

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

**PEGATRON CORPORATION**

**FINANCIAL STATEMENTS**

**March 31, 2011 AND 2010**

**(With Independent Accountants' Review Report)**

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**REVIEW REPORT OF INDEPENDENT ACCOUNTANTS**

**To the Board of Directors of  
Pegatron Corporation**

We have reviewed the accompanying balance sheets of Pegatron Corporation (the “Company”) as of March 31, 2011 and 2010, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to issue the review report based on our reviews. We did not review the financial statements of certain investees accounted for under the equity method, in which the Company’s long-term equity investments amounted to NT\$ 8,079,614 thousand as of March 31, 2011 representing 4.92% of total assets, and related investment income was NT\$ 263,558 thousand for the three months then ended, representing 51.76% of net loss before tax. The financial statements of these investees were reviewed by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, is based solely on the reports of other auditors.

Except as discussed in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 “Engagements to Review Financial Statements”. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in Note (4)(d) to the financial statements, the long-term equity investments accounted for under the equity method of NT\$ 74,662,110 and NT\$ 86,091,614 thousand as of March 31, 2011 and 2010, respectively and the related investment loss of NT\$ 1,013,181 and NT\$ 107,397 thousand for the three months ended March 31, 2011 and 2010, were recognized based on unreviewed financial statements of the investees.

Based on our review and the report of other auditors, excepted for the effects of any adjustments to the financial statements described above as of and for the three months ended March 31, 2011 and 2010, that might have emerged had the financial statements of investees been reviewed by independent accountants, we are not aware of any material modifications that should be made to accompanying financial statements for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Entity Accounting Act and Guidelines Governing Business Accounting relevant to financial accounting standards, 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 three months ended March 31, 2011 and 2010 and have issued qualified review reports thereon.

KPMG

A handwritten signature in black ink that reads "KPMG". The letters are stylized and slanted to the right.

Taipei, Taiwan, R.O.C

April 26, 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 review such financial statements are those generally accepted and applied in Taiwan, the ROC.

The auditors' review 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' review report and financial statements, the Chinese version shall prevail.

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**PEGATRON CORPORATION**  
**BALANCE SHEETS**

March 31, 2011 and 2010

(All Amounts Expressed in Thousands of New Taiwan Dollars)

ASSETS	March 31, 2011		March 31, 2010	
	Amount	%	Amount	%
<b>Current Assets:</b>				
Cash (Note (4)(a))	\$ 6,874,067	4	7,010,340	4
Notes receivable, net of allowance for uncollectible accounts (Note (4)(b))				
– Non-related parties	5,704	-	81	-
Accounts receivable, net of allowance for uncollectible accounts (Note (4)(b))				
– Non-related parties	15,986,456	10	12,297,892	6
– Related parties (Note (5))	47,039,622	29	63,648,564	34
Other receivables				
– Non-related parties	732,625	-	2,572,442	1
– Related parties (Note (5))	17,888	-	1,225,297	1
Other financial assets — current (Note (6))	72,003	-	101,887	-
Inventories (Note (4)(c))	4,637,537	3	9,581,456	5
Other current assets (Note (5))	95,329	-	53,733	-
Deferred income tax assets — current (Note (4)(i))	198,674	-	369,535	-
	<u>75,659,905</u>	<u>46</u>	<u>96,861,227</u>	<u>51</u>
<b>Investments:</b>				
Long-term investments under the equity method (Note (4)(d))	83,421,428	51	87,700,246	46
<b>Other Financial Assets — Noncurrent (Note (6))</b>				
	<u>10,840</u>	<u>-</u>	<u>198,324</u>	<u>-</u>
<b>Property, Plant and Equipment, at cost :</b>				
Land	2,150,317	2	2,141,236	1
Buildings	1,745,891	1	1,710,514	1
Machinery and equipment	234,839	-	283,315	-
Warehousing equipment	600	-	1,199	-
Instrument equipment	269,754	-	314,713	-
Transportation equipment	23,332	-	24,965	-
Office equipment	3,951	-	3,951	-
Leased assets	27,423	-	25,573	-
Miscellaneous equipment	391,689	-	395,079	-
	<u>4,847,796</u>	<u>3</u>	<u>4,900,545</u>	<u>2</u>
Less: Accumulated depreciation	(915,095)	(1)	(804,044)	-
	<u>3,932,701</u>	<u>2</u>	<u>4,096,501</u>	<u>2</u>
<b>Intangible Assets</b>	172,431	-	215,288	-
<b>Other Assets — others (Note (4)(e))</b>	966,701	1	1,853,353	1
<b>TOTAL ASSETS</b>	<b>\$ 164,164,006</b>	<b>100</b>	<b>190,924,939</b>	<b>100</b>

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

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

PEGATRON CORPORATION  
BALANCE SHEETS (CONT'D)

March 31, 2011 and 2010

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	March 31, 2011		March 31, 2010	
	Amount	%	Amount	%
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Short-term loans (Note (4)(f))	\$ 2,793,000	2	1,590,000	1
Notes and accounts payable				
– Non-related parties	17,672,367	11	17,537,885	9
– Related parties (Note (5))	32,413,548	20	48,516,928	25
Accrued expenses				
– Non-related parties	2,302,455	1	3,489,341	2
– Related parties (Note (5))	7,762,638	5	12,021,368	6
Dividend Payable	-	-	4,000,594	2
Other current liabilities (Note (5))	2,810,496	2	3,156,371	2
	<u>65,754,504</u>	<u>41</u>	<u>90,312,487</u>	<u>47</u>
<b>Long-Term Loans:</b>				
Long-term loans (Note (4)(g))	7,056,000	4	7,200,000	4
<b>Other Liabilities:</b>				
Other financial liabilities – noncurrent	13,496	-	21,019	-
Deferred income tax liabilities – noncurrent (Note (4)(i))	299,808	-	179,171	-
Other long-term liabilities – other	1,427	-	57,450	-
	<u>314,731</u>	<u>-</u>	<u>257,640</u>	<u>-</u>
<b>Total Liabilities</b>	<u>73,125,235</u>	<u>45</u>	<u>97,770,127</u>	<u>51</u>
<b>Stockholders' Equity:</b>				
<b>Common stock (Note (4)(j))</b>	<u>22,563,669</u>	<u>13</u>	<u>22,860,539</u>	<u>12</u>
<b>Capital surplus (Note (4)(j))</b>				
Premium on capital stock	60,393,247	36	61,188,108	32
Other	2,755,153	2	2,608,589	1
	<u>63,148,400</u>	<u>38</u>	<u>63,796,697</u>	<u>33</u>
<b>Retained earnings (Note (4)(j)):</b>				
Legal reserve	1,215,457	1	1,215,457	1
Unappropriated earnings	7,694,861	5	3,817,485	2
	<u>8,910,318</u>	<u>6</u>	<u>5,032,942</u>	<u>3</u>
<b>Other adjustments to stockholders' equity:</b>				
Cumulative translation adjustments	(4,086,351)	(2)	(225,012)	-
Unrecognized loss on pension cost	(16)	-	(3,202)	-
Unrealized profit on financial assets	512,073	-	1,692,848	1
Treasury stock(Note(4)(j))	(9,322)	-	-	-
	<u>(3,583,616)</u>	<u>(2)</u>	<u>1,464,634</u>	<u>1</u>
<b>Total Stockholders' Equity</b>	<u>91,038,771</u>	<u>55</u>	<u>93,154,812</u>	<u>49</u>
<b>Commitments and Contingencies (Note (7))</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 164,164,006</u>	<u>100</u>	<u>190,924,939</u>	<u>100</u>

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**PEGATRON CORPORATION**  
**STATEMENTS OF INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010**  
( All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data))

	For the Three Months Ended March 31,			
	2011		2010	
	Amount	%	Amount	%
<b>Operating revenues (Note (5))</b>	\$ 63,666,725	100	84,654,288	100
Less: Sales returns	19,974	-	77,415	-
Sales allowances	112,791	-	231,995	-
<b>Net sales</b>	<u>63,533,960</u>	<u>100</u>	<u>84,344,878</u>	<u>100</u>
<b>Cost of sales (Notes (4)(c) and (5))</b>	61,982,986	98	79,836,678	95
<b>Gross profit</b>	1,550,974	2	4,508,200	5
Less: Realized(Unrealized) profit on sales (Note (5))	8,954	-	10,613	-
	<u>1,559,928</u>	<u>2</u>	<u>4,518,813</u>	<u>5</u>
<b>Operating expenses (Note (5))</b>				
Selling expenses	379,683	1	580,959	1
General and administrative expenses	276,281	-	333,705	-
Research and development expenses	870,579	1	870,892	1
	<u>1,526,543</u>	<u>2</u>	<u>1,785,556</u>	<u>2</u>
<b>Income from operations</b>	<u>33,385</u>	<u>-</u>	<u>2,733,257</u>	<u>3</u>
<b>Non-operating income</b>				
Interest revenue	761	-	2,268	-
Gain on disposal of fixed assets (Note (4)(e))	108,277	-	10	-
Foreign exchange gain, net	54,456	-	83,889	-
Others	272,321	-	294,653	-
	<u>435,815</u>	<u>-</u>	<u>380,820</u>	<u>-</u>
<b>Non-operating expenses</b>				
Interest expenses	24,057	-	23,013	-
Investment loss under the equity method (Note (4)(d))	908,452	1	443,245	-
Others	45,924	-	62,802	-
	<u>978,433</u>	<u>1</u>	<u>529,060</u>	<u>-</u>
<b>Income (Loss) before income tax</b>	(509,233)	(1)	2,585,017	3
<b>Income tax expense (Note (4)(i))</b>	49,511	-	809,701	1
<b>Net income (loss)</b>	<u>\$ (558,744)</u>	<u>(1)</u>	<u>1,775,316</u>	<u>2</u>
			<b>Before</b>	<b>After</b>
			<b>Income Tax</b>	<b>Income Tax</b>
<b>Earnings (Losses) per share (Notes(4)(k))</b>				
<b>Primary earnings (losses) per share</b>	<u>\$ (0.23)</u>	<u>(0.25)</u>	<u>1.13</u>	<u>0.78</u>
<b>Diluted earnings per share</b>			<u>1.11</u>	<u>0.77</u>
<b>Pro forma result assuming the company's shares of stock held by its subsidiary do not count as treasury stock:</b>				
			<b>Before</b>	<b>After</b>
			<b>Income Tax</b>	<b>Income Tax</b>
<b>Net loss</b>	<u>\$ (509,233)</u>	<u>(558,744)</u>		
<b>Losses per share(Note(4)(k))</b>	<u>\$ (0.23)</u>	<u>(0.25)</u>		

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**PEGATRON CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2011 and 2010**  
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Three Months Ended March 31,	
	2011	2010
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (558,744)	1,775,316
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	62,471	66,605
Amortization	127,192	167,636
Reversal for impairment loss (accounted under non-operating income)	(28,226)	(20)
Reversal for inventory market price decline and obsolescence, and for important loss	(243,126)	(77,443)
Investment gain under equity method	908,452	443,245
Loss (gain) on disposal and retirement of assets, net	(93,984)	8,943
Change in assets and liabilities:		
Change in assets:		
Decrease (increase) in notes and accounts receivable	(20,419,395)	7,598,106
Increase in other receivables	(709,868)	(30,437)
Decrease in inventories	2,775,397	1,013,195
Decrease (increase) in other current assets	9,182	(8,542)
Decrease in deferred income tax assets and liabilities, net	49,511	458,855
Change in liabilities:		
Increase (decrease) in notes and accounts payable	15,713,235	(7,132,157)
Increase (decrease) in accrued expenses	(265,099)	869,460
Decrease in other current liabilities	(24,497)	(163,277)
Decrease in other liabilities	(8,953)	(10,643)
<b>Net cash provided by (used in) operating activities</b>	<b>(2,706,452)</b>	<b>4,978,842</b>
<b>Cash flows from investing activities:</b>		
Purchase of funds and investments	-	(39,294)
Purchase of property, plant and equipment and intangible assets	(139,114)	(8,050)
Proceeds from disposal of assets, idle assets, deferred charges	709,182	202
Increase in deferred charges	(5,190)	(51,390)
Decrease in other financial assets	(116)	39,710
Decrease in other financial assets-noncurrent	17,797	5,326
<b>Net cash provided by (used in) investing activities</b>	<b>582,559</b>	<b>(53,496)</b>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term loans	127,800	(1,433,055)
Increase in long-term loans	64,800	-
Decrease (increase) in deposits received	(2,715)	5,301
<b>Net cash provided by (used in) financing activities</b>	<b>189,885</b>	<b>(1,427,754)</b>
<b>Net increase (decrease) in cash</b>	<b>(1,934,008)</b>	<b>3,497,592</b>
<b>Cash, beginning of the period</b>	<b>8,808,075</b>	<b>3,512,748</b>
<b>Cash, end of the period</b>	<b>\$ 6,874,067</b>	<b>7,010,340</b>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest exclude interest capitalized	<b>\$ 13,788</b>	<b>22,884</b>
Income tax	<b>\$ 70</b>	<b>59</b>
<b>Non-cash investing and financing :</b>		
Reclassification of fixed assets to idle assets	<b>\$ 3,651</b>	<b>81,014</b>
Cash dividends payable	<b>\$ -</b>	<b>4,000,594</b>
Dividends receivable	<b>\$ -</b>	<b>2,100,263</b>

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



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**PEGATRON CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2011 AND 2010**  
**(Amounts Expressed in New Taiwan Dollars in Thousands,**  
**Except for Per Share Information and Unless Otherwise Stated)**

**1. Organization and Business**

Pegatron Corporation (the “Company”) was established on June 27, 2007. In order to enhance competitiveness and boost productivity, the Company resolved to 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 March 31, 2011 and 2010, the Company had 4,657 and 4,166 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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**NOTES TO FINANCIAL STATEMENTS (CONT'D)**

**b. Foreign Currency Translation**

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

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

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

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

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**d. Asset Impairment**

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

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

**e. Financial Instruments**

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.

ii. Loans and receivables and held-to-maturity investment securities

Loans, receivables and other financial liabilities are measured at amortized cost using the effective interest method. The Company considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans

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and receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

**g. Inventories**

Inventories are carried at the lower of cost or market value using a perpetual inventory basis. Cost is determined using the weighted-average method. According to SFAS 10, the cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

**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.

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

Unrealized profits/losses on inter-company transactions are eliminated and deferred. Gains and losses resulting from transactions involving depreciable assets are recognized ratably over their economic lives, while those from other assets are recognized immediately.

Cost and gains or losses on 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	3 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	2 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
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The residual value, amortization period, and amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Any changes thereof are accounted for as changes in accounting estimates.

**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 accrued and recognized as pension expense for the current period when the service rendered.

**m. Warranty Reserve**

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

**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.

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**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.

**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.

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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 under Interpretation (91) 128 issued by the ROC Accounting Research and Development Foundation. Under this Interpretation, if a transferor company and a transferee company are affiliated and the spin-off transaction arise from group reorganization, the assets and liabilities are recognized by the transferee based on the book value of the assets and liabilities of the transferor company without recognizing any transfer gain/loss. However, if the book value of the assets exceeds their fair value, the excess is recognized as impairment loss before the transfer of these assets.

**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.

**u. Treasury Stock**

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



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

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

**v. Operating Segments**

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

**w. Business combinations**

According to SFAS No.25 “Business Combination,” the equity of the acquiring corporation in a business combination in acquired in cash is valued either at the fair value of the assets contributed or at the fair value of the property acquired, whichever is more objectively evident. All identified assets acquired and liability assumed in a business combination, whether or not shown in the financial statement of the acquired corporation, are measured based upon their fair value at the acquisition date.

The period for the allocation of acquisition price may not exceed one year after the date of acquisition. Since the Company cannot get further information to identify and determine the fair value of assets obtained and liability assumed, the allocation period of the acquisition price is consummated.

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

Effective from January 1, 2011, the Company adopted the third revision of SFAS No. 34 “Financial Instrument Recognition and Measurement” on the recognition, subsequent measurement and impairment testing of originated loans and receivables and on trouble debt restructuring and modification of debt agreement commencing from January 1, 2011. The adoption of this amended accounting principle disclosed no significant influences on the net loss for the three months ended March 31, 2011.

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Effective from January 1, 2011, the Company adopted SFAS No. 41 “Operating Segments.” In accordance with SFAS No. 41, information is disclosed to enable users of the Company’s financial statements to evaluate the nature and financial effects of the business activities in which the Company engages and the economic environment in which it operates. Accordingly, the Company determines and presents operating segments based on the information that internally is provided to the chief operating decision maker. This new accounting Standard superseded SFAS No. 20 “Segment Reporting.” The adoption of this accounting standard did not have any cumulative effect for the three months ended March 31, 2011. The comparative information for the initial year of application has been restated.

**4. Summary of Major Accounts:**

**a. Cash**

	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Demand deposits	\$ 494,042	2,283,884
Foreign currency deposits	4,815,565	4,476,456
Time deposits	1,564,460	250,000
Total	<u>\$ 6,874,067</u>	<u>7,010,340</u>

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

	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Notes receivable	\$ 5,762	135
Less: Allowance for doubtful accounts	(58)	(54)
Net	<u>5,704</u>	<u>81</u>
Accounts receivable	16,035,755	12,402,016
Less: Allowance for doubtful accounts	(49,299)	(104,124)
Net	<u>15,986,456</u>	<u>12,297,892</u>
Total	<u>\$ 15,992,160</u>	<u>12,297,973</u>

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**c. Inventories**

	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Merchandise	\$ 4,300,415	242,455
Less: Allowance for inventory market decline and obsolescence	(95,791)	-
Sub-total	<u>4,204,624</u>	<u>242,455</u>
Finished goods	78,033	3,867,554
Less: Allowance for inventory market decline and obsolescence	(7,883)	(51,028)
Sub-total	<u>70,150</u>	<u>3,816,526</u>
Work in process	59,113	791,077
Less: Allowance for inventory market decline and obsolescence	(15,244)	(64,433)
Sub-total	<u>43,869</u>	<u>726,644</u>
Raw material	411,781	5,033,423
Less: Allowance for inventory market decline and obsolescence	(92,887)	(237,592)
Sub-total	<u>318,894</u>	<u>4,795,831</u>
Total	<u><b>\$ 4,637,537</b></u>	<u><b>9,581,456</b></u>

For the three months ended March 31, 2011 and 2010, the reversal of allowances for inventory market price decline and obsolescence and for important loss amounted to \$243,126 and \$77,443, respectively, which was recognized as the reduction of cost of goods sold.

**d. Long-Term Equity Investments**

Name of Investee Company	March 31, 2011			March 31, 2010		
	Equity Holding	Book Value	Original Investment Cost	Equity Holding	Book Value	Original Investment Cost
PEGATRON HOLDING LTD.	100.00%	\$ 26,635,550	24,385,030	100.00%	28,235,315	24,320,960
UNIHAN CORPORATION	100.00%	11,728,259	12,098,279	100.00%	12,930,404	12,098,279
ASUSPOWER INVESTMENT CO., LTD.	100.00%	14,248,285	13,033,429	100.00%	14,514,885	13,033,429
ASUS INVESTMENT CO., LTD.	100.00%	15,166,208	16,184,982	100.00%	15,733,003	16,184,982
ASUSTEK INVESTMENT CO., LTD.	100.00%	13,936,881	14,593,543	100.00%	14,676,559	14,593,543
ADVANSUS CORP.	50.00%	253,794	166,364	50.00%	232,283	166,364
ASUS HOLLAND HOLDING B.V.	92.45%	1,435,727	1,153,501	92.45%	1,359,719	1,153,501
PEGATRON USA, INC.	100.00%	16,724	16,085	100.00%	18,078	16,085
		<u><b>\$ 83,421,428</b></u>			<u><b>87,700,246</b></u>	

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The investment loss recognized under the equity method amounted to \$908,452 and \$443,245 for the three months ended March 31, 2011 and 2010, respectively. Part of the long-term investments accounted for under the equity method of \$74,662,110 and \$86,091,614 and the related investment loss of \$1,013,181 and \$107,397, respectively, were recognized based on the investees' financial statements, which were not reviewed by an independent accountant.

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>March 31, 2011</b>	<b>March 31, 2010</b>
Current assets	\$ 507,010	567,028
Noncurrent assets	13,050	17,440
Current liabilities	266,266	352,185
	<b>For the Three Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>
Revenues	\$ 366,648	457,664
Expenses	360,676	445,780

**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 the carrying value of idle assets. Based on the results of such assessment, the Company recognized provisions for impairment loss of \$8,261 and \$46,114 as of March 31, 2011 and 2010, respectively.
- (ii) For the three months ended March 31, 2011, the Company recognized a gain from impairment recovery of \$28,226, and a gain on disposal of idle assets of \$107,964.

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**f. Short-Term Loans**

<u>Nature of the loan</u>	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Credit loan	<u>\$ 2,793,000</u>	<u>1,590,000</u>
Range of interest rate	<u>0.49%~0.68%</u>	<u>0.45%~0.48%</u>

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**

The Company entered into a syndicated loan agreement with Taipei Fubon Commercial Bank (the managing bank) and 15 other banks on October 25, 2010.

<u>Types of Debt</u>	<u>Creditor</u>	<u>March 31, 2011</u>	<u>Repayment Schedule</u>	<u>Credit Line</u>
Credit loan	Citibank Taiwan and 15 other banks	<u>\$ 7,056,000</u> <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>11,760,000</u> <u>USD 400,000,000</u>

For the three months ended March 31, 2011, long-term loans bore interest at average rates of 1.0647% ~ 1.0729%. 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 March 31, 2011, 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.

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The Company entered into a syndicated loan agreement with ANZ (the managing bank) and 15 other banks on October 30, 2009.

<b>Types of Debt</b>	<b>Creditor</b>	<b>March 31, 2010</b>	<b>Repayment Schedule</b>	<b>Credit Line</b>
Credit loan	ANZ, Mega International Commercial Bank and 14 other banks	<b>\$ 7,200,000</b>	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	<b>12,000,000</b>

For the three months ended March 31, 2010, 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 March 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 above credit loan facility.

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**h. Pension Plan**

For the three months ended March 31, 2011 and 2010, the pension costs for the defined contribution pension plan of the Company amounted to \$42,735 and \$36,334, respectively.

**i. Income Tax**

(i) According to the revised Income Tax Law announced on June 15, 2010, the statutory income tax rate is reduced further to 17% effective January 1, 2010. Therefore, the Company is subject to statutory income tax rate of 17% and 20% for the three months ended March 31, 2011 and 2010, respectively. The Company also complies with the Basic Income Tax Act when calculating its income tax.

(ii) For the three months ended March 31, 2011 and 2010, the components of income tax expense were as follows:

	<b>For the Three Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>
Current income tax expense	\$ -	258,500
Deferred income tax expense	49,511	449,093
10% surtax on undistributed earnings	-	102,108
<b>Income tax expense</b>	<b>\$ 49,511</b>	<b>809,701</b>

The components of deferred income tax expense were as follows:

	<b>For the Three Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>
Unrealized exchange gain	\$ 11,406	38,971
Reversal (Provisions) for loss on allowance for inventory market decline and obsolescence	41,331	15,489
Unrealized (Realized) profits on sales	1,522	2,122
Amortization of employee benefits	5	5
Reversal for warranty reserve	5,696	17,884
Investment tax credits	-	360,607
Reversal for impairment loss on assets	4,798	4
Loss carry-forward	(15,247)	13,289
Unrealized foreign investment gain	-	722
<b>Deferred income tax expense</b>	<b>\$ 49,511</b>	<b>449,093</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 three months ended March 31, 2011 and 2010 as follows:

	<b>For the Three Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>
Income tax expense calculated on pre-tax financial income at the statutory tax rate	\$ (86,569)	516,993
Permanent differences	136,080	88,491
10% surtax on undistributed earnings	-	102,108
Investment tax credits	-	102,109
Income tax expense	<b>\$ 49,511</b>	<b>809,701</b>

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

<b>Temporary differences of deferred income tax assets (liabilities) - current</b>	<b>March 31, 2011</b>		<b>March 31, 2010</b>	
	<b>Amount</b>	<b>Income Tax Effect</b>	<b>Amount</b>	<b>Income Tax Effect</b>
Unrealized foreign exchange loss: taxable	\$ (768,633)	(130,668)	(411,045)	(82,209)
Allowance for loss on inventory market decline and obsolescence: deductible	211,805	36,007	353,053	70,610
Deferred employee benefits for tax: deductible	100	17	75	15
Warranty reserve: deductible	272,344	46,298	885,919	177,184
Deferred organization costs: deductible	1,427	242	57,450	11,490
Unused balance of investment tax credits	-	757,911	-	192,445
Loss carry-forward	89,686	15,247	-	-
Valuation allowance		(526,380)		-
Net deferred income tax assets		<b>\$ 198,674</b>		<b>369,535</b>



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<b>Temporary differences of deferred income tax assets (liabilities) - noncurrent</b>	<u>March 31, 2011</u>		<u>March 31, 2010</u>	
	<u>Amount</u>	<u>Income Tax Effect</u>	<u>Amount</u>	<u>Income Tax Effect</u>
Allowance for impairment loss on assets: deductible	\$ 8,261	1,404	46,114	9,223
Deferred employee benefits for tax: deductible	75	14	200	40
Unrealized gain on foreign investments: taxable	(1,123,388)	(190,976)	(942,169)	(188,434)
Reserve for foreign investment losses	(648,527)	(110,250)	-	-
Net deferred income tax assets (liabilities)		<u><u>\$ (299,808)</u></u>		<u><u>(179,171)</u></u>

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

(vi) The ROC Income Tax Act allows net losses, as assessed by tax authorities, for offset against taxable income over a period of ten years for local tax reporting purposes. The Company's estimated unused loss carry-forward benefits were as follows:

<u>Year of occurrence</u>	<u>Amount</u>	<u>Year of expiration</u>
2011	<u><u>\$ 89,686</u></u>	2021

(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:

<u>Year of occurrence</u>	<u>Unused investment tax credits</u>	<u>Year of expiration</u>
2008	\$ 378,858	2012
2009	379,053	2013
	<u><u>\$ 757,911</u></u>	

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

<u>Description</u>	<u>Exemption</u>
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:

<b>Undistributed earnings:</b>	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Accumulated in 1997 and prior years	\$ -	-
Accumulated in 1998 and thereafter	7,694,861	3,817,485
<b>Total</b>	<b>\$ 7,694,861</b>	<b>3,817,485</b>
Stockholders' imputation tax credit account	<b>\$ 200,504</b>	<b>5,331</b>
	<b>2010(Expected)</b>	<b>2009 (Actual)</b>
Expected or actual deductible tax ratio	<b>7.45%</b>	<b>3.17%</b>

**j. Stockholders' Equity**

(i) Capital Stock

As of January 1, 2010, authorized capital of the Company amounted to \$25,000,000 and the total outstanding capital amounted to \$22,860,539, divided into 2,286,054 thousand shares with par value of \$10 per share.

In order to enhance own-brand business and boost productivity, the board of directors of ASUSTeK Computer Inc. (ASUSTek) resolved on December 11, 2009 but revised it on January 1, 2010, to spin-off or cede its OEM group (Pegatron Corporation (the Company)) to Pegatron International Investment Co., Ltd. (Pegatron Investment), which is being held by ASUSTeK. Pegatron Investment will issue new shares to ASUSTeK and all shareholders of ASUSTek, for which, ASUSTek and all other shareholders of ASUSTek will acquire 25% 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 March 31, 2011 and 2010, the authorized capital of the Company both consisted of 2,500,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,256,367 thousand shares and 2,286,054 thousand shares, respectively.

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

The Company may issue new GDRs with no more than 60,819,020 Pegatron common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines". As of March 31, 2011, the Company has listed GDRs totaling 10,195 thousand units on the Luxembourg Stock Exchange. As each unit of deposit receipt represents 5 shares, the Company has listed Company shares totaling 50,974 thousand shares. Major terms and conditions for GDRs were as follows:

1. Voting Rights

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

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

Holders of 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 arising from long-term equity investments cannot be used to increase capital.

Dividends yield by the trust of the shareholders of parent company were distributed to the employees of the Company as bonuses. These bonuses amounted to \$232,803 and \$194,872 which were credited to capital surplus – others as of March 31, 2011 and 2010, respectively.

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(iii) Treasury Stock

1. In accordance with Securities and Exchange Act, the number of treasury shares shall not exceed ten percent of the total number of issued and outstanding shares of the Company. Also, the total amount of 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 amounted to \$1,006,862, divided into 29,697 thousand shares as of December 31, 2010 which conformed to Securities and Exchange Act. The number of shares the Company can repurchase from the active market is limited to up to 228,605 thousand shares amounting to \$66,221,050 which are calculated according to financial reports for the latest accounting period prior to a resolution of a meeting of the board of directors.
2. In accordance with Securities and Exchange Act, treasury shares cannot be pledged. Also, treasury shares do not bear the shareholder's right prior to being sold to third parties.
3. As of March 31, 2011, the Company's shares held by its subsidiaries were 800 thousand shares amounting to \$26,680 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 shares of stock. In the event that the employee bonus is distributed in the form of shares of stock, employees qualifying for such distribution may include the employees of subsidiaries of the Company who meet certain specific requirements. Such qualified employees and distribution ratio 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.

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

On March 30, 2011 and March 10, 2010, the Company's board meeting and the board meeting on behalf of shareholders' meeting resolved the appropriation of earnings for 2010 and 2009. Also, in accordance with regulation stipulated by the security authority, the Company has allocated special reserve of \$4,327,628 which is equal to the amounts of contra accounts in shareholders' equity when calculating the surplus available for appropriation for the year ended December 31, 2010. The distributions of dividends per share and employee bonuses and remuneration to directors and supervisors from the distributable earnings in 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Common stock dividends per share (dollars)		
-Cash	\$ 1.45	1.75
-Stock (at par)	-	-
Total	<u>\$ 1.45</u>	<u>1.75</u>
Employee bonus - cash	\$ 127,000	1,205,797
Remuneration to directors and supervisors	12,000	60,290
Total	<u>\$ 139,000</u>	<u>1,266,087</u>

The approved earnings distribution above agreed with the accrued amounts reflected in the financial statements for the years ended December 31, 2010 and 2009. Related information can be accessed from the Market Observation Post System on the web site.

For the three months ended March 31, 2010, the estimated employee bonuses and directors' and supervisors' remuneration amounted to \$177,014 and \$8,851, 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 in profit or loss. For the three months ended March 31, 2011, the Company did not estimate and recognize employee bonuses and directors' and supervisors' remuneration due to the net loss after tax.

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

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

(Note: shares in thousands)

	<b>For the Three Months Ended March 31</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Before income tax</b>	<b>After income tax</b>	<b>Before income tax</b>	<b>After income tax</b>
Net income (loss)	\$ (509,233)	(558,744)	2,585,017	1,775,316
Weighted-average common shares outstanding	2,255,567	2,255,567	2,286,054	2,286,054
Dilutive potential common shares			33,129	33,129
Diluted shares			2,319,183	2,319,183
Primary earnings (losses) per share	\$ (0.23)	(0.25)	1.13	0.78
Diluted earnings per share			1.11	0.77

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

	<b>For the Three Months Ended March 31, 2011</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>
<b>Net loss</b>	<b>\$ (509,233)</b>	<b>(558,744)</b>
<b>Weighted-average outstanding shares (thousand)</b>	<b>2,256,367</b>	<b>2,256,367</b>
<b>Losses per share</b>	<b>\$ (0.23)</b>	<b>(0.25)</b>

**l. Financial Instruments**

(i) Fair value of financial instruments

The fair value of short-term financial instruments is determined by their face value on balance sheet date. As this type of financial instrument has a short maturity period, the face value is adopted as a reasonable basis for establishing its fair value. This method is applied to cash, accounts receivable, accounts payable, short-term bank loans, and other payables.

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As of March 31, 2011 and 2010, 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>March 31, 2011</u>		<u>March 31, 2010</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Bank loans	<u>\$ 9,849,000</u>	<u>9,849,000</u>	<u>8,790,000</u>	<u>8,790,000</u>

(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 bank loans is determined by the present value of future cash flow. As the present value derived by using interest rate in discounting future cash flow is close to the book value, the book value is adopted as the fair market value.

(iii) Information on financial risks

1. Market risk

The Company's purchases and sales are denominated mainly in US dollars. Consequently, it is exposed to the current and future foreign currency risks arising from cash flows of related foreign currency assets and liabilities. However, these 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 arises from financial instruments like cash, equity securities, and accounts receivable. However, the Company deposits cash in different financial institutions. Also, the Company manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk on cash and equity securities.

The Company transacted only with approved third parties with good financial condition and reputation. For those customers with poor financial condition, the Company would transfer the risk by obtaining guarantees or transacting by L/C. Therefore, the Company believes that there is no significant credit risk. In compliance with the Company's customer credit evaluation policies, the Company regularly evaluates the customer's credibility and collectability of notes and account receivables regularly before doing business. Thus, no significant issue is expected 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 periodically evaluates the customers' 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 March 31, 2011 and 2010, guarantees and endorsements provided by the Company for bank loans obtained by related parties, were discussed in Note (5).

**m. Others**

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

	March 31, 2011			March 31, 2010		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<b>Financial Assets</b>						
<u>Monetary Items</u>						
USD	\$2,321,538	29.40	68,253,217	2,525,562	31.80	80,312,872
<u>Long-term Equity Investments</u>						
USD	906,540	29.40	26,652,274	888,471	31.80	28,253,393
EUR	34,422	41.71	1,435,727	31,829	42.72	1,359,719
<b>Financial Liabilities</b>						
<u>Monetary Items</u>						
USD	2,313,253	29.40	68,009,638	2,541,891	31.80	80,832,134



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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 TECHNOLOGY PTE. LIMITED	An investee company accounted for under the equity method by ASUSTEK Computer Inc.
ASUS HOLLAND B.V.	"
DOUBLE TECH LTD.	"
ASKEY COMPUTER CORP. (ASKEY)	"
ASUS TECHNOLOGY INCORPORATION	"
ASMEDIA TECHNOLOGY INC.	"
ASUS COMPUTER (SHANGHAI) CO., LTD.	"
ASUSTEK COMPUTER (SHANGHAI) CO., LTD.	"
SHINEWAVE INTERNATIONAL INC.	"
ENERTRONIX, INC.	"
ASHINE TECHNOLOGY (SUZHOU) LTD.	"
ASKEY TECHNOLOGY (JIANG SU) LTD.	"
POWTEK (SHANGHAI) CO., LTD. (POWTEK)	An investee company accounted for under the equity method
ASJAROCK TECHNOLOGY LIMITED (ASJAROCK)	"
ASUSPOWER CORPORATION (ASUSPOWER)	"
KAEDAR TRADING LTD.	"
PEGATRON CZECH S.R.O (PCZ)	"
PEGATRON JAPAN INC. (PCJ)	"
PEGATRON MEXICO, S.A. DE C.V.(PCM)	"
PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	"
PEGATRON USA, INC.	"
STRATEGY TECHNOLOGY CO., LTD	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.	"
STARLINK ELECTRONICS CORPORATION	"
ASFLY TRAVEL SERVICE LIMITED	"
AZUREWAVE TECHNOLOGIES, INC.	"

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<b>Name of Related Party</b>	<b>Relationship with the Company</b>
ASLINK PRECISION CO., LTD.	An investee company accounted for under the equity method
PROTEK (SHANGHAI) LIMITED (PROTEK)	"
SHANGHAI INDEED TECHNOGLY CO., LTD. (SHANGHAI INDEED)	"
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	"
JIN HONG PRECISE MOLD INDUSTRY (SUZHOU) CO., LTD.	"
MAINTEK COMPUTER (SUZHOU) CO., LTD. (MAINTEK)	"
BOARDTEK COMPUTER (SUZHOU) CO., LTD.	"
CASETEK COMPUTER (SUZHOU) CO., LTD.	"
AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	"
CORE-TEK (SHANGHAI) LIMITED	"
PEGAVISION CORPORATION	"
PIOTEK (HK) TRADING LIMITED (PIOTEK)	"
ASAP INTERNATIONAL CO., LIMITED	"
RUNTOP (SHANGHAI) CO., LTD. (RUNTOP)	"
UNITED NEW LIMITED	"
TOPTEK PRECISION INDUSTRY (SUZHOU) CO., LTD	"
LUMENS DIGITAL OPTICS INC.	"
BLACKROCK MARYLAND INT'L CORP	"
HOLD JUMPER PACKING (SUZHOU) CO., LTD	"
HOLD JUMPER PACKING (SHANGHAI) CO., LTD	"
SUZHOU DELUXE PACKING PRODUCTION CO., LTD	"
COTEK ELECTRONICS (SUZHOU) CO., LTD	"
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	"

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**b. Significant Transactions with Related Parties**

(i) Sales

Name of Related Party	For the Three Months Ended March 31					
	2011			2010		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTEK	\$ 30,262,360	47.63	Open account 60 days	55,611,750	65.93	Open account 60 days
PCZ	794,694	1.25	120 days from receipt of goods	1,839,311	2.18	120 days from receipt of goods
POWTEK	1,066,766	1.68	45 days from receipt of goods	1,347,031	1.60	45 days from receipt of goods
Others	256,194	0.41	30~90 days from receipt of goods Open account 30~90 days	491,161	0.58	30~90 days from receipt of goods Open account 30~90 days
Total	<u>\$ 32,380,284</u>	<u>50.97</u>		<u>59,289,253</u>	<u>70.29</u>	

The collection term of third-party customer is L/C, T/T or 7 to 120 days from receipt of goods. For the three months ended March 31, 2011 and 2010, the Company adjusted the double recording of sales to and purchases from related parties, which amounted to \$53,675,857 and \$52,205,510, respectively.

As of March 31, 2011 and 2010, unrealized profits from sales to related parties were \$1,427 and \$57,450, respectively.

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(ii) Purchases

Name of Related Party	For the Three Months Ended March 31					
	2011			2010		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTEK	\$ 19,876,519	33.73	Open account 60 days	40,072,714	51.78	Open account 60 days
PROTEK	10,604,196	17.99	90 days from receipt of goods	7,628,771	9.86	90 days from receipt of goods
MAINTEK (Note)	(3,022,460)	(5.13)	Open account 60 days	-	-	Open account 60 days
Others	1,821,262	3.09	30~90 days from receipt of goods Open account 30~120 days	2,100,334	2.71	30~90 days from receipt of goods Open account 30~120 days
Total	<u>\$ 29,279,517</u>	<u>49.68</u>		<u>49,801,819</u>	<u>64.35</u>	

Note: The Company sells raw materials to overseas factories for fabrication and buys back the finished goods for selling purposes. In order to avoid double recording of sales, the revenues and cost of goods sold are written off in proportion to the repurchase ratio. As the repurchase amount is less than the sales amount for the three months ended March 31, 2011, the net balance becomes a negative amount.

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

For the three months ended March 31, 2011 and 2010, the Company purchased raw materials from vendors through ASUSTek.

(iii) Others

	For the Three Months Ended March 31	
	2011	2010
	(1) After-sales warranty repair expense paid to:	
ASUS Computer (Shanghai)	\$ -	36,278
PTSI	31,479	60,194
PCZ	12,793	11,188
Others	(5,443)	33,117
Total	<u>\$ 38,829</u>	<u>140,777</u>

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	<b>For the Three Months Ended</b>	
	<b>March 31</b>	
	<b>2011</b>	<b>2010</b>
(2) Processing fee paid to:		
PCM	\$ 30,022	104,719
ASUSPOWER	338,116	1,181,024
RUNTOP	24,252	-
Total	<b>\$ 392,390</b>	<b>1,285,743</b>

	<b>For the Three Months Ended</b>	
	<b>March 31</b>	
	<b>2011</b>	<b>2010</b>
(3) Other income from:		
ASUSTEK	\$ 171,478	177,617
UNIHAN	7,129	6,897
PCJ	8,512	19,825
Others	1,507	21,008
Total	<b>\$ 188,626</b>	<b>225,347</b>

(4) For the three months ended March 31, 2011 and 2010, the Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, professional service fee, etc, totaling \$30,035 and \$19,470, respectively.

(5) For the three months ended March 31, 2011 and 2010, the Company incurred other related party transactions recorded as rental revenue, amounting to \$13,481 and \$13,395, respectively.

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(iv) Accounts receivable (payable)

	March 31, 2011		March 31, 2010	
	Amount	%	Amount	%
<u>Notes and accounts receivable:</u>				
PROTEK	\$ 35,051,796	55.57	50,167,658	65.90
ASUSTEK	7,273,393	11.53	9,000,800	11.82
MAINTEK	2,545,668	4.04	108	-
PCZ	1,036,504	1.64	2,940,056	3.86
POWTEK	860,913	1.36	1,006,909	1.32
Others	271,348	0.43	533,033	0.71
Total	<b>\$ 47,039,622</b>	<b>74.57</b>	<b>63,648,564</b>	<b>83.61</b>
<u>Other receivable:</u>				
PCZ	\$ -	-	636,000	16.45
ASUSTEK	5,074	0.68	566,306	14.65
UNIHAN	11,380	1.52	-	-
PROTEK	-	-	7,740	0.20
Others	1,434	0.18	15,251	0.40
Total	<b>\$ 17,888</b>	<b>2.38</b>	<b>1,225,297</b>	<b>31.70</b>
<u>Notes and accounts payable:</u>				
PROTEK	\$ 30,526,809	60.95	46,420,583	70.28
ASKEY	563,363	1.12	45,210	-
CASETEK	233,486	0.47	726,341	1.10
SHANGHAI INDEED	409,477	0.82	662,924	1.00
RI-TENG	115,974	0.23	-	-
Others	564,439	1.12	661,870	1.07
Total	<b>\$ 32,413,548</b>	<b>64.71</b>	<b>48,516,928</b>	<b>73.45</b>
<u>Accrued expenses:</u>				
ASUSPOWER	\$ 7,068,387	70.22	10,959,574	70.66
PCM	376,567	3.74	364,293	2.35
PROTEK	235,491	2.34	558,168	3.60
Others	82,193	0.82	139,333	0.90
Total	<b>\$ 7,762,638</b>	<b>77.12</b>	<b>12,021,368</b>	<b>77.51</b>

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

	<b>March 31, 2011</b>	<b>March 31, 2010</b>
<b>Assets</b>		
Prepayments	\$ 50,009	20,631
Temporary payments	1,245	5,767
	<b>\$ 51,254</b>	<b>26,398</b>
<b>Liabilities:</b>		
Other current liabilities	\$ 174,026	27,004

(v) Endorsement Guarantee

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

<b>Name of Related Party Guaranteed</b>	<b>Amount of Guarantee (thousands)</b>	
	<b>March 31, 2011</b>	<b>March 31, 2010</b>
ASUSPOWER	<b>USD 80,000</b>	<b>USD 30,000</b>
PCZ	<b>USD 10,000</b>	<b>USD -</b>
PIOTEK	<b>USD 49,000</b>	<b>USD -</b>

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

<b>Name of Related Party Guarantor</b>	<b>March 31, 2010</b>
ASUSTeK	<b>USD 300,000</b>

(vi) Financing

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

	<b>March 31, 2010</b>	
	<b>Ending Balance</b>	<b>The Highest Balance</b>
PCZ	<b>636,000</b>	<b>643,300</b>

The loan to PCZ bears annual interest of 1%.

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**6. Pledged Assets**

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

<u>Asset</u>	<u>March 31,</u>		<u>Purpose of pledge</u>
	<u>2011</u>	<u>2010</u>	
Restricted deposit	\$ 72,003	101,887	Deposits for customs duties.
Refundable deposits	10,840	198,324	Deposits for performance guarantee
	<u>\$ 82,843</u>	<u>300,211</u>	

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

(a) As of March 31, 2011 and 2010, the Company had unused letters of credit of EUR\$267 and USD\$1,332, and EUR\$235 and NTD\$15,000, respectively.

(b) As of March 31, 2011 and 2010, the Company had promissory notes and certificate of deposit obtained for business purpose of \$733,066 and \$13,884, 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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
2011	<u>\$ 18,642</u>	<u>69,165</u>	<u>63,334</u>	<u>9,662</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 Three Months Ended March 31, 2011			For the Three Months Ended March 31, 2010		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salary expense	174,119	837,421	1,011,540	193,091	937,110	1,130,201
Health and labor insurance expense	12,471	57,094	69,565	11,842	49,998	61,840
Pension expense	7,541	35,194	42,735	7,673	28,661	36,334
Other expense	5,917	26,137	32,054	9,641	33,196	42,837
Depreciation expense (Note A)	12,727	44,622	57,349	13,378	47,926	61,304
Amortization expense (Note A)	66,616	60,576	127,192	112,315	55,321	167,636

Note A: For the three months ended March 31, 2011 and 2010, the Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle-assets, of \$5,122 and \$5,301, respectively.

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

**11. Financial Information by Segment**

As segment information is disclosed in the consolidated financial statements, it need not be presented in the individual financial statements.