

**(English Translation of Financial Report Originally Issued in Chinese)**  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2011 AND 2010**  
**(With Independent Accountants' Review Report Thereon)**

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**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 March 31, 2011 and 2010, and the related consolidated statements of income and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Consolidated Company's management. Our responsibility is to express the review report based on our review.

Except as discussed 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 three months ended March 31, 2011 and 2010. The total assets of these subsidiaries amounted to \$151,692,224 thousand and \$145,017,190 thousand, representing 67.01% and 66.29% of the related consolidated total assets and the consolidated total liabilities amounted to \$41,450,320 thousand and \$43,731,682 thousand, representing 38.13% and 43.69% of the related consolidated liabilities as of March 31, 2011 and 2010, respectively. The operating revenues of these subsidiaries amounted to \$29,127,797 thousand and \$27,714,331 thousand, representing 26.55% and 21.30% of the consolidated operating revenues for the three months ended March 31, 2011 and 2010, respectively, and their net income (loss) amounted to \$(145,215) thousand and \$915,182 thousand, representing (83.72)% and 32.71% of the related consolidated net income, respectively. As disclosed in Note 4(5) to the consolidated financial statement, 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 \$2,437,153 thousand and \$2,036,817 thousand as of March 31, 2011 and 2010, respectively, and the related investment income thereon amounted to \$15,046 thousand and \$45,611 thousand, respectively.

Based on our review, excepted 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 inconformity with Order VI-0960064020 issued by the Financial Supervisory Commission under the Executive Yuan dated November 15, 2007 and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the accounting principles generally accepted in the Republic of China.

KPMG

A handwritten signature in black ink that reads "KPMG". The letters are stylized and cursive, with the "K" and "M" being particularly prominent.

Taipei, Taiwan, R.O.C  
April 26, 2011

#### 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 SHEETS**

**MARCH 31, 2011 AND 2010**

(All Amounts Expressed in Thousands of New Taiwan Dollars)

ASSETS	March 31, 2011		March 31, 2010	
	Amount	%	Amount	%
<b>Current Assets:</b>				
Cash (Note 4(1))	\$ 36,143,166	16	35,845,618	16
Financial assets reported at fair value through profit or loss — current (Note 4(2))	6,998,426	3	7,632,546	3
Available-for-sale financial assets — current (Note 4(2))	678,996	-	981,274	1
Held-to-maturity financial assets — current (Note 4(2))	264,600	-	-	-
Notes receivable, net of allowance for uncollectible (Note 4(3))	311,093	-	29,932	-
Accounts receivable, net of allowance for uncollectible (Note 4(3))	49,218,503	22	43,646,617	20
Accounts receivable, net of allowance for uncollectible — Related parties (Note 5)	7,947,360	4	10,158,457	5
Other receivable	2,246,187	1	1,379,370	1
Other receivable — Related parties (Note 5)	10,787	-	703,881	-
Other financial assets — current (Note 6)	108,713	-	148,610	-
Inventories (Notes 4(4))	48,868,928	22	48,749,584	22
Other current assets (Note 5)	2,576,878	1	1,606,639	1
Deferred income tax assets — current (Note 4(14))	680,207	-	589,087	-
	156,053,844	69	151,471,615	69
<b>Investments:</b>				
Available-for-sale financial assets — noncurrent (Note 4(2))	1,286,367	1	2,043,394	1
Financial assets carried at cost — noncurrent (Note 4(2))	732,331	-	773,805	-
Long-term investments under the equity method (Note 4(5))	2,437,153	1	2,036,817	1
	4,455,851	2	4,854,016	2
<b>Other financial assets - noncurrent (Note 6)</b>	266,064	-	404,935	-
<b>Property, Plant and Equipment, at cost (Note 4(7))</b>				
Land	5,392,801	2	2,805,128	1
Buildings	24,545,317	11	23,110,916	11
Machinery and equipment	46,233,892	20	45,617,321	21
Warehousing equipment	113,305	-	114,103	-
Instrument equipment	1,571,388	1	1,658,488	1
Transportation equipment	263,267	-	200,882	-
Office equipment	1,110,613	-	1,072,240	-
Miscellaneous equipment	8,413,143	4	5,967,804	3
	87,643,726	38	80,546,882	37
Less: Accumulated depreciation	(35,167,355)	(16)	(29,371,799)	(13)
Less: Accumulated impairment	(37,817)	-	(179,793)	-
Prepayments on purchase of equipment	3,784,005	2	2,370,283	1
	56,222,559	24	53,365,573	25
<b>Intangible Assets</b>				
Goodwill (Note 4(8))	2,238,243	1	890,002	1
Deferred pension costs	379	-	4,894	-
Land use rights (Note 4(8))	2,354,899	1	2,360,767	1
Other intangible assets (Note 4(8))	1,351,448	1	434,974	-
	5,944,969	3	3,690,637	2
<b>Other Assets</b>				
Deferred expenses (Note 4(9))	2,161,046	1	2,995,922	1
Other assets — others (Note 4(7) and 4(9))	1,253,567	1	1,963,854	1
	3,414,613	2	4,959,776	2
<b>TOTAL ASSETS</b>	<b>\$ 226,357,900</b>	<b>100</b>	<b>218,746,552</b>	<b>100</b>

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

(English Translation of Financial Report Originally Issued in Chinese)

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CON'T)

MARCH 31, 2011 AND 2010

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	March 31, 2011		March 31, 2010	
	Amount	%	Amount	%
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Short-term loans (Note 4(10))	\$ 10,378,049	5	7,622,538	3
Short-term notes and bills payable	49,926	-	49,936	-
Financial liabilities at fair value through profit or loss – current (Note 4(2))	49,385	-	14,948	-
Derivative financial liabilities for hedging – current (Note 4(2))	-	-	5,619	-
Notes payable	236,899	-	158,225	-
Accounts payable	63,478,206	28	59,196,837	27
Accounts payable – Related parties (Note 5)	1,778,285	1	1,477,753	1
Income tax payable	2,425,537	1	1,871,915	1
Accrued expenses (Note 5)	7,958,871	3	8,779,200	4
Dividends payable	-	-	4,000,594	2
Current portion of long-term loans payable (Note 4(12))	660,542	-	70,864	-
Other financial liabilities – current (Note 5)	2,561,356	1	1,289,048	-
Other current liabilities (Note 5)	3,525,781	2	5,507,789	3
	<u>93,102,837</u>	<u>41</u>	<u>90,045,266</u>	<u>41</u>
<b>Long-Term Liabilities:</b>				
Bonds payable (Note 4(11))	1,381,528	1	1,350,622	1
Long-term loans payable (Note 4(12))	11,231,362	5	8,040,435	4
Long-term payables	2,000,000	1	-	-
Other financial liabilities – noncurrent	370,879	-	205,394	-
	<u>14,983,769</u>	<u>7</u>	<u>9,596,451</u>	<u>5</u>
<b>Other Liabilities:</b>				
Deferred income tax liabilities – noncurrent	546,525	-	326,591	-
Other liabilities – other	67,196	-	126,494	-
	<u>613,721</u>	<u>-</u>	<u>453,085</u>	<u>-</u>
<b>Total Liabilities</b>	<u>108,700,327</u>	<u>48</u>	<u>100,094,802</u>	<u>46</u>
<b>Stockholders' Equity:</b>				
Common stock (Note 4(15))	22,563,669	10	22,860,539	10
<b>Capital surplus (Note 4(15))</b>				
Premium on capital stock	60,393,247	27	61,188,108	28
Others	2,755,153	1	2,608,589	1
	<u>63,148,400</u>	<u>28</u>	<u>63,796,697</u>	<u>29</u>
<b>Retained earnings (Note 4(15)):</b>				
Legal reserve	1,215,457	1	1,215,457	-
Unappropriated earnings	7,694,861	3	3,817,485	2
	<u>8,910,318</u>	<u>4</u>	<u>5,032,942</u>	<u>2</u>
<b>Other adjustments to stockholders' equity:</b>				
Cumulative translation adjustments	(4,086,351)	(2)	(225,012)	-
Unrecognized loss on pension cost	(16)	-	(3,202)	-
Unrealized gain on financial assets	512,073	-	1,692,848	1
Treasury Stock (Note 4(15))	(9,322)	-	-	-
	<u>(3,583,616)</u>	<u>(2)</u>	<u>1,464,634</u>	<u>1</u>
<b>Total Parent Company's Equity</b>	<u>91,038,771</u>	<u>40</u>	<u>93,154,812</u>	<u>42</u>
<b>Minority interest</b>	<u>26,618,802</u>	<u>12</u>	<u>25,496,938</u>	<u>12</u>
<b>Total Stockholders' Equity</b>	<u>117,657,573</u>	<u>52</u>	<u>118,651,750</u>	<u>54</u>
<b>Commitments and Contingencies (Note 7)</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 226,357,900</u>	<u>100</u>	<u>218,746,552</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 STATEMENTS OF INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010**  
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Three Months Ended March 31			
	2011		2010	
	Amount	%	Amount	%
<b>Operating revenues (Note 5)</b>	\$ 110,455,217	101	130,845,702	101
Less: Sales returns and allowances	747,616	1	740,290	1
<b>Net sales</b>	109,707,601	100	130,105,412	100
<b>Cost of sales (Notes 4(4) and 5)</b>	104,462,672	95	121,687,404	94
<b>Gross profit</b>	5,244,929	5	8,418,008	6
<b>Operating expenses (Notes 5)</b>				
Selling expenses	1,918,005	2	1,488,688	1
General and administrative expenses	1,786,936	2	1,640,230	1
Research and development expenses	2,071,609	2	2,031,703	2
	5,776,550	6	5,160,621	4
<b>Income from operations</b>	(531,621)	(1)	3,257,387	2
<b>Non-operating income</b>				
Interest revenue	81,070	-	26,139	-
Investment gain under the equity method (Note 4(5))	15,046	-	45,611	-
Gain on disposal of fixed assets	87,972	-	-	-
Gain on disposal of investments (Note 4(2))	331,780	-	76,210	-
Foreign exchange gain, net	453,141	1	-	-
Gain on reversal of impairment loss (Note 4(2) and 4(7))	55,445	-	-	-
Gain on valuation of financial asset (Note 4(2) and 4(9))	-	-	5,625	-
Others	552,589	1	717,474	1
	1,577,043	2	871,059	1
<b>Non-operating expenses</b>				
Interest expense	81,997	-	40,725	-
Loss on disposal of fixed assets	-	-	51,862	-
Foreign exchange loss, net	-	-	2,395	-
Impairment loss (Note 4(2) and 4(7))	-	-	8,156	-
Loss on valuation of financial asset (Note 4(2))	31,196	-	-	-
Loss on valuation of financial liability (Note 4(2))	36,159	-	20,950	-
Others	101,331	-	74,220	-
	250,683	-	198,308	-
<b>Income before income tax</b>	794,739	1	3,930,138	3
<b>Income tax expense</b>	621,285	1	1,132,243	1
<b>Consolidated net income</b>	<u>\$ 173,454</u>	<u>-</u>	<u>2,797,895</u>	<u>2</u>
<b>Income attributable to :</b>				
Shareholders of parent company	\$ (558,744)	(1)	1,775,316	1
Minority interest income	732,198	1	1,022,579	1
	<u>\$ 173,454</u>	<u>-</u>	<u>2,797,895</u>	<u>2</u>
	<b>Before</b>	<b>After</b>	<b>Before</b>	<b>After</b>
	<b>Income Tax</b>	<b>Income Tax</b>	<b>Income Tax</b>	<b>Income Tax</b>
<b>Earnings (Losses) per share attributable to parent company (Note 4(17))</b>				
<b>Primary earnings (losses) per share</b>	<u>\$ (0.23)</u>	<u>(0.25)</u>	<u>1.13</u>	<u>0.78</u>
<b>Diluted earnings per share</b>			<u>1.11</u>	<u>0.77</u>

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

	<b>For the Three Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
<b>Consolidated net income</b>	\$ 173,454	2,797,895
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>		
Depreciation	1,985,826	1,951,420
Amortization	617,017	576,838
Ownership of employee stock option and treasury stock transferred to employee as compensation cost	3,304	5,433
Amortization of discount on bonds payable	7,727	5,151
Provision (Reversal) for impairment loss	(27,483)	135,753
Investment gain under equity method	(15,046)	(45,611)
Cash dividends from investees accounted for under the equity method	74,723	-
Gain on disposal of investment	(331,780)	(76,210)
Loss on retirement of fixed assets and other assets	(45,971)	62,375
Unrealized gain on financial assets and liabilities valuation	67,355	15,325
Impairment loss (gain)	(55,445)	8,156
<b>Change in assets and liabilities:</b>		
<b>Change in assets:</b>		
Financial assets reported at fair value through profit or loss — current	(652,506)	(307,136)
Derivative financial assets for hedging — current	1,196	-
Notes and accounts receivable, net	(328,518)	13,977,148
Other accounts receivable	(1,043,210)	(648,323)
Inventories	(5,537,117)	(5,475,405)
Other current assets	(86,351)	232,618
Deferred income tax asset and liability	116,088	361,162
<b>Change in liabilities:</b>		
Financial liabilities reported at fair value through profit or loss — current	1,150	16,525
Derivative financial liabilities for hedging — current	-	5,619
Notes and accounts payable	4,630,817	(7,089,102)
Income tax payable	330,189	595,750
Accrued expenses	584,476	627,762
Other financial liabilities	(1,489,560)	(460,712)
Other current liabilities	(1,082,123)	(220,546)
Other liabilities — other	8,566	75,285
<b>Net cash provided by (used in) operating activities</b>	<b>(2,093,222)</b>	<b>7,127,170</b>
<b>Cash flows from investing activities:</b>		
Acquisition of financial assets available-for-sale	-	(16,066)
Proceeds from disposal of financial assets available-for-sale	552,419	103,562
Acquisition of financial assets carried at cost	(174,780)	(20,543)
Proceeds from disposal of financial assets carried at cost	118,014	24,073
Cash paid from acquisition of subsidiaries	(1,427,750)	-
Decrease in other financial assets — current	1,233,094	47,517
Purchase of property, plant and equipment	(2,042,956)	(2,299,931)
Proceeds from disposal of assets, idle assets and deferred expenses	749,580	1,369,038
Increase in deferred expenses	(118,760)	(280,791)
Purchase of intangible assets	(27,265)	(91,718)
Proceeds from disposal of intangible assets	30,134	-
Decrease in other financial assets — noncurrent	33,573	63,372
Increase in other assets — others	(77,089)	(61,602)
<b>Net cash used in investing activities</b>	<b>(1,151,786)</b>	<b>(1,163,089)</b>

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

	<u>For the Three Months Ended March 31</u>	
	<u>2011</u>	<u>2010</u>
<b>Cash flows from financing activities:</b>		
Decrease in short-term loans	(4,399,508)	(3,256,501)
Increase in short-term notes and bills payable	2	2
Increase in bonds payable	-	1,497,401
Increase (Decrease) in long-term loans	1,254,577	(14,463)
Increase (Decrease) in other financial liabilities — noncurrent	28,004	(35,911)
Changes in minority interest	20,290	10,000
<b>Net cash used in financing activities</b>	<u>(3,096,635)</u>	<u>(1,799,472)</u>
<b>Foreign exchange rate effects</b>	220,802	(161,411)
<b>Effect of changes in certain subsidiaries</b>	-	(3,860)
<b>Net increase (decrease) in cash</b>	(6,120,841)	3,999,338
<b>Cash, beginning of the period</b>	42,264,007	31,846,280
<b>Cash, end of the period</b>	<u><b>\$ 36,143,166</b></u>	<u><b>35,845,618</b></u>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	<u><b>\$ 64,529</b></u>	<u><b>34,614</b></u>
Income tax	<u><b>\$ 217,789</b></u>	<u><b>172,232</b></u>
<b>Non-cash investing and financing</b>		
Current portion of long-term loans payable	<u><b>\$ 660,542</b></u>	<u><b>70,864</b></u>
Cash dividend payable	<u><b>\$ -</b></u>	<u><b>4,000,594</b></u>
Other payable from acquisition of subsidiaries	<u><b>\$ 3,000,000</b></u>	<u><b>-</b></u>
<b>Purchase of property and equipment with cash and other payables:</b>		
Property, plant and equipment	\$ 1,693,114	2,403,973
Add: Other payables, beginning of the period	468,687	97,397
Less: Other payables, end of the period	(118,845)	(201,439)
<b>Cash paid</b>	<u><b>\$ 2,042,956</b></u>	<u><b>2,299,931</b></u>

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**  
**MARCH 31, 2011 AND 2010**

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

**1. ORGANIZATION AND BUSINESS :**

According to the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan, Pegatron Corporation (the “Company”) needed not to disclose the information about organization and business.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Consolidated Company’s financial statements were prepared in accordance with the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan on November 15, 2007 and generally accepted accounting principles of the Republic of China. Except for the following significant accounting policies, other significant policies which are not disclosed herein are the same as those in the 2010 annual consolidated financial statements.

The significant accounting policies and their measurement basis are as follows:

**(1) Basis of consolidation**

- a. The consolidated financial statements include the Company and its controlled subsidiaries. The significant inter-company transactions were eliminated. As of March 31, 2011 and 2010, the consolidated subsidiaries were as follows:

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.03.31	2010.03.31	
The Company	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	100.00%	100.00%	The Company directly owns over 50% of equity
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	12.40%	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
			2011.03.31	2010.03.31	
Ability (tw)	ABILITY ENTERPRISE (BVI) CO., LTD. (ABILITY)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
"	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%	"
"	VIEWQUEST TECHNOLOGIES INTERNATIONAL LTD.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%	"
"	ASSOCIATION INTERNATIONAL LTD.	Investing activities	100.00%	100.00%	"
"	VIEWQUEST TECHNOLOGIES (BVI) INC.	Manufacturing and trading computer peripherals, digital cameras and electronic components	100.00%	100.00%	"
"	Ability International Investment Co., Ltd.	Investing activities	100.00%	100.00%	"
ABILITY	Ability Technology (Dongguan) Co., Ltd	Producing and selling digital cameras	100.00%	100.00%	"
"	Jiujiang Viewquest Electronics Inc.	Producing and selling digital cameras	100.00%	-	"
Ability International Investment Co., Ltd.	NOENA CORPORATION (NOENA)	Selling computer peripherals and optical products	80.00%	80.00%	"
UNIHAN	Unihan Holding Ltd. (Unihan Holding)	Investing activities	100.00%	100.00%	"
Unihan Holding	CASETEK HOLDINGS LIMITED (CASETEK HOLDING)	Investing and trading activities	100.00%	100.00%	"

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.03.31	2010.03.31	
CASETEK HOLDING	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
"	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00%	100.00%	"
CASETEK HOLDING	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDING)	Investing and trading activities	100.00%	100.00%	"
"	GRAND UPRIGHT TECHNOLOGY LIMITED	Trading activities	100.00%	-	"
KAEDAR HOLDING	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling module of stainless steel computer cases	100.00%	100.00%	"
CASETEK HOLDING	KAEDAR TRADING LTD.	Investing and trading activities	100.00%	100.00%	"
"	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%	100.00%	"

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.03.31	2010.03.31	
CASETEK HOLDING	APLUS PRECISION LTD. (APLUS)	Investing and trading activities	51.00%	51.00%	Subsidiary directly owns over 50% of equity
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	100.00%	"
UNITED	AVY PRECISION ELECTRO-PLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	100.00%	"
UNIHAN AND ASUSPOWER INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	43.56%	43.56%	Subsidiary has de facto control
AZURE WAVE	EMINENT STAR COMPANY LIMITED (EMINENT)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
EMINENT	HANNEX INTERNATIONAL LIMITED (HANNEX)	Investing activities	100.00%	100.00%	"
HANNEX	SCIENTEK. NANJING CO., LTD.	Designing, manufacturing and selling computer products	100.00%	100.00%	"
EMINENT	JADE TECHNOLOGIES LIMITED (JADE)	Investing activities	100.00%	100.00%	"
EMINENT、JADE	AZUREWAVE TECHNOLOGY (SHENZHEN) CO., LTD.	Designing, researching and selling computer products	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity

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			2011.03.31	2010.03.31	
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00%	100.00%	Subsidiary directly owns over 50% of equity
"	AZWAVE HOLDING (SAMOA) INC. (AZWAVE SAMOA)	Investing activities	100.00%	100.00%	"
AZWAVE SAMOA	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and selling computer products	100.00%	100.00%	"
"	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing electronic parts	100.00%	100.00%	"
"	AIGALE CORPORATION (SHANGHAI)	Developing, designing and selling communication equipment and electronic products	100.00%	-	"
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00%	100.00%	"
UNIHAN	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	100.00%	"
AMA PRECISION	AMA TECHNOLOGY CORPORATION	Trading computer peripherals	100.00%	100.00%	"
"	AMA HOLDINGS LIMITED (AMA)	Investing activities	100.00%	100.00%	"
AMA	METAL TRADINGS LTD.(METAL)	Trading activities	100.00%	100.00%	"
METAL	FENGSHUO TRADING (TONGZHOU) CO., LTD.	Trading activities	100.00%	100.00%	"

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.03.31	2010.03.31	
AMA	EXTECH LTD.	Trading electronic parts	90.51%	90.51%	Subsidiary directly owns over 50% of equity
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	100.00%	100.00%	"
AMA	TOPTED PRECISION INDUSTRY (SUZHOU) CO., LTD.	Manufacturing and selling new electronic parts and premium hardware	100.00%	100.00%	"
THE COMPANY AND ASUS INVESTMENT	ASUS HOLLAND HOLDING B.V.(AHH)	Investing activities	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
AHH	PEGATRON CZECH S.R.O.	Installing, repairing and selling electronic products	100.00%	100.00%	Subsidiary directly owns over 50% of equity
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
POWTEK	POWTEK (SHANGHAI) CO., LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00%	100.00%	"
PEGATRON HOLDING, KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing and holding activities	68.89%	100.00%	"

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.03.31	2010.03.31	
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	"
"	PIOTEK (H.K) TRADING LIMITED	Trading activities	100.00%	100.00%	"
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00%	100.00%	"
ASLINK	ASLINK (H.K.) PRECISION CO., LIMITED	Investing and trading activities	100.00%	100.00%	"
"	ASAP INTERNATIONAL CO., LIMITED (ASAP)	Investing activities	-	59.17%	"
ASAP	ASAP TECHNOLOGY (JIANGXI) CO., LIMITED	Manufacturing and selling data transmit wire and cable	-	100.00%	"
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	"
"	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%	"



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			2011.03.31	2010.03.31	
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
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%	100.00%	"
PEGATRON HOLDING	NORTH TEC ASIA LIMITED (NORTH)	Investing and trading activities	-	100.00%	"
PROTEK AND NORTH	PROTEK (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%	100.00%	Subsidiary directly and indirectly held 100% of equity
PEGATRON HOLDING	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity

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			2011.03.31	2010.03.31	
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PEGATRON HOLDING	TOP QUARK LIMITED (TOP QUARK)	Investing and holding activities	100.00%	100.00%	"
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%	100.00%	"
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
"	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	"
"	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.03.31	2010.03.31	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole soling of computer equipment and electronic components	58.65%	58.65%	Subsidiary directly owns over 50% of equity
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Manufacturing and selling database storage and processing equipments	100.00%	100.00%	"
ASIAROCK	ASROCK EUROPE B.V.	Database service and trading electronic components	100.00%	100.00%	"
"	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%	"
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing and holding activities	100.00%	100.00%	"
Leader	Firstplace International Ltd. (Firstplace)	Investing and holding activities	100.00%	100.00%	"
Firstplace	ASRock America, Inc.	Database service and trading electronic components	100.00%	100.00%	"
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.03.31	2010.03.31	
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%	39.00%	Subsidiary has de facto control
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KINSUS INVESTMENT AND ASUSPOWER INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	84.45%	84.45%	"
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%	"
"	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	"
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	100.00%	"
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	"

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.03.31	2010.03.31	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION (ASUSPOWER)	Investing and trading activities	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
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%	100.00%	Subsidiary directly and indirectly held 100% of equity
ASUSPOWER	CASETEK HOLDING LIMITED	Investing activities	100.00%	-	Subsidiary directly owns over 50% of equity
CASETEK HOLDING LIMITED	RIH LI INTERNATIONAL LIMITED (SAMOA)	Investing activities	100.00%	-	"
"	RI-KUAN METAL CORPORATION	Manufacturing and selling electronic components	100.00%	-	"
RIH LI INTERNATIONAL LIMITED (SAMOA)	GLOBAL EXPERT LIMITED	Trading activities	100.00%	-	"
"	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG SHANGHAI)	Manufacturing and selling electronic components	100.00%	-	"
"	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	-	"

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			2011.03.31	2010.03.31	
STARLINK	STRATEGY Technology Co., Ltd.	Investing and trading activities	-	100.00%	Subsidiary directly owns over 50% of equity
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%	"
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00%	100.00%	"
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.	Maintenance service	100.00%	-	"
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	100.00%	"
"	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00%	100.00%	"
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens Optics)	Researching, manufacturing and selling computer data projectors and related peripherals	56.52%	56.52%	"
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	100.00%	"
"	Lumens Digital Image Inc. (Lumens)	Investing activities	100.00%	100.00%	"
Lumens	Lumens (Suzhou) Digital Image Inc.	Researching, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	100.00%	"

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			2011.03.31	2010.03.31	
Lumens Optics	Lumens Europe BVBA	Selling computer communication products and peripherals	100.00%	100.00%	Subsidiary directly owns over 50% of equity
"	Jie Xin Inc.	Manufacturing and wholesaling electronic parts	94.00%	94.00%	"
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%	"
The Company	ADVANSUS CORP.	Manufacturing computer peripherals	50.00%	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%	100.00%	"

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

b. Increases or decreases in the number of consolidated subsidiaries as of March 31, 2011 were as follows:

- (a) Ability Enterprise Co., Ltd. invested and acquired 100% of the equity ownership of Jiujiang Viewquest Electronics Inc. through ABILITY ENTERPRISE (BVI) CO., LTD.
- (b) In August 2010, UNIHAN HOLDING acquired the 100% equity ownership of GRAND UPRIGHT TECHNOLOGY LIMITED for USD 1,326 thousand dollars through CASETEK HOLDINGS LIMITED.
- (c) KINSUS HOLDING (SAMOA) LIMITED has participated in the capital increase in cash of PIOTEK HOLDING LTD., whose former name was BOARDTEK HOLDING LTD (CAYMAN). Since the third quarter of 2010, KINSUS HOLDING (SAMOA) LIMITED has purchased from Pegatron Holding for USD 87,755 thousand dollars the equity ownership of PIOTEK HOLDING LTD. with carrying value of USD 6,554 thousand dollars. This equity ownership acquisition increased the equity investment of KINSUS

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

HOLDING (SAMOA) LIMITED in PIOTEK HOLDING LTD. to 51%. As Pegatron Holding did not participate in the capital increase in cash of KINSUS HOLDING (SAMOA) LIMITED according to its equity holding percentage, the direct equity ownership of the Company has dropped from 100% to 49% as of March 31, 2011. However, the equity of KINSUS HOLDING LIMITED held by the Consolidated Company was 68.89%, thereby holding the ability to exercise control.

- (d) Azware Holding (Samoa) Inc. acquired the 100% equity ownership of AIGALE CORPORATION amounted to RMB 1,361 thousand dollars in August 2010.
- (e) PEGATRON TECHNOLOGY SERVICE INC. established PEGATRON SERVICIO DE INFORMATICA LTDA. and owned 100% equity ownership amounted to USD 650 thousand dollars in November 2010.
- (f) In January 2011, ASUSPOWER CORPORATION acquired 100% equity ownership of CASETEK HOLDING LIMITED (CASETEK HOLDING) for USD 95,000 thousand. Following the acquisition of equity ownership for USD 196,737 thousand, ASUSPOWER CORPORATION obtained control over RIH LI International Limited (Samoa), RI-KUAN METAL CORPORATION, Global Expert, RI-TENG SHANGHAI and RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD. through CASETEK HOLDINGS.

According to SFAS No. 7 “Consolidated Financial Statements”, if the Consolidated Company has controlling power over entities described above, those entities are treated as subsidiaries and are included in consolidation financial statements.

- c. 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%, 12.40% 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 exercise control over their respective board of directors.



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- d. Subsidiaries excluded from consolidation
- i. 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 26, 2010.
  - ii. NORTHTEK ASIA LIMITED, an investee company wholly owned by Pegatron Holding, merged with PROTEK GLOBAL HOLDING LTD in 2010, and PROTEK GLOBAL HOLDING LTD was the surviving entity from such merger.
  - iii. Due to organizational restructuring, ASLINK PRECISION CO., LTD (ASLINK PRECISION) acquired 25% equity ownership of ASAP TECHNOLOGY (JIANGXI) CO., LTD through equity swap on December 31, 2010. Consequently, ASLINK PRECISION's equity ownership in ASAP INTERNATIONAL CO., LIMITED decreased from 59.17% to 45.56%. Following the equity swap, ASLINK PRECISION sold its equity ownership in ASAP INTERNATIONAL CO., LTD to a non-related party, and thereby the Consolidated Company lost its significant influence on ASAP INTERNATIONAL CO., LTD and ASAP TECHNOLOGY (JIANGXI) CO., LTD.

According to SFAS No. 7 "Consolidated Financial Statements", if the Consolidated Company has lost controlling power over entities described above, those entities are excluded in consolidated financial statements.

- e. Refer to Note 4(11) for related information on convertible bonds and new shares issued by subsidiaries.

**(2) Financial Instruments**

Financial instrument transactions are recorded at the trading date. Financial instruments other than those held-for-trading are initially recognized at fair value plus transaction costs, while those held-for-trading financial assets are carried at fair value. Subsequent to initial recognition, financial instruments are classified and measured, depending on the Consolidated Company's intention for holding, as follows:

- a. Financial assets or liabilities reported at fair value through profit or loss

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

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b. 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.

c. Financial assets carried at cost

Investments in equity securities 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.

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

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

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash

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flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Prior to January 1, 2011, 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.

**(3) Operating Segments**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance for which discrete financial information is available.

**(4) Business Combinations**

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

4. Summary of Major Accounts

(1) Cash

	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Cash on hand	\$ 13,927	50,343
Demand deposits	17,051,595	23,903,972
Time deposits	19,077,644	11,891,303
Total	<u>\$ 36,143,166</u>	<u>35,845,618</u>

(2) Financial Instruments

a. The components of financial instruments were as follows:

	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Financial assets reported at fair value through profit or loss - current:		
Financial assets held-for-trading - current		
Stock of listed companies	\$ 223,383	210,139
Beneficiary certificates	6,198,275	6,248,528
Forward exchange contracts	2,131	-
Option exchange	15,691	-
Currency swap contracts	12,171	3,886
Overseas equity securities	-	619,636
Depository receipts	19,666	18,008
Callable bonds	527,109	532,349
Total	<u>\$ 6,998,426</u>	<u>7,632,546</u>
Available-for-sale financial assets - current:		
Stock of listed companies	-	50,537
Stock of overseas listed companies	678,996	930,737
Total	<u>\$ 678,996</u>	<u>981,274</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Available-for-sale financial assets - noncurrent:		
Stock of listed companies	\$ 1,286,367	1,497,158
Stock of overseas listed companies	-	546,236
Total	<u>\$ 1,286,367</u>	<u>2,043,394</u>
Held-to-maturity financial assets - current:		
Investment bonds	<u>\$ 264,600</u>	<u>-</u>
Financial assets carried at cost - noncurrent:		
Equity securities – common stock	\$ 379,001	773,805
Equity securities – preferred stock	253,330	-
Convertible bonds	85,435	-
Convertible options	14,565	-
	<u>\$ 732,331</u>	<u>773,805</u>
Financial liabilities reported at fair value through profit or loss - current:		
Financial liabilities held-for-trading – current:		
Option exchange contracts	\$ 882	-
Forward exchange contracts	-	458
Currency swap contracts	1,322	753
Subtotal	<u>2,204</u>	<u>1,211</u>
Financial liabilities reported at fair value through profit or loss - current:		
Domestic convertible bonds	\$ (1,578)	(1,578)
Adjustments	48,759	15,315
Subtotal	<u>47,181</u>	<u>13,737</u>
Total	<u>\$ 49,385</u>	<u>14,948</u>
Derivative financial liability for hedging:		
Forward exchange contracts	<u>\$ -</u>	<u>5,619</u>

- b. 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. Please refer to note 4(11) for the main terms and conditions of the 1<sup>st</sup> unsecured domestic convertible bonds issued by Ability Enterprise Co., Ltd.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- c. For three months ended March 31, 2011 and 2010, the Consolidated Company recognized a net loss on financial assets reported at fair value through profit or loss of \$67,355 and \$15,325, respectively.
- d. For three months ended March 31, 2011 and 2010, the unrealized losses on available-for-sale financial assets amounted to \$492,709 and \$5,500, respectively.
- e. 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-noncurrent. Following the resolution by the Annual Meeting of Shareholders, ADDTEK Corporation carried out a capital reduction of \$98,125 and \$158,000, divided into 9,812 thousand and 15,800 thousand shares, in order to cover its accumulated deficit at March 30, 2010 and December 21, 2010, respectively.
- f. Impairment loss of \$6,724 and \$40,159 was recognized on financial assets carried at cost for the three months ended March 31, 2011 and 2010, respectively.
- g. For the three months ended March 31, 2011, KINSUS sold all of its equity ownership in KINMAC SOLAR CO., LTD., of 10,711 thousand shares to WIN Semiconductors Corporation and 50 thousand shares to a third party, totaling 10,761 thousands shares, for a total selling price of \$118,015, net of securities transaction tax, at \$11 per share.
- h. For the three months ended March 31, 2011, ASUSPOWER INVESTMENT CO., LTD. sold to a third party all of its equity ownership in Atheros Communications Inc. for USD18,904 and recognized a gain thereon of \$331,780.
- i. As of March 31, 2011 and 2010, the components of financial derivatives of Ability Enterprise Co., Ltd., GLOBAL EXPERT LIMITED and United New Limited were as follows:

	March 31, 2011		
	Book Value	Nominal Principal (thousands)	Maturity Date/ Contract Period
Derivative financial assets not for hedge			
Currency swap contracts	\$ 12,171	USD 101,460	2011.03 ~ 2011.04
Forward exchange contracts	\$ 2,131	USD 19,300	2011.02 ~ 2011.05
Option exchange (long call)	\$ 15,691	USD 4,750	2011.01 ~ 2011.09
Option exchange (short put)	\$ (882)	USD 3,000	2010.05 ~ 2011.06
Currency swap contracts	\$ (1,322)	USD 4,750	2011.01 ~ 2011.09

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	March 31, 2010		
	Book Value	Nominal Principal (thousands)	Maturity Date/ Contract Period
Derivative financial assets not for hedge			
Currency swap contracts	\$ 3,886	USD 83,640	2010.03 ~ 2010.04
Forward exchange contracts (sell)	\$ (458)	USD 10,000	2010.03 ~ 2010.04
		NTD 113,894	2010.03 ~ 2010.04
Forward exchange contracts (buy)	\$ (753)	USD 41,550	2010.03 ~ 2010.04
Derivative financial assets for hedge			
Forward exchange contracts (sell)	\$ (5,619)	USD 8,708	2010.09 ~ 2010.10

Ability (tw) entered into derivative contracts during the three months ended March 31, 2011 and 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(18) for the risk management of the Consolidated Company.

(3) Notes and Accounts Receivable – non-related parties

	March 31, 2011		March 31, 2010	
Notes receivable	\$	311,458		29,932
Less: Allowance for doubtful accounts		(365)		-
Net		311,093		29,932
Account receivable	\$	49,880,233		44,246,197
Less: Allowance for doubtful accounts		(661,730)		(599,580)
Net		49,218,503		43,646,617
Total	\$	49,529,596		43,676,549

As of March 31, 2011 and 2010, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

Purchaser	Amount derecognized		Credit advanced		Collateral	Credit (thousands)	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010		March 31, 2011	March 31, 2010
Mega	\$ 660,113	496,974	234,159	255,188	None	USD 30,000	USD 30,000
International Commercial Bank							

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(4) Inventories

	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Finished goods and merchandise	\$ 13,512,784	12,891,830
Less: Allowance for inventory market decline and obsolescence	(1,158,393)	(416,555)
Sub-total	<u>12,354,391</u>	<u>12,475,275</u>
Work in process and merchandise	10,225,174	7,549,188
Less: Allowance for inventory market decline and obsolescence	(330,417)	(342,635)
Sub-total	<u>9,894,757</u>	<u>7,206,553</u>
Raw materials and merchandise	28,409,040	28,729,571
Less: Allowance for inventory market decline and obsolescence	(2,234,458)	(1,799,400)
Sub-total	<u>26,174,582</u>	<u>26,930,171</u>
Inventory-in-transit	445,198	2,137,585
Total	<u><b>\$ 48,868,928</b></u>	<u><b>48,749,584</b></u>

For three months ended March 31, 2011 and 2010, the components of cost of goods sold were as follows:

	<b>For the Three Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>
Cost of goods sold	\$ 104,200,772	121,450,892
Provision (Reversal) loss for inventory market price decline	(271,528)	99,244
Loss on disposal from scrapping	244,045	36,509
Idle capacity	289,383	100,759
	<u><b>\$ 104,462,672</b></u>	<u><b>121,687,404</b></u>



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(5) Long-Term Equity Investments

<u>Name of Investee Company</u>	<u>March 31, 2011</u>		<u>March 31, 2010</u>	
	<u>Equity Holding</u>	<u>Book Value</u>	<u>Equity Holding</u>	<u>Book Value</u>
INDEED HOLDINGS LIMITED	49.00%	\$ 702,707	49.00%	750,446
AVY PRECISION TECHNOLOGY INC.	20.25%	788,744	20.39%	758,576
WILSON HOLDINGS LIMITED	49.00%	159,110	49.00%	163,048
EVER PINE INTERNATIONAL LTD. (BVI)	34.65%	114,376	34.65%	127,763
PENTAX VQ CO., LTD.	- %	-	40.00%	58,762
WISE INVESTMENT LIMITED	48.78%	35,724	48.78%	37,035
SHIN-EI YORKEY INTERNATIONAL LTD. (BVI)	50.00%	14,955	50.00%	23,226
ZHANGJIAGANG DONGBU HIGH TECHNOLOGY METAL PRODUCTS CO., LTD.	20.00%	43,224	20.00%	45,229
YOFREE TECHNOLOGY CO., LTD.	17.50%	10,811	17.50%	10,900
EBIZPRISE INC.	31.76%	77,072	- %	-
ASAP TECHNOLOGY (JIANGXI) CO., LTD.	25.00%	172,244	- %	-
E-PACKING HOLDING LIMITED	30.00%	256,354	- %	-
Subtotal		2,375,321		1,974,985
Add: Fair value adjustment for identifiable assets		61,832		61,832
Total		<u><u>\$ 2,437,153</u></u>		<u><u>2,036,817</u></u>

The investment gain under equity method of \$15,046 and \$45,611 for the three months ended March 31, 2011 and 2010, respectively, were recognized based on the investees' financial statements, which were not reviewed by an independent accountant.

- a. For the three months ended March 31, 2011 and 2010, the Consolidated Company held less than 50% shares of Shin-Ei Yorkey international Ltd. (BVI) and had no significant control thus Shin-Ei Yorkey international Ltd. (BVI) was excluded from the consolidated financial statements.

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- b. 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 both as of March 31, 2011 and 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".
- c. In November 2010, the Consolidated Company had participated in the capital increase of eBizprise Inc. by acquiring new shares worth \$99,000, divided into 5,500 thousand shares with par value of \$18 per share. As the result, the Consolidated Company holds 31.76% of equity ownership.
- d. The Consolidated Company acquired 25% equity ownership of ASAP TECHNOLOGY (JIANGXI) CO., LTD. through equity swap, which enables it to exercise significant influence over ASAP TECHNOLOGY (JIANGXI) CO., LTD. Please refer to Note 2(1) for more details.
- e. The Consolidated Company had participated in E-PACKING HOLDING's capital increase through CASETEK HOLDING LIMITED by purchasing additional equity shares by USD\$8,115,484, and its ownership percentage after the capital increased to 30%.

(6) Joint Venture Investments

The Company had equity investment in ADVANSUS CORP., which is a joint venture entity. As of March 31, 2011 and 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:

	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Current assets	\$ 507,010	567,028
Noncurrent assets	13,050	17,440
Current liabilities	266,266	352,185

  

	<b>For the Three Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>
Revenues	\$ 366,648	457,664
Expenses	360,676	445,780

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(7) Property, Plant and Equipment, Idle Assets, and Rental Assets

a. Property, plant and equipment

- (a) 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 \$209 and \$32,523 for three months ended March 31, 2011 and 2010, respectively.
- (b) In order to construct operational headquarter and research and development center, Ability Enterprise Co., Ltd. (Ability) participated in Xinzhuang land auction and acquired a parcel of land worth \$2,468,329 which was accounted under land. The legal process for the registration of this land has been completed.
- (c) Please refer to Note 6 for details regarding the property, plant, and equipment pledged as collateral.

b. Rental assets

- (a) As of March 31, 2011 and 2010, the components of rental assets were as follows:

	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Land	\$ 286,573	345,749
Buildings	579,063	623,417
Less: Accumulated depreciation	(121,991)	(124,706)
Less: Accumulated impairment	(12,030)	(69,061)
Add: Fair value adjustment for identifiable assets	7,559	9,266
	<b>\$ 739,174</b>	<b>784,665</b>

- (b) 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 March 31, 2011 and 2010, the fair value adjustment for identifiable assets amounted to \$7,559 and \$9,266, respectively.

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c. Idle assets

(a) As of March 31, 2011 and 2010, the components of idle assets were as follows:

	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Land	\$ 56,969	394,645
Buildings	346,427	740,901
Machinery and others	1,591,550	1,842,112
Less: Accumulated depreciation	(1,229,082)	(1,033,883)
Less: Accumulated impairment	(424,060)	(970,828)
	<u>\$ 341,804</u>	<u>972,947</u>

(b) As these idle assets were not used in operation, the Consolidated Company recognized fair value based on recoverable amount. For the three months ended March 31, 2011 and 2010, a gain of \$61,960 and \$20, respectively, was recognized from recovery of impairment for these idle assets.

(8) 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 March 31, 2011 and 2010, the carrying value of goodwill amounted to \$2,238,243 and \$890,002, respectively.

'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 March 31, 2011 and 2010, the unamortized amount of land use rights was \$2,354,899 and \$2,360,767, respectively. Please refer to Note 6 for details of the intangible assets pledged as collateral.

Identifiable intangible asset from customer relationships is amortized equally over 3 years based on its expected economic benefits. As of March 31, 2011, the unamortized amount was \$1,013,833.

(9) 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 March 31, 2011 and 2010, the unamortized amount of deferred expenses was \$2,161,046 and \$2,995,922, respectively.

Due to the restriction imposed by local government, KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS) purchased a farm land in the title 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 March 31, 2011 and 2010, the carrying value of this farmland was both \$30,784.

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(10) Short - Term Loans

	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Credit loans	\$ 10,297,334	6,734,369
Collateralized loan	80,715	888,169
	<b>\$ 10,378,049</b>	<b>7,622,538</b>
Range of interest rate	<b>0.45% ~ 5.00%</b>	<b>0.45% ~ 5.04%</b>

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.

(11) Bonds Payable

	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Bond payable	\$ 1,500,000	1,500,000
Less: Discounts on bonds payable	(118,472)	(149,378)
Total	<b>\$ 1,381,528</b>	<b>1,350,622</b>

a. The key terms and conditions of the 1<sup>st</sup> unsecured domestic convertible bonds were as follows:

- (a) Ability (TW) issued the 1<sup>st</sup> 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 6<sup>th</sup>, 2010 to Feb 6<sup>th</sup>, 2015). These convertible bonds are payable in full at par on maturity date and are listed on Over-the-Counter Market on February 8<sup>th</sup>, 2010.
- (b) After 30 days from issue date (March 7<sup>th</sup>, 2010) and 10 days prior to maturity date (January 27<sup>th</sup>, 2015), the bondholders can exercise their right to convert the bonds into Ability (TW)'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.
- (c) 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. The conversion price on issuance date was \$60 and Ability (TW) distributed cash dividend at August 1, 2010, the exercise price was adjusted from \$60 to \$55.7 on that date.

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- (d) After 3 years from issue date (Feb 6<sup>th</sup>, 2013), the bondholders shall have the right at such bondholders' option to require Ability (TW) 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.
- (e) Ability (TW) may purchase the outstanding bonds at face value after the following events, provided that (i) the closing price of the shares for a period of 30 consecutive trading day is above 130% of the conversion price (ii) 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.
- (f) 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.
- b. 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 March 31, 2011, the issuance of convertible bonds resulted in "additional paid-in capital-stock option" of \$153,508. In addition, the embedded call option and put option are not closely related to the characteristics and risks of the host contract, thus they are separated from the host contract, and was accounted for "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%.
- c. As of March 31, 2011, Ability Enterprise Co., Ltd's convertible bonds have not yet been converted into common shares nor repurchased.

(12) Long - Term Loans

<b>Creditor</b>	<b>Usage and redemption duration</b>	<b>March 31, 2011</b>	<b>March 31, 2010</b>
Citibank Taiwan and 15 other participating financial institutions (Note A)	2010.10.25~2015.10.25, Credit line is repayable in 5 semi-annual installments, commencing from October 25, 2013.	\$ 7,056,000	-
ANZ, Mega International Commercial Bank and 14 other participating financial institutions	2008.10.31~2011.10.30, \$1.5 billion is payable in 3 semi-annual installments, commencing on April 30, 2010 and the remaining amount is payable on maturity date and the remaining balance has been repaid in advance on November 23, 2010.	-	7,200,000

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<u>Creditor</u>	<u>Usage and redemption duration</u>	<u>March 31, 2011</u>	<u>March 31, 2010</u>
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.	-	139,754
The Shanghai Commercial & Saving Bank, Ltd.	2010.09.21~2015.09.20 payable in 10 quarterly installments from the thirty-first month.	1,029,000	-
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.	3,696	9,309
Mega International Commercial Bank — Lan-Ya Branch	2005.01.31~2012.01.31, payable in 20 quarterly installments, commencing from the date of borrowing.	21,903	47,293
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).	320,460	345,966
Mega International Commercial Bank — Lan-Ya Branch	2010.10.28 ~2015.10.27, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	205,800	-
Mega International Commercial Bank — Lan-Ya Branch	2010.10.28~2015.10.27, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period).	117,600	-
Mega International Commercial Bank — Lan-Ya Branch	2010.12.20~2015.12.20, payable in 20 quarterly installments, commencing from the date of borrowing.	977,550	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch	2006.12.08 ~2013.12.08, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	13,475	19,837
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 from the date of borrowing.	71,662	95,220

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<u>Creditor</u>	<u>Usage and redemption duration</u>	<u>March 31, 2011</u>	<u>March 31, 2010</u>
The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch	2009.07.23 ~2014.07.23, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	19,294	23,805
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 from the date of borrowing.	199,828	230,115
The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch	2010.07.22~2015.07.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	171,990	-
The Shanghai Commercial & Savings Bank, Ltd. — International Financial Service Branch	2010.12.10~2014.12.09, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	147,000	-
The Shanghai Commercial & Savings Bank, Ltd. — International Financial Service Branch	2010.04.20~2013.04.19, payable in 8 quarterly installments, commencing from May 20, 2011.	58,800	-
Land Bank of Taiwan Co., Ltd. — Chung — Li Branch	2010.12.24~2015.12.24, payable in 60 monthly installments, commencing from May 20, 2011.	139,846	-
Land Bank of Taiwan Co., Ltd. — Chung — Li Branch	2011.03.11~2014.03.10, principal is payable at maturity.	147,000	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch	2011.01.24~2016.01.24, payable in 12 quarterly installments, commencing from the date of borrowing (with a two year grace period).	15,000	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch	2011.03.12 ~2015.03.10, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	147,000	-
Mega International Commercial Bank — Lan-Ya Branch	2011.02.16~2016.02.15, payable in 20 quarterly installments, commencing from the date of borrowing.	588,000	-



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<u>Creditor</u>	<u>Usage and redemption duration</u>	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Mega International Commercial Bank — Lan-Ya Branch	2011.03.11~2016.03.10, payable in 20 quarterly installments, commencing from the date of borrowing.	441,000	-
Total		11,891,904	8,111,299
Less: Current portion		(660,542)	(70,864)
		<b>\$ 11,231,362</b>	<b>8,040,435</b>
Range of interest rate		<b>0.81%~1.31%</b>	<b>0.79%~4.86%</b>

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:

- a. Current ratio (current assets/current liabilities): should not be less than 100%.
- b. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.
- c. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.
- d. 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 March 31, 2011 and 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.

(13) Pension Plan :

In accordance with the order VI-0960064020 issued by the Financial Supervisory Commission, Executive Yuan, ROC, and the related information on pension plan is not required to be disclosed.

(14) Income Tax :

In accordance with the order VI-0960064020 issued by the Financial Supervisory Commission, Executive Yuan, ROC, and the related information on income tax is not required to be disclosed.

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(15) Stockholders' Equity

a. Capital Stock

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

In order to enhance own-brand business and boost productivity, the board of directors of ASUSTeK Computer Inc. (ASUSTeK) resolved on December 11, 2009 but revised it on January 1, 2010, to spin-off or cede its OEM group (Pegatron Corporation (the Company)) to Pegatron International Investment Co., Ltd. (Pegatron Investment), which is being held by ASUSTeK. Pegatron Investment will issue new shares to ASUSTeK and all shareholders of ASUSTeK, for which, ASUSTeK and all other shareholders of ASUSTeK will acquire 25% ownership and 75% ownership, respectively, of the equity of Pegatron Investment. The record date of this spin-off is June 1, 2010. Following the spin-off, the Company merged with Pegatron Investment. The Company issued 10 thousands new shares, resulting in additional capital of \$100. Thereafter, the total outstanding capital amounted to \$22,860,639, divided into 2,286,064 thousand shares with par value of \$10 per share.

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares valued at \$296,970. As of March 31, 2011 and 2010, the authorized capital of the Company both consisted of 2,500,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,256,367 thousand shares and 2,286,054 thousand shares, respectively.

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

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

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(a) Voting Rights

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

(b) Dividend Distributions, Pre-emptive Rights, and Other Rights

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

b. Legal reserve and capital surplus

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

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

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

c. Treasury Stock

(a) In accordance with Securities and Exchange Act, the number of treasury shares shall not exceed ten percent of the total number of issued and outstanding shares of the Company. Also, the total amount of the treasury shares may not exceed the amount of retained earnings plus premium on capital stock plus realized capital reserve. The repurchased shares shall not exceed the amount of retained earnings plus premium on capital stock plus realized capital reserve. The maximum amount of repurchased shares held by the Company was amounted to \$1,006,862, divided into 29,697 thousand shares for the year ended December 31, 2010 which conformed to Securities and Exchange Act. The number of shares the Company can repurchase from the active market is limited to up to 228,605 thousand shares amounting to \$66,221,050 which are calculated according to financial reports for the latest accounting period prior to a resolution of a meeting of the board of directors.

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- (b) In accordance with Securities and Exchange Act, treasury shares cannot be pledged. Also, treasury shares do not bear the shareholder's right prior to being sold to third parties.
- (c) As of March 31, 2011, the number of Company's shares held by its subsidiaries was 800 thousand shares amounting to \$26,680 at fair value.

d. 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:

- (a) 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.
- (b) Up to 1% as remuneration to directors and supervisors.
- (c) The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

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

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

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

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

For the three months ended March 31, 2010, the estimated employee bonuses and directors' and supervisors' remuneration amounted to \$177,014 and \$8,851, respectively, which were recognized as current expenses. Differences between the amounts approved in the shareholders' meeting and recognized in the financial statements, if any, are to be accounted for as changes in accounting estimates and recognized in profit or loss. For the three months ended March 31, 2011, the Company did not estimate and recognize employee bonuses and directors' and supervisors' remuneration due to the net loss after tax.

(16) Employee Stock Option

- a. The details of the first batch of employee stock options of the Ability Enterprise Co., Ltd. in 2007 were as follows:
  - (a) 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 thousand share of Ability's common stock. Therefore, 10,000 thousand 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 March 31, 2011 and 2010, the weighted-average expected life of the employee stock options was 3.99 years and 4.99 years, respectively.

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

	For the Three Months Ended March 31			
	2011		2010	
	Quantity of stock option (thousand shares)	Weighted-average exercise price	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	6,678	\$ 38.3	10,000	41.3
Granted	-	-	-	-
Stock dividend distributed or adjusted	-	-	-	-
Exercised	(1,587)	38.3	-	-
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>5,091</u>	38.3	<u>10,000</u>	41.3
Exercisable at the end of the period	<u>1,091</u>		<u>-</u>	

- (c) For the employee stock options of Ability granted between January 1, 2004 and December 31, 2007, Ability 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 Three Months Ended March 31	
	2011	2010
Net income		
Net income	\$ 216,077	604,466
Pro forma net income	211,477	596,444
Basic earnings per share		
Earnings per share	0.49 dollars	1.38 dollars
Pro forma earnings per share	0.48 dollars	1.36 dollars
Diluted earnings per share		
Earnings per share	0.47 dollars	1.33 dollars
Pro forma earnings per share	0.46 dollars	1.31 dollars

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (d) 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:

	<u>November 20, 2007</u>
Dividend yield	0.00%
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

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

- (a) 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 March 31, 2011 and 2010, the weighted-average expected life of the employee stock options was 4.5 years and 5.5 years, respectively.
- (b) The number and weighted-average exercise price of the second batch of employee stock options issued in 2007 were as follows:

	<u>For the Three Months Ended March 31</u>			
	<u>2011</u>		<u>2010</u>	
	<u>Quantity of stock option (thousand shares)</u>	<u>Weighted- average exercise price</u>	<u>Quantity of stock option (thousand shares)</u>	<u>Weighted- average exercise price</u>
Outstanding at the beginning of the period	6,802	\$ 19.3	9,500	20.8
Granted	-	-	-	-
Stock dividend distributed or adjusted	-	-	-	-
Exercised	(442)	19.3	-	-
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>6,360</u>	19.3	<u>9,500</u>	20.8
Exercisable at the end of the period	<u>660</u>		<u>-</u>	

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- (c) 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:

Types	Grand date	Stock Price	Exercise Price	Volatility factors of the expected market price	Weighted-average expected life of the options	Dividend yields	Risk-free interest rate	Fair value per unit
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.

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

	For the Three Months Ended March 31	
	2011	2010
Equity transaction	\$ 3,304	5,433

- c. The relevant registration processes for changes of capital resulting from the exercise of employee stock options and conversion of convertible bonds should be completed within at least each quarter when those changes occur. As of March 31, 2011, Ability increased its capital by \$20,290 due to the exercise of employee stock options.

(17) Earnings per Share (EPS)

For three months ended March 31, 2011 and 2010, the Parent company's basic earnings per share, and diluted earnings per share were computed as follows:

(Note: shares in thousands)

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



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(18) Financial Instruments

a. Fair value of financial instruments

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

As of March 31, 2011 and 2010, except for the financial assets liabilities described as above, the Consolidated Company's other financial assets and liabilities were as follows:

<b>Non-Financial Instruments</b>	<b>March 31, 2011</b>		<b>March 31, 2010</b>	
	<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>
<b>Financial Assets</b>				
Held-to-maturity financial assets	\$ 264,600	-	-	-
Financial assets carried a cost	732,331	-	773,805	-
<b>Financial Liabilities</b>				
Bonds payable	1,381,528	1,381,528	1,350,622	1,350,622
Long-term loans (including current portion)	11,891,904	11,891,904	8,111,299	8,111,299
<b>Financial Instruments</b>				
<b>Financial Assets</b>				
Forward exchange contracts	2,131	2,131	-	-
Currency swap contracts	12,171	12,171	3,886	3,886
Option exchange contracts (long call)	15,691	15,991	-	-
<b>Financial Liabilities</b>				
Option exchange contracts (short put)	882	882	-	-
Forward exchange contracts-non hedging	-	-	458	458
Forward exchange contracts-hedging	-	-	5,619	5,619
Currency swap contracts	1,322	1,322	753	753
Embedded derivatives -convertible bonds	47,181	47,181	13,737	13,737

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

- (a) 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.
- (b) 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.
- (c) The fair value of call options and put options embedded in the convertible bonds, which were issued after January 1<sup>st</sup>, 2006, is determined by their book value.
- (d) The fair market value of long-term loan 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.
- (e) 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.

c. Loss recognized from changes in the fair values of financial assets and liabilities, which were estimated by using valuation techniques, amounted to \$67,355 and \$15,325, for the three months ended March 31, 2011 and 2010, respectively.

d. Information on financial risks

(a) 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 Consolidated 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

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of changes in fair value in an equity securities market.

**(b) 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.

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 Consolidated Company only transacted with the approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Consolidated Company would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Consolidated Company believes that there is no significant credit risk. According to the Consolidated Company's customer credibility evaluation policies, the Consolidated 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 Consolidated Company have good credits and profit records, the Consolidated Company evaluates the financial conditions of these customers continually to reduce credit risk from accounts receivable. Moreover, the Consolidated Company also periodically evaluates the customers' financial positions and the possibility of collecting trade receivables. Thus, there is no significant credit risk.

**(c) 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.

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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.

(d) 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.

e. Procedure of financial risk control and hedge

Ability (TW) adopts overall risk management and control system to identify all the risks, including market risk, credit risk and operational risk, so that Ability (TW)'s management can effectively measure and control such risks.

The Chief Financial Officer is mainly responsible for the financial risk control. Ability (TW) adopts the following strategies to control financial risks:

- (1) Ability (TW) undertakes derivative financial instruments to hedge cash flow risk, fair value risk and other risks arising from fluctuations in prices, interest rates and foreign exchange rates.
- (2) To hedge cash flow fair value risk arising from fluctuations in exchange rates, Ability (TW) undertakes derivative financial instruments such as forward exchange contracts to hedge import and export transactions denominated in foreign currencies.
- (3) To mitigate price risk, Ability (TW) sets a stop-loss amount on the derivatives undertaken to limit potential loss.
- (4) Derivative counterparties are limited to high-credit-quality international financial institutions. Ability (TW) has policies that limit the amount of credit exposure to any financial institution.
- (5) Ability (TW) has sufficient working capital on hand to hedge liquidity risk arising from insufficient funds to perform the contract obligations.
- (6) Ability (TW) has policies to avoid significant concentration of credit risk on cash, securities and linked notes held.

Ability (TW) believe that the financial risk management strategies discussed above can effectively reduce Ability (TW)'s major risks.

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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 March 31, 2010, the Consolidated Company has no unexpired forward exchange contracts.

Hedged item	Derivative Financial Instruments	March 31, 2010 Hedging instrument designated at fair value
Payables – foreign currency	Forward exchange contracts	\$ (5,619)

f. Financial Instruments with Off-Balance-Sheet Credit Risk:

As of March 31, 2011 and 2010, guarantee and endorsements of bank loans were provided by the Consolidated Company for related parties, as discussed in Note 5.

(19)Others

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

	March 31, 2011			March 31, 2010		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<b>Financial Assets</b>						
<u>Monetary Items</u>						
USD	\$2,196,841	29.40	64,587,125	1,669,164	31.80	53,079,415
RMB	2,726,054	4.4842	12,224,171	967,278	4.6585	4,506,065
<u>Long-term Equity Investments</u>						
USD	53,597	29.40	1,575,752	37,973	31.80	1,207,541
<b>Financial Liabilities</b>						
<u>Monetary Items</u>						
USD	2,175,788	29.40	63,968,167	2,019,631	31.80	64,224,266
RMB	999,214	4.4842	4,480,675	637,019	4.6585	2,967,553

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**5. Related-Party Transactions**

(7) Names and Relationships of Related Parties with the Consolidated Company

Name of Related Party	Relationship with the Company
ASUSTEK COMPUTER INC.	An investor company that ceased to be a parent company effective May 31, 2010.
ASUS HOLLAND B.V.(ACH)	An investee company accounted for under the equity method by ASUSTeK Computer Inc. (Note)
ASUS COMPUTER INTERNATIONAL	//
ASUS TECHNOLOGY PTE. LIMITED	//
ENERTRONIX, INC.	//
ASMEDIA TECHNOLOGY INC.	//
UNIMAX ELECTRONICS INCORPORATION	//
ASKEY TECHNOLOGY (JIANG SU) LTD.	//
ASKEY COMPUTER CORPORATION	//
AGAIT TECHNOLOGY CORPORATION	//
INTERNATIONAL UNITED TECHNOLOGY CO., LTD.	
ASMEDIA GROUP	
SHINEWAVE INTERNATIONAL INC.	
ASUS TECHNOLOGY (SUZHOU) CO.,LTD.	//
SHINEWAVE GROUP	
ASUS TECHNOLOGY INCORPORATION	//
EMES (SUZHOU) CO., LTD.	//
AVY HIGH TECH LIMITED	An investee company accounted for under the equity method.
BLACKROCK MARYLAND INT'L CORP.	//
SHINE TRADE INTERNATIONAL LTD.	//
YORKEY OPTICAL TECHNOLOGY LTD. (SAMOA)	//
SHANGHAI INDEED TECHNOLOGY CO., LTD.	//
HOLD JUMPER PACKING (SHANGHAI) CO., LTD.	
HOLD JUMPER PACKING (SUZHOU) CO., LTD.	
ASHINE PRECISION CO., LTD.	//
DONGGUAN CHENGGUANGP PRECISION HARDWARE CO., LTD.	//
DONGGUAN AVY PRECISION METAL COMPONENTS CO., LTD.	//
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	//

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

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
ASAP TECHNOLOGY (JIANGXI) CO., LIMITED	An investee company accounted for under the equity method
GING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	"
AVY PRECISION TECHNOLOGY INC.	"
AVY CO., LTD.	"
AVY PRECISION METAL COMPONENTS(SUZHOU) SUZHOU DELUXE PACKING PRODUCTION CO., LTD.	"
TAISHIBA INTERNATIONAL CO., LTD.	An affiliate of Ability Enterprise Co., Ltd

Note: As ASUSTEK COMPUTER INC. (ASUSTEK) has lost control of the Company effective May 31, 2010, ASUSTEK's subsidiaries and the Company's subsidiaries became non-related parties as of the said date.

(2) Significant Transactions with Related Parties

a. Sales

<u>Name of Related Party</u>	<u>For the Three Months Ended March 31</u>					
	<u>2011</u>			<u>2010</u>		
	<u>Amount</u>	<u>% of Net Sales</u>	<u>The collection term</u>	<u>Amount</u>	<u>% of Net Sales</u>	<u>The collection term</u>
ASUSTEK	\$ 30,714,137	28.00	Open account 60 days	56,399,740	43.35	30~60 days from receipt of goods Open account 30~120 days
Others	9,829	0.01	30~90 days from receipt of goods Open account 30~90 days	80,968	0.06	30~60 days from receipt of goods Open account 30~120 days
Total	<u>\$ 30,723,966</u>	<u>28.01</u>		<u>56,480,708</u>	<u>43.41</u>	

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

b. Purchases

Name of Related Party	For the Three Months Ended March 31					
	2011			2010		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$ 20,073,444	19.32	Open account 60 days	39,972,077	16.80	30~60 days from receipt of goods Open account 60~120 days
Others	1,545,751	1.49	30~90 days from receipt of goods Open account 30~120 days	1,402,832	0.59	30~90 days from receipt of goods Open account 30~120 days
Total	<u>\$ 21,619,195</u>	<u>20.81</u>		<u>41,374,909</u>	<u>17.39</u>	

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

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

c. Others

	For the Three Months Ended March 31, 2010	
	2011	2010
(a) After-sales warranty repair expense paid to:		
ASTP	\$	99,027
ASUS COMPUTER (SHANGHAI)		36,278
ASUSTEK COMPUTER (SHANGHAI)		952
Total	<u>\$</u>	<u>136,257</u>
(b) Other income from:		
ASUSTeK	\$ 171,560	177,645
Others	1,873	629
Total	<u>\$ 173,433</u>	<u>178,274</u>

(c) For the three months ended March 31, 2011 and 2010, the Consolidated Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, professional service fee, etc, amounting to \$16,021 and \$13,622, respectively.



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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(d) For the three months ended March 31, 2010, the Consolidated Company incurred other related party transactions recorded as processing revenue and repair revenue, which amounted to \$83,380.

d. Property Transactions

(a) Purchase of properties

For the three months ended March 31, 2011 and 2010, molds and properties purchased from other related parties amounted to \$47,366 and \$38,017, respectively.

(b) Rental revenue

For the three months ended March 31, 2011 and 2010, the Consolidated Company incurred other related party transactions, which were accounted for as rental revenue of \$7,086 and \$7,158, respectively.

e. Accounts Receivable (Payable)

<u>Accounts Receivable:</u>	<u>March 31, 2011</u>		<u>March 31, 2010</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
ASUSTeK	\$ 7,939,261	13.66	9,945,332	18.27
Others	8,099	0.10	213,790	0.39
Sub-total	7,947,360	<b>13.76</b>	10,159,122	<b>18.66</b>
Less: Allowance for doubtful accounts	-		(665)	
Total	<b>\$ 7,947,360</b>		<b>10,158,457</b>	
<u>Other Receivables:</u>				
ASUSTeK	\$ 5,074	0.22	689,351	31.75
Others	5,713	0.25	14,530	0.67
Total	<b>\$ 10,787</b>	<b>0.47</b>	<b>703,881</b>	<b>32.42</b>
<u>Note and Account Payable:</u>				
SHANGHAI INDEED	\$ 409,477	0.63	662,924	1.09
ASKEY TECHNOLOGY	563,363	0.86	-	-
AVY PRECISION	371,863	0.57	283,901	0.47
Others	433,582	0.67	530,928	0.87
Total	<b>\$ 1,778,285</b>	<b>2.73</b>	<b>1,477,753</b>	<b>2.43</b>

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

	<u>March 31, 2011</u>	<u>March 31, 2010</u>
<b>Assets:</b>		
Other current assets	\$ -	5,767
Other financial assets - noncurrent	-	2,029
	<u>\$ -</u>	<u>7,796</u>
<b>Liabilities:</b>		
Accrued expenses	\$ 6,773	55,322
Other financial liabilities - current	269	137
Other current liabilities	8,721	36,926
	<u>\$ 15,763</u>	<u>92,385</u>

e. Endorsement Guarantee

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

<u>Name of Related Party Guarantee</u>	<u>Amount of Guarantee (thousands)</u>	
	<u>March 31, 2010</u>	
ASUSTEK	<u>USD</u>	<u>300,000</u>

6. Pledged Assets

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

<u>Asset</u>	<u>March 31</u>		<u>Purpose of pledge</u>
	<u>2011</u>	<u>2010</u>	
Restricted deposit	\$ 128,249	150,110	Customs duty guarantee, bank loans, rental deposits, credit contracts, issued letter of credit, travel agency guarantee, etc.
Property, plant and equipment	1,437,523	2,852,382	Bank loans
Land usage rights	-	598,620	Bank loans
Inventories	16,410	16,410	Lawsuit collateral (Note A)
Refundable deposits	103,897	293,563	Deposits for performance guarantee
	<u>\$ 1,686,079</u>	<u>3,911,085</u>	

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

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

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

(1) As of March 31, 2011 and 2010, major commitments and contingencies were as follows:

<u>Unused standby letters of credit</u>	<u>March 31, 2011</u>	<u>March 31, 2010</u>
NTD	\$ -	15,000
EUR	2,558	359
JPY	1,614,349	2,432,122
USD	13,655	44,010

(2) As of March 31, 2011 and 2010, promissory notes and certificate of deposit obtained for business purpose amounted to \$733,420 and \$18,049, respectively.

(3) Future lease commitments from the lease of buildings under the operating lease agreements were as follows:

<u>Year</u>	<u>Future lease commitments</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
2011	<u>\$ 483,387</u>	<u>360,815</u>	<u>159,374</u>	<u>100,475</u>	<u>83,816</u>

(4) As of March 31, 2011 and 2010, the significant contracts for purchase of properties signed by the Consolidated Company amounted to \$2,467,467 and \$1,786,522, of which \$972,716 and \$443,432 were unpaid, respectively.

(5) 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.

(6) On May 24, 2010, Lumens Digital Optics Inc. filled a law suit accusing Aver Media Information Inc. for patent infringement. This case is currently under investigation as of March 31, 2011.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

- (7) 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 CORPORATION 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.
- (8) As of March 31, 2011, the tax returns of the Ability Enterprise Co., Ltd through 2007 have been assessed and approved by the tax authority. Ability disagreed with the examination results of the 2004, 2005, 2006 and 2007 income tax return, in which the tax authority reduced the company's tax incentives amounted to \$248,999 in total. The relative estimated income tax liability was approximately \$124,499.

**8. SIGNIFICANT CATASTROPHIC LOSSES: None.**

**9. SIGNIFICANT SUBSEQUENT EVENTS: None.**

**10. OTHERS:**

In accordance with the order VI-0960064020 issued by the Financial Supervisory Commission, Executive Yuan, ROC, the information about personnel, depreciation, and amortization expense would not be disclosed.

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

**11. BUSINESS SEGMENT FINANCIAL INFORMATION:**

The Consolidated Company identify the entity's operating segments based on the decision of the chief operating decision maker and perform quantitative threshold testing in accordance with SFAS No. 41 "Operating Segments."

For the three months ended March 31, 2011 and 2010, operating segments required to be disclosed are categorized as DMS (Design Manufacturing Service) and Strategic Investment Group. DMS's main operating activities are designing and manufacturing computer, communication and consumer electronics' end products, and providing after-sales service. Strategic Investment Group is DMS's upstream and downstream supply chain, the Consolidated Company's strategic investments and other related investments. The chief operating decision maker's main responsibility is to integrate strategy that creates operating synergy throughout the supply chain and to allocate the profit from the operating result. The Consolidated Company assessed performance of the segments based on the segments' profit, and report the amounts of revenues based on the financial information used to prepare the consolidated financial statements.

<b>For the Three Months Ended March 31, 2011</b>	<b>DMS</b>	<b>Strategic Investment Group</b>	<b>Adjustment and eliminations</b>	<b>Total</b>
External Revenue	\$ 84,880,401	24,827,200	-	109,707,601
Intra-Group Revenue	740,329	2,608,277	(3,348,606)	-
Total segment revenue	<b>\$ 85,620,730</b>	<b>27,435,477</b>	<b>(3,348,606)</b>	<b>109,707,601</b>
Segment profit (loss)	<b>\$ (416,137)</b>	<b>2,851,729</b>	<b>(1,640,853)</b>	<b>794,739</b>
Segment assets	<b>\$ 161,626,928</b>	<b>110,680,622</b>	<b>(45,949,650)</b>	<b>226,357,900</b>

<b>For the Three Months Ended March 31, 2010</b>	<b>DMS</b>	<b>Strategic Investment Group</b>	<b>Adjustment and eliminations</b>	<b>Total</b>
External Revenue	\$ 109,845,577	20,259,835	-	130,105,412
Intra-Group Revenue	342,145	3,192,454	(3,534,599)	-
Total segment revenue	<b>\$ 110,187,722</b>	<b>23,452,289</b>	<b>(3,534,599)</b>	<b>130,105,412</b>
Segment profit	<b>\$ 2,588,915</b>	<b>2,351,454</b>	<b>(1,010,231)</b>	<b>3,930,138</b>
Segment assets	<b>\$ 169,146,649</b>	<b>119,983,368</b>	<b>(70,383,465)</b>	<b>218,746,552</b>