

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

**PEGATRON CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

To the Board of Directors of
Pegatron Corporation

We have audited the accompanying balance sheet of Pegatron Corporation as of December 31, 2009, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The accompanying balance sheet of Pegatron Corporation as of December 31, 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended were audited by other auditors whose report dated March 24, 2009, expressed a modified unqualified auditors' report.

We conducted our audit in accordance with "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence 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 audit provides a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to the first paragraph present fairly, in all material respects, the financial position of Pegatron Corporation as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with the related financial accounting standards of the "Business Entity Accounting Act", and of the "Regulation on Business Entity Accounting Handling", Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the financial statements, effective January 1, 2009, the Company adopted Republic of China Statement of Financial Accounting Standards (SFAS) No. 10 "Inventories", resulting in a decrease of \$116,562 thousand in net income and \$0.05 in earnings per share for the year ended December 31, 2009.

For reference purposes, Pegatron Corporation has prepared consolidated financial statements for the year ended December 31, 2009, on which we have expressed a modified unqualified auditors' report. The consolidated balance sheet of Pegatron Corporation as of December 31, 2008 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended were audited by other auditors whose report dated March 24, 2009, expressed a modified unqualified auditors' report.



KPMG

CPA: Charlotte Lin
Ulyos Maa

Taipei, Taiwan, R.O.C
March 3, 2010

Notes 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 the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
BALANCE SHEETS
DECEMBER 31, 2009 and 2008
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
ASSETS				
Current Assets:				
Cash (Notes (2) and (4)(a))	\$ 3,512,748	2	5,919,482	3
Notes receivable, net of allowance for doubtful accounts (Notes (2), (4)(b) and (5))				
– Non-related parties	3,332	-	381	-
– Related parties	28,659	-	-	-
Accounts receivable, net of allowance for doubtful accounts (Notes (2), (4)(b) and (5))				
– Non-related parties	15,031,793	8	21,688,461	13
– Related parties	68,480,859	35	25,065,270	15
Other receivables, net of allowance for uncollectible accounts (Note (5))				
– Non-related parties	388,949	-	1,076,887	1
– Related parties	1,278,092	1	1,599,184	1
Other financial assets – current (Note (6))	141,597	-	120,000	-
Inventories (Notes (2) and (4)(c))	10,517,208	5	18,721,218	11
Other current assets	41,061	-	51,513	-
Deferred income tax assets – current (Notes (2) and (4)(i))	804,290	-	990,370	1
	100,228,588	51	75,232,766	45
Investments:				
Long-term investments under the equity method (Notes (2) and (4)(d))	90,594,845	46	85,259,911	51
Other Financial Assets – Noncurrent (Note (6))				
	203,650	-	315,429	-
Property, Plant and Equipment, at cost (Note (2)):				
Land	2,156,047	1	2,561,627	2
Buildings and structures	1,788,644	1	2,306,383	1
Machinery and equipment	317,044	-	631,197	-
Warehousing equipment	1,199	-	8,451	-
Instrument equipment	316,784	-	756,839	1
Transportation equipment	23,765	-	23,597	-
Office equipment	3,951	-	4,900	-
Miscellaneous equipment	404,571	-	361,920	-
	5,012,005	2	6,654,914	4
Less: Accumulated depreciation	(783,373)	-	(1,386,668)	(1)
Construction in progress	-	-	124,743	-
Prepayments for equipment	11,777	-	94,241	-
	4,240,409	2	5,487,230	3
Intangible Assets (Note (2))				
	235,453	-	217,672	-
Other Assets – Others (Notes (2), (4)(e) and (4)(i))				
	1,885,964	1	991,625	1
TOTAL ASSETS	\$ 197,388,909	100	167,504,633	100

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

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PEGATRON CORPORATION

BALANCE SHEETS (CONT'D)

DECEMBER 31, 2009 and 2008

(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Short-term loans (Note (4)(f))	\$ 3,023,055	2	8,420,000	5
Notes and accounts payable				
– Non-related parties	19,256,810	10	20,264,274	12
– Related parties (Note (5))	53,930,162	27	19,267,228	12
Accrued expenses				
– Non-related parties	4,085,488	2	3,520,127	2
– Related parties (Note (5))	10,554,624	5	14,870,155	9
Other financial liabilities – current	-	-	8,129	-
Other current liabilities (Note (5))	3,319,649	2	3,160,210	1
	<u>94,169,788</u>	<u>48</u>	<u>69,510,123</u>	<u>41</u>
Long-Term Loans				
Long-term loans (Note (4)(g))	7,200,000	4	8,000,000	5
Other financial liabilities – noncurrent	15,718	-	5,928	-
	<u>7,215,718</u>	<u>4</u>	<u>8,005,928</u>	<u>5</u>
Other Liabilities:				
Deferred income tax liabilities – noncurrent (Notes (2) and (4)(i))	164,833	-	-	-
Other liabilities – others	68,093	-	14,498	-
	<u>232,926</u>	<u>-</u>	<u>14,498</u>	<u>-</u>
Total Liabilities	<u>101,618,432</u>	<u>52</u>	<u>77,530,549</u>	<u>46</u>
Stockholders' Equity:				
Common stock – authorized 2,500,000 thousand shares, 2,286,054 thousand shares issued and outstanding in 2009; 1,884,628 thousand shares issued and outstanding in 2008 (Note (4)(j))	22,860,539	12	18,846,281	12
Capital Surplus (Note (4)(j))				
Premium on capital stock	61,188,108	31	61,188,108	37
Others	2,588,515	1	2,393,989	1
	<u>63,776,623</u>	<u>32</u>	<u>63,582,097</u>	<u>38</u>
Retained Earnings (Note (4)(j)):				
Legal reserve	545,570	-	-	-
Unappropriated earnings	6,712,650	3	5,455,699	3
	<u>7,258,220</u>	<u>3</u>	<u>5,455,699</u>	<u>3</u>
Other Adjustments to Stockholders' Equity:				
Cumulative translation adjustments	198,092	-	1,849,737	1
Unrecognized loss on pension cost	(3,202)	-	(1,128)	-
Unrealized gain on financial assets	1,680,205	1	241,398	-
	<u>1,875,095</u>	<u>1</u>	<u>2,090,007</u>	<u>1</u>
Total Stockholders' Equity	<u>95,770,477</u>	<u>48</u>	<u>89,974,084</u>	<u>54</u>
Commitments and Contingencies (Note (7))				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 197,388,909</u>	<u>100</u>	<u>167,504,633</u>	<u>100</u>

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Year Ended December 31,			
	2009		2008	
	Amount	%	Amount	%
Operating revenues (Note (5))	\$ 329,668,452	101	305,626,928	101
Less: Sales returns	(951,419)	(1)	(447,945)	-
Sales allowances	(752,506)	-	(1,430,884)	(1)
Net sales	327,964,527	100	303,748,099	100
Cost of goods sold (Notes (2) , (4)(c) , (5) and (10)(a))	(318,659,711)	(97)	(294,855,005)	(97)
Gross profit	9,304,816	3	8,893,094	3
Unrealized intercompany gross profit— end of the year (Note (5))	(68,063)	-	(14,498)	-
Realized intercompany gross profit— beginning of the year	14,498	-	-	-
	9,251,251	3	8,878,596	3
Operating expenses (Notes (5) and (10)(a))				
Selling expenses	(2,553,330)	(1)	(4,201,129)	(1)
General and administrative expenses	(1,638,316)	(1)	(1,267,003)	(1)
Research and development expenses	(3,990,865)	(1)	(3,191,380)	(1)
	(8,182,511)	(3)	(8,659,512)	(3)
Income from operations	1,068,740	-	219,084	-
Non-operating incomes				
Interest income	11,690	-	22,574	-
Investment income under the equity method (Note (4)(d))	5,339,396	2	5,349,440	2
Others (Note (5))	1,488,852	-	643,929	-
	6,839,938	2	6,015,943	2
Non-operating expenses				
Interest expense	(111,842)	-	(157,672)	-
Foreign exchange losses, net	(274,403)	-	(867,469)	-
Others	(327,384)	-	(186,186)	-
	(713,629)	-	(1,211,327)	-
Income before income tax	7,195,049	2	5,023,700	2
Income tax (expense) benefits (Note (4)(i))	(443,461)	-	502,617	-
Net income	<u>\$ 6,751,588</u>	<u>2</u>	<u>5,526,317</u>	<u>2</u>
	Before	After	Before	After
	Income Tax	Income Tax	Income Tax	Income Tax
Earnings per share (Notes (2) and (4)(k))				
Primary earnings per share	<u>\$ 3.15</u>	<u>2.95</u>	<u>2.80</u>	<u>3.08</u>
Primary earnings per share - retroactively adjusted			<u>2.31</u>	<u>2.54</u>
Diluted earnings per share	<u>\$ 3.10</u>	<u>2.91</u>	<u>2.79</u>	<u>3.07</u>
Diluted earnings per share - retroactively adjusted			<u>2.30</u>	<u>2.53</u>

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

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 PEGATRON CORPORATION
 STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
 (All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	Retained Earnings				Stockholder' Equity Adjustment			Total
	Capital Stock	Capital Surplus	Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustment	Unrecognized Loss on Pension Cost	Unrealized Gain on Financial Instruments	
\$	50,000	165,375	-	(3,705)	-	-	-	211,670
Net income for the year ended December 31, 2008	-	-	-	5,526,317	-	-	-	5,526,317
Issuance of new shares in exchange of spin - off assets	16,000,000	54,121,343	-	-	(535,174)	(826)	414,657	70,000,000
Issuance of new shares in exchange of subsidiary capital	2,796,281	9,339,718	-	(23,806)	(14,235)	537	(216)	12,098,279
Interest expense generated from the trust of shareholders of parent company	-	156,850	-	-	-	-	-	156,850
Cumulative translation adjustments	-	-	-	-	2,399,146	-	-	2,399,146
Adjustment arising from changes in percentage of ownership in long - term equity investments	-	(201,189)	-	(43,107)	-	(839)	(173,043)	(418,178)
Balance as of December 31, 2008	18,846,281	63,582,097	-	5,455,699	1,849,737	(1,128)	241,398	89,974,084
2008 earnings distribution and appropriation:								
Legal reserve	-	-	545,570	(545,570)	-	-	-	-
Cash dividends	-	-	-	(882,092)	-	-	-	(882,092)
Stock dividends	4,014,258	-	-	(4,014,258)	-	-	-	-
Net income for the year ended December 31, 2009	-	-	-	6,751,588	-	-	-	6,751,588
Issuance of new shares in exchange of spin - off assets	-	38,022	-	-	-	-	-	38,022
Cumulative translation adjustments	-	-	-	-	(1,651,645)	-	-	(1,651,645)
Adjustment arising from changes in percentage of ownership in long - term equity investments	-	156,504	-	(52,717)	-	-	-	103,787
Unrealized gain on available-for-sale financial assets of subsidiaries	-	-	-	-	-	-	1,438,807	1,438,807
Unrealized loss on pension cost of subsidiaries	-	-	-	-	-	(2,074)	-	(2,074)
Balance as of December 31, 2009	22,860,539	63,776,623	545,570	6,712,650	198,092	(3,202)	1,680,205	95,770,477

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

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PEGATRON CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Year Ended December 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 6,751,588	5,526,317
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	324,220	328,174
Amortization	620,596	199,596
Reversal for allowance for doubtful accounts	(48,451)	-
Deferred credits transferred to revenue	53,565	14,498
(Reversal) provision for warranty reserve	(253,144)	393,670
Provision for impairment loss of idle assets	1,401	44,733
Loss on disposal and retirement of assets, net	39,465	29,784
Reversal of provision for inventory market price decline and obsolescence	(856,356)	-
Income from long-term equity investments over cash dividends received	(2,892,813)	(3,543,509)
Interest expense generated from the trust of shareholders of parent company	31,594	135,610
Gain on disposal of long-term investments	(218)	-
Change in assets and liabilities:		
Financial assets reported at fair value through profit or loss — current	-	153,673
Notes and accounts receivable	(36,742,080)	(37,838,648)
Other receivables	1,009,030	(2,011,703)
Other current assets	(46,662)	(49,566)
Inventories	9,060,366	5,965,868
Deferred income tax assets and liabilities, net	362,671	(723,018)
Notes and accounts payable	33,705,969	9,823,251
Accrued expenses	(3,497,026)	13,818,554
Income tax payable	(63,651)	216,545
Other current liabilities	223,090	2,904,714
Other financial liabilities — current	(8,129)	20,253
Other liabilities	30	-
Net cash provided by (used in) operating activities	<u>7,775,055</u>	<u>(4,591,204)</u>
Cash flows from investing activities:		
Increase in long-term investments under the equity method	(3,527,451)	(5,825,965)
Increase in restricted deposits	(21,597)	(120,000)
Proceeds from disposal of property, plant and equipment and other assets	93,440	2,511
Purchase of property, plant and equipment	(212,220)	(854,970)
Purchase of deferred charges	(470,966)	(671,105)
Purchase of intangible assets	(66,378)	-
Decrease (Increase) in other financial assets — noncurrent	111,779	(261,548)
Returned investments due to subsidiary company's capital decrease	120,000	200,000
Proceeds from disposal of long-term investments under the equity method	860,851	-
Proceeds from merger of subsidiaries	-	1,113,730
Net cash used in investing activities	<u>(3,112,542)</u>	<u>(6,417,347)</u>

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

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PEGATRON CORPORATION
STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Year Ended December 31,	
	2009	2008
Cash flows from financing activities:		
(Decrease) Increase in short-term loans	(5,396,945)	8,420,000
(Decrease) Increase in long-term loans	(800,000)	8,000,000
Paid cash dividends	(882,092)	-
Increase in guarantee deposits received	9,790	4,938
Cash provided by spin-off	-	500,000
Net cash (used in) provided by financing activities	(7,069,247)	16,924,938
Net (decrease) increase in cash	(2,406,734)	5,916,387
Cash, beginning of the year	5,919,482	3,095
Cash, end of the year	\$ 3,512,748	5,919,482
 Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 129,578	136,022
Income tax	\$ 144,441	3,856
 Investing and financing activities partially affecting cash flows:		
Acquisition of non-cash assets		\$ (93,482,038)
Succession of liability		23,982,038
Issuance of new shares (includes share premium)		70,000,000
Increase in cash		\$ 500,000
 Items affected by merger of subsidiaries:		
Acquisition of non-cash assets		\$ (13,695,423)
Succession of liability		9,931,942
Decrease in long-term investments under the equity method		4,877,211
Increase in cash		\$ 1,113,730
 Non-cash investing activities:		
Acquisition of shares of subsidiaries by issuing new shares		\$ 12,098,279

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

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PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(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 accept the OEM business from ASUSTek Computer Inc. on January 1, 2008 to restructure the Company’s business. ASUSALPHA Computer Inc. was merged by the Company on April 1, 2008. The main activities of the Company are to produce, design and sale OEM business. The Company’s parent company is ASUSTeK Computer Inc.

As of December 31, 2009 and 2008, the Company had 4,153 and 4,796 employees, respectively.

2. Summary of Significant Accounting Policies

The Company’s financial statements were prepared in accordance with Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Entity Accounting Act, Regulation on Business Entity Accounting Handling, 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.

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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.

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

The Company classifies investments in financial assets as financial assets / liabilities reported at fair value through profit or loss or financial assets carried at cost.

Financial instrument transactions are recorded at the trading date. Financial instruments other than those held for trading are initially recognized at fair value plus transaction costs, while those held for trading are carried at fair value.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

Subsequent to initial recognition, financial instruments are classified, depending on the Company's intention, as follows:

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

Financial assets held for trading are those that the Company principally holds for the purpose of short-term profit-taking. Financial derivatives, except for those that meet the criteria for hedge accounting, are classified as financial instruments reported at fair value through profit or loss. These financial instruments are recorded as financial assets or liabilities for favorable or unfavorable changes in market value.

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

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

g. **Inventories**

Inventories are carried at the lower of cost or market value using a perpetual inventory basis. Cost is determined using the weighted-average method. Market value is determined by replacement value. A provision for inventory devaluation is recorded when the market value of inventories is less than cost. The fair value of finished goods, merchandise and work in process is determined on the basis of net realizable value, while the fair value of raw material is determined by replacement value. A provision for inventory devaluation and obsolescence is recorded as allowance for loss based on certain percentages according to the aging of inventories.

Effective January 1, 2009, the Company adopts Republic of China Statement of Financial Accounting Standards (SFAS) No. 10 "Inventories". According to SFAS 10, the cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

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

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

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

Unrealized profits/losses on inter-company transactions are eliminated and deferred. Regardless of whether inter-company transactions are downstream or upstream transactions, unrealized inter-company gains and losses are eliminated in proportion to the shareholding ratio, except for those in downstream transactions, where gain or loss is fully eliminated when controlling interests exist. Unrealized gains and losses resulting from transactions between investee companies are eliminated in proportion to shareholding ratio if controlling interests exist. Otherwise the unrealized gains or losses are eliminated according to the shareholding ratio. Gains and losses resulting from transactions involving depreciable assets are recognized ratably over their economic lives, while those from other assets are recognized immediately.

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

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

i. Property, Plant, and Equipment, and Depreciation

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

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

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

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

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

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j. Intangible Assets

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

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

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

k. Deferred Expenses

The costs of renovation project, molds, fixtures and office decorations are deferred and amortized equally over 2 to 5 years.

l. Pension Plan

Upon on defined contribution pension plan, in accordance with the “Labor Pension Act”, the Company contributes monthly to the Labor Pension Fund at the rate of 6% of the employees' monthly wages. These contributions are recognized as pension expense for the current period when made.

m. Warranty Reserve

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

n. Revenue Recognition

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

o. Classification of Capital and Operating Expenditures

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

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p. 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.

q. Income Tax

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

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

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

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

r. 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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s. Spin-Off Transactions

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

t. Employee Bonuses and Remuneration to Directors and Supervisors

Appropriations for employee bonuses and remuneration to directors and supervisors appropriated are accounted for 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.

3. Reasons for and Effect of Accounting Changes:

Effective January 1, 2009, the Consolidated Company adopts Republic of China Statement of Financial Accounting Standards (SFAS) No. 10 "Inventories". According to SFAS 10, fixed production overheads are allocated to finished goods and work in process inventories based on the normal capacity of production facilities. Inventories are measured individually at the lower of cost or net realizable value. The effects of the adoption of this new accounting principle on net income and earnings per share for the year ended December 31, 2009, were as follows:

Nature of change in accounting principle	Effect of account	Decrease in net income (after income tax)	Decrease in EPS
Allocation of fixed production overheads based on the normal capacity	Cost of goods sold	\$ 64,652	0.03
Allocation of fixed production overheads based on the normal capacity (the subsidiaries)	Investment income under the equity method	51,910	0.02
Total		\$ 116,562	0.05

Effective January 1, 2008, the Company adopts Republic of China Statement of Financial Accounting Standards (SFAS) No. 39 "Share-based Payment" and Interpretation (96) 052 issued by the ROC Accounting Research and Development Foundation (ARDF) in the accounting of employees bonuses and directors' and supervisors' remuneration. The adoption of these new accounting principles decreased net income before income tax attributable to stockholders of the parent and earnings per share by \$565,210 and \$0.32 (NT dollars), respectively, for the year ended December 31, 2008.

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4. Summary of Major Accounts

a. Cash

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Cash on hand	\$ -	886
Checking accounts	-	276
Demand deposits	1,502,930	221,586
Time deposits	210,000	-
Foreign currency deposits	1,128,028	596,334
Foreign currency time deposits	671,790	5,100,400
Total	<u>\$ 3,512,748</u>	<u>5,919,482</u>

b. Notes and Accounts Receivable — Non-related Parties

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Notes receivable	\$ 3,655	622
Less: Allowance for doubtful accounts	(323)	(241)
Net	<u>3,332</u>	<u>381</u>
Accounts receivable	15,122,739	21,827,940
Less: Allowance for doubtful accounts	(90,946)	(139,479)
Net	<u>15,031,793</u>	<u>21,688,461</u>
Total	<u>\$ 15,035,125</u>	<u>21,688,842</u>

c. Inventories

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Merchandise	\$ 118,250	336,183
Finished goods	5,214,722	9,635,925
Work in process	693,765	1,674,328
Raw materials	4,805,675	8,260,462
Inventories-in-transit	115,292	101,172
Sub-total	<u>10,947,704</u>	<u>20,008,070</u>
Less: Allowance for inventory market decline and obsolescence	(430,496)	(1,286,852)
Total	<u>\$ 10,517,208</u>	<u>18,721,218</u>

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For the years ended December 31, 2009 and 2008, the components of cost of goods sold were as follows:

	For the Year Ended December 31,	
	2009	2008
Cost of goods sold	\$ 319,250,466	294,109,831
Loss on disposal of scrapping	191,468	153,179
(Gain) Loss on inventory valuation and obsolescence	(856,356)	790,701
Others	74,133	(198,706)
	\$ 318,659,711	294,855,005

In accordance with Statement of Financial Accounting Standards (SFAS) No. 10, the loss on physical inventory and loss on disposal of scraps originally reflected under (non-operating expense) of \$26,138 and \$153,179, respectively, in 2008 were both reclassified to the cost of goods sold for the year ended December 31, 2008.

d. Long-Term Equity Investments

Name of Investee Company	December 31, 2009			December 31, 2008		
	Equity Holding	Book Value	Original Investment	Equity Holding	Book Value	Original Investment
PEGATRON HOLDING LTD	100.00%	\$ 29,311,767	24,281,666	100.00%	26,131,092	21,301,063
ASUSPOWER INVESTMENT CO., LTD.	100.00%	14,342,702	13,033,429	100.00%	12,917,173	13,033,429
ASUS INVESTMENT CO., LTD.	100.00%	15,528,237	16,184,982	100.00%	15,242,018	16,184,982
ASUSTEK INVESTMENT CO., LTD.	100.00%	14,686,690	14,593,543	100.00%	14,680,383	14,593,543
ADVANSUS CORP.	50.00%	220,399	166,364	50.00%	309,228	286,364
ENERTRONIX, INC.	-	-	-	100.00%	381,825	446,342
ASUS HOLLAND HOLDING B.V.	92.45%	1,078,274	1,153,501	92.45%	1,050,248	1,153,501
PEGATRON USA, INC.	100.00%	17,813	16,085	100.00%	17,903	16,085
UNIHAN CORPORATION	100.00%	15,408,963	12,098,279	100.00%	14,530,041	12,098,279
Total		\$ 90,594,845			85,259,911	

Due to the organization restructuring, the Company transferred its long-term investments under the equity method to related parties. The related information was discussed further in Note (5).

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

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

	December 31, 2009	December 31, 2008
Current Assets	\$ 487,823	420,029
Noncurrent Assets	17,290	24,495
Current Liabilities	283,972	134,951
Other Liabilities	742	345
For the Year Ended December 31,		
	2009	2008
Revenues	\$ 1,473,862	978,070
Expenses	1,442,692	955,173

e. Idle Assets

- (i) In accordance with Statement of Financial Accounting Standards No. 35 (SFAS 35) "Accounting for Asset Impairment", the Company performs asset impairment test by comparing the recoverable amount with carrying value of the idle assets amount. Based on the results of such assessment, the Company recognized provisions for impairment loss of \$46,134 and \$44,733 as of December 31, 2009 and 2008, respectively.
- (ii) The Company sold part of its idle assets and recognized a gain from impairment recovery of \$23,174 for the year ended December 31, 2009.
- (iii) The carrying value of idle assets refer to the real estate appraisal report, the Company recognized losses on impairment amounted for \$24,575 for the year ended December 31, 2009.

f. Short-Term Loans

Nature of the loan	Amount	Range of interest rate
December 31, 2009		
Credit loan	\$ 3,023,055	0.44%~0.53%
December 31, 2008		
Credit loan	\$ 8,420,000	1.42%~1.90%

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

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g. Long-Term Loans

The Company was in compliance with the syndicated facility agreement on Oct 30, 2008 as follows:

<u>Types of Debt</u>	<u>Creditor</u>	<u>2009</u>	<u>2008</u>	<u>Repayment Schedule</u>	<u>Credit line</u>
Credit loan	ABN AMRO, Mega International Commercial Bank and 14 other banks	<u>\$ 7,200,000</u>	<u>8,000,000</u>	2008.10.30-2011.10.30, \$1.5 billion is repayable in 3 semi-annual installments, commencing on April 30, 2010 and the remaining balance is payable on maturity date.	<u>12,000,000</u>

For the years ended December 31, 2009 and 2008, long-term loans bore interest at rates ranging from 1.15% and 1.84% to 2.61%, respectively. According to the agreement, during the loan repayment periods, the Company must comply with certain financial covenants based on the audited consolidated financial statements on the balance sheet date (June 30 and December 31) as follows:

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

As of December 31, 2009, the Company was in compliance with the loan covenants mentioned above.

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

h. Pension Plan

For the years ended December 31, 2009 and 2008, the pension costs for the defined contribution pension plan of the Company amounted to \$151,015 and \$129,623, respectively.

i. Income Tax

- (i) As of December 31, 2009 and 2008, deferred income tax assets and liabilities were as follows:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
1) Total deferred income tax assets	\$ 870,407	1,002,128
2) Total deferred income tax liabilities	230,950	-

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	December 31, 2009		December 31, 2008	
	Amount	Income Tax Effects	Amount	Income Tax Effects
3) Temporary differences:				
- Recognition of unrealized foreign exchange (gain) loss: taxable	\$ (216,192)	(43,238)	419,520	104,880
- Recognition of loss on allowance for inventory market decline and obsolescence: deductible	430,496	86,099	1,286,852	321,713
- Recognition of gain on foreign investments: taxable	(938,560)	(187,712)	-	-
- Recognition of unrealized intercompany profits: deductible	68,063	13,612	14,498	3,625
- Recognition of impairment loss on assets: deductible	46,134	9,227	44,733	11,183
- Recognition of warranty reserve: deductible	975,334	195,067	1,228,478	307,120
- Recognition of bonus reserve: deductible	-	-	315,230	78,807
- Recognition of organization costs: deductible	-	-	2,800	700
- Recognition of deferred employee benefits for tax: deductible	300	60	400	100
- Unused balance of investment tax credits	-	553,053	-	174,000
- Loss carry-forward	66,446	13,289	-	-
			December 31, 2009	December 31, 2008
(ii) Deferred income tax assets — current			\$ 847,528	990,370
Deferred income tax liabilities — current			(43,238)	-
Net deferred income tax assets — current			\$ 804,290	990,370
(iii) Deferred income tax assets — noncurrent			\$ 22,879	11,758
Deferred income tax liabilities — noncurrent			(187,712)	-
Net deferred income tax assets — noncurrent			\$ (164,833)	11,758

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

	For the Year Ended December 31,	
	2009	2008
Current income tax expense	\$ 4,035	220,401
Deferred income tax expense (benefit)	362,671	(723,018)
Under-accrual of prior years income tax	76,755	-
Income tax expense (benefit)	\$ 443,461	(502,617)

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

	For the Year Ended December 31,	
	2009	2008
Reversal (Provisions) for warranty reserve	\$ 112,053	(140,894)
Unrealized exchange gain (loss)	148,118	(104,880)
Unrealized foreign investment gain	187,712	-
Bonus	78,807	(78,807)
Organization Costs	700	(700)
Unrealized profits on sales	(9,987)	(3,625)
Amortization of employee benefits	40	(100)
Reversal (Provisions) for loss on allowance for inventory market decline and obsolescence	235,614	(208,829)
Investment tax credits	(379,053)	(174,000)
Loss carry-forward	(13,289)	-
Reversal (Provisions) for impairment loss on assets	1,956	(11,183)
Total	\$ 362,671	(723,018)

(v) The Company is subject to income tax at the current rate of 25% and is covered by the Basic Income Tax Act. According to the revised tax law announced on May 27, 2009, the statutory income tax rate will be reduced to 20% commencing from the year 2010. The income tax calculated on pretax financial income at a statutory income tax rate was reconciled with the income tax expense as reported in the accompanying financial statements for the years ended December 31, 2009 and 2008 as follows:

	For the Year ended December 31,	
	2009	2008
Income tax expense calculated on pre-tax financial income at the statutory tax rate	\$ 1,798,762	1,255,915
Permanent differences	(1,075,845)	(1,304,275)
Tax-exempt income	-	(5,326)
10% surtax on undistributed earnings	8,069	-
Investment tax credits	(4,034)	(220,401)
Unused investment tax credits	(379,053)	(174,000)
Adjustments to deferred tax assets previously	(2,236)	(54,530)
Effect on deferred tax of the change in statutory tax rate	21,043	-
Under-accrual of prior years' income tax	76,755	-
Income tax expense (benefit)	\$ 443,461	(502,617)

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- (vi) The Company's tax returns through 2007 have been assessed and approved by the Tax Authority.
- (vii) According to Article 6, Section 3 of the Statute for Upgrading Industries, unused investment tax credits which may be applied to offset against income tax in the future are as follows:

<u>Year of occurrence</u>	<u>Unused investment tax credits</u>	<u>Year of expiration</u>
For the year ended December 31, 2008	\$ 174,000	2012
For the year ended December 31, 2009	379,053	2013
	\$ 553,053	

- (viii) According to ROC Income Tax Act, unused operating loss carry-forwards which can be applied to offset against income tax in the future are as follows:

<u>Year of occurrence</u>	<u>Amount</u>	<u>Year of expiration</u>
For the year ended December 31, 2009	\$ 66,466	2019

- (ix) Due to the increase in its investments in new equipment, the Company was granted several income tax exemptions for its manufacturing and sales of "motherboard" out of the new equipment purchased from the proceeds of capital increase. As of December 31, 2009, the five year income tax exemption periods are as follows:

<u>Description</u>	<u>Exemption</u>
Ninth capital increase used for investment in new equipment.	01/31/05 ~ 01/30/10
Tenth capital increase used for investment in new equipment.	07/31/06 ~ 07/30/11
Eleventh capital increase used for investment in new equipment.	04/30/07 ~ 04/29/12

- (x) Stockholders' imputation tax credit account and tax rate:

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Stockholders' imputation tax credit account	\$ 5,331	199,647
Expected or actual deductible tax ratio	0.12%	18.31%
Undistributed earnings:	December 31, 2009	December 31, 2008
Accumulated in 1997 and prior years	\$ -	-
Accumulated in 1998 and thereafter	6,712,650	5,455,699
Total	\$ 6,712,650	5,455,699

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j. Stockholders' Equity

(i) Capital Stock

On June 30, 2009, pursuant to the resolutions of the board of directors (acting on behalf of stockholders), the Company capitalized the earnings of \$4,014,258, divided into 401,426 thousand common stock with par value of \$10 per share. The record date of this capital increase was October 16, 2009 and the Company completed the process for the relevant registration thereof.

On July 2, 2007, pursuant to resolutions of the board of directors, the Company decided January 1, 2008 as the effective date for the spin-off of the OEM business from ASUSTeK Computer Inc.. In exchange for the net assets acquired and liabilities assumed from this OEM business worth \$70,000,000, the Company issued 1,600,000 thousand new shares with par value of \$10 per share, which resulted in additional capital of \$16,000,000. Those new shares were issued at a premium of \$43.75 per share. The Company already completed the relevant registration thereof.

In order to integrate the group's OEM business and boost productivity, on April 24, 2008, pursuant to resolutions of the board of directors, the Company proceeded the share swap with UNIHAN CORPORATION (a 100% owned entity of ASUSTek Computer Inc.) effective on May 1, 2008. The share swap ratio was 2.8613 shares of UNIHAN CORPORATION to 1 share of the Company. In accordance with the share swap arrangement, the Company issued 279,628 thousand new shares, resulting in additional capital of \$2,796,281. Thereafter, the total outstanding capital amounted to \$18,846,281, divided into 1,884,628 thousand shares with par value of \$10 per share. This capital increase was approved by central authority, and the Company completed the process for the registration thereof.

(ii) Legal reserve and capital surplus

Legal reserve can only be used exclusively to offset a deficit or to increase capital. Capitalization of legal reserve is permitted only until it reaches 50% of total issued capital, and only 50% of it can be capitalized.

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

In 2009 and 2008, interest revenues generated from the trust of shareholders of parent company were distributed to the employees of the Company as bonuses. These bonuses amounted to \$194,872 and \$156,850, respectively, which were debited to salary expense and credited to capital surplus — others.

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(iii) Earnings Distribution and Dividend Policy

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

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

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

On June 30, 2009 (resolution on such date was amended on December 25, 2009) and February 5, 2010, the Company's board of directors resolved the appropriation of earnings for 2008 and 2009. The distributions of employee bonuses and remuneration to directors and supervisors from the distributable earnings in 2008 and 2009 were as follows:

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

There were no differences between the actual results of earnings distributed in 2009 and those estimated and accrued in the financial statements of 2008.

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The distribution for employee bonus and remuneration to directors and supervisors from the distributable earnings in 2009 was approved by the board of directors on February 5, 2010. Differences between the amounts approved in the shareholders' meeting and recognized in the financial statements, if any, are to be accounted for as changes in accounting estimates and recognized in profit or loss in 2010.

k. Earnings per Share (EPS)

For the years ended December 31, 2009 and 2008, the primary earnings per share, diluted earnings per share and the retroactively adjusted primary and diluted earnings per share were computed as follows:

(Note: shares in thousands)

	For the Year Ended December 31,			
	2009		2008	
	Before income tax	After income tax	Before income tax	After income tax
Net income	\$ 7,195,049	6,751,588	5,023,700	5,526,317
Weighted-average common shares outstanding	2,286,054	2,286,054	1,791,419	1,791,419
Dilutive potential common shares	33,953	33,953	10,418	10,418
Diluted shares	2,320,007	2,320,007	1,801,837	1,801,837
Weighted-average common shares outstanding-retroactively adjusted			2,172,991	2,172,991
Dilutive potential common shares-retroactively adjusted			12,637	12,637
Diluted shares-retroactively adjusted			2,185,628	2,185,628
Primary earnings per share	\$ 3.15	2.95	2.80	3.08
Diluted earnings per share	\$ 3.10	2.91	2.79	3.07
Primary earnings per share-retroactively adjusted			2.31	2.54
Diluted earnings per share-retroactively adjusted			2.30	2.53

l. Financial Instruments

(i) Fair value of financial instruments

Financial Assets	December 31, 2009		December 31, 2008	
	Book Value	Fair Value	Book Value	Fair Value
Book value equal to fair value	\$ 89,069,679	89,069,679	55,785,094	55,785,094
Financial Liabilities				
Book value equal to fair value	\$ 98,065,857	98,065,857	74,355,841	74,355,841

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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 value of short-term financial instruments is determined by their book value on the balance sheet date. As these instruments have short term maturity period, the book value serves as a reasonable basis for establishing the fair value. This method is applied to cash, notes receivable, accounts receivable, other receivables, other financial assets – current, short-term loans, accounts payable, other payables, accrued expenses and other financial liabilities – current, etc. (Both income tax refund receivable and income tax payable are legal obligations, not contract obligations, so they do not belong to financial assets and financial liabilities.)
- 2) With respect to financial instruments such as refundable deposits that are an indispensable guarantee for the ongoing operation of the Company, it is impossible to estimate the time necessary to accomplish the exchange of assets. Consequently, the fair market value of such financial instruments cannot be established. Therefore, the book value is used as the fair market value.
- 3) The fair value of financial instruments, which are carried at fair value through profit or loss and traded in active markets, is based on quoted market prices. If the financial instruments are not traded in an active market, then the fair value is determined by using valuation techniques, under which, the estimates and assumptions used are consistent with prevailing market conditions.
- 4) The fair market value of long-term debt is determined by the present value of future cash flow. As the present value derived by using floating interest rate in discounting future cash flow is close to the book value, the book value is adopted as the fair market value.

(iii) Information on financial risk

1) Market risk

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

2) Credit risk

The primary potential credit risk is from financial instruments like cash, equity securities, and accounts receivable. The Company deposits cash in different financial institutions. 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.

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The Company only transacted with the approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Company would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Company believes that there is no significant credit risk. Account to the Company's customer credibility evaluation policies, the Company has to evaluate the customer's credibility and evaluate the collectability of notes and account receivables constantly before doing business. Thus, there is no significant issue on doubtful accounts.

The major customers of the 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 also periodically evaluates the Company's financial positions and the possibility of collecting trade receivables. Thus, there is no significant credit risk.

3) Liquidity risk

The capital and working funds of the Company are sufficient to meet its entire contractual obligations; therefore, no liquidity risk exists.

4) Cash flow and interest rate risk

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

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

As of December 31, 2009 and 2008, guarantee and endorsements of bank loans provided by the Company for related parties, as discussed in Note(5).

5. Related-Party Transactions

a. Names and relationships of related parties with the Company

Name of Related Party	Relationship with the Company
ASUSTeK Computer Inc.	The parent company
ASUS HOLLAND B.V	An investee company accounted for under the equity method by the parent
ASUS TECHNOLOGY PTE. LIMITED	"
Double Tech Ltd.	"
Askey Computer Corp.	"
ASUS TECHNOLOGY INCORPORATION	"

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Name of Related Party	Relationship with the Company
ASMEDIA TECHNOLOGY INC.	An investee company accounted for under the equity method by the parent
ASUS Computer (Shanghai) Co., Ltd.	"
ASUSTEK COMPUTER (SHANGHAI) CO., LTD.	"
(ASUS UNITED Technology (Shanghai) Co., Ltd. Formerly)	
ASUS COMPUTER INTERNATIONAL	"
ASUS Technology (Suzhou) Co., Ltd.	"
Enertronix, Inc.	An investee company accounted for under the equity method formerly. In July, 2009, an investee company accounted for under the equity method of the parent company after reorganization
ASHINE TECHNOLOGY (SUZHOU) LTD.	An investee company accounted for under the equity method by the parent company.
ASKEY TECHNOLOGY (JIANG SU) LTD.	"
Powtek (Shanghai) Co., Ltd.	An investee company accounted for under the equity method of the parent company formerly. In July, 2009, an investee company accounted for under the equity method after reorganization.
ASJAROCK TECHNOLOGY LIMITED	An investee company accounted for under the equity method.
ASLINK (H.K.) PRECISION CO., LTD.	"
ASUSPOWER CORPORATION	"
DIGITEK GLOBAL HOLDINGS LIMITED	"
KAEDAR TRADING LTD.	"
PEGATRON Czech s.r.o (PCZ)	"
PEGATRON JAPAN Inc. (PCJ)	"
PEGATRON MEXICO, S.A. DE C.V.(PCM)	"
PEGATRON TECHNOLOGY Service Inc. (PTSI)	"
Pegatron USA, INC.	"
STRATEGY Technology Co., Ltd.	"
ADVANSUS CORP.	"
ASROCK Incorporation	"

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<u>Name of Related Party</u>	<u>Relationship with the Company</u>
KINSUS INTERCONNECT TECHNOLOGY CORP.	An investee company accounted for under the equity method.
Ability Enterprise Co., Ltd.	"
COTEK ELECTRONICS (SUZHOU) CO., LTD.	"
UNIHAN CORPORATION	"
AMA PRECISION INC.	"
ASUSALPHA Computer Inc.	An investee company accounted for under the equity method. (The investee was merged with the Company on April 1, 2008 and the Company is the surviving entity.)
CRYSTAL ART ENTERPRISE CO., LTD.	An investee company accounted for under the equity method.
STARLINK ELECTRONICS CORPORATION	"
ASFLY TRAVEL SERVICE LIMITED	"
AzureWave Technologies, Inc.	An investee company accounted for under the equity method by Unihan Corporation
ASLINK PRECISION CO., LTD.	An investee company accounted for under the equity method
Protek (Shanghai) Limited	"
NORTH TEC ASIA (SHANGHAI) LIMITED	"
SHANGHAI INDEED TECHNOLOGY CO., LTD.	"
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	"
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	"
GHING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	"
MAINTEK COMPUTER (SUZHOU) CO., LTD.	"
BOARDTEK COMPUTER (SUZHOU) CO., LTD.	"
CASETEK COMPUTER (SUZHOU) CO., LTD.	"
AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	"

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Name of Related Party	Relationship with the Company
CORE-TEK (SHANGHAI) LIMITED	An investee company accounted for under the equity method
Pegavision Corporation	An investee company accounted for under the equity method by Kinsus Interconnect Technology Corp.
All board directors、supervisors、general managers and deputy general managers	The Company's key management

b. Significant Transactions with Related Parties

(i) Sales

Name of Related Party	For the Year Ended December 31,					
	2009			2008		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTeK	\$ 196,506,372	59.92%	Open account 60 days	177,392,797	58.40%	Open account 60 days
Powtek (Shanghai)	4,261,589	1.30%	45 days from receipt of goods	4,200,193	1.38%	45 days from receipt of goods
PCZ	3,805,838	1.16%	120 days from receipt of goods	4,185,715	1.38%	120 days from receipt of goods
Others	2,293,529	0.70%	30~90 days from receipt of goods Open account 30~90 days	1,655,923	0.55%	30~90 days from receipt of goods Open account 30~90 days
Total	<u>\$ 206,867,328</u>	<u>63.08%</u>		<u>187,434,628</u>	<u>61.71%</u>	

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

For the years ended December 31, 2009 and 2008, the Company adjusted the double recording of sales to and purchases from related parties, which amounted for \$145,430,580 and \$76,419,224, respectively.

As of December 31, 2009 and 2008, unrealized gross profits from sales to related parties were \$68,063 and \$14,498, respectively.

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(ii) Purchases

Name of Related Party	For the Year Ended December 31,					
	2009			2008		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$ 136,742,235	30.78%	Open account 60 days	99,623,965	28.43%	Open account 60 days
Protek (Shanghai)	30,864,549	6.95%	90 days from receipt of goods	36,678,723	10.47%	90 days from receipt of goods
Others	10,275,266	2.32%	30~90 days from receipt of goods	8,405,791	2.39%	30~90 days from receipt of goods
			Open account 30~120 days			Open account 30~120 days
Total	<u>\$ 177,882,050</u>	<u>40.05%</u>		<u>144,708,479</u>	<u>41.29%</u>	

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

In 2009 and 2008, the Company purchased raw materials from vendors through ASUSTek.

(iii) Others

1)	For the Year Ended December 31,	
	2009	2008
<u>After-sales warranty repair expense paid to:</u>		
ASUS Computer (Shanghai)	\$ 85,505	98,158
PTSI	272,520	180,489
PCZ	35,646	58,198
Others	32,051	57,041
Total	<u>\$ 425,722</u>	<u>393,886</u>
2) <u>Processing fee paid to:</u>		
PCM	\$ 434,195	793,291
ASUSPOWER	8,962,696	11,788,911
DIGITEK	649,833	807,018
Total	<u>\$ 10,046,724</u>	<u>13,389,220</u>
3) <u>Other income from:</u>		
ASUSTeK	\$ 761,184	365,201
UNIHAN	63,951	25,810
PCJ	55,884	7,490
Others	41,736	13,743
Total	<u>\$ 922,755</u>	<u>412,244</u>

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- 4) The Company accepted the OEM business from ASUSTeK Computer Inc. effective January 1, 2008. The assets and liabilities acquired by the Company from this spin-off were as follows:

	Amount
<u>Assets:</u>	
Current assets	\$ 21,999,830
Long-term investments	66,867,161
Property, plant and equipment	4,761,981
Other assets	353,066
Total	93,982,038
<u>Liabilities:</u>	
Current liabilities	(23,982,038)
Total	(23,982,038)
Net assets	\$ 70,000,000

- 5) To mitigate the foreign currency risk from the change in net-assets and inventory denominated in foreign currencies, the Company and its subsidiaries signed an agreement with ASUSTeK Computer Inc., requiring whoever benefits from foreign currency translation arising from the spin-off transaction shall compensate the other, where appropriate, for the loss due to exchange rate fluctuation, for the period from December 28, 2007 to December 31, 2008. As of December 31, 2008, ASUSTeK Computer Inc. was compensated by the Company and its subsidiaries for \$1,602,711, which was recognized as "credit to foreign exchange gain". However, ASUSTeK Computer Inc., also compensated the Company and its subsidiaries for \$365,523, for the loss on valuation of inventory, which was adjusted to "cost of sales". Such agreement was valid until March 31, 2008. As of December 31, 2008, the net compensation payable of \$1,237,188 from such agreement was fully paid.
- 6) On reference date of, May 1, 2008, the Company issued 279,628,141 shares to ASUSTeK Computer Inc., in order to swap ownership of its 100% holding subsidiary, UNIHAN CORPORATION, with net assets of \$12,098,279.
- 7) For the years ended December 31, 2009 and 2008, the Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, professional service fee, etc, amounted to \$126,816 and \$230,794, respectively.
- 8) For the years ended December 31, 2009 and 2008, the Company incurred other related party transactions recorded as rental revenue, amounted to \$64,727 and \$29,723, respectively.
- 9) For purposes of the organization restructuring in July, 2009, the Company transferred its holding shares of Enertronix, Inc. to ASUSTek Computer Inc. for a price of \$313,785.

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10) In 2009 and 2008, the Company sold properties to related parties for \$74,501 and \$1,254, with book values of \$77,051 and \$1,210, resulting in a loss and a gain on disposal assets amounted to \$2,550 and \$ 44, respectively.

(iv) Accounts receivable (payable)

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
<u>Notes and Accounts Receivable:</u>				
Protek (Shanghai)	\$ 51,620,571	61.72%	14,212,776	30.31%
ASUSTeK	12,344,888	14.76%	7,860,003	16.76%
PCZ	2,666,310	3.19%	1,582,458	3.37%
Others	1,877,749	2.24%	1,410,033	3.01%
Total	\$ 68,509,518	81.91%	25,065,270	53.45%
	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
<u>Other Receivables:</u>				
ASUSTeK	\$ 134,834	7.77%	1,443,071	53.93%
PCZ	639,802	36.88%	520	0.02%
Protek (Shanghai)	492,773	28.40%	149,640	5.59%
Others	10,683	0.62%	5,953	0.22%
Total	\$ 1,278,092	73.67%	1,599,184	59.76%
<u>Notes and Accounts Payable:</u>				
ASUSTeK	\$ -	-	1,244,502	3.15%
Protek (Shanghai)	51,927,044	70.95%	16,998,448	43.00%
Others	2,003,118	2.74%	1,024,278	2.59%
Total	\$ 53,930,162	73.69%	19,267,228	48.74%
<u>Accrued Expenses:</u>				
ASUSPOWER	\$ 10,014,356	68.40%	13,309,694	72.38%
Protek (Shanghai)	239,679	1.64%	1,050,602	5.71%
Others	300,589	2.05%	509,859	2.77%
Total	\$ 10,554,624	72.09%	14,870,155	80.86%

Other related party transactions accounted for as current liabilities in balance sheets were as follows:

	December 31, 2009	December 31, 2008
<u>Liabilities:</u>		
Unearned sales revenue	\$ 78,945	32,802
Temporary receipts	132,312	-
	\$ 211,257	32,802

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(v) Endorsement Guarantee

As of December 31, 2009 and 2008, the Company provided endorsement guarantee for bank loans obtained by a related party as follows:

<u>Name of Related Party Guaranteed</u>	<u>Amount of Guarantee (thousands)</u>	
	<u>December 31, 2009</u>	<u>December 31, 2008</u>
ASUSPOWER	<u>USD 30,000</u>	<u>USD 50,000</u>

As of December 31, 2009 and 2008, the endorsement guarantees provided by a related party for the Company's purchases were as follows:

<u>Name of Related Party Guarantor</u>	<u>Amount of Guarantee (thousands)</u>	
	<u>December 31, 2009</u>	<u>December 31, 2008</u>
ASUSTeK	<u>USD 300,000</u>	<u>USD 422,200</u>

As of December 31, 2008, the amounts of endorsement guarantees were used jointly by the Company and Unihan Corporation.

(vi) Finance

	<u>December 31, 2009</u>	
	<u>Ending Balance</u>	<u>The Highest Balance</u>
PCZ	<u>\$ 639,800</u>	<u>639,800</u>

The loan to PCZ bears annual interest of 1%.

(vii) Key Management Compensation Costs.

For the years ended December 31, 2009 and 2008, the details of management compensation costs were as follows:

	<u>For the Year Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Payroll expense and bonus (including remuneration of directors and supervisors)	<u>\$ 118,832</u>	<u>66,629</u>
Employees bonus	<u>64,730</u>	<u>39,416</u>
Total	<u>\$ 183,562</u>	<u>106,045</u>

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6. Pledged Assets

As of December 31, 2009 and 2008, pledged assets were as follows:

<u>Asset</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>	<u>Purpose of pledge</u>
Restricted deposit	\$ 141,597	120,000	Deposits for customs duties.
Refundable deposits	193,132	315,429	Deposits for performance guarantee
	<u>\$ 334,729</u>	<u>\$ 435,429</u>	

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

As of December 31, 2009 and 2008, significant commitments and contingencies were as follows:

(a) <u>Unused standby letters of credit:</u>	<u>December 31, 2009</u>
EUR	<u>\$ 235</u>

(b) <u>Promissory notes and certificate of deposit obtained for business purpose:</u>	<u>December 31, 2009</u>
NTD	<u>\$ 18,684</u>

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

<u>Year</u>	<u>Rent expense</u>	<u>Future lease commitments</u>			
		<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
2009	\$ 70,419	55,292	39,315	39,776	13,676

(d) Considering its acquisition of the OEM business spun off from its parent company effective from January 1, 2008, the Company assumed the related liabilities from its parent company based on the range of the amount of capital invested. In addition, debt holders' rights of claim on previous parent company are forfeited if such claims are not executed within two years.

(e) In December, 2007, a US company named the Company as a defendant in the patents infringement suit filed in United States International Trade Commission. The investigation had been completed in July, 2009 by the United States International Trade Commission. The result of the investigation revealed that the product of the Company did not infringe the patent for which the US company is accusing the Company for infringing it. However, both parties had subscribed to the reconciliation agreement in September, 2009.

8. Significant Catastrophic Losses: None.

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9. Significant Subsequent Events:

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 will merge with Pegatron Investment. As a surviving entity from this merger, the Company will apply for the initial public offering (IPO) to the Taiwan Stock Exchange Corporation. This merger plan has been resolved by both the board of directors of the Company and Pegatron Investment on January 1, 2010, and resolved by both shareholders' meetings of the Company and Pegatron Investment on January 17, 2010. The record date for this merger is June 10, 2010.

10. Others

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

Categorized as Nature	For the year ended December 31, 2009			For the year ended December 31, 2008		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salary expense	839,284	4,177,420	5,016,704	1,098,059	2,728,618	3,826,677
Health and labor insurance expense	51,958	175,181	227,139	70,073	124,362	194,435
Pension expense	33,722	117,293	151,015	43,260	86,363	129,623
Other expense	45,163	136,058	181,221	76,698	113,180	189,878
Depreciation expense	79,098	225,319	304,417	137,043	188,067	325,110
Amortization expense	384,270	236,326	620,596	65,689	133,907	199,596

Note A: For the years ended December 31, 2009 and 2008, the Company recognized depreciation expense (accounted for non-operating expense), excluding those of rental assets and idle assets, of \$19,803 and \$3,064, respectively.

- b. Account reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2008, were reclassified to conform to the presentation adopted in the financial statements as of and for the year ended December 31, 2009.