six months ended June 30, 2011.

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 six months ended June 30, 2011.

**4. Summary of Major Accounts:**

**a. Cash**

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Cash on hand	\$ 100	50
Demand deposits	590,304	709,313
Foreign currency deposits	1,938,369	2,697,877
Time deposits	<u>4,431,032</u>	<u>4,751,225</u>
Total	<u>\$ 6,959,805</u>	<u>8,158,465</u>

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

	<b>June 30, 2012</b>	<b>June 30, 2011</b>
Notes receivable	\$ 6,429	7,342
Less: Allowance for uncollectible accounts	(64)	(73)
Net	<u>6,365</u>	<u>7,269</u>
Accounts receivable	72,590,323	29,396,973
Less: Allowance for uncollectible accounts	(85,312)	(39,827)
Less: Allowance for sales returns and discounts	(41,843)	-
Net	<u>72,463,168</u>	<u>29,357,146</u>
Total	<u><b>\$ 72,469,533</b></u>	<u><b>29,364,415</b></u>

**c. Inventories**

	<b>June 30, 2012</b>	<b>June 30, 2011</b>
Merchandise (including inventory-in-transit)	\$ 7,000,794	3,779,635
Less: Allowance for inventory market decline and obsolescence	(111,951)	(142,134)
Sub-total	<u>6,888,843</u>	<u>3,637,501</u>
Finished goods	113,873	167,267
Less: Allowance for inventory market decline and obsolescence	(19,240)	(6,265)
Sub-total	<u>94,633</u>	<u>161,002</u>
Work in process	56,707	68,425
Less: Allowance for inventory market decline and obsolescence	(20,934)	(15,335)
Sub-total	<u>35,773</u>	<u>53,090</u>
Raw materials	1,084,029	1,054,720
Less: Allowance for inventory market decline and obsolescence	(118,035)	(77,284)
Sub-total	<u>965,994</u>	<u>977,436</u>
Total	<u><b>\$ 7,985,243</b></u>	<u><b>4,829,029</b></u>

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For the six months ended June 30, 2012 and 2011, the components of cost of goods sold were as follows:

	<b>For the Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Cost of goods sold	\$ 266,484,364	140,544,699
Loss on inventory obsolescence	1,697	5,207
Provision (Reversal) for inventory market price decline	7,089	(213,912)
	<b>\$ 266,493,150</b>	<b>140,335,994</b>

For the six months ended June 30, 2011, the conditions that previously caused inventories to be written down below cost had disappeared due to the disposal of related inventories, so that the related allowance for loss on decline in the value of inventories was reversed, which resulted in a reversal gain on inventory valuation allowance.

**d. Long-Term Equity Investments**

Name of Investee Company	June 30, 2012			June 30, 2011		
	Equity Holding	Book Value	Original Investment	Equity Holding	Book Value	Original Investment
PEGATRON HOLDING LTD.	100.00%	\$ 30,156,226	24,825,750	100.00%	26,766,745	24,679,030
UNIHAN CORPORATION	100.00%	12,935,486	12,098,279	100.00%	10,863,255	12,098,279
ASUSPOWER INVESTMENT CO., LTD.	100.00%	14,446,096	13,033,429	100.00%	14,117,544	13,033,429
ASUS INVESTMENT CO., LTD.	100.00%	15,933,743	16,184,982	100.00%	15,288,690	16,184,982
ASUSTEK INVESTMENT CO., LTD.	100.00%	14,615,563	14,593,543	100.00%	13,844,032	14,593,543
ADVANSUS CORP.	- %	-	-	50.00%	228,346	166,364
ASUS HOLLAND HOLDING B.V.	100.00%	1,670,514	1,278,287	92.45%	1,597,516	1,153,501
PEGATRON USA, INC.	100.00%	17,379	16,085	100.00%	16,265	16,085
		<b>\$ 89,775,007</b>			<b>82,722,393</b>	

- i. The investment income (loss) recognized under the equity method amounted to \$3,455,879 and \$(916,043) for the six months ended June 30, 2012 and 2011, respectively. Part of the long-term investments accounted for under the equity method of \$34,220,619 and \$35,922,647 and the related investment loss of \$522,144 and \$493,354, respectively, were recognized based on the investees' financial statements, which were not reviewed by an independent accountant.

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- ii. In 2011, the Company had participated in the capital increase of PEGATRON HOLDING LTD. and invested US\$10,000 thousand (approximately NT\$294,000). Following this capital increase, the Company was refunded for the decrease in the share capital of PEGATRON HOLDING LTD. of US\$13,500 thousand (approximately NT\$440,880) and capital surplus of US\$5,146 thousand (approximately NT\$147,825). Moreover, the Company participated in another capital increase of PEGATRON HOLDING LTD. and invested US\$20,000 thousand (approximately NT\$587,600) for the six months ended June 30, 2012.
- iii. For the purpose of organization restructuring, the Company acquired 7.55% equity ownership of ASUS HOLLAND HOLDING (B.V.) (AHH) 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 AHH. Following such acquisition, the Company participated in the capital increase of AHH and invested EUR\$ 50 thousand (approximately NT\$1,851) for the six months ended June 30, 2012.
- iv. In order to enhance resource efficiency, the Company sold all its equity ownership in ADVANSUS CORP. ("ADVANSUS") to the other joint venture party for \$306,000 on January 5, 2012. The transfer of equity ownership was completed in June 2012, and a disposal gain of NT\$ 62,028 was recognized thereon.
- v. ADVANSUS CORP. is a joint venture entity of the Company, which held the assets and liabilities of ADVANSUS CORP. as follows:

	<b>June 30, 2011</b>
Current Assets	\$ 552,619
Non-current Assets	12,282
Current Liabilities	336,555
	<b>For the Six Months Ended June 30, 2011</b>
Revenues	\$ 785,382
Expenses	768,858

- vi. For the six months ended June 30, 2012 and 2011, the Company's shares held by its subsidiaries are treated as treasury stock in accordance with ROC SFAS 30 as described in Note 4(1).

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

**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 \$5,861 and \$8,097 as of June 30, 2012 and 2011, respectively.
- (ii) For the six months ended June 30, 2012 and 2011, the Company recognized a gain from impairment recovery of \$2,177 and \$28,390, respectively, and a gain on disposal of idle assets of \$19 and \$107,964, respectively.

**f. Short-Term Loans**

<u>Nature of the loan</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Credit loan	\$ 12,938,040	7,468,500
Range of interest rate	0.72%~1.40%	0.45%~0.68%

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

**g. Financial Liabilities Reported at Fair Value Through Profit or Loss**

	<u>June 30, 2012</u>
Financial liabilities — put and call options embedded in overseas convertible bonds	\$ 9,762

- (i) For the six months ended June 30, 2012, the Company recognized a gain of \$10,648 on valuation of financial liabilities reported at fair value through profit or loss.
- (ii) The Company separately accounts for the equity and liability components of overseas convertible corporate bonds in accordance with SFAS 36. Please refer to Note 4(i) for details of bonds payable.



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**h. Long-Term Loans**

<u>Creditor</u>	<u>Types of Debt</u>	<u>Credit Line</u>	<u>Repayment Schedule</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Citibank	Credit loan	<u>USD 400,000,000</u>	2010.10.25~2015.10.25	<u>\$ 11,952,000</u>	<u>8,617,500</u>
Taiwan and 14 other banks			This loan is payable in 5 semi-annual installments, commencing October 25, 2013.	<u>USD 400,000,000</u>	<u>USD 300,000,000</u>

For the six months ended June 30, 2012 and 2011, long-term loans bore interest at average rates of 1.0738% ~ 2.3256% and 1.0647% ~1.5856%, respectively. According to the syndicated loan agreement, during the loan repayment periods, the Company must comply with certain financial covenants based on its audited consolidated financial statements as of 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.

If 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 June 30, 2012 and 2011, the Company was in compliance with the loan covenants mentioned above except for the debt ratio based on the Company's financial statements as of June 30, 2012. The Company has notified the syndicated banks through the lead arranger and applied for waiver of such breach of covenant. Therefore, the loan was still accounted for under long-term loans according to the repayment schedule of the original syndicated loan agreement. The Company's promissory notes were pledged as a guarantee for the credit loan facility as of June 30, 2012 and 2011.

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**i. Bonds Payable**

	<b>June 30, 2012</b>	<b>Collateral</b>
Overseas convertible bonds payable	\$ 8,874,000	None
Less: Discount on bonds payable	(355,246)	
Less: Foreign currency valuation, end of the period	86,487	
Net	8,605,241	
Less: Current portion of bonds payable	-	
Total	<b>\$ 8,605,241</b>	

As of June 30, 2012, the offering information on the unsecured convertible bonds were as follows:

<b>Item</b>	<b>First overseas unsecured convertible bonds issued in 2012</b>
1. Offering amount	US\$300 million with each unit valued at US\$200 thousand.
2. Issue date	February 6, 2012
3. Listing place	Singapore Exchange Securities Trading Limited (the "SGX-ST")
4. Interest	The Bonds will not bear any interest.
5. Issue period	5 years, commencing from February 6, 2012 and matured on February 6, 2017.
6. Settlement	Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on 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 semi-annual basis.
7. Redemption at the option of the Company	<p>(1) The Company may redeem the Bonds, in whole but not in part, at the early redemption amount at any time on or after February 6, 2015 if the closing price of the common shares on TWSE (translated into U.S. Dollars at the fixing rate at 11:00 a.m. Taipei time as quoted by Taipei Forex Inc.) on each trading day during a period of 20 consecutive trading dates exceeds at least 125% of the quotient of the early redemption amount divided by the number of shares to be issued upon conversion of US\$200,000 principal amount of Bonds on the applicable trading day based on the conversion price then in effect (translated into U.S. Dollars at the fixed exchange rate of NT\$29.761 = US\$1.00).</p> <p>(2) If more than 90% in principal amount of the Bonds originally outstanding has been redeemed, repurchased and cancelled or converted, the Company has the right to redeem all but not portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p>

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<b>Item</b>	<b>First overseas unsecured convertible bonds issued in 2012</b>
	(3) The Bonds may be redeemed, in whole but not in part, if the affect of change in the tax laws of ROC will increase the Company's tax liability, interest expense or related cost from the Bonds. Holders may elect not to have their bonds redeemed with no entitlement to any additional amount of reimbursement of additional tax.
8. Redemption at the option of the Holder	<p>(1) Each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds on February 6, 2015 at a redemption price equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(2) In the event that the Company's common shares ceased to be listed or admitted to trading on the TWSE, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) In the event of change of control occurs with respect to the Company, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount.</p>
9. Conversion	<p>(1) Conversion period  Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, each Holder of the Bonds will have the right at anytime during the conversion period commencing March 18, 2012 (the 41st day following the Closing Date) and ending at the close of business on January 27, 2017 (the 10th day prior to the Maturity Date), to convert their bonds.</p> <p>(2) Conversion price  The conversion price will be NT\$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012.</p> <p>(3) Conversion to common shares  Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT\$29.761 = US\$1.00) divided by the conversion price on the conversion date.</p>

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The Company separately accounts overseas convertible corporate bonds into the equity components and liability components. The equity components are accounted for under capital surplus and the liability components are accounted for under financial liabilities reported at fair value through profit or loss or bonds payable in accordance with SFAS 36. As of June 30, 2012, information on the aforesaid convertible bonds were as follows:

<b>First overseas unsecured convertible bonds issued in 2012</b>	<b>June 30, 2012</b>
Total issue price	\$ 8,874,000
Discount on bonds payable	(322,030)
Discount on bonds payable — transaction cost	(33,216)
Accumulated converted amount	-
Accumulated redeemed amount	-
Bonds payable, end of the period	8,518,754
Less: Valuation of bonds payable	86,487
Less: Current portion of bonds payable	-
Bonds payable, net, end of the period	<u>\$ 8,605,241</u>
Equity components — capital surplus on stock options	<u>\$ 329,225</u>
Liability components — financial liabilities (put and call options) reported at fair value through profit or loss	<u>\$ 9,762</u>
Liability components — gain on valuation	<u>\$ (10,648)</u>
Interest expense	<u>\$ 81,118</u>

**j. Pension Plan**

For the six months ended June 30, 2012 and 2011, the pension costs for the defined contribution pension plan of the Company amounted to \$92,437 and \$87,076, respectively.

**k. Income Tax**

- (i) The Company is subject to statutory income tax rate of 17% for both the six months ended June 30, 2012 and 2011. The Company also complies with the Basic Income Tax Act when calculating its income tax.

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(ii) For the six months ended June 30, 2012 and 2011, the components of income tax expense were as follows:

	<b>For the Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Current income tax benefit	\$ -	(7,169)
Deferred income tax expense (benefit)	(26,862)	14,689
10% surtax on undistributed earnings	184,650	-
Income tax expense	<b>\$ 157,788</b>	<b>7,520</b>

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

	<b>For the Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Unrealized exchange gain (loss)	\$ 115,524	(68,868)
Reversal (Provision) of allowance for loss on inventory market decline and obsolescence	(1,205)	36,365
Unrealized profits on sales	(50)	(6,836)
Amortization of employee benefits	9	9
Gain on reversal of warranty reserve	(3,908)	22,032
Allowance for sales return and discount	(7,114)	-
Unrealized compensation loss	(34,730)	-
Investment tax credits	212,231	247,821
Unrealized expenses and foreign exchange gain on bonds payable	(23,800)	-
Gain on reversal of impairment loss on assets	370	4,826
Loss carry-forward	(256,608)	(58,043)
Reversal of valuation on allowance for deferred tax assets	(27,581)	(162,617)
Deferred income tax expense (benefit)	<b>\$ (26,862)</b>	<b>14,689</b>

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(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 six months ended June 30, 2012 and 2011 as follows:

	<b>For the Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Income tax calculated on pre-tax financial income (loss) at statutory tax rate	\$ 383,650	(207,886)
Permanent differences	(595,162)	137,372
10% surtax on undistributed earnings	184,650	-
Investment tax credits	184,650	85,203
Others	-	(7,169)
Income tax expense	<b>\$ 157,788</b>	<b>7,520</b>

(iv) As of June 30, 2012 and 2011, 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>June 30, 2012</b>		<b>June 30, 2011</b>	
	<b>Amount</b>	<b>Income Tax Effect</b>	<b>Amount</b>	<b>Income Tax Effect</b>
Unrealized foreign exchange gain: deductible	\$ (270,010)	(45,902)	(296,432)	(50,393)
Allowance for loss on inventory market decline and obsolescence: deductible	270,161	45,927	241,019	40,973
Unrealized sales return and sales discount: deductible	41,843	7,113	-	-
Unrealized compensation loss: taxable	204,295	34,730	-	-
Deferred employee benefits for tax: taxable	50	9	100	17
Warranty reserve: taxable	69,327	11,786	176,247	29,962
Unrealized intercompany profits: taxable	57,905	9,844	50,590	8,600
Unused balance of investment tax credits: taxable	-	296,428	-	510,090
Loss carry-forward	1,509,456	256,608	341,430	58,043
Valuation allowance		(335,841)		(363,763)
Net deferred income tax assets – current		<b>\$ 280,702</b>		<b>233,529</b>

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<b>Temporary differences of deferred income tax assets (liabilities) - noncurrent</b>	<b>June 30, 2012</b>		<b>June 30, 2011</b>	
	<b>Amount</b>	<b>Income Tax Effect</b>	<b>Amount</b>	<b>Income Tax Effect</b>
Unrealized impairment loss on assets: deductible	\$ 5,861	997	8,097	1,377
Deferred employee benefits for tax: deductible	-	-	50	8
Unrealized interest expenses on bonds payable: deductible	53,512	9,097	-	-
Unrealized foreign exchange gain on bonds payable: deductible	86,487	14,703	-	-
Unrealized gain on foreign investments including cumulative translation adjustments: deductible	(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 liabilities— noncurrent		<b>\$ (310,714)</b>		<b>(299,841)</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) The ROC Income Tax Act allows net losses, as assessed by tax authorities, for offset against taxable income over a period of ten years for local tax reporting purposes. The Company's estimated unused loss carry-forward benefits were as follows:

<b>Year of loss</b>	<b>Unused amount</b>	<b>Year of expiry</b>
2011 (estimated)	<b>\$ 1,509,456</b>	2021

(vii) In accordance with Statute for Industrial Innovation, the Company is allowed to avail of tax credit from R&D expenditures, but this tax credit cannot exceed 30% of the business income tax payable 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 expenditures 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 June 30, 2012, unused investment tax credits which may be applied to offset against income tax payable in the future were as follows:

<b>Year of occurrence</b>	<b>Unused investment tax credits</b>	<b>Year of expiration</b>
2008	\$ 14,224	2012
2009	282,204	2013
	<b>\$ 296,428</b>	

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- (viii) 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 June 30, 2012, the details of the five year income tax exemption period were as follows:

<b>Description</b>	<b>Exemption</b>
Eleventh capital increase used for investment in new equipment.	04/30/2007 ~ 04/29/2012

- (ix) Stockholders’ imputation tax credit account and tax rate:

<b>Undistributed earnings:</b>	<b>June 30, 2012</b>	<b>June 30, 2011</b>
Accumulated in 1997 and prior years	\$ -	-
Accumulated in 1998 and thereafter	5,825,074	(1,197,278)
<b>Total</b>	<b>\$ 5,825,074</b>	<b>(1,197,278)</b>
Stockholders’ imputation tax credit account	<b>\$ 3,438</b>	<b>2,734</b>
	<b>2012 (Expected)</b>	<b>2011 (Actual)</b>
Expected or actual deductible tax ratio	<b>3.20%</b>	<b>0.09%</b>

**I. 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.



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In November, 2010, the Company had retired treasury stock of 29,697 thousand shares of stock valued at \$296,970. As of June 30, 2012 and 2011, 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 of stock.

ASUSTeK GDR holders who surrender their ASUSTeK GDRs on or after the Effective Date of Spin-off and Merger in Taiwan will receive 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 June 30, 2012, the Company has listed, in total, 10,014 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 50,069 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.

(ii) Share-based payment transactions – employee stock option plan

1. Information on equity-settled share-based payment transaction as of June 30, 2012 were as follows:

	<b>For the Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Grant date	04/02/2012	07/01/2011
Thousand units granted	8,053	40,679
Contractual life	3 years	3 years
Vesting period	2 years	2 years
Actual turnover rate of employees	4.33%	15.51%
Estimated future turnover rate of employees	19.01%	16.28%

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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 stock option granted to an employee is not transferable to any person. If the exercise period expires, the employee forfeits his/her right to exercise the option and purchase the 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 stock option vested in them in pursuance of the stock option plan.

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

	<b>For the Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Exercise price (Note)	\$ 44.85	30
Current market price	44.85	30
Expected dividend yield rate (Note)	- %	- %
Expected volatility	44.41%	37.0531%
Risk-free interest rate	0.95%	1.0838%
Expected life of the option	3 years	3 years

Note: After the issuance of the employee stock option, if the Company increases its capital through the 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.

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3. The components of employee stock option plan and the weighted-average exercise price as of June 30, 2012 were as follows:

	<b>For the Six Months ended June 30, 2012</b>	
	<b>Number of Exercisable Thousand Shares</b>	<b>Weighted-average Exercise Price</b>
Balance, beginning of the period	-	\$ -
Granted	8,053	44.85
Exercised	-	-
Forfeited	278	-
Expired	-	-
Balance, end of the period	<u>7,775</u>	44.85
Exercisable, end of the period	<u>7,775</u>	
Weighted-average fair value of options granted	<u>13.8</u>	
Exercise price of share option outstanding, end of the period	<u>44.85</u>	
Remaining contractual life	<u>2.75</u>	
Expenses incurred in share-based payment transactions	<u>7,341</u>	

	<b>For the Six Months ended June 30, 2011</b>	
	<b>Number of Exercisable Thousand Shares</b>	<b>Weighted-average Exercise Price</b>
Balance, beginning of the period	37,648	\$ 28.38
Granted	-	-
Exercised	-	-
Forfeited	2,873	-
Expired	-	-
Balance, end of the period	<u>34,775</u>	28.38
Exercisable, end of the period	<u>34,775</u>	
Weighted-average fair value of options granted	<u>7.90</u>	
Exercise price of share option outstanding, end of the period	<u>28.38</u>	
Remaining contractual life	<u>2</u>	
Expenses incurred in share-based payment transactions	<u>49,281</u>	

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(iii) Share-based payment transactions — stock appreciation rights plan

1. Information on cash-settled share-based payment transaction as of June 30, 2012 were as follows:

	<u>Stock Appreciation Right</u>
Grant date	04/02/2012
Vesting condition	EPS performance target
Exercise period	07/01/2013~06/30/2014
Vesting period	1.25 years
Actual turnover rate of employees	3.96%
Estimated future turnover rate of employees	8.97%

In order to encourage employees to stay and bring their strength to the Company, the Board of Directors resolved and issued 30,000,000 units of Employee Stock Appreciation Rights on March 19, 2012. The Company will provide payments of stock appreciation rights as employee bonus in cash based on the difference between the base price and the settlement price of the stock appreciation right where the base price on settlement of the right is the closing price of the Company's common stock on grant date, and the settlement price is the closing price of the Company's common share on exercise date.

2. The Company adopted the Black-Scholes model to calculate the fair value of the stock appreciation rights at grant date, and the assumptions adopted in this valuation model were as follows:

	<u>Stock Appreciation Rights</u>
Valuation date	06/29/2012
Base price	44.85
Expected volatility	44.32%
Risk-free interest rate	1.40%
Expected life of the option	2.244 years
Remaining life of the option	2.0028 years

3. The components of stock appreciation rights plan and the weighted-average exercise price as of June 30, 2012 were as follows:

	<u>Number of Exercisable Thousand Shares</u>
Balance, beginning of the period	-
Granted	22,214
Exercised	-
Forfeited	755
Expired	-
Balance, end of the period	<u>21,459</u>
Exercisable, end of the period	<u>21,459</u>
Weighted-average fair value of options granted	<u>2.021</u>

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The expenses incurred in cash-settled share-based payment transaction amounted to \$8,173 for the six months ended June 30, 2012.

(iv) Legal reserve and capital surplus

According to the ROC Company Law, as amended in January 2012 and the Company's Articles of Incorporation, a company shall first set aside 10% of its net income as legal reserve. Where the balance of such legal reserve reaches an amount that is equal to the paid-in capital, the appropriation to legal reserve is discontinued. Where a company incurs no loss, it may, pursuant to a resolution to be adopted by a shareholders' meeting distribute its legal reserve by issuing new shares or by cash. Where legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed.

In accordance with the ROC Company Law, as amended in January 2012, capital surplus is initially used to cover accumulated deficit and the balance, if any, can be distributed as dividends in cash or shares. The realized capital surplus includes donation and premium derived from the issuance of capital stock in excess of par value. 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 June 30, 2012 and 2011, respectively.

(v) 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 common shares of the Company. Also, the total amount of treasury shares issued 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.

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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 June 30, 2012, the Company's shares held by its subsidiaries were 1,700 thousand shares amounting to \$66,130 at fair value.

(vi) 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, is 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 shares 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 are decided by the Board of Directors.
2. Up to 1% as remuneration to directors and supervisors.
3. The remaining earnings, if any, are 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 the debit balance of contra accounts in the shareholders' equity such as the unrealized loss on financial instruments and cumulative translation adjustments. When the debit balance of any of these contra accounts in the shareholders' equity is reversed, the related special reserve can be reversed.

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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 dividends, if the distributions include cash dividends.

On June 27, 2012 and June 24, 2011, the Company's shareholders' meetings resolved to appropriate the 2011 and 2010 earnings. Except for the appropriation for 2011 directors' and supervisors' remuneration which is yet to be resolved by the shareholders, these earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

	<u>2011</u>	<u>2010</u>
Common stock dividends per share (dollars)		
-Cash	<u>\$ -</u>	<u>1.45</u>
Employee bonus - cash	\$ 12,100	127,000
Remuneration to directors and supervisors	-	12,000
Total	<u>\$ 12,100</u>	<u>139,000</u>

The approved earnings distribution for 2010 agreed with those accrued and reflected in the financial statements for the year ended December 31, 2010. The approved earnings distributions for 2011 were as follows:

	<u>Actual distribution approved by the shareholders'</u>	<u>Distribution recognized in the financial report</u>	<u>Difference</u>
Employee bonus - cash \$	12,100	12,100	-
Remuneration of directors and supervisors	-	1,000	(1,000)
	<u>\$ 12,100</u>	<u>13,100</u>	<u>(1,000)</u>

The difference between the actual amounts of earnings distribution for 2011 and those recognized in the financial statements was due mainly to the board of directors' resolution to change the amount of directors' and supervisors' remuneration to \$0. Such difference was accounted for under a change in accounting estimate and charged to profit or loss.

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For the six months ended June 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.

For the six months ended June 30, 2012, employee bonuses of \$189,000 and directors' and supervisors' remuneration of \$15,000 were estimated and recognized as current expenses. Management is expecting that the differences between the amounts which are yet to be approved in the shareholders' meeting and those recognized in the financial statements, if any, will be treated-as changes in accounting estimates and charged to profit or loss.

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

For the six months ended June 30, 2012 and 2011, 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 Six Months Ended June 30</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Before income tax</b>	<b>After income tax</b>	<b>Before income tax</b>	<b>After income tax</b>
Net income (loss)	\$ 2,256,762	2,098,974	<u><u>(1,222,859)</u></u>	<u><u>(1,230,379)</u></u>
Effect of potentially dilutive common shares	81,119	67,329		
Diluted net income	<u><u>\$ 2,337,881</u></u>	<u><u>2,166,303</u></u>		
Weighted-average common shares outstanding	2,254,667	2,254,667	<u><u>2,255,567</u></u>	<u><u>2,255,567</u></u>
Potentially dilutive common shares	185,574	185,574		
Diluted shares	<u><u>2,440,241</u></u>	<u><u>2,440,241</u></u>		
Primary earnings (losses) per share	<u><u>\$ 1.00</u></u>	<u><u>0.93</u></u>	<u><u>(0.54)</u></u>	<u><u>(0.55)</u></u>
Diluted earnings per share	<u><u>\$ 0.96</u></u>	<u><u>0.89</u></u>		



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

	<b>For the Six Months Ended June 30</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Before income tax</b>	<b>After income tax</b>	<b>Before income tax</b>	<b>After income tax</b>
Net income (loss)	\$ 2,256,762	2,098,974	<u><u>(1,222,859)</u></u>	<u><u>(1,230,379)</u></u>
Effect of potentially dilutive common shares	81,119	67,329		
Diluted net income	<u><u>\$ 2,337,881</u></u>	<u><u>2,166,303</u></u>		
Weighted-average common shares outstanding	2,256,367	2,256,367	<u><u>2,256,367</u></u>	<u><u>2,256,367</u></u>
Potentially dilutive common shares	185,574	185,574		
Diluted shares	<u><u>2,441,941</u></u>	<u><u>2,441,941</u></u>		
Primary earnings (losses) per share	<u><u>\$ 1.00</u></u>	<u><u>0.93</u></u>	<u><u>(0.54)</u></u>	<u><u>(0.55)</u></u>
Diluted earnings per share	<u><u>\$ 0.96</u></u>	<u><u>0.89</u></u>		

**n. 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 loans, and other payables.

As of June 30, 2012 and 2011, except for the financial assets and liabilities described above, the Company's other financial assets and liabilities were as follows:

<b>Financial Liabilities</b>	<b>June 30, 2012</b>		<b>June 30, 2011</b>	
	<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>
Bank loans	\$ 24,890,040	24,890,040	16,086,000	16,086,000
Financial liabilities report at fair value through profit or loss	9,762	9,762	-	-
Bonds payable	8,605,241	8,605,241	-	-

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

1. 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.
2. The fair market value of bonds payable is determined by the present value of future cash flow. The discount rate adopted calculating the said present value is estimated based on similar corporate bond's market interest rate.
3. The fair value of derivative financial instruments, which are reported at fair value through profit or loss and traded in active markets, is based on quoted market prices. If the financial instruments are not traded in an active market, then the fair value is determined by using valuation techniques, under which, the estimates and assumptions used are consistent with prevailing market conditions.

(iii) 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 fluctuation risk that arises from cash flows of foreign currency assets and liabilities. However, this risk may be regarded as insignificant, because foreign currency losses from sales are subsequently offset by 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 transfer the risk by acquiring guarantees or transacting by L/C. 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 uncollectible accounts.

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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 June 30, 2012 and 2011, guarantees and endorsements provided by the Company for bank loans obtained by related parties, were discussed in Note 5.

**o. Others**

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

	<b>June 30, 2012</b>			<b>June 30, 2011</b>		
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>NTD</b>	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>NTD</b>
<b>Financial Assets</b>						
<u>Monetary Items</u>						
USD	\$6,151,158	29.88	183,796,601	3,071,602	28.725	88,231,767
<u>Long-term Equity Investments</u>						
USD	1,009,826	29.88	30,173,605	932,394	28.725	26,783,010
EUR	44,476	37.56	1,670,514	38,374	41.63	1,597,516
<b>Financial Liabilities</b>						
<u>Monetary Items</u>						
USD	6,203,152	29.88	185,350,182	3,104,923	28.725	89,188,913

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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 accounting its investment in the Company under the equity method
ASKEY COMPUTER CORP.(ASKEY)	An investee company accounted for under the equity method by ASUSTeK Computer Inc.
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)	//
ENERTRONIX, INC.	//
ASHINE TECHNOLOGY (SUZHOU) LTD.	//
ASKEY TECHNOLOGY (JIANG SU) LTD.	//
POWTEK (SHANGHAI) CO., LTD. (POWTEK)	An investee company accounted for under the equity method
ADVANSUS CORP. (ADVANSUS)	An investee company which ceased to be accounted for under the equity method effective January 1, 2012.
ASROCK INC.	An investee company accounted for under the equity method
ABILITY ENTERPRISE CO., LTD.	//
PEGA INTERNATIONAL LTD.	//
UNIHAN CORPORATION (UNIHAN)	//
AMA PRECISION INC.	//
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)	//
MAINTEK COMPUTER (SUZHOU) CO., LTD. (MAINTEK)	//
BOARDTEK COMPUTER (SUZHOU) CO., LTD.	//

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<u>Name of Related Party</u>	<u>Relationship with the Company</u>
CASETEK COMPUTER (SUZHOU) CO., LTD. (CASETEK)	An investee company accounted for under the equity method
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.
RUNTOP(SHANGHAI) CO., LTD. (RUNTOP)	An investee company accounted for under the equity method
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 CORP.	"
GREEN PACKING LIMITED	"
DIGITEK (CHONGQING) LTD.	"
PEGATRON SERVICOS DE INFORMATICA LTDA. (PCBR)	"
KAEDAR TRADING LTD.	"
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 LOGISTIC SERVICE INC.	"
PEGATRON USA, INC.	"
BLACKROCK MARYLAND INT'L CORP.	"
VIEWQUEST TECHNOLOGIES (BVI) INC.	"
GREEN PACKING LIMITED	"
ASIA ROCK TECHNOLOGY LTD.	"

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b. Significant Transactions with Related Parties

(i) Sales

Name of Related Party	For the Six Months Ended June 30					
	2012			2011		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTEK	\$ 78,521,666	29.19	Open account 60 days	67,300,987	47.17	Open account 60 days
PCZ	3,082,680	1.15	120 days from receipt of goods	1,689,218	1.18	120 days from receipt of goods
POWTEK	1,383,564	0.51	45 days from receipt of goods	2,085,423	1.46	45 days from receipt of goods
Others	155,955	0.06	30~90 days from receipt of goods Open account 30~90 days	481,141	0.34	30~90 days from receipt of goods Open account 30~90 days
<b>Total</b>	<b>\$ 83,143,865</b>	<b>30.91</b>		<b>71,556,769</b>	<b>50.15</b>	

The collection term with third-party customer is L/C, T/T or 7 to 120 days from receipt of goods.

For the six months ended June 30, 2012 and 2011, the Company adjusted the double recording of sales to and purchases from related parties, which amounted to \$227,901,539 and \$125,376,277, respectively.

As of June 30, 2012 and 2011, unrealized profits on intercompany transactions were \$57,905 and \$50,590, respectively.

(ii) Purchases

Name of Related Party	For the Six Months Ended June 30					
	2012			2011		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$ 62,513,202	24.30	Open account 60 days	52,376,161	38.27	Open account 60 days
PROTEK	31,908,873	12.40	Open account 60 days	15,542,508	11.36	90 days from receipt of goods
MAINTEK (Note)	2,169,201	0.84	Open account 60 days	(3,976,048)	(2.91)	Open account 60 days
Others	5,426,175	2.11	30~90 days from receipt of goods Open account 30~120 days	4,548,986	3.33	30~90 days from receipt of goods Open account 30~120 days
<b>Total</b>	<b>\$ 102,017,451</b>	<b>39.65</b>		<b>68,491,607</b>	<b>50.05</b>	

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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 purchase amount is less than the sales amount for the six months ended June 30, 2011, the net balance becomes a negative amount.

The purchase term with third-party vendors is 90 days from receipt of goods or open account 30 to 90 days.

For the six months ended June 30, 2012 and 2011, the Company purchased raw materials from vendors through ASUSTek.

(iii) Others

(1)	<b>For the Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
<u>After-sales warranty repair expense paid to:</u>		
PCZ	\$ 33,391	32,848
PTSI	38,373	73,489
ASUS COMPUTER (SHANGHAI) CO., LTD.	10,242	268
Others	6,184	138
Total	<b>\$ 88,190</b>	<b>106,743</b>

(2)	<b>For the Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
<u>Processing fee paid to:</u>		
ASUSPOWER	\$ 162,978	727,966
PCM	84,366	71,557
RUNTOP	-	24,252
Total	<b>\$ 247,344</b>	<b>823,775</b>

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(3)	<b>For the Six Months Ended June 30</b>	
	<b>2012</b>	<b>2011</b>
Other income from:		
ASUSTeK	\$ 116,556	254,699
UNIHAN	15,889	14,256
PCJ	9,456	14,484
Others	3,902	13,605
<b>Total</b>	<b>\$ 145,803</b>	<b>297,044</b>

(4) For the six months ended June 30, 2012 and 2011, the Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, professional service fee, etc, aggregating to \$82,504 and \$54,307, respectively.

(5) For the six months ended June 30, 2012 and 2011, the Company incurred other related party transactions recorded as rental revenue, amounting to \$29,783 and \$27,598, respectively.

(6) For the six months ended June 30, 2012, the Company sold for \$7,172 to other related party fixed assets with carrying value of \$6,668, which resulted in gain on disposal of fixed assets of \$504.

(7) For the six months ended June 30, 2012 and 2011, the Company had other related party transactions recorded as non-operating expense amounting to \$12,287 and \$17,249, respectively.

(iv) Accounts receivable (payable)

	<b>June 30, 2012</b>		<b>June 30, 2011</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Accounts Receivable:				
PROTEK	\$ 84,069,954	46.90	45,680,873	55.12
DIGITEK (CHONGQING)	7,804,640	4.35	15,961	0.02
ASUSTeK	6,566,824	3.66	4,078,877	4.92
MAINTEK	5,488,493	3.06	1,986,666	2.40
PCZ	2,429,706	1.36	938,878	1.13
POWTEK	302,087	0.17	562,231	0.68
Others	129,427	0.07	208,906	0.25
<b>Total</b>	<b>\$ 106,791,131</b>	<b>59.57</b>	<b>53,472,392</b>	<b>64.52</b>



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	<u>June 30, 2012</u>		<u>June 30, 2011</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Other Receivables:</u>				
UNIHAN	\$ 11,517	23.15	10,562	52.81
ASUSTeK	172	0.35	3,565	15.79
PEGAVISION	(1,036)	(2.08)	-	-
Others	428	0.86	645	5.32
Total	<u>\$ 11,081</u>	<u>22.28</u>	<u>14,772</u>	<u>73.92</u>
<u>Accounts Payable:</u>				
PROTEK	\$ 78,317,023	52.48	38,728,346	57.88
DIGITEK (CHONGQING)	5,846,311	3.92	-	-
ASKEY	784,006	0.53	463,408	0.69
SHANGHAI INDEED	573,392	0.38	400,288	0.60
CASETEK	503,073	0.34	326,632	0.49
RI-TENG	305,984	0.21	238,715	0.36
PIOTEK	300,691	0.20	161,452	0.24
Others	153,621	0.09	422,709	0.63
Total	<u>\$ 86,784,101</u>	<u>58.15</u>	<u>40,741,550</u>	<u>60.89</u>
<u>Accrued Expenses:</u>				
ASUSPOWER	\$ 1,192,830	22.64	5,218,683	61.62
PROTEK	654,410	12.42	50,486	0.60
PCM	373,031	7.08	345,131	4.07
ASUSTeK	1,795	0.03	374,075	4.42
Others	95,477	1.82	76,443	0.90
Total	<u>\$ 2,317,543</u>	<u>43.99</u>	<u>6,064,818</u>	<u>71.61</u>

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

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Assets:</u>		
Prepayments	\$ 17,348	43,915
Temporary payments	84	5,620
	<u>\$ 17,432</u>	<u>49,535</u>
<u>Liabilities:</u>		
Temporary receivables	<u>\$ 48,239</u>	<u>123,217</u>

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(v) Endorsement Guarantee

As of June 30, 2012 and 2011, the Company provided endorsement guarantee for bank loans obtained by related parties as follows:

<b>Name of Related Party Guaranteed</b>	<b>Amount of Guarantee (thousands)</b>			
	<b>June 30, 2012</b>		<b>June 30, 2011</b>	
ASUSPOWER	<b>USD</b>	<b>104,686</b>	<b>USD</b>	<b>80,000</b>
	<b>JPY</b>	<b>562,596</b>	<b>JPY</b>	<b>-</b>
PCZ	<b>USD</b>	<b>10,000</b>	<b>USD</b>	<b>10,000</b>
PIOTEK	<b>USD</b>	<b>49,000</b>	<b>USD</b>	<b>49,000</b>
PROTEK	<b>USD</b>	<b>200,000</b>	<b>USD</b>	<b>200,000</b>
RI-TENG	<b>USD</b>	<b>90,000</b>		
AVY	<b>USD</b>	<b>75,000</b>		

(vi) Financing

As of June 30, 2012, the details of financing provided by a related party to the Company were as follows:

	<b>For the Six Months Ended June 30, 2012</b>			
	<b>The Highest Balance</b>	<b>Ending Balance</b>	<b>Annual Interest</b>	<b>Interest Expense</b>
ASUSPOWER	<b>(1,475,500)</b>	<b>(1,475,500)</b>	0.468%	<b>447</b>

**6. Pledged Assets**

As of June 30, 2012 and 2011, pledged assets were as follows:

<b>Asset</b>	<b>March 31</b>		<b>Purpose of pledge</b>
	<b>2012</b>	<b>2011</b>	
Restricted deposits	\$ 76,204	72,003	Deposits for customs duties
Refundable deposits	26,761	33,268	Deposits for performance guarantee
	<b>\$ 102,965</b>	<b>105,271</b>	

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

(a) As of June 30, 2012 and 2011, the Company had unused letters of credit of both EUR\$ 267 thousand and US\$1,000 thousand.

(b) As of June 30, 2012 and 2011, the Company had promissory notes and certificate of deposit obtained for business purpose of \$11,537 and \$13,258, respectively.

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(c) Rental expense and future lease commitments arising from operating lease agreements were as follows:

	Future lease commitments						
	For the Six Months ended			2013	2014	2015	2016
	June 30, 2012						
Rent expense	\$	46,745	76,546	5,966	45	-	

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

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

**10. Others**

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

Categorized as Nature	For the Six Months Ended June 30, 2012			For the Six Months Ended June 30, 2011		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salary expense	377,388	2,015,874	2,393,262	347,419	1,690,046	2,037,465
Health and labor	27,939	128,575	156,514	25,355	116,477	141,832
Insurance expense						
Pension expense	15,707	77,190	92,897	15,316	72,157	87,473
Other expense	28,226	114,869	143,095	16,293	62,672	78,965
Depreciation expense (Note A)	10,282	75,658	85,940	25,333	82,878	108,211
Amortization expense	158,660	66,810	225,470	119,235	121,594	240,829

Note A: For the six months ended June 30, 2012 and 2011, the Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle-assets of \$3,611 and \$7,617, respectively.

b. Certain accounts in the financial statements as of and for the six months ended June 30, 2011, were reclassified to conform to the presentation adopted in the financial statements as of and for the six months ended June 30, 2012.

**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.