

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

(With Independent Accountants' 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 December 31, 2010 and 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 the audit report based on our audits. We did not audit the financial statements of certain investees accounted for under the equity method, in which the Company’s long-term equity investments amounted to NT\$ 21,591,166 thousand as of December 31, 2010 representing 14.55% of total assets, and related investment income was NT\$ 2,336,755 thousand for the year then ended, representing 31.94% of net income before tax. The financial statements of these investees were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, is based solely on the reports of other auditors.

We conducted our 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.

In our opinion, based on our audit and the report of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Pegatron Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, with the 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.

As described in Note (3) to the financial statements, effective January 1, 2009, the Company adopted the amended Republic of China Statement of Financial Accounting Standard (SFAS) No. 10 "Accounting for Inventories." The adoption of this revised accounting standard decreased net income and earnings per share by NT\$ 116,562 thousand and NT \$0.05, respectively, for the year ended December 31, 2009.

We have also audited the consolidated financial statements of the Company as of and for the years ended December 31, 2010 and 2009 and have issued a modified unqualified audit report and an unqualified audit report, respectively.



Taipei, Taiwan, R.O.C

March 7, 2011

Note to Readers

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

BALANCE SHEETS

December 31, 2010 and 2009

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

| ASSETS | December 31, 2010 | | December 31, 2009 | |
|--|-----------------------|------------|--------------------|------------|
| | Amount | % | Amount | % |
| Current Assets: | | | | |
| Cash (Note (4)(a)) | \$ 8,808,075 | 6 | 3,512,748 | 2 |
| Notes receivable, net of allowance for uncollectible accounts (Note (4)(b)) | | | | |
| – Non-related parties | 259 | - | 3,332 | - |
| – Related parties (Note (5)) | - | - | 28,659 | - |
| Accounts receivable, net of allowance for uncollectible accounts (Note (4)(b)) | | | | |
| – Non-related parties | 7,690,768 | 6 | 15,031,793 | 8 |
| – Related parties (Note (5)) | 34,921,360 | 25 | 68,480,859 | 35 |
| Other receivables | | | | |
| – Non-related parties | 18,871 | - | 388,949 | - |
| – Related parties (Note (5)) | 21,774 | - | 1,278,092 | 1 |
| Other financial assets — current (Note (6)) | 71,887 | - | 141,597 | - |
| Inventories (Note (4)(c)) | 7,169,808 | 5 | 10,517,208 | 5 |
| Other current assets (Note (5)) | 72,729 | - | 41,061 | - |
| Deferred income tax assets — current (Note (4)(i)) | 243,383 | - | 804,290 | - |
| | <u>59,018,914</u> | <u>42</u> | <u>100,228,588</u> | <u>51</u> |
| Investments: | | | | |
| Long-term investments under the equity method (Note (4)(d)) | 83,573,594 | 56 | 90,594,845 | 46 |
| | <u>28,637</u> | <u>-</u> | <u>203,650</u> | <u>-</u> |
| Other Financial Assets — Noncurrent (Note (6)) | | | | |
| Property, Plant and Equipment, at cost : | | | | |
| Land | 2,150,317 | 1 | 2,156,047 | 1 |
| Buildings | 1,745,891 | 1 | 1,788,644 | 1 |
| Machinery and equipment | 285,708 | - | 317,044 | - |
| Warehousing equipment | 600 | - | 1,199 | - |
| Instrument equipment | 273,977 | - | 316,784 | - |
| Transportation equipment | 21,752 | - | 23,765 | - |
| Office equipment | 3,951 | - | 3,951 | - |
| Leased assets | 27,423 | - | 13,393 | - |
| Miscellaneous equipment | 398,450 | - | 404,571 | - |
| | <u>4,908,069</u> | <u>2</u> | <u>5,025,398</u> | <u>2</u> |
| Less: Accumulated depreciation | (916,653) | (1) | (783,373) | - |
| Prepayment for equipment | 50,130 | - | 11,777 | - |
| | <u>4,041,546</u> | <u>1</u> | <u>4,253,802</u> | <u>2</u> |
| Intangible Assets | 181,820 | - | 235,453 | - |
| Other Assets — others (Note (4)(e)) | 1,512,580 | 1 | 1,872,571 | 1 |
| TOTAL ASSETS | <u>\$ 148,357,091</u> | <u>100</u> | <u>197,388,909</u> | <u>100</u> |

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

BALANCE SHEETS (CONT'D)

December 31, 2010 and 2009

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

| | December 31, 2010 | | December 31, 2009 | |
|--|-----------------------|------------|--------------------|------------|
| | Amount | % | Amount | % |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current Liabilities: | | | | |
| Short-term loans (Note (4)(f)) | \$ 2,665,200 | 2 | 3,023,055 | 2 |
| Notes accounts payable | | | | |
| – Non-related parties | 12,469,050 | 8 | 19,256,810 | 10 |
| – Related parties (Note (5)) | 21,903,630 | 15 | 53,930,162 | 27 |
| Accrued expenses | | | | |
| – Non-related parties | 2,821,046 | 2 | 3,974,987 | 2 |
| – Related parties (Note (5)) | 7,509,146 | 5 | 10,665,125 | 5 |
| Other current liabilities (Note (5)) | 2,834,993 | 1 | 3,319,649 | 2 |
| | <u>50,203,065</u> | <u>33</u> | <u>94,169,788</u> | <u>48</u> |
| Long-Term Loans: | | | | |
| Long-term loans (Note (4)(g)) | 6,991,200 | 5 | 7,200,000 | 4 |
| Other financial liabilities — noncurrent | 16,211 | - | 15,718 | - |
| | <u>7,007,411</u> | <u>5</u> | <u>7,215,718</u> | <u>4</u> |
| Other Liabilities: | | | | |
| Deferred income tax liabilities — noncurrent (Note (4)(i)) | 295,006 | - | 164,833 | - |
| Other long-term liabilities — other | 10,380 | - | 68,093 | - |
| | <u>305,386</u> | <u>-</u> | <u>232,926</u> | <u>-</u> |
| Total Liabilities | <u>57,515,862</u> | <u>38</u> | <u>101,618,432</u> | <u>52</u> |
| Stockholders' Equity: | | | | |
| Common stock (Note (4)(j)) | <u>22,563,669</u> | <u>15</u> | <u>22,860,539</u> | <u>12</u> |
| Capital surplus (Note (4)(j)) | | | | |
| Premium on capital stock | 60,393,247 | 41 | 61,188,108 | 31 |
| Other | 2,752,201 | 2 | 2,588,515 | 1 |
| | <u>63,145,448</u> | <u>43</u> | <u>63,776,623</u> | <u>32</u> |
| Retained earnings (Note (4)(j)): | | | | |
| Legal reserve | 1,215,457 | 1 | 545,570 | - |
| Unappropriated earnings | 8,253,605 | 6 | 6,712,650 | 3 |
| | <u>9,469,062</u> | <u>7</u> | <u>7,258,220</u> | <u>3</u> |
| Other adjustments to stockholders' equity: | | | | |
| Cumulative translation adjustments | (5,250,188) | (4) | 198,092 | - |
| Unrecognized loss on pension cost | (16) | - | (3,202) | - |
| Unrealized profit on financial assets | 922,576 | 1 | 1,680,205 | 1 |
| Treasury stock(Note(4)(j)) | (9,322) | - | - | - |
| | <u>(4,336,950)</u> | <u>(3)</u> | <u>1,875,095</u> | <u>1</u> |
| Total Stockholders' Equity | <u>90,841,229</u> | <u>62</u> | <u>95,770,477</u> | <u>48</u> |
| Commitments and Contingencies (Note (7)) | | | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 148,357,091</u> | <u>100</u> | <u>197,388,909</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, 2010 AND 2009
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data))

| | For the Year Ended December 31, | | | |
|---|---------------------------------|-------------------|-------------------|-------------------|
| | 2010 | | 2009 | |
| | Amount | % | Amount | % |
| Operating revenues (Note (5)) | \$ 298,795,302 | 100 | 329,668,452 | 101 |
| Less: Sales returns | 176,833 | - | 951,419 | (1) |
| Sales allowances | 856,700 | - | 752,506 | - |
| Net sales | 297,761,769 | 100 | 327,964,527 | 100 |
| Cost of sales (Notes (4)(c) and (5)) | 287,193,000 | 96 | 318,659,711 | 97 |
| Gross profit | 10,568,769 | 4 | 9,304,816 | 3 |
| Less: Realized(Unrealized) profit on sales (Note (5)) | 57,683 | - | (53,565) | - |
| | 10,626,452 | 4 | 9,251,251 | 3 |
| Operating expenses (Note (5)) | | | | |
| Selling expenses | 1,858,165 | 1 | 2,553,330 | 1 |
| General and administrative expenses | 1,397,175 | - | 1,638,316 | 1 |
| Research and development expenses | 3,339,007 | 1 | 3,990,865 | 1 |
| | 6,594,347 | 2 | 8,182,511 | 3 |
| Income from operations | 4,032,105 | 2 | 1,068,740 | - |
| Non-operating income | | | | |
| Interest revenue | 11,546 | - | 11,690 | - |
| Investment gain under the equity method (Note (4)(d)) | 2,458,713 | 1 | 5,339,396 | 2 |
| Others | 1,287,849 | - | 1,488,852 | - |
| | 3,758,108 | 1 | 6,839,938 | 2 |
| Non-operating expenses | | | | |
| Interest expense | 94,815 | - | 111,842 | - |
| Foreign exchange loss, net | 79,123 | - | 274,403 | - |
| Others | 299,865 | - | 327,384 | - |
| | 473,803 | - | 713,629 | - |
| Income before income tax | 7,316,410 | 3 | 7,195,049 | 2 |
| Income tax expense (Note (4)(i)) | 1,104,974 | - | 443,461 | - |
| Net income | <u>\$ 6,211,436</u> | <u>3</u> | <u>6,751,588</u> | <u>2</u> |
| | Before | After | Before | After |
| | Income Tax | Income Tax | Income Tax | Income Tax |
| Earnings per share (Notes(4)(k)) | | | | |
| Primary earnings per share | <u>\$ 3.22</u> | <u>2.73</u> | <u>3.15</u> | <u>2.95</u> |
| Diluted earnings per share | <u>\$ 3.21</u> | <u>2.72</u> | <u>3.10</u> | <u>2.91</u> |

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

| | <u>Before Income Tax</u> | <u>After Income Tax</u> |
|--------------------------------|--------------------------|-------------------------|
| Net income | <u>\$ 7,316,410</u> | <u>6,211,436</u> |
| Earnings per share(Note(4)(k)) | <u>\$ 3.22</u> | <u>2.73</u> |

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

(English Translations of Financial Statements Originally Issued in Chinese)
PEGATRON CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER, 2010 AND 2009
(Expressed in Thousands of New Taiwan Dollars)

| | Common stock | Capital surplus | Retained earnings | | Cumulative translation adjustments | Other adjustments of stockholders' equity | | | Total |
|---|---------------|-----------------|-------------------|-------------------------|------------------------------------|---|---|----------------|-------------|
| | | | Legal reserve | Unappropriated earnings | | Unrecognized loss on pension cost | Unrealized gain(loss) of financial assets | Treasury Stock | |
| Balance, January 1, 2009 | \$ 18,846,281 | 63,582,097 | - | 5,455,699 | 1,849,737 | - | 241,398 | - | 89,974,084 |
| Net income for the year ended December, 2009 | - | - | - | 6,751,588 | - | - | - | - | 6,751,588 |
| Appropriations and distributions of 2008 earnings: | | | | | | | | | |
| Legal reserve | - | - | 545,570 | (545,570) | - | - | - | - | - |
| Cash dividends | - | - | - | (882,092) | - | - | - | - | (882,092) |
| Stock dividends | 4,014,258 | - | - | (4,014,258) | - | - | - | - | - |
| Adjustment arising from long-term equity investments | - | 156,504 | - | (52,717) | - | (2,074) | 1,438,807 | - | 1,540,520 |
| Cumulative translation adjustments | - | - | - | - | (1,651,645) | - | - | - | (1,651,645) |
| Interest expense generated from trust of shareholders of parent company | - | 38,022 | - | - | - | - | - | - | 38,022 |
| Balance, December 31, 2009 | \$ 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 |
| Purchase of treasury stock | - | - | - | - | - | - | - | (1,006,862) | (1,006,862) |
| Retirement of treasury stock | (296,970) | (709,892) | - | - | - | - | - | 1,006,862 | - |
| Net income for the year ended December 31, 2010 | - | - | - | 6,211,436 | - | - | - | - | 6,211,436 |
| Appropriations and distributions of 2009 earnings: | | | | | | | | | |
| Legal reserve | - | - | 669,887 | (669,887) | - | - | - | - | - |
| Cash dividends | - | - | - | (4,000,594) | - | - | - | - | (4,000,594) |
| Adjustment arising from long-term equity investments | - | 47,779 | - | - | - | 3,186 | (757,629) | - | (706,664) |
| Cumulative translation adjustments | - | - | - | - | (5,448,280) | - | - | - | (5,448,280) |
| Equity held by investee | - | - | - | - | - | - | - | (9,322) | (9,322) |
| Interest expense generated from trust of shareholders of parent company | - | 30,631 | - | - | - | - | - | - | 30,631 |
| Balance, December 31, 2010 | \$ 22,563,669 | 63,145,448 | 1,215,457 | 8,253,605 | (5,250,188) | (16) | 922,576 | (9,322) | 90,841,229 |

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 and 2009

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

| | For the Year Ended December 31, | |
|--|---------------------------------|--------------------|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net income | \$ 6,211,436 | 6,751,588 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 262,831 | 324,220 |
| Amortization | 654,549 | 620,596 |
| Reversal for allowance for uncollectable account | (47,666) | (48,451) |
| Reversal for contingent service cost | (126,000) | (253,144) |
| Provision (Reversal) for inventory market price decline and obsolescence, and for important loss | 58,888 | (856,356) |
| Investment gain under equity method | (2,458,713) | (5,339,396) |
| Loss on disposal and retirement of assets (accounted under other expense) | 40,867 | 39,465 |
| Cash dividend from investments under equity method | 3,419,062 | 2,446,583 |
| Gain on disposal of long-term investment | - | (218) |
| Provision (Reversal) for impairment loss (accounted under non-operating income/expense others) | (9,647) | 1,401 |
| Unrealized (Realized) unrealized gross profit | (57,683) | 53,565 |
| Interest expense generated from the trust of shareholders | 30,631 | 31,594 |
| Change in assets and liabilities: | | |
| Decrease (increase) in notes and accounts receivable | 40,979,922 | (36,742,080) |
| Decrease in other receivables | 986,596 | 1,009,030 |
| Decrease in inventories | 3,288,512 | 9,060,366 |
| Decrease (increase) in other current assets | 3,723 | (46,662) |
| Decrease in deferred income tax assets and liabilities, net | 691,080 | 362,671 |
| Increase (decrease) in notes and accounts payable | (38,814,292) | 33,705,969 |
| Increase (decrease) in accrued income tax | 413,168 | (63,651) |
| Decrease in accrued expenses | (4,309,920) | (3,497,026) |
| Increase (decrease) in other current liabilities | (771,824) | 223,090 |
| Decrease in other operational liabilities | (30) | (8,099) |
| Net cash provided by operating activities | 10,445,490 | 7,775,055 |
| Cash flows from investing activities: | | |
| Increase in long-term investment under the equity method | (103,364) | (3,527,451) |
| Proceeds from disposal of long-term investments under the equity method | - | 860,851 |
| Returned investments due to subsidiary's capital decrease | - | 120,000 |
| Purchase of property, plant and equipment | (75,374) | (212,220) |
| Proceeds from disposal of assets, idle assets, deferred charges | 2,134 | 93,440 |
| Increase in deferred charges | (241,604) | (470,966) |
| Decrease in other account receivable - related parties | 639,800 | - |
| Purchase of intangible assets | (43,267) | (66,378) |
| Decrease in other financial assets | 244,723 | 90,182 |
| Net cash provide by (used in) investing activities | 423,048 | (3,112,542) |
| Cash flows from financing activities: | | |
| Decrease in short-term loans | (357,855) | (5,396,945) |
| Repurchase of treasury stock | (1,006,862) | - |
| Increase in long-term loans | 6,991,200 | - |
| Repayment of long-term loans | (7,200,000) | (800,000) |
| Distribution of cash dividends | (4,000,594) | (882,092) |
| Increase in other financial liabilities | 493 | 9,790 |
| Share issued from reorganization | 407 | - |
| Net cash used in financing activities | (5,573,211) | (7,069,247) |
| Net increase (decrease) in cash | 5,295,327 | (2,406,734) |
| Cash, beginning of the year | 3,512,748 | 5,919,482 |
| Cash, end of the year | \$ 8,808,075 | 3,512,748 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for: | | |
| Interest exclude interest capitalized | \$ 93,618 | 129,578 |
| Income tax | \$ 726 | 144,441 |

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

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PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 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 as part of the Company’s business restructuring. On April 1, 2008, ASUSALPHA Computer Inc. was merged with the Company. The main activities of the Company are to produce, design and sell OEM business. In January 2010, pursuant to the resolutions of the board of directors, the Company decided to merge with Pegatron International Investment Co., Ltd., and the record date for the merger was June 10, 2010. As the surviving entity from this merger, the Company applied for initial public offering (IPO) to TSEC. The Company’s shares were listed on TSEC on June 24, 2010.

The company’s parent company: None

As of December 31, 2010 and 2009, the Company had 4,505 and 4,153 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

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 financial assets 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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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 to 5 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 and office decorations are deferred and amortized equally over 3 years, and the costs of molds and fixtures 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 and Cost Recognition

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

o. Classification of Capital and Operating Expenditures

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

p. 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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u. Treasury Stocks

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

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

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

3. Reasons for and Effect of Accounting Changes:

Effective January 1, 2009, the Company adopted the amended Republic of China Statement of Financial Accounting Standards (SFAS) No. 10 "Inventories." In accordance with the standards, fixed costs are allocated to finished goods and work in process on the basis of the normal capacity utilization, and inventories are measured individually at the lower of cost and net realizable value. The effects of the adoption of this revised accounting standard on net income (NI) and earnings per share (EPS) for the year ended December 31, 2009 were as follows:

| <u>Effect of Accounting Change</u> | <u>Account affected</u> | <u>Decrease in Net Income</u> | <u>Decrease in EPS</u> |
|---|-------------------------------------|-----------------------------------|------------------------|
| Fixed costs allocated based on normal capacity utilization | Cost of goods sold | \$ 64,652 | 0.03 |
| Fixed costs allocated based on normal capacity utilization (subsidiaries) | Investment gain under equity method | 51,910 | 0.02 |
| Total | | <u>\$ 116,562</u> | <u>0.05</u> |

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4. Summary of Major Accounts:

a. Cash

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|--------------------------------|--------------------------|--------------------------|
| Demand deposits | \$ 896,674 | 1,502,930 |
| Time deposits | - | 210,000 |
| Foreign currency deposits | 5,171,051 | 1,128,028 |
| Foreign currency time deposits | 2,767,350 | 671,790 |
| Total | <u>\$ 8,808,075</u> | <u>3,512,748</u> |

b. Notes and Accounts Receivable — Non-related parties

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|---------------------------------------|--------------------------|--------------------------|
| Notes receivable | \$ 262 | 3,655 |
| Less: Allowance for doubtful accounts | (3) | (323) |
| Net | <u>259</u> | <u>3,332</u> |
| Accounts receivable | 7,734,368 | 15,122,739 |
| Less: Allowance for doubtful accounts | (43,600) | (90,946) |
| Net | <u>7,690,768</u> | <u>15,031,793</u> |
| Total | <u>\$ 7,691,027</u> | <u>15,035,125</u> |

c. Inventories

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|---|--------------------------|--------------------------|
| Finished goods (including inventory-in-transit) | \$ 3,516,640 | 5,214,722 |
| Less: Allowance for inventory market decline and obsolescence | (85,565) | (125,936) |
| Sub-total | <u>3,431,075</u> | <u>5,088,786</u> |
| Work in process | 338,461 | 693,765 |
| Less: Allowance for inventory market decline and obsolescence | (31,913) | (51,819) |
| Sub-total | <u>306,548</u> | <u>641,946</u> |
| Raw material & Merchandise (including inventory-in-transit) | 3,769,637 | 5,039,217 |
| Less: Allowance for inventory market decline and obsolescence | (337,452) | (252,741) |
| Sub-total | <u>3,432,185</u> | <u>4,786,476</u> |
| Total | <u>\$ 7,169,808</u> | <u>10,517,208</u> |

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For the years ended December 31, 2010 and 2009, the components of cost of goods sold were as follows:

| | For the Year Ended December 31 | |
|---|---------------------------------------|--------------------|
| | 2010 | 2009 |
| Cost of goods sold | \$ 287,134,112 | 319,324,599 |
| Loss (Gain) on inventory disposal, valuation and obsolescence | 58,888 | (664,888) |
| | \$ 287,193,000 | 318,659,711 |

d. Long-Term Equity Investments

| Name of Investee Company | December 31, 2010 | | | December 31, 2009 | | |
|--------------------------------|-------------------|----------------------|---------------------|-------------------|-------------------|---------------------|
| | Equity Holding | Book Value | Original Investment | Equity Holding | Book Value | Original Investment |
| PEGATRON HOLDING LTD. | 100.00% | \$ 27,580,026 | 24,385,030 | 100.00% | 29,311,767 | 24,281,666 |
| UNIHAN CORPORATION | 100.00% | 11,997,517 | 12,098,279 | 100.00% | 15,408,963 | 12,098,279 |
| ASUSPOWER INVESTMENT CO., LTD. | 100.00% | 14,052,812 | 13,033,429 | 100.00% | 14,342,702 | 13,033,429 |
| ASUS INVESTMENT CO., LTD. | 100.00% | 14,759,695 | 16,184,982 | 100.00% | 15,528,237 | 16,184,982 |
| ASUSTEK INVESTMENT CO., LTD | 100.00% | 13,682,791 | 14,593,543 | 100.00% | 14,686,690 | 14,593,543 |
| ADVANSUS CORP. | 50.00% | 247,822 | 166,364 | 50.00% | 220,399 | 166,364 |
| ASUS HOLLAND HOLDING B.V. | 92.45% | 1,236,667 | 1,153,501 | 92.45% | 1,078,274 | 1,153,501 |
| PEGATRON USA, INC. | 100.00% | 16,264 | 16,085 | 100.00% | 17,813 | 16,085 |
| | | \$ 83,573,594 | | | 90,594,845 | |

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:

| | December 31, 2010 | December 31, 2009 |
|---------------------|--------------------------|--------------------------|
| Current Assets | \$ 523,492 | 487,823 |
| Noncurrent Assets | 14,317 | 17,290 |
| Current Liabilities | 289,987 | 283,972 |
| Other Liabilities | - | 742 |

| | For the Year Ended December 31 | |
|----------|---------------------------------------|-------------|
| | 2010 | 2009 |
| Revenues | \$ 2,358,362 | 1,473,862 |
| Expenses | 2,302,139 | 1,442,692 |

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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 \$46,134 as of December 31, 2010 and 2009, respectively.
- (ii) For the years ended December 31, 2010 and 2009, the Company recognized a gain from impairment recovery of \$9,647 and \$23,174, respectively, and a loss on disposal of idle assets of \$6,784 and \$0, respectively.
- (iii) For the year ended December 31, 2009, the Company recognized impairment loss of \$24,575 based on the net fair value in reference to the real estate valuation report.

f. Short-Term Loans

| <u>Nature of the loan</u> | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|---------------------------|--------------------------|--------------------------|
| Credit loan | \$ 2,665,200 | 3,023,055 |
| Range of interest rate | 0.40%~0.87% | 0.44%~0.53% |

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.

g. Long-Term Loans

| <u>Types of Debt</u> | <u>Creditor</u> | <u>December 31, 2010</u> | <u>Repayment Schedule</u> | <u>Credit Line</u> |
|----------------------|------------------------------------|--|--|---|
| Credit loan | Citibank Taiwan and 15 other banks | \$ 6,991,200 <u>USD 240,000,000</u> | 2010.10.25~2015.10.25 Credit line is repayable in 5 semi-annual installments, commencing October 25, 2013 | <u>11,652,000</u> <u>USD 400,000,000</u> |

For the year ended December 31, 2010, long-term loans bore interest at average rates of 0.8926% ~ 1.0647%. 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%.

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- (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, 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 as of December 31, 2010.

| <u>Types of Debt</u> | <u>Creditor</u> | <u>December 31, 2009</u> | <u>Repayment Schedule</u> | <u>Credit Line</u> |
|----------------------|--|--------------------------|---|--------------------|
| Credit loan | ANZ, Mega International Commercial Bank and 14 other banks | <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 has been repaid in advance on November 23, 2010 | <u>12,000,000</u> |

For the year ended December 31, 2009, credit loans bore interest at average rates of 1.15%. 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 above credit loan facility.

h. Pension Plan

For the years ended December 31, 2010 and 2009, the pension costs for the defined contribution pension plan of the Company amounted to \$147,364 and \$151,015, respectively.

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i. Income Tax

- (i) 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 years ended December 31, 2010 and 2009, respectively. The Company also complies with the Basic Income Tax Act when calculating its income tax.
- (ii) For the years ended December 31, 2010 and 2009, the components of income tax expense were as follows:

| | For the Year Ended December 31 | |
|--------------------------------------|---------------------------------------|----------------|
| | 2010 | 2009 |
| Current income tax expense | \$ 311,786 | 4,035 |
| Deferred income tax expense | 691,080 | 362,671 |
| 10% surtax on undistributed earnings | 102,108 | 8,069 |
| Prior years income tax adjustment | - | 68,686 |
| Income tax expense | \$ 1,104,974 | 443,461 |

The components of deferred income tax expense were as follows:

| | For the Year Ended December 31 | |
|---|---------------------------------------|----------------|
| | 2010 | 2009 |
| Unrealized exchange gain | \$ 82,510 | 148,118 |
| Reversal (Provisions) for loss on allowance for inventory market decline and obsolescence | (4,154) | 235,614 |
| Unrealized (Realized) profits on sales | 9,806 | (9,987) |
| Amortization of employee benefits | 17 | 40 |
| Reversal for warranty reserve | 113,813 | 112,053 |
| Organization Costs | - | 700 |
| Bonus | - | 78,807 |
| Investment tax credits | (204,858) | (379,053) |
| Reversal for impairment loss on assets | 1,640 | 1,956 |
| Loss carry-forward | 11,296 | (13,289) |
| Unrealized foreign investment gain | 141,670 | 187,712 |
| Effect on deferred tax of the change in statutory tax rate | 12,960 | - |
| Allowance of deferred tax asset | 526,380 | - |
| Deferred income tax expense | \$ 691,080 | 362,671 |

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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 years ended December 31, 2010 and 2009 as follows:

| | For the Year Ended December 31 | |
|---|---------------------------------------|----------------|
| | 2010 | 2009 |
| Income tax expense calculated on pre-tax financial income at the statutory tax rate | \$ 1,243,790 | 1,798,762 |
| Permanent differences | (406,793) | (1,075,845) |
| 10% surtax on undistributed earnings | 102,108 | 8,069 |
| Investment tax credits | 103,198 | (383,087) |
| Effect on deferred tax of the change in statutory tax rate | 12,960 | 21,043 |
| Others | 49,711 | 74,519 |
| Income tax expense | \$ 1,104,974 | 443,461 |

- (iv) As of December 31, 2010 and 2009, the temporary differences, loss carry-forwards and income tax credits and the related income tax effect thereof resulting in deferred income tax assets (liabilities) were as follows:

| Temporary differences of deferred income tax assets (liabilities) - current | December 31, 2010 | | December 31, 2009 | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | Amount | Income Tax Effect | Amount | Income Tax Effect |
| Recognition of unrealized foreign exchange loss: taxable | \$(701,536) | (119,261) | (216,192) | (43,238) |
| Recognition of loss on allowance for inventory market decline and obsolescence: deductible | 454,931 | 77,338 | 430,496 | 86,099 |
| Recognition of deferred employee benefits for tax: deductible | 100 | 17 | 100 | 20 |
| Recognition of warranty reserve: deductible | 305,848 | 51,994 | 975,334 | 195,067 |
| Recognition of organization costs: deductible | 10,380 | 1,764 | - | - |
| Unused balance of investment tax credits | - | 757,911 | - | 553,053 |
| Loss carry-forward | - | - | 66,446 | 13,289 |
| Valuation allowance | - | (526,380) | - | - |
| Net deferred income tax assets | \$ 243,383 | - | 804,290 | - |

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| Temporary differences of deferred income tax assets (liabilities) - noncurrent | December 31, 2010 | | December 31, 2009 | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | Amount | Income Tax Effect | Amount | Income Tax Effect |
| Recognition of impairment loss on assets: deductible | \$ 36,487 | 6,203 | 46,134 | 9,227 |
| Recognition of deferred employee benefits for tax: deductible | 100 | 17 | 200 | 40 |
| Recognition of organization costs: deductible | - | - | 68,063 | 13,612 |
| Recognition of gain on foreign investments: taxable | (1,123,388) | (190,976) | (938,560) | (187,712) |
| Reserve for foreign investment losses | (648,527) | (110,250) | - | - |
| Net deferred income tax assets (liabilities) | | \$ (295,006) | | (164,833) |

(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 were as follows:

| Year of occurrence | Unused investment tax credits | Year of expiration |
|--------------------------------------|--------------------------------------|---------------------------|
| For the year ended December 31, 2008 | \$ 378,858 | 2012 |
| For the year ended December 31, 2009 | 379,053 | 2013 |
| | \$ 757,911 | |

(vii) Due to the increase in its investments in new equipment, the Company was granted several income tax exemptions for its manufacturing and sales of "motherboard" out of the new equipment purchased from the proceeds of capital increase. As of December 31, 2010, the five year income tax exemption periods were as follows:

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

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

| Undistributed earnings: | December 31, 2010 | December 31, 2009 |
|---|--------------------------|--------------------------|
| Accumulated in 1997 and prior years | \$ - | - |
| Accumulated in 1998 and thereafter | 8,253,605 | 6,712,650 |
| Total | \$ 8,253,605 | 6,712,650 |
| | | |
| Stockholders' imputation tax credit account | \$ 200,504 | 5,240 |
| | | |
| | 2010(Expected) | 2009 (Actual) |
| Expected or actual deductible tax ratio | 7.45% | 3.17% |

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 per 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 had 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.

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares valued at \$296,970. As of December 31, 2010 and 2009, the authorized capital of the Company both consisted of 2,500,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,256,367 thousand shares and 2,286,054 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". As of December 31, 2010, the Company has listed, in total, 10,181 thousand units of GDR on the Luxembourg Stock Exchange. Each unit of deposit receipt represents 5 shares and thereby the Company has listed 50,905 thousand shares in total. Major terms and conditions for GDR were as follows:

1. Voting Rights

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

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

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

(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.

As of December 31, 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 \$232,803 and \$194,872, respectively, which were debited to salary expense and credited to capital surplus—others.

(iii) Treasury Stock

1. For the year ended December 31, 2010, in order to maintain the Company's credit standing and shareholders' equity, the Company bought back 29,697 thousand shares in accordance with Securities and Exchange Act Article 28-2. As of December 31, 2010, the Company had completed the process of retiring all of its treasury stock.
2. In accordance with Securities and Exchange Act, the number of treasury shares shall not exceed ten percent of the total number of issued and outstanding shares of the Company. Also, the total amount of the treasury shares may not exceed the amount of retained earnings plus premium on capital stock plus realized capital reserve. The repurchased shares shall not exceed the amount of retained earnings plus premium on capital stock plus realized capital reserve. The repurchased shares held by the Company was 29,697 thousand shares and the maximum total amount of shares held was \$1,006,862 which conformed to Securities and Exchange Act. The limit of shares the Company repurchased from the active market are up to 228,605 thousand shares amounting to \$66,221,050 which are calculated according to financial reports for the latest accounting period prior to a resolution of a meeting of the board of directors.

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3. In accordance with Securities and Exchange Act, treasury shares cannot be pledged. Also, treasury shares do not bear the shareholder's right prior to being sold to third parties.
4. As of December 31, 2010, the number of Company's shares held by its subsidiaries was 800 thousand shares amounting to \$33,600 at fair value.

(iv) 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 | \$ 1,205,797 | 497,369 |
| Remuneration to directors and supervisors | 60,290 | 49,737 |
| 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 year ended December 31, 2010, the estimated employee bonuses and directors' and supervisors' remuneration amounted to \$127,000 and \$12,000, respectively, which were recognized as current expenses. Differences between the amounts approved in the shareholders' meeting and recognized in the financial statements, if any, are to be accounted for as changes in accounting estimates and recognized as profit or loss.

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k. Earnings per Share (EPS)

For the years ended December 31, 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 Year Ended December 31, | | | |
|--|---------------------------------|---------------------|----------------------|---------------------|
| | 2010 | | 2009 | |
| | Before income tax | After income tax | Before income tax | After income tax |
| Net income | \$ 7,316,410 | 6,211,436 | 7,195,049 | 6,751,588 |
| Weighted-average common shares outstanding | 2,273,429 | 2,273,429 | 2,286,054 | 2,286,054 |
| Dilutive potential common shares | 7,821 | 7,821 | 33,953 | 33,953 |
| Diluted shares | \$ 2,281,250 | 2,281,250 | 2,320,007 | 2,320,007 |
| Primary earnings per share | \$ 3.22 | 2.73 | 3.15 | 2.95 |
| Diluted earnings per share | \$ 3.21 | 2.72 | 3.10 | 2.91 |

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

| | For the Year Ended December 31, 2010 | |
|--|---|---------------------|
| | Before Income Tax | After Income Tax |
| | Net income | \$ 7,316,410 |
| Weighted-average outstanding shares (thousand) | 2,273,585 | 2,273,585 |
| Earnings per share | \$ 3.22 | 2.73 |

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 December 31, 2010 and 2009, except for the financial assets liabilities described above, the information on the Company's other financial assets and liabilities were as follows:

| <u>Financial Liabilities</u> | <u>December 31, 2010</u> | | <u>December 31, 2009</u> | |
|------------------------------|--------------------------|-------------------|--------------------------|-------------------|
| | <u>Book Value</u> | <u>Fair Value</u> | <u>Book Value</u> | <u>Fair Value</u> |
| Bank loans | \$ 6,991,200 | 6,991,200 | 7,200,000 | 7,200,000 |

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

1. The fair market value of long-term loan 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.

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.

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The major customers of the Company are concentrated in the high-tech computer industry. As the customers of the Company have good credits and profit records, the Company evaluates the financial conditions of these customers continually to reduce credit risk from accounts receivable. Moreover, the Company 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, 2010 and 2009, guarantees and endorsements provided by the Company for bank loans obtained by related parties, were discussed in Note (5).

m. Others

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

| | December 31, 2010 | | | December 31, 2009 | | |
|---|---------------------|------------------|------------|---------------------|------------------|------------|
| | Foreign Currency | Exchange Rate | NTD | Foreign Currency | Exchange Rate | NTD |
| Financial Assets | | | | | | |
| <u>Monetary Items</u> | | | | | | |
| USD | \$1,730,048 | 29.13 | 50,396,298 | 2,663,710 | 31.99 | 85,212,083 |
| <u>Long-term Equity Investments</u> | | | | | | |
| USD | 947,349 | 29.13 | 27,596,276 | 916,836 | 31.99 | 29,329,584 |
| EUR | 31,775 | 38.92 | 1,236,683 | 23,390 | 46.10 | 1,078,279 |
| Financial Liabilities | | | | | | |
| <u>Monetary Items</u> | | | | | | |
| USD | 1,721,985 | 29.13 | 50,161,423 | 2,720,120 | 31.99 | 87,016,639 |

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5. Related-Party Transactions

a. Names and relationships of related parties with the Company

| <u>Name of Related Party</u> | <u>Relationship with the Company</u> |
|--|--|
| ASUSTEK COMPUTER INC. (ASUSTEK) | An investor company that ceased to be a parent company effective May 31, 2010. |
| ASUS HOLLAND B.V | An investee company accounted for under the equity method by ASUSTeK Computer Inc. |
| ASUS TECHNOLOGY PTE. LIMITED | // |
| 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. | An investee company which became a wholly owned subsidiary of ASUSTeK following reorganization in July 2009. |
| ASHINE TECHNOLOGY (SUZHOU) LTD. | An investee company accounted for under the equity method by the ASUSTeK computer Inc. |
| ASKEY TECHNOLOGY (JIANG SU) LTD. | // |
| POWTEK (SHANGHAI) CO., LTD. (POWTEK) | An investee company which became a wholly owned subsidiary of the company following reorganization in July 2009. |
| BIG PROFIT LIMITED | An investee company accounted for under the equity method by ASUSTeK Computer Inc. |
| ASUS TECHNOLOGY (SUZHOU) CO., LTD | // |
| AGAIT TECHNOLOGY CORP. | // |
| ASIAROCK TECHNOLOGY LIMITED (ASIAROCK) | An investee company accounted for under the equity method |
| ASLINK (H.K.) PRECISION CO., LTD. | // |
| ASUSPOWER CORPORATION (ASUSPOWER) | // |
| 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) | // |

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| <u>Name of Related Party</u> | <u>Relationship with the Company</u> |
|---|--|
| PEGATRON TECHNOLOGY SERVICE INC. (PTSI) | An investee company accounted for under the equity method |
| PEGATRON USA, INC. | " |
| STRATEGY TECHNOLOGY CO., LTD. | An investee company accounted for under the equity method. (Liquidation is completed in 2010) |
| ADVANSUS CORP. | An investee company accounted for under the equity method |
| ASROCK INCORPORATION | " |
| ABILITY ENTERPRISE CO., LTD. | " |
| PEGA INTERNATIONAL LIMITED | " |
| UNIHAN CORPORATION (UNIHAN) | " |
| 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 (PROTEK) | " |
| 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 | " |
| PEGAVISION CORPORATION | An investee company accounted for under the equity method by Kinsus Interconnect Technology Corp. |

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| <u>Name of Related Party</u> | <u>Relationship with the Company</u> |
|--|---|
| PIOTEK (HK) TRADING LIMITED (PIOTEK) | An investee company accounted for under the equity method |
| ASAP INTERNATIONAL CO., LIMITED | " |
| RUNTOP(SHANGHAI) CO. LTD (RUNTOP) | " |
| UNITED NEW LIMITED | " |
| TOPTTEK PRECISION INDUSTRY (SUZHOU) CO., LTD | " |
| LUMENS DIGITAL OPTICS INC. | " |
| KINSUS INTERCONNECT TECHNOLOGY CORP. | " |
| BLACKROCK MARYLAND INT'L CORP | " |
| HOLD JUMPER INTERNATIONAL CO., LTD | " |
| HOLD JUMPER PACKING (SUZHOU) CO., LTD | " |
| HOLD JUMPER PACKING (SHANGHAI) CO., LTD | " |
| SUZHOU DELUXE PACKING PRODUCTION CO., LTD | " |
| COTEK ELECTRONICS (SUZHOU) CO., LTD | " |
| All directors, supervisors, general manager and vice president | The company management |

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b. Significant Transactions with Related Parties

(i) Sales

| Name of Related Party | For the Year Ended December 31, | | | | | |
|--------------------------|---------------------------------|-------------------|---|--------------------|-------------------|--|
| | 2010 | | | 2009 | | |
| | Amount | % of Net Sales | The collection term | Amount | % of Net Sales | The collection term |
| ASUSTEK | \$ 207,982,648 | 69.85 | Open account 60 days | 196,506,372 | 59.92 | Open account 60 days |
| PCZ | 5,694,792 | 1.91 | 120 days from receipt of goods | 3,805,838 | 1.16 | 120 days from receipt of goods |
| POWTEK | 2,933,277 | 0.99 | 45 days from receipt of goods | 4,261,589 | 1.30 | 45 days from receipt of goods |
| Others | 1,703,020 | 0.57 | 30~90 days from receipt of goods Open account 30~90 days | 2,293,529 | 0.70 | 30~90 days from receipt of goods Open account 30~90 days |
| Total | \$ 218,313,737 | 73.32 | | 206,867,328 | 63.08 | |

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, 2010 and 2009, the Company adjusted the double recording of sales to and purchases from related parties, which amounted to \$186,242,785 and \$145,430,580, respectively.

As of December 31, 2010 and 2009, unrealized profits from sales to related parties were \$10,380 and \$68,063, respectively.

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(ii) Purchases

| Name of Related Party | For the Year Ended December 31, | | | | | |
|--------------------------|---------------------------------|-------------------------|--|--------------------|-------------------------|--|
| | 2010 | | | 2009 | | |
| | Amount | % of Gross Purchases | Purchase term | Amount | % of Gross Purchases | Purchase term |
| ASUSTeK | \$ 151,112,664 | 54.42 | Open account 60 days | 136,742,235 | 30.78 | Open account 60 days |
| Protek | 35,363,947 | 12.73 | 90 days from receipt of goods | 30,864,549 | 6.95 | 90 days from receipt of goods |
| Others | 8,428,225 | 3.03 | 30~90 days from receipt of goods Open account 30~120 days | 10,275,266 | 2.32 | 30~90 days from receipt of goods Open account 30~120 days |
| Total | \$ 194,904,836 | 70.18 | | 177,882,050 | 40.05 | |

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

For the years ended December 31, 2010 and 2009, the Company purchased raw materials from vendors through ASUSTek.

(iii) Others

| | For the Year Ended December 31, | |
|---|---------------------------------|----------------|
| | 2010 | 2009 |
| (1) <u>After-sales warranty repair expense paid to:</u> | | |
| ASUS Computer (Shanghai) | \$ 14,531 | 85,505 |
| PTSI | 206,018 | 272,520 |
| PCZ | 45,725 | 35,646 |
| Others | 28,984 | 32,051 |
| Total | \$ 295,258 | 425,722 |

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| | For the Year Ended December 31, | |
|-----------------------------|--|-------------------|
| | 2010 | 2009 |
| (2) Processing fee paid to: | | |
| PCM | \$ 279,023 | 434,195 |
| ASUSPOWER | 4,930,999 | 8,962,696 |
| RUNTOP | 24,252 | - |
| DIGITEK | - | 649,833 |
| Total | \$ 5,234,274 | 10,046,724 |

| | For the Year Ended December 31, | |
|------------------------|--|----------------|
| | 2010 | 2009 |
| (3) Other income from: | | |
| ASUSTeK | \$ 598,238 | 761,184 |
| UNIHAN | 28,697 | 63,951 |
| PCJ | 47,843 | 55,884 |
| Others | 51,965 | 41,736 |
| Total | \$ 726,743 | 922,755 |

- (4) For the years ended December 31, 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 \$132,772 and \$126,816, respectively.
- (5) For the years ended December 31, 2010 and 2009, the Company incurred other related party transactions recorded as rental revenue, amounting to \$52,533 and \$64,727, respectively.
- (6) For the years ended December 31, 2010 and 2009, the Company had other related party transactions recorded as non-operating expense amounting to \$22,750 and \$0, respectively.
- (7) The Company transferred all its equity ownership of Enertronix Inc. to ASUSTek for purposes of corporate restructuring in July, 2009. The transfer price of this transaction was \$313,785.

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(8) For the years ended December 31, 2010 and 2009, the Company sold for \$1,768 and \$74,501 to other related party fixed assets with carrying value of \$1,609 and \$77,051, which resulted in gain (loss) of disposal on fixed assets of \$159 and \$(2,550), respectively.

(iv) Accounts receivable (payable)

| | December 31, 2010 | | December 31, 2009 | |
|---------------------------------------|----------------------|--------------|-------------------|--------------|
| | Amount | % | Amount | % |
| <u>Notes and Accounts Receivable:</u> | | | | |
| PROTEK | \$ 24,247,523 | 56.84 | 51,620,571 | 61.72 |
| ASUSTeK | 8,646,081 | 20.27 | 12,344,888 | 14.76 |
| PCZ | 1,281,826 | 3.01 | 2,666,310 | 3.19 |
| POWTEK | 360,545 | 0.85 | 1,070,802 | 1.28 |
| Others | 385,385 | 0.90 | 806,947 | 0.96 |
| Total | \$ 34,921,360 | 81.87 | 68,509,518 | 81.91 |
| <u>Other Receivables:</u> | | | | |
| PCZ | \$ - | - | 639,802 | 36.88 |
| ASUSTeK | 4,837 | 11.90 | 134,834 | 7.77 |
| UNIHAN | 12,980 | 31.93 | 9 | - |
| PROTEK | - | - | 492,773 | 28.40 |
| Others | 3,957 | 9.74 | 10,674 | 0.62 |
| Total | \$ 21,774 | 53.57 | 1,278,092 | 73.67 |
| | | | | |
| | December 31, 2010 | | December 31, 2009 | |
| | Amount | % | Amount | % |
| <u>Notes and Accounts Payable:</u> | | | | |
| PROTEK | \$ 19,920,632 | 57.95 | 51,927,044 | 70.95 |
| Others | 1,982,998 | 5.77 | 2,003,118 | 2.74 |
| Total | \$ 21,903,630 | 63.72 | 53,930,162 | 73.69 |
| <u>Accrued Expenses:</u> | | | | |
| ASUSPOWER | \$ 6,667,741 | 64.55 | 10,014,356 | 68.40 |
| PROTEK | 283,746 | 2.75 | 239,679 | 1.64 |
| Others | 557,659 | 5.40 | 411,090 | 2.81 |
| Total | \$ 7,509,146 | 72.70 | 10,665,125 | 72.85 |

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

| | December 31, 2010 | December 31, 2009 |
|---------------------|--------------------------|--------------------------|
| Liabilities: | | |
| Advance receipts | \$ 12,626 | 78,945 |
| Temporary receipts | 25,937 | 132,312 |
| | \$ 38,563 | 211,257 |

(v) Endorsement Guarantee

As of December 31, 2010 and 2009, the Company provided endorsement guarantee for bank loans obtained by related parties as follows:

| Name of Related Party Guaranteed | Amount of Guarantee (thousands) | |
|---|--|--------------------------|
| | December 31, 2010 | December 31, 2009 |
| ASUSPOWER | USD 20,000 | USD 30,000 |
| PCZ | USD 10,000 | USD - |
| PIOTEK | USD 49,000 | USD - |

As of December 31, 2010 and 2009, endorsement guarantees provided by a related party for the Company's purchases were as follow:

| Name of Related Party Guarantor | Amount of Guarantee (thousands) | |
|--|--|--------------------------|
| | December 31, 2010 | December 31, 2009 |
| ASUSTeK | USD 300,000 | USD 300,000 |

(vi) Financing

As of December 31, 2010 and 2009, financing provided by the Company to a related party were as follows:

| | December 31, 2010 | | December 31, 2009 | |
|-----|--------------------------|----------------------------|--------------------------|----------------------------|
| | Ending Balance | The Highest Balance | Ending Balance | The Highest Balance |
| PCZ | \$ - | 643,300 | 639,800 | 639,800 |

The loan to PCZ bears annual interest of 1%.

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(vii) Remuneration

For the years ended December 2010 and 2009, the total remuneration paid to the members of Board of Directors and Supervisors and of Executive management were as follow:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|---|--------------------------|--------------------------|
| Salary and Bonus (including BODS remuneration) | \$ 176,203 | 118,832 |
| Employee Bonus | 21,129 | 64,730 |
| | <u>\$ 197,332</u> | <u>183,562</u> |

6. Pledged Assets

As of December 31, 2010 and 2009, pledged assets were as follows:

| <u>Asset</u> | <u>December 31,</u> | | <u>Purpose of pledge</u> |
|---------------------|---------------------|----------------|------------------------------------|
| | <u>2010</u> | <u>2009</u> | |
| Restricted deposit | \$ 71,887 | 141,597 | Deposits for customs duties. |
| Refundable deposits | 28,637 | 193,132 | Deposits for performance guarantee |
| | <u>\$ 100,524</u> | <u>334,729</u> | |

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

- (a) As of December 31, 2010 and 2009, the Company had unused letters of credit of EUR\$267, US\$132 and EUR\$235, respectively.
- (b) As of December 31, 2010 and 2009, the Company had promissory notes and certificate of deposit obtained for business purpose of \$13,216 and \$18,684, respectively.
- (c) Rental expense and future lease commitments of the operating lease agreements were as follows:

| <u>Year</u> | <u>Rent expense</u> | <u>Future lease commitments</u> | | | |
|-------------|---------------------|---------------------------------|---------------|---------------|-------------|
| | | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
| 2010 | <u>\$ 75,556</u> | <u>65,554</u> | <u>58,073</u> | <u>18,708</u> | <u>-</u> |

8. Significant Catastrophic Losses: None.

9. Significant Subsequent Events: None.

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10. Others

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

| Categorized as Nature | For the Year Ended December 31, 2010 | | | For the Year Ended December 31, 2009 | | |
|------------------------------------|--------------------------------------|-------------------|-----------|--------------------------------------|-------------------|-----------|
| | Operating Cost | Operating Expense | Total | Operating Cost | Operating Expense | Total |
| Personnel expense | | | | | | |
| Salary expense | 634,605 | 3,226,513 | 3,861,118 | 839,284 | 4,177,420 | 5,016,704 |
| Health and labor insurance expense | 47,375 | 187,781 | 235,156 | 51,958 | 175,181 | 227,139 |
| Pension expense | 29,008 | 118,356 | 147,364 | 33,722 | 117,293 | 151,015 |
| Other expense | 34,446 | 125,665 | 160,111 | 45,163 | 136,058 | 181,221 |
| Depreciation expense | 51,223 | 190,557 | 241,780 | 79,098 | 225,319 | 304,417 |
| Amortization expense | 423,284 | 231,265 | 654,549 | 384,270 | 236,326 | 620,596 |

Note A: For the years ended December 31, 2010 and 2009, the Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle assets, of \$21,051 and \$19,803, respectively.

- b. Certain accounts in the financial statements as of and for the year ended December 31, 2009, were reclassified to conform to the presentation adopted in the financial statements as of and for the year ended December 31, 2010.

11. FINANCIAL INFORMATION BY SEGMENT

- a. Business Segment

The Company operates in electrical industry only.

- b. Geographical Segment

The Company has only one domestic operating segment and no overseas operations.

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c. Export Sales

| Region | For the Year Ended December 31, | |
|---------|---------------------------------|--------------------|
| | 2010 | 2009 |
| America | \$ 38,472,657 | 57,306,127 |
| Asia | 22,663,002 | 44,426,334 |
| Europe | 13,893,846 | 13,999,663 |
| Other | 691,495 | 420,576 |
| Total | \$ 75,721,000 | 116,152,700 |

d. Major Customer

The customers whose accounts exceeded more than 10% of the Company's operating revenues for the years ended December 31, 2010 and 2009 were as follows:

| Customer | For the Year Ended December 31, | | | |
|----------|---------------------------------|----------------------------------|--------------------|---------------------------------|
| | 2010 | | 2009 | |
| | Amount | % of total operating revenues | Amount | % of total operating revenue |
| A | \$ 207,982,648 | 69.85 | 196,506,372 | 59.92 |
| B | 28,801,523 | 9.67 | 46,363,897 | 14.14 |
| | \$ 236,784,171 | 79.52 | 242,870,269 | 74.06 |