

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

**PEGATRON CORPORATION**

**FINANCIAL STATEMENTS**

**June 30, 2010 and 2009**

**(With Independent Auditors' 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 sheet of Pegatron Corporation (the “Company”) as of June 30, 2010, 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 issue the audit report based on our audits. We did not audit the financial statements of certain investees, in which the Company had recognized long-term equity investments as of June 30, 2010, of NT\$13,722,795 thousand, representing 7.58% of total assets, and investments income of NT \$1,009,081 thousand, representing 23.05% of income before taxes. The financial statements of these investee companies were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other auditors. The financial statements of the Company as of and for the six months ended June 30, 2009, were audited by other auditors whose report, dated July 31, 2009, issued a qualified audit report with respect to the financial statements of the Company’s investees which were not audited by the other auditors.

Except as discussed in the third paragraph, we conducted our audit 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 audit and the report issued by other auditors provide a reasonable basis for our opinion.

As described in Note (4) (d) to the financial statements, the long-term equity investments accounted for by the equity method of NT\$ 49,017,177 thousand as of June 30, 2010 and the related investment gain of NT\$ 760,738 thousand for the six months ended June 30, were recognized based on unaudited financial statements of the investees.

In our opinion, based on our audit and the report 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, 2010, and 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, related financial accounting standards of the “Business Entity Accounting Act” and of the “Regulation on Business Entity Accounting Handling” , 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, 2010 and have issued a qualified review report thereon.



Taipei, Taiwan, R.O.C

July 30, 2010

#### Note to Readers

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

For the convenience of readers, the independent accountants' review 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 independent accountants' review report and financial statements shall prevail.

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

PEGATRON CORPORATION

BALANCE SHEETS

June 30, 2010 and 2009

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

ASSETS	June 30, 2010		June 30, 2009	
	Amount	%	Amount	%
<b>Current Assets:</b>				
Cash (Notes (4)(a))	\$ 7,289,673	4	9,481,337	6
Financial assets reported at fair value through profit or loss — current	-	-	1,004,278	1
Notes receivable, net of allowance for uncollectible accounts (Notes (4)(b) and (5))				
– Non-related parties	95	-	560	-
Accounts receivable, net of allowance for uncollectible accounts (Notes (4)(b) and (5))				
– Non-related parties	9,516,711	5	15,599,616	9
– Related parties (Note (5))	59,971,985	34	43,984,585	25
Other receivables, net of allowance for uncollectible accounts				
– Non-related parties	251,089	-	637,945	-
– Related parties (Note (5))	740,399	-	1,805,526	-
Other financial assets — current (Note (6))	441,639	-	111,597	-
Inventories (Notes (4)(c))	7,260,951	4	9,563,199	6
Other current assets	122,539	-	52,555	-
Deferred income tax assets — current (Notes (4)(i))	434,176	-	875,823	-
	86,029,257	47	83,117,021	47
<b>Investments:</b>				
Long-term investments under the equity method (Notes (4)(d))	89,027,894	50	86,214,143	49
<b>Other Financial Assets — Noncurrent (Note (6))</b>				
	11,144	-	338,058	-
<b>Property, Plant and Equipment, at cost :</b>				
Land	2,141,236	1	2,561,627	2
Buildings	1,710,514	1	1,844,313	2
Machinery and equipment	284,710	-	460,287	-
Warehousing equipment	1,199	-	1,920	-
Instrument equipment	322,246	-	587,542	-
Transportation equipment	19,002	-	23,858	-
Office equipment	3,951	-	4,623	-
Leased assets	28,839	-	17,925	-
Miscellaneous equipment	386,415	-	427,304	-
	4,898,112	2	5,929,399	4
Less: Accumulated depreciation	(838,663)	-	(1,035,514)	(1)
	4,059,449	2	4,893,885	3
<b>Intangible Assets</b>				
	200,796	-	235,259	-
<b>Other Assets — others (Notes (4)(e) and (4)(i))</b>				
	1,670,561	1	1,550,325	1
<b>TOTAL ASSETS</b>	<b>\$ 180,999,101</b>	<b>100</b>	<b>176,348,691</b>	<b>100</b>

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

(English Translation of Financial Report Originally Issued in Chinese)

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PEGATRON CORPORATION

BALANCE SHEETS (CONT'D)

June 30, 2010 and 2009

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

	June 30, 2010		June 30, 2009	
	Amount	%	Amount	%
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Short-term debt (Note (4)(f))	\$ -	-	500,000	-
Notes payable and Accounts payable				
– Non-related parties	13,062,497	7	20,819,011	12
– Related parties (Note (5))	46,506,522	26	34,013,552	19
Accrued expenses				
– Non-related parties	3,602,725	2	2,491,968	1
– Related parties (Note (5))	11,744,821	6	16,649,357	9
Dividend payable (Note (4)(j))	-	-	942,314	1
Other current liabilities (Note (4)(i))	3,153,986	2	3,022,116	2
	<u>78,070,551</u>	<u>43</u>	<u>78,438,318</u>	<u>44</u>
<b>Long-Term Loans (Note (4)(g))</b>	<u>7,200,000</u>	<u>4</u>	<u>7,200,000</u>	<u>4</u>
<b>Other Liabilities:</b>				
Other financial liabilities – noncurrent	17,193	-	13,769	-
Deferred income tax liabilities – noncurrent (Notes (4)(i))	304,894	-	-	-
Other long-term liabilities– other	69,292	-	7,389	-
	<u>391,379</u>	<u>-</u>	<u>21,158</u>	<u>-</u>
<b>Total Liabilities</b>	<u>85,661,930</u>	<u>47</u>	<u>85,659,476</u>	<u>48</u>
<b>Stockholders' Equity:</b>				
Common stock	<u>22,860,639</u>	<u>13</u>	<u>22,860,539</u>	<u>13</u>
Capital Surplus (Note (4)(j))				
– Premium on capital stock	61,188,108	34	61,344,958	35
– Other	2,609,666	1	2,266,111	1
	<u>63,797,774</u>	<u>35</u>	<u>63,611,069</u>	<u>36</u>
Retained Earnings (Note (4)(j)):				
– Legal reserve	1,215,457	1	552,261	-
– Unappropriated earnings	5,515,556	3	904,246	1
	<u>6,731,013</u>	<u>4</u>	<u>1,456,507</u>	<u>1</u>
Other Adjustments to Stockholders' Equity:				
– Cumulative translation adjustments	555,566	-	1,932,479	2
– Unrecognized loss on pension cost	(3,202)	-	(1,115)	-
– Unrealized profit on financial assets	1,395,381	1	829,736	-
	<u>1,947,745</u>	<u>1</u>	<u>2,761,100</u>	<u>2</u>
<b>Total Stockholders' Equity</b>	<u>95,337,171</u>	<u>53</u>	<u>90,689,215</u>	<u>52</u>
<b>Commitments and Contingencies (Note (7) 、(9))</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 180,999,101</u>	<u>100</u>	<u>176,348,691</u>	<u>100</u>

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

(English Translation of Financial Report Originally Issued in Chinese)

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

PEGATRON CORPORATION

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009

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

	For the Six Months Ended June 30,			
	2010		2009	
	Amount	%	Amount	%
<b>Operating revenues (Note (5))</b>	\$ 160,712,888	100	132,431,968	100
Less: Sales returns	100,346	-	352,588	-
Sales allowances	487,255	-	231,148	-
<b>Net sales</b>	160,125,287	100	131,848,232	100
<b>Cost of sales (Notes (4)(c) and (5))</b>	153,253,189	96	127,837,069	97
<b>Gross profit</b>	6,872,098	4	4,011,163	3
Realized gains profit—beginning of the period (Note (5))	-	-	-	-
Realized(Unrealized) gross profit— end of the period	(1,230)	-	7,109	-
	6,870,868	4	4,018,272	3
<b>Operating expenses (Notes (5))</b>				
Selling expenses	1,044,345	1	1,215,501	1
General and administrative expenses	689,756	-	647,252	-
Research and development expenses	1,745,124	1	1,537,369	1
	3,479,225	2	3,400,122	2
<b>Income from operations</b>	3,391,643	2	618,150	1
<b>Non-operating income</b>				
Interest revenue	6,315	-	8,792	-
Investment income under the equity method (Note (4)(d))	429,323	-	420,407	-
Foreign exchange gain, net	126,974	-	-	-
Rent revenue	31,513	-	31,862	-
Gain on reversal of impairment (Note (4)(e))	9,647	-	18,529	-
Gain on valuation of financial asset	792	-	568	-
Others	545,059	-	612,676	-
	1,149,623	-	1,092,834	-
<b>Non-operating expenses</b>				
Interest expense	43,644	-	66,326	-
Loss on disposal of asset	251	-	2,719	-
Foreign exchange loss, net	-	-	332,538	-
Others	119,564	-	100,918	-
	163,459	-	502,501	-
<b>Income before income tax</b>	4,377,807	2	1,208,483	1
<b>Income expense (Note (4)(i))</b>	(904,420)	(1)	(198,300)	-
<b>Net income</b>	<b>\$ 3,473,387</b>	<b>1</b>	<b>1,010,183</b>	<b>1</b>
	<b>Before</b>	<b>After</b>	<b>Before</b>	<b>After</b>
	<b>Income Tax</b>	<b>Income Tax</b>	<b>Income Tax</b>	<b>Income Tax</b>
<b>Earnings per share (Notes(4)(k))</b>				
<b>Primary earnings per share</b>	<b>\$ 1.92</b>	<b>1.52</b>	<b>0.64</b>	<b>0.54</b>
<b>Primary earnings per share - retroactively adjusted</b>			<b>0.53</b>	<b>0.44</b>
<b>Diluted earnings per share</b>	<b>\$ 1.91</b>	<b>1.51</b>	<b>0.64</b>	<b>0.54</b>
<b>Diluted earnings per share - retroactively adjusted</b>			<b>0.53</b>	<b>0.44</b>

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 (Reviewed, Not Audited)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**  
(Expressed in Thousands of New Taiwan Dollars)

	Other adjustments of stockholders' equity							Total
	Common stock	Capital surplus	Retained earnings		Cumulative translation adjustments	Unrecognized loss on pension cost	Unrealized gain(loss) of financial assets	
			Legal reserve	Unappropriated earnings				
Balance, January 1, 2009	\$ 18,846,281	63,582,097	-	5,455,699	1,849,737	(1,128)	241,398	89,974,084
Net income for the six months ended June 30, 2009	-	-	-	1,010,183				1,010,183
Appropriations and distributions of 2008. earnings:								
Legal reserve	-	-	552,261	(552,261)	-	-	-	-
Cash dividends	-	-	-	(942,314)	-	-	-	(942,314)
Issuance of stocks in exchange of spin-off assets	-	-	-	-	-	-	-	-
Issuance of stocks in exchange of subsidiary capital								
The earnings extension increases funding	4,014,258	-	-	(4,014,258)	-	-	-	-
Adjustment arising from long-term equity investments	-	28,972	-	(52,803)	-	13	588,338	564,520
Cumulative translation adjustments	-	-	-	-	82,742	-	-	82,742
Changes in minority interest	-	-	-	-	-	-	-	-
Balance, June 30, 2009	<u>\$ 22,860,539</u>	<u>63,611,069</u>	<u>552,261</u>	<u>904,246</u>	<u>1,932,479</u>	<u>(1,115)</u>	<u>829,736</u>	<u>90,689,215</u>
Balance, January 1, 2010	\$ 22,860,539	63,776,623	545,570	6,712,650	198,092	(3,202)	1,680,205	95,770,477
Issuance of new shares in merge of the organization reorganization	100	307	-	-	-	-	-	407
Net income for the six months period ended June 30, 2010	-	-	-	3,473,387	-	-	-	3,473,387
Appropriations and distributions of 2009 earnings:								
Legal reserve	-	-	669,887	(669,887)	-	-	-	-
Stock dividends	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	(4,000,594)	-	-	-	(4,000,594)
Adjustment arising from long-term equity investments	-	20,844	-	-	227,157	-	(284,824)	(36,823)
Cumulative translation adjustments	-	-	-	-	130,317	-	-	130,317
Changes in minority interest	-	-	-	-	-	-	-	-
Balance, June 30, 2010	<u>\$ 22,860,639</u>	<u>63,797,774</u>	<u>1,215,457</u>	<u>5,515,556</u>	<u>555,566</u>	<u>(3,202)</u>	<u>1,395,381</u>	<u>95,337,171</u>

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



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

**PEGATRON CORPORATION**  
**STATEMENTS OF CASH FLOWS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 and 2009**

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

	For the Six Months Ended June 30,	
	2010	2009
<b>Cash flows from operating activities:</b>		
<b>Net income</b>	\$ 3,473,387	1,010,183
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	132,346	164,434
Amortization	334,225	271,851
Loss on disposal and retirement of assets, net	22,440	3,259
Reversal for impairment loss	(9,647)	(18,529)
Reversal for inventory market price decline and obsolescence	(21,841)	(615,290)
Cash dividend	2,129,062	-
Investment income under equity method	(429,323)	(420,407)
Change in assets and liabilities:		
Financial assets reported at fair value through profit or loss — current	-	(1,004,278)
Notes and accounts receivable	14,055,852	4,548,057
Other receivables	675,553	1,728,787
Inventories	3,278,098	9,773,309
Other current assets	4,041	(19,186)
Deferred income tax assets and liabilities, net	510,175	120,694
Notes and accounts payable	(13,617,953)	(1,909,427)
Accrued expenses	707,434	801,542
Other current liabilities	(165,663)	(314,441)
Other liabilities — current	1,199	(7,109)
<b>Net cash provided by operating activities</b>	<u>11,079,385</u>	<u>14,113,449</u>
<b>Cash flows from investing activities:</b>		
Increase in other financial assets	(107,536)	(147,373)
Increase in long-term investments under the equity method	(39,294)	(1,502,750)
Returned investments due to subsidiary company's capital decrease	-	120,000
Proceeds from sale of assets	1,450	31,336
Purchase of property, plant and equipment	(38,587)	(164,547)
Purchase of intangible assets	(10,952)	(27,145)
Purchase of deferred charges	(85,773)	(149,764)
<b>Net cash used in investing activities</b>	<u>(280,692)</u>	<u>(1,840,243)</u>
<b>Cash flows from financing activities:</b>		
Decrease in short-term debts	(3,023,055)	(7,920,000)
Repayment of long-term loans	-	(800,000)
Distribution of cash dividends	(4,000,594)	-
Issuance of new shares in merge of the organization reorganization	406	-
Increase in deposits received	1,475	8,649
<b>Net cash used in financing activities</b>	<u>(7,021,768)</u>	<u>(8,711,351)</u>
<b>Net increase in cash</b>	3,776,925	3,561,855
<b>Cash, beginning of the period</b>	3,512,748	5,919,482
<b>Cash, end of the period</b>	<u>\$ 7,289,673</u>	<u>9,481,337</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest	<u>\$ 46,650</u>	<u>84,275</u>
Income tax	<u>\$ 311</u>	<u>144,162</u>

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

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**PEGATRON CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**  
**(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. In January 2010, pursuant to the resolutions of the board of directors, the Company decided to merge with Pegatron International Investment Co. Ltd., and the record date for the merger is June 10, 2010. As the surviving entity from this merger, the Company applied for initial public offering (IPO) to the TSEC. The Company’s shares were listed on the TSEC on June 24, 2010.

The company’s parent company: None

As of June 30, 2010 and 2009, the Company had 4,171 and 4,390 employees, respectively.

**2. Summary of Significant Accounting Policies**

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

**a. Use of Estimates**

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

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

**b. Foreign Currency Translation**

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

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

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

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

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

**d. Asset Impairment**

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

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

**e. Financial Instruments**

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.

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.

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

**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.

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.

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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-operating income or loss.

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

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**j. Intangible Assets**

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

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

Computer software cost	3 years
------------------------	---------

The residual value, the amortization period, and the amortization method for an intangible asset with a finite useful life are audited 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 years.

**l. Pension Plan**

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

**m. Warranty Reserve**

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

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**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.

**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.



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**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.

**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 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 has any impairment loss, it 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 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.

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

Effective January 1, 2009, the Company adopted Republic of China Statement of Financial Accounting Standard (SFAS) No. 10 "Inventories". The adoption of this accounting principle did not have any significant effect on the Company's financial statements as of and for the six months ended June 30, 2009.

**4. Summary of Major Accounts:**

a. Cash

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Checking accounts	\$ -	276
Demand deposits	308,774	2,035,290
Time deposits	1,280,186	2,267,328
Foreign currency deposits	5,700,713	5,178,443
Total	<u>\$ 7,289,673</u>	<u>9,481,337</u>

b. Notes and Accounts Receivable — Non-related Parties

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Notes receivable	\$ 131	710
Less: Allowance for doubtful accounts	(36)	(150)
Net	<u>95</u>	<u>560</u>
Accounts receivable	9,599,804	15,782,279
Less: Allowance for doubtful accounts	(83,093)	(182,663)
Net	<u>9,516,711</u>	<u>15,599,616</u>
Total	<u>\$ 9,516,806</u>	<u>15,600,176</u>

c. Inventories

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Merchandise	\$ 10,413	92,754
Finished goods	2,583,847	4,628,974
Work in process	550,740	847,078
Raw materials	4,358,971	4,310,933
Inventories-in-transit	108,110	320,457
Sub-total	<u>7,612,081</u>	<u>10,200,196</u>
Less: Allowance for inventory market decline and obsolescence	<u>(351,130)</u>	<u>(636,997)</u>
Total	<u>\$ 7,260,951</u>	<u>9,563,199</u>

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For the six months ended June 30, 2010 and 2009, the components of cost of goods sold were as follows:

	<b>For the Six Months Ended June 30</b>	
	<b>2010</b>	<b>2009</b>
Cost of goods sold	\$ 153,275,030	128,452,359
Loss on disposal of scrapping	57,525	34,564
Gain on inventory valuation and obsolescence	(79,366)	(649,854)
	<b>\$ 153,253,189</b>	<b>127,837,069</b>

d. Long-Term Equity Investments

Name of Investee Company	June 30, 2010			June 30, 2009		
	Equity	Book	Original	Equity	Book	Original
	Holding	Value	Investment	Holding	Value	Investment
PEGATRON HOLDING LTD	100.00%	\$ 29,035,630	24,320,960	100.00%	25,323,528	21,301,063
UNIHAN CORPORATION	100.00%	12,638,297	12,098,279	100.00%	14,381,380	12,098,279
ASUSPOWER INVESTMENT CO., LTD.	100.00%	15,140,583	13,033,429	100.00%	13,897,763	13,033,429
ASUS INVESTMENT CO., LTD.	100.00%	15,970,203	16,184,982	100.00%	15,849,867	16,184,982
ASUSTEK INVESTMENT CO., LTD.	100.00%	14,797,468	14,593,543	100.00%	14,996,987	14,593,543
ADVANSUS CORP.	50.00%	223,667	166,364	50.00%	195,956	286,364
ENERTRONIX, INC.	-	-	-	100.00%	313,785	446,342
ASUS HOLLAND HOLDING B.V.	92.45%	1,203,719	1,153,501	92.45%	1,235,968	1,153,501
PEGATRON USA, INC.	100.00%	18,327	16,085	100.00%	18,909	16,085
Total		<b>\$ 89,027,894</b>			<b>86,214,143</b>	

The investment income of the Company recognized under the equity method amounted to \$429,323 and \$420,407 for the six months ended June 30, 2010 and 2009, respectively. Part of the long-term investments accounted for under the equity method of \$49,017,177 and \$47,621,016 and the related investment income (loss) of \$760,738 and \$(65,352) respectively, were recognized based on the investees' financial statements which were not audited by independent accountants.

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

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

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Current Assets	\$ 689,496	421,508
Noncurrent Assets	15,524	21,236
Current Liabilities	481,353	246,046
Other Liabilities	-	742
	<b>For the Six Months Ended June 30</b>	
	<b>2010</b>	<b>2009</b>
Revenues	\$ 1,096,357	706,648
Expenses	1,064,289	699,920

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 \$36,487 and \$26,203 as of June 30, 2010 and 2009, respectively.
- (ii) For the six months ended June 30, 2010 and 2009, the Company recognized a gain from impairment recovery amounted \$9,647 and \$18,529, and a loss on disposal of idle assets amounted \$(6,784) and \$(3,116), respectively.

f. Short-Term Loans

<b>Nature of the loan</b>	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Credit loan	\$ -	500,000
Range of interest rate	<b>0.47%~0.7%</b>	<b>0.10%</b>

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

<u>Types of Debt</u>	<u>Creditor</u>	<u>December 31,</u>		<u>Repayment Schedule</u>	<u>Credit line</u>
		<u>2010</u>	<u>2009</u>		
Credit loan	ANZ , Mega International Commercial Bank and 14 other banks	<u>\$ 7,200,000</u>	<u>7,200,000</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>10,500,000</u>

For the six months ended June 30, 2010 and 2009, long-term loans bore interest at average rates were 1.167% and 1.1726%, 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 June 30, 2010, the Company was in compliance with the loan covenants mentioned above.

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

h. Pension Plan

For the six months ended June 30, 2010 and 2009, the pension costs for the defined contribution pension plan of the Company amounted to \$72,270 and \$77,168, respectively.

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i. Income Tax

(i) According to the revised income tax law announced on May 27, 2009, the statutory income tax rate is reduced from 25% to 20% effective January 1, 2010. Also, according to the revised income tax law announced on June 15, 2010, this statutory income tax rate is reduced further to 17% effective January 1, 2010. Therefore, the Company is subject to statutory income tax rate of 17% and 25% for the six months ended June 30, 2010 and 2009, respectively. The Company also complies with the Basic Income Tax Act when calculating its income tax.

(ii) For the six months ended June 30, 2010 and 2009, the components of income tax expense were as follows:

	<b>For the Six Months Ended June 30</b>	
	<b>2010</b>	<b>2009</b>
Current income tax expense	\$ 292,137	76,228
Deferred income tax expense	510,175	120,694
10% surtax on undistributed earnings	102,108	1,378
Income tax expense	<b>\$ 904,420</b>	<b>198,300</b>

The components of deferred income tax expense were as follows:

	<b>For the Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Unrealized exchange gain (loss)	\$ (127,218)	92,024
Reversal (Provisions) for loss on allowance for inventory market decline and obsolescence	15,873	194,314
Unrealized profits on sales	(246)	2,147
Amortization of employee benefits	10	30
Reversal (Provisions) for warranty reserve	37,897	69,004
Organization Costs	-	220
Bonus	-	78,807
Investment tax credits	395,334	(200,198)
Reversal (Provisions) for impairment loss on assets	1,930	5,942
Loss carry-forward	13,289	(121,596)
Unrealized foreign investment gain	178,324	-
The effect of deferred tax changes	(5,018)	-
Deferred income tax expense	<b>\$ 510,175</b>	<b>120,694</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, 2010 and 2009 as follows:

	<b>For the Six Months Ended June 30</b>	
	<b>2010</b>	<b>2009</b>
Income tax expense calculated on pre-tax financial income at the statutory tax rate	\$ 744,227	302,111
Permanent differences	(66,874)	(105,244)
10% surtax on undistributed earnings	102,108	1,378
Investment tax credits	103,198	(689)
Others	21,761	744
Income tax expense	<b>\$ 904,420</b>	<b>198,300</b>

(iv) As of June 30, 2010 and 2009, the temporary differences, loss carry-forwards and income tax credits, generated from deferred income tax assets (liabilities), and the related income tax effect thereof were as follows:

	<b>June 30, 2010</b>		<b>June 30, 2009</b>	
	<b>Amount</b>	<b>Income Tax Effects</b>	<b>Amount</b>	<b>Income Tax Effects</b>
Temporary differences of deferred income tax assets(liabilities)— current:				
Recognition of unrealized foreign exchange loss: taxable	\$ 419,899	71,383	64,283	12,856
Recognition of loss on allowance for inventory market decline and obsolescence: deductible	351,130	59,692	636,997	127,399
Recognition of unrealized intercompany profits: deductible	69,293	11,780	7,389	1,478
Recognition of deferred employee benefits for tax: deductible	50	9	100	20
Recognition of warranty reserve: deductible	785,848	133,594	1,190,579	238,116
Recognition of organization costs: deductible	-	-	800	160
Unused balance of investment tax credits	-	157,718	-	374,198
Loss carry-forward	-	-	-	121,596
Valuation Allowance	-	-	-	-
Net deferred income tax assets	<b>\$ 434,176</b>	<b>875,823</b>	<b>875,823</b>	<b>875,823</b>

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<b>Temporary differences of deferred income tax assets(liabilities)— noncurrent:</b>	<b>June 30, 2010</b>		<b>June 30, 2009</b>	
	<b>Amount</b>	<b>Income Tax Effects</b>	<b>Amount</b>	<b>Income Tax Effects</b>
Recognition of impairment loss on assets: deductible	36,487	6,203	26,204	5,241
Recognition of deferred employee benefits for tax: deductible	200	34	250	50
Recognition of gain on foreign investments: taxable	(1,181,652)	(200,881)	-	-
Reserve for overseas investment losses	(648,527)	(110,250)	-	-
Recognition of organization costs: deductible	-	-	1,600	320
Valuation Allowance		-		-
Net deferred income tax assets (liabilities)		<b>\$ (304,894)</b>		<b>5,611</b>

(v) The Company's tax returns through 2007 have been assessed and approved by the Tax Authority.

(vi) 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:

<b>Year of occurrence</b>	<b>Unused investment tax credits</b>	<b>Year of expiration</b>
For the year ended December 31, 2009	<b>\$ 157,718</b>	2013

(vii) Due to the increase in its investments in new equipment, the Company was granted several income tax exemptions for its manufacturing and sales of "motherboard" out of the new equipment purchased from the proceeds of capital increase. As of June 30, 2010, the five year income tax exemption periods are as follows:

<b>Description</b>	<b>Exemption</b>
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



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

<b>Undistributed earnings:</b>	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Accumulated in 1997 and prior years	\$ -	-
Accumulated in 1998 and thereafter	5,515,556	904,246
<b>Total</b>	<b>\$ 5,515,556</b>	<b>904,246</b>
Stockholders' imputation tax credit account	<b>\$ 69,729</b>	<b>342,958</b>
	<b>2010(Expected)</b>	<b>2009 (Actual)</b>
Expected or actual deductible tax ratio	<b>11.18%</b>	<b>3.17%</b>

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 thousand, the Company issued 1,600,000 thousand new shares with par value of \$10 par share, which resulted in additional capital of \$16,000,000 thousand. 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 thousand.

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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.

As of June 30, 2010 and 2009, the authorized capital of the Company both consisted of 2,500,000 thousand shares, with a par value of \$10(in dollars) per share, and its outstanding capital consisted of 2,286,064 thousand shares and 2,286,054 thousand shares, respectively.

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

The Company may issue new GDRs with no more than 60,819,020 Pegatron common shares and delivered them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines". The new GDRs are expected to be issued in three months after obtaining approval from or effective registration by filing with Financial Supervisory Commission Executive Yuan.

(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.

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As of June 30, 2010 and 2009, 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.

(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.

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On March 10, 2010 and June 30, 2009 (resolution on such date was amended on December 25, 2009), the Company's board of directors resolved the appropriation of earnings for 2008 and 2009. The distributions of dividends per share and employee bonuses and remuneration to directors and supervisors from the distributable earnings in 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Common stock dividends per share (dollars)		
-Cash	\$ 1.75	0.47
-Stock (at par)	-	2.13
Total	<u>\$ 1.75</u>	<u>2.60</u>
Employee bonus - cash	<u>\$ 1,205,797</u>	<u>497,369</u>
Remuneration to directors and supervisors	<u>60,290</u>	<u>49,737</u>
Total	<u>\$ 1,266,087</u>	<u>547,106</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. Related information can be acquired from the Observation Post and other pipeline inquiry.

For the six months ended June 30, 2010 and 2009, the Company estimated employee bonuses and directors' and supervisors' remuneration amounted to \$312,605 and \$90,916, and \$31,260 and \$9,092, respectively, and recognizes it as current expenses. Differences between the amounts approved in the shareholders' meeting and recognized in the financial statements, if any, are to be accounted for as changes in accounting estimates and recognized as profit or loss.

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k. Earnings per Share (EPS)

For the six months ended June 30, 2010 and 2009, 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 Six Months Ended June 30,			
	2010		2009	
	Before income tax	After income tax	Before income tax	After income tax
Net income	\$ 4,377,807	3,473,387	1,208,483	1,010,183
Weighted-average common shares outstanding	2,286,056	2,286,056	1,884,628	1,884,628
Dilutive potential common shares	10,898	10,898	1,889	1,889
Diluted shares	\$ 2,296,954	2,296,954	1,886,517	1,886,517
Weighted-average common shares outstanding-retroactively adjusted			2,286,054	2,286,054
Dilutive potential common shares-retroactively adjusted			2,291	2,291
Diluted shares-retroactively adjusted			2,288,345	2,288,345
Primary earnings per share	\$ 1.92	1.52	0.64	0.54
Diluted earnings per share	\$ 1.91	1.51	0.64	0.54
Primary earnings per share-retroactively adjusted			0.53	0.44
Diluted earnings per share-retroactively adjusted			0.53	0.44

l. Financial Instruments

(i) Fair value of financial instruments

The carrying amounts of the following non-derivative short-term financial instruments such as cash, accounts receivable, accounts payable, short-term bank loans and other payables are estimated base on their fair value as of balance sheet date.

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As of June 30, 2010 and 2009, except for the financial assets liabilities described as above, the information on the Company's other financial assets and liabilities were as follows:

<b>Financial Assets</b>	<b>June 30,2010</b>		<b>June 30,2009</b>	
	<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>
Financial assets at fair value through				
income statement— current	\$ -	-	1,004,278	1,004,278
<b>Financial Liabilities</b>				
Bank loan	\$ 7,200,000	7,200,000	7,700,000	7,700,000

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

1. 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, whose information can be reasonably obtained by the Company.
2. 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 interest rate in discounting future cash flow is close to the book value, the book value is adopted as the fair market value.

(iii) Information on financial risks

1. Market risk

The Company's purchases and sales are denominated mainly in US dollars, 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.

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. In compliance with the Company's customer credibility evaluation policies, the Company evaluates the customer's credibility and collectability of notes and account receivables regularly 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 June 30, 2010 and 2009, guarantees and endorsements provided by the Company for the bank loans obtained by related parties, were discussed in Note (5).

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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.	An invest company accounted the Company for under the equity method(ASUSTeK Computer Inc. lost of control of this investee since May 31, 2010)
ASUS HOLLAND B.V	An investee company accounted for under the equity method by ASUSTeK Computer Inc.
ASUS TECHNOLOGY PTE. LIMITED	"
Double Tech Ltd.	"
Askey Computer Corp.	"
ASUS TECHNOLOGY INCORPORATION	"
ASMEDIA TECHNOLOGY INC.	"
ASUS Computer (Shanghai) Co., Ltd.	"
ASUSTEK COMPUTER (SHANGHAI) CO., LTD.	"
(ASUS UNITED Technology (Shanghai) Co., Ltd. Formerly)	"
SHINEWAVE INTERNATIONAL INC. Enertronix, Inc.	"
ASHINE TECHNOLOGY (SUZHOU) LTD.	An investee company accounted for under the equity method formerly. In July, 2009, an investee company accounted for under the equity method of the ASUSTeK computer Inc. after reorganization
ASKEY TECHNOLOGY (JIANG SU) LTD.	An investee company accounted for under the equity method by the ASUSTeK computer Inc.
ASIAROCK TECHNOLOGY LIMITED	An investee company accounted for under the equity method
ASUSPOWER CORPORATION	"
DIGITEK GLOBAL HOLDINGS LIMITED	"
KAEDAR TRADING LTD.	"
PEGATRON Czech s.r.o (PCZ)	"
PEGATRON MEXICO, S.A. DE C.V.(PCM)	"
Pegatron USA, INC.	"



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<u>Name of Related Party</u>	<u>Relationship with the Company</u>
STRATEGY Technology Co., Ltd.	An investee company accounted for under the equity method. (Liquidation is finished in 2010)
ADVANSUS CORP.	An investee company accounted for under the equity method
ASROCK Incorporation	"
Ability Enterprise Co., Ltd.	"
UNIHAN CORPORATION	"
AMA PRECISION INC.	"
CRYSTAL ART ENTERPRISE CO., LTD.	"
STARLINK ELECTRONICS CORPORATION	"
ASFLY TRAVEL SERVICE LIMITED	"
AzureWave Technologies, Inc.	"
ASLINK PRECISION CO., LTD.	"
Protek (Shanghai) Limited	"
NORTH TEC ASIA (SHANGHAI) LIMITED	An investee company accounted for under the equity method (The investee was merged with Protek (Shanghai)Limited in November 2009 and Protek (Shanghai) Limited is the surviving entity)
SHANGHAI INDEED TECHNOGLY CO.,LTD.	An investee company accounted for under the equity method
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	"
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	An investee company accounted for under the equity method
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.	"
CORE-TEK (SHANGHAI) LIMITED	"

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Name of Related Party	Relationship with the Company
Pegavision Corporation	An investee company accounted for under the equity method by Kinsus Interconnect Technology Corp.
BOARDTEK (HK) TRADING LIMITED	An investee company accounted for under the equity method
ASAP INTERNATIONAL CO.,LIMITED	"
RUNTOP(SHANGHAI) CO. LTD	"
All directors, supervisors, general manager and vice president	The company management

b. Significant Transactions with Related Parties

(i) Sales

Name of Related Party	For the Six Months Ended June 30,					
	2010			2009		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTeK	\$ 106,794,258	66.69%	Open account 60 days	72,175,445	54.74%	Open account 60 days
PCZ	3,707,898	2.32%	120 days from receipt of goods	748,361	0.57%	120 days from receipt of goods
Powtek (Shanghai)	1,958,248	1.22%	45 days from receipt of goods	1,739,896	1.32%	45 days from receipt of goods
Others	922,289	0.58%	30~90 days from receipt of goods Open account 30~90 days	836,111	0.63%	30~90 days from receipt of goods Open account 30~90 days
Total	<u>\$ 113,382,693</u>	<u>70.81%</u>		<u>75,499,813</u>	<u>57.26%</u>	

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

For the six months ended June 30, 2010 and 2009, the Company adjusted the double recording of sales to and purchases from related parties, which amounted to \$96,664,016 and \$41,863,985, respectively.

As of June 30, 2010 and 2009, unrealized gross profits from sales to related parties were \$69,292 and \$7,389, respectively.

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(ii) Purchases

Name of Related Party	For the Six Months Ended June 30,					
	2010			2009		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$ 76,408,446	52.02%	Open account 60 days	50,007,605	32.72%	Open account 60 days
Protek (Shanghai)	18,822,441	12.81%	90 days from receipt of goods	7,246,828	4.74%	90 days from receipt of goods
Others	4,635,239	3.15%	30~90 days from receipt of goods Open account 30~120 days	5,027,385	3.29%	30~90 days from receipt of goods Open account 30~120 days
<b>Total</b>	<b><u>\$ 99,866,126</u></b>	<b><u>67.98%</u></b>		<b><u>62,281,818</u></b>	<b><u>40.75%</u></b>	

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

For the six months ended June 30, 2010 and 2009, the Company purchased raw materials from vendors through ASUSTek.

(iii) Others

	For the Six Months Ended June 30,	
	2010	2009
(1) <u>After-sales warranty repair expense paid to:</u>		
ASUS Computer (Shanghai)	\$ 21,044	50,304
PTSI	118,309	150,699
PCZ	22,528	16,852
Others	12,267	24,278
<b>Total</b>	<b><u>\$ 174,148</u></b>	<b><u>242,133</u></b>
(2) <u>Processing fee paid to:</u>		
PCM	\$ 207,484	210,583
ASUSPOWER	2,389,462	5,514,743
DIGITEK	-	649,834
<b>Total</b>	<b><u>\$ 2,596,946</u></b>	<b><u>6,375,160</u></b>

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	<b>For the Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
(3) <u>Other income from:</u>		
ASUSTeK	\$ 339,655	271,270
UNIHAN	14,132	30,848
PCJ	26,852	-
Others	24,338	13,778
Total	<b>\$ 404,977</b>	<b>315,896</b>

(4) For the Six months ended June 30, 2010 and 2009, the Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, professional service fee, etc, amounting to \$75,483 and \$79,519, respectively.

(5) For the six months ended June 30, 2010 and 2009, the Company incurred other related party transactions recorded as rental revenue, amounting to \$25,800 and \$31,937, respectively.

(6) For the six months ended June 30, 2010 and 2009, the Company had other related party transactions recorded as non-operating expense amounting to \$10,079 and \$311, respectively.

(iv) Accounts receivable (payable)

	<b>June 30,2010</b>		<b>June 30,2009</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<u>Notes and Accounts Receivable:</u>				
Protek (Shanghai)	\$ 45,859,238	65.92%	34,617,044	57.92%
ASUSTeK	11,173,090	16.06%	7,852,710	13.14%
PCZ	2,249,458	3.23%	317,216	0.52%
ASIROCK	283,674	0.41%	458,704	0.77%
Others	406,525	0.58%	738,911	1.24%
Total	<b>\$ 59,971,985</b>	<b>86.20%</b>	<b>43,984,585</b>	<b>73.59%</b>
<u>Other Receivables:</u>				
PCZ	\$ 643,060	64.85%	1,421	0.06%
ASUSTeK	73,365	7.40%	251,002	10.27%
UNIHAN	9,275	0.94%	1,518,336	62.13%
Others	14,699	1.49%	34,767	1.43%
Total	<b>\$ 740,399</b>	<b>74.68%</b>	<b>1,805,526</b>	<b>73.89%</b>

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	June 30,2010		June 30,2009	
	Amount	%	Amount	%
<u>Notes and Accounts Payable:</u>				
Casetek (Suzhou)	\$ 291,709	0.49%	802,789	1.46%
Protek (Shanghai)	45,161,359	75.82.%	31,532,412	57.51%
Shanghai Indeed	239,805	0.40%	560,680	1.02%
BOARDTEK COMPUTER (SUZHOU) CO., LTD	161,164	0.27%	263,907	0.48%
UNIHAN	251	- %	230,773	0.42%
Others	652,234	1.09%	622,991	1.14%
<b>Total</b>	<b>\$ 46,506,522</b>	<b>78.07%</b>	<b>34,013,552</b>	<b>62.03%</b>
<u>Accrued Expenses:</u>				
ASUSPOWER	\$ 10,895,221	70.99%	15,949,852	83.33%
PCM	376,511	2.45%	357,311	1.87%
Protek (Shanghai)	357,993	2.33%	-	- %
Others	115,096	0.76%	342,194	1.78%
<b>Total</b>	<b>\$ 11,744,821</b>	<b>76.53%</b>	<b>16,649,357</b>	<b>86.98%</b>

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

	June 30,2010	June 30,2009
<u>Assets:</u>		
Prepayments	\$ 9,838	1,777
Temporary payments	5,319	15,080
	<b>\$ 15,157</b>	<b>16,857</b>
<u>Liabilities:</u>		
Temporary receipts	\$ 212,281	201,253

(v) Endorsement Guarantee

As of June 30, 2010 and 2009, the Company provided endorsement guarantee for bank loans obtained by a related party as follows:

Name of Related Party Guaranteed	Amount of Guarantee (thousands)	
	June 30,2010	June 30,2009
ASUSPOWER	<b>USD 25,000</b>	<b>USD 40,000</b>

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As of June 30, 2010 and 2009, the endorsement guarantees provided by the related party for the Company's purchases was as follow:

<u>Name of Related Party Guarantor</u>	<u>Amount of Guarantee (thousands)</u>			
	<u>June 30,2010</u>		<u>June 30,2009</u>	
ASUSTeK	<u>USD</u>	<u>300,000</u>	<u>USD</u>	<u>300,000</u>

(vi) Finance

As of June 30, 2010 and 2009, the finance provided by the Company for the related party was as follow:

	<u>June 30,2010</u>	
	<u>Ending Balance</u>	<u>The Highest Balance</u>
PCZ	<u>\$ 643,000</u>	<u>643,300</u>

The loan to PCZ bears annual interest of 1%.

## 6. Pledged Assets

As of June 30, 2010 and 2009, pledged assets were as follows:

<u>Asset</u>	<u>June 30,2010</u>	<u>June 30,2009</u>	<u>Purpose of pledge</u>
Restricted deposit	\$ 101,887	111,597	Deposits for customs duties.
Refundable deposits	11,144	338,058	Deposits for performance guarantee
	<u>\$ 113,031</u>	<u>449,655</u>	

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

(a) As of June 30, 2010 and 2009, the Company had unused letters of credit of EUR 402, NT \$15,000 and EUR 100,000, respectively.

(b) As of June 30, 2010 and 2009, the Company had promissory notes and certificate of deposit obtained for business purpose of \$13,974 and \$14,498, respectively.

(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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
2010	<u>\$ 37,778</u>	<u>59,519</u>	<u>53,871</u>	<u>45,053</u>	<u>6,214</u>

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

**9. Significant Subsequent Events:**

On July 9, 2010, the board of directors of the Company decided to purchase 75,000 thousand shares of treasury stock at prices ranging from \$21.8 to \$41(in dollars) per share, for the period from July 12, 2010 to September 10, 2010, in accordance with the Securities and Exchange Act. The purchase of treasury stock is intended to maintain the reputation of the Company and stockholder's equity.

**10. Others**

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

Categorized as Nature	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salary expense	366,551	1,815,865	2,182,416	413,332	1,416,008	1,829,340
Health and labor insurance expense	23,726	89,306	113,032	27,275	89,526	116,801
Pension expense	14,903	57,367	72,270	17,507	59,661	77,168
Other expense	18,695	67,086	85,781	19,297	55,474	74,771
Depreciation expense	26,027	95,652	121,679	44,020	110,659	154,679
Amortization expense	222,936	111,289	334,225	161,501	110,350	271,851

Note A: For the six months ended June 30, 2010 and 2009, the Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle-assets, of \$10,667 thousand and \$9,755 thousand, respectively.

- b. Certain accounts in the financial statements as of and for the six months ended June 30, 2009, were reclassified to conform to the presentation adopted in the financial statements as of and for the six months ended June 30 2010.

**11. SEGMENT INFORMATION**

Disclosure of segmental information is not required in interim financial statements as explained in paragraph 25 of SFAS No. 23.