

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010
(With Independent Auditors' Review Report Thereon)

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(English Translation of Financial Report Originally Issued in Chinese)

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of

Pegatron Corporation

We have reviewed the accompanying consolidated balance sheet of Pegatron Corporation and its subsidiaries (the Consolidated Company) as of June 30, 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue the review report based on our review. We did not review the financial statements of certain subsidiaries with total assets of NT\$61,309,726 thousand, representing 27.83% and total revenue of NT\$38,112,088 thousand, representing 14.74% of the related consolidated totals as of and for the six months ended June 30, 2010. Those statements were reviewed by others auditors whose reports have furnished to us, and our opinion, insofar as it relates to the amounts included for certain subsidiaries, were based solely on the report of the other auditors.

Except as stated in the following paragraph, we conducted our review 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.

The consolidated financial statements of certain subsidiaries were consolidated based on their unreviewed financial statements as of and for the six months ended June 30, 2010. As of June 30, 2010, total assets of these subsidiaries amounted to NT\$42,949,648 thousand, representing 19.49% of the related consolidated total assets, and total liabilities amounted to NT\$8,961,284 thousand, representing 8.89% of the related consolidated liabilities. For the six months ended June 30, 2010, the operating revenues of these subsidiaries amounted to NT\$20,106,708 thousand, representing 7.78% of the consolidated operating revenues, and their net income amounted to NT\$882,444 thousand, representing 15.24% of the consolidated net income. As disclosed in Note (4) (e) to the consolidated financial statements, the financial statements of certain long-term investments accounted for under the equity method were not reviewed by independent accountants. Long-term investments in these companies amounted to NT\$1,315,187 thousand as of June 30, 2010 and the related investment income thereon amounted to NT\$67,420 thousand for the six months then ended.

NT\$1,315,187 thousand as of June 30, 2010 and the related investment income thereon amounted to NT\$67,420 thousand for the six months then ended.

Based on our review and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the financial statements of some consolidated subsidiaries and some equity-method investees as described in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the consolidated financial statements referred to the first paragraph for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the accounting principles generally accepted in the Republic of China.

The Consolidated Company's consolidated financial statements as of and for the six months then ended June 30, 2010, were for the initial period in which the Consolidated Company issued consolidated financial statements to the public after the initial public offering (IPO). These consolidated financial statements covered a single period only in conformity with the regulation issued by Financial Supervisory Commission Executive Yuan and which did not conform to the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers".



Taipei, Taiwan, R.O.C
July 30, 2010

Note to Readers

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

For the convenience of readers, the accountants' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' report and financial statements shall prevail.

(English Translation of Financial Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards.
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
JUNE 30, 2010
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

| | June 30, 2010 | |
|--|-----------------------|------------|
| | Amount | % |
| ASSETS | | |
| Current Assets: | | |
| Cash (Notes (4)(a)) | \$ 38,637,001 | 18 |
| Financial assets reported at fair value through profit or loss — current (Notes (4)(b)) | 7,393,576 | 3 |
| Derivative hedging instrument-current | 8,858 | - |
| Available-for-sale financial assets — current (Notes (4)(b)) | 881,895 | 1 |
| Note receivable and accounts receivable, net of allowance for uncollectible accounts (Notes(4)(c)) | 42,200,505 | 19 |
| Accounts receivable– related parties , net of allowance for uncollectible accounts(Note (5)) | 11,666,214 | 5 |
| Other receivables | 1,760,787 | 1 |
| Other receivables– related parties (Note (5)) | 83,460 | - |
| Other financial assets — current (Note (5)and (6)) | 488,104 | - |
| Inventories (Notes (4)(d) and (6)) | 48,555,826 | 22 |
| Other current assets (Note (5)) | 1,600,940 | 1 |
| Deferred income tax assets — current (Notes (4)(n)) | 815,083 | - |
| | <u>154,092,249</u> | <u>70</u> |
| Investments: | | |
| Available-for-sale financial assets — noncurrent (Notes (4)(b)) | 1,916,270 | 1 |
| Financial assets measured at cost - noncurrent (Notes (4)(b)) | 766,099 | - |
| Long-term investments under the equity method (Notes (4)(e) and (4)(f)) | 2,084,063 | 1 |
| | <u>4,766,432</u> | <u>2</u> |
| Other Financial Assets — Noncurrent (Note (6)) | <u>200,854</u> | <u>-</u> |
| Property, Plant and Equipment, at cost :(Notes (4)(g) and (6)) | | |
| Land | 2,800,896 | 1 |
| Buildings | 23,350,377 | 10 |
| Machinery and equipment | 46,318,680 | 21 |
| Warehousing equipment | 117,007 | - |
| Instrument equipment | 1,712,533 | 1 |
| Transportation equipment | 213,004 | - |
| Office equipment | 1,077,848 | 1 |
| Miscellaneous equipment | 6,263,251 | 3 |
| | <u>81,853,596</u> | <u>37</u> |
| Less:Accumulated depreciation | (31,356,196) | (14) |
| Less:Accumulated impairment | (100,191) | - |
| Prepayments on purchase of equipment | 2,537,313 | 1 |
| | <u>52,934,522</u> | <u>24</u> |
| Intangible Assets (Notes (4)(h) and (6)) | | |
| Goodwill | 890,608 | 1 |
| Deferred pension costs | 4,894 | - |
| Land use rights | 2,391,181 | 1 |
| Other intangible assets | 405,064 | - |
| | <u>3,691,747</u> | <u>2</u> |
| Other Assets: | | |
| Deferred expenses (Notes(4)(i)) | 2,821,034 | 1 |
| Other Assets — Others (Notes (4)(g), (4)(i) and (4)(m)) | 1,826,706 | 1 |
| | <u>4,647,740</u> | <u>2</u> |
| TOTAL ASSETS | \$ 220,333,544 | 100 |

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEET (CONT'D)
JUNE 30, 2010
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

| | June 30, 2010 | |
|--|-----------------------|------------|
| | Amount | % |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Short-term debt (Note (4)(j)) | \$ 14,954,720 | 7 |
| Short-term notes and bills payable | 49,923 | - |
| Financial liabilities at fair value through profit or loss — current (Notes(4)(b)) | 25,963 | - |
| Notes payable and accounts payable | 53,483,695 | 24 |
| Accounts payable – related parties (Note (5)) | 1,508,329 | 1 |
| Income tax payable | 1,571,353 | 1 |
| Accrued expenses – non-related parties | 10,153,245 | 4 |
| Accrued expenses – related parties (Note (5)) | 43,847 | - |
| Dividend payable (Note (5)) | 2,660,322 | 1 |
| Current portion of long-term loans payable (Notes(4)(l)) | 96,275 | - |
| Other financial liabilities – current (Note (5)) | 1,461,968 | 1 |
| Other current liabilities (Note (5)) | 4,564,288 | 2 |
| | <u>90,573,928</u> | <u>41</u> |
| Long-Term Liabilities: | | |
| Bonds payable (Notes(4)(k)) | 1,358,348 | 1 |
| Long-term debt payable (Notes(4)(l)) | 8,081,930 | 4 |
| Other financial liabilities – noncurrent | 247,635 | - |
| | <u>9,687,913</u> | <u>5</u> |
| Other Liabilities: | | |
| Deferred income tax liabilities – noncurrent (Notes(4)(n)) | 540,388 | - |
| Other long-term liabilities– other (Notes(4)(m)) | 50,949 | - |
| | <u>591,337</u> | <u>-</u> |
| Total Liabilities | <u>100,853,178</u> | <u>46</u> |
| Stockholders' Equity: | | |
| Common stock (Notes(4)(o)) | 22,860,639 | 10 |
| Capital Surplus (Note (4)(o)) | | |
| Premium on capital stock | 61,188,108 | 28 |
| Others | 2,609,666 | 1 |
| | <u>63,797,774</u> | <u>29</u> |
| Retained Earnings (Note (4)(o)): | | |
| Legal reserve | 1,215,457 | 1 |
| Unappropriated earnings | 5,515,556 | 2 |
| | <u>6,731,013</u> | <u>3</u> |
| Other Adjustments to Stockholders' Equity: | | |
| Cumulative translation adjustments | 555,566 | - |
| Unrecognized loss on pension cost | (3,202) | - |
| Unrealized gain of financial assets | 1,395,381 | 1 |
| | <u>1,947,745</u> | <u>1</u> |
| Total Parent Company's Equity | 95,337,171 | 43 |
| Minority interest | 24,143,195 | 11 |
| Total Stockholders' Equity | 119,480,366 | 54 |
| Commitments and Contingencies (Note (7)) | | |
| SIGNIFICANT SUBSEQUENT EVENTS(Note (9)) | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 220,333,544</u> | <u>100</u> |

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data))

| | <u>For the Six Months Ended June 30,</u> | |
|---|--|-------------------|
| | <u>2010</u> | |
| | <u>Amount</u> | <u>%</u> |
| Operating revenues (Note (5)) | \$ 259,870,304 | 101 |
| Less: Sales returns and allowances | 1,373,339 | 1 |
| Net sales | 258,496,965 | 100 |
| Cost of sales (Notes (4)(d), (5)) | 241,958,213 | 94 |
| Gross profit | 16,538,752 | 6 |
| Operating expenses (Notes (5)) | | |
| Selling expenses | 3,737,373 | 1 |
| General and administrative expenses | 2,911,985 | 1 |
| Research and development expenses | 4,203,259 | 2 |
| | 10,852,617 | 4 |
| Income from operations | 5,686,135 | 2 |
| Non-operating incomes | | |
| Interest revenue | 62,837 | - |
| Investment income under the equity method (Note(4)(e)) | 140,656 | - |
| Dividend income | 7,915 | - |
| Gain on disposal of investments | 706,313 | - |
| Gain on valuation of financial asset(Note(4)(b)) | 24,090 | - |
| Others(Note(5)) | 1,184,291 | - |
| | 2,126,102 | - |
| Non-operating expenses | | |
| Interest expense | 85,310 | - |
| Loss on disposal of assets | 80,032 | - |
| Foreign exchange loss, net | 128,460 | - |
| Impairment loss(Note (4)(b) and (4)(f)) | 99,742 | - |
| Loss on valuation of financial asset(Note (4)(b)) | 28,767 | - |
| Loss on valuation of financial liability(Note (4)(b)) | 9,126 | - |
| Others | 265,962 | - |
| | 697,399 | - |
| Income before income tax | 7,114,838 | 2 |
| Income expense (Note (4)(n)) | (1,323,984) | 1 |
| Consolidated net income | \$ 5,790,854 | 1 |
| Income attributable to : | | |
| Shareholders of parent company | \$ 3,473,387 | - |
| Minority interest income | 2,317,467 | 1 |
| | \$ 5,790,854 | 1 |
| | Before | After |
| | Income Tax | Income Tax |
| Earnings per share attributable to parent company (Notes (4)(q)) | | |
| Primary earnings per share | \$ 1.92 | 1.52 |
| Diluted earnings per share | \$ 1.91 | 1.51 |

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(All Amounts Expressed of New Taiwan Dollars in Thousands, Except for Share Data)

| | <u>Retained Earnings</u> | | | | <u>Stock holders' Equity Adjustments</u> | | | <u>Minority Interest</u> | <u>Total</u> |
|--|--------------------------|------------------------|----------------------|--------------------------------|---|--|---|--------------------------|--------------------|
| | <u>Capital Stock</u> | <u>Capital Surplus</u> | <u>Legal Reserve</u> | <u>Unappropriated Earnings</u> | <u>Cumulative Translation Adjustments</u> | <u>Unrecognized Loss on Pension Cost</u> | <u>Unrealized Gain(Loss) on Financial Instruments</u> | | |
| Balance as of January 1,2010 | \$ 22,860,539 | 63,776,623 | 545,570 | 6,712,650 | 198,092 | (3,202) | 1,680,205 | 24,383,193 | 120,153,670 |
| Issuance of new shares resulting from organizations reorganization | 100 | 307 | - | - | - | - | - | - | 407 |
| Consolidated net income for six months ended June 30,2010 | - | - | - | 3,473,387 | - | - | - | 2,317,467 | 5,790,854 |
| Earnings distribution and appropriation: | | | | | | | | | |
| Legal reserve | - | - | 669,887 | (669,887) | - | - | - | - | - |
| Cash dividends | - | - | - | (4,000,594) | - | - | - | - | (4,000,594) |
| Changes in minority interests | - | - | - | - | - | - | - | (2,557,465) | (2,557,465) |
| Adjustment arising from long-term equity investment | - | 20,844 | - | - | 227,157 | - | (284,824) | - | (36,823) |
| Cumulative translation adjustments | - | - | - | - | 130,317 | - | - | - | 130,317 |
| Balance as of June 30, 2010 | \$ 22,860,639 | 63,797,774 | 1,215,457 | 5,515,556 | 555,566 | (3,202) | 1,395,381 | 24,143,195 | 119,480,366 |

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

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2010

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

| | For the six months ended June 30, 2010 |
|---|---|
| Cash flows from operating activities: | |
| Consolidated net income | 5,790,854 |
| Adjustments to reconcile net income to net cash provided by/(used in) operating activities: | |
| Depreciation | 3,937,368 |
| Amortization | 1,164,706 |
| Ownership of employee stock option and treasury stock were transferred to employee | 10,866 |
| Amortization of discount on bonds payable | 12,877 |
| Loss for market price decline and obsolete and slow-moving inventories | 191,055 |
| Loss on physical inventory | 16,369 |
| Investment income under the equity method | (140,656) |
| Gain on disposal investments | (706,313) |
| Loss on disposal of assets | 80,032 |
| Loss on disposal and obsolete of assets | 31,282 |
| Loss on valuation of financial asset and liability | 13,803 |
| Impairment loss | 99,742 |
| Dividends income | 97,015 |
| Change in assets and liabilities: | |
| Financial assets reported at fair value through profit or loss — current | (60,716) |
| Derivative hedging instrument-current | (8,858) |
| Notes and accounts receivable(include related parties) | 13,945,434 |
| Other receivables(include related parties) | (409,318) |
| Other financial assets — current | (339,752) |
| Inventories | (5,353,317) |
| Other current assets | 296,093 |
| Deferred income tax assets and liabilities, net | 348,962 |
| Financial liabilities at fair value through profit or loss — current | 18,415 |
| Notes and accounts payable(include related parties) | (12,929,893) |
| Income tax payable | 295,189 |
| Accrued expenses(include related parties) | 2,045,654 |
| Other financial liabilities — current | (308,884) |
| Other current liabilities | (597,675) |
| Other liabilities | (270) |
| Net cash provided by operating activities | 7,540,064 |

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

| | For the six months ended June 30, 2010 |
|---|---|
| Cash flows from investing activities: | |
| Purchase of available-for-sale financial assets | (118,083) |
| Disposal of available-for-sale financial assets | 198,013 |
| Purchase of financial assets measured at cost | (120,543) |
| Disposal of financial assets measured at cost | 28,169 |
| Purchase of property, plant and equipment | (3,602,185) |
| Disposal of property, plant and equipment | 1,282,622 |
| Purchase of intangible assets | (31,682) |
| Disposal of idle assets | 1,208 |
| Increase in restricted assets — current | 47,774 |
| Decrease in other financial assets — noncurrent | 267,455 |
| Purchase of deferred expenses | (553,991) |
| Other assets-others | 87,661 |
| Net cash used in investing activities | (2,513,582) |
| Cash flows from financing activities: | |
| Increase in short-term debts | 4,075,680 |
| Decrease in short-term notes and bills payable | (10) |
| Increase in bonds payable | 1,497,401 |
| Increase in long-term debts | 50,168 |
| Decrease in other financial liabilities — noncurrent | 6,330 |
| Paid cash dividends | (4,000,594) |
| Acquired investments by increasing in capital from organizations reorganization | 407 |
| Increase in minority interest | 10,000 |
| Net cash used in financing activities | 1,639,382 |
| Foreign exchange rate effects | 128,717 |
| Effect of changes of certain subsidiaries | (3,860) |
| Net increase in cash | 6,790,721 |
| Cash, beginning of the period | 31,846,280 |
| Cash, end of the period | 38,637,001 |
| Supplemental disclosures of cash flow information: | |
| Cash paid during the period for: | |
| Interest | 74,017 |
| Income tax | 748,699 |
| Non-cash investing and financing activities: | |
| Current portion of long-term debts payable | 96,275 |
| Dividend payable | 2,660,322 |
| Purchase of property and equipment with cash and other payables: | |
| Property, plant and equipment | 3,727,320 |
| Add: Other payables, beginning of the year | 97,397 |
| Less: Other payables, end of the year | (222,532) |
| Cash paid | 3,602,185 |

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

(Amounts Expressed in Thousands of New Taiwan Dollars,
Except for Per Share Information and Unless Otherwise Stated)

1. ORGANIZATION AND BUSINESS :

Pegatron Corporation (the “Company”) was established on June 27, 2007. In order to enhance competitiveness and boost productivity, the Company resolved to absorb the OEM business from ASUSTek Computer Inc. on January 1, 2008. ASUSALPHA Computer Inc. was merged by the Company on April 1, 2008. The main activities of the Company are to produce, design and sale OEM business. In January 2010, pursuant to the resolutions of the board of directors, the Company decided to merge with Pegatron International Investment Co., Ltd., and the record date for the merger is June 10, 2010. As the surviving entity from this merger, the Company applied for initial public offering (IPO) to the TSEC. The Company’s shares were listed on the TSEC on June 24, 2010.

The company’s parent company: None

As of June 30, 2010, the Company and its subsidiaries (the “Consolidated Company”) had 98,019 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of consolidation

1. The consolidated financial statements include the Company and its controlled subsidiaries. The significant inter-company transactions were eliminated. As of June 30, 2010, the consolidated subsidiaries were as follows:

| Investor | Subsidiary | Nature of business | Shareholding ratio | Notes |
|---------------------------------|---|---|--------------------|--|
| | | | 2010.06.30 | |
| The Company | UNIHAN CORPORATION (UNIHAN) | Designing, manufacturing, maintaining and selling computer peripherals and audio-video products | 100.00% | Subsidiary directly held over 50% by the Company |
| UNIHAN AND ASUSPOWER INVESTMENT | Ability Enterprise Co., Ltd. (Ability (tw)) | Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products leasing | 12.63% | Subsidiary has de facto control |

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor | Subsidiary | Nature of business | Shareholding ratio | Notes |
|--|---|---|--------------------|---|
| | | | 2010.06.30 | |
| Ability (tw) | ACTION PIONEER INTERNATIONAL LTD. | Trading activities | 100.00% | Subsidiary directly owns over 50% of equity |
| " | VIEWQUEST TECHNOLOGIES INTERNATIONAL LTD. | Selling computer peripherals, digital cameras and electronic components | 100.00% | " |
| " | ASSOCIATION INTERNATIONAL LTD. | Investing activities | 100.00% | " |
| " | ABILITY ENTERPRISE (BVI) CO., LTD.(ABILITY) | Investing activities | 100.00% | " |
| " | VIEQUEST TECHNOLOGIES (BVI) INC. | Manufacturing and selling computer peripherals, digital cameras and electronic components | 100.00% | " |
| " | Ability International Investment Co., Ltd. | Investing activities | 100.00% | " |
| ABILITY | Ability Technology (Dongguan) Co., Ltd | Producing and selling digital cameras | 100.00% | " |
| " | Jiujiang Viewquest Electronics Inc | Producing and selling digital cameras | 100.00% | " |
| Ability International Investment Co., Ltd. | NOENA CORPORATION | Selling computer peripherals, digital cameras and optical products | 80.00% | " |
| UNIHAN | Unihan Holding Ltd. (Unihan Holding) | Investing activities | 100.00% | " |

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor | Subsidiary | Nature of business | Shareholding ratio | Notes |
|-----------------|--|--|--------------------|---|
| | | | 2010.06.30 | |
| Unihan Holding | CASETEK HOLDINGS LIMITED (CASETEK HOLDING) | Investing and trading activities | 100.00% | Subsidiary directly owns over 50% of equity |
| CASETEK HOLDING | SLITEK HOLDINGS LIMITED | Investing and trading activities | 100.00% | " |
| " | CASETEK COMPUTER (SUZHOU) CO., LTD | Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service | 100.00% | " |
| " | KAEDAR HOLDINGS LIMITED (KAEDAR HOLDING) | Investing and trading activities | 100.00% | " |
| KAEDAR HOLDING | KAEDAR ELECTRONICS (KUNSHAN) CO., LTD | Tooling module of stainless steel computer cases | 100.00% | " |
| CASETEK HOLDING | KAEDAR TRADING LTD. | Investing and trading activities | 100.00% | " |
| CASETEK HOLDING | CORE-TEK (SHANGHAI) LIMITED | Researching and producing the spare parts of notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service | 100.00% | " |
| " | APLUS PRECISION (Cayman) LIMITED (APLUS) | Investing and trading activities | 51.00% | " |

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Investor | Subsidiary | Nature of business | Shareholding ratio | Notes |
|-------------------------------|---|--|--------------------|--|
| | | | 2010.06.30 | |
| APLUS | UNITED NEW LIMITED (UNITED) | Investing and trading activities | 100.00% | Subsidiary directly owns over 50% of equity |
| UNITED | AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD. | Manufacturing and selling electronic and camera components, and accessories | 100.00% | " |
| UNIHAN and ASUSTEK INVESTMENT | AzureWave Technologies, Inc. (AzureWave) | Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras | 43.56% | Subsidiary has de facto control |
| AzureWave | Eminent Star Company Limited (Eminent) | Investing activities | 100.00% | Subsidiary directly owns over 50% of equity |
| Eminent | Hannex International Limited (Hannex) | Investing activities | 100.00% | " |
| Hannex | Scientek. Nanjing Co.,Ltd | Designing, researching and selling computer products | 100.00% | " |
| Eminent | Jade Technologies Limited (Jade) | Investing activities | 100.00% | " |
| Eminent and Jade | Azurewave Technology (Shenzhen) Co., Ltd. | Designing, researching and selling computer products | 100.00% | Subsidiary directly and indirectly held 100% |
| AzureWave | EZWAVE TECHNOLOGIES, INC. | Selling computer peripherals | 100.00% | Subsidiary directly owns over 50% of equity |
| " | Azwave Holding (Samoa) Inc. (Azwave Samoa) | Investing activities | 100.00% | " |
| Azwave Samoa | AzureWave Technologies (Shanghai) Inc. | Manufacturing electronic parts | 100.00% | " |
| " | AzureLighting Technologies ,INC (Yangzhou) | Manufacturing electronic parts | 100.00% | " |

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| Investor | Subsidiary | Nature of business | Shareholding ratio | Notes |
|---------------------------------|--|---|--------------------|--|
| | | | 2010.06.30 | |
| AzureWave | AzureLighting Technologies ,INC | Manufacturing electronic parts | 100.00% | Subsidiary directly owns over 50% of equity |
| UNIHAN | AMA PRECISION INC.(AMA PRECISION) | Designing and developing computer parts | 100.00% | " |
| AMA PRECISION | AMA Technology Corporation | Trading computer peripherals | 100.00% | " |
| " | AMA Holdings Limited (AMA) | Investing activities | 100.00% | " |
| AMA | METAL TRADINGS LTD.(METAL) | Trading activities | 100.00% | " |
| METAL | FENGSHUO TRADING (TONGZHOU) CO. LTD | Trading activities | 100.00% | " |
| AMA | EXTECH LTD. | Trading electronic parts | 90.51% | " |
| EXTECH LTD. | GRANDTECH PRECISION (TONGZHOU) CO., LTD | Manufacturing, developing and selling electronic parts | 100.00% | " |
| AMA | Toptek Precision Industry(SuZhou) Co., Ltd | Manufacturing and selling new electronic parts and premium hardware | 100% | " |
| The Company and ASUS INVESTMENT | ASUS HOLLAND HOLDING B.V.(AHH) | Investing activities | 100.00% | Subsidiary directly and indirectly held 100% |
| AHH | PEGATRON Czech s.r.o. | Installing, repairing and selling electronic products | 100.00% | Subsidiary directly owns over 50% of equity |
| The Company | Pegatron Holding Ltd. (Pegatron Holding) | Investing activities | 100.00% | " |
| Pegatron Holding | POWTEK HOLDINGS LIMITED (POWTEK) | Investing and trading activities | 100.00% | " |

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| Investor | Subsidiary | Nature of business | Shareholding ratio | Notes |
|------------------|---|--|--------------------|---|
| | | | 2010.06.30 | |
| POWTEK | Powtek (Shanghai) Co., Ltd. | Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service | 100.00% | Subsidiary directly owns over 50% of equity |
| Pegatron Holding | BOARDTEK HOLDINGS LTD. (CAYMAN) (BOARDTEK CAYMAN) | Investing and holding activities | 100.00% | " |
| BOARDTEK CAYMAN | BOARDTEK HOLDING LIMITED (BOARDTEK HOLDING) | Investing and trading activities | 100.00% | " |
| BOARDTEK CAYMAN | BOARDTEK COMPUTER (SUZHOU) CO., LTD | Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service | 100.00% | " |
| BOARDTEK HOLDING | BOARDTEK(H.K.) TRADING LIMITED | Trading activities | 100.00% | " |
| Pegatron Holding | ASLINK PRECISION CO., LTD (ASLINK) | Investing and trading activities | 100.00% | " |
| ASLINK | ASLINK (H.K.) PRECISION CO., LIMITED | Investing and trading activities | 100.00% | " |
| " | ASAP INTERNATIONAL CO., LIMITED (ASAP) | Investing activities | 59.17% | " |
| ASAP | ASAP TECHNOLOGY (JIANGXI) CO., LIMITED | Manufacturing and selling date transit wire and cable | 100.00% | " |

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| Investor | Subsidiary | Nature of business | Shareholding ratio | Notes |
|------------------|--|---|--------------------|--|
| | | | 2010.06.30 | |
| Pegatron Holding | DIGITEK GLOBAL HOLDINGS LIMITED | Investing and trading activities | 100.00% | Subsidiary directly owns over 50% of equity |
| " | MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT) | Investing and trading activities | 100.00% | " |
| MAGNIFICENT | MAINTEK COMPUTER (SUZHOU) CO., LTD. | Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service | 100.00% | " |
| Pegatron Holding | PROTEK GLOBAL HOLDINGS LTD. (PROTEK) | Investing and trading activities | 100.00% | " |
| " | NORTH TEC ASIA LIMITED (NORTH) | Investing and trading activities | 100.00% | " |
| PROTEK AND NORTH | Protek (ShangHai) Limited | Researching, designing, manufacturing, and selling gps, computers, printers and related electronic components given above, and providing after-sales service | 100.00% | Subsidiary directly and indirectly held 100% |
| Pegatron Holding | COTEK HOLDINGS LIMITED (COTEK) | Investing and trading activities | 100.00% | Subsidiary directly owns over 50% of equity |
| COTEK | COTEK ELECTRONICS (SUZHOU) CO., LTD. | Developing , manufacturing and selling new electronic components, providing mold technology, and after-sales service | 100.00% | " |

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| Investor | Subsidiary | Nature of business | Shareholding ratio | Notes |
|--|--|---|--------------------|---|
| | | | 2010.06.30 | |
| Pegatron Holding | TOP QUARK LIMITED (TOP QUARK) | Investing and holding activities | 100.00% | Subsidiary directly owns over 50% of equity |
| TOP QUARK | RUNTOP (SHANGHAI) CO., LTD. | Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems | 100.00% | " |
| The Company | ASUSPOWER INVESTMENT CO., LTD. | Investing activities | 100.00% | " |
| " | ASUS INVESTMENT CO., LTD. | Investing activities | 100.00% | " |
| " | ASUSTEK INVESTMENT CO., LTD. | Investing activities | 100.00% | " |
| ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT | ASROCK Incorporation (ASROCK) | Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components | 58.65% | " |
| ASROCK | ASIAROCK TECHNOLOGY LIMITED (ASIAROCK) | Manufacturing and selling database storage and processing equipments | 100.00% | " |
| ASIAROCK | ASROCK EUROPE B.V. | Database service and trading electronic components | 100.00% | " |
| " | CalRock Holdings, LLC. | Office building leasing | 100.00% | " |

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| Investor | Subsidiary | Nature of business | Shareholding ratio | Notes |
|---|--|---|--------------------|--|
| | | | 2010.06.30 | |
| ASROCK | Leader Insight Holdings Ltd. (Leader) | Investing activities | 100.00% | Subsidiary directly owns over 50% of equity |
| Leader | Firstplace International Ltd. (Firstplace) | Investing activities | 100.00% | " |
| Firstplace | Asrock America, Inc. | Database service and trading electronic components | 100.00% | " |
| ASUSPOWER INVESTMENT AND ASUS INVESTMENT | PEGATRON Mexico, S.A. DE C.V. | Sales and repair service center in Mexico | 100.00% | Subsidiary directly and indirectly held 100% |
| ASUSPOWER INVESTMENT , ASUS INVESTMENT AND ASUSTEK INVESTMENT | KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS) | Manufacturing electronic parts, wholesaling and retailing electronic components, and providing business management consultant service | 39.00% | Subsidiary has de facto control |
| KINSUS | KINSUS INVESTMENT CO., LTD (KINSUS INVESTMENT) | Investing activities | 100.00% | Subsidiary directly owns over 50% of equity |
| KINSUS INVESTMENT AND ASUSPOWER INVESTMENT | PEGAVISION CORPORATION | Manufacturing medical appliances | 84.45% | " |
| KINSUS | KINSUS CORP. (USA) | Developing and designing new technology and products; analyzing marketing strategy and developing new customers | 100.00% | " |

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| Investor | Subsidiary | Nature of business | Shareholding ratio | Notes |
|--|---|--|--------------------|--|
| | | | 2010.06.30 | |
| KINSUS | KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA) | Investing activities | 100.00% | Subsidiary directly owns over 50% of equity |
| KINSUS SAMOA | KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN) | Investing activities | 100.00% | " |
| KINSUS CAYMAN | KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP. | Manufacturing and selling circuit boards | 100.00% | " |
| ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT | ASUSPOWER CORPORATION | Investing and trading activities | 100.00% | Subsidiary directly and indirectly held 100% |
| ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT | STARLINK ELECTRONICS CORPORATION (STARLINK) | Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components | 100.00% | " |
| STARLINK | STRATEGY Technology Co., Ltd. | Investing and trading activities | -% | (Note B) |
| ASUS INVESTMENT | ASFLY TRAVEL SERVICE LIMITED | Travel agency | 100.00% | Subsidiary directly owns over 50% of equity |
| ASUSPOWER INVESTMENT | PEGATRON TECHNOLOGY SERVICE INC. | Sales and repair service center in North America | 100.00% | " |

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| Investor | Subsidiary | Nature of business | Shareholding ratio | Notes |
|---|---|---|--------------------|---|
| | | | 2010.06.30 | |
| ASUSPOWER INVESTMENT | PEGA INTERNATIONAL LIMITED | Design service and sales | 100.00% | Subsidiary directly owns over 50% of equity |
| " | PEGATRON JAPAN INC. | Sales and repair service center in Japan | 100.00% | " |
| ASUSPOWER INVESTMENT , ASUS INVESTMENT AND ASUSTEK INVESTMENT | Lumens Digital Optics Inc. (Lumens) | Researching, manufacturing and selling computer data projectors and related peripherals | 56.52% | " |
| Lumens | Lumens Integration Inc. | Selling computer communication products and peripherals | 100.00% | " |
| Lumens | Lumens Digit Image Inc. (SOMOA)(Lumens SOMOA) | Investing activities | 100.00% | " |
| Lumens SOMOA | Lumens (Suzhou) Digital Image Inc. | Researching, manufacturing and selling projectors, projection screens and related products, and providing after-sales service | 100.00% | " |
| Lumens | Lumens Europe BVBA | Selling computer communication products and peripherals | 100.00% | " |
| " | Jie Xin Inc. | Manufacturing and wholesaling electronic parts | 94.00% | " |
| ASUS INVESTMENT | HUA-YUAN INVESTMENT LIMITED | Investing activities | 100.00% | " |

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| Investor | Subsidiary | Nature of business | Shareholding ratio | Notes |
|-------------|--------------------|--|--------------------|---|
| | | | 2010.06.30 | |
| The Company | ADVANSUS CORP. | Manufacturing computer peripherals | 50.00% | The Company directly owns over 50% of equity (Note A) |
| " | PEGATRON USA, INC. | Sales and repair service center in North America | 100.00% | " |

Note A: The consolidated financial statements include only a proportion of the joint venture owned by the Company.

Note B: The investee company went into liquidation on March 26, 2010. Its profit or loss had not been included in the consolidated financial statements from the effective date of its liquidation.

- (1) Increases or decreases in the number of consolidated subsidiaries as of June 30, 2010 were summarized as follows:

CASETEK HOLDING LIMITED acquired 51% of total issued shares of APLUS PRECISION (Cayman) LIMITED ("APLUS") by exchanging its long-term investment. Also, Ability (tw) invested \$40,000 in exchange for an 80% equity ownership of a newly established company named, NOENA CORPORATION (NOENA). Furthermore, Ability (tw) invested and acquired 100% of the equity ownership of Jiujiang Viewquest Electronics Inc through a third party. According to SFAS No.7 "Consolidated Financial Statements.", if the Consolidated Company has controlling power over the entities described above, those entities are treated as subsidiaries and are included in consolidation financial statements.

- (2) The entities in which the Company owns less than 50% of the voting shares but were included in the consolidated financial statements were summarized as follows:

Hannex International Limited, Ability Enterprise Co., Ltd and Kinsus Interconnect Technology Corp, were included in the consolidated financial statements even if the Consolidated Company holds 43.56%, 12.63% and 39%, respectively, or less than 50% of their total issued shares because the Consolidated Company has acquired more than 50% of voting shares of each of these entities and has the ability to excise control over their respective board of directors.

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(3) **Subsidiaries excluded from consolidation**

STRATEGY Technology Co., Ltd. went into liquidation on March 26, 2010. Therefore, the net income (loss) of this investee company was excluded in the consolidated financial statements as of March 27, 2010. The process of liquidating STRATEGY Technology Co., Ltd. had been completed in April, 2010.

(4) Refer to Note (4) (k) for related information on convertible bonds and new shares issued by subsidiaries.

b. Use of Estimates

The preparation of the accompanying consolidated 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.

c. Foreign Currency and Financial Report Translation

The Consolidated 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.

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d. Basis for Classifying Assets and Liabilities as Current or Non-Current

Unrestricted cash, cash equivalents, assets held for trading, or other assets that the Consolidated 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.

e. Assets Impairment

The Consolidated Company adopted Statement of Financial Accounting Standards No. 35 (SFAS 35) “Impairment of Assets”. In accordance with SFAS 35, the Consolidated 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 Consolidated Company estimates the recoverable amount of the asset. The Consolidated Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Consolidated 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.

The Consolidated Company assesses for impairment the goodwill and intangible assets that have indefinite lives or that is not yet available for use periodically on an annual basis and recognizes an impairment loss if the carrying value exceeds the recoverable amount. The loss is first recorded against the goodwill allocated to the CGU, with any remaining loss allocated to other assets on a pro rata basis proportionate to their carrying amounts. The write-down of goodwill cannot be reversed in subsequent periods under any circumstances.

f. Financial Instruments

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

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

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Subsequent to initial recognition, financial instruments are classified and measured, depending on the Consolidated Company's intention for holding, as follows:

(1) Financial assets or liabilities reported at fair value through profit or loss

These financial assets and liabilities are subsequently measured at fair value with changes in fair value recognized in profit and loss. Stocks of listed companies, convertible bonds and closed-end funds are measured at closing prices on the balance sheet date. Open-end funds are measured at the unit price of the net assets on the balance sheet date.

A financial asset or financial liability may be designated as at fair value through profit or loss only when either of the following conditions is met:

- (i) The financial asset or financial liability designated is a hybrid financial instrument.
- (ii) It eliminates or significantly reduces a measurement or recognition inconsistency.
- (iii) A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

(2) Financial assets carried at cost

Equity investments without reliable market prices, including emerging and other unlisted stocks, are measured at cost. If objective evidence of impairment exists, the Consolidated Company recognizes impairment loss, which is not reversed in subsequent periods.

(3) Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized in earnings. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

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g. Financial derivatives and hedging

If a cash flow hedge meets the criteria for hedge accounting, the consolidated company recognized the offsetting effects on profit or loss of changes in the fair value of the hedging instrument and the hedged item. Under hedging accounting, the changes in the fair value of a hedging instrument designated as a fair value hedge are recognized in profit or loss. The hedged items are also stated at fair value in respect of the risk being hedged, with any gain or loss being recognized in profit or loss.

h. Notes and Accounts Receivable, and Allowance for Doubtful Accounts

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

i. 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 Consolidated 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.

j. Long-Term Investments at Equity (Including Joint Ventures)

Long-term equity investments in which the Consolidated 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 a joint venture investment in which the Company has the ability to control is accounted for under the equity method. Also, such investment is included in the consolidated financial statements by using the proportionate consolidation method on balance sheet date.

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

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

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

k. 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.

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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 | 3 to 60 years |
| Machinery and equipment | 3 to 10 years |
| Warehousing equipment | 5 to 15 years |
| Instrument equipment | 1 to 5 years |
| Transportation equipment | 1 to 20 years |
| Office equipment | 1 to 7 years |
| Miscellaneous equipment | 1 to 20 years |

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

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

1. 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 | 1- 5years |
| Trademark Rights | 5-20years |
| Patents | 5-20years |
| Land usage rights | 20-50years |

The residual value, the amortization period, and the amortization method for an intangible asset with a finite useful life are evaluated at least at each financial year-end. Any changes thereof are accounted for as changes in accounting estimates.

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Under the purchase method, the excess of acquisition costs over the fair value of identifiable assets assumed is recorded as goodwill. Goodwill is measured at its cost less the impairment losses.

The Consolidated Company evaluates intangible assets periodically for impairment in accordance with the statement of Financial Accounting Standards No. 35 (SFAS 35) "Impairment of Assets".

m. Deferred Expense

The costs of renovation project, molds, fixtures and office decorations are deferred and amortized equally over 9 months to 10 years.

n. Bonds Payable

Bonds payable issued after January 1, 2006, is classified on initial recognition as a financial liability, a financial asset or an equity instrument (capital reserve from stock warrants). These bonds are accounted for as follows:

The bond embedded with conversion option, call option and put option issued after January 1, 2006, is treated as compound financial instruments, with equity and liability components which are accounted for as follows:

- (A) The difference between the issue price and face value of bonds payable is accounted for as premium or discount which is amortized over the period from the date of issuance to maturity date using the interest method or straight line method and is recorded as "interest expense". However, the straight line method is used if the results are not materially different than those resulting from the interest method.
- (B) The value of any derivative features (such as a call option and put option) embedded in a compound financial instrument is recognized as "financial assets and financial liabilities at fair value through profit or loss". At the maturity of redemption period, if the fair value of common stock exceeds the redemption price, the fair value of the derivative is recognized as "capital surplus"; however if the fair value of common stock is lower than the redemption price, the fair value of the derivative is recognized as "gain or loss".

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(C) A conversion option embedded in the bonds issued by the Consolidated Company, which is convertible to an equity instrument, is recognized and included in “capital surplus”, net of income tax effect. When a bondholder exercises the conversion rights, the liability component of the bonds (including corporate bonds and embedded derivatives) are revalued at fair value, and the resulting difference between book value and fair value of bonds is recognized as “gain or loss” in the current period. The fair value of the common stock issued due to the conversion is based on the fair value of the abovementioned liability component plus the book value of the stock warrants.

(D) Costs incurred on issuance of convertible bonds are proportionately charged to the liabilities and equities of the underlying instruments based on initial recognition costs.

o. Pension Plan

Domestic public companies in the Republic of China, have adopted SFAS No.18 “Accounting for Pensions” as the basis of accounting for its defined benefits pension plan. Net periodic pension cost recognized in accordance with SFAS No. 18, includes the current service cost, amortization of net transition asset or obligation, prior service cost and amortization of unrecognized gain (loss) on pension plan on straight-line basis over the expected average remaining service period of the employees in accordance with the rules set by the SFB. Under this plan, these entities contribute monthly an amount equal to certain percentage of gross salary to a pension fund, which is deposited into a designated depository account with the Bank of Taiwan.

Pursuant to the Labor Pension Act, domestic private companies in the Republic of China, contribute an amount equal to 6% of gross salary of each employee to the Council of Labor Affairs. These contributions are recognized as pension expense during the period when contributions are made.

The Consolidated Company adopt a defined contribution pension plan according to the regulations of their respective jurisdiction and recognize monthly pension contributions as current expenses. According to the regulations of the Peoples Republic of China government, the subsidiaries in mainland China contribute basic retirement insurance fees equal to the legal percentages of employee’s salary and recognize these fees as current expenses.

Other overseas subsidiaries contribute pension costs periodically on the basis of the local labor law of each subsidiary’s registered jurisdiction.

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p. 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.

q. Revenue Recognition

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

r. Classification of Capital and Operating Expenditures

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

s. 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.

t. 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 Consolidated 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.

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

The income tax for each consolidated entity is reported on an individual basis with the relevant jurisdiction and is not reported on a consolidated basis. The consolidated income tax expense is the total of income tax expenses for all consolidated entities.

u. Employee Stock Option

The Consolidated Company uses the intrinsic value method to recognize compensation costs for its employee stock options whose grant date is after January 1, 2004 and before December 31, 2007. Under this method, the Consolidated Company recognizes the difference between the market price of the stock on date of grant and the exercise price of its employee stock option as compensation cost. Compensation costs are recognized as expenses over the employees' service period as defined in the Employees Stock Option Rules. Relevant changes in owner's equity resulting from the recognition of compensation costs from employee stock options are also reflected in the consolidated statements.

Equity-settled share-based payments of the Consolidated Company granted on or after January 1, 2008 are measured at fair value at the date of grant. The fair value determined at grant date of the equity-settled share-based payments is expensed over the vesting period, with a corresponding increase in equity.

v. Earnings per Share ("EPS")

Earnings per share of common stock is determined based on net income available to common stockholders divided by the weighted-average number of outstanding shares of common stock. The effect on earnings per share from an increase in capital stock through the distribution of stock dividends from unappropriated earnings, capital surplus, or employee stock bonuses approved in the annual stockholders' meetings held before and in 2008 is computed retroactively.

Diluted EPS is calculated by dividing net income by the weighted-average number of common shares used in the basic EPS calculation plus the number of common shares that would be issued assuming all potentially dilutive common shares are converted and outstanding. The employee bonus appropriated after 1 January, 2008 are potentially dilutive common shares. If a dilutive effect does not exist, only basic EPS is disclosed; otherwise, diluted EPS is disclosed in addition to the basic EPS.

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w. 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.

x. Business Combinations

A business combination transaction is accounted for by the Interpretation (91) 243 and (91) 244 issued by the ROC Accounting Research and Development Foundation. The Consolidated Company had a business combination transaction for group restructuring purpose, and accounted for it according to the Interpretation. On the effective date of combination, the surviving entity acquired the assets from the dissolved entity and credited then to long term entity's investment account.

y. 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 Consolidated Company estimates the amount of employee bonuses and remuneration to directors and supervisors and recognizes it as expenses in the year when services are rendered. The differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized in profit or loss.

3. Reasons for and Effect of Accounting Changes: None.

4. Summary of Major Accounts

a. Cash

| | June 30, 2010 |
|-----------------|----------------------|
| Cash on hand | \$ 33,850 |
| Demand deposits | 24,335,294 |
| Time deposits | 14,267,857 |
| Total | \$ 38,637,001 |

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b. Financial Instruments

1. The components of financial instruments were as follows:

| | June 30, 2010 |
|---|----------------------|
| Financial assets reported at fair value through profit or loss-current : | |
| Financial assets held for trading-current: | |
| Stocks of listed companies | \$ 188,864 |
| Beneficiary certificates | 6,388,863 |
| Forward exchange contracts | 60 |
| Depository receipts | 14,065 |
| Corporate bonds | 527,915 |
| Bonds with repurchase agreement | 273,809 |
| Total | \$ 7,393,576 |
| Derivatives hedging instrument-current: | |
| Forward exchange contracts | \$ 8,858 |
| Available-for-sale financial assets-current: | |
| Stocks of listed companies | \$ 44,405 |
| Stock of overseas listed companies | 837,490 |
| Total | \$ 881,895 |
| Available-for-sale financial assets-non current: | |
| Stocks of listed companies | \$ 1,523,377 |
| Stock of overseas listed companies | 392,893 |
| Total | \$ 1,916,270 |
| Financial assets carried at cost-non current: | |
| Equity securities-common stock | \$ 666,099 |
| Corporate bonds | 100,000 |
| Total | \$ 766,099 |
| Financial liabilities reported at fair value through profit or loss-current | |
| Domestic convertible Convertible bonds-put and call options | \$ (1,578) |
| Forward exchange contracts | 18,415 |
| Adjustments | 9,126 |
| Total | \$ 25,963 |

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2. The convertible bond issued by Ability Enterprise Co., Ltd. was treated as a compound financial instrument, which was partly classified as an equity and the rest as a liability. The fair value of call options and put options embedded in bonds payable was separated from bonds payable, and was recognized as "Financial assets or liabilities at fair value through profit or loss" in accordance with SFAS No.34. For six months ended June 30, 2010, Ability Enterprise Co., Ltd. recognized a loss on financial liability reported at fair value through profit or loss of \$9,126, please refer to note (4)(k) for the main terms and conditions of the 1st unsecured domestic convertible bonds issued by Ability Enterprise Co., Ltd.
3. For six months ended June 30, 2010, the Consolidated Company recognized a loss on financial assets reported at fair value through profit or loss amounted to \$4,677.
4. For six months ended June 30, 2010, the unrealized losses on available-for-sale financial assets amounted to \$284,824.
5. The common stock held by Consolidated Company with no quoted price from active market and the fair value cannot be measured reliably, were reported as financial assets carried at cost-non current. Following the resolution by the Annual Meeting of Shareholders, ADDTEK Corporation carried out a capital reduction of \$98,125, divided into 9,812 shares, in order to cover its accumulated deficit at March 30, 2010.
6. Impairment loss of \$72,442 was recognized on financial assets carried at cost for six months ended June 30, 2010.
7. As of June 30, 2010, the components of financial derivatives of Ability Enterprise Co., Ltd. and United New Limited were as follows:

| | June 30, 2010 | | |
|---|-----------------------|--|---|
| | Book Value | Nominal Principal (thousands) | Maturity Date/ contract period |
| <u>Derivative financial assets not for hedge:</u> | | | |
| Currency swap contracts | <u>\$ (18,415)</u> | <u>USD 106,970</u> | 2010.06~2010.07 |
| Forward exchange contracts | <u>\$ 60</u> | <u>USD 4,000</u> | 2010.06~2010.07 |
| <u>Derivative financial assets for hedge:</u> | | | |
| Forward exchange contracts (sell) | <u>\$ 8,858</u> | <u>USD 8,708</u> | 2010.09~2010.10 |

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Ability (tw) entered into derivative contracts during the six months ended June 30, 2010 to manage exposures due to the fluctuations of exchange rate and interest rate. However, no hedge accounting is adopted as these derivatives do not meet the criteria for hedge accounting. Furthermore, please refer to Note (4) (r) for the risk management of the Consolidated Company.

c. Notes and Accounts Receivable

1. Non-related parties

| | June 30, 2010 |
|---------------------------------------|----------------------|
| Notes receivable | \$ 76,955 |
| Less: Allowance for doubtful accounts | - |
| Net | 76,955 |
| Accounts receivable | 42,873,281 |
| Less: Allowance for doubtful accounts | (749,731) |
| Net | 42,123,550 |
| Total | \$ 42,200,505 |

2. As of June 30, 2010, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

| Purchaser | Amount Derecognized | Credit advanced | Collateral | Credit (thousands) |
|--------------------|---------------------|-----------------|------------|--------------------|
| Mega International | | | | |
| Commercial Bank | \$ 693,365 | 429,462 | None | USD 30,000 |

d. Inventories

| | June 30, 2010 |
|---|----------------------|
| Merchandise | \$ 2,021,268 |
| Finished goods | 15,007,057 |
| Work in process | 3,499,840 |
| Raw materials | 28,461,465 |
| Inventories-in-transit | 2,187,706 |
| Sub-total | 51,177,336 |
| Less: Allowance for inventory market decline and obsolescence | (2,621,510) |
| Total | \$ 48,555,826 |

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

| | For six months ended June 30, 2010 |
|--|---|
| Cost of goods sold | \$ 242,104,853 |
| Gain on disposal from scrapping | (401,927) |
| Idle capacity | 47,863 |
| Loss on inventory valuation and obsolescence | 173,022 |
| Loss on slow moving | 18,033 |
| Loss on physical inventory | 16,369 |
| Total | \$ 241,958,213 |

e. Long-Term Equity Investments

| | June 30, 2010 | |
|--|---------------------------|---------------------|
| Name of Investee company | Equity Holding | Book Value |
| INDEED HOLDINGS LIMITED | 49.00% | \$ 777,378 |
| Avy Precision Technology Inc. | 20.39% | 758,247 |
| WILSON HOLDINGS LIMITED | 49.00% | 168,661 |
| EVER PINE INTERNATIONAL LTD. (BVI) | 34.65% | 127,804 |
| PENTAX VQ CO., LTD. | 40.00% | 71,559 |
| WISE INVESTMENT LIMITED | 48.78% | 36,941 |
| SHIN-EI YORKEY INTERNATIONAL LTD. (BVI) | 50.00% | 21,106 |
| ZhangJiaGang dongbu High Technology Metal Products Co., Ltd. | 20.00% | 49,906 |
| YOFREE TECHNOLOGY CO., LTD | 17.50% | 10,629 |
| Subtotal | | 2,022,231 |
| Add: Fair value adjustment for identifiable assets | | 61,832 |
| Total | | \$ 2,084,063 |

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1. For six months ended June 30, 2010, some of the investment income (loss) under equity method was recognized based on the investees' financial statements which were reviewed by other auditors and furnished to us, but others were based only on the financial statement prepared by the investees. The components of this investment income (loss) were as follows:

Investment(income)/loss

| Name of Investee companies | For the six months ended June 30, 2010 | |
|--|--|----------------|
| INDEED HOLDINGS LIMITED | \$ | 42,566 |
| Avy Precision Technology Inc. | | 72,474 |
| WILSON HOLDINGS LIMITED | | 6,705 |
| EVER PINE INTERNATIONAL LTD. (BVI) | | 5,976 |
| PENTAX VQ CO., LTD. | | 12,704 |
| WISE INVESTMENT LIMITED | | (184) |
| ZhangJiaGangdongbu High Technology Metal Products Co., Ltd. | | 7,091 |
| SHIN-EI YORKEY INTERNATIONAL LTD. (BVI) | | (7,438) |
| YOFREE TECHNOLOGY CO., LTD | | 762 |
| Total | \$ | 140,656 |

2. Shin-Ei Yorkey international Ltd. (BVI), was thus there's no control force and excluded from consolidated financial statements as the Consolidated Company held less than 50% of its voting shares and had no significant control thereof.
3. Avy Precision Technology Inc., a subsidiary of Ability Enterprise Co., Ltd., had swapped its equity shares with Azure Wave Technologies, Inc., which resulted in a difference between acquisition cost and fair value of the identifiable long-term investment. Since the Consolidated Company has the ability to control Ability Enterprise Co., Ltd., such difference of \$61,832 as of June 30, 2010, was adjusted using the equity method of accounting based on the percentage of ownership of the Consolidated Company, in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 25 "Business Combinations".

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f. Joint Venture Investments

The Company had equity investment in ADVANSUS CORP., which is a joint venture entity. As of June 30, 2010, the issued capital of ADVANSUS CORP., amounted to \$360,000 of which 50% was held by the Company as of the same date. The financial accounts of ADVANSUS CORP., which were included in the Company's consolidated financial statements, were as follows:

| | | <u>June 30, 2010</u> |
|----------------------------|----|----------------------|
| Current assets | \$ | 689,496 |
| Non current assets | | 15,524 |
| Current liabilities | | 481,353 |
| For the six months | | |
| ended June 30, 2010 | | |
| Revenues | \$ | 1,096,357 |
| Expenses | | 1,064,289 |

g. Property, Plant and Equipment, Idle Assets, and Rental Assets

1. Property, plant and equipment

(i) Based on the results of its evaluation of the recoverability of property, plant and equipment, the Consolidated Company recognized a gain on recovery of impairment of assets amounting to \$122,016 for six months ended June 30, 2010.

(ii) Please refer to Note (6) for details regarding the property, plant, and equipment pledged as collateral.

2. Rental assets

(i) As of June 30, 2010, the components of rental assets were as follows:

| | | <u>June 30, 2010</u> |
|--|-----------|-----------------------|
| Land | \$ | 345,749 |
| Buildings | | 623,417 |
| Less: Accumulated depreciation | | (127,740) |
| Less: Accumulated impairment | | (69,061) |
| Add: Fair value adjustment for identifiable assets | | 8,839 |
| | \$ | <u>781,204</u> |

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(ii) In accordance with SFAS 25, the Consolidated Company has control over Ability Enterprise Co., Ltd. through a share swap and adjusted the difference between the acquisition cost and the fair value of the rental assets based on the Consolidated Company's percentage of ownership. As of June 30, 2010, the fair value adjustment for identifiable assets amounted to \$8,839.

3. Idle assets

(i) As of June 30, 2010, the components of idle assets were as follows:

| | June 30, 2010 |
|--------------------------------|----------------------|
| Land | \$ 394,645 |
| Buildings | 740,901 |
| Machinery and others | 1,704,582 |
| Less: Accumulated depreciation | (1,293,488) |
| Less: Accumulated impairment | (578,281) |
| | \$ 968,359 |

(ii) As these idle assets were not used in operation, the Consolidated Company recognized fair value based on recoverable amount. For the six months ended June 30, 2010, a gain on recovery of impairment recognized for these idle assets amounted to \$94,716.

h. Intangible assets

Goodwill is assessed periodically for impairment in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets". As of June 30, 2010, the book value of goodwill was \$890,608.

'Land use rights' are rights for the company to use government-owned land. These rights were paid in lump sum, which was capitalized and amortized equally over their useful lives. As of June 30, 2010, the unamortized amount of land use rights was \$2,391,181.

Please refer to Note (6) for details of the intangible assets pledged as collateral.

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i. Other Assets – Other

Deferred expenses consist of capitalized costs of small molds, fixtures and office decorations, which are amortized equally over 9 months to 10 years. As of June 30, 2010, the unamortized amount was \$2,821,034.

Due to the restriction imposed by local government, KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS) purchased a farm land in the name of KINSUS's chairman instead of KINSUS. Before KINSUS can take over the title to the farmland as well as completing the registration procedures, the land is temporarily recorded as other assets. As of June 30, 2010, the book value of this farmland was \$30,784.

j. Short - Term Loans

| | June 30, 2010 |
|------------------------|----------------------|
| Credit loans | \$ 14,883,706 |
| Collateralized loan | 71,014 |
| Total | \$ 14,954,720 |
| Range of interest rate | 0.55% ~ 5.04% |

The Consolidated Company issued promissory notes as guarantee for part of credit loan facility. Please refer to Note (6) for details of the related assets pledged as collateral.

k. Bonds Payable

| | June.30, 2010 |
|----------------------------------|----------------------|
| Bonds payable | \$ 1,500,000 |
| Less: Discounts on bonds payable | (141,652) |
| Total | \$ 1,358,348 |

1. The key terms and conditions of the 1st unsecured domestic convertible bonds were as follows:

- (i) Ability (TW) issued the 1st unsecured domestic convertible bonds of NT\$1,500 million with each bond having coupon rate of 0%, an issue price of 100.2% over par value, and maturing in 5 years (During Feb 6th, 2010 to Feb 6th, 2015). These convertible bonds are payable in full at par on maturity date and are listed on Over-the-Counter Market on February 8th, 2010.

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- (ii) After 30 days from issue date (March 7th, 2010) and 10 days prior to maturity date (January 27th, 2015), the bondholders can exercise their right to convert the bonds into the Company's common stock. Under the terms of the convertible bonds, the rights and obligations of the new shares converted from convertible bonds are the same as the issued and outstanding common stock.
 - (iii) The conversion price will be adjusted based on the terms of the conversion plan, and will be reset based on the prescribed formula upon the occurrence of certain events that will have a dilutive effect on the bondholders' rights. As of June 30, 2010, the conversion price is \$60 and as Ability (TW) will distribute cash dividend at August 1, 2010, the exercise price will be adjusted from \$60 to \$55.7 on that date.
 - (iv) After 3 years from issue date (Feb 6th, 2013), the bondholders shall have the right at such bondholders' option to require the Company to redeem all or some of the convertible bonds at a price equal to 100% of the principal amount plus interest at the rate of 0.3% per annum, payable annually.
 - (v) The Company may purchase the outstanding bonds at face value after the following events, provided the (1) the closing price of the shares for a period of 30 consecutive trading day is above 130% of the conversion price (2) the amount of the outstanding bonds is less than 10% of the initial issuance amount of convertible bonds, from the day after the first month of issuance of the bonds to 40 days prior to the maturity date.
 - (vi) Under the terms of the convertible bonds, the convertible bonds which are repurchased, redeemed, or converted to common shares will be retired and cannot be sold or re-issued.
2. In accordance with SFAS No. 36, convertible bonds are initially treated as compound financial instruments, which are partly classified in equity and the rest as a liability. As of June 30, 2010, the issuance of convertible bonds resulted in "additional paid-in capital-stock option" of \$153,508. In addition, the fair value of call options and put options embedded in bonds payable was separated from bonds payable, and was recognized as "Financial assets or liabilities at fair value through profit or loss" in accordance with SFAS No. 34. The effective annual interest rate of the bonds ranges from 2.122% to 2.263%.

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1. Long - Term Loans

| <u>Creditor</u> | <u>Usage and redemption duration</u> | <u>June 30, 2010</u> |
|--|---|----------------------------|
| ANZ, Mega International Commercial Bank and 14 other participating financial institutions (Note A) | 2008.10.30~2011.10.30, \$1.5 billion is payable in 3 semi-annual installments, commencing on April 30, 2010 and the remaining amount is payable on maturity date. | \$ 7,200,000 |
| Industrial and Commercial Bank of China — Ji-An Branch | 2009.10.09~2011.10.08, interest is payable quarterly, and total outstanding amount is payable on maturity date. | 142,029 |
| Mega International Commercial Bank — Lan-Ya Branch | 2004.12.31~2011.12.31, payable in 20 quarterly installments, commencing from January, April, August, October 15 which date is the nearest date of borrowing. | 8,072 |
| Mega International Commercial Bank — Lan-Ya Branch | 2005.01.31~2012.01.31, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period). | 41,863 |
| Mega International Commercial Bank — Lan-Ya Branch | 2009.12.16~2016.12.15, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period). | 349,999 |
| The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch | 2006.12.08 ~2013.10.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing. | 18,731 |
| The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch | 2009.06.23 ~2014.06.23, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing. | 96,330 |
| The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch | 2009.07.23 ~2014.07.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing. | 24,083 |
| The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch | 2009.11.23 ~2014.10.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing. | 232,798 |
| The Shanghai Commercial & Savings Bank, Ltd. — International Financial Services Branch | 2010.04.20~2013.04.19, payable in 8 quarterly installments, commencing from May 20, 2011. | 64,300 |
| Subtotal | | <u>8,178,205</u> |
| Less: Current portion | | <u>(96,275)</u> |
| | | <u>\$ 8,081,930</u> |
| Range of interest rate | | <u>0.80%~4.86%</u> |

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Note A: According to the agreement, during the loan repayment periods, the Company must comply with certain financial covenants based on the audited annual and semi-annual consolidated financial statements (June 30 and December 31) as follows:

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

The Company was in compliance with the above financial covenants as of June 30, 2010.

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

Please refer to Note (6) for details of the related assets pledged as collateral.

m. Pension Plan :

As of and for the six months ended June 30, 2010, pension costs and related information of the Company were as follows:

| | As of and for the Six months ended June 30, 2010 |
|-----------------------------------|---|
| Pension fund | \$ 102,245 |
| Current pension expenses: | |
| Defined benefit pension cost | \$ 4,984 |
| Defined contribution pension cost | \$ 502,551 |
| Accrued pension cost | \$ 21,702 |
| Accrued pension assets | \$ 3,198 |

n. Income Tax :

- i. According to the revised income tax law announced on May 27, 2009, the statutory income tax rate is reduced from 25% to 20% effective January 1, 2010. Also, according to the revised income tax law announced on June 15, 2010, this statutory income tax rate is reduced further to 17% effective January 1, 2010. Therefore, the Company and domestic subsidiaries were-subject to statutory income tax rate of 17%, and also complied with the Basic Income Tax Act when calculating its income tax for the six months ended June 30, 2010. Other foreign subsidiaries are subject to income tax in compliance with their respective local income tax law.

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- ii. For the six months ended June 30, 2010, the components of income tax expense were as follows:

| | For the Six Months Ended June 30, 2010 | |
|--------------------------------------|---|------------------|
| Current income tax expense | \$ | 757,384 |
| Deferred income tax expense | | 348,962 |
| 10% surtax on undistributed earnings | | 217,638 |
| Others | | - |
| Income tax expense | \$ | 1,323,984 |

The components of deferred income tax expense were as follows:

| | For the Six Months Ended June 30, 2010 | |
|---|---|----------------|
| Loss on inventory | \$ | (31,055) |
| Reversal (Provisions) for warranty reserve | | 29,881 |
| Loss carry-forward | | (156,521) |
| Loss on doubtful accounts | | 9,450 |
| Unrealized profits on sales | | (1,524) |
| Reversal (Provisions) for impairment loss on assets | | 1,958 |
| Investment tax credits | | 266,488 |
| Unrealized exchange loss | | (121,694) |
| The effect of income tax rate changes | | 8,901 |
| Unrealized investment gain | | 240,600 |
| Allowance for valuation reversal | | 113,738 |
| Others | | (11,260) |
| Deferred income tax expense | \$ | 348,962 |

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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 consolidated financial statements for the six months ended June 30, 2010 as follows:

| | For the Six Months Ended June 30, 2010 | |
|--|---|------------------|
| Income tax expense calculated on pre-tax financial at the statutory tax rate | \$ | 1,336,595 |
| Permanent differences | | (87,027) |
| Investment tax credits | | (101,215) |
| The effect of income tax rate changes | | (50,517) |
| Undervalue (or overvalue) of income tax in prior year | | (17,936) |
| Valuation allowance of deferred income tax assets | | 45,453 |
| 10% surtax on undistributed earnings | | 217,638 |
| Loss on reducing capital | | (31,450) |
| Others | | 12,443 |
| Income tax expense | \$ | 1,323,984 |

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

| | June 30, 2010 | |
|--|----------------------|---------------------------|
| Temporary differences of deferred income tax assets(liabilities) – current: | Amount | Income Tax Effects |
| Recognition of unrealized foreign exchange loss: taxable | \$ 198,908 | 33,873 |
| Recognition of loss on allowance for inventory market decline and obsolescence: deductible | 1,220,473 | 208,317 |
| Recognition of unrealized intercompany profits: deductible | 218,624 | 37,166 |
| Recognition of deferred employee benefits for tax: deductible | 6,337 | 1,645 |
| Recognition of warranty reserve: deductible | 1,217,181 | 207,539 |
| Recognition of organization costs: deductible | 34 | 6 |
| Unused balance of investment tax credits | 298,135 | 298,135 |
| Loss carry-forward | 993,450 | 169,811 |
| Depreciation of assets: deductible | 32,739 | 4,861 |

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| June 30, 2010 | | |
|--|---------------|---------------------------|
| Temporary differences of deferred income tax assets(liabilities) – current: | Amount | Income Tax Effects |
| Recognition of unrealized gain of deferred rental: deductible | 10,508 | 2,995 |
| Capitalization of expenses | 2,359 | 401 |
| Others | (10,564) | (3,296) |
| The effect of income tax rate changes | | (902) |
| Valuation Allowance | | (145,468) |
| Net deferred income tax assets | | \$ 815,083 |
| Temporary differences of deferred income tax assets(liabilities) – noncurrent: | | |
| Recognition of impairment loss on assets: deductible | \$ 84,000 | 14,281 |
| Recognition of deferred employee benefits for tax: deductible | 2,322 | 395 |
| Recognition of gain on foreign investments: taxable | (2,030,692) | (345,218) |
| Reserve for overseas investment losses | (1,160,597) | (197,302) |
| Recognition of organization costs: deductible | 62 | 12 |
| Unused balance of investment tax credits | 604,175 | 604175 |
| Loss carry-forward | 190,027 | 38,005 |
| Loss on inventory | 82 | 16 |
| Pension over the limited amount | 12,292 | 2,090 |
| Interest expense of bonds payable | 12,877 | 2,189 |
| Capitalization of expenses | 1,798 | 208 |
| Recognition of unrealized intercompany profits: deductible | (154,513) | (26,267) |
| The effect of income tax rate changes | | (734) |
| Valuation Allowance | | (632,238) |
| Net deferred income tax assets (liabilities) | | \$ (540,388) |

- v. The Company's tax returns through 2007 have been assessed and approved by the Tax Authority.
- vi. For the status of the requests for administrative proceedings formally filed by the Consolidated Company, please refer to notes (7)(h) and (7)(j).

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- vii. According to ROC Income Tax Act, unused investment tax credits which may be applied to offset against income tax in the future are as follows:

| Name of companies | Year of occurrence | Unused investment tax credits | Year of expiration |
|--------------------------|---------------------------|--------------------------------------|---------------------------|
| The Company | 2009 | \$ 157,718 | 2013 |
| KINSUS | 2006~2009 | 706,356 | 2010~2014 |
| ASUS Investment | 2007 | 18,725 | 2011 |
| ADVANSUS Corp. | 2008~2009 | 7,613 | 2012~2013 |
| AMA PRECISION | 2008~2009 | 11,898 | 2012~2013 |
| | | \$ 902,310 | |

- viii. According to ROC Income Tax Act, unused loss carry-forward which may be applied to offset against income tax in the future are as follows:

| Name of companies | Year of occurrence | Unused loss carry-forward | Year of expiration |
|-----------------------------|---------------------------|----------------------------------|---------------------------|
| PCM | 2009~2010 | \$ 7,114 | 2014~2015 |
| UNIHAN | 2010 | 959,572 | 2020 |
| STARLINK | 2004~2008 | 144,831 | 2014~2018 |
| HUA-YUAN INVESTMENT LIMITED | 2007 | 7 | 2017 |
| AMA PRECISION | 2009 | 71,953 | 2019 |
| | | \$ 1,183,477 | |

- ix. Five year income tax exemption period

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

| Description | Exemption |
|---|----------------------|
| Tenth capital increase used for investment in new equipment. | 07/31/06 to 07/30/11 |
| Eleventh capital increase used for investment in new equipment. | 04/30/07 to 04/29/12 |

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(ii) The investments of KINSUS INTERCONNECT TECHNOLOGY CORP. for its establishment and expansion conform to “the Regulations Regarding Awards for Newly Emerging and Strategic Industries Under Manufacturing and Technical Service Industries”. As approved by the Tax Authority, the Consolidated Company is eligible for five-year income tax exemption, the details of which were as follows:

| <u>Item</u> | <u>Approving Office</u> | <u>Approval document number</u> | <u>Tax exemption period</u> |
|-------------|-------------------------------|---------------------------------|-----------------------------|
| 1 | Industrial Development Bureau | 09505017710 | 07/01/2005~06/30/2010 |
| 2 | Industrial Development Bureau | 09605016580 | 09/30/2006~09/29/2011 |
| 3 | Industrial Development Bureau | 09605016590 | 09/30/2006~09/29/2011 |
| 4 | Industrial Development Bureau | 09605034400 | 08/31/2007~08/30/2012 |
| 5 | Industrial Development Bureau | 09805018460 | 09/30/2008~09/29/2013 |

10. Stockholders' imputation tax credit account and tax rate:

| <u>Undistributed earnings:</u> | <u>June 30, 2010</u> |
|---|---------------------------------------|
| Stockholders' imputation tax credit account | <u>69,729</u> |
| Accumulated in 1997 and prior years | - |
| Accumulated in 1998 and thereafter | 5,515,556 |
| Total | <u>5,515,556</u> |
| | <u>June 30,2010 (Expected)</u> |
| Expected or actual deductible tax ratio | <u>11.18%</u> |

o. Stockholders' Equity

1. 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 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.

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On July 2, 2007, pursuant to resolutions of the board of directors, the Company decided January 1, 2008 as the effective date for the spin-off of the OEM business from ASUSTeK Computer Inc. In exchange for the net assets acquired and liabilities assumed from this OEM business worth \$70,000,000, the Company issued 1,600,000 new shares with par value of \$10 per share, which resulted in additional capital of \$16,000,000. Those new shares were issued at a premium of \$43.75 per share. The Company 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 new shares, resulting in additional capital of \$2,796,281.

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 new shares, resulting in additional capital of \$100. Thereafter, the total outstanding capital amounted to \$22,860,639, divided into 2,286,064 shares with par value of \$10-per share.

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

ASUSTeK GDR holders who surrendered their ASUSTeK GDRs on or after the Effective Date of Spin-off and Merger in Taiwan will receive the new Asustek GDRs and the Pegatron entitlement. Pegatron entitlement represents the right to receive 60,819,020 Pegatron common shares in Taiwan.

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The Company may issue new GDRs with no more than 60,819,026 Pegatron common shares and delivered them to ASUSTeK GDR holders pursuant to the “Issuer of Overseas Securities Offering and Issued Guidelines”. The new GDRs are expected to be issued after obtaining approval from Financial Supervisory Commission Executive Yuan.

2. 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.

As of June 30, 2010, interest revenues generated from the trust of shareholders of parent company were distributed to the employees of the Company as bonuses. These bonuses amounted to \$194,872, which were debited to salary expense and credited to capital surplus — others.

3. 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:

- (i) 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.
- (ii) Up to 1% as remuneration to directors and supervisors.
- (iii) 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 10, 2010, the Company's board of directors resolved the appropriation of earnings for 2009. The distributions of employee bonuses and remuneration to directors and supervisors from the distributable earnings in 2009 were as follows:

| | 2009 |
|---|---------------------|
| Common stock dividends per share (dollars)-Cash | \$ 1.75 |
| Employee bonus-cash | \$ 1,205,797 |
| Remuneration to directors and supervisors | 60,290 |
| Total | \$ 1,266,087 |

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

For the six months ended June 30, 2010, the Company estimated employee bonus and remuneration to directors and supervisors' remuneration of \$312,605 and \$31,260, respectively. 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 next year.

p. Employee Stock Option

1. The details of the first batch of employee stock options of the Ability Enterprise Co., Ltd. in 2007 were as follows:

- (i) On November 20, 2007, pursuant to the resolutions of its board of directors, Ability Enterprise Co., Ltd. (Ability) had issued employee stock options covering a total number of 19,500 units. Each unit bears an option to subscribe for one share of Ability's common stock. Therefore, 10,000 shares of new common stock were issued from the exercise of 10,000 units of employee stock option. Following the issuance of employee stock options, any event, such as additional change to common stock of Ability, distributions of cash dividends, and occurrence of merger and acquisition will result in adjustments in the price of the stock options. The employee stock options cover a contractual life of 7 years, and are exercisable in accordance with certain schedules as prescribed by the plan starting 2 years from the date of grant. As of June 30, 2010, the weighted-average expected life of the employee stock options was 4.74 years.

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(ii) The number and weighted average exercise price of the first batch of employee stock options issued in 2007 were as follows:

| | As of and For the Six Months Ended | |
|--|---|--|
| | June 30, 2010 | |
| | Quantity of stock option (thousand shares) | Weighted-average exercise price (dollars) |
| Outstanding at the beginning of the period | 10,000 | 41.3 |
| Granted | - | - |
| Added or adjusted | - | - |
| Exercised | - | - |
| Forfeited | - | - |
| Outstanding at the end of the period | 10,000 | 41.3 |
| Exercisable at the end of the period | 4,000 | |

(iii) For the employee stock options of Ability Enterprise Co., Ltd. granted between January 1, 2004 and December 31, 2007, the Company recognizes compensation cost using the fair value method. Pro forma information on net income and earnings using the fair value method was as follows:

| | For the Six Months Ended | |
|-----------------------------|---------------------------------|--------------|
| | June 30, 2010 | |
| Net income: | | |
| Net income | \$ | 1,329,656 |
| Pro forma net income | | 1,313,612 |
| Basic earning per share | | |
| Earnings per share | | 3.04 dollars |
| Pro forma earning per share | | 3.00 dollars |
| Diluted earning per share | | |
| Earnings per share | | 2.87 dollars |
| Pro forma earning per share | | 2.82 dollars |

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(iv) The Black-Scholes Option Valuation Model was adopted to estimate the fair value of employee stock options on the date of grant. The assumptions used in this valuation model were as follows:

| | November 20, 2007 |
|---|--------------------------|
| Dividend yields | -% |
| Volatility factors of the expected market | 39.87% |
| Risk-free interest rate | 2.54% |
| Weighted-average expected life of the options | 5.10 years |
| Stock options granted | 10,000 thousand shares |
| Weighted-average fair value (per share) | 20.6025 dollars |

2. The details of the second batch of employee stock option of the Ability Enterprise Co., Ltd. in 2007 were as follows:

- (i) On November 20, 2007, pursuant to resolutions of its board of directors, Ability Enterprise Co., Ltd. (Ability) had issued employee stock options covering a total number of 19,500 units. The second batch of employee stock option 9,500 units, was issued on October 13, 2008. Each unit bears an option to subscribe for one shares of Ability's common stock at an exercise price of \$22.2 per share. As of June 30, 2010, the weighted-average expected life of the employee stock options was 5.25 years.
- (ii) The number and weighted average exercise price of the second batch of employee stock options issued in 2007 were as follows:

| | As of and For the Six Months Ended | |
|--|---|--|
| | June 30, 2010 | |
| | Quantity of stock option (thousand shares) | Weighted-average exercise price (dollars) |
| Outstanding at the beginning of the period | 9,500 | \$ 20.8 |
| Granted | - | - |
| Added or adjusted | - | - |
| Exercised | - | - |
| Forfeited | - | - |
| Outstanding at the end of the period | 9,500 | 20.8 |
| Exercisable at the end of the period | - | |

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(iii) The Trinomial Tree Option Valuation Model was adopted by the Ability Enterprise Co. Ltd. to estimate the fair value of employee stock options. The related information was as follows:

| <u>Types</u> | <u>Grand date</u> | <u>Stock Price</u> | <u>Exercise Price</u> | <u>Volatility factors of the expected market price</u> | <u>Weighted-average expected life of the options</u> | <u>Dividend yields</u> | <u>Risk-free interest rate</u> | <u>Fair value per unit</u> |
|-----------------------|-------------------|--------------------|-----------------------|--|--|------------------------|--------------------------------|----------------------------|
| Employee stock option | 2008.10.13 | \$22.20 | 22.20 | 43.11% (Note) | 7 years | -% | 2.2101% | 8.88 dollars |

Note: Volatility factors of the expected market price were based on the yearly standard deviation resulting from past three years' (starting on the measurement date) return rate on stock price.

(iv) The expenses resulting from the share-based payment transactions were as follows:

| | For the Six Months Ended June 30, 2010 |
|--------------------|---|
| Equity transaction | \$ 10,866 |

q. Earnings per Share (EPS)

For six months ended June 30, 2010, the Parent company's basic earnings per share, diluted earnings per share were computed as follows:

(Note: shares in thousands)

| | For the Six Months Ended June 30, 2010 | |
|--|---|-------------------------|
| | Before income tax | After income tax |
| Net income | \$ 4,377,807 | 3,473,387 |
| Weighted-average common shares outstanding | 2,286,056 | 2,286,056 |
| Dilutive potential common shares | 10,898 | 10,898 |
| Diluted shares | 2,296,954 | 2,296,954 |
| Primary earnings per share | \$ 1.92 | 1.52 |
| Diluted earnings per share | \$ 1.91 | 1.51 |

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r. Financial Instruments

1. 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 based on their fair value as of balance sheet date.

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

| | June 30, 2010 | |
|---|----------------------|-------------------|
| Non-Financial Instruments | Book Value | Fair Value |
| Financial Assets | | |
| Financial assets carried a cost-non current | \$ 766,099 | - |
| Financial Liabilities | | |
| Bonds payable | 1,358,348 | 1,358,348 |
| Long-term loans (includes current portion) | 8,178,205 | 8,178,205 |
| Financial Instruments | | |
| Financial Assets | | |
| Currency swap contracts-hedging | \$ 8,858 | 8,858 |
| Financial Liabilities | | |
| Forward exchange contracts | 18,415 | 18,415 |
| Embedded derivatives-convertible bonds | 7,548 | 7,548 |

2. Methods and assumptions used by the Consolidated Company to evaluate the fair value of financial instruments were as follows:

- (i) The fair value of financial instruments, which are carried at fair value through profit or loss and traded in active markets, is based on quoted market prices. If the financial instruments are not traded in an active market, then the fair value is determined by using valuation techniques, under which, the estimates and assumptions used are consistent with prevailing market conditions.
- (ii) Financial assets carried at cost, are measured at carrying value, as their market price is difficult to determine, due to lack of objective evidences, in practice.
- (iii) The fair value of call options and put options embedded in the convertible bonds, which were issued after January 1st, 2006, is determined by their book value.

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- (iv) The fair market value of long-term debt is determined by the present value of future cash flow. As the value derived by using floating interest rate in discounting is close to the book value, the book value is adopted as the fair market value.
 - (v) The fair value of the derivatives is determined by their book value on the balance sheet date. If the derivatives are not traded in active markets, then the fair value is determined by using valuation techniques, under which the estimates and assumptions used are consistent with prevailing market conditions.
3. Loss recognized from changes in the fair values of financial assets and liabilities, which were estimated by using valuation techniques, amounted to \$13,803, for the six months ended June 30, 2010.
4. Information on financial risks

(i) Market risk

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

The equity securities held by the Consolidated Company are classified as financial assets measured at fair value through profit or loss and available-for-sale financial assets. As these assets are measured at fair value, the Consolidated Company is exposed to the risk of changes in fair value in an equity securities market.

(ii) Credit risk

Credit risk means the potential loss of the Consolidated Company if the counterparty involved in that transaction defaults. Since the Consolidated Company's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, management believes that there is no significant credit risk from these transactions.

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The primary potential credit risk is from financial instruments like cash, equity securities, and accounts receivable. The Consolidated Company deposits cash in different financial institutions. The Consolidated 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. According to the Company's customer credibility evaluation policies, the Company has to evaluate the customer's credibility and evaluate the collectability of notes and account receivables constantly before doing business. Thus, there is no significant issue on doubtful accounts.

The major customers of the Consolidated 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.

(iii) Liquidity risk

The capital and working funds of the Consolidated Company are sufficient to meet its entire contractual obligations and non-hedging forward exchange contracts; therefore, no liquidity risk exists.

The funds and marketable securities investments held by the Consolidated Company have publicly quoted prices and could be sold at the approximate market price. Management believes that the cash flow risk is not significant because contracted foreign currency exchange rates are fixed.

Equity investments recorded as financial assets carried at cost do not have reliable market prices and are expected to have liquidity risk.

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(iv) Cash flow risk arising from variation in interest rates

The Consolidated 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.

(v) Risk control, hedging strategies and related activities

For the hedge designation, UNITED NEW entered into derivatives to avoid the exchange rate risk posed by operating activities. If the derivatives do not meet the criteria for hedge accounting, they will be classified as held-for trading financial assets or liabilities.

UNITED NEW held accounts payable in foreign exchange and its fair value will float with the exchange rate. UNITED NEW reduced the exchange rate risk by entering to forward exchange contracts.

As of June.30, 2010, financial instruments transactions accounted for using the hedge accounting were as follows:

| | | June 30,2010 |
|---------------------------|---|--|
| Hedged item | Derivative Financial Instruments | Hedging instrument designated at fair value |
| Payables—foreign currency | Forward exchange contracts | \$ 8,858 |

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

As of June 30, 2010, guarantee and endorsements of bank loans were provided by the Consolidated Company for related parties, as discussed in Note (5).

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5. Related-Party Transactions

a. Names and Relationships of Related Parties with the Consolidated Company

| Name of Related Party | Relationship with the Company |
|---|---|
| ASUSTeK Computer Inc. | An invest company accounted the Consolidated Company for under the equity method (ASUSTeK Computer Inc. lost control of this investee since May 31, 2010) |
| Askey Computer Corp. | An investee company accounted for under the equity method by ASUSTeK Computer Inc. |
| ASMEDIA TECHNOLOGY INC. | // |
| International United Technology Co., Ltd. (Taiwan) | // |
| Shinewave International Inc. | // |
| UNIMAX ELECTRONICS INCORPORATION | // |
| ASUS TECHNOLOGY INCORPORATION | // |
| ASUS Computer (Shanghai) CO., LTD. | An investee company accounted for under the equity method by ASUSTeK Computer Inc. |
| ASUS Technology (Suzhou) Co., Ltd. | // |
| eMES (SUZHOU) CO., LTD. | // |
| ASHINE TECHNOLOGY (SUZHOU) LTD. | // |
| Enertronix, Inc. | // |
| ASUS COMPUTER INTERNATIONAL | // |
| ASUS HOLLAND B.V. | // |
| ASUS TECHNOLOGY PTE. LIMITED (ASTP) | // |
| ASUS TECHNOLOGY(VIETNAM) CO.LTD | // |
| BIG PROFIT LIMITED | // |
| ASKEY TECHNOLOGY (JIANGSU) LTD | // |
| ASUSTEK COMPUTER (SHANGHAI) CO., LTD. | // |
| (ASUS UNITED Technology (Shanghai) Co., Ltd. formerly) | // |
| AGAiT Technology Corporation | // |
| ASHINE PRECISION CO., LTD. | // |
| Avy Precision Technology Inc. | An investee company accounted for under the equity method by the parent. |
| Avy Co., Ltd. | // |
| DongGuan Avy Precision Metal Components Co., Ltd. | // |

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| Name of Related Party | Relationship with the Company |
|--|--|
| DongGuan ChengGuangp Precision Hardware Co., Ltd. | An investee company accounted for under the equity method by the parent. |
| AVY PRECISION METAL COMPONENTS (SUZHOU) | " |
| SHINE TRADE INTERNATIONAL LTD. | " |
| YORKEY OPTICAL TECHNOLOGY LTD. (SAMOA) | " |
| AVY HIGH TECH LIMITED | " |
| Shanghai Indeed Electronic Technology Co., Ltd | " |
| CRYSTAL ART ENTERPRISE CO.,LTD | " |
| HongHua Technology(Suzhou) Co., Ltd. | " |
| GHING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD | " |
| PENTAX VQ CO.,LTD.(PVQ) | " |
| Taishiba International Co., Ltd. | An affiliate of Ability Enterprise Co., Ltd. |
| All directors, supervisors, general manager and vice president | The Company's key management. |

b. Significant Transactions with Related Parties

(i) Sales

| Name of Related Party | For the Six Months Ended June 30, 2010 | | The collection term |
|------------------------------|---|-----------------------|--|
| | Amount | % of Net Sales | |
| ASUSAeK | \$ 108,188,638 | 41.85% | 30 to 60 days from receipt of goods. Open account: 30 to 120 days |
| Others | 128,370 | 0.05% | 30 to 60 days from receipt of goods. Open account: 30 to 120 days |
| Total | \$ 108,317,008 | 41.90% | |

The prices and sales terms mentioned above are the same as general sales terms.

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(ii) Purchases

| <u>Name of Related Party</u> | <u>For the Six Months Ended June.30, 2010</u> | | |
|------------------------------|---|-----------------------|--|
| | <u>Amount</u> | <u>% of Net Sales</u> | <u>The collection term</u> |
| ASUSAeK | \$ 76,508,041 | 32.06% | 30 to 60 days from receipt of goods. Open account: 30 to 120 days |
| Others | 2,878,479 | 1.21% | 30 to 60 days from receipt of goods. Open account: 30 to 120 days |
| Total | <u>\$ 79,386,520</u> | <u>33.27%</u> | |

The prices and purchase term are the same as general purchase terms.

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

(iii) Others

(1)

| <u>After-sales warranty repair expense paid to:</u> | <u>For the Six Months Ended June 30, 2010</u> | |
|---|---|----------------|
| ASTP | \$ | 95,236 |
| ASUS Computer (Shanghai) | | 21,044 |
| ASUSTEK COMPUTER (SHANGHAI) | | 1,784 |
| Total | <u>\$</u> | <u>118,064</u> |

(2)

| <u>Other income from</u> | | |
|--------------------------|-----------|----------------|
| ASUSTeK | \$ | 340,921 |
| Others | | 1,264 |
| Total | <u>\$</u> | <u>342,185</u> |

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(3) For six months ended June 30, 2010, the Consolidated Company incurred other related party transactions recorded as expenses such as processing fee, rental expense, other expense, royalty payment, storage expense, professional service fee, etc, which amounted to \$54,390.

(4) For six months ended June 30, 2010, the Consolidated Company incurred other related party transactions recorded as processing revenue and repair revenue, which amounted to \$95,907.

(iv) Property Transactions

(1) Purchase of properties

For six months ended June 30, 2010, properties purchased from other related parties amounted to \$84,227.

(2) Rental revenue

For six months ended June 30, 2010, the Consolidated Company incurred other related party transactions recorded as rental revenue, which amounted to \$14,344.

(v) Accounts Receivable (Payable)

| | June 30, 2010 | |
|---------------------------------------|----------------------|---------------|
| | Amount | % |
| Notes and Accounts Receivable: | | |
| ASUSTeK | \$ 11,630,692 | 21.30% |
| Others | 35,522 | 0.06% |
| Sub-total | 11,666,214 | 21.36% |
| Less: Allowance for doubtful accounts | - | |
| Total | \$ 11,666,214 | |
| Other receivables: | | |
| ASUSTeK | \$ 75,210 | 4.08% |
| Others | 8,250 | 0.45% |
| Total | \$ 83,460 | 4.53% |

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| | June 30, 2010 | |
|---|----------------------|--------------|
| | Amount | % |
| Notes and Accounts Payable | | |
| Avy Precision Technology Inc. | \$ 614,838 | 1.12% |
| SHANGHAI INDEED TECHNOLOGY CO., LTD. | 239,805 | 0.43% |
| Others | 653,686 | 1.19% |
| Total | \$ 1,508,329 | 2.74% |

Other related party transactions accounted for as assets and liabilities in the balance sheet were as follows:

| Assets: | June 30, 2010 | |
|-------------------------------------|----------------------|--|
| Other current assets | \$11 | |
| Liabilities: | | |
| Accrued expenses | \$ 43,847 | |
| Other financial liabilities-current | 274 | |
| Other current liabilities | 34,051 | |
| | \$ 78,172 | |

(vi) Endorsement Guarantee

As of June 30, 2010, the endorsement guarantees provided by a related party for the Consolidated Company's purchases were as follows:

| Name of Related Party Guarantee | Amount of Guarantee (thousands) June 30, 2010 | |
|--|--|----------------|
| ASUSTeK | USD | 300,000 |
| | | |

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6. Pledged Assets

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

| <u>Asset</u> | <u>June 30, 2010</u> | <u>Purpose of pledge</u> |
|-------------------------------|----------------------|---|
| Restricted deposit | \$ 148,352 | Customs duty guarantee, bank loans, rental deposits, credit contracts, issued letter of credit, travel agency guarantee, etc. |
| Property, plant and equipment | 1,062,804 | Bank loans |
| Inventories | 16,410 | Lawsuit collateral (Note A) |
| Refundable deposits | 107,882 | Deposits for performance guarantee |
| | <u>\$ 1,335,448</u> | |

Note A: A loss on valuation allowance for inventory market decline and obsolescence was recognized for these inventories.

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

As of June.30, 2010, major commitments and contingencies were as follows:

| | | (Thousand dollars) |
|---|----|----------------------|
| a. <u>Unused standby letters of credit:</u> | | <u>June 30, 2010</u> |
| NTD | \$ | 17,944 |
| EUR | | 2,808 |
| JPY | | 2,767,212 |
| USD | | 58,299 |

b. As of June 30, 2010, promissory notes and certificate of deposit obtained for business purpose amounted to \$14,432.

c. Future lease commitments from the lease of buildings under the operating lease agreements were as follows:

| | <u>Future lease commitments</u> | | | | |
|--------------------------|---------------------------------|----------------|----------------|---------------|---------------|
| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
| Future lease commitments | <u>263,027</u> | <u>207,380</u> | <u>137,595</u> | <u>74,992</u> | <u>72,920</u> |

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- d. As of June.30, 2010, the significant contracts for purchase of properties signed by the Consolidated Company amounted to \$1,747,788, of which \$523,196 were unpaid
- e. AVerMedia Technologies Inc. filed an attachment for damage loss against Lumens Digital Optics Inc. with the Taiwan HsinChu District court on January 3, 2005. Lumens Digital Optics Inc. pledged a deposit of \$90,000 as counter-security to the Court for rescinding the attachment. In addition, AVerMedia Technologies Inc., again, filed an attachment for the same reason with the court. HsinChu District court has seized the inventory of Lumens Digital Optics Inc. amounting to \$16,410 which had been recognized as the loss on valuation allowance on June 4, 2010. Lumens Digital Optics Inc. lost its first instance lawsuit and expected that there is no material loss thereon except for the allowance of inventories on the aforementioned case.
- f. On May 24, 2010, Lumens Digital Optics Inc. filed a law suit accusing Aver Media Information Inc. for patent infringement. This case is currently under investigation as of June 30, 2010.
- g. One of ASUSPOWER CORPORATION's American customers voluntarily filed for bankruptcy with the United States Bankruptcy Court of California District. The customer has made payments for goods amounting to US\$1,439,484 to ASUSPOWER COPORATION 90 days before filing for bankruptcy. Insolvency administrator of the customer filed a lawsuit with California court later on claiming that according to United States Bankruptcy Code § 547, the payments could be returned and requested ASUSPOWER CORPORATION to return the amount paid. ASUSPOWER CORPORATION received a notice from the court in September 2009, and entered a plea. This lawsuit is still under investigation.
- h. As of June 30, 2010, the tax returns of the Ability Enterprise Co., Ltd. through 2006, have been assessed and approved by the tax authority. Ability Enterprise Co. disagreed with the examination results of the 2004, 2005 and 2006 income tax returns, in which the tax authority reduced the company's' tax benefits to \$43,019, \$61,898 and \$82,105, respectively, and had filed administrative proceedings.
- i. American Kodak Company filed a civil lawsuit against sued Canon Enterprise. As of June 30, 2010, Canon have not received the formal complaint from the Court until July 30, 2010. Canon Enterprise paid Kodak Company for patent royalties quarterly, but this lawsuit is not about patent infringement. Kodak Company sued Canon Enterprise due to the disagreement with some customer product license calculations under a patent cross-licensing agreement that was previously signed. Canon Enterprise is actively negotiating with Kodak Company up to now.

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j. TWINHAN Technology Co., Ltd (liquidated after its merger with AzureWave in 2008) disagreed with the tax office's assessment on its tax exemption periods from 2002 to 2004. After it was turned down during the administrative proceeding, AzureWave has appealed such assessment to the Supreme Court in December 2008. However, AzureWave has recognized the possible additional tax liabilities from the said assessment.

8. SIGNIFICANT CATASTROPHIC LOSSES: None.

9. SIGNIFICANT SUBSEQUENT EVENTS:

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

10. OTHERS:

The employment, depreciation, depletion and amortization expenses, categorized by function, were as follows:

| Categorized as to Nature | June 30, 2010 | | |
|-------------------------------------|-----------------|---|------------|
| | Operating costs | Operating expenses and Non-operating expenses | Total |
| Employment Expenses | | | |
| Salaries expenses | 6,511,817 | 4,105,495 | 10,617,312 |
| Labor and Health insurance expenses | 438,927 | 248,301 | 687,228 |
| Pensions expenses | 330,004 | 177,531 | 507,535 |
| Other employment expenses | 438,800 | 158,845 | 597,645 |
| Depreciation Expenses* | 3,038,374 | 794,184 | 3,832,558 |
| Amortization Expenses* | 749,426 | 415,280 | 1,164,706 |

Note A: For the six months ended June 30, 2010, the Consolidated Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle assets of \$104,810.

11. BUSINESS SEGMENT FINANCIAL INFORMATION:

Financial information disclosure by industry segment is not required for interim report.