2011 ANNUAL REPORT

PEGATRON

PEGATRON CORPORATION

TWSE
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OVERSEAS SECURITIES EXCHANGE

Luxemburg Stock Exchange: http://www.bourse.lu
Singapore Stock Exchange: http://www.sgx.com

FOR MORE INFORMATION ABOUT PEGATRON

http://www.pegatroncorp.com

This English version of the Pegatron Annual Report is a concise translation of the Mandarin version. This document is created for the sole purpose of the convenience for its non-Mandarin readers and is not an official document to represent the financial status of the Company per Taiwan laws.

Pegatron Corporation does not assure the accuracy of this translated document. Readers wishing to view the official audited version of Pegatron's financial reports can obtain a copy of the Pegatron Annual Report (Mandarin version) on the Pegatron Corporation website (*www.pegatroncorp.com*).

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1. Letter to Shareholders

Dear Shareholders,

Since listing on Taiwan Stock Exchange in June 2010, the Company has been taking a proactive approach to achieve better operating performance by adjusting product mix and expanding customer portfolio. Despite the effort made for the past few years, 2011 proved to be a challenging year for Pegatron and we operated in the most rigorous condition alongside the following events: 1) change of supplier strategy by our major customers; 2) supply chain disrupted severely by two major natural disasters, e.g. tsunami in Japan and flooding in Thailand, and 3) weakening consumer demand resulting from lingering European sovereign debt crisis and U.S. credit rating downgrade. To overcome the aforementioned challenges and search for the inspiration of growth, the Company went through internal corporate structure overhaul to further improve its operating efficiency and, at the same time, expanded investment in key component business (i.e. light metal mechanical parts) so as to be in the forefront of the industry trend and to maximize the benefits from vertical integration. In the first half of 2011, the Company suffered operating losses for the first time since incorporation. Nevertheless, with our endeavoring effort to reinforce our competitiveness and to improve efficiency, our operating result turned positive in the second half of the year. Our effort in customer development was also paid off by receiving continuous recognition from customers. We firmly believe that our adamant determination and effort to focus on core business will help sustain the growth momentum of the Company and act as the driving force to reach the Company's business target of 2012.

Financial Performance

The consolidated revenue of 2011 reached NT$599.9 billion, grew by 13.1% from NT$530.5 billion in 2010, with the gross margin of 4.5%. The net income (attributable to shareholders of the parent company) decreased to NT$111 million from NT$6.21 billion in the previous year. Consequently earning per share (EPS) was NT$0.05 in 2011. Revenue from Computing segment accounted for more than half of the total revenue, followed by Communication segment and Consumer Electronics segment. Benefitting from shipment of new product, revenue from Communication segment grew more than double on year-over-year basis in 2011.

Technical Capability and Operating Highlights

As a dedicated DMS (design, manufacturing and services) company, we strive to fulfill customers' needs by providing comprehensive services from industrial design to mechanical engineering, and to streamlined systematic manufacturing. In terms of product development, we continue to focus on product diversification by penetrating into communication and consumer electronic product segments that have higher growth potential. By the end of 2011, revenue from non-computing products accounted for approximately 40% of the total revenue, increased from 33% in the previous year. Furthermore, in addition to organizational structure overhaul, we also re-categorized projects and products segmentation so that resources can be utilized in a more effective manner and immediate actions can be taken to respond to the increasingly versatile PC market. In terms of manufacturing processes, efficiency is further elevated by upgrading production facility and increasing automation systems. Through company transformation, improved organizational structure and stabilizing global economy, we are able to maintain sustainable growth by expanding business operation, reinforcing operating efficiency, pursuing higher service quality, and minimizing operational risks.

Awards and Social Responsibility

The Company has received numerous international awards and praise for its design capability. In 2011, our industrial design team was once again awarded German iF Packaging Design Award and German iF Communication Design Award for Crease Light and Present Perfect (Exhibition Visual Communication Design) respectively. In the same year, the Company was also elected for top 100 companies in Taiwan by 2011 Taiwan Companies Innovation Survey conducted by Industrial Development Bureau, Ministry of Economic Affairs and cosponsored by Business Next Magazine. These awards highlight our core inspiration of "design innovation". With the passion for perfection, we strive to provide comprehensive services to customers with innovative design and manufacturing excellence.

Corporate sustainability and continuous improvement have always been the Company's long term commitments to the community. In 2011, we successfully completed the auditing of suppliers' corporate social responsibility (CSR). Furthermore, while assisting customers conducting product carbon footprint and water footprint calculation, we also completed annual corporate greenhouse gas omission inventory management certified by Der Norske Veritas (DNV). To further demonstrate our commitment in corporate governance and social responsibility, the Company issues Corporate Social Responsibility Report every year and the report contains Pegatron's current status and its operating result in economical, environmental and social aspects, which helps increase data transparency and enhance our corporate social responsibility data control system.

Outlook

In 2012, with the return of customers and engagement of new customers, we aim to strengthen the growth momentum by diversifying customer base and product portfolio. As the effect of product diversification started taking off, we are approaching the economy of scale for major product lines, which helps to minimize the impact of seasonality to revenue and cost structure and maintain sustainable revenue growth. Having deeper involvement in vertical integration, corporate resources can be fully integrated, manufacturing cost further reduced and operating efficiency uplifted. Looking ahead in 2012, we will continue to focus on our core competence in design, R&D, and manufacturing, expand customer and market share, and bring profitability and growth to our shareholders.

On behalf of all employees of Pegatron, we would like to express our appreciation for the support of our shareholders. With your unwavering trust and confidence in the Company, we will continuously strive towards better operating performance and prosperous growth, and share the fruitful result with all our shareholders, customers and employees.

Chairman T.H. Tung

President and CEO Jason Cheng

2. Company Profile

2.1 Date of Incorporation: June 27th, 2007

2.2 Company Milestones

June 2007	● Pegatron Corporation ("the Company") was incorporated with a paid-in capital of NT$1 million.
Nov 2007	● Increased paid-in capital to NT$50 million by capital injection
Jan 2008	● Increased paid-in capital to NT$16,050 million by issuing 1,600,000,000 shares to inherit the DMS (design and manufacturing services) unit from Asustek Computer Inc ("Asustek").
Apr 2008	● Merged 100% owned subsidiary, Asusalpha Computer Inc., in order to streamline corporate resources.
Jun 2008	● Became the member of EICC (Electronic Industry Code of Conduct) ● Increased paid-in capital to NT$18,846 million by issuing 279,628,141 shares in exchange for 100% ownership of Unihan Corporation with Asustek. After the share exchange, Unihan became the Company's wholly owned subsidiary.
Dec 2008	● The Company was awarded the Red Dot Award for its Just Draw It Power Management Device. ● The Company was awarded the world's first Energy using Product (EuP) certificate by DNV (DET NORSKE VERITAS).
Feb 2009	● Acquired Top Quark Limited for US$6.04 million in order to provide more comprehensive services of communication products to customers.
Mar 2009	● The Company was awarded the iF Material Award in Germany for the application of bamboo and acetate fiber on computing products.
Apr 2009	● Completed the world's first Product Category Rule for Notebook PC products, which can be served as the key reference for Environmental Product Declaration (EPD) as officially announced on the website of Global TYPE III Environmental Product Declaration Network (GEDnet).
Jul 2009	● Acquired 100% shareholding of Powtek (Shanghai) Co., Ltd so as to conduct business in mainland China and expand the market share in China.

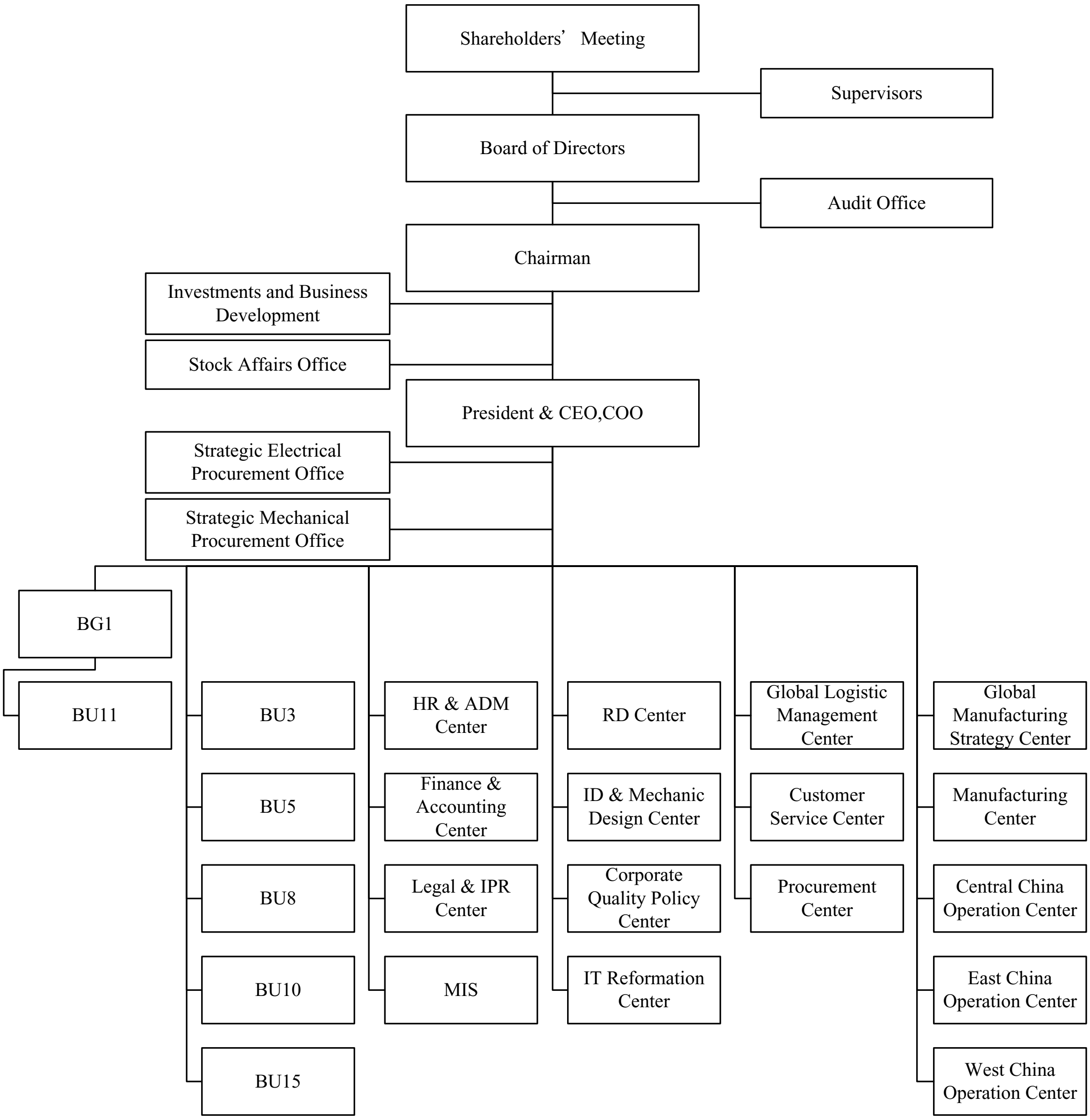
Oct 2009	● Assisted key customers received the world's first TYPE III Environmental Product Declaration for N51V series Notebook PC awarded by Environment and Development Foundation (EDF). ● Assisted key customers received the world first Carbon Footprint Certificate for N51V series Notebook PC awarded by DNV (DET NORSKE VERITAS). ● The Company was awarded the iF Design Award in China for Mini PC (Cape 7), Digital Photo Frame (Orbit), and light bulbs products.
Nov 2009	● Increased NT$4,014 million through capitalization of profits and the paid-in capital amounted to NT$22,861 million.
Dec 2009	● In order to streamline organization structure and reduce management cost, a key subsidiary, Protek (Shanghai) Limited, merged with another key subsidiary, North Tec Asia (Shanghai) Limited, and the former one is the surviving company. ● In order to expand business, a key subsidiary, Maintek Computer (Suzhou) Co., Ltd, increased capital of US$34 million. ● Assisted customers achieving key environmental certifications such as EPEAT, EU Flower and Taiwan Green Market. For more than 55 products.
Jan 2010	● The Company's board of directors, acting on behalf of the Company's AGM pursuant to the Company Law, approved the merger with Pegatron International. Upon the completion of the merger, the Company is the surviving company.
Mar 2010	● The Company's application for being a public company was approved. ● The Company was awarded the German 2010 iF Material Award for the alloy of PLA and Recycled PC.
May 2010	● The Company was awarded the German 2010 iF Communication Design Gold Award, 2010 iF Communication Design Award and 2010 red dot Communication Design Award for the tea packaging design, Dao Cha, and Cubicphile the promotion material.
Jun 2010	● Approved the merger with Pegatron International by issuing 2,286,064 thousands shares after cancelling 2,286,054 thousands shares previously issued by Pegatron International. The paid-in capital amounted to NT$22,861 million. ● The Company was officially listed on the Taiwan Stock Exchange.

Aug 2010	● The Company issued GDRs on Luxemburg Stock Exchange
Sep 2010	● DNV (DET NORSKE VERITA) awarded the Company with A+ certification for the 2009 CSR Report based on Global Reporting Initiative G3 format.
Nov 2010	● The Company's board of directors approved the cancellation of 29,697,000 shares of treasury stock. Subsequently, the paid-in capital reduced to NT$22,563,669 thousand dollars. ● Assisted key customers received the world first PAS 2050 and ISO 14067-1 Carbon Footprint Certificate awarded by DNV (DET NORSKE VERITA). ● The Company was awarded the German 2010 iF Product Design Award and the iF Product Design China for the Italia (frame-based notebook PC), the California (special production process notebook PC), Lucid (tablet PC), and the Joyoung Soymilk Maker.
Feb 2011	● The Company was awarded the German 2011 iF Material Award, iF Packaging Design Award, iF Product Design Award and iF Communication Design Award for the Paper PP Alloy, Tea Giving, Light Fairy and Bloom, respectively.
Oct 2011	● The Company was awarded the German 2011 iF Communication Design Award and iF Product Design Award for Present Perfect (Exhibition Visual Communication Design) and Crease Light respectively.
Nov 2011	● The Company was awarded for top 100 companies in Taiwan by 2011 Taiwan Companies Innovation Survey organized by Industrial Development Bureau, Ministry of Economic Affairs and cosponsored by Business Next Magazine.
Feb 2012	● The Company issued the Euro Convertible Bonds of US$300 million on Singapore Stock Exchange.
Mar 2012	● The Company was awarded German Red Dot Product Design Award for New Age 13.3" laptop and received Red Dot Honorable Mentioned for Crease Light (Product Packaging Design).

3. Corporate Governance

3.1 Organization Structure

3.1.1 Organization Chart



Department Functions

Department	Main Responsibilities
Board of Directors	Establishing corporate business guiding principles and goals
Audit Office	Auditing and evaluating the compliance of internal policies, procedures and operations based on governing regulations
President and CEO, COO	Board resolutions execution and general corporate affairs
Investment & Business Development	Long term corporate investment planning and industry analysis
Stock Affairs Office	Coordinating board meetings, shareholders' meetings and stock affairs
Strategic Electrical Procurement Office	Management of procurement, cost plan, projects, and strategy for electrical parts
Strategic Mechanical Procurement Office	Management of procurement, cost plan, projects, and strategy for mechanical and module parts
Central China Operation Center	Central China operation planning and management
East China Operation Center	East China operation planning and management
West China Operation Center	West China operation planning and management
Manufacturing Center	Planning and management of manufacturing, QA, and engineering
Procurement Center	Management of raw material and facility procurement, cost plan, procurement system plan for resource coordination
Corporate Quality Policy Center	Quality control and management in accordance to internal policies and customer requests
Global Manufacturing Strategy Center	Operation planning and management in Europe and America
Global Logistics Management Center	Global logistics planning and management
Customer Service Center	Global customer service operation and providing the most comprehensive and prompt support to local customers via support network
RD Center	Developing innovative technology, conducting simulations and developing technology shared among each business unit

Department	**Main Responsibilities**
ID & Mechanic Design Center	Developing mechanical and industrial design and providing support to each business unit for technology needed for each project
HR & ADM Center	Corporate human resource administration, construction and maintenance, labor safety and health planning and execution
Finance & Accounting Center	Corporate finance, accounting and tax planning and execution
Legal & IPR Center	Corporate legal affairs, legal counseling, litigation, patents, licensing and other intellectual property management
MIS	Internal & external network system planning, integration and design
IT Reformation Center	Coordinating enterprise system resources management
Business Group 1	Design, manufacturing and services of Notebook PCs
Business Unit 3	Design, manufacturing and services of handheld devices and multimedia players
Business Unit 5	Design, manufacturing and services of main boards and systems for large size customers
Business Unit 8	Design, manufacturing and services of main boards and systems for small and medium size customers
Business Unit 10	Design, manufacturing and services of industrial PCs
Business Unit 11	Design, manufacturing and services of switch and networking products
Business Unit 15	Design, manufacturing and services of Tablet PCs

3.2 Board of Directors, Supervisors and Management Team Background Information

3.2.1 Introduction of Board of Directors and Supervisors

As of 03/31/2012

Title / Name	Date Elected	Term (Years)	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
				Shares	%	Shares	%	Shares	%	Shares	%		
Chairman T.H. Tung	05/18/2010	3	05/18/2010	-	-	91,717,309	4.06	19,517,291	0.86	-	-	Master degree in computer and communication engineering, National Taipei University of Technology Deputy General Manager of Asustek	Chairman of Pegatron Corp. Chairman of Unihan Corp. Chairman of Kinsus Investment Co.,Ltd. Director of Asrock Incorporation Managing Director of Ability Enterprise Co., Ltd. Chairman of Lumens Digital Optics Inc. Chairman of Asus Investment Co., Ltd. Chairman of Asustek Investment Co., Ltd. Chairman of Pegavision Corp. Chairman KINSUS Investment Co., Ltd. Chairman of AMA Precision Inc. Chairman of Casetek Holdings Ltd. Director of Asuspower Investment Co., Ltd. Director of Magnificent Brightness Ltd. Director of Casetek Holdings Limited Director of Protek Global Holdings Ltd. Director of The Eslite Corporation Director of EZHi Technologies, Inc. Director of AzureWave Technologies, Inc. Director of RIH-LI INTERNATIONAL LIMITED Director of Eslite Spectrum Corp.
Director Ted Hsu	05/18/2010	3	05/18/2010	-	-	56,153,713	2.49	17,143,898	0.76	-	-	EMBA , National Chiao Tung University Deputy General Manager of Asustek	Deputy Chairman of Pegatron Corp. Chairman of Asrock Incorporation. Chairman of Asuspower Investment Co., Ltd. Chairman of AzureWave Technologies, Inc. Chairman of eBizprise Inc. Director of Asuspower Corp. Director of Asiarock Technology Ltd. Director of Unihan Corp. Director of Advantech Co. Ltd Director of Associated Industries China, Inc. Director of Kinsus Interconnect Technology corp. Director of ASMedia Technology Inc.

Title / Name	Date Elected	Term (Years	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
				Shares	%	Shares	%	Shares	%	Shares	%		
Director Jason Cheng	05/18/2010	3	05/18/2010	-	-	2,054,773	0.09	54,250	0.00	-	-	Master degree in electrical engineering, University of Southern California Deputy General Manager of Asustek	Director and CEO of Pegatron Corp. Director of Unihan Corp. Director of Alcor Micro Corp. Director of Asus Investment Ltd. Director of Asuspower Investment Ltd. Director of Asustek Investment Ltd. Director of AzureWave Technologies, Inc. Director of Pegatron Czech s.r.o. Chairman of Pegatron USA Director of PEGATRON LOGISTIC SERVICE INC
Director K.C. Liu	05/18/2010	3	05/18/2010	-	-	161,490	0.01	17,801	0.00	-	-	Bachelor degree in communication engineering, National Chiao Tung University Founder of Advantech Corp	The founder and Chairman of Advantech Co. Ltd Chairman of Advantech foundation Chairman of Yan Hua Xing Ye Electronic(SHHQ) Chairman of Advantech Investment Fund - A Co., Ltd. (Advantech Fund - A) Chairman of Advansus Corporation Chairman of Advantech Technology (China) Company Ltd. (AKMC) Chairman of Shanghai Advantech Intelligent Services Co., Ltd. (AINS) Chairman of Xi'an Advantech Software Ltd. (AXA) Chairman of Broadwin Technology Chairman of Netstar Technology Co., Ltd. (Netstar) Chairman of BCM Embedded Computer Inc. Chairman of Advantech Intelligent Service (AiST) Chairman of ACA Digital Corporation Chairman of Advantech Japan Co.,Ltd.(AJP) Director of AIDC Investment Corp. Director of Sinocon Industrial Standards Foundation Director of Aximtek Co., Ltd. Director of K and M Investment Co., Ltd. Director of Advantech Europe B.V.(AEU) Director of Advantech Technology Co., Ltd.(ATC) Director of HK Advantech Technology Co., Ltd((HK)ATC) Director of Advantech Automation Corp.(BVI)(AAC(BVI))

Title / Name	Date Elected	Term (Years	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
				Shares	%	Shares	%	Shares	%	Shares	%		
Director C.I. Chia	05/18/2010	3	05/18/2010	-	-	20,186	0.00	-	-	-	-	BBA, National Taiwan University MBA, Univeristy of Wisconsin-Madison Vice President, Citibank, N.A.Taipei Branch President, Individual Financial Services Group, Bank SinoPac	Director of Yangtze Associates Independent Director of Ardentec Corporation
Director C.V. Chen	05/18/2010	3	05/18/2010	-	-	-	-	-	-	-	-	LL.B., National Taiwan University LL.M., University of British Columbia LL.M., Harvard Law School S.J.D., Harvard Law School Vice Chairman & Secretary-general and Director of Straits Exchange Foundation (SEF)	Chairman and Managing Partner of Lee and Li Attorneys-At-Law Adjunct Professor of Law at National Chengchi University President of The Red Cross Society of The Republic of China Director of Asia Cement Corporation Director of Novartis Taiwan
Independent Director C.B. Chang	05/18/2010	3	05/18/2010	-	-	-	-	-	-	-	-	B.S., Statistics, National Chengchi University Deputy General Manager of China Development Industrial Bank Manager of Far Eastern Textile Ltd.,	Honorary Chairman of Polytronic Technology Corp. Independent Director and Managing Director of Far Eastern International Bank Independent Director of Gold Circuit Electronics Independent Director of Raydium Semiconductor Corp. Director of Topology Technology Inc.

Title / Name	Date Elected	Term (Years	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
				Shares	%	Shares	%			Shares	%		
Independent Director C. Lin	05/18/2010	3	05/18/2010	-	-	-	-	-	-	-	-	Master degree in Department of Public Finance, National Chengchi University Ph.D. Economics, University of Illinois Director General, Bureau of Finance, Taipei City Government Minister, Directorate General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. Minister of Finance of the R.O.C. Chairman of Vanguard International Semiconductor Corporation	Adjunct Professor of Economics at National Taiwan University Director of Vanguard International Semiconductor Corp. Director of Chartis Taiwan Insurance Co., Ltd Director, TTY Biopharm Independent Director of Casetek Holdings Limited
Independent Director C.S. Yen	05/18/2010	3	05/18/2010	-	-	-	-	-	-	-	-	Provincial Keelung Senior High School Country Manager of American Express Inc. Taiwan General Manager of the Grand Hotel Chairman of Taiwan Visitors Association Pacific Asia Travel Association (PATA) Young Presidents' Organization (YPO) Asia Conference. Chairman for Asia Pacific region of The Leading Hotels of The World	Group President of Landis Hotels and Resorts Chairman of the Landis Institute Chairman of the Landis Management CO., LTD. Director of Spatial Native Language Foundation of Arts and Culture Director of NSFG Foundation Director of CHENG HSIN GENERAL HOSPITAL Director of C. C. Social Welfare Foundation Director of Dwen An Social Welfare Foundation Director of Koo Foundation Sun Yat-Sen Cancer Center Director of Andrew T. Huang Medical Education Promotion Foundation Director of XUE XUE Foundation Director of Lung Yingtai Cultural Foundation Director of Long Yen Foundation Director of New Generation Foundation Independent Director of Shinkong Insurance Co., Ltd. Director of Republic of China(Taiwan) Centenary Foundation Director of Wistro Foundation

Title / Name	Date Elected	Term (Years	Date First Elected	Shareholding when Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
				Shares	%	Shares	%	Shares	%	Shares	%		
Supervisor C.H. Tong	05/18/2010	3	05/18/2010	-	-	-	-	20,358	0.00	-	-	Bachelor degree in mechanical engineering, Waseda University, Japan Chairman of AVY Co., Ltd. Chairman of AVY Precision Technology Inc. Chairman of Ability Enterprise Co., Ltd. Chairman of Ashine Precision Co., Ltd.	Chairman of Abico Group Director of Ability Enterprise Co., Ltd. Director of AVY Precision Technology Inc. Chairman of Ability Investment Co., Ltd. Chairman of Ashine Precision Co., Ltd. Director of HiTi Digital, Inc. Director of GrandTech C.G. Systems Inc. Independent directors of TPK Holding Co., Ltd.
Supervisor M.C. Chou	05/18/2010	3	05/18/2010	-	-	7,462,968	0.33	-	-	-	-	Master degree in industrial management, National Taiwan University of Science and Technology Head of Information Division of Asustek Supervisor of AmTRAN Technology	Chairman of Crystal Technology Venture Capital Investment Corp.
Supervisor I. L. Cheng	05/18/2010	3	05/18/2010	-	-	-	-	-	-	-	-	Bachelor degree in accounting, National Chung Hsing University Bachelor degree in law from Chinese Culture University Certified Public Accountant Partner of Diwan Ernst & Young, Taiwan Director of ROC CPA Association Director of Taipei CPA Association A member of legal committee at Taipei CPA Association Director of Association for R&D of Corporate Organization ROC Supervisor of IFA(International Fiscal Association) ROC Director of The Foundation of Both Banks Peaceful Coexistence	Director of The Lin pen-Yuan Cultural and Educational Foundation Director of Lim Peck-Sui Cultural & Educational Foundation

3.2.2 Professional Qualifications and Independence Analysis of the Board Directors and Supervisors

As of 04/16/2012

Criteria / Name	Met One of the Following Professional Qualification Requirements with at Least Five Years Work Experience			Independence Criteria(Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
T.H. Tung	-	-	V	-	-	-	V	V	V	V	V	V	V	0
Ted Hsu	-	-	V	-	-	-	V	V	V	V	V	V	V	0
Jason Cheng	-	-	V	-	-	V	V	V	V	V	V	V	V	0
K.C. Liu	-	-	V	-	-	V	V	V	V	V	V	V	V	0
C.I. Chia	-	-	V	V	V	V	V	V	V	V	V	V	V	1
C.V. Chen	V	V	V	V	V	V	V	V	V	-	V	V	V	0
C.B. Chang	-	-	V	V	V	V	V	V	V	V	V	V	V	2
C. Lin	V	-	V	V	-	V	V	V	V	V	V	V	V	1
C.S. Yen	-	-	V	V	V	V	V	V	V	V	V	V	V	1
C.H. Tong	-	-	V	-	-	V	V	V	V	V	V	V	V	1
M.C. Chou	-	-	V	V	V	V	V	V	V	V	V	V	V	0
I.L. Cheng	-	V	V	V	V	V	V	V	V	V	V	V	V	0

Note: The independence criteria corresponding boxes are ticked to indicate whether the directors or supervisors had met any of the following conditions during the two years prior to being elected or during the term of office:

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.

5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

3.2.3 Introduction of the Management Team

As of 03/31/2012

Title / Name	Date Elected	Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
		Shares	%	Shares	%	Shares	%		
Group CEO T.H. Tung	01/01/2008	91,717,309	4.06	19,517,291	0.86	-	-	Master degree in computer and communication engineering, National Taipei University of Technology Deputy General Manager of Asustek	Refer to Introduction of Board of Directors and Supervisors
Deputy Group CEO Ted Hsu	01/01/2008	56,153,713	2.49	17,143,898	0.76	-	-	EMBA , National Chiao Tung University Deputy General Manager of Asustek	Refer to Introduction of Board of Directors and Supervisors
President and CEO Jason Cheng	01/01/2008	2,054,773	0.09	54,250	0.00	-	-	Master degree in electrical engineering, University of Southern California Deputy General Manager of Asustek	Refer to Introduction of Board of Directors and Supervisors
Senior Vice President Chin-Kuo Tsai	08/01/2008	-	-	-	-	-	-	Bachelor degree in transportation engineering and management National Chiao Tung University Chief of Staff of Asustek	None
Senior Vice President and COO Hsu-Tien Tung	08/01/2008	398,836	0.02	-	-	-	-	Bachelor degree in electrical engineering National Taiwan University Associate Vice President of Asustek	Director of Ability Enterprise Co., Ltd. Chairman of Top Quark Ltd. Director of Digitek (Chongqing) Limited
Senior Vice President Yen-Hsueh Su (Note 1)	02/01/2008	71,062	0.00	-	-	-	-	Mater degree in industrial management Carnegie Mellon University Chief Investment Officer of Asustek	Director of Kinsus Interconnect Technology Corp Supervisor of Asrock Incorporation Supervisor of Advantech Co. Ltd

Title / Name	Date Elected	Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
		Shares	%	Shares	%	Shares	%		
Vice President Yean-Jen Shue	08/01/2008	112,432	0.00	4,175	0.00	-	-	Ph.D. Electrical Engineering University of Florida Associate Vice President of Asustek	None
Vice President Te-Tzu Yao	08/01/2008	167,109	0.01	10,000	0.00	-	-	MBA, Thunderbird Graduate School Chief of Staff of Asustek	None
Vice President Kuo-Yen Teng	08/01/2008	191,309	0.01	2	0.00	-	-	College degree in Electronic Engineering National Taipei Institute of Technology Associate Vice President of Asustek	None
Vice President Tien-Ting Wei	08/01/2008	3,770,680	0.17	2,774,055	0.12	-	-	Bachelor degree in Electrical Engineering Chinese Culture University Associate Vice President of Asustek	None
Vice President Tsung-Jen Ku Lai	08/01/2008	442,278	0.02	6,991	0.00	-	-	Bachelor degree in industrial engineering Tunghai University Associate Vice President of Asustek	None
Vice President En-Bair Chang	02/01/2008	185,213	0.01	52,669	0.00	-	-	Master degree in industrial design University of Copenhagen Associate Vice President of Asustek	Director of Kaedar Trading Ltd Director of Kaedar Holdings Ltd Director of Indeed Holdings Ltd Director of Wilson Holdings Ltd Chairman of AMA Precision Inc. Director of Indeed Shanghai Supervisor of Ability Enterprise Co. Ltd Director of Casetek Holdings Limited Director of Ri Teng Computer Accessory (Shanghai) Co.,Ltd Director of Ri-Pro Precision Model(Shanghai)Co., Ltd
Vice President Shih-Chi Hsu	08/01/2008	45,621	0.00	-	-	-	-	Bachelor degree in Mechanical Engineering National Taiwan Institute of Technology Associate Vice President of Asustek	None
Vice President Kuang-Chih Cheng	08/01/2008	58,946	0.00	5,324	0.00	-	-	Master degree in computer science and information engineering Tamkang University Associate Vice President of Asustek	Director of Asrock Incorporation
Vice President Tian-Bao Chang	08/01/2008	313,101	0.01	-	-	-	-	College degree in transportation Chungyu Institute of Technology Senior Manager of Asustek	Director of Protek (Shanghai) Ltd Director of Powtek (Shanghai) Co., Ltd Director of Runtop (Shanghai) Co., Ltd Director of Core-Tek (Shanghai) Limited

Title / Name	Date Elected	Current Shareholding		pouse & Minor Shareholdings		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
		Shares	%	Shares			%		
Vice President Ming-Tung Hsu	08/01/2008	92,624	0.00	8,219	0.00	-	-	College degree in industrial engineering National Taipei Institute of Technology Associate Vice President of Asustek	None
Vice President Ying Chang	04/01/2010	12,593	0.00	5,649	0.00	-	-	Ph.D. Mechanical Engineering Chung Yuan Christian University Vice President of Liteon Technology Corp.	None
Vice President Chih-Hsiung Chen	07/01/2010	395,609	0.02	-	-	-	-	Master in Electrical Engineering Tufts University (USA) Vice President of Asustek	None
Vice President Pei-Chin Wang	10/03/2011	15,949	0.00	-	-	-	-	Master degree in electrical engineering, National Taiwan University Vice Preisident of Asustek	None
Chief Financial Officer Chiu-Tan Lin	02/01/2008	42,475	0.00	-	-	-	-	Master degree in business administration Tunghai University Deputy Chief Investment Officer	Supervisor of AVY Precision Technology Inc. Supervisor of Kinsus Interconnect Technology Corp. Chairman of Starlink Electronics Corp. Director of Ri-Kuan Metal Corp.
CTO Tien-Chun Tseng (Note 2)	05/12/2009	-	-	-	-	-	-	MBA, Tulane University Chief of Staff of Asustek	None
Vice President Tsu-Yau Lee (Note 3)	08/01/2008	-	-	-	-	-	-	MBA, University of New York Associate Vice President of Asustek	None
Vice President Yu-Nan Ting (Note 4)	08/01/2008	-	-	-	-	-	-	Ph.D. Business Administration Shanghai University of Finance and Economics Associate Vice President of Asustek	None

Note 1: Ms. Yen-Hsueh Su promoted to senior vice president effective 07/01/2011
Note 2: Mr. Tien-Chun Tseng resigned from his position effective 06/30/2011.
Note 3: Mr. Tsu-Yau Lee resigned from his position effective 06/30/2011.
Note 4: Ms. Yu-Nan Ting retired from her position effective 02/15/2012.

3.2.4 Remuneration of Directors, Supervisors, the President, and Vice President

3.2.4.1 Remuneration of Directors

Unit: NT$ thousands

Title/ Name	Remuneration								Ratio of total remuneration (A+B+C+D) to net income(%)		Relevant remuneration received by directors who are also employees										Ratio of total compensation (A+B+C+D+E+F+G) to net income(%)		Compensation paid to directors from an invested company other than the company's subsidiary
	Base Compensation(A)		Severance Pay(B)		Bonus to Directors(C) (Note)		Allowances(D)				Salary, Bonuses, and Allowances (E)		Severance Pay (F)		Profit Sharing- Employee Bonus (G)				Exercisable Employee Stock Options (H)				
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	
															Cash	Stock	Cash	Stock					
Chairman T.H. Tung Director Ted Hsu Director Jason Cheng Director C.T. Lin Director L.L. Chao Director K.C. Liu Director C.I. Chia Director C.V. Chen Independent Director C.B. Chang Independent Director C. Lin Independent Director C.S. Yen	0	0	0	0	0	1,634	0	12	0%	1.48%	50,677	50,677	0	0	0	0	0	0	0	0	45.51%	46.98%	3,005

Note: Board of directors resolved on March 19th, 2012 that there will be no compensation to directors and supervisors for the year 2011. The proposed compensation will be effected upon the approval of shareholders at the Annual Shareholders' Meeting on June 27th, 2012.

Bracket	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company	**Companies in the consolidated financial statements**	**The company**	**All affiliated companies**
Below NT$ 2,000,000	T.H. Tung, Ted Hsu, Jason Cheng, K.C. Liu, C.I. Chia, C.V. Chen, C.B. Chang, C. Lin, C.S. Yen	T.H. Tung, Ted Hsu, Jason Cheng, K.C. Liu, C.I. Chia, C.V. Chen, C.B. Chang, C. Lin, C.S. Yen	K.C. Liu, C.I. Chia, C.V. Chen, C.B. Chang, C. Lin, C.S. Yen	K.C. Liu, C.I. Chia, C.V. Chen, C.B. Chang, C. Lin, C.S. Yen
NT$2,000,000(Included) ~ NT$5,000,000(Excluded)				
NT$5,000,000 (Included)~ NT$10,000,000(Excluded)			T.H. Tung, Ted Hsu	T.H. Tung, Ted Hsu
NT$10,000,000(Included) ~ NT$15,000,000(Excluded)				
NT$15,000,000 (Included)~ NT$30,000,000(Excluded)				
NT$30,000,000 (Included)~ NT$50,000,000(Excluded)			Jason Cheng	Jason Cheng
NT$50,000,000(Included) ~ NT$100,000,000(Excluded)				
Over NT$100,000,000				
Total				

3.2.4.2 Remuneration of Supervisors

Unit: NT$ thousands

Title/Name	Remuneration						Ratio of total remuneration (A+B+C) to net income(%)		Compensation paid to directors from an invested company other than the company's subsidiary
	Base Compensation(A)		Bonus to Supervisor(B) (Note)		Allowances(C)				
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	
Supervisor C.H. Tong Supervisor M.C. Chou Supervisor I. L. Cheng	0	0	0	0	0	21	0%	0.02%	No

Note: Board of directors resolved on March 19th, 2012 that there will be no compensation to directors and supervisors for the year 2011. The proposed compensation will be effected upon the approval of shareholders at the Annual Shareholders' Meeting on June 27th, 2012.

Bracket	Name of Supervisors	
	Total of (A+B+C)	
	The company	All affiliated companies
Below NT$ 2,000,000	C.H. Tong, M.C. Chou, I.L. Cheng	C.H. Tong, M.C. Chou, I.L. Cheng
NT$2,000,000(Included) ~ NT$5,000,000(Excluded)		
NT$5,000,000 (Included)~ NT$10,000,000(Excluded)		
NT$10,000,000 (Included)~ NT$15,000,000(Excluded)		
NT$15,000,000(Included) ~ NT$30,000,000(Excluded)		
NT$30,000,000 (Included)~ NT$50,000,000(Excluded)		
NT$50,000,000(Included) ~ NT$100,000,000(Excluded)		
Over NT$100,000,000		
Total		

3.2.4.3 Remuneration of the President and Vice President

Unit: NT$ thousands

Title/Name	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C)		Profit Sharing- Employee Bonus (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Exercisable Employee Stock Options		Compensation paid to the president and vice president from an invested company other than the company's subsidiary
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	
							Cash	Stock	Cash	Stock					
Group CEO T.H. Tung	63,223	68,829	0	0	148,381	148,435	0	0	0	0	190.01%	195.09%	0	0	3,005
Deputy Group CEO Ted Hsu															
President and CEO Jason Cheng															
Sr. Vice President Chin-Kuo Tsai															
Sr. Vice President and COO Hsu-Tien Tung															
Sr. Vice President Yen-Hsueh Su (Note1)															
Vice President Yean-Jen Shue															
Vice President Te-Tzu Yao															
Vice President Kuo-Yen Teng															
Vice President Tien-Ting Wei															

Title/Name	Salary(A)		Severance Pay (B)		Bonuses and Allowances (C)		Profit Sharing- Employee Bonus (D)				Ratio of total compensation (A+B+C+D) to net income (%)		Exercisable Employee Stock Options		Compensation paid to the president and vice president from an invested company other than the company's subsidiary
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	
							Cash	Stock	Cash	Stock					
Vice President Tsung-Jen Ku Lai															
Vice President En-Bair Chang															
Vice President Shih-Chi Hsu															
Vice President Kuang-Chi Cheng															
Vice President Tian-Bao Chang															
Vice President Ming-Tung Hsu															
Vice President Yuing Chang															
Vice President Chih-Hsiung Chen															
Vice President Pei-Chin Wang															
CTO Tien-Chun Tseng (Note 2)															
Vice President Tsu-Yau Lee (Note 3)															
Vice President Yu-Nan Ting (Note 4)															

Note 1: Ms. Y en-Hsueh Su promoted to senior vice president effective 07/01/2011
Note 2: Mr. Tien-Chun Tseng resigned from his position effective 06/30/2011.
Note 3: Mr.Tsu-Yau Lee resigned from his position effective 06/30/2011.
Note 4: Ms. Yu-Nan Ting retired from her position effective 02/15/2012.

Bracket	Name of President and Vice President	
	The company	Companies in the consolidated financial statements
Below NT$ 2,000,000	Tsu-Yau Lee	
NT$2,000,000(Included)~ NT$5,000,000(Excluded)	Yu-Nan Ting, Tien-Ting Wei, Tsung-Jen Ku Lai, Shih-Chi Hsu, Tian-Bao Chang, Ming-Tung Shu, Tien-Chun Cheng, Chin-Kuo Tsai, Chih-Hsiung Chen	Tsu-Yau Lee, Tien-Ting Wei, Tsung-Jen Ku Lai, Tian-Bao Chang, Ming-Tung Shu, Tien-Chun Cheng, Chin-Kuo Tsai, Chih-Hsiung Chen, Yu-Nan Ting, Shih-Chi Hsu
NT$5,000,000(Included) ~ NT$10,000,000(Excluded)	T.H. Tung, Ted Hsu, Yuing Chang	T.H. Tung, Ted Hsu Yuing Chang
NT$10,000,000(Included) ~ NT$15,000,000(Excluded)	Yean-Jen Shue, Pei-Chin Wang, Kuang-Chi Cheng, Te-Tzu Yao	Pei-Chin Wang, Yean-Jen Shue, Kuang-Chi Cheng
NT$15,000,000(Included) ~ NT$30,000,000(Excluded)	Hsu-Tien Tung, Yen-Hsueh Su, Kuo-Yen Teng, En-Bair Chang	Hsu-Tien Tung, Yen-Hsueh Su, En-Bair Chang, Te-Tzu Yao, Kuo-Yen Teng
NT$30,000,000(Included) ~ NT$50,000,000(Excluded)	Jason Cheng	Jason Cheng
NT$50,000,000(Included)~NT$100,000,000(Excluded)		
Over NT$100,000,000		
Total		

3.2.4.4 Employee Profit Sharing Granted to Management Team

Unit: NT$ thousands

Title	Name	Stock (Fair Market Value)	Cash	Total	Ratio of Total Amount to Net Income（%）
Group CEO	T.H. Tung	0	0	0	0%
Deputy Group CEO	Ted Hsu				
President and CEO	Jason Cheng				
Senior Vice President	Chin-Kuo Tsai				
Senior Vice President and COO	Hsu-Tien Tung				
Vice President	Ming-Tung Hsu				
Vice President	Kuang-Chih Cheng				
Senior Vice President	Yen-Hsueh Su				
Vice President	Kuo-Yen Teng				
Vice President	Tsung-Jen Ku Lai				
Vice President	Te-Tzu Yao				
Vice President	Shih-Chi Hsu				
Vice President	Yean-Jen Shue				
Vice President	En-Bair Chang				
Vice President	Tian-Bao Chang				
Vice President	Tien-Ting Wei				
Vice President	Chih-Hsiung Chen				
Vice President	Yuing Chang				
Vice President	Pei-Chin Wang				
Chief Financial Officer	Chiu-Tan Lin				
CTO	Tien-Chun Tseng (Note 1)				
Vice President	Tsu-Yau Lee (Note 2)				
Vice President	Yu-Nan Ting (Note 3)				

Note 1: Mr. Tien-Chun Tseng resigned from his position effective 06/30/2011.
Note 2: Mr.Tsu-Yau Lee resigned from his position effective 06/30/2011.
Note 3: Ms. Yu-Nan Ting retired from her position effective 02/15/2012.

3.2.4.5 Compare and state the ratio of total remuneration paid to the Company's Directors, Supervisors, President and Vice Presidents by the company and the companies in the consolidated financial statements to net income in the past two years. Please also describe the policy, criteria, packages and rules relating to the remuneration, as well as its relation to business performance and future risks.

Total remuneration paid by the Company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, supervisors, presidents and vice presidents of the Company are as follows:

Net Income of year 2010: NT$ 6,211,436 thousand dollars

Net Income of year 2011: NT$ 111,365 thousand dollars

NT$ thousands; %

Year	Total remuneration paid to directors, supervisors, presidents and vice presidents		Ratio of total remuneration paid to directors, supervisors, presidents and vice presidents to net income (%)	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
2010	134,615	140,254	2.17%	2.25%
2011	211,604	218,920	190.01%	196.58%

The ratio of remuneration paid to directors, supervisors, presidents and vice presidents of the Company and the companies in the consolidated financial statements in the last two years, to net income was 2.17% and 2.25% in 2010 and 190.01% and 196.58% in 2011, respectively.

Pursuant to Article 14-6 of Securities and Exchange Act, our Board of Directors approved the establishment of Compensation Committee, appointment of committee members and related internal regulations on August 25, 2011. Before the establishment of Compensation Committee, remuneration to directors and supervisors was appropriated according to the Articles of Incorporation and the approval of shareholders at the annual shareholders' meeting after proposed by the Board of Directors. Remuneration to the president and vice presidents includes salary, bonus, employee profit sharing, etc., and is decided upon the responsibility of each individual role with reference to the salary level per industry average. Factors such as industry outlook and business performance of the company are also taken into consideration when determining remuneration amounts. Since the establishment of Compensation Committee, members of the committee shall exercise the utmost good faith and perform the following duties:

a. Prescribe and periodically conduct performance review and remuneration policy, system, standards, and structure for directors, supervisors and managerial officers.

b. Periodically evaluate and prescribe the remuneration of directors, supervisors, and managerial officers.

Remuneration and dividend distribution of directors, supervisors, and managerial officers shall be proposed by the Compensation committee to Board of Directors for resolution.

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors

A total of 7 (A) meetings of the board of directors were held in 2011. The directors' attendance status is as follows:

Title	Name	Attendance in person (B)	By Proxy	Attendance rate (%)【B/A】	Remarks
Chairman	T.H. Tung	7	0	100.0%	None
Director	Ted Hsu	5	0	71.4%	None
Director	Jason Cheng	6	1	85.7%	None
Director	K.C. Liu	4	3	57.1%	None
Director	C.I. Chia	6	1	85.7%	None
Director	C.V. Chen	2	1	28.6%	None
Independent Director	C. Lin	7	0	100.0%	None
Independent Director	C.B. Chang	7	0	100.0%	None
Independent Director	C.S. Yen	5	1	71.4%	None

Remarks:

1. If there are the circumstances referred to in Article 14-3 of Securities and Exchange Act and resolutions of the directors' meetings objected to by Independent Directors or subject to qualified opinion and recorded or declared in writing, the dates of meetings, sessions, contents of motions, all independents' opinion and the Company's response to independent directors' opinion should be specified: None
2. If there is Directors' avoidance of motions in conflict of interest, the Directors' names, contents of motions, causes for avoidance and voting should be specified: None
3. Measures taken to strengthen the functionality of the Board: The Board complies with the "Rules Governing the Conduct of Board Meetings" which has been established according to statutory regulations. Chief Internal Audit and Chief Financial Officer also report to the board regarding the status of internal audit and finance and relevant reports are provided to the directors for their reference.

3.3.2 Supervisors

A total of 7 (A) meetings of the board of directors were held in 2011. The directors' attendance status is as follows:

Title	Name	Attendance in person (B)	Attendance rate (%)【B/A】	Remarks
Supervisor	C.H. Tong	5	71.4%	None
Supervisor	M.C. Chou	5	71.4%	None
Supervisor	I.L. Cheng	6	85.7%	None
Remarks: 1. Composition and responsibilities of supervisors: (1) Communications between supervisors and the Company's employees and shareholders (e.g. the communication channels and methods, etc.): If necessary, supervisors can be reached by telephone, fax, or email for communications. (2) Communications between supervisors and the Company's Chief Internal Auditor and CPA (e.g. the items, methods and results of the audits of corporate finance or operations, etc.): Supervisors hold meetings with Chief Internal Audit on periodic basis to review auditing report, and CPA will be consulted whenever necessary. 2. If a supervisor expresses an opinion during a meeting of the Board of Directors, the dates of meetings, sessions, contents of motions, resolutions of the directors' meetings and the Company's response to supervisor's opinion should be specified: None				

3.3.3 Corporate Governance Implementation Status and Deviations from "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies

Item	Implementation Status	Non-implementation and its reason(s)
1.Shareholding Structure & Shareholders' Rights		None
(1) Method of handling shareholder suggestions or complaints	The Company has designated departments to handle shareholder suggestions or complaints. Shall any legal issues involved our legal department and outside counsel will be handling the issues.	
(2) The Company's possession of a list of major shareholders and a list of ultimate owners of these major shareholders	The Company maintains a good relationship with major shareholders and keeps an updated list of the major shareholders.	
(3) Risk management mechanism and "firewall" between the Company and its affiliates	The Company has established appropriate internal policies and assigned designated personnel to handle risk management mechanism and "firewall" between the Company and its affiliates.	
2.Composition and Responsibilities of the Board of Directors		None
(1) Independent Directors	Mr. C.B. Chang, Mr. C. Lin and Mr. C.S. Yen are the independent directors of the Company.	
(2) Regular evaluation of CPAs' independence	CPA's independence is reviewed regularly.	
3.Communication channel with stakeholders	The Company has designated departments to communicate with stakeholders on a case by case basis. Furthermore, the contact information providing access to the Company's spokesperson and relevant departments is available on the Market Observation Post System ("MOPS") website.	None
4.Information Disclosure		None
(1) Establishment of a corporate website to disclose information regarding the Company's finance,	Information regarding the Company's finance, business and corporate governance status can be found on MOPS.	

Item	Implementation Status	Non-implementation and its reason(s)
business and corporate governance status (2) Other information disclosure channels (e.g., maintaining an English-language website, appointing responsible people to handle information collection and disclosure, appointing spokespersons, webcasting investors conference)	 The company has designated persons to handle information collection and disclosure as required by laws and regulations of Taiwan. The Company has designated spokespersons as required by relevant regulations. Information regarding Investor conference is disclosed on the corporate website as well as Market Observation Posting System.	
5.Operations of the Company's Nomination Committee, Compensation Committee, or other committees of the Board of Directors	Please refer to 3.3.4 for Status of Compensation Committee	None
6. If the Company has established corporate governance principles based on "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies", please describe any discrepancy between the principles and their implementation: The Company has not established corporate governance principles based on "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies". However, relevant internal policies and internal control systems are being implemented and the results are deemed satisfactory.		
7. Other important information to facilitate better understanding of the Company's corporate governance practices (e.g., employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors): (1) Status of employee rights and employee wellness: Employee rights and wellness are stated in internal policies as required by relevant regulations. (2) Status of investor relations, supplier relations and rights of stakeholders: Please refer to the "*Corporate Social Responsibility*" available on the corporate website. (3) The Company maintains a positive relationship with its customers. (4) The Company's directors and supervisors perform sufficient supervision by inspecting the Company's business operation from time to time and establishing internal control, auditing and evaluation procedures. (5) The Company has purchased D&O insurance for its directors and supervisors.		
8. If the Company has implemented a self corporate governance evaluation or has authorized any other professional organization to conduct such an evaluation, the evaluation results, major deficiencies or suggestions, and improvements are stated as follows: None		

3.3.4 Status of Compensation Committee:

Pursuant to Article 14-6 of Securities and Exchange Act, listed companies shall establish a compensation committee. As of April 2012, the Compensation Committee was comprised of three members including one director, Mr. C. I. Chia, and two independent directors, Dr. C. Lin and Mr. C. B. Chang. Dr. C. Lin is the Chairman of the Compensation Committee. The Compensation Committee Charter is available on Market Observation Post System of Taiwan Stock Exchange.

A total of 1 (A) meeting of the board of directors were held in 2011. The directors' attendance status is as follows:

Title	Name	Attendance in person (B)	Attendance rate (%)【B/A】	Remarks
Chairman	C. Lin	1	100.0%	Period of the post will be the same as that of the Board of Directors
Member	C. I. Chia	1	100.0%	Period of the post will be the same as that of the Board of Directors
Member	C. B. Chang	1	100.0%	Period of the post will be the same as that of the Board of Directors

3.3.5 Implementation of Social Responsibility

Item	Implementation Status	Non-implementation and its reason(s)
1. Exercising Corporate Governance (1) The Company establishes corporate social responsibility policy or system and its implementation status.	We established a management system called PUreCSR management system. The purpose of the system is to overlook the Company's corporate social responsibility, environmental and occupational health, and safety issues. Based on the management system, CSR, environmental, safety, and health related duties can be implemented. Not only doe we set up objectives and targets, but also perform internal and external audit with corrective and preventive actions. Our PUreCSR policy is as followings: 1. Abide by all environmental protection, labor, safety and health laws. 2. Conserve natural resources, and actively prevent pollution. 3. Reduce environmental impact and safety risks. 4. Fulfill customer requirements and become a green enterprise. 5. Enable a company-wide promotion of corporate social responsibility. 6. Encourage full participation from employees and conduct continuous improvement.	None
(2) The Company sets up a unit exclusively or concurrently dedicated to be in charge of proposing and implementing corporate social responsibility policies.	We have convened PUreCSR committee with the members of ESH, HR&ADM, CQPC, Procurement, Customer service, Industrial Design, Chairman Office, each BU/FU and CSR members in each site on bi-weekly basis to discuss each member's progress on CSR related issues	
(3) The Company organizes training and promotes awareness of business ethics for directors, supervisors and employees, and should incorporate the foregoing into its employee performance appraisal system to establish a clear and effective reward and discipline system	We have established relevant management policies and procedures, including "Business Ethics and Code of Conduct" and "Giving Gifts and Treatment Management Procedure". We also established "Business Ethics Website" to provide guidelines to all employees.	

Item	Implementation Status	Non-implementation and its reason(s)
2. Fostering a Sustainable Environment (1) The Company endeavors in to utilize all resources more efficiently and use renewable materials which have a low impact on the environment to improve sustainability of natural resources	We put environmental protection into considerations when using materials, production and wastes management. We hope to successfully apply this concept to consumer electronics products in order to eliminate the impacts on our environment. We are also devoted to research and development of greener substitute substances and hope to offer our customers options to replace toxic material that will have severe impact to the environment. Besides, package materials of paper are consisted of certain proportion of recycled contents.	None
(2) The Company establishes proper environment management system based on the characteristics of the industry	We have adopted an adequate environmental management system, ISO 14001, which is certified by a third party periodically.	
(3) A designated department or personnel for environment management and maintain the environment management system	We have set up the environmental management unit to coordinate the overall plan for regular operation and waste statistics, and help other units to implement waste reduction and recycling.	
(4) Monitoring the impact of climate change on the Company’s business operations and establishing corporate strategies on energy conservation and carbon and greenhouse gas reduction	We enthusiastically confronted the environmental challenge of climate change and global warming. In addition to internal implementation of energy saving programs and organization’s greenhouse gas (GHG) inventory, we have investigated all significant emission sources and conducted the reduction project to decrease the GHG emissions according to the results of internal and external inventory verifications. We performed inventory, internal and external verification and obtained the verification statement of ISO 14064-1 for GHG emissions verification by the third party every year, and planed corporate energy saving target and project to fulfill our low carbon production commitment towards a long-term target of sustainability.	

Item	Implementation Status	Non-implementation and its reason(s)
3. Preserving Public Welfare		None
(1) The Company follows relevant labor laws, protects employees rights and establishes appropriate management policies and procedures	We have established relevant labor regulations database and reviewed it periodically. Besides, we also issued adequate management procedures and standard operating procedures to protect the interests and rights of the employees.	
(2) The Company provides safe and healthy working environment to employees and organizes training on safety and health management to employees periodically	We have implemented OHSAS 18001 (OH&S management system) to create a safe and healthy work environment through daily inspections and audit and annual training programs.	
(3) The Company publishes its consumer rights and interests policy and provide a clear and effective procedure for accepting consumer complaints	We are a design, manufacturing and service (DMS) company, and do not direct contact with consumers.	
(4) Relations between the Company and suppliers and jointly promoting corporate social responsibility	We are a member of EICC (Electronic Industry Citizenship Coalition, EICC), and follow its code of conduct. In addition, we also promote EICC to our supply chain to make sure our suppliers being responsible for the environmental protection, labor rights, and health and safety when production.	
(5) The Company may, through commercial activities, non-cash property endowments, volunteering services or other free professional services, participate in event held by charities or local community for community development	We implemented “Stair Climbing Competition” in 2011. All effective charity points accumulated by all participants will be set aside as donation to the disadvantaged groups. Besides, we organized “Pegatron Environmental Protection Volunteer Team” to conduct street sweeping, beach cleansing and mountain cleansing. Furthermore, we held waste electronic products recycling and donation. We also invited NPO to join our activities and parties.	

Item	Implementation Status	Non-implementation and its reason(s)
4. Enhancing Information Disclosure (1) How the Company discloses information regarding corporate social responsibility (2) The Company prepares corporate social responsibility report and discloses implementation status of corporate social responsibility	http://www.pegatroncorp.com/sustainability/csrReport.php We publish CSR report on annual basis and it contains chapters including corporate governance, social, economical and environmental performances. It is disclosed on our corporate website (http://www.pegatroncorp.com/sustainability/csrReport.php)	None
5. If the Company established any guideline of corporate social responsibility in accordance with “Corporate Social Responsibility Best-Practice Principles for TWSE/GTSM-Listed Companies” and please state the implementation status of the guideline and any reasons for non-implementation: As a member of EICC (Electronic Industry Citizenship Coalition), the Company follows the code of conduct established by EICC, which includes labor standard, health, safety, environment, management system and business ethics. In terms of implementation, systematic management approach is adopted and any inconsistencies will be corrected to ensure continuous improvement on the operation of the system.		
6. Other material information that helps to understand the operation of corporate social responsibility: The Company proactively participates in corporate social responsibility activities concerning employees, communities, disadvantaged minorities, charities, such as donations, cleaning communities and beach and activities organized by Children Are Us Foundation, Sunshine Organization, Changhwa Christian Hospital, etc.		
7. Please provide further description for company product or corporate social responsibility report which is certified by relevant organization: The core business of the Company is ODM/EMS business, any certification regarding the products will be carried by customers themselves and the Company will assist customers whenever necessary. The Company has assisted customers in receiving certification and award such as TYPE III environmental certification and carbon footprint certification, EPEAT golden award, EU Flower, Taiwan environmental label, CECC, Energy Star, etc.		

3.3.6 Corporate Business Conduct Guideline and Its Implementation:

To pursue sustainable corporate development and to implement corporate social responsibilities, the Company established the Business Ethic Guidelines and Giving Gifts and Treatment Management Procedures as the highest guiding principles. All employees should embrace and practice these standards in their daily operation. Meanwhile, the Business Ethic website and the whistleblower mailbox were also established for employees to report any misconduct that may violate Business Ethic Guideline where relevant. Specialized personnel will be assigned immediately to handle each reported case.

3.3.7 Corporate Governance Guideline and Regulations:

The Company has not established corporate governance principles.

3.3.8 Other Important Information Regarding Corporate Governance: None.

3.3.9 Internal Control System: Declaration of internal control:

Please refer to page 38.

- **If the Company is requested by the SEC to retain CPA's service for examining internal control system, the Independent Auditor's Report must be disclosed:** None

Pegatron Corporation
Statement of Internal Control System

Date: March 19, 2012

Based on the findings of self-assessment, Pegatron Corporation states the following with regard to its internal control system in 2011:

1. Pegatron is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and management. The aim of the internal control system is to provide reasonable assurance to operating effectiveness and efficiency (including profitability, performance and safeguarding of assets), reliability of financial reporting and compliance of applicable laws and regulations.

2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishing the aforementioned three objectives. Moreover, the effectiveness of an internal control system may be subject to changes of environmental or circumstances. Nevertheless, the internal control system of Pegatron contains self-monitoring mechanism and Pegatron takes corrective actions whenever a deficiency is identified.

3. Pegatron evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control System by Public Companies (herein below, the “Regulations”). The criteria adopted by the Regulations indentify five components of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each component further contains several items. Please refer to the Regulations for details.

4. Pegatron has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.

5. Based on the findings of the evaluation mentioned in the preceding paragraph, Pegatron believes that, as of December 31, 2011, its internal control system (including its supervision and management of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency, reliability of financial reporting, and compliance with the applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.

6. This Statement will be integral part of Pegatron’s Annual Report for the year 2011 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Law.

7. This Statement has been passed by the Board of Directors in their meeting held on March 19, 2012 with zero of nine attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Pegatron Corporation

H.T. Tung
Chairman

Jason Cheng
President and Chief Executive Officer

3.3.10 The penalties delivered to the Company and the staffs of the Company, or the penalties delivered by the Company to the staff for a violation of internal control system, the major nonconformity, and the corrective action in the most recent years and up to the date of the annual report printed:

The Taiwan Stock Exchange Corporation had imposed a penalty on the Company as a result of Company's violation of the procedures for disclosure of material information in January 2012. In order to implement the procedure, Company has reinforced the essence and importance of procedures for verification and disclosure of the material information.

3.3.11 Major Resolutions of Shareholders' Meeting and Board Meetings

3.3.11.1 Major Resolutions of Shareholders' Meeting:

Pegatron 2011 Annual Shareholder Meeting was held in Taipei on June 24, 2011. At the meeting, shareholders present in person or by proxy approved the following resolutions:

(1) The 2010 Business Report and Financial Statements
(2) The proposal of 2010 Earning Distribution
(3) Amendment to the Procedures for Acquisition or Disposal of Assets
(4) Amendment to the Company's Corporate Articles of Incorporation

3.3.11.2 Major Resolutions of Board Meetings

Date	Major resolutions
01.26.2011	1. Approved the indirect investment in China "Digitek (ChongQing) Limited" 2. Approved the indirect investment in China "Ri Teng Computer Accessory (Shanghai) Limited" 3. Approved the indirect investment in China "Ri Ming (Shanghai) Co., Limited" 4. Approved the issuance of Employee Stock Options (ESOP) 5. Approved the endorsement for Asuspower Corporation
03.30.2011	1. Approved 2010 business report and financial statements 2. Approved the proposal for earning distribution of 2010 3. Approved the scheduling of 2010 Annual Shareholders' Meeting 4. Approved the endorsement for Protek (Shanghai) Limited 5. Approved the indirect investment in China "AVY Precision Electroplating (Shuzhou) Co., Ltd"
05.13.2011	1. Approved the revision of Employee Stock Options (ESOP) policy 2. Approved the list of employees eligible for Employee Stock Options (ESOP) program 3. Approved the renewal of endorsement for Asuspower Corporation 4. Approved the indirect investment in China "Sheng-Rui Electronic Technology (Shanghai) Limited"
08.04.2011	1. Approved the indirect investment in China "AVY Precision Electroplating (Shuzhou) Co., Ltd 2. Approved the endorsement for Ri-Teng Computer Accessory (Shanghai) Limited 3. Approved the endorsement for Unite New Limited

08.25.2011	1. Approved the Financial Statements for the six months ended June 30, 2011 2. Approved the record date of earning distribution of 2009 3. Approved the establishment of Compensation Committee and list of its members 4. Approved the endorsement for AVY Precision Electroplating (Shuzhou) Co., Ltd
12.01.2011	1. Approved the issuance of European Convertible Bonds
03.19.2012	1. Approved 2011 business report and financial statements 2. Approved earnings distribution of 2011 5. Approved the list of employees eligible for Employee Stock Options (ESOP) program in 2011 3. Approved the scheduling of 2011 Annual Shareholders' Meeting 4. Approved the indirect investment in China subsidiary " Ri-Ming (Shanghai) Co., Limited "

3.3.12 Major Issues of Record or Written Statement Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors from January 1, 2010 to April 26, 2011: None.

3.3.13 Resignation or Dismissal of Personnel Involved in Preparation of Financial Reports

As of 04/16/2012

Title	Name	Date of Appointment	Date of Termination	Reasons for Resignation
CTO	Tien-Chun Tseng	05/12/2009	06/30/2011	Personal Reason
Vice President	Tsu-Yau Lee	08/01/2008	06/30/2011	Personal Reason
Vice President	Yu-Nan Ting	08/01/2008	02/15/2012	Retired

3.4 CPA Fees

CPA Firm	CPA		Auditing Period	Note
KPMG	Ulyos K.J. Maa	Charlotte W.W. Lin	Jan 1, 2011 ~ Dec 31, 2011	

Unit: NTD

Items of CPAs fee / Amount Bracket		Auditing Fees	Non-Auditing Fees	Total
1	Below 2,000 thousand		v	
2	2,000 thousand (included) ~ 4,000 thousand(excluded)			
3	4,000 thousand (included) ~ 6,000 thousand(excluded)			
4	6,000 thousand (included) ~ 8,000 thousand(excluded)	v		
5	8,000 thousand (included) ~ 10,000 thousand(excluded)			v
6	Over 10,000 thousand (included)			

Service Items included in the CPA fees

Unit: NT$ thousands

CPA Firm	CPA	Auditing Fees	Non-Auditing Fees					Auditing Period	Note
			System Design	Industrial and commercial registration	HR	Others	Total		
KPMG	Ulyos K.J. Maa Charlotte W.W. Lin	7,562	0	0	0	1,995	1,995	2011/1/1 ~ 2011/12/31	Non-auditing services include transfer pricing, IFRS and ESOP.

3.5 Information on Change of CPA: None

3.6 If the chairman, president, and financial or accounting manager of the Company who had worked for the independent auditor or the related party in the most recent year, the name, title, and the term with the independent auditor or the related party must be disclosed: None.

3.7 Information on Net Change in Shareholding and Net Change in Shares Pledged by Directors, Supervisors, Department Heads and Shareholders of 10% Shareholding or More:

3.7.1 Information on Net Change in Shareholding

Unit: Share

Title	2010		01/01/2011-03/31/2012	
	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman and Group CEO T.H. Tung	34,035,809	-	57,681,500	-
Director and Deputy Group CEO Ted Hsu	52,625,540	-	3,528,173	-
Director and President and CEO Jason Cheng	1,892,959	-	161,814	-
Director K.C. Liu	161,490	-	-	-
Director C.I. Chia	20,186	-	-	-
Director C.V. Chen	-	-	-	-
Independent Director C.B. Chang	-	-	-	-
Independent Director C. Lin	-	-	-	-
Independent Director C.S. Yen	-	-	-	-
Supervisor C.H. Tong	-	-	-	-
Supervisor M.C. Chou	7,462,968	-	-	-
Supervisor I. L. Cheng	-	-	-	-
Shareholder of 10% shareholding or more Asustek Computer Inc.	(1,734,530,451)	-	-	-

3.7.2 Information of Shares Transferred: None.

3.7.3 Information of Equity Pledged: None.

3.8 The relations of the top ten shareholders as defined in the Finance Standard Article 6:

As of 09/18/2011

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders		Remarks %
	Shares	%	Shares	%	Shares	%	Name	Relation	
Asustek Computing Inc. (Representative: Jonney Shih)	551,523,484	24.44	-	-	-	-	Jonney Shih	Chairman of Asustek Computer Inc.	-
T.H.Tung	91,717,309	4.06	19,517,291	0.86	-	-	-	-	-
Citi (Taiwan) Bank in custody for Government of Singapore Investment Corporation	83,766,677	3.71	-	-	-	-	-	-	-
Ted Hsu	56,153,713	2.49	17,143,855	0.76	-	-	-	-	-
GDR – Pegatron Corporation	48,881,980	2.17	-	-	-	-	-	-	-
Jonney Shih	42,808,646	1.90	-	-	-	-	Asustek Computer Inc.	Chairman	-
Standard Chartered Bank in custody for Wayne Hsieh	40,828,655	1.81	-	-	-	-	-	-	-
Public Service Pension Fund Management Board	27,938,023	1.24	-	-	-	-	-	-	-
Vangard Emerging Markets Stock Index Fund	26,896,697	1.19	-	-	-	-	-	-	-
Government of Singapore Investment Co. Pte Ltd(GIC)	26,213,680	1.16	-	-	-	-	-	-	-

3.9 Long-Term Investment Ownership

Unit: thousand shares; %; As of 12/31/2011

Long-Term Investment	Ownership by Pegatron (1)		Direct/Indirect Ownership by Directors and Management (2)		Total Ownership (1)+(2)	
	Shares	%	Shares	%	Shares	%
Unihan Corporation	840,105	100.00%	0	0%	840,105	100.00%
Asustek Investment Co., Ltd.	872,700	100.00%	0	0%	872,700	100.00%
Asuspower Investment Co., Ltd.	841,900	100.00%	0	0%	841,900	100.00%
Asus Investment Co., Ltd.	908,600	100.00%	0	0%	908,600	100.00%
Advansus Corp. (Note)	18,000	50.00%	0	0%	18,000	50.00%
Pegatron USA, Inc.	50	100.00%	0	0%	50	100.00%
Asus Holland Holding B.V.	—	100.00%	0	0%	—	100.00%
Pegatron Holding Ltd.	659,906	100.00%	0	0%	659,906	100.00%

Note: In Jan 2012, the Company divested the total shareholding of Advansus Corporation

4. Capital and Shares

4.1 Capital and Shares

4.1.1 Type of Stock

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Share	2,256,366,935	243,633,065	2,500,000,000	Listed

4.1.2 Share Capital

Month/ Year	Par Value (NTD)	Authorized Capital		Paid-in Capital		Remark		
		Shares (1,000)	Amount (NT$1,000)	Shares (1,000)	Amount (NT$1,000)	Sources of Capital	Capital Increased by Assets Other than Cash	Date of Approval and Document No.
6/2007	10	100	1,000	100	1,000	Incorporation		Note 1
11/2007	10	1,600,100	16,001,000	5,000	50,000	Cash injection of NT$49,000 thousand		Note 2
1/2008	10	1,605,000	16,050,000	1,605,000	16,050,000	Issuing common shares of NT$16,000,000 thousand for exchange of assets from Asustek		Note 3
6/2008	10	2,200,000	22,000,000	1,884,628	18,846,281	Issuing common shares of NT$2,796,281 thousand for exchange of subsidiary shareholding from Asustek		Note 4
11/2009	10	2,500,000	25,000,000	2,286,054	22,860,539	Capitalization of profit NT$4,014,258 thousand		Note 5
6/2010	10	2,500,000	25,000,000	2,286,064	22,860,639	Issuing common shares of NT$22,860,639 thousand and cancellation of issued shares of NT$22,860,539 thousand		Note 6
11/2010	10	2,500,000	25,000,000	2,256,367	22,563,669	Capital reduction of NT$296,970 thousand by canceling treasury shares		Note 7

Note 1: 06/28/2007 Fu Chian Son Tzi No. 09686253810
Note 2: 11/12/2007 Fu Chian Son Tzi No. 09691678020
Note 3: 01/23/2008 Jin So Son Tzi No. 09701016670
Note 4: 06/19/2008 Jin So Son Tzi No. 09701140610
Note 5: 11/06/2009 Jin So Son Tzi No. 09801255610
Note 6: 06/10/2010 Jin So Son Tzi No. 09901110210
Note 7: 11/16/2010 Jin So Son Tzi No. 09901256200

4.1.3 Information for Shelf Registration: None

4.1.4 Composition of Shareholders

As of 09/18/2011

Item	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	7	4	458	171,818	640	172,927
Shareholding (shares)	1,564,033	6,626,635	737,896,153	783,991,975	726,288,139	2,256,366,935
Percentage	0.07	0.29	32.70	34.75	32.19	100.00

4.1.5 Shareholding Distribution Status

Common Share (The par value for each share is NT$10)

As of 09/18/2011

Class of Shareholding (Unit : Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	96,324	29,634,816	1.31
1,000 ~ 5,000	60,181	129,657,426	5.75
5,001 ~ 10,000	8,859	65,763,953	2.91
10,001 ~ 15,000	2,705	33,077,765	1.47
15,001 ~ 20,000	1,401	25,138,737	1.11
20,001 ~ 30,000	1,278	31,223,038	1.38
30,001 ~ 50,000	911	35,660,080	1.58
50,001 ~ 100,000	565	39,184,293	1.74
100,001 ~ 200,000	276	39,347,805	1.74
200,001 ~ 400,000	155	42,375,086	1.88
400,001 ~ 600,000	62	30,367,181	1.35
600,001 ~ 800,000	27	18,754,463	0.83
800,001 ~ 1,000,000	18	16,355,954	0.72
over 1,000,001	165	1,719,826,338	76.23
Total	172,927	2,256,366,935	100.00

Preferred Share: The Company did not issue any preferred share.

4.1.6 List of Major Shareholder

As of 09/18/2011

Shareholder's Name	Shareholding	
	Shares	Percentage
Asustek Computing Inc. (Representative: Jonney Shih)	551,523,484	24.44
T.H.Tung	91,717,309	4.06
Citi (Taiwan) Bank in custody for Government of Singapore Investment Corporation	83,766,677	3.71
Ted Hsu	56,153,713	2.49
GDR – Pegatron Corporation	48,881,980	2.17
Jonney Shih	42,808,646	1.90

Standard Chartered Bank in custody for Wayne Hsieh	40,828,655	1.81
Public Service Pension Fund Management Board	27,938,023	1.24
Vanguard Emerging Markets Stock Index Fund	26,896,697	1.19
Government of Singapore Investment Co. Pte Ltd(GIC)	26,213,680	1.16

4.1.7 Market Price, Net Worth, Earnings and Dividends Per Common Share

Unit: NT$, except for weighted average shares and return on investment ratios

Item	2010	2011	01/01/2012-04/16/2012
Market Price per Share (Note 1)			
Highest Market Price	46.2	42.2	48.1
Lowest Market Price	29.1	24.7	32.4
Average Market Price	39.67	32.16	40.48
Net Worth per Share (Note 2)			
Before Distribution	40.26	40.59	-
After Distribution	38.81	Undistributed	-
Earnings per Share			
Weighted Average Shares (thousand shares)	2,273,429	2,255,192	-
Diluted Earnings Per Share (Note 3)	2.73	0.05	-
Dividends per Share			
Cash Dividends	1.45	Undistributed	-
Stock Dividend			
• Dividends from Retained Earnings	-	-	-
• Dividends from Capital Surplus	-	-	-
Accumulated Undistributed Dividends (Note 4)	-	-	-
Return on Investment			
Price / Earnings Ratio (Note 5)	14.53	643.2	-
Price / Dividend Ratio (Note 6)	27.36	Undistributed	-
Cash Dividend Yield Rate (Note 7)	3.66%	Undistributed	-

Note 1: Listed the highest and the lowest market price per share in every year and the average market price were calculated based on the trading amount and volume.
Note 2: Based on the shares issued for the year end and resolution for stock distribution in the shareholders' meeting the next year.
Note 3: If the stock dividend is to be adjusted retroactively, earning per share before and after the adjustment shall be listed.
Note 4: Pursuant to regulations of security issuance, the undistributed dividend can be accumulated till the year with retained earnings. However, the accumulated undistributed dividend shall be disclosed.
Note 5: Price / Earnings Ratio = Average Market Price / Earnings per Share
Note 6: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share
Note 7: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

4.1.8 Divided Policy and Execution Status

4.1.8.1 Dividend Policy Stipulated in the Company's Articles of Incorporation

Article 28 of the Company' Articles of Incorporation provides that when it is determined that the Company has earnings for a fiscal year, the earnings shall be appropriated to profit-seeking enterprise tax payable first, and make up the losses of previous years. Then, the Company shall provide 10% of the remaining earnings as the Legal Reserve, unless such Legal Reserve has amounted to the total capital, and then set aside the special reserve in accordance with the requirements under the laws and regulations or of the competent authorities.

Should there be any residual, it shall be distributed according to the following sequences:

- At least 10% of the remaining earnings shall be allocated as employee bonus, which may be paid in cash or in the form of shares. Where the employee bonus is distributed in the form of shares, qualified employees of the subordinate companies may be included. The qualification shall be determined by the board of directors.
- At most 1% of the remaining earnings shall be allocated as directors' and supervisors' remuneration.
- Any remaining earnings, together with any accumulated undistributed earnings of previous years, may then be distributed or kept in accordance with a proposal for the distribution of earnings made by the board of directors and duly approved by a resolution at a shareholders' meeting.

The dividend distribution of the Company will be coordinated with the surplus of that year based on the principle of stabilization. Due to rapid change of the industry where the Company is in and considering the future financing requirement as well as the long term business plan, the Company adopts a balanced dividend policy. If the Company would set aside cash dividend, it would be at least ten percent (10%) of the total dividend in the shareholders bonus to be distributed under Article 28 of the Company' Articles of Incorporation.

4.1.8.2 Proposed Dividend Distribution

The Board approved the proposal for 2011 dividend distribution at its meeting on March 19, 2012. The proposal will become effective according to the relevant regulations, upon the approval of shareholders at the Annual Shareholders' Meeting on June 27, 2012.

Unit: NT$

Items	Amount	
	Subtotal	Total
Unappropriated Earnings of Previous Years		33,100,759
Plus: Net Income of 2011		111,365,118
Minus: Legal Reserve		(11,136,512)

Plus: Special Reserve		-
- Special Reserve Reverse		3,592,769,584
Unappropriated Earnings		3,726,098,949
Items	**Amount**	
	Subtotal	**Total**
Note:		
Employees' Cash Bonus		12,100,000
Compensation of Directors		0

4.1.9 Impact to 2011 Business Performance and EPS resulting from Stock Dividend Distribution: Not Applicable.

4.1.10 Bonus to Employees and Remuneration to Director and Supervisors:

4.1.10.1Dividend to employees and remuneration to directors and supervisors stipulated in the Company's Articles of Incorporation

Article 28 of the Company' Articles of Incorporation provides that when it is determined that the Company has earnings for a fiscal year, the earnings shall be appropriated to profit-seeking enterprise tax payable first, and make up the losses of previous years. Then, the Company shall provide 10% of the remaining earnings as the Legal Reserve, unless such Legal Reserve has amounted to the total capital, and then set aside the special reserve in accordance with the requirements under the laws and regulations or of the competent authorities.

Should there be any residual, it shall be distributed according to the following sequences:

- At least 10% of the remaining earnings shall be allocated as employee bonus, which may be paid in cash or in the form of shares. Where the employee bonus is distributed in the form of shares, qualified employees of the subordinate companies may be included. The qualification shall be determined by the board of directors.
- At most 1% of the remaining earnings shall be allocated as directors' and supervisors' remuneration.

4.1.10.2 Accounting treatment applied to the difference between actual and estimated dividend to employees and remuneration to directors and supervisors

Shall there be any difference between the actual amount of dividend approved by Annual Shareholders' Meeting and that of the estimation, it will be deemed as the changes in accounting estimates and will be recognized in the profit and loss account of the distributing year.

4.1.10.3 Dividend distribution to employees in 2011 resolved by the board of directors

a. Proposed distribution of cash / stock dividend to employees and remuneration to directors and supervisors.

	Amount (NT$)
Employees' Cash Bonus	12,100,000
Compensation of Directors	0

b. Proposed stock dividend to employees and its ratio to total net income and total dividend to employees:

No stock dividend was distributed in 2011.

c. Earnings per share including the proposed stock dividend to employees and remuneration to directors and supervisors:

No stock dividend was distributed in 2011.

4.1.10.4 Distribution of cash / stock dividend to employees and remuneration to directors and supervisors in 2010 resolved by the Annual Shareholders Meeting on Jun. 24, 2011.

	Amount (NT$)
Employees' Cash Bonus	127,000,000
Compensation of Directors	12,000,000

Above cash bonus and compensation, being approved by the Board, has been expensed at the same amount under the Company's 2010 income statements.

4.1.11 Buyback of Common Stock

As of 04/16/2012

Treasury stocks in Batches	1st Batch
Purpose of Buy-back	For shareholders' interest
Timeframe of Buy-back	7/12/2010 ~ 9/10/2010
Price range	NT$21.8 ~ 41
Class, quantity of shares bought back	Common shares 29,697,000 shares
Value in NT$ of bought-back shares	NT$1,007,716,609
Shares sold/transferred	29,697,000 shares
Accumulated number of company shares held	0
Percentage of total company shares held (%)	0

4.2 Issuance of Corporate Bond

4.2.1 Corporate Bond:

Issuance	1st Tranche of Euro Convertible Bond
Issuing Date	02/06/2012
Denomination	US$200,000
Issuance Location	Singapore Stock Exchange
Offering Price	100% of the principal amount of the bonds
Total Amount	US$300,000,000
Coupon Rate	0%
Tenure	5 years. Maturity: 02/06/2017
Guarantor	None
Trustee	Citicorp International Limited
Underwriter	Overseas Underwriter: Citigroup Global Markets Ltd. DBS Bank Ltd. Domestic Underwriter: Fubon Securities Co., Ltd.
Legal Counsel	Baker & Mckenzie
Auditor	KPMG
Repayment	Unless previously redeemed, repurchased and cancelled or converted, the bonds will be redeemed by the issuer on the maturity date at an amount equal to the principal amount of the bonds plus a gross yield of 1.5% per annum, calculated on a semi-annual basis.
Outstanding	US$300,000,000
Redemption or Early Repayment Clause	(1) The Issuer has the option to call, in whole but not in part at the Early Redemption Amount anytime after 3 years from the Issue Date and prior to the Maturity Date, if the closing price of the Common Shares on the TWSE, translated into U.S. dollars at the then prevailing exchange rate (using the fixing rate at 11:00am, expressed as the number of NT dollars per one US dollar, quoted by Taipei Forex Inc. on the day), for a period of 20 consecutive trading days is at least 125% of the Early Redemption Amount divided by the Conversion Ratio, defined to be the principal amount of Bonds divided by the Conversion Price at that time (2) The Issuer may redeem the outstanding Bonds, in whole but not in part, at the Early Redemption Amount in the event that more than 90% in principal amount of the Bonds have been redeemed, repurchased and cancelled, or converted. (3) The Issuer may redeem the outstanding Bonds, in whole but not in part, at the Early Redemption Amount in the event of changes in the ROC taxation, which results in increase of tax obligation or the necessity to pay additional interest expense

	or increase of additional costs to the Issuer. Bondholders may elect not to have their bonds redeemed but with no entitlement to any additional amounts or reimbursement of additional tax.
Covenants	None
Credit Rating	None
Other Rights of Bondholders	Each bondholder will have the right to convert the Bonds into the newly issued Common Shares during conversion period
Dilution Effects and other Adverse Effects on Existing Shareholders	The funding is used to support the company's operation and business development, which shall benefit shareholders' equity in the long term.
Custodian	None

4.2.2 Convertible Bond:

Issuance		1st Tranche of Euro Convertible Bond
Date		As of 04/16/2012
Market Price per unit (US$)	Max.	116.8
	Min.	103.7
	Average	109.7
Conversion Price		NT$42.11 per share
Issuance Date & Conversion Price at Issuance		Issuance Date: 02/06/2012 Conversion Price at Issuance: NT$42.11 per share
Conversion		Newly-issued common shares

4.2.3 Exchangeable Bond: None.

4.2.4 Self Registration Bond: None.

4.2.5 Bond with Stock Option: None.

4.3 Preferred Shares (with stock option): None.

4.4 Issuance of Global Depository Receipts:

Date of Issuance(Process) / Item	August 9, 2010
Date of issuance (Process)	08/09/2010
Location and Issuance and Trade	Luxemburg Stock Exchange
Total Amount	Non applicable
Unit Price (in NT$ per GDS)	NT$37.70

Total Issuance			12,163,804
Source of Common Stock Registration			One GDS stands to five common share of Pegatron
Total Marketable Security Shares Recognized			Stands for 60,819,020 common shares of Pegatron
Rights and Obligations of GDR Holders			Same as those of common share holders (See Deposit Agreement and Custody Agreement for Details)
Trustee			Non applicable
GDR Institute			Citibank N.A.
Depositary Institute			Citibank Taiwan Limited
Outstanding GDS (as of December 31, 2011)			9,900,284 GDS
Issuance and Expense Amortization throughout the Issuance Period			Annual listing fees and accountant fees were borne by Pegatron
GDR Agreement and Depositary Agreement			See Deposit Agreement and Custody Agreement for Details
Market Price per unit (US$)	2011	Max.	US$7.21
		Min.	US$4.33
		Average	US$5.50
	As of April 16, 2012	Max.	US$7.91
		Min.	US$5.36
		Average	US$6.59

4.5 Employee Stock Option

4.5.1 Issuance of Employee Stock Option

Employee Stock Option Granted	First Grant of 2011	Second Grant of 2011
Approval Date by the Authority	2011/4/14	
Grant Date	2011/7/1	2012/4/2
Number of Options Granted	41,577units(Note1)	8,423 units(Note1)
Percentage of Shares Exercisable to Outstanding Common Shares (%)	1.84265	0.37330
Option Duration	3years	
Vesting Schedule	From the second anniversary of the grant date, except that all or partial options revoked by the company, 100% vested options can be exercised without conditions	
Shares Exercised	0	0
Value of Shares Exercised	0	0
Shares Unexercised	41,577units(Note1)	8,423 units(Note1)

Adjusted Exercise Price Per Share	NT$28.38	NT$44.85
Percentage of Shares Unexercised to Outstanding Common Shares (%)	1.84265	0.37330
Impact on Shareholders'Equity	Dilution to Shareholders' Equity is limited	

Note 1.One unit shall purchase one thousand Pegatron common shares

4.5.2 Listing of Executive Receiving Employee Stock Options and the Top 10 Employees with Options Valued in Excess in NT$30 Million:

Not Applicable

4.6 Status of New Shares Issuance in connection with Mergers and Acquisitions:

Not Applicable

4.7 Financing Plan and Implementation

Up to the last quarter before the printing of the financial statements, outstanding equity issuance or marketable security subscription or the completed equity issuance or subscribed marketable security without success: Not Applicable.

5. Overview of Business Operation

5.1 Business Activities

5.1.1 Business Scope

5.1.1.1 Operating Scope

The Company offers a wide range of electronics products in computing, communications and consumer electronics segments, including Notebook PCs, Netbook PCs, Desktop PCs, Tablet PCs, Mobile Internet Devices (MID), Motherboards, VGA Cards, Switches, Smartphones, Game Consoles, MP3s, E-Readers etc. The Company also engages in development, design and manufacturing of peripherals and components of the above-mentioned products. In addition to the well diversified product portfolio, the Company also places great emphasis on development of both software and hardware technologies to provide customers with total solutions and high value-added services.

5.1.1.2 Breakdown of Sales by Major Products

Unit: NT$ thousands; %

Year / Major Product	2010		2011	
	Amount	%	Amount	%
3C Products	288,277,927	96.81	363,326,245	97.74
Other	9,483,842	3.19	8,386,418	2.26
Total	297,761,769	100.00	371,712,663	100.00

5.1.1.3 Product Lines

Computing Product

a. Notebook PCs
b. Netbook PCs
c. DeskTop PCs
d. Tablet PCs
e. Motherboards
f. VGA Cards
g. Mobile Internet Devices (MID)

Communication Product

a. Cable Modems
b. Set-top boxes
c. Smartphones
d. Switches

Consumer Electronics Product

a. Game consoles

b. LCD TVs

c. E-readers

e. Multimedia Players (MP3)

5.1.1.4 Product (Service) Development

a. Notebook PCs that are equipped with the latest Intel chipset, Shark Bay platform, which highlight high efficiency and low power consumption technologies that can maximize the performance between multi core CPU and graphic chipset with Intel Turbo Boost technology. For Ultrabook, new material, process and platform are developed to meet the required features of long battery life, thin and light.

b. Notebook PCs with AMD Kabini platform that have the advantages of high efficiency and low design cost.

c. Tablet PCs that are equipped with the latest nVIDIA Tegra, Qualcomm chipset technology and the advanced Android operating system, which allows multi-resource sharing. The specification is likely to help increase the market share of tablet PCs.

d. Tablet PCs that are equipped with the latest Intel chipset, Clover Trail, and Win8 operating system, which enables extended usage time.

e. Motherboard that phased-in AMD brand new chipset Virgo platform, with high efficiency and low energy technology, to achieve dynamic performance optimization between multi-core CPU and graphic engine USB3.0 interface was added to enhance the transmission of the system.

f. Developed new full-lamination AIO PCs and phase in new Projected Capacitance touch-screen to match Windows 8 operating system requirement.

g. Research in the combination of PND & In-Vehicle interface with 5" and 7" PID(Portable infotainment Device) for driver.

h. Internet video phone that adopts the latest chipset (Dual Core ARM Cortex and build in Video Encode/Decode hardware) from Broadcom and Texas Instruments. The video phone is designed to equip with high video resolution transmission, low power consumption and high Ethernet transmission bandwidth (Gigabit Ethernet).

i. Integrated high speed 400M MoCA 2.0 and 1G 802.11as wireless on Docsis 3.0 cable modem to address the bandwidth needs for high internet speed and multimedia center sharing

5.1.2 Industry Overview

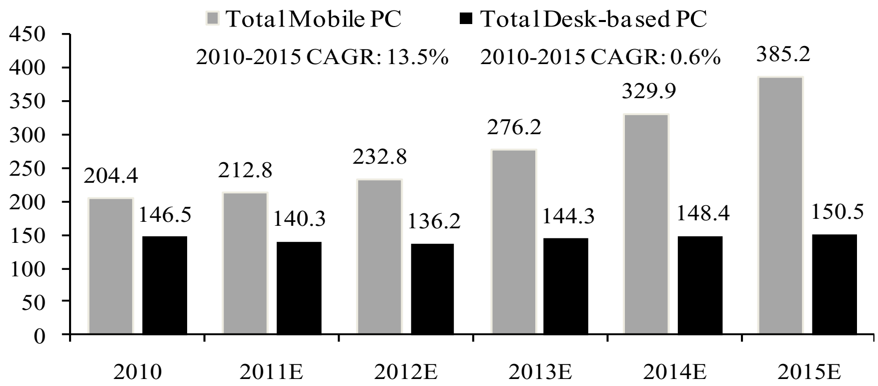
5.1.2.1 Progress and Development of the Industry

a. Computing Industry

Global PC market is a highly competitive industry facing immense pressure not only in gaining market share but also in shortening product life cycle, innovative product design and increasing manufacturing cost but with declining profitability. Global PC industry includes products such as notebook PCs, Netbook PCs, desktop PCs, tablet PCs etc. In 2011, due to the weakening economy in both Europe and U.S.A., and cannibalization effect from tablet PCs, regular notebook PCs gradually reached its maturity with the estimated full year volume of around 204 million units, representing annual growth rate of 2%. During the same year, Intel also introduced the concept of Ultrabook to the market, which refers to specification of notebook PCs being light in weight, thin in size and low power consumption. With these key features, Intel whishes to turn those advantages into new driving force in PC industry. As a result, brand companies started to launch resembling versions of Ultrabook in the second half of 2011. Nevetheless, as the pricing of Ultrabook was still well above that of the mainstream notebook PCs, the demand for Ultrabook didn’t pick up. Since the launch of iPad by Apple Inc. in 2010, tablet PC soon became the center of the attention by consumers, which led to a significant growth in volume in 2011. To maintain competitiveness in the market, each brand company also launched its tablet PC in order to offer more choices to consumers. However, since iPad is dominating the tablet PC market, only a few brand companies are able to reach meaningful scale. Furthermore, growth of Netbook PC was also negatively affected by the increasing popularity of tablet PC. With the striking similarity in product function, the market share of netbook was therefore cannibalized by tablet PC. According to IDC, the total volume of Netbook in 2011 was around 28.3 million units, declined by 20% on year-over-year (YoY) basis. Desktop PC, though a matured product, maintains a stable volume backed by the demand from commercial model replacement.

In 2012, as the global economy is gradually improving, global PC volume is expected to reach 370 million units, a 4.5% YoY growth. Notebook, among all PC products, is likely to see better demand stimulating by Ultrabook price reduction as well as launch of Windows8 by Microsoft. In addition, notebook’s increasing market share in emerging market will help sustain its growth momentum. In 2012, the total volume of mobile computing device, including notebook and tablet PC, is expected to reach 230 million units, with tablet PC having the highest growth, the total volume of desktop PC is expected to be stable at around 140 million units.

Global PC Market Forecast



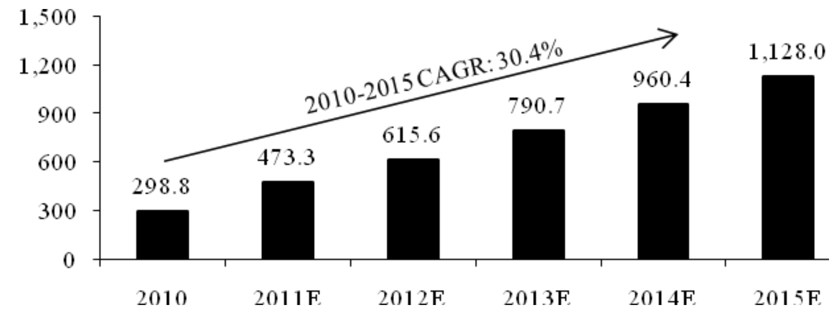
Source: Gartner.

b. Communication Industry

Benefitting from the demand for networking infrastructure in the emerging market as well as the replacement cycle stimulated by increasing demand for high definition (HD) channels in the mature market, growth in networking related equipment was expected to take off in the beginning of 2011. However, the growth was set back by the weakening global economy especially in Euro zone and North America and the total sales revenue for networking equipment reached US$36.57 billion dollars, grew only by a 10.4% YoY. Nevertheless, broadband users reached 909 billion globally in 2011, grew by 20% YoY as a result of booming mobile internet and various services offered by telecom companies.

According to a research conducted by Digitimes, smartphones have been growing at a rapid speed since 2010, outperformed the overall handset industry. In 2011, global smartphone volume reached 470 million units, mainly driven by growing demand from emerging market, shorter smartphone product cycle, increasing awareness of branded smartphones, and growing replacement trend from featured phone to smartphone in Europe and North America. Mobile phone industry grew by 63.6% annually in 2011 and its market share increased to 26.3% from 18.7% in 2010. According to Gartner, due to the significant growth of smartphones in the past few years, it is anticipated that the growth momentum is likely to gradually slow down but still maintaining a double digit growth in 2012. The compound annual growth rate of smartphones from 2010 to 2015 is estimated at 30.5%.

Smartphone Unit Shipments to End Users

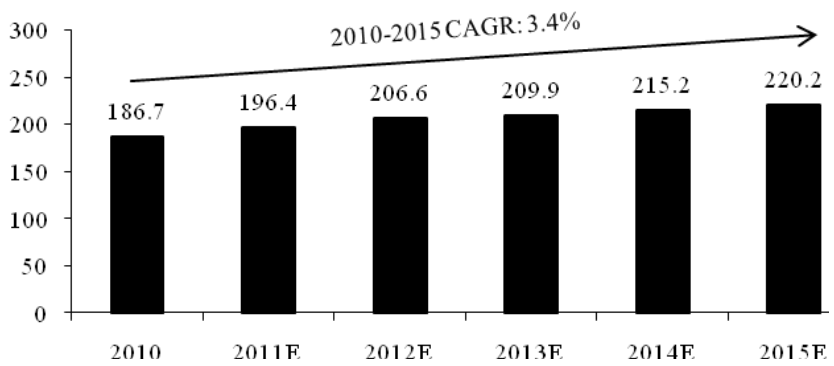


Source: Gartner.

c. Consumer Electronics Industry

The consumer electronics market covers a broad range of products including LCD TVs, DVD and blue-ray players, digital cameras, portable multimedia players, projectors, game consoles, e-readers and other consumer appliances. Among the aforementioned, the Company manufactures products such as game consoles, LCD TVs, e-readers, multimedia players, etc. where the first two products generate the majority of the revenue in consumer electronics segment. In 2011, demand for LCD TVs decreased due to lack of stimulus and its pricing dropped as a result of high inventory in Europe and North America. Nevertheless, according to Gartner, the total volume for LCD TVs reached 200 million units, a 5.1% growth YoY. In 2012, the expected contributors of growth of LCD TVs include increasing adoption of high definition TV in developed markets, growing preference for large-sized screens and declining prices of LCD TVs.

LCD TV Shipment

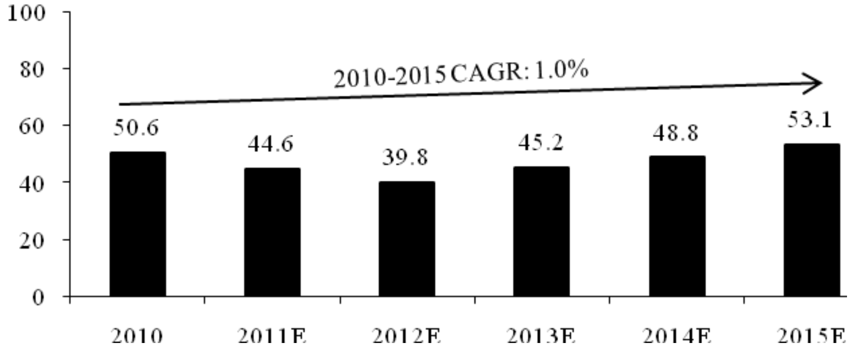


Source: Gartner.

Game console market declined in 2011 with the total volume around 45 million units. The decline was attributable to various factors, including improving GPU processing power of PCs, increasing trends of social gamers through social networking sites as well as shifting of gamers' paradigm to mobile consoles and smartphones. In 2012, while game consoles market awaits the launch of next generation model, challenges from tablet PCs and smartphones are nonetheless increasing.

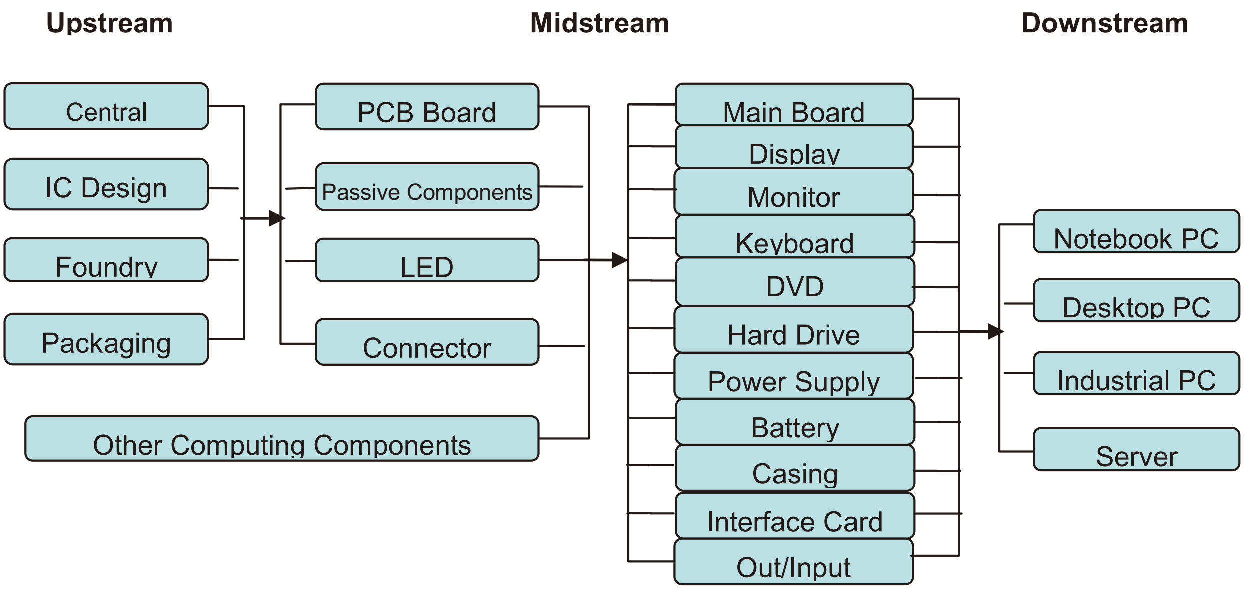
According to Gartner, the estimated volume for year 2012 is likely to be around 40 million units, representing a 10% YoY decline. Going forward, it is expected that game consoles are likely to grow at a stable but slow pace from 2013 to 2015.

Video Game Consoles Production



Source: Gartner.

5.1.2.2 Correlation of the Upper-stream, Mid-stream and Down-stream of the Industry



After decades of development of the computing industry in Taiwan, the relationships among upstream, midstream and downstream sectors have become highly correlated. While it is evident that bigger suppliers are expanding over the years, it has been difficult for smaller suppliers to survive in the industry.

5.1.2.3 Trends of Product Development

As LTE/Wimax has gradually matured, the functionality of computing and communication products have become highly integrated, such as Google entering the Android mobile platform via internet search engine, and Apple entering the mobile internet by producing iPhone/iPad. More and more products are created by innovative technologies with integrated functions from different products. Therefore, product segmentation among notebook PCs, desktop PCs and handsets have slowly diminished.

In addition, products with mobility functions such as the netbook, smart book and MID have expanded their targeting market from the retailed market with regular notebook users to 1 billion and 171 million 3G and broadband users respectively.

5.1.2.4 Market Competition

As the function integration of computing, consumer electronics, and communication products continues, the circumstances of the ODM/EMS market will also change in Taiwan. It has become crucial for ODM/EMS companies to obtain orders from international brand customers by providing value added services, enhancing capabilities in software and hardware design, progressing vertical integration, and providing total solution services.

The manufacturing of notebook PCs and desktop PCs is outsourced to ODM/EMS companies and a majority of these companies' resources are focused on global logistics as well as cost reduction. While economies of scale and comprehensive vertical integration are considered two important elements, DMS (design, manufacturing and services) is also one of the key factors to successfully secure customer' orders.

5.1.3 Research and Development

5.1.3.1 Technology and Research Development

The Company was originally the ODM/EMS business unit of Asustek Computer Inc. Pegatron has been striving for excellence in research and development since its corporation, and is fully dedicated in design and manufacturing of computing, communication and consumer electronics products. It is the Company's aim to continue developing cutting edge 3C (Computing, Communication and Consumer Electronics) integrated products.

The Company's Research and Development Center currently conducts projects which develop energy saving and environmental friendly notebook PCs, 3C multimedia products, innovative household electronic appliances etc. The Research and Development Center, Layout team, QTC, QTR and EMC departments were established as subdivisions. In addition, the project management unit and software development unit were also established to focus on the development of systems. By mastering the key technique of software and hardware for future products, chipset or application platform, the research results are effectively integrated into systems and ready for commercial production.

To continue the product development of existing workstation while extending new business, the Company established the RD center of Storage Area Network System with dedicating R&D engineers of cloud computing and storage products. By applying open platforms incorporating with matured process of design service, the Company is able to provide optimized total solution for enterprises.

5.1.3.2 Qualification of Employees in Research and Development

Year / Number of Employees	2009	2010	2011
Ph.D.	6	8	6
Master	1,000	1,165	1,311
Bachelor	1,221	1,330	1,630
High School (or below)	33	42	62
Total	2,260	2,545	3,009

5.1.3.3 Research and Development Expense in Recent Years

Unit: NT$ thousands; %

Items	2009	2010	2011
R&D Expense (A)	3,990,865	3,339,007	3,958,773
Net Revenue (B)	327,964,527	297,761,769	371,712,663
(A)/(B) %	1.22%	1.12%	1.07%

5.1.3.4 Research and Development Expense in Recent Years

Year	Achievement in Research and Development
2011	1. Notebook PCs that are equipped with the latest Intel chipset, Chief River platform, highlighting high efficiency and low power consumption technologies that can maximize the performance between multi core CPU and graphic chipset with Intel Turbo Boost technology. For AMD, Comal platform has been produced with and have the advantages of high efficiency and low design cost. 2. Completed the development of multi-touched display system for tablet PC by adopting Nvidia chipsets Tegra 3 and integrated operation system Andriod4.0, which has the advantages of multi resources and user friendliness. 3. Worked with customer to design medical visual equipment for telemedicine and education. It is capable of receiving, processing and transmitting multiple HD (HDMI, HD-SDI, XL, etc) and 3D signals concurrently. 4. Developed hybrid surveillance camera, which is able to deliver 1080p/H.264 network stream and uncompressed HD-SDI broadcasting video simultaneously. 5. Successfully mass produced motherboard based on AMD latest chipset Lynx platform with high efficiency and low energy technology, which support Turbo Core function to achieve dynamic performance optimization between multi-core CPU and application. 6. Successfully co-designed PND with the customer based on the latest/ most popular selling model of famous car manufacturer. The Company has been approved by EU car manufacturer and award the certification of TS16949 in quality management system 7. Innovation on adding GPS/GNSS onto friendly GUI between Car headset and tablet PC/ smart phone seamlessly (control smoothly without gap) 8. Completed the development of VoIP phone and internet video phone, which passed the integration software test with Cisco CUCM. It can provide the solution to enterprise with secure Voice and Video transmission 9. High end 3D LED display with Dual View function on the same display, which allows more than one viewers to experience 3D effect from two different angles at the same time.

5.1.4 Long Term and Short Term Business Development Plans

5.1.4.1 Short Term Business Development Plan

a. To increase market competitiveness and pursue higher annual revenue growth by lean operation management and effective manufacturing process.

b. To improve the efficiency of logistic management by reducing logistic cost and shortening product delivery time.

c. Based on the product mix to approach different markets with different strategies. For mainstream products, the aim is to increase value-added services and versatility of the products with industrial design and new technologies, so as to become the market leader by developing leading products with innovative technology and expertise in the market. As for low cost products, the Company endeavors to provide products with lower manufacturing cost to fulfill consumers' needs.

d. To strengthen the relationship with existing customers, provide total solutions to customers and increase DMS market shares.

5.1.4.1 Long Term Business Development Plan

The Company intends to enhance product mix and strengthen the factors that drive revenue growth. The development plan includes the following strategies:

a. Customer Service Strategy

- To strengthen the customer relationship and provide services in product planning, research and development, and manufacturing.
- To complete the deployment of global sales network and provide comprehensive after sales services to customers.

b. Manufacturing Strategy

- To continuously to promote the LSS project and improve the quality and efficiency at all level
- To enhance vertical as well as horizontal integration and streamline group resources in related components, products, and services.

c. Product Development Strategy

- To focus on talent development especially in R&D and industrial design sectors and to enhance the Company's R&D capabilities.
- To proactively develop material and technologies that are environmentally friendly and that comply with green product and other relevant environmental protection regulations.

5.2 Market and Sales Overview

5.2.1 Market Analysis

5.2.1.1 Sales (Service) Regions

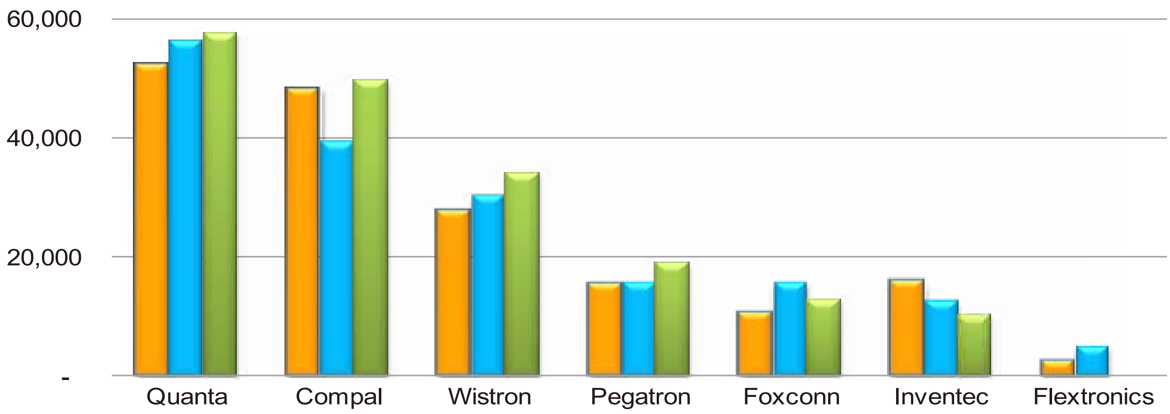
Unit: NT$ thousands; %

		2010		2011	
		Amount	%	Amount	%
Domestic		222,040,769	74.57	226,837,440	61.02
Export	**Asia**	22,663,002	7.61	25,913,579	6.97
	Europe	13,893,846	4.67	13,228,623	3.56
	America	38,472,657	12.92	105,026,144	28.26
	Others	691,495	0.23	706,877	0.19
	Subtotal	75,721,000	25.43	144,875,223	38.98
Total		297,761,769	100.00	371,712,663	100.00

5.2.1.2 Market Share

In 2011, the top five notebook PC ODM/EMS companies accounted for 157 million units of shipment, around 80% of total global shipment volume. This includes 56.27 million units from Quanta, 39.24 million units from Compal, 30.39 million units from Wistron, 15.80 million units from Pegatron and 15.69 million units from Hon Hai. According to Digitimes' estimation, the top four ODM/EMS companies will continue playing key roles in the market and its accumulated market share is likely to grow to 77% from 71% last year.

Shipment for Global Notebook ODM/EMS Companies



	Quanta	Compal	Wistron	Pegatron	Foxconn	Inventec	Flextronics
2010	52,100	48,160	27,500	15,300	10,430	15,765	2,162
2011	56,265	39,240	30,390	15,800	15,685	12,613	4,920
2012	57,509	49,662	33,957	18,987	12,597	10,045	-

Source: DIGITIMES and the Company
Note: Shipment volume from Pegatron included tablet PC

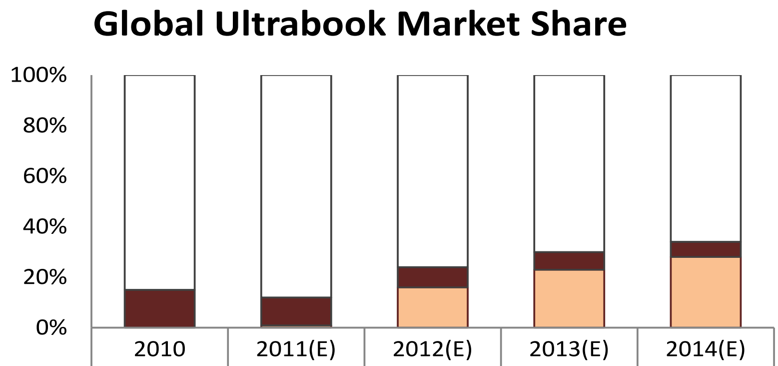
5.2.1.3 Market Demand, Supply and Growth

a. Market Supply

In order to expand market shares, customers depend more on suppliers to shorten the time to market for computing, consumer electronics and communication products, while suppliers are also developing more service categories. Currently, more international brand customers outsource products to ODM/EMS companies, which, apart from manufacturing, can also provide extended services for logistics and after sale services. With capabilities such as excellent cost control, advantages in manufacturing skills, production flexibility, and experience in logistics, innovative research, marketing and management, ODM/EMS companies in Taiwan have the competitive edge in the industry. In addition, with highly vertical integrated capabilities, efficient product design and production flexibilities, ODM/EMS companies in Taiwan can provide services to customers that differ from other EMS and OEM companies located elsewhere.

b. Market Demand and Growth Drivers

In 2011, Notebook market encountered tremendous challenges from various aspects, including rising popularity in smart phones and tablet PCs, supply chain disturbance due to the tsunami in Japan and flooding in Thailand, and poor demand resulting from weakening global economy. According to the research conducted by Digitimes, top four ODM/EMS companies accounted for around 71% of the global notebooks volume in 2011 and the ratio is likely to increase to 77% in 2012. Despite the flattish growth of PC industry in 2011, it is expected to grow further in 2012 following Intel's initiative and effort to promote Ultrabook concept since the second half of 2011, the upcoming launch of Window 8 operation system by Microsoft, and the increasing demand from the emerging market. According to the research by MIC, the market share for Ultrabook is expected to increase to 16% in 2012 and become a mainstream product with around 28% of total market share by 2014. Market share for Netbook PCs, due to cannibalization by tablet PC, has been in a downward trend since its peak in 2010. Only by entering certain markets with a low-price strategy will netbook PCs be able to sustain its market share of around 8%-10% in the next three years. With the improving global economy, PC industry is expected to sustain meaningful growth with increasing popularity and demand for tablet PCs and Ultrabooks.



	2010	2011(E)	2012(E)	2013(E)	2014(E)
Mainstream NB	85%	88%	76%	70%	66%
Netbook	15%	11%	8%	7%	6%
Ultrabook	0%	1%	16%	23%	28%

Source: MIC report issued in July 2011

5.2.1.4 Competitive Advantages

a. Experienced R&D Team

In addition to the Perspective Technology Office within the Company, there are also designated research and development engineers in each business unit. As of the end of 2011, total research and development engineers reached 3,009, among which 97.9% are with university degree. The leading research and development engineers in each product development have more than 15 years of experience in the relevant fields.

b. Comprehensive Manufacturing Locations

Suzhou, Shanghai and ChingQing in China, Juarez in Mexico, Ostrava in the Czech Republic and Kuanshan in Taoyuan, Taiwan to fulfill the needs of global customers at different regions.

c. Diversified Product Portfolio and Customer Base

The Company emphasizes on design capabilities, manufacturing excellence and service quality, and our major customers are well known global brand companies in the computing, communication and consumer electronics markets. In addition to our diversified product portfolio, the Company also has in-depth knowledge of the products to provide services to various types of customers.

d. Global Logistics Capabilities

The Company has manufacturing sites and service & repair stations across Europe, North America and Asia. One of the most important advantages of Pegatron is the effective management of global logistics based on the long-term experience providing prompt services across different time zones to meet customers' needs.

e. Professional Management Team

The management team consists of highly regarded senior professionals in the industry with more than 20 years of experience in the founding and managing of

Asustek. One of the essential factors to the Company's sound development is the unspoken consensus and successful collaboration among the members of the management team after the long-term and stable working relationship.

f. Innovation Capabilities

Since the founding of the Company, the industrial design team, after years of experience, has won numerous international awards, such as German 2011 iF Product Design Award and the iF Product Design China for the Italia (frame-based notebook PC), California (special production process notebook PC), Lucid (tablet PC), and the Joyoung Soymilk Maker. In 2012, our industrial design team has once again be awarded German iF Packaging Design Award and German iF Communication Design Award for Crease Light and Present Perfect (Exhibition Visual Communication Design) respectively. In the same year, Pegatron was also selected for top 100 companies in Taiwan by 2011 Taiwan Companies Innovation Survey conducted by Industrial Development Bureau, Ministry of Economic Affairs and cosponsored by Business Next Magazine. It is evident that the capability of producing innovative designs is one of the core competitive advantages of the Company.

g. Comprehensive Vertical Integration

We are dedicated in the development of vertical integration. With our capabilities and know-how in working with a wide range of materials, from traditional metal stamping and plastic injection to newer light metal technologies, we are able to fulfill our customers' diverse needs and product design requirements and enhance our ability to offer competitive one-stop-shopping solutions. Our focus on vertical integration will continue to translate into larger cost advantages and shorter time-to-market to help us win new manufacturing mandates from major OEM/brand customers.

5.2.1.5 Disadvantages and Responsive Strategies

Advantages

a. Strong marketing attraction for fully the developed computing industry in Taiwan

The computing industry in Taiwan experienced numerous transformations and has fully developed over time. With the evenly developed industry and excellent collaboration among each supply chain, the computing industry in Taiwan is a strong marketing attraction and has become the global procurement center for computer peripherals.

b. Matured computing components industry and stable supply of key components in Taiwan

In the recent years, key components, such as chipset and PCB's, venders for motherboards, CD-ROM drives and other electronic products have become more competitive at the global level. Comprehensive development of the component industry is one of the key factors for the prosperity of the computing industry in Taiwan.

c. **The Booming computing industry stimulates the growth of relevant components and the peripheral industry**

In the recent years, the decrease of computer pricing, gradual rising of multimedia application and the rapid development of internet have brought strong global demand in computer products, communication products as well as consumer electronics products, which leads to a promising outlook of the industry.

d. **Excellent capabilities in research & development and innovative industrial design**

The Company has an excellent research and development team, that is fully dedicated to product development and innovative industrial design. As a result, the Company is able to launch new models before its peer companies. In addition to the corporate perspective technology office, there are also designated R&D units within each business unit, which helps shorten production cycle and keep the Company a step ahead of its peer companies by launching innovative product design to fulfill customers' needs in this competitive environment.

e. **Comprehensive after sales service network**

The Company provides consistent after sales services and quality assurance to global customers via service & repair stations across North America, Europe, Japan and China.

Disadvantages

a. **Declined gross margin due to severe pricing competition**

The competition in the computing industry is intense due to large number of competitors. Furthermore, with the products becoming more matured over time, product supply has been higher than its demand. Product differentiation has also gradually diminished, which may also lead to a decline of gross margin.

b. **Profit margin impact by fluctuation of foreign exchange rates**

Most of the Company's products are exported and is highly exposed to the fluctuation of foreign exchange rates which may have direct impact to the Company's profit margin.

c. **Increase of manufacturing costs by potential labor shortage and higher acquisition cost of land**

The Company has increased the usage of automation for majority of products in an effort to reduce the reliance on labors. However, certain manufacturing processes are still conducted manually. As the issues of labor shortage gradually surfaced over recent years, labor compensation has increased dramatically, which increases the manufacturing cost and affects the Company's competitiveness in the global market.

Responsive Strategies

a. Enhance research and development capability and manufacture high value-added products.
b. Enforce cost control and inventory management, and maximize production efficiency by increasing automation.
c. Maximize the hedging effect by balancing the position in foreign and local currencies.
d. Invest in automation equipments to reduce the reliance on labor and improve product quality.
e. Allocate labors across manufacturing sites appropriately and minimize the impact of labor shortage.

5.2.2 Application of Major Products

a. Computing Products

Notebook PCs, desktop PCs and other information electronic products that are mainly used for word processing, information management, typesetting, industrial design, presentation, statistic analysis, multimedia application, etc.

b. Communication Products

Communication products can be used for individual communication, internet communication, wire and wireless internet access.

c. Consumer Electronics Products

Products that can be used for entertainment purposes, such as game consoles, LCD TV, e-readers, etc.

5.2.3 Supply of Major Material

Major Raw Materials	Source of Supply	Supply Situation
Chipset	Asustek Computer Inc.	Stable
CPU	Asustek Computer Inc.	Stable
System Module	Asustek Computer Inc.	Stable
Storage	Asustek Computer Inc.	Stable
Display	Asustek Computer Inc.	Stable

Note: All major material is purchased by major customer, Asustek, and resell to the Company for manufacturing, system assembly. Therefore, source of supply is from Asustek

5.2.4 Major Customers with over 10% Net Sales and Suppliers with over 10% Net Purchases of the Last Two Fiscal Years

5.2.4.1 Major Suppliers of the Last Two Fiscal Years

Unit: NT$ thousands

Item	2010				2011			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	Asustek (Note1)	151,112,664	54.42	Shareholder	Asustek (Note 1)	125,809,844	34.37	Shareholder
2	Protek (Note 2)	35,363,947	12.73	Subsidiary	Protek (Note 2)	56,064,625	15.32	Subsidiary
	Others	91,227,246	32.85	-	Others	184,091,867	50.31	-
	Net Total Purchases	277,703,857	100.00	-	Net Total Purchases	365,966,336	100.00	-

Note 1: In 2010 and 2011, the Company purchased (raw) material via Asustek.
Note 2: It is considered an industry practice that the Company received orders from customers and allocates the orders to be manufactured by Protek, a subsidiary. Therefore, the Company purchased the products from Protek and resold them to customers.
Note 3: Increase and decrease of the amount was due to business demand.

5.2.4.2 Major Customers of the Last Two Fiscal Years

Unit: NT$ thousands

Item	2010				2011			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	Asustek	207,982,648	69.85	shareholder	Asustek	168,460,748	45.32	Shareholder
2	A Customer	4,747,490	1.59	None	A Customer	70,335,020	18.92	None
	Others	85,031,631	28.56	-	Others	132,916,895	35.76	-
	Net Total Sales	297,761,769	100.00	-	Net Total Sales	371,712,663	100.00	-

Note 1: Increase and decrease of the amount was due to business demand.

5.2.5 Production/Sales Quantities and Value over the Past Two Years

Unit: thousands; NT$ thousands

Year / Output / Major Products (or by departments)	2010			2011		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
3C Products	948	505	341,013	923	453	237,459
Other	-	-	789,321	-	-	982,232
Total	948	505	1,130,334	923	453	1,219,691

5.2.6 Sales Quantities and Value of the Last Two Years

Unit: thousands; NT$ thousands

Shipments & Sales / Year / Major Products	2010				2011			
	Domestic		Export		Domestic		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
3C Products	20,297	218,294,872	21,873	69,983,055	20,688	222,189,136	32,682	141,137,109
Others	-	3,745,897	-	5,737,945	-	4,648,304	-	3,738,114
Total	20,297	222,040,769	21,873	75,721,000	20,688	226,837,440	32,682	144,875,223

5.3 Status of Employees

Status of employees over the past two years and up to the date of the report

Year		2010	2011	As of 04/16/2012
Number of Employees	Others	1,882	2,000	1,926
	R&D	2,545	3,009	3,116
	Total	4,427	5,009	5,042
Average Age		32.7	32.7	32.7
Average Years of Service		4.7	4.7	4.5
Education	Ph.D.	0.3%	0.24%	0.24%
	Masters	35.7%	34.66	35.78%
	Bachelor's Degree	54.7%	53.44%	52.8%
	Senior High School	5.8%	5.01%	5.02%
	Below Senior High School	3.5%	6.65%	6.17%

5.4 Expenditure on Environmental Protection

Total amount of loss (including penalty) paid for environmental pollution and stated any responsive actions and potential expenditure

During 2011 and as of the date of this report, the Company did not incur any loss or have any penalty for environmental pollution. There are designated personnel within the company who are in charge of environmental protection in compliance to the legal requirements. Waste clearance and disposal, wastewater management, environmental measurement and chemicals management have been conducted and controlled by management procedures to reduce the environmental pollution and impact.

5.5 Employee Relations

5.5.1 Employee's Welfare and Benefit

a. Employee welfare and benefit

Employee welfare and benefit are provided by both the Company and Pegatron Employee Welfare Committee. Corporate benefit program offerings to employees include group insurance, travel insurance on business trips, meal subsidies, year end bonus, employee profit sharing, etc, while benefit from Pegatron Employee Welfare Committee includes social clubs, family outlining, company group outlining, bonuses for three major festivals and different subsidies such as marriage, funeral, scholarship, etc.

b. Professional training program

The Company emphasizes on career planning for employees and is devoted to talent development by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competence and professional development to enhance employees working capabilities, while external training programs include seminars or conferences organized by external parties that provide excellent training opportunities for employees.

c. Retirement system

Pegatron's retirement policy is in accordance with the provisions in the Labor Standards Law and Labor Pension Act of the Republic of China.

d. Employee rights

The Company always emphasizes employee benefits as well as harmonious labor relations, and value the employees' opinions and feedbacks, which can be submitted via employee mailbox, conferences and emails. Employees can fully express their opinions, raising any labor issues to promote and maintain a positive labor relationship.

e. Employees code of conduct

The pursuance of sustainable corporate development and embrace integrity is our highest guiding principle, and the Company has established Business Ethic Guidelines. Based on the Business Ethic Guideline, employees are required to strictly follow the moral standards and advocate honesty, integrity and confidentiality to protect the rights of the Company and shareholders and enhance the Company's competitiveness.

5.5.2 Any current or potential loss resulting from labor disputes and prevention actions for the past two years and as of the date of this annual report.

There have not been any material losses resulting from major labor disputes for the past two years and as of the date of this annual report.

5.6 Important Contracts

As of 16 April, 2012

Agreement	Counterparty	Period	Major Contents	Restrictions
Syndication Agreement	Citi Bank, Taipei Fubon Bank, Taiwan Corporative Bank,DBS Bank, Bank of Taiwan, Land Bank of Taiwan and Bank of Taiwan (lead banks) and other participating banks	10/25/2010 ~ 10/25/2015	Loan Amount: US$450million. Period: five years	Restrictions to financial ratios: 1. Current ratio: no less than 100% 2. Debt ratio (interesting bearing debt to equity: no higher than 50%) 3. Interest coverage ratio (EBITDA): no less than 4 times 4. Tangible equity: no less than NT$90billion
Syndication Guarantee	ANZ Bank, DBS Bank, HSBC Bank and Mega International Commercial Bank (managing bank)	04/07/2011~ 04/06/2014	Guarantee for affiliate, Protek (Shanghai) Limited Loan Amount: US$ 200 million Period: 3 years	1. Restrictions to financial ratios: (a) Current ratio: no less than 100% (b) Debt ratio (interesting bearing debt to equity: no higher than 50%) (c) Interest coverage ratio (EBITDA): no less than 4 times (d) Tangible equity: no less than NT$90billion 2. Restrictions to ownership: 100% ownership (directly or indirectly) and having decision-making power in operation and management of Protek
Finance Guarantee	Mega International Commercial Bank	08/18/2011~ 2016	Guarantee for affiliate, RiTeng Computer Accessory Co., Ltd. Loan Amount: US$ 40 million Period: 5 years	None

Agreement	Counterparty	Period	Major Contents	Restrictions
Appointment Agreement	ABeam Consulting Ltd	03/28/2008 ~ to date	SAP system development and migration	Should ABeam not complete the work specified in the contract, the Company is entitled to cancel the contract and request for punitive damage as well as other compensation, provided AMeam is solely responsible for not completing the work as scheduled.

6. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Balance Sheet

Unit: NT$ thousands

Item		Five-Year Financial Summary (Note1) 2007	2008	2009	2010	2011	As of 4/16/2012 (Note 2)
Current assets		161,816	75,232,766	100,228,588	59,018,914	128,013,989	-
Funds & Long-term investments		-	85,259,911	90,594,845	83,573,594	86,765,900	-
Other non-current financial assets		-	315,429	203,650	28,637	29,271	-
Fixed assets		-	5,487,230	4,253,802	4,041,546	3,991,815	-
Intangible assets		-	217,672	235,453	181,820	121,223	-
Other assets		50,000	991,625	1,872,571	1,512,580	706,543	-
Total assets		211,816	167,504,633	197,388,909	148,357,091	219,628,741	-
Current liabilities	Before Distribution	146	69,510,123	94,169,788	50,203,065	115,532,544	-
	After Distribution	146	70,392,215	98,170,382	46,931,334	Undistributed	-
Long-term liabilities		-	8,005,928	7,215,718	7,007,411	12,120,232	-
Other liabilities		-	14,498	232,926	305,386	391,756	-
Total liabilities	Before Distribution	146	77,530,549	101,618,432	57,515,862	128,044,532	-
	After Distribution	146	78,412,641	105,619,026	54,244,131	Undistributed	-
Capital stock		50,000	18,846,281	22,860,539	22,563,669	22,563,669	-
Capital surplus		165,375	63,582,097	63,776,623	63,145,448	63,465,496	-
Retained earnings	Before Distribution	(3,705)	5,455,699	7,258,220	9,469,062	6,308,696	-
	After Distribution	(3,705)	559,349	3,257,626	6,197,331	Undistributed	-
Unrealized gain or loss on financial instruments		-	241,398	1,680,205	922,576	48,936	-
Cumulative translation adjustments		-	1,849,737	198,092	(5,250,188)	(784,234)	-
Net loss unrecognized as pension cost		-	(1,128)	(3,202)	(16)	440	-
Total shareholders' equity	Before Distribution	211,670	89,974,084	95,770,477	90,841,229	91,584,209	-
	After Distribution	211,670	89,091,992	91,769,883	87,569,498	Undistributed	-

Note 1: Financial information in 2007, 2008, 2009, 2010 and 2011 has been audited by CPA.

Note 2: First quarter 2012 financial statements have not been disclosed to public as of the date of this annual report.

6.1.2 Condensed Income Statement

Unit: NT$ thousands

Item \ Year	Five-Year Financial Summary (Note 1)					As of 4/16/2012 (Note 2)
	2007 (Note1)	2008	2009	2010	2011	
Operating revenue	-	303,748,099	327,964,527	297,761,769	371,712,663	-
Gross profit	-	8,878,596	9,251,251	10,626,452	5,299,704	-
Income from operations	(4,140)	219,084	1,068,740	4,032,105	(1,823,495)	-
Non-operating income	435	6,015,943	6,839,938	3,758,108	2,677,282	-
Non-operating expenses	-	1,211,327	713,629	473,803	795,273	-
Income from operations of continued segments - before tax	-	5,023,700	7,195,049	7,316,410	58,514	-
Income from operations of continued segments - after tax	(3,705)	5,526,317	6,751,588	6,211,436	111,365	-
Income from discontinued departments	-	-	-	-	-	-
Extraordinary gain or loss	-	-	-	-	-	-
Cumulative effect of accounting principle changes	-	-	-	-	-	-
Net income (loss)	(3,705)	5,526,317	6,751,588	6,211,436	111,365	-
Earnings per share (before adjustment)	(2.14)	3.08	2.95	2.73	0.05	-

Note 1: Financial information in 2007, 2008, 2009, 2010 and 2011 has been audited by CPA.
Note 2: First quarter 2012 financial statements have not been disclosed to public as of the date of this annual report.
Note 3: Gross profit included realized (unrealized) profits from affiliated companies.

6.1.3 Auditing by CPA from 2007 to 2011

Year	CPA Firm	CPA's Name	Auditing Opinion
2007	Earnest & Young	Ming-Yi Lee	Unqualified
2008	Earnest & Young	Ming-Yi Lee	Modified Unqualified
2009	KPMG	Charlotte W.W. Lin & Ulyos K.J. Maa	Modified Unqualified
2010	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2011	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified

6.2 Five-Year Financial Analysis

Item (Note 3)			Year(Note1) 2007	2008	2009	2010	2011	As of 4/16/2012 (Note 2)
			Financial analysis in the past five years					
Financial structure (%)	Ratio of liabilities to assets		-	46.29	51.48	38.77	58.30	-
	Ratio of long-term capital to fixed assets		-	1,785.60	2,421.04	2,420.67	2,597.67	-
Solvency (%)	Current ratio		-	108.23	106.43	117.56	110.80	-
	Quick ratio		-	81.26	95.25	103.13	102.68	-
	Times interest earned ratio		-	32.86	65.33	78.17	1.28	-
Operating ability	Accounts receivable turnover (Times)		-	6.48	5.03	4.72	4.82	-
	Average collection period		-	56.35	72.63	77.41	75.73	-
	Inventory turnover (Times)		-	14.74	20.59	30.93	42.75	-
	Accounts payable turnover (Times)		-	7.46	5.65	5.34	5.44	-
	Average days in sales		-	24.77	17.73	11.80	8.54	-
	Fixed assets turnover (Times)		-	55.36	77.10	73.68	93.12	-
	Total assets turnover (Times)		-	1.81	1.66	2.01	1.69	-
Profitability	Return on total assets (%)		-	3.40	3.76	3.64	0.16	-
	Return on stockholders' equity (%)		-	6.14	7.27	6.66	0.12	-
	Ratio to issued capital (%)	Operating Income	-	1.16	4.68	17.87	-8.08	-
		Pre-tan Income	-	26.66	31.47	32.43	0.26	-
	Profit ratio (%)		-	1.82	2.06	2.09	0.03	-
	Earnings per share(Before adjustment) ($)		(2.14)	3.08	2.95	2.73	0.05	-
Cash flow	Cash flow ratio (%)		-	-	8.26	20.81	-	-
	Cash flow adequacy ratio (%)		-	-	163.33	226.20	51.91	-
	Cash reinvestment ratio (%)		-	-	6.66	6.52	-	-
Leverage	Operating leverage		-	3.46	1.92	1.21	0.61	-
	Financial leverage		-	3.57	1.12	1.02	0.90	-

Analysis of financial ratio change in the last two years.

1. Ratio of liabilities to assets: The ratio increased in 2011 due to increase of accounts payable for purchasing raw material.
2. Times interest earned ratio: The ratio decrease in 2011 due to the decrease in gross profit which resulted the decrease in net income in 2011.
3. Inventory turnover (Times): The ratio of inventory turnover increased in 2011 due to the sales increased, thus the related cost of sales increased consistency.
4. Average days in sales: The ratio of average days increased in 2011 was due to decrease in inventory turnover ratio.
5. Fixed assets turnover (Times): The ratio of fixed assets turnover increased in 2011 due to the increase in net sales.
6. Return on total assets: The ratio of return of total assets decreased in 2011 due to the decrease in gross margin, which resulted the decrease in net income after tax.
7. Return on stockholders' equity: The ratio of return on SE decreased in 2011 due to decrease in gross margin, which resulted the decrease in net income after tax.

8. Operating income ratio to issued capital: The ratio decreased in 2011 resulting from decreased gross margin.
9. Pre-tax income to issued capital: The ratio decreased in 2011 resulting from the decrease in gross margin and increased operating expense.
10. Profit ratio: The ratio decreased in 2011 due to decrease in gross margin, which resulted the decrease in net income after tax.
11. Earnings per share(Before adjustment): The ratio decreased in 2011 due to decrease in gross margin, which resulted the decrease in net income after tax.
12. Cash flow ratio: The ratio decreased in 2011 due to the cash is out-flowing from operating activities.
13. Cash flow adequacy ratio: The ratio decreased in 2011 due to the cash is out-flowing from operating activities.
14. Cash reinvestment ratio: The ratio decreased in 2011 due to the cash is out-flowing from operating activities.
15. Operating leverage ratio: The ratio of operation leverage decreased in 2011 resulting from the decrease in gross margin, and the increase in operation expense.

Note 1: The Company was incorporated on June 27th, 2007 and the financial information have been audited by CPA.
Note 2: First quarter 2012 financial statements have not been disclosed to public as of the date of this annual report.
Note 3: Equations:

1. Financial Structure
   (1) Ratio of liabilities to assets = Total liability / Total assets
   (2) Ratio of long-term capital to fixed assets = (Net shareholders' equity + Long-term liability) / Net fixed assets
2. Solvency
   (1) Current ratio: Current assets / current liability
   (2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability
   (3) Times interest earned ratio = Net income before tax and interest expense / Interest expense of the year
3. Operating ability
   (1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)
   (2) Days sales in accounts receivable = 365 / Account receivable turnover
   (3) Inventory turnover = Cost of goods sold / Average inventory amount
   (4)Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)
   (5) Average days in sales = 365 / Inventory turnover
   (6) Fixed assets turnover = Net sales / Net fixed assets
   (7) Total assets turnover = Net sales / Total assets
4. Profitability
   (1) Return on assets = (Net income (loss) + interest expense x (1-tax rate)) / Average total assets
   (2) Return on shareholders' equity = Net income (loss) / Net average shareholders' equity
   (3) Return to issued capital stock = Net income before tax / Issued capital stock
   (4) Profit ratio = Net income (loss) / Net sales
   (5) Earnings per share = (Net income – preferred stock dividend) / Weighted average stock shares issued
5. Cash flow
   (1) Cash flow ratio = Bet cash flow from operating activity / Current liability
   (2) Cash flow adequacy ratio = Net cash flow from operating activity in the past 5 years / (Capital expenditure + Inventory interest + Cash dividend) in the past 5 years
   (3) Cash + reinvestment ratio = (Net cash flow from operating activity – Cash dividend) / (Fixed assets + Long term investment + Other assets + Working capital)
6. Balance
   (1) Degree of operating leverage = (Net operating income – Variable operating cost and expense) / Operating income(note6)
   (2) Degree of financial leverage = Operating income / (Operating income – interest expense)

Note 4: The following factors are to be included in the consideration for the calculation of earnings per share:

1. It is based on the weighted average common stock shares instead of the outstanding stock shares at year end.
2. For capitalization with cash or treasury stock trade, the stock circulation must be included for consideration to calculate weighted average shares.
3. For capitalization with retained earnings and additional paid-in capital, the earnings per share calculated semi-annually an annually must be adjusted retroactively and proportionally to the capitalization but without considering the issuance period of the capitalization.
4. If preferred stock shares are nonconvertible and cumulative, the dividend of the year (whether it is distributed or not) should be deducted from net income or added to the net loss. If preferred shares are not cumulative, preferred stock dividend should be deducted from net income if there is ant but it needs not be added to net loss if there is any.

Note 5: The following factors are to be included for consideration for the analysis of cash flow:

1. Net cash flow from operating activity meant for the net cash inflow from operating activity on the Cash Flow Statement.
2. Capital expenditure meant for the cash outflow of capital investment annually.
3. Increase of inventory is counted only when ending inventory exceeds beginning inventory. If the ending inventory is decreased, it is booked as zero value.
4. Cash dividend includes the amount for common stock and preferred stock.
5. Gross fixed assets for the total fixed assets before deducting the cumulative depreciation.

Note6: Issuer should classify operating coat and operating expense according to fixed and variable category If the classification is estimated and subjective, it should correspond with rationality and consistence.

6.3 Supervisors' Report in the Most Recent Year

Pegatron Corporation

Supervisor's Report

Date: March, 28, 2012

The Board of Directors has prepared and submitted to the supervisor of Pegatron Corporation ("the Company)", the 2011 Business Report, financial statements, and proposal for earning distribution of the Company. The above Business Report, financial statements, and earning distribution proposal have been examined and determined to be correct and accurate by the undersigned. According to Article 219 of the Company Law, I hereby submit this report.

To the 2012 Annual Shareholders' Meeting of Pegatron Corporation.

C.H. Tong

Supervisor

Pegatron Corporation

Supervisor's Report

Date: March, 28, 2012

The Board of Directors has prepared and submitted to the supervisor of Pegatron Corporation ("the Company)", the 2011 Business Report, financial statements, and proposal for earning distribution of the Company. The above Business Report, financial statements, and earning distribution proposal have been examined and determined to be correct and accurate by the undersigned. According to Article 219 of the Company Law, I hereby submit this report.

To the 2012 Annual Shareholders' Meeting of Pegatron Corporation.

M.C. Chou

Supervisor

Pegatron Corporation

Supervisor's Report

Date: March, 28, 2012

The Board of Directors has prepared and submitted to the supervisor of Pegatron Corporation ("the Company)", the 2011 Business Report, financial statements, and proposal for earning distribution of the Company. The above Business Report, financial statements, and earning distribution proposal have been examined and determined to be correct and accurate by the undersigned. According to Article 219 of the Company Law, I hereby submit this report.

To the 2012 Annual Shareholders' Meeting of Pegatron Corporation.

I. L. Cheng

Supervisor

6.4 Financial Statements of the Most Recent Year:

Please refer to page 96 to 138 of this annual report.

6.5 Consolidated Financial Statements of the Parent Company and Subsidiary in the Most Recent Year

Please refer to page 139 to 236 of this annual report.

6.6 Financial Difficulties Encountered By the Company and the Related Party in the Most Recent Year and Up to the Date of the Annual Report Printed: None.

7. Review of Financial Position, Management Performance and Risk Management

7.1 Analysis of Financial Status

Unit: NT$ thousands; %

Item \ Year	2011	2010	Difference	
			Amount	%
Current Assets	128,013,989	59,018,914	68,995,075	116.90%
Funds & Investments	86,765,900	83,573,594	3,192,306	3.82%
Other Financial Assets– Non Current	29,271	28,637	634	2.21%
Fixed Assets	3,991,815	4,041,546	(49,731)	(1.23%)
Intangible Assets	121,223	181,820	(60,597)	(33.33%)
Other Assets	706,543	1,512,580	(806,037)	(53.29%)
Total Assets	219,628,741	148,357,091	71,271,650	48.04%
Current Liabilities	115,532,544	50,203,065	65,329,479	130.13%
Long-term Liabilities	12,110,000	6,991,200	5,118,800	73.22%
Other Liabilities	401,988	321,597	80,391	25.00%
Total Liabilities	128,044,532	57,515,862	70,528,670	122.62%
Capital stock	22,563,669	22,563,669	0	0.00%
Capital surplus	63,465,496	63,145,448	320,048	0.51%
Retained Earnings	6,308,696	9,469,062	(3,160,366)	(33.38%)
Other Adjustments	(753,652)	(4,336,950)	3,583,298	(82.62%)
Total Stockholders' Equity	91,584,209	90,841,229	742,980	0.82%

Analysis of changes in financial ratios:

1. Current Assets: The increase was mainly due to the increase in 4Q 2011 sales, which resulted in more transaction with subsidiaries. Thus, the related accounts receivables and inventory increased accordingly.
2. Intangible Assets: The decrease was due to intangible assets being amortized over the year.
3. Other Assets: The decrease was due to the activities on proceeding to disposal idle assets and deferred charges.
4. Total Assets: The increase was mainly due to the increase of inventory and accounts receivable.
5. Current Liabilities: As the aforesaid in current assets, the increase was due to the increase in 4Q 2011 sales, and related cost of goods increased accordingly. Thus, the accounts payables increased accordingly.
6. Long-term Liabilities: The increase was due to the demand in funds increase, thus the long-term loans increased accordingly.
7. Other Liabilities: The increase was due to the increase of deferred income tax liabilities resulting from recognizing the investment income from the overseas investee.
8. Total Liabilities: The increase was due to the increase in accounts payable.
9. Retained Earnings: The decrease was due to the decrease in net income for the year 2011.
10. Other Adjustments: The reduction was due to the fluctuation in FX rates changed rapidly, thus the cumulative translation adjustments decreased accordingly.

- **Effect of change on financial condition:**

  The Company’s financial condition is without significant change.

- **Future response actions:** Not applicable.

7.2 Analysis of Operating Results

Unit: NT$ thousands; %

Item \ Year	2011	2010	Difference	
			Amount	%
Net Sales	371,712,663	297,761,769	73,950,894	24.84%
Cost of Sales (Note)	366,412,959	287,135,317	79,277,642	27.61%
Gross Profit	5,299,704	10,626,452	(5,326,748)	(50.13%)
Operating Expense	7,123,199	6,594,347	528,852	8.02%
Operating Income	(1,823,495)	4,032,105	(5,855,600)	(145.22%)
Non-operating Income and Gains	2,677,282	3,758,108	(1,080,826)	(28.76%)
Non-operating Expenses and Losses	795,273	473,803	321,470	67.85%
Income Before Tax	58,514	7,316,410	(7,257,896)	(99.20%)
Tax Expense	(52,851)	1,104,974	(1,157,825)	(104.78%)
Income after Income Tax	111,365	6,211,436	(6,100,071)	(98.21%)

Analysis of changes in financial ratios:

1. Net Sales: The increase was due to the increased order in mobile product, which resulted in the increase of sales.
2. Cost of Sales: The increase was due to the increase in sales, thus the cost of sales increased accordingly.
3. Gross Profit: The decrease was due to low utilization and high cost of sales of new product.
4. Operating Income: The decrease was due to the increase in gross margin, and increased in operating expense.
5. Non-Operating Income and Gains: The decrease was mainly due to the decrease in investees' profit by the end of 2011, thus, the investment income decreased accordingly.
6. Non-Operating Expense and Losses: The increase was due to increase in interest expenses resulting from the increase in long-term loans.
7. Income Before Tax: The decrease was due to the decrease in gross margin, and the increase in operating expense.
8. Tax Expense: The decrease was mainly due to the decrease in profit from core business.
9. Income after Income Tax: The decrease was due to the decrease in gross margin, and the increase in operating expense. Moreover, the investment income recognized from investees decreased as compared to 2010.

Note: Including realized (unrealized) profit of affiliated companied.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Current Year

Unit: NT$ thousands; %

Item \ Year	2011	2010	Difference	
			Amount	%
Cash flows from operating activities	(7,752,843)	10,445,490	(18,198,333)	(174.22)
Cash flows from investing activities	408,733	423,048	(14,315)	(3.38)
Cash flows from financing activities	5,351,990	(5,573,211)	10,925,201	196.03

Analysis of changes in financial ratios:

1. Cash flows from operating activities: The decrease in cash flow was due to increase in revenue, which resulted in increase in inventory and accounts receivable as compared to the previous year.
2. Cash flows from investing activities: The decrease was caused by proceeds from disposal of assets, idle assets, deferred charges and decrease in other accounts receivable as compared to the previous year.
3. Cash flows from financing activities: The increase was due to the increase of short and long-term loans as compared to the previous year.

7.3.2 Remedy for Cash Deficit and Liquidity Analysis:

In light of positive cash flows, remedial actions are not required.

7.3.3 Cash Flow Analysis for the Coming Year: Not applicable.

7.4 Major Capital Expenditure Items: None.

7.5 Investment Policy in Last year, Main Causes for Profits or Losses, Improvement Plans and the investment Plans for the Coming Year

The Company's long-term investment accounted under the equity method is mostly for strategic purposes. In 2011, the investment income under equity method reached NT$1,516,512 thousand dollars, which was significantly less than that of the previous year. This decline was mainly due to the change of supplier strategies by major customers, coupled with the financial crisis in Euro zone and adverse impact to supply chain from earthquake & tsunami in Japan as well as flood in Thailand. As a result, the investment income was therefore reduced accordingly. For future investment, the Company will continue focusing on strategic purpose and carefully assessing the financial risks and its return in order to maximize the value for the Company.

7.6 Analysis of Risk Management

7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation of Corporate Finance, and Future Response Measures

(1) Interest Rate

The Company's interest rate risks mainly arise from the long-term and short-term loans made from banks and the short-term capital management for working capital needs. In order to reduce the risks of interest rates, especially relating to bank loans, the Company contacts banks on the regular basis, studies the trend of interest rate and negotiates for the best interest rate for the Company. As for short-term capital management, the Company mainly invests in financial instruments of fixed deposit, which not only secures the capital but also reduces associated risks.

(2) Foreign Exchange Rate

The Company adopts a prudent approach towards foreign exchange strategy. Since the Company's sales and purchases are denominated mainly in US dollars, the risks are naturally hedged. However, significant changes in foreign exchange rate may cause adverse impact to the financial conditions of the Company and the responsive measures are taken as follows:

a. Collecting market information for analysis and risk evaluation, contacting banks on a regular basis to be fully aware of the trend of foreign exchange rate, and adjusting financial positions in foreign currency when necessary.

b. Securing reasonable profits by taking foreign exchange into consideration when providing quotations for sales.

(3) Inflation

According to the statistics released by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the consumer price index and wholesale price index grew by 1.42% and 4.32% respectively in 2011, which represented a minor inflation and did not have material impact on the Company's financial conditions in 2011. The Company observes the changes of market price at all times and adjusts selling price or inventory levels when necessary.

7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-Risk, High-Leverage Investment, Loaning or Endorsement Guarantees and Derivatives Transactions

(1) High-Risk, High-Leverage Investment

In 2011 and as of the date of this annual report, the Company has not conducted any high-risk and/or high-leverage investment.

(2) Loaning or Endorsement Guarantees

The Company conducts loaning or endorsement guarantees according to the internal policy "Procedures for Loaning of Funds and Making of Endorsements / Guarantees". Procedures and risk evaluation are conducted in accordance with this policy.

(3) Derivatives Transactions

The Company has not conducted any derivative transactions in 2011. Shall such needs arise due to business operation, the transaction will be processed in accordance with the Company's internal policy "Procedures for the Acquisition and Disposal of Assets".

7.6.3 Future Research & Development Projects and Corresponding Budget

The Company focuses on the development of products that are integrated with high added value while the associated research and development projects are proceeding as scheduled. Going forward, continuous effort will be spent on product research and development and pursuing leading position in this field by controlling factors such as talent, capital, technology, etc.

7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales

The Company complies with regulations associating with corporate governance, company law, security law and other important sources of regulations. In addition, the Company also monitors material changes in governing regulations and laws and be fully aware of the changes in the markets. In 2011 and as of the date of this annual report, there were no such risks to the Company.

7.6.5 Effects of and Response to Changes in Technology and in Industry Relating to Corporate Finance and Sales

The Company pays attention to the changes in technologies and in industry at all time so as to be fully aware of the market trend and evaluate any potential impact on the operations of the Company. In 2011, no material changes of technologies have brought any adverse impact to the financial conditions of the Company.

7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures

Since the date of incorporation, the Company has been having a positive corporate image and complying with relevant laws and regulations. In 2011 and as of the date of this annual report, there were no such risks for the Company.

7.6.7 Expected Benefits and Risks Relating to and Response to Merger and Acquisition Plans

In 2011 and as of the date of this annual report, the Company did not have any plans for mergers and acquisitions and there were no such risks for the Company.

7.6.8 Expected Benefits and Risks Relating to and Response to Factory Expansion Plans

In 2011 and as of the date of this annual report, the Company did not have any plans for factory expansion and there were no such risks for the Company.

7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

The Company's core business is design, manufacturing and services of 3C products, and according to the industry practice, the Company tends to purchase raw material and sell the finished goods to the same party.

a. Source of Purchase

Per ODM/EMS industry practice, major customers, in order to control product quality and reduce cost of key components, will request the Company to purchase key components from specific supplier(s) and sell back to the customer after assembly. Therefore, purchase of material and sales of finished goods are concentrated to specific customer(s). In 2011, the top two suppliers were the subsidiaries of the Company. In addition, the Company maintains more than two qualified raw material suppliers to ensure supply flexibility and pricing advantages so as to achieve cost reduction. In conclusion, The Company does not have risks associating with excessive concentration of supply.

b. Sales of Products

In 2011, the revenue from sales to Asustek was around 45% of the total revenue. The Company was originally the ODM/EMS business unit of Asustek and officially spun off from Asustek in 2008, which allowed Asustek to focus on branding business and the Company on design, manufacturing and services. In addition to continually engaging new customers, enhancing technologies and improving manufacturing process, the Company endeavors to develop new products to meet the versatile market demands and Pegatron expected that the reliance on Asustek will gradually reduce.

7.6.10 Effects of Risks Relating to and Response to Large Share Transfer or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholding of over 10%

The value of Pegatron shareholders' investment may be reduced by possible future sales of Pegatron shares by the major shareholders.

As of the date of this annual report, Asustek Computer Inc. owns around 24.4% of Pegatron total outstanding shares. Asustek has reiterated its intention to gradually and orderly reduce its equity interest in Pegatron. Pegatron will work closely with Asustek to complete their contemplated disposals of Pegatron shares in a way that would minimize the negative impact on the price of Pegatron shares and other shareholders.

7.6.11 Effects of Risks Relating to and Response to Changes in Control over the Company

By the end of 2009, the Company was owned 100% by Asustek and the shareholding reduced dramatically after the spin-off plan in 2010. The operation of the Company has become more transparent after the spin-off and acceptable by customers, which is considered a positive factor in business development. In addition, the Company has formed a management team to manage the Company's operation and does not have risks associating with the changes in control over the Company.

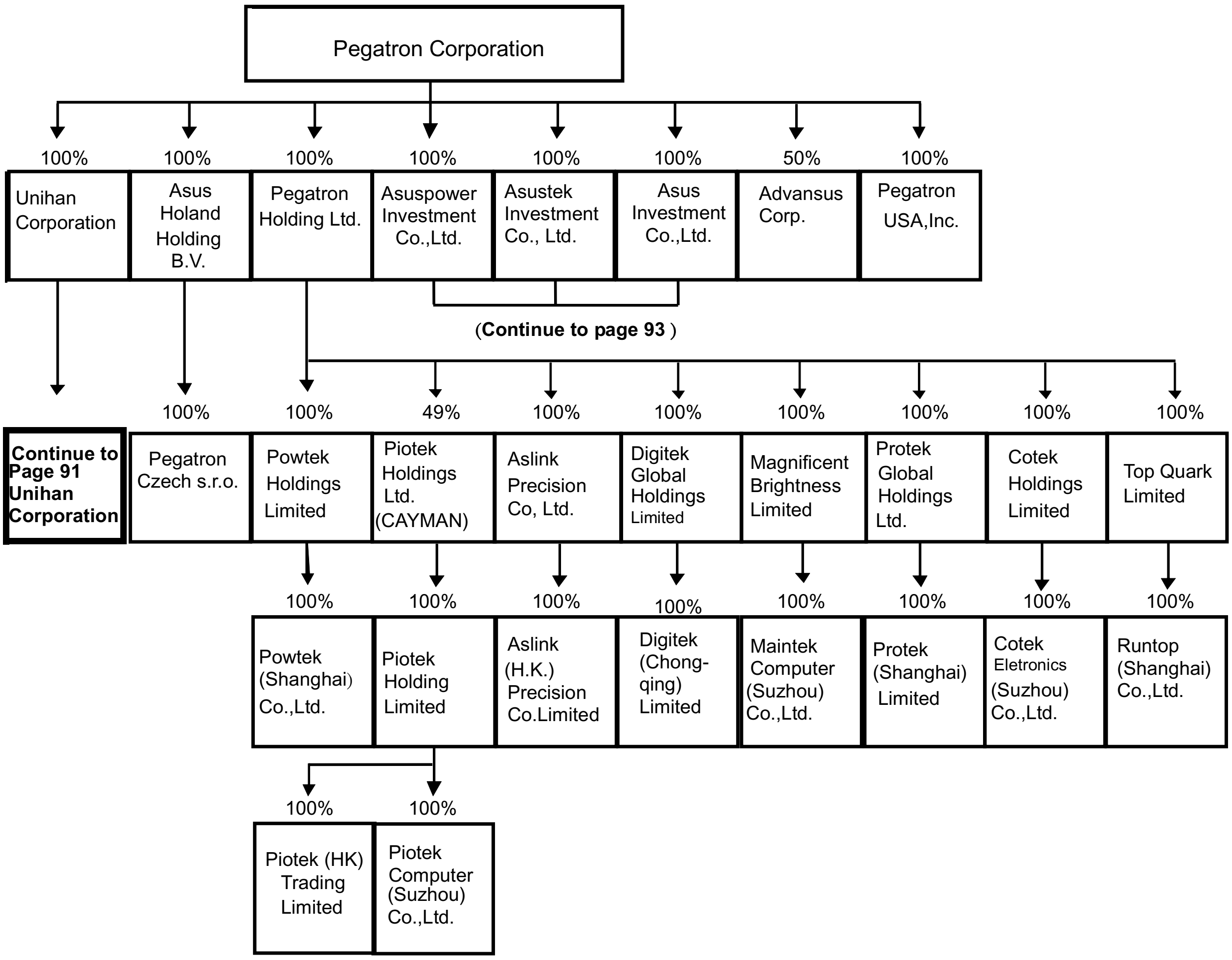
7.6.12 Litigation or Non-litigation Matters

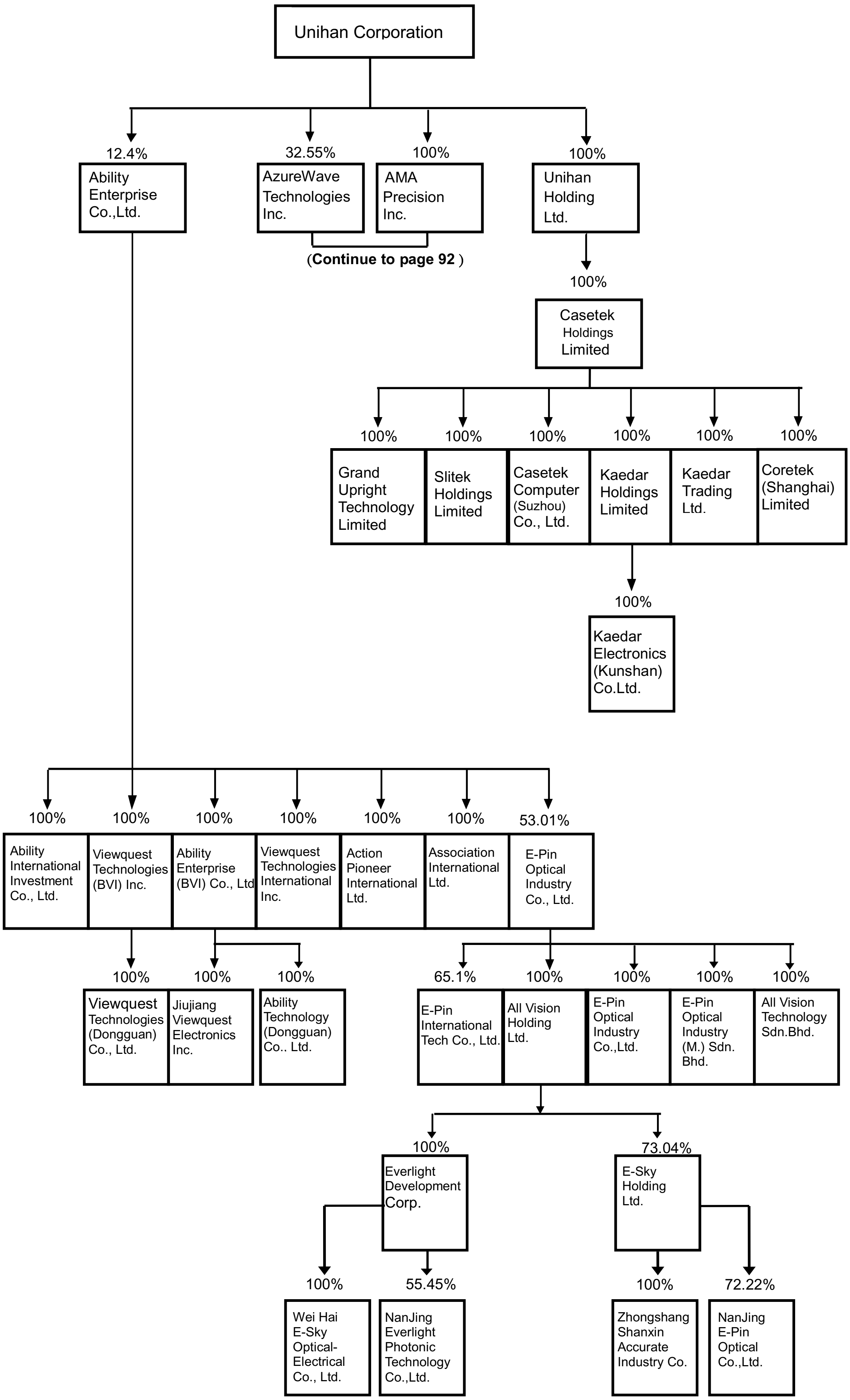
In terms of Litigation or Non-litigation Matters that Company has engaged in, as for Litigation, in addition to compiling information for evidential purpose and secure Company's rights, Company also keep updating and follow-up the subsequent Litigation process. In 2011 and as of the date of this annual report, Company did not engage in Litigation or Non-litigation Matters that had Significant Impacts on Shareholders' Right or Security Prices.

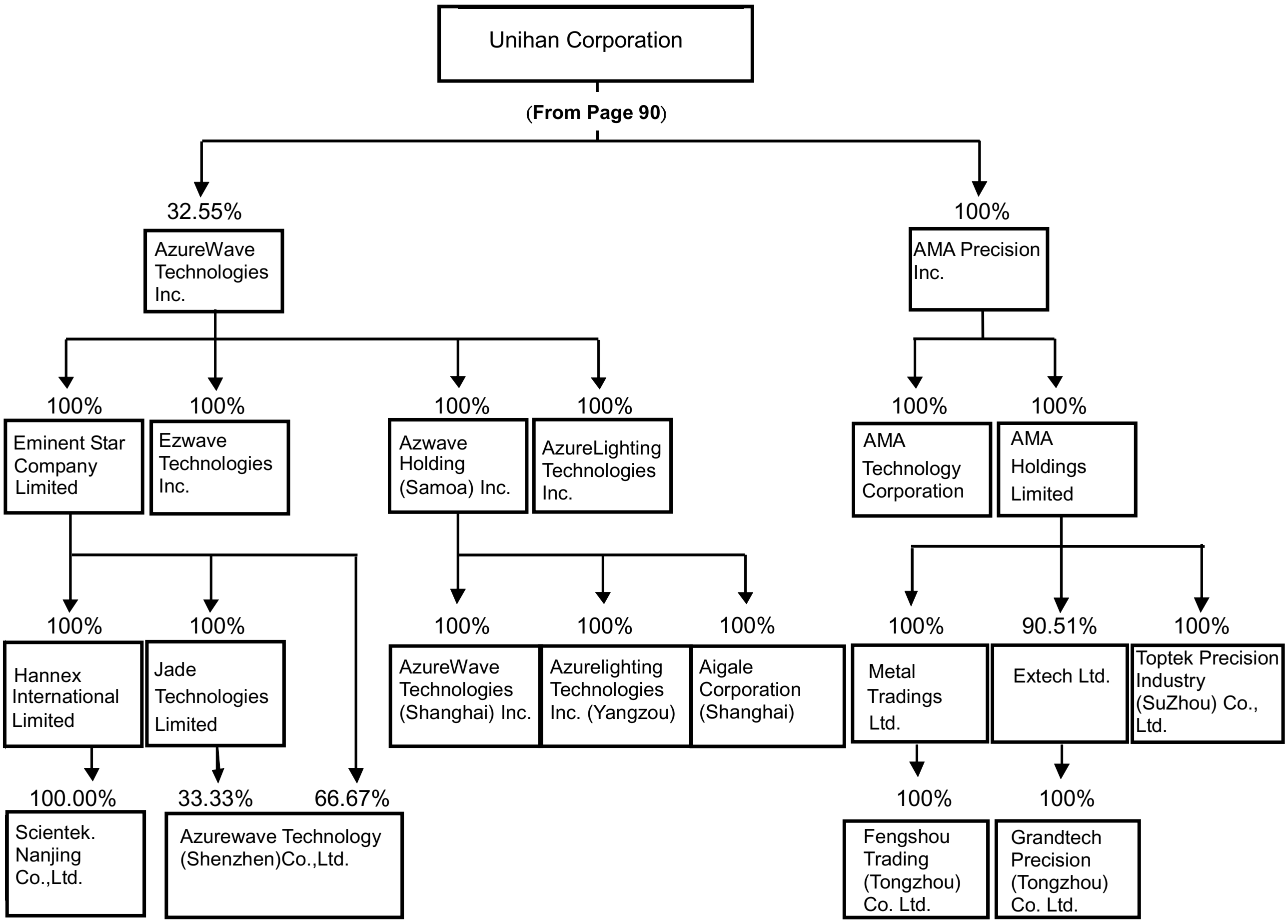
7.7 Other Major Risks

In 2011 and as of the date of this annual report, the Company did not have any other major risks.

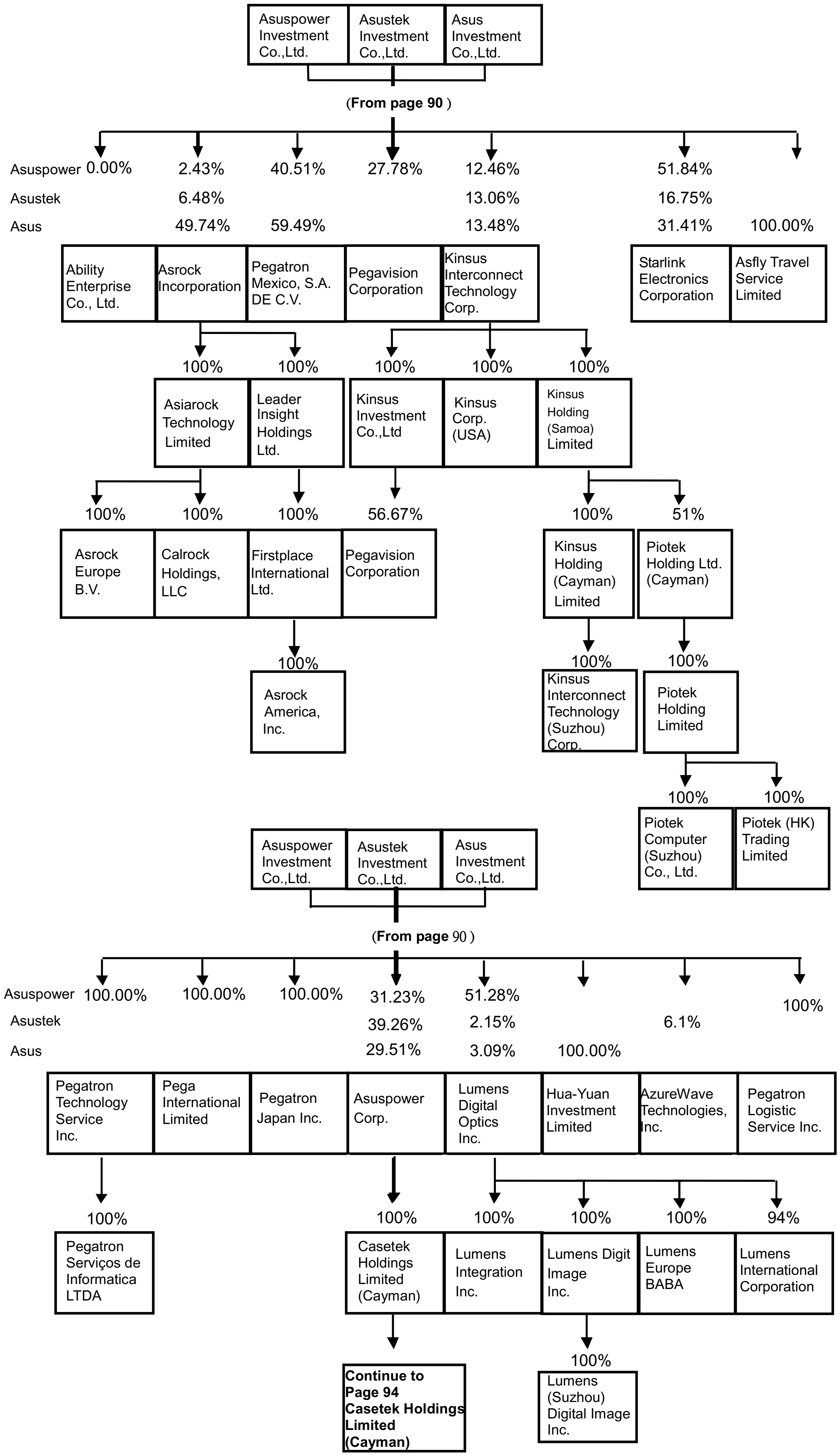
8. Other Special Notes
8.1 Summary of Affiliated Companies
8.1.1 Affiliated Companies Chart

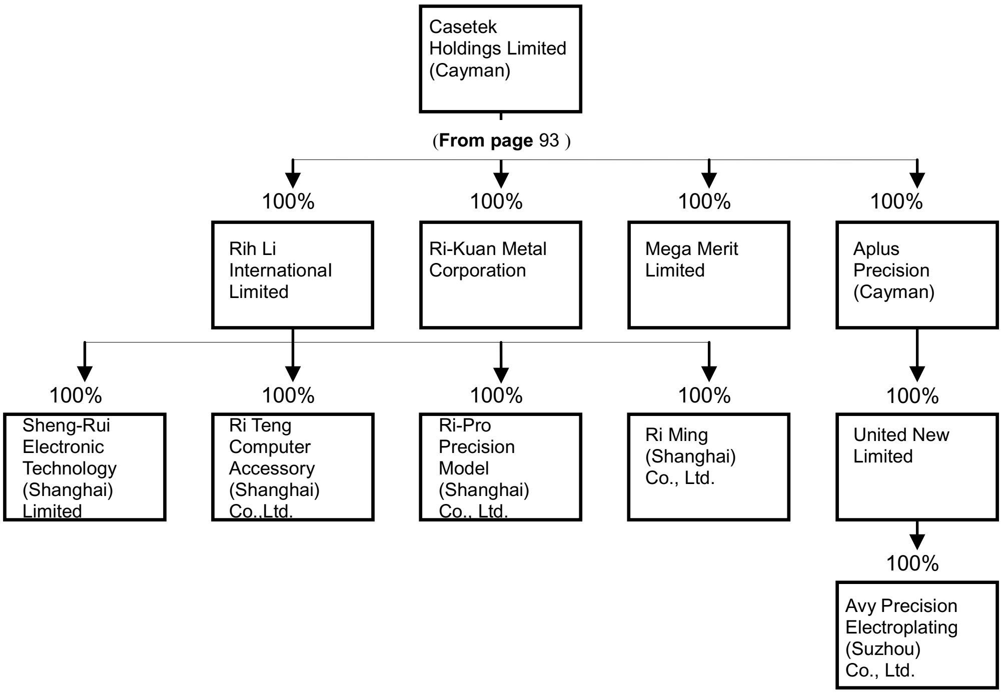



Unihan Corporation
12.4%
Ability Enterprise Co.,Ltd.
32.55%
AzureWave Technologies Inc.
100%
AMA Precision Inc.
(Continue to page 92)
100%
Unihan Holding Ltd.
100%
Casetek Holdings Limited
100%
Grand Upright Technology Limited
100%
Slitek Holdings Limited
100%
Casetek Computer (Suzhou) Co., Ltd.
100%
Kaedar Holdings Limited
100%
Kaedar Trading Ltd.
100%
Coretek (Shanghai) Limited
100%
Kaedar Electronics (Kunshan) Co.Ltd.
100%
Ability International Investment Co., Ltd.
100%
Viewquest Technologies (BVI) Inc.
100%
Ability Enterprise (BVI) Co., Ltd
100%
Viewquest Technologies International Inc.
100%
Action Pioneer International Ltd.
100%
Association International Ltd.
53.01%
E-Pin Optical Industry Co., Ltd.
100%
Viewquest Technologies (Dongguan) Co., Ltd.
100%
Jiujiang Viewquest Electronics Inc.
100%
Ability Technology (Dongguan) Co., Ltd.
65.1%
E-Pin International Tech Co., Ltd.
100%
All Vision Holding Ltd.
100%
E-Pin Optical Industry Co.,Ltd.
100%
E-Pin Optical Industry (M.) Sdn. Bhd.
100%
All Vision Technology Sdn.Bhd.
100%
Everlight Development Corp.
73.04%
E-Sky Holding Ltd.
100%
Wei Hai E-Sky Optical-Electrical Co., Ltd.
55.45%
NanJing Everlight Photonic Technology Co.,Ltd.
100%
Zhongshang Shanxin Accurate Industry Co.
72.22%
NanJing E-Pin Optical Co.,Ltd.



Unihan Corporation
(From Page 90)
32.55%
AzureWave Technologies Inc.
100%
AMA Precision Inc.
100%
Eminent Star Company Limited
100%
Ezwave Technologies Inc.
100%
Azwave Holding (Samoa) Inc.
100%
AzureLighting Technologies Inc.
100%
AMA Technology Corporation
100%
AMA Holdings Limited
100%
Hannex International Limited
100%
Jade Technologies Limited
100%
AzureWave Technologies (Shanghai) Inc.
100%
Azurelighting Technologies Inc. (Yangzou)
100%
Aigale Corporation (Shanghai)
100%
Metal Tradings Ltd.
90.51%
Extech Ltd.
100%
Toptek Precision Industry (SuZhou) Co., Ltd.
100.00%
Scientek. Nanjing Co.,Ltd.
33.33%
66.67%
Azurewave Technology (Shenzhen)Co.,Ltd.
100%
Fengshou Trading (Tongzhou) Co. Ltd.
100%
Grandtech Precision (Tongzhou) Co. Ltd.


Asuspower Investment Co.,Ltd.
Asustek Investment Co.,Ltd.
Asus Investment Co.,Ltd.
(From page 90)
Asuspower 0.00% 2.43% 40.51% 27.78% 12.46% 51.84%
Asustek 6.48% 13.06% 16.75%
Asus 49.74% 59.49% 13.48% 31.41% 100.00%
Ability Enterprise Co., Ltd.
Asrock Incorporation
Pegatron Mexico, S.A. DE C.V.
Pegavision Corporation
Kinsus Interconnect Technology Corp.
Starlink Electronics Corporation
Asfly Travel Service Limited
100% 100% 100% 100% 100%
Asiarock Technology Limited
Leader Insight Holdings Ltd.
Kinsus Investment Co.,Ltd
Kinsus Corp. (USA)
Kinsus Holding (Samoa) Limited
100% 100% 100% 56.67% 100% 51%
Asrock Europe B.V.
Calrock Holdings, LLC
Firstplace International Ltd.
Pegavision Corporation
Kinsus Holding (Cayman) Limited
Piotek Holding Ltd. (Cayman)
100% 100% 100%
Asrock America, Inc.
Kinsus Interconnect Technology (Suzhou) Corp.
Piotek Holding Limited
100% 100%
Piotek Computer (Suzhou) Co., Ltd.
Piotek (HK) Trading Limited
Asuspower Investment Co.,Ltd.
Asustek Investment Co.,Ltd.
Asus Investment Co.,Ltd.
(From page 90)
Asuspower 100.00% 100.00% 100.00% 31.23% 51.28% 100%
Asustek 39.26% 2.15% 6.1%
Asus 29.51% 3.09% 100.00%
Pegatron Technology Service Inc.
Pega International Limited
Pegatron Japan Inc.
Asuspower Corp.
Lumens Digital Optics Inc.
Hua-Yuan Investment Limited
AzureWave Technologies, Inc.
Pegatron Logistic Service Inc.
100% 100% 100% 100% 100% 94%
Pegatron Serviços de Informatica LTDA
Casetek Holdings Limited (Cayman)
Lumens Integration Inc.
Lumens Digit Image Inc.
Lumens Europe BABA
Lumens International Corporation
Continue to Page 94 Casetek Holdings Limited (Cayman)
100%
Lumens (Suzhou) Digital Image Inc.


Casetek Holdings Limited (Cayman)
(From page 93)
100%
Rih Li International Limited
100%
Ri-Kuan Metal Corporation
100%
Mega Merit Limited
100%
Aplus Precision (Cayman)
100%
Sheng-Rui Electronic Technology (Shanghai) Limited
100%
Ri Teng Computer Accessory (Shanghai) Co.,Ltd.
100%
Ri-Pro Precision Model (Shanghai) Co., Ltd.
100%
Ri Ming (Shanghai) Co., Ltd.
100%
United New Limited
100%
Avy Precision Electroplating (Suzhou) Co., Ltd.

8.1.2 Business Scope of Pegatron and Its Affiliated Companies

Pegatron's affiliates support the Company's core business in providing design, manufacturing and services (DMS) of computing, consumer electronics and communication products. Some of Pegatron's affiliated companies are focused on investing in related companies in the industry. Pegatron and its affiliates provide mutual support in technology, capacity and services to maximize synergy within the group, enabling Pegatron to provide its customers with the most complete and comprehensive services.

8.2 Private Placement Securities in the Most Recent year: None.

8.3 The Shares of the Company Held or Disposed of by the Subsidiaries in the Most Recent year

Unit: NT$ thousands; Shares; %

Name of subsidiary	Stock capital collected	Fund source	Shareholding ratio of the company	Date of acquisition or disposition	Shares and amount acquired	Shares and amount disposed of	Investment gain (loss)	Shareholdings & amount in the most recent year	Mortgage	Endorsement amount made for the subsidiary	Amount loaned to the subsidiary
Kinsus Interconnect Technology Corp.	4,460,000	Self Finance	39%	7/1/2010	800,000 shares / NT$23,902	-	-	800,000 shares / NT$23,902	-	-	-
Kinsus Interconnect Technology Corp.	4,460,000	Self-Finance	39%	8/6/2011	900,000 shares / NT$24,287	-	-	900,000 shares / NT$24,287	-	-	-

15.4 Any Other Special Notes to be specify: None.

15.5 Any Events in 2011 and as of the Date of this Annual Report that had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

(English Translation of Financial Report Originally Issued in Chinese)

AUDIT REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Pegatron Corporation

We have audited the accompanying balance sheets of Pegatron Corporation (the “Company”) as of December 31, 2011 and 2010, and the related statements of income, changes in stockholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain investees accounted for under the equity method, in which the Company’s long-term equity investments amounted to NT$ 18,996,148 thousand and NT$ 21,591,166 thousand, representing 8.65% and 14.55% of total assets as of December 31, 2011 and 2010, respectively, and related investment income thereon was NT$ 2,044,432 thousand and NT$ 2,336,755 thousand, representing 3,493.90% and 31.94% of net income before tax for the year ended December 31, 2011 and 2010, respectively. The financial statements of these investees were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, is based solely on the reports of other auditors.

We conducted our audits in accordance with “Regulation Governing Auditing and Certification of Financial Statements by Certified Public Accountants” and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidences supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports issued by other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Pegatron Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of the Company as of and for the years ended December 31, 2011 and 2010 and have issued modified unqualified audit report thereon.

KPMG

Taipei, Taiwan, R.O.C
March 19, 2012

Note to Readers

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

BALANCE SHEETS

December 31, 2011 and 2010

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2011		December 31, 2010	
ASSETS	**Amount**	**%**	**Amount**	**%**
Current Assets:				
Cash (Note (4)(a))	$ 6,815,955	3	8,808,075	6
Notes receivable, net of allowance for uncollectible accounts – Non-related parties (Note (4)(b))	-	-	259	-
Accounts receivable, net of allowance for uncollectible accounts – Non-related parties (Note (4)(b))	40,736,056	19	7,690,768	6
Accounts receivable, net of allowance for uncollectible accounts – Related parties (Note (5))	70,676,143	32	34,921,360	25
Other receivables – Non-related parties	40,427	-	18,871	-
Other receivables – Related parties (Note (5))	9,842	-	21,774	-
Other financial assets — current (Note (6))	72,003	-	71,887	-
Inventories (Note (4)(c))	9,252,961	4	7,169,808	5
Other current assets (Note (5))	133,332	-	72,729	-
Deferred income tax assets — current (Note (4)(i))	277,270	-	243,383	-
	128,013,989	58	59,018,914	42
Investments:				
Long-term investments under the equity method (Note (4)(d))	86,765,900	40	83,573,594	56
Other Financial Assets — Noncurrent (Note (6))	29,271	-	28,637	-
Property, Plant and Equipment, at cost :				
Land	2,167,308	1	2,150,317	1
Buildings	1,886,473	1	1,745,891	1
Machinery and equipment	45,169	-	285,708	-
Warehousing equipment	600	-	600	-
Instrument equipment	146,286	-	273,977	-
Transportation equipment	23,339	-	21,752	-
Office equipment	3,951	-	3,951	-
Leased assets	6,003	-	27,423	-
Miscellaneous equipment	386,816	-	398,450	-
	4,665,945	2	4,908,069	2
Less: Accumulated depreciation	(731,088)	-	(916,653)	(1)
Prepayment for equipment	56,958	-	50,130	-
	3,991,815	2	4,041,546	1
Intangible Assets	121,223	-	181,820	-
Other Assets — others (Note (4)(e))	706,543	-	1,512,580	1
TOTAL ASSETS	**$ 219,628,741**	**100**	**148,357,091**	**100**

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

BALANCE SHEETS (CONT'D)

December 31, 2011 and 2010

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2011		December 31, 2010	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
Current Liabilities:				
Short-term loans (Note (4)(f))	$ 6,176,100	3	2,665,200	2
Notes and accounts payable – Non-related parties	42,449,007	19	12,469,050	8
Notes and accounts payable – Related parties (Note (5))	57,939,610	26	21,903,630	15
Accrued expenses – Non-related parties	2,345,724	1	2,821,046	2
Accrued expenses – Related parties (Note (5))	3,588,099	2	7,509,146	5
Other current liabilities (Note (5))	3,034,004	1	2,834,993	1
	115,532,544	52	50,203,065	33
Long-Term Loans:				
Long-term loans (Note (4)(g))	12,110,000	6	6,991,200	5
Other Liabilities:				
Refundable guarantee deposits	10,232	-	16,211	-
Deferred income tax liabilities — noncurrent (Note (4)(i))	334,145	-	295,006	-
Other long-term liabilities—others	57,611	-	10,380	-
	401,988	-	321,597	-
Total Liabilities	128,044,532	58	57,515,862	38
Stockholders' Equity:				
Common stock (Note (4)(j))	22,563,669	10	22,563,669	15
Capital surplus (Note (4)(j))				
Premium on capital stock	60,393,247	28	60,393,247	41
Other	3,072,249	1	2,752,201	2
	63,465,496	29	63,145,448	43
Retained earnings (Note (4)(j)):				
Legal reserve	1,836,601	1	1,215,457	1
Special reserve	4,327,629	2	-	-
Accumulated earnings	144,466	-	8,253,605	6
	6,308,696	3	9,469,062	7
Other adjustments to stockholders' equity:				
Cumulative translation adjustments	(784,234)	-	(5,250,188)	(4)
Unrecognized gain (loss) on pension	440	-	(16)	-
Unrealized gain on financial assets	48,936	-	922,576	-
Treasury stock (Note(4)(j))	(18,794)	-	(9,322)	1
	(753,652)	-	(4,336,950)	(3)
Total Stockholders' Equity	91,584,209	42	90,841,229	62
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 219,628,741**	**100**	**148,357,091**	**100**

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data))

	For the Years Ended December 31,				
	2011			2010	
		Amount	%	Amount	%
Operating revenues (Note (5))	$	373,745,393	101	298,795,302	100
Less: Sales returns		1,741,657	1	176,833	-
Sales allowances		291,073	-	856,700	-
Net sales		371,712,663	100	297,761,769	100
Cost of sales (Notes (4)(c) and (5))		366,365,728	99	287,193,000	96
Gross profit		5,346,935	1	10,568,769	4
Less: Realized (Unrealized) profit on intercompany transactions (Note (5))		(47,231)	-	57,683	-
		5,299,704	1	10,626,452	4
Operating expenses (Note (5))					
Selling expenses		1,835,805	1	1,858,165	1
General and administrative expenses		1,328,621	-	1,397,175	-
Research and development expenses		3,958,773	1	3,339,007	1
		7,123,199	2	6,594,347	2
Income (Loss) from operations		(1,823,495)	(1)	4,032,105	2
Non-operating income					
Interest revenue		20,558	-	11,546	-
Investment income under the equity method (Note (4)(d))		1,516,472	1	2,458,713	1
Gain on disposal of fixed assets (Note (4)(e))		108,345	-	-	-
Rental revenue		65,994	-	62,077	-
Reversal of allowance for uncollectable accounts		25,999	-	-	-
Reversal of impairment loss (Note (4)(e))		28,450	-	-	-
Gain on valuation of financial assets		843	-	-	-
Others		910,621	-	1,225,772	-
		2,677,282	1	3,758,108	1
Non-operating expenses					
Interest expenses		210,687	-	94,815	-
Foreign exchange loss, net		310,723	-	79,123	-
Others		273,863	-	299,865	-
		795,273	-	473,803	-
Income before income tax		58,514	-	7,316,410	3
Income tax expense (Note (4)(i))		(52,851)	-	1,104,974	-
Net income	**$**	**111,365**	**-**	**6,211,436**	**2**

		Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Earnings per share (Note (4)(k))					
Primary earnings per share	**$**	**0.03**	**0.05**	**3.22**	**2.73**
Diluted earnings per share	**$**	**0.03**	**0.05**	**3.21**	**2.72**

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

		Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Net income	**$**	**58,514**	**111,365**	**7,316,410**	**6,211,436**
Earnings per share (Note (4)(k))	**$**	**0.03**	**0.05**	**3.22**	**2.73**

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

(English Translations of Financial Statements Originally Issued in Chinese)
PEGATRON CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Expressed in Thousands of New Taiwan Dollars)

			Retained earnings			Other adjustments to stockholders' equity				
	Common stock	Capital surplus	Legal reserve	Special reserve	Accumulated earnings	Cumulative translation adjustments	Unrecognized loss on pension cost	Unrealized gain(loss) of financial assets	Treasury stock	Total
Balance, January 1, 2010	$ 22,860,539	63,776,623	545,570	-	6,712,650	198,092	(3,202)	1,680,205	-	95,770,477
Issuance of new shares from reorganization	100	307	-	-	-	-	-	-	-	407
Purchase of treasury stock	-	-	-	-	-	-	-	-	(1,006,862)	(1,006,862)
Retirement of treasury stock	(296,970)	(709,892)	-	-	-	-	-	-	1,006,862	-
Equity held by investee	-	-	-	-	-	-	-	-	(9,322)	(9,322)
Net income for the year ended December 31, 2010	-	-	-	-	6,211,436	-	-	-	-	6,211,436
Appropriations and distributions of 2009 earnings (Note 1):										
Legal reserve	-	-	669,887	-	(669,887)	-	-	-	-	-
Cash dividends	-	-	-	-	(4,000,594)	-	-	-	-	(4,000,594)
Adjustment arising from long-term equity investments	-	47,779	-	-	-	-	3,186	(757,629)	-	(706,664)
Cumulative translation adjustments	-	-	-	-	-	(5,448,280)	-	-	-	(5,448,280)
Interest expense incurred from trust of shareholders of parent company	-	30,631	-	-	-	-	-	-	-	30,631
Balance, December 31, 2010	**$ 22,563,669**	**63,145,448**	**1,215,457**	**-**	**8,253,605**	**(5,250,188)**	**(16)**	**922,576**	**(9,322)**	**90,841,229**
Balance, January 1, 2011	$ 22,563,669	63,145,448	1,215,457	-	8,253,605	(5,250,188)	(16)	922,576	(9,322)	90,841,229
Equity held by investee	-	-	-	-	-	-	-	-	(9,472)	(9,472)
Employee compensation cost	-	49,513	-	-	-	-	-	-	-	49,513
Net income for the year ended December 31, 2011	-	-	-	-	111,365	-	-	-	-	111,365
Appropriations and distributions of 2010 earnings (Note 2):										
Legal reserve	-	-	621,144	-	(621,144)	-	-	-	-	-
Special reserve	-	-	-	4,327,629	(4,327,629)	-	-	-	-	-
Cash dividends	-	-	-	-	(3,271,731)	-	-	-	-	(3,271,731)
Adjustment arising from long-term equity investments	-	121,024	-	-	-	1,986,855	456	(873,640)	-	1,234,695
Cumulative translation adjustments	-	-	-	-	-	2,479,099	-	-	-	2,479,099
Interest expense incurred from trust of shareholders of parent company	-	149,511	-	-	-	-	-	-	-	149,511
Balance, December 31, 2011	**$ 22,563,669**	**63,465,496**	**1,836,601**	**4,327,629**	**144,466**	**(784,234)**	**440**	**48,936**	**(18,794)**	**91,584,209**

Note 1: The directors' and supervisors' remuneration of $60,290 and employees' bonuses of $1,205,797 had been deducted from net income for the year.
Note 2: The directors' and supervisors' remuneration of $12,000 and employees' bonuses of $127,000 had been deducted from net income for the year.

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31,	
	2011	2010
Cash flows from operating activities:		
Net income	$ 111,365	6,211,436
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	205,342	262,831
Amortization	471,361	654,549
Reversal of impairment loss	(28,450)	(9,647)
Reversal of allowance for uncollectable accounts	(25,999)	(47,666)
Reversal of contingent service cost	(259,509)	(126,000)
Provision (Reversal) for inventory market price decline and obsolescence, and impairment loss	(186,652)	58,888
Investment income under equity method	(1,516,472)	(2,458,713)
Cash dividends from investments under equity method	2,055,436	3,419,062
Loss (Gain) on disposal and retirement of assets, net	(10,491)	40,867
Unrealized (Realized) profit on intercompany transactions	47,231	(57,683)
Employee compensation cost	199,024	30,631
Change in assets and liabilities:		
Notes and accounts receivable	(68,773,813)	40,979,922
Other receivables	(9,624)	986,596
Inventories	(1,896,501)	3,288,512
Other current assets	(60,603)	3,723
Deferred income tax assets and liabilities, net	(45,641)	691,080
Notes and accounts payable	66,031,937	(38,814,292)
Accrued expenses	(4,259,795)	(4,309,920)
Other current liabilities	199,011	(358,656)
Other liabilities	-	(30)
Net cash provided by (used in) operating activities	(7,752,843)	10,445,490
Cash flows from investing activities:		
Increase in long-term investment under the equity method	(294,000)	(103,364)
Proceeds from disposal of long-term investment under the equity method	440,880	-
Purchase of property, plant and equipment	(127,179)	(75,374)
Proceeds from disposal of assets, idle assets, deferred charges	711,319	2,134
Increase in deferred charges	(288,617)	(241,604)
Decrease in other accounts receivable – Related parties	-	639,800
Purchase of intangible assets	(32,920)	(43,267)
Decrease (Increase) in other financial assets	(750)	244,723
Net cash provided by investing activities	408,733	423,048
Cash flows from financing activities:		
Increase (Decrease) in short-term loans	3,510,900	(357,855)
Increase in long-term loans	5,118,800	6,991,200
Decrease in long-term loans	-	(7,200,000)
Increase (Decrease) in other financial liabilities	(5,979)	493
Distribution of cash dividends	(3,271,731)	(4,000,594)
Repurchase of treasury stock	-	(1,006,862)
Shares of stock issued from reorganization	-	407
Net cash provided by (used in) financing activities	5,351,990	(5,573,211)
Net increase (decrease) in cash	(1,992,120)	5,295,327
Cash, beginning of the year	8,808,075	3,512,748
Cash, end of the year	**$ 6,815,955**	**8,808,075**
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest exclude interest capitalized	**$ 158,264**	**93,618**
Income tax	**$ 408,046**	**726**
Cash paid from acquisition of subsidiaries:		
Increase in long-term investment under the equity method	$ 416,935	**103,364**
Less: Accounts payable, end of the year	(122,935)	-
	$ 294,000	**103,364**

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 AND 2010
(Amounts Expressed in New Taiwan Dollars in Thousands,
Except for Per Share Information and Unless Otherwise Stated)

1. Organization and Business

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

The company's parent company**:** None

As of December 31, 2011 and 2010, the Company had 5,035 and 4,505 employees, respectively.

2. Summary of Significant Accounting Policies

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

a. Use of Estimates

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

b. Foreign Currency Translation

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

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

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

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

d. Asset Impairment

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

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

e. Financial Instruments

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

Financial instruments are classified into this category if the purpose of acquisition is principally for selling or repurchasing in the near term. All financial instruments that does not meet the criteria for hedge accounting is classified under this category. Financial instruments are measured at fair value at initial recognition. Transaction cost is charged to current expense. Subsequent to initial recognition, changes in fair value are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized using trade date accounting.

ii. Notes and Account receivables, and other receivables

Notes and accounts receivable are rights resulting from the sale of goods or the rendering of services. Other receivables are receivables arising from non-operating activities.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The asset impairment loss is determined based on difference between the asset's carrying amount and the present value of estimated future cash flows discounted by the financial asset's original effective interest rate. The carrying amount of the asset is reduced for impairment through the use of an allowance account. Impairment loss is recognized in profit or loss. In determining the amount of asset impairment, the collateralized financial asset and related insurance recoverable amount are included in calculating the present value of the estimated future cash flows.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date impairment is reversed. The amount of the reversal is recognized in profit or loss.

f. Notes and Accounts Receivable, and Allowance for Uncollectible Accounts

Allowance for uncollectible accounts is based on the aging analysis and results of the Company's evaluation of the collectability of outstanding receivable balances. Effective from January 1, 2011, the recognition, subsequent measurement and impairment of loans and receivables are accounted for in accordance with SFAS No. 34 "Accounting for the Financial Instruments: Recognition and Measurement."

g. Inventories

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

h. Long-Term Equity Investments (Including Joint Ventures)

Long-term equity investments in which the Company, directly or indirectly, owns 20% or more of the investee's voting shares, or less than 20% of the investee's voting shares but is able to exercise significant influence over the investee's operating and financial policies, are accounted for under the equity method.

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

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

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

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

i. Property, Plant, and Equipment, Rental Assets, Idle Assets, and Depreciation

Property, plant, and equipment are stated at cost. Interest expense incurred up to the time when the asset is ready for its intended use is capitalized as part of the acquisition cost. Major additions, improvements, and replacements are capitalized.

Depreciation is provided over the estimated economic lives using the straight-line method. Assets still in use at the end of their estimated useful lives are continuously depreciated based on their estimated remaining useful lives and estimated salvage values. Economic lives of major property and equipment are as follows:

Buildings and structures	5 to 50 years
Machinery and equipment	2 to 6 years
Warehousing equipment	8 years
Instrument equipment	2 to 3 years
Transportation equipment	1 to 5 years
Office equipment	5 years
Miscellaneous equipment	1 to 15 years

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

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

j. Intangible Assets

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

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

Computer software cost	3 to 5 years

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

k. Deferred Charges

The costs of renovation project and office decorations are deferred and amortized equally over 3 years, and the costs of molds and fixtures are deferred and amortized equally over 1 to 2 years.

l. Pension Plan

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

m. Warranty Reserve

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

n. Revenue and Cost Recognition

Revenue is recognized when title to the product and the risks and rewards of ownership are transferred to the customer; otherwise revenue recognition is deferred until these criteria are met. The related cost and expenses are recognized as the revenue is recognized. The expenses are recognized on accrual basis. Also, allowances for sales returns and discounts are estimated based on historical experience. Such allowances are recognized in the same period in which sales are made.

o. Classification of Capital and Operating Expenditures

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

p. Share-based payment transactions

The Company adopted SFAS No. 39, "Share-based Payment," for share-based payment arrangements with a grant date on or after January 1, 2008, and Interpretations (92) 070, 071 and 072 issued by ROC Accounting Research and Development Foundations (ARDF) for employee stock options that were granted before January 1, 2008.

i. An equity-settled share-based payment transaction is measured based on the fair value of the award at grant date, and recognized as expenses over the vesting period with a corresponding increase in equity. The vesting period is estimated based on the vesting conditions under the share-based payment arrangement. Vesting conditions include service conditions and performance conditions (including market conditions). In estimating the fair value of an equity-settled share-based award, only the effect of market conditions is taken into consideration.

ii. A cash-settled shared-based payment transaction is measured at the balance sheet date and the settlement date based on the fair value of the award as of those dates and is recorded as a liability incurred for the goods and services received. Changes in fair values are recognized in profit or loss for the period.

iii. The fair value of employee share options and similar instruments at grant date is estimated using the Black-Scholes option-pricing model, taking into account the exercise price, the current market price of the underlying shares, management's best estimation of the expected term, the expected volatility, the expected dividends, and the risk-free interest rate.

q. Employee Bonuses and Remuneration to Directors and Supervisors

Appropriations for employee bonuses and remuneration to directors and supervisors are accounted for in accordance with Interpretation (96) 052 issued by the ROC Accounting Research and Development Foundation. According to this Interpretation, the Company estimates the amount of employee bonuses and remuneration to directors and supervisors and recognizes it as expenses in the year when services are rendered. The differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized in profit or loss.

r. Commitments and Contingencies

If loss from a commitment or contingency is deemed highly likely and the amount can be reasonably estimated, then such loss is immediately recognized. Otherwise only the nature of such loss is disclosed in the notes to the financial statements.

s. Income Tax

In accordance with Statement of Financial Accounting Standards No. 22 (SFAS 22) "Income Taxes," income taxes are accounted for using the asset and liability method. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, loss carry forwards and investment tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly. The Company recalculates deferred income tax liabilities and deferred income tax assets based on newly modified effective tax rate, and reports the difference between newly calculated amount and the originally calculated one as current expense or benefit. Adjustments to prior years' income taxes are reported as current income taxes.

Deferred income tax assets or liabilities are classified as current and non-current in accordance with the nature of the related assets and liabilities or the length of time to their reversal.

Income taxes credits from purchase of equipment, technical research and development, and personnel training are recognized by the flow-through method.

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

t. Earnings per Share ("EPS")

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

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

u. Spin–Off Transactions

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

v. Treasury Stock

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

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

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

w. Operating Segments

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

x. Business Combinations

According to SFAS No.25 "Business Combination," the equity of the acquiring corporation in a business acquisition 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 statements of the acquired corporation, are measured based on 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. If the Company cannot get further information to identify and determine the fair value of assets acquired and liability assumed, the period for the allocation of the acquisition price is consummated.

3. Reasons for and Effect of Accounting Changes:

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

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

4. Summary of Major Accounts:

a. Cash

	December 31, 2011	December 31, 2010
Cash on hand	$ 50	-
Demand deposits	773,503	869,674
Foreign currency deposits	3,424,527	5,171,051
Foreign currency time deposits	1,967,875	2,767,350
Time deposits	650,000	-
Total	**$ 6,815,955**	**8,808,075**

b. Notes and Accounts Receivable — Non-related parties

	December 31, 2011	December 31, 2010
Notes receivable	$ -	262
Less: Allowance for uncollectible accounts	-	(3)
Net	-	259
Accounts receivable	40,788,850	7,734,368
Less: Allowance for uncollectible accounts	(17,604)	(43,600)
Less: Allowance for sales returns and discounts	(35,190)	-
Net	40,736,056	7,690,768
Total	**$ 40,736,056**	**7,691,027**

c. Inventories

	December 31, 2011	December 31, 2010
Merchandise (including inventory-in-transit)	$ 7,486,732	-
Less: Allowance for inventory market decline and obsolescence	(135,912)	-
Sub-total	7,350,820	-
Finished goods	254,019	3,516,640
Less: Allowance for inventory market decline and obsolescence	(4,719)	(85,565)
Sub-total	249,300	3,431,075
Work in process	70,921	338,461
Less: Allowance for inventory market decline and obsolescence	(21,665)	(31,913)
Sub-total	49,256	306,548
Raw materials	1,704,361	3,769,637
Less: Allowance for inventory market decline and obsolescence	(100,776)	(337,452)
Sub-total	1,603,585	3,432,185
Total	**$ 9,252,961**	**7,169,808**

For the years ended December 31, 2011 and 2010, the components of cost of goods sold were as follows:

	For the Years Ended December 31	
	2011	**2010**
Cost of goods sold	$ 366,552,380	287,134,112
Provision (Reversal) for inventory market price decline	(191,859)	24,434
Loss on inventory disposal and obsolescence	5,207	34,454
	$ 366,365,728	**287,193,000**

For the year ended December 31, 2011, the factors that previously caused inventories to be written down below cost had disappeared due to inventories disposal, so that the related allowance for loss on decline in the value of inventories was reversed, thus generated a reversal gain on inventory valuation allowance.

d. Long-Term Equity Investments

	December 31, 2011			December 31, 2010		
Name of Investee Company	Equity Holding	Book Value	Original Investment	Equity Holding	Book Value	Original Investment
PEGATRON HOLDING LTD.	100.00%	$ 29,398,324	24,238,150	100.00%	27,580,026	24,385,030
UNIHAN CORPORATION	100.00%	12,031,272	12,098,279	100.00%	11,997,517	12,098,279
ASUSPOWER INVESTMENT CO., LTD.	100.00%	14,031,301	13,033,429	100.00%	14,052,812	13,033,429
ASUS INVESTMENT CO., LTD.	100.00%	15,379,992	16,184,982	100.00%	14,759,695	16,184,982
ASUSTEK INVESTMENT CO., LTD	100.00%	14,281,002	14,593,543	100.00%	13,682,791	14,593,543
ADVANSUS CORP.	50.00%	243,069	166,364	50.00%	247,822	166,364
ASUS HOLLAND HOLDING B.V.	100.00%	1,383,843	1,276,436	92.45%	1,236,667	1,153,501
PEGATRON USA, INC.	100.00%	17,097	16,085	100.00%	16,264	16,085
		$ 86,765,900			**83,573,594**	

i. The investment income recognized under the equity method amounted to $1,516,472 and $2,458,713 for the years ended December 31, 2011 and 2010, respectively.

ii. For the year ended December 31, 2011, the Company was refunded for reduction in PEGATRON HOLDING LTD.'s share capital of $440,880.

iii. For the years ended December 31, 2011 and 2010, the Company received cash dividends of $2,055,436 and $3,419,062, respectively, from its investee companies accounted under equity method.

iv. For the purpose of restructuring the organization, the Company acquired 7.55% equity ownership of Asus Holland Holding (B.V.) from ASUS INVESTMENT CO., LTD. for $122,935 which is equal to the carrying value of ASUS INVESTMENT CO., LTD.'s long-term investment in Asus Holland Holding (B.V.).

v. For the years ended December 31, 2011 and 2010, the Company's shares held by its subsidiaries are treated as treasury stock in accordance with ROC SFAS 30 as described in Note (4)(j).

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

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

	December 31, 2011	December 31, 2010
Current Assets	$ 411,541	523,492
Non-current Assets	11,471	14,317
Current Liabilities	179,889	289,987

	For the Years Ended December 31	
	2011	2010
Revenues	$ 1,447,598	2,358,362
Expenses	1,416,366	2,302,139

e. Idle Assets

(i) In accordance with Statement of Financial Accounting Standards No. 35 (SFAS 35) "Accounting for Asset Impairment," the Company performed asset impairment test by comparing the recoverable amount with the carrying value of idle assets. Based on the results of such assessment, the Company recognized provisions for impairment loss of $8,038 and $36,487 as of December 31, 2011 and 2010, respectively.

(ii) For the years ended December 31, 2011 and 2010, the Company recognized a gain from impairment recovery of $28,450 and $9,647, respectively, and a gain (loss) on disposal of idle assets of $107,964 and $(6,784), respectively.

f. Short-Term Loans

Nature of the loan	December 31, 2011	December 31, 2010
Credit loan	**$ 6,176,100**	**2,665,200**
Range of interest rate	**0.70%~1.56%**	**0.40%~0.87%**

The Company issued promissory notes as guarantee for part of credit loan facility. The majority of the credit loan lines were used jointly by the Company and Unihan Corporation.

g. Long-Term Loans

Creditor	Types of Debt	Credit Line	Repayment Schedule	December 31, 2011	December 31, 2010
Citibank Taiwan and 14 other banks	Credit loan	**USD400,000,000**	2010.10.25~2015.10.25 Credit line is repayable in 5 semi-annual installments, commencing October 25, 2013.	**$ 12,110,000**	**$ 6,991,200**
				USD 240,000,000	**USD 240,000,000**

For the years ended December 31, 2011 and 2010, long-term loans bore interest at average rates of 1.0647% ~ 2.3256% and 0.8926% ~1.0647%, respectively. According to the agreement, during the loan repayment periods, the Company must comply with certain financial covenants based on the audited consolidated financial statements on the balance sheet date (June 30 and December 31) as follows:

(i) Current ratio (current assets/current liabilities): should not be less than 100%.

(ii) Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.

(iii) Interest coverage ratio (EBITDA/interest expense): should not be less than 400%.

(iv) Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than $90,000,000.

As the aforesaid covenants are breached, the syndicate banks will, depending on the circumstances, based on the majority decision of the syndicate banks, either suspend the subsequent credit usage or demand an immediate repayment.

As of December 31, 2011 and 2010, the Company were in compliance with the loan covenants mentioned above.

The Company's promissory notes were pledged as a guarantee for the credit loan facility as of December 31, 2011 and 2010.

h. Pension Plan

For the years ended December 31, 2011 and 2010, the pension costs for the defined contribution pension plan of the Company amounted to $179,349 and $147,364, respectively.

i. Income Tax

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

(ii) For the years ended December 31, 2011 and 2010, the components of income tax expense (benefit) were as follows:

	For the Years Ended December 31	
	2011	**2010**
Current income tax expense (benefit)	$ (58,102)	311,786
Deferred income tax expense	5,251	691,080
10% surtax on undistributed earnings	-	102,108
Income tax expense (benefit)	**$ (52,851)**	**1,104,974**

The components of deferred income tax expense were as follows:

	For the Years Ended December 31	
	2011	**2010**
Unrealized exchange gain	$ (188,884)	82,510
Reversal of allowance for loss on inventory market decline and obsolescence	32,616	(4,154)
Unrealized profits on sales	(8,029)	9,806
Amortization of employee benefits	17	17
Reversal of warranty reserve	44,117	113,813
Investment tax credits	249,252	(204,858)
Reversal of impairment loss on assets	4,836	1,640
Loss carry-forward	-	11,296
Unrealized foreign investment income	34,285	141,670
Effect on deferred tax of the change in statutory tax rate	-	12,960
Reversal of valuation on allowance for deferred tax assets	(162,959)	526,380
Deferred income tax expense	**$ 5,251**	**691,080**

(iii) The income tax calculated on pretax financial income at a statutory income tax rate was reconciled with the income tax expense (benefit) as reported in the accompanying financial statements for the years ended December 31, 2011 and 2010 as follows:

	For the Years Ended December 31	
	2011	**2010**
Income tax calculated on pre-tax financial income at statutory tax rate	$ 9,947	1,243,790
Permanent differences	(241,093)	(406,793)
10% surtax on undistributed earnings	-	102,108
Investment tax credits	85,203	103,198
Non deductable loss carry-forward	100,301	-
Effect on deferred tax of the change in statutory tax rate	-	12,960
Others	(7,209)	49,711
Income tax expense (benefit)	**$ (52,851)**	**1,104,974**

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

	December 31, 2011		December 31, 2010	
Temporary differences of deferred income tax assets (liabilities) - current	**Amount**	**Income Tax Effect**	**Amount**	**Income Tax Effect**
Unrealized foreign exchange loss (gain): taxable (deductible)	$ 409,543	69,622	(701,536)	(119,261)
Allowance for loss on inventory market decline and obsolescence: deductible	263,071	44,722	454,931	77,338
Deferred employee benefits for tax: deductible	100	17	100	17
Warranty reserve: deductible	46,339	7,878	305,848	51,994
Unrealized intercompany profits: deductible	57,611	9,794	10,380	1,764
Unused balance of investment tax credits: deductible	-	508,659	-	757,911
Valuation on allowance		(363,422)		(526,380)
Net deferred income tax assets		**$ 277,270**		**243,383**

Temporary differences of deferred income tax assets (liabilities) - noncurrent	December 31, 2011 Amount	December 31, 2011 Income Tax Effect	December 31, 2010 Amount	December 31, 2010 Income Tax Effect
Unrealized impairment loss on assets: deductible	$ 8,038	1,366	36,487	6,203
Deferred employee benefits for tax: deductible	-	-	100	17
Unrealized gain on foreign investments including cumulative translation adjustments: taxable	(1,325,062)	(225,261)	(1,123,388)	(190,976)
Reserve for foreign investment losses: taxable	(648,527)	(110,250)	(648,527)	(110,250)
Net deferred income tax assets (liabilities)		**$ (334,145)**		**(295,006)**

(v) The Company's tax returns through 2009 have been assessed and approved by the Tax Authority. However, the tax return for 2008 is still under review.

(vi) In accordance with Statute for Industrial Innovation, the Company is allowed to avail of tax credit from R&D expenditure, but this tax credit cannot exceed 30% of the business income tax paid in a given year. Pursuant to Statute for Upgrading Industries, the Company can credit up to 50% of the amount of funds invested for R&D expenditure against the amount of business income tax payable within five years commencing from the year subsequent to the tax credit application, however, such limit for the tax credit application shall not apply to the final year. The Company was granted investment tax credits from funds invested in equipment for automation of production, equipment for pollution control, R&D and personnel training, and newly emerging, important and strategic industries which are deemed tax credit under the statute. As of December 31, 2011, unused investment tax credits which may be applied to offset against income tax in the future were as follows:

Year of occurrence	Unused investment tax credits	Year of expiration
2008	$ 14,224	2013
2009	407,903	2014
2011	86,532	2011
	$ 508,659	

(vii) Due to the increase in its investments in new equipment, the Company was granted several income tax exemptions for its manufacturing and sales of "motherboard" out of the new equipment purchased from the proceeds of capital increase. As of December 31, 2011, the five year income tax exemption periods were as follows:

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

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

Undistributed earnings:		**December 31, 2011**	**December 31, 2010**
Accumulated in 1997 and prior years	$	-	-
Accumulated in 1998 and thereafter		144,466	8,253,605
Total	**$**	**144,466**	**8,253,605**
Stockholders' imputation tax credit account	**$**	**3,448**	**200,504**

	2011 (Expected)	**2010 (Actual)**
Expected or actual deductible tax ratio	**0.09%**	**9.32%**

j. Stockholders' Equity

(i) Capital Stock

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

In order to enhance own-brand business and boost productivity, the board of directors of ASUSTeK Computer Inc. (ASUSTek) resolved on December 11, 2009 but revised it on January 1, 2010, to spin-off or cede its OEM group (Pegatron Corporation (the Company)) to Pegatron International Investment Co., Ltd. (Pegatron Investment), which is being held by ASUSTeK. Pegatron Investment will issue new shares to ASUSTeK and all shareholders of ASUSTek, for which, ASUSTek and all other shareholders of ASUSTek will acquire 25%

ownership and 75% ownership, respectively, of the equity of Pegatron Investment. The record date of this spin-off is June 1, 2010. Following the spin-off, the Company merged with Pegatron Investment. The Company issued 10 thousands new shares, resulting in additional capital of $100. Thereafter, the total outstanding capital amounted to $22,860,639, divided into 2,286,064 thousand shares with par value of $10 per share.

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares valued at $296,970. As of December 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 both consisted of 2,256,367 thousand shares.

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

The Company may issue new GDRs with no more than 60,819,020 Pegatron common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines". As of December 31, 2011, the Company has listed, in total, 9,900 thousand units of GDR on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 shares, the Company has listed Company shares totaling 49,501 thousand shares. Major terms and conditions for GDRs were as follows:

1. Voting Rights

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

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

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

(ii) Share-based payment transactions

1. Information about share-based payment transaction as of December 31, 2011 were as follows:

	Employee Stock Option Plan
Grant date	July 1, 2011
Thousand units granted	40,679
Contractual life	3 years
Vesting period	2 years
Actual turnover rate of employees	7.9%
Estimated future turnover rate of employees	16.28%

The Company obtained the approval from the Financial Supervisory Commission and issued 50,000 units of Employee Stock Options with an exercisable right of 1,000 shares of the Company's common shares per unit on April 14, 2011. The Company will issue its own new common shares on settlement, and the exercise price of all stock options shall be equal to the closing price of the Company's common stock at grant date. The expected life of the stock options is estimated to be 3 years, and option granted to an employee shall not be transferable to any person. The employee shall forego his/her right to exercise the vested options after the expiry of the exercise period, the employee may no longer claim the right to exercise the option and purchase those shares. Except for the forfeiture of vested options, all stock options shall vest from the second year of the grant date, and the employees should exercise the right to apply for shares against the option vested in them in pursuance of the stock options.

2. The Company adopted the Black-Scholes model to calculate the fair value at grant date, and the assumptions were as follows:

	For the Year ended December 31, 2011
Exercise price (Note)	$ 30
Current market price	30
Expected dividend yield rate (Note)	- %
Expected volatility	37.0531%
Risk-free interest rate	1.0838%
Expected life of the option	3 years

Note: After the issuance of the employee stock option, if the Company increases its capital by surplus and/or capital reserve, the exercise price will be adjusted accordingly. Therefore, the expected dividend yield rate is excluded in calculating the fair value of the stock option.

3. The components of employee stock option plan and the weighted-average exercise price as of December 31, 2011 were as follows:

	For the Year ended December 31, 2011	
	Number of Exercisable Thousand Shares	**Weighted-average Exercise Price**
Balance, beginning of year	-	$ -
Granted	40,679	28.38
Exercised	-	-
Forfeited	3,031	-
Expired	-	-
Balance, end of year	37,648	28.38
Exercisable, end of year	**37,648**	
Weighted-average fair value of options granted	**7.9**	

The exercise price of share option outstanding as of December 31, 2011 was $28.38 with remaining contractual life of 1.50 years. The expenses incurred in share-based payment transactions amounted to $49,513 for the year ended December 31, 2011.

(iii) Legal reserve and capital surplus

In accordance with the ROC Company Law, as amended in January 2012 and the Company's Articles of Incorporation, 10% of the annual earnings (net of losses of prior years, if any) are retained as statutory reserve until the reserve equals the amount of the Company's paid-in capital. The distribution of remaining earnings, either as stock dividends or cash dividends, are subject to the approval of the Company's stockholders. However, the legal reserve appropriation from annual earnings can not exceed 25% of the Company's paid-in capital.

In accordance with the ROC Company Law, as amended in January 2012, capital surplus can not be distributed as dividends in cash or shares unless it offsets deficit. The realized capital surplus are included the reserves generated from donation and the excess of the issuance price over the par value of capital stock. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, when capital reserve is capitalized, the combined amount of any portions capitalized in any one year can not exceed 10 % of paid-in 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 $409,917 and $232,803 which were credited to capital surplus - others as of December 31, 2011 and 2010, respectively.

(iv) Treasury Stock

1. In accordance with Securities and Exchange Act, the number of treasury shares shall not exceed ten percent of the total number of issued and outstanding shares of the Company. Also, the total amount of treasury shares may not exceed the amount of retained earnings plus premium on capital stock plus realized capital reserve. The repurchased shares shall not exceed the amount of retained earnings plus premium on capital stock plus realized capital reserve. The repurchased shares held by the Company amounted to $1,006,862, divided into 29,697 thousand shares as of December 31, 2010 which conformed to Securities and Exchange Act. The number of shares the Company can repurchase from the active market is limited to up to 228,605 thousand shares amounting to $66,221,050 which is calculated according to financial reports for the latest accounting period prior to a resolution of a meeting of the board of directors.
2. In accordance with Securities and Exchange Act, treasury shares cannot be pledged. Also, treasury shares do no bear the shareholder's right prior to being sold to third parties.
3. As of December 31, 2011, the Company's shares held by its subsidiaries were 1,700 thousand shares amounting to $56,015 at fair value.

(v) Earnings Distribution and Dividend Policy

The Company's Articles of Incorporation require that after-tax earnings shall first be offset against any deficit, and 10% of the balance shall be set aside as legal reserve. The appropriation for legal reserve is discontinued when the balance of the legal reserve equals the total authorized capital. Aside from the aforesaid legal reserve, the Company may, under its Articles of Incorporation or as required by the government, appropriate for special reserve. The remaining balance of the earnings, if any, should be distributed as follows:

1. No less than 10% as employees' bonuses which are distributable in cash or shares of stock. In the event that the employee bonus is distributed in the form of stock, employees qualifying for such distribution may include the employees of subsidiaries of the Company who meet certain specific requirements. Such qualified employees and distribution ratio shall be decided by the Board of Directors.
2. Up to 1% as remuneration to directors and supervisors.
3. The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

Pursuant to the Regulations of Securities and Futures Bureau Commission, a special reserve is set aside from the current year's net income after tax and prior year's unappropriated earnings at an amount equal to net debit balance of other components of shareholders' equity such as the unrealized loss on financial instruments and cumulative translation adjustments. When the net debit balance in the shareholders' equity is reversed, the special reserve appropriated can be reversed.

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 June 24, 2011 and March 10, 2010, the Company's shareholders' meeting and the board' meeting on behalf of shareholders' meeting resolved to appropriate the 2010 and 2009 earnings. These earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

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

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 years ended December 31, 2011 and 2010, employee bonuses of $12,100 and $127,000, and directors' and supervisors' remuneration of $1,000 and $12,000, respectively, were estimated and recognized as current expenses. Differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are to be accounted for as changes in accounting estimates and recognized in profit or loss.

k. Earnings per Share (EPS)

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

(Note: shares in thousands)

	For the Years Ended December 31			
	2011		2010	
	Before income tax	After income tax	Before income tax	After income tax
Net income	$ 58,514	111,365	7,316,410	6,211,436
Weighted-average common shares outstanding	2,255,192	2,255,192	2,273,429	2,273,429
Dilutive potential common shares	7,981	7,981	7,821	7,821
Diluted shares	2,263,173	2,263,173	2,281,250	2,281,250
Primary earnings per share	$ 0.03	0.05	3.22	2.73
Diluted earnings per share	$ 0.03	0.05	3.21	2.72

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

	For the Years Ended December 31			
	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Net income	$ 58,514	111,365	7,316,410	6,211,436
Weighted-average outstanding shares	2,256,367	2,256,367	2,273,585	2,273,585
Earnings per share	$ 0.03	0.05	3.22	2.73

l. Financial Instruments

(i) Fair value of financial instruments

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

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

	December 31, 2011		December 31, 2010	
Financial Liabilities	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Bank loans	$ 12,110,000	12,110,000	6,991,200	6,991,200

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

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

(iii) Information on financial risks

1. Market risk

The Company's purchases and sales are denominated mainly in US dollars. Consequently, it is exposed to the current and future foreign currency risk that arises from cash flows of foreign currency assets and liabilities. However, the risks may be regarded as insignificant, because foreign currency losses from sales are subsequently offset by the foreign currency gain from purchases.

2. Credit risk

The primary potential credit risk is from financial instruments like cash, equity securities, and accounts receivable. However, the Company deposits cash in different financial institutions. Also, the Company manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk on cash and equity securities.

The Company only transacted with approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Company would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Company believes that there is no significant credit risk. In compliance with the Company's customer credit evaluation policies, the Company evaluates the customer's credibility and collectability of notes and account receivables regularly before doing business. Thus, management is not expecting any significant issue on uncollectible accounts.

The major customers of the Company are concentrated in the high-tech computer industry. As the customers of the Company have good credits and profit records, the Company evaluates the financial conditions of these customers continually to reduce credit risk from accounts receivable. Moreover, the Company periodically evaluates the customers' financial positions and the possibility of collecting trade receivables. Thus, management is not expecting any significant issue on credit risk.

3. Liquidity risk

The capital and working funds of the Company are sufficient to meet its entire contractual obligations; therefore, management is not expecting any significant issue on liquidity risk.

4. Cash flow and interest rate risk

The Company's interest rate risk arises from short-term and long-term loans bearing floating interest rates. Future cash flow will be affected by a change in market interest rate.

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

As of December 31, 2011 and 2010, guarantees and endorsements provided by the Company for bank loans obtained by related parties, were discussed in Note (5).

m. Others

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

	December 31, 2011			December 31, 2010		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	$3,853,347	30.275	16,660,080	1,730,048	29.130	50,396,298
Long-term Equity Investments						
USD	971,608	30.275	29,415,421	947,349	29.130	27,596,276
EUR	35,320	39.18	1,383,843	31,775	38.920	1,236,683
Financial Liabilities						
Monetary Items						
USD	4,042,144	30.275	122,375,910	1,721,985	29.130	50,161,423

5. Related-Party Transactions

a. Names and relationships of related parties with the Company

Name of Related Party	Relationship with the Company
ASUSTEK COMPUTER INC. (ASUSTEK)	An investor company that ceased to be a parent company effective May 31, 2010.
ASUS HOLLAND B.V.	An investee company accounted for under the equity method by ASUSTeK Computer Inc.
ASKEY COMPUTER CORP.(ASKEY)	〃
ASUS TECHNOLOGY INC.	〃
ASMEDIA TECHNOLOGY INC.	〃
ASUSTEK COMPUTER (SHANGHAI) CO., LTD.	〃
ASUS COMPUTER (SHANGHAI) CO., LTD.	〃
SHINEWAVE INTERNATIONAL INC.	〃
UNIMAX ELECTRONICS INC.	〃
ASUS COMPUTER INTERNATIONAL (ACI)	〃
AAEON TECHNOLOGY INC.	〃
AGAIT TECHNOLOGY CORP.	〃
ENERTRONIX, INC.	An investee company which became a wholly owned subsidiary of ASUSTeK following reorganization in July 2009.
ASHINE TECHNOLOGY (SUZHOU) LTD.	An investee company accounted for under the equity method by ASUSTeK Computer Inc.
ASKEY TECHNOLOGY (JIANG SU) LTD.	〃
POWTEK (SHANGHAI) CO., LTD. (POWTEK)	An investee company which became a wholly owned subsidiary of the company following reorganization in July 2009.
ASIAROCK TECHNOLOGY LTD.	An investee company accounted for under the equity method
ASUSPOWER CORP. (ASUSPOWER)	〃
PEGATRON CZECH S.R.O (PCZ)	〃
PEGATRON JAPAN INC. (PCJ)	〃
PEGATRON MEXICO, S.A. DE C.V.(PCM)	〃
PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	〃
PEGATRON USA, INC.	〃
ADVANSUS CORP. (ADVANSUS)	〃
ASROCK INC.	〃
ABILITY ENTERPRISE CO., LTD.	〃
PEGA INTERNATIONAL LTD.	〃
UNIHAN CORPORATION (UNIHAN)	〃

Name of Related Party	Relationship with the Company
AMA PRECISION INC.	An investee company accounted for under the equity method
CRYSTAL ART ENTERPRISE CO., LTD.	〃
STARLINK ELECTRONICS CORP.	〃
ASFLY TRAVEL SERVICE LTD.	〃
AZUREWAVE TECHNOLOGIES, INC.	〃
PROTEK (SHANGHAI) LTD. (PROTEK)	〃
SHANGHAI INDEED TECHNOGLY CO., LTD. (SHANGHAI INDEED)	〃
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD. (KAEDAR ELECTRONICS)	〃
GHING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	〃
MAINTEK COMPUTER (SUZHOU) CO., LTD. (MAINTEK)	〃
BOARDTEK COMPUTER (SUZHOU) CO., LTD.	〃
CASETEK COMPUTER (SUZHOU) CO., LTD. (CASETEK)	〃
AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD. (AVY)	〃
CORE-TEK (SHANGHAI) LTD.	〃
PEGAVISION CORP.	An investee company accounted for under the equity method by Kinsus Interconnect Technology Corp.
ASAP INTERNATIONAL CO., LTD.	An investee company accounted for under the equity method
RUNTOP(SHANGHAI) CO., LTD. (RUNTOP)	〃
UNITED NEW LTD.	〃
TOPTEK PRECISION INDUSTRY (SUZHOU) CO., LTD.	〃
LUMENS DIGITAL OPTICS INC.	〃
BLACKROCK MARYLAND INT'L CORP.	〃
HOLD JUMPER PACKING (SUZHOU) CO., LTD.	〃
HOLD JUMPER PACKING (SHANGHAI) CO., LTD.	〃
SUZHOU DELUXE PACKING PRODUCTION CO., LTD.	〃
COTEK ELECTRONICS (SUZHOU) CO., LTD.	〃
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	〃

Name of Related Party	Relationship with the Company
RI-KUAN METAL CORP.	An investee company accounted for under the equity method
VIEWQUEST TECHNOLOGIES (BVI) INC.	〃
GREEN PACKING LIMITED	〃
DIGITEK (CHONGQING) LTD.	〃
PEGATRON SERVICOS DE INFORMATICA LTDA.	〃
KINSUS INTERCONNECT CORP.	〃
ASUS INVESTMENT CO., LTD.	〃
PIOTEK (HK) TRADING LTD. (PIOTEK)	〃
KAEDAR TRADING LTD.	〃
HOLD JUMPER INTERNATIONAL CO., LTD.	〃
All directors, supervisors, general manager and vice president	The company management

b. Significant Transactions with Related Parties

(i) Sales

	For the Years Ended December 31					
	2011			2010		
Name of Related Party	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTEK	$ 168,460,748	45.32	Open account 60 days	207,982,648	69.85	Open account 60 days
PCZ	5,239,652	1.41	120 days from receipt of goods	5,694,792	1.91	120 days from receipt of goods
POWTEK	3,485,967	0.94	45 days from receipt of goods	2,933,277	0.99	45 days from receipt of goods
Others	718,062	0.19	30~90 days from receipt of goods Open account 30~90 days	1,703,020	0.57	30~90 days from receipt of goods Open account 30~90 days
Total	**$ 177,904,429**	**47.86**		**218,313,737**	**73.32**	

The collection term of third-party customer is L/C, T/T or 7 to 120 days from receipt of goods. For the years ended December 31, 2011 and 2010, the Company adjusted the double recording of sales to and purchases from related parties, which amounted to $309,257,679 and $186,242,785, respectively.

As of December 31, 2011 and 2010, unrealized profits from sales to related parties were $57,611 and $10,380, respectively.

(ii) Purchases

	For the Years Ended December 31					
	2011			2010		
Name of Related Party	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	$ 125,809,844	34.37	Open account 60 days	151,112,664	54.42	Open account 60 days
PROTEK	56,064,625	15.32	Open account 60 days	35,363,947	12.73	90 days from receipt of goods
Others	8,628,233	2.35	30~90 days from receipt of goods Open account 30~120 days	8,428,225	3.03	30~90 days from receipt of goods Open account 30~120 days
Total	**$ 190,502,702**	**52.04%**		**194,904,836**	**70.18%**	

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

For the years ended December 31, 2011 and 2010, the Company purchased raw materials from vendors through ASUSTek.

(iii) Others

	For the Years Ended December 31	
	2011	2010
(1) After-sales warranty repair expense paid to:		
PTSI	$ 106,908	206,018
PCZ	54,438	45,725
PCJ	16,531	18,872
ASUS COMPUTER (SHANGHAI) CO., LTD.	1,245	14,531
Others	1,236	10,112
Total	**$ 178,358**	**295,258**

		For the Years Ended December 31	
		2011	2010
(2) Processing fee paid to:			
ASUSPOWER	$	1,347,287	4,930,999
PCM		155,214	279,023
RUNTOP		47,325	24,252
Others		132	-
Total	**$**	**1,549,958**	**5,234,274**
(3) Other income from:			
ASUSTeK	$	527,204	598,238
UNIHAN		28,884	28,697
PCJ		26,119	47,843
Others		19,684	51,965
Total	**$**	**601,891**	**726,743**

(4) For the years ended December 31, 2011 and 2010, the Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, professional service fee, etc, amounting to $111,662 and $132,772, respectively.

(5) For the years ended December 31, 2011 and 2010, the Company incurred other related party transactions recorded as rental revenue, amounting to $56,048 and $52,533, respectively.

(6) For the years ended December 31, 2011 and 2010, the Company incurred other related party transactions recorded as non-operating expense, amounting to $31,779 and $22,750, respectively.

(7) For the years ended December 31, 2011 and 2010, the Company sold for $3,032 and $1,768 to other related party fixed assets with carrying value of $2,606 and $1,609, which resulted in gain on disposal of fixed assets of $426 and $159, respectively.

(iv) Accounts receivable (payable)

	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
Notes and Accounts Receivable:				
PROTEK	$ 53,627,766	48.11	24,247,523	56.84
ASUSTeK	9,116,587	8.18	8,646,081	20.27
MAINTEK	2,763,233	2.48	-	-
PCZ	2,616,432	2.35	1,281,826	3.01
DIGITEK (CHONGQING)	2,241,367	2.01	-	-
POWTEK	203,350	0.18	360,545	0.85
Others	107,408	0.10	385,385	0.90
Total	**$ 70,676,143**	**63.41**	**34,921,360**	**81.87**
Other Receivables:				
UNIHAN	$ 9,053	18.01	12,980	31.93
AMA	326	0.65	325	0.80
ASUSTeK	287	0.57	4,837	11.90
ADVANSUS	105	0.21	449	1.10
Others	71	0.14	3,183	8.94
Total	**$ 9,842**	**19.58**	**21,774**	**54.67**
Notes and Accounts Payable:				
PROTEK	$ 53,236,449	53.03	19,920,632	57.95
Others	4,703,161	4.69	1,982,998	5.77
Total	$ **57,939,610**	**57.72**	**21,903,630**	**63.72**
Accrued Expenses:				
ASUSPOWER	$ 2,274,830	38.64	6,667,741	64.55
ASUSTeK	396,675	6.74	181	-
PROTEK	362,841	6.16	283,746	2.75
PCM	359,402	6.10	343,320	3.32
Others	194,351	3.30	214,158	2.08
Total	$ **3,588,099**	**60.94**	**7,509,146**	**72.70**

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

	December 31, 2011	December 31, 2010
Assets:		
Prepayments	$ 75	-
Liabilities:		
Temporary receipts	$ 24,527	38,563

(v) Endorsement Guarantee

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

	Amount of Guarantee (thousands)	
Name of Related Party Guaranteed	December 31, 2011	December 31, 2010
ASUSPOWER	USD 80,000	USD 20,000
PCZ	USD 10,000	USD 10,000
PIOTEK	USD 49,000	USD 49,000
UNITED NEW LTD.	USD 20,000	
AVY	USD 75,000	
PROTEK	USD 200,000	
RI-TENG	USD 90,000	

As of December 31, 2011 and 2010, endorsement guarantees provided by a related party for the Company's purchases were as follows:

	Amount of Guarantee (thousands)	
Name of Related Party Guarantor	December 31, 2011	December 31, 2010
ASUSTeK	USD -	USD 300,000

(vi) Financing

As of December 31, 2011, the details of financing provided by the Company to a related party were as follows:

	December 31, 2010	
	Ending Balance	The Highest Balance
PCZ	$ -	643,300

The loan to PCZ bears annual interest of 1%.

(vii) Remuneration

For the years ended December 31, 2011 and 2010, the total remuneration paid to the members of Board of Directors and Supervisors and of Executive management were as follows:

	December 31, 2011	December 31, 2010
Salary and Bonus (including BODS remuneration)	$ 196,127	176,203
Employee Bonus	20,791	21,129
	$ 216,918	**197,332**

6. Pledged Assets

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

Asset	December 31 2011	December 31 2010	Purpose of pledge
Restricted deposits	$ 72,003	71,887	Deposits for customs duties
Refundable deposits	29,271	28,637	Deposits for performance guarantee
	$ 101,274	**100,524**	

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

(a) As of December 31, 2011 and 2010, the Company had unused letters of credit of EUR$ 267 and US$1,000, and EUR$ 267 and US$ 132, respectively.

(b) As of December 31, 2011 and 2010, the Company had promissory notes and certificate of deposit obtained for business purpose of $11,537 and $13,216, respectively.

(c) Rental expense and future lease commitments of the operating lease agreements were as follows:

Year	Rent expense	Future lease commitments 2012	2013	2014	2015
For the year ended December 31, 2011	**$ 85,879**	**81,229**	**28,562**	**1,000**	**-**

8. Significant Catastrophic Losses: None.

9. Significant Subsequent Events

(a) For the purpose of raising future working capital, the Company's Board of directors had approved the offering and the issuance of Overseas Unsecured Convertible Corporate Bonds on December 1, 2011, and the offering was approved by the Financial Supervisory Commission Executive Yuan on December 30, 2011.

The Company has completed the pricing of its Overseas Unsecured Convertible Corporate Bonds on January 30, 2012 and offered US$300,000 thousand dollars aggregate principle amount of Zero Coupon Convertible Bonds with the principle amount US$200 thousand dollars on February 6, 2012. These Convertible Bonds, with an initial conversion price of NT$42.11, will mature on February 5, 2017. Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on the Maturity Date at an amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on a semi-annual basis.

(b) In order to strengthen the cooperative relations of the Company and ADVANSUS CORP. (ADVANSUS), the Company coordinated with ADVANSUS and the other party of joint venture's resources integration, and the Company sold all its equity ownership in ADVANSUS to the other party of joint venture for $306,000 on January 5, 2012 and proposed to complete the equity settlement in June 2012.

10. Others

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

	For the Year Ended December 31, 2011			For the Year Ended December 31, 2010		
Categorized as Nature	**Operating Cost**	**Operating Expense**	**Total**	**Operating Cost**	**Operating Expense**	**Total**
Personnel expense						
Salary expense	689,436	3,526,462	4,215,898	634,605	3,226,513	3,861,118
Health and labor Insurance expense	51,656	241,016	292,672	47,375	187,781	235,156
Pension expense	30,848	149,395	180,243	29,008	118,356	147,364
Other expense	41,823	161,138	202,961	34,446	125,665	160,111
Depreciation expense (Note A)	38,055	155,600	193,655	51,223	190,557	241,780
Amortization expense	247,913	223,448	471,361	423,284	231,265	654,549

Note A: For the years ended December 31, 2011 and 2010, the Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle-assets, of $11,687 and $21,051, respectively.

b. Certain accounts in the financial statements as of and for the year ended December 31, 2010, were reclassified to conform to the presentation adopted in the financial statements as of and for the year ended December 31, 2011.

11. Financial Information by Segment

As segment information is disclosed in the Company's consolidated financial statements, the Company need not present such information in its stand-alone or individual financial statements.

(English Translation of Financial Report Originally Issued in Chinese)

AUDIT REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of

Pegatron Corporation

We have audited the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries (the "Consolidated Company") as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Consolidated Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of certain consolidated subsidiaries with total assets of NT$77,511,873 thousand and NT$75,268,389 thousand, representing 25.87% and 34.85% and net sales of NT$98,902,314 thousand and NT$105,254,946 thousand, representing 16.49% and 19.84% of the related consolidated total as of and for the years ended December 31, 2011 and 2010, respectively. Also, we did not audit the long-term investments in other companies amounted to NT$2,212,854 thousand and NT$2,086,553, representing 0.74% and 0.97% of consolidated total assets as of December 31, 2011 and 2010, respectively, and the related investment income thereon was NT$99,769 and NT$198,623, representing 2.11% and 1.53% of consolidated net income before tax for the year ended December 2011 and 2010, respectively. The financial statements of these subsidiaries and investees accounted for under the equity method were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, were based solely on the reports of other auditors.

We conducted our audits in accordance with "Regulation Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pegatron Corporation and its Subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and generally accepted accounting principles in the Republic of China.

KPMG
Taipei, Taiwan, R.O.C
March 19, 2012

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 audit 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. Also, please refer to the original Chinese version for the disclosure required that are not required under generally accepted accounting principles in the Republic of China were not translated into English.

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010
(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2011		December 31, 2010	
ASSETS	Amount	%	Amount	%
Current Assets:				
Cash (Note 4(1))	$ 50,453,433	17	42,264,007	20
Financial assets reported at fair value through profit or loss — current (Note 4(2))	6,417,685	2	6,377,118	3
Available-for-sale financial assets — current (Note 4(2))	454,752	-	765,417	-
Held-to-maturity financial assets—current (Note 4(2))	-	-	262,170	-
Notes receivable, net of allowance for uncollectible accounts (Note 4(3))	107,364	-	134,100	-
Accounts receivable, net of allowance for uncollectible accounts (Note 4(3))	74,487,890	25	43,330,542	20
Accounts receivable, net – Related parties (Note 5)	9,650,279	3	9,455,545	4
Other receivable – Non-related parties	2,206,862	1	1,051,593	-
Other receivable – Related parties (Note 5)	8,902	-	7,484	-
Other financial assets — current (Note 6)	108,521	-	1,341,807	1
Inventories (Notes 4(4))	65,716,440	22	42,067,753	19
Other current assets (Note 5)	5,030,018	2	2,192,599	3
Deferred income tax assets — current (Note 4(14))	1,251,515	-	687,953	-
	215,893,661	72	149,938,088	70
Investments:				
Available-for-sale financial assets— noncurrent (Note 4(2))	463,921	-	1,824,246	1
Financial assets carried at cost - noncurrent (Note 4(2))	740,309	-	763,763	-
Long-term investments under the equity method (Note 4(5))	2,463,241	1	2,471,100	1
	3,667,471	1	5,059,109	2
Other financial assets - noncurrent (Note 6)	297,990	-	273,349	-
Property, Plant and Equipment, at cost (Note 4(7))				
Land	4,423,075	1	5,272,587	2
Buildings	27,222,134	9	22,723,956	11
Machinery and equipment	52,479,094	18	44,150,061	21
Warehousing equipment	122,999	-	116,552	-
Instrument equipment	1,866,174	1	1,589,863	1
Transportation equipment	246,702	-	240,450	-
Office equipment	2,367,566	1	2,036,983	1
Miscellaneous equipment	12,076,404	4	7,083,942	3
	100,804,148	34	83,214,394	39
Less: Accumulated depreciation	(40,677,517)	(14)	(32,573,035)	(15)
Less: Accumulated impairment	(220,840)	-	(70,140)	-
Prepayments for equipment	10,609,146	4	2,531,514	1
	70,514,937	24	53,102,733	25
Intangible Assets				
Goodwill (Note 4(8))	1,898,499	1	885,682	-
Deferred pension costs	2,677	-	379	-
Land use rights (Note 4(8))	2,672,171	1	2,198,848	1
Other intangible assets	1,349,401	-	358,334	-
	5,922,748	2	3,443,243	1
Other Assets				
Deferred charges (Note 4(9))	2,075,803	1	2,442,013	1
Other assets — others (Note 4(7) and 4(9))	1,033,275	-	1,733,202	1
Deferred income tax assets — noncurrent (Note 4(14))	167,883	-	11,855	-
	3,276,961	1	4,187,070	2
TOTAL ASSETS	**$ 299,573,768**	**100**	**216,003,592**	**100**

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CON'T)

DECEMBER 31, 2011 AND 2010

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Short-term loan (Note 4(10))	$ 22,773,366	8	14,351,784	7
Short-term notes and bills payable	219,936	-	49,924	-
Financial liabilities at fair value through profit or loss — current (Note 4(2))	102,583	-	11,142	-
Notes payable	70,745	-	58,124	-
Accounts payable (Note 5)				
– Non-related parties	97,666,455	33	53,280,023	25
– Related parties	2,277,753	1	1,731,136	1
Income tax payable	1,868,242	1	2,046,517	1
Accrued expenses (Note 5)	13,366,177	4	9,004,836	4
Long-term loans payable — current portion(Note 4(12))	913,849	-	407,007	-
Other financial liabilities — current	7,796,062	2	1,563,074	-
Other current liabilities (Note 4(14) and 5)	4,435,878	1	4,600,138	2
	151,491,046	50	87,103,705	40
Long-Term Liabilities:				
Bonds payable (Note 4(11))	1,404,707	1	1,373,801	1
Long-term loans payable (Note 4(12))	27,353,419	9	10,143,380	5
Other financial liabilities — noncurrent	420,791	-	342,875	-
	29,178,917	10	11,860,056	6
Other Liabilities:				
Deferred income tax liabilities — noncurrent (Note 4(14))	653,861	-	363,703	-
Other liabilities— other (Note 4(13))	53,215	-	58,629	-
	707,076	-	422,332	-
Total Liabilities	181,377,039	60	99,386,093	46
Stockholders' Equity:				
Common stock (Note 4(15))	22,563,669	8	22,563,669	10
Capital surplus (Note 4(15))				
Premium on capital stock	60,393,247	20	60,393,247	28
Others	3,072,249	1	2,752,201	1
	63,465,496	21	63,145,448	29
Retained earnings (Note 4(15)):				
Legal reserve	1,836,601	1	1,215,457	1
Special reserve	4,327,629	1	-	-
Accumulated earnings (deficits)	144,466	-	8,253,605	4
	6,308,696	2	9,469,062	5
Other adjustments to stockholders' equity:				
Cumulative translation adjustments	(784,234)	-	(5,250,188)	(2)
Unrecognized past service cost	440	-	(16)	-
Unrealized gain on financial assets	48,936	-	922,576	-
Treasury Stock (Note 4(15))	(18,794)	-	(9,322)	-
	(753,652)	-	(4,336,950)	(2)
Total Parent Company's Equity	91,584,209	31	90,841,229	42
Minority interest	26,612,520	9	25,776,270	12
Total Stockholders' Equity	118,196,729	40	116,617,499	54
Commitments and Contingencies (Note 7)				
Significant Subsequent Events (Note 9)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 299,573,768**	**100**	**216,003,592**	**100**

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	For the Years Ended December 31,			
	2011		2010	
	Amount	%	Amount	%
Operating revenues (Note 5)	$ 607,194,959	101	$ 533,464,406	101
Less: Sales returns and allowances	7,252,253	1	2,933,055	1
Net sales	599,942,706	100	530,531,351	100
Cost of sales (Notes 4(4) and 5)	572,945,920	96	500,366,095	94
Gross profit	26,996,786	4	30,165,256	6
Operating expenses (Notes 5)				
Selling expenses	9,284,262	1	7,617,094	1
General and administrative expenses	6,890,483	1	5,671,517	1
Research and development expenses	9,908,933	2	8,182,704	2
	26,083,678	4	21,471,315	4
Income from operations	913,108	-	8,693,941	2
Non-operating income				
Interest revenue	543,690	-	182,606	-
Investment gain under the equity method (Note 4(5))	98,444	-	207,292	-
Dividend income (Note 4(2) and 4(5))	187,692	-	551,988	-
Gain on disposal of investments (Note 4(2))	840,181	-	758,002	-
Foreign exchange gain, net	1,675,222	-	999,131	-
Gain on valuation of financial asset (Note 4(2))	-	-	47,110	-
Others (Note 4(2) and 4(7))	2,026,340	1	2,654,607	1
	5,371,569	1	5,400,736	1
Non-operating expenses				
Interest expense	602,855	-	224,770	-
Impairment loss (Note 4(2), 4(7) and 4(9))	71,684	-	-	-
Loss on valuation of financial asset (Note 4(2))	161,543	-	-	-
Loss on valuation of financial liability (Note 4(2))	89,081	-	12,720	-
Others	632,122	-	886,843	-
	1,557,285	-	1,124,333	-
Income before income tax	4,727,392	1	12,970,344	3
Income tax expense (Note 4(14))	1,422,230	-	2,363,578	1
Consolidated net income	**$ 3,305,162**	**1**	**10,606,766**	**2**
Income attributable to :				
Parent's share of group net income	$ 111,365	-	6,211,436	1
Minority interest income	3,193,797	1	4,395,330	1
	$ 3,305,162	**1**	**10,606,766**	**2**
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
Earnings per share attributable to parent company (Note 4(17))				
Primary earnings per share	**$ 0.03**	**0.05**	**3.22**	**2.73**
Diluted earnings per share	**$ 0.03**	**0.05**	**3.21**	**2.72**

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

(English Translations of Financial Statements Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Expressed in Thousands of New Taiwan Dollars)

			Retained earnings			Other adjustments of stockholders' equity					
	Common stock	Capital surplus	Legal reserve	Special reserve	Accumulated earnings (deficits)	Cumulative translation adjustments	Unrecognized past service cost	Unrealized gain(loss) of financial assets	Treasury Stock	Minority interest	Total
Balance, January 1, 2010	$ 22,860,539	63,776,623	545,570	-	6,712,650	198,092	(3,202)	1,680,205	-	24,383,193	120,153,670
Issuance of new shares of stock resulting from reorganization	100	307	-	-	-	-	-	-	-	-	407
Repurchase of treasury stock	-	-	-	-	-	-	-	-	(1,006,862)	-	(1,006,862)
Retirement of treasury stock	(296,970)	(709,892)	-	-	-	-	-	-	1,006,862	-	-
Treasury held by minority interest	-	-	-	-	-	-	-	-	(9,322)	-	(9,322)
Consolidated income for the year ended December 31, 2010	-	-	-	-	6,211,436	-	-	-	-	4,395,330	10,606,766
Appropriations and distributions of 2010 earnings(NoteA)											
Legal reserve	-	-	669,887	-	(669,887)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(4,000,594)	-	-	-	-	-	(4,000,594)
Adjustment arising from long-term equity investments	-	47,779	-	-	-	-	3,186	(757,629)	-	-	(706,664)
Cumulative translation adjustments	-	-	-	-	-	(5,448,280)	-	-	-	(518,260)	(5,966,540)
Interest expense generated from trust of shareholders of parent company	-	30,631	-	-	-	-	-	-	-	-	30,631
Cash dividends from minority interest	-	-	-	-	-	-	-	-	-	(2,660,402)	(2,660,402)
Capital increase in cash of minority interest	-	-	-	-	-	-	-	-	-	355,674	355,674
Changes in interest of minority shareholders	-	-	-	-	-	-	-	-	-	(246,663)	(246,663)
Effect of consolidation of minority interest	-	-	-	-	-	-	-	-	-	67,398	67,398
Balance, December 31, 2010	22,563,669	63,145,448	1,215,457	-	8,253,605	(5,250,188)	(16)	922,576	(9,322)	25,776,270	116,617,499
Consolidated income for the year ended December 31, 2011	-	-	-	-	111,365	-	-	-	-	3,193,797	3,305,162
Appropriations and distributions of 2010 earnings(NoteB)											
Adjustment arising from long-term equity investments	-	121,024	-	-	-	1,986,855	456	(873,640)	-	-	1,234,695
Cumulative translation adjustments	-	-	-	-	-	2,479,099	-	-	-	533,777	3,012,876
Interest expense generated from trust of shareholders of parent company	-	149,511	-	-	-	-	-	-	-	-	149,511
Treasury held by minority interest	-	-	-	-	-	-	-	-	(9,472)	-	(9,472)
Employee compensation cost	-	49,513	-	-	-	-	-	-	-	-	49,513
Legal reserve	-	-	621,144	-	(621,144)	-	-	-	-	-	-
Special reserve	-	-	-	4,327,629	(4,327,629)	-	-	-	-	-	-
Cash dividends	-	-	-	-	(3,271,731)	-	-	-	-	-	(3,271,731)
Cash dividends from minority interest	-	-	-	-	-	-	-	-	-	(2,603,205)	(2,603,205)
Capital increase in cash of minority interest	-	-	-	-	-	-	-	-	-	368,830	368,830
Capital increase in repurchasing minority interest	-	-	-	-	-	-	-	-	-	(688,566)	(688,566)
Changes in interest of minority interest	-	-	-	-	-	-	-	-	-	286,149	286,149
Effect of consolidation of minority interest	-	-	-	-	-	-	-	-	-	(254,532)	(254,532)
Balance, December 31, 2011	**$ 22,563,669**	**63,465,496**	**1,836,601**	**4,327,629**	**144,466**	**(784,234)**	**440**	**48,936**	**(18,794)**	**26,612,520**	**118,196,729**

Note A: The directors' and supervisors' remuneration of $60,290 and employees' bonuses of $1,205,797 had been deducted from net income for the year.
Note B: The directors' and supervisors' remuneration of $12,000 and employees' bonuses of $127,000 had been deducted from net income for the year.

The accompany notes are an integral part of the consolidated financial statements

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31, 2011	2010
Cash flows from operating activities:		
Consolidated net income	$ 3,305,162	10,606,766
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	8,448,496	8,025,085
Amortization	2,514,081	2,329,104
Loss on inventory market price decline and obsolescence, and for impairment	3,732,669	122,429
Price adjustment and effect of exchange rate	249,590	-
Employee compensation cost	256,333	74,247
Investment gain under equity method	(98,444)	(207,292)
Cash dividends from investments under equity method	139,460	118,221
Loss on retirement of assets	146,832	259,998
Gain on disposal of investment	(840,181)	(758,002)
Unrealized gain or loss on financial assets and liabilities valuation	250,624	(34,390)
Decrease in loss on unrecognized pension cost	-	12,162
Impairment loss (gain)	71,684	(7,506)
Amortization of difference between investment cost and net value of equity (accounted under other losses)	60,718	-
Interest revenue offset against the cost of financial instruments	1,490	-
Amortization of discount on bonds payable	24,533	28,330
Change in assets and liabilities:		
Change in assets:		
Financial assets reported at fair value through profit or loss — current	(200,903)	1,007,528
Notes and accounts receivable	(25,350,400)	8,123,757
Other accounts receivable	(336,123)	(544,471)
Inventories	(24,913,255)	(623,346)
Other current assets	(2,461,199)	(476,933)
Deferred income tax asset and liability	(446,290)	287,538
Change in liabilities:		
Financial liabilities reported at fair value through profit or loss	1,413	-
Notes and accounts payable	37,395,103	(3,952,717)
Income tax payable	(349,494)	801,923
Accrued expenses	3,718,958	(2,400,547)
Other financial liabilities	1,151,372	1,465,025
Other current liabilities	(197,369)	(516,715)
Other liabilities — other	(5,556)	(756)
Net cash provided by operating activities	6,269,304	23,739,438
Cash flows from investing activities:		
Acquisition of financial assets available-for-sale	(274,233)	(703,929)
Proceeds from disposal of financial assets available-for-sale	2,098,307	367,488
Acquisition of financial assets held-to-maturity	(334,868)	(262,170)
Proceedf from disposal of financial assets held-to-maturity	326,497	-
Acquisition of financial assets carried at cost	(451,592)	(198,958)
Proceeds from disposal of financial assets carried at cost	157,403	25,883
Proceeds from capital reduction of financial assets carried at cost	-	50,400
Purchase of long-tem investments under the equity method	(688,566)	(335,404)
Proceeds from disposal of long-term investments under the equity method	117,505	283,329
Acquisition of subsidiaries	(4,828,216)	-
Purchase of property, plant and equipment	(15,921,966)	(10,729,319)
Proceeds from disposal of assets, idle assets and deferred charges	2,310,832	1,531,923
Increase in deferred expenses	(1,286,607)	(1,298,351)
Purchase of intangible assets	(279,075)	(80,923)
Other financial assets — noncurrent	(6,769)	194,530
Other financial assets — current	1,233,286	(1,145,680)
Other assets — other	21,086	7,739
Net cash used in investing activities	(17,806,976)	(12,293,442)

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31,	
	2011	2010
Cash flows from financing activities:		
Increase in short-term loans	7,836,286	3,472,745
Decrease (Increase) in short-term notes and bills payable	170,012	(9)
Increase in long-term loans	17,289,225	10,039,016
Decrease in long-term loans	(587,425)	(7,323,294)
Increase (Decrease) in other accounts payable — related parties	(200,000)	-
Increase in bonds payable	-	1,497,401
Increase in other financial liabilities — noncurrent	69,120	101,570
Distribution of cash dividend and remuneration of board of directors	(5,874,937)	(6,660,996)
Increase in cash capital (including minority equity)	464,557	356,080
Retirement of treasury stock	(9,472)	(1,006,862)
Net cash provided by financing activities	19,157,366	475,651
Foreign exchange rate effects	569,732	(1,336,393)
Effect of changes in certain subsidiaries	-	(167,527)
Net increase in cash	8,189,426	10,417,727
Cash, beginning of the year	42,264,007	31,846,280
Cash, end of the year	**$ 50,453,433**	**42,264,007**
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	**$ 508,546**	**179,115**
Income tax	**$ 2,194,192**	**1,400,182**
Non-cash investing and financing		
Current portion of long-term loans payable	**$ 913,849**	**$ 407,007**
Purchase of property and equipment with cash and other payables:		
Property, plant and equipment	$ 19,923,472	$ 11,100,609
Add: Other payables, beginning of the year	468,686	97,397
Add: Balance from subsidiary acquired	473,027	-
Less: Other payables, end of the year	(4,943,219)	(468,687)
Cash paid	$ 15,921,966	10,729,319
Cash received from disposal of equity investments in subsidiaries:		
Proceeds of disposal	$ 165,613	283,329
Less: cash balance from subsidiaries disposed	(48,108)	-
Cash received	117,505	283,329
Cash paid from acquisition of subsidiaries:		
Cash paid	$ 1,653,198	
Acquisition of non-monetary assets	11,357,182	
Goodwill arising from acquisition	979,698	
Liabilities	(7,466,549)	
Minority interest	(295,761)	
Proceeds paid during the period	6,227,768	
Less: Price adjustment and effect of exchange rate	253,646	
Less: Cash balance from subsidiaries acquired	(1,653,198)	
Cash paid	**$ 4,828,216**	

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 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 :

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

As of December 31, 2011 and 2010, the Company and its subsidiaries (the "Consolidated Company") had 112,318 and 104,608 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Company's financial statements were prepared in accordance with Guidelines Governing the Preparation of Financial Report by Securities Issuers and generally accepted accounting principles of the Republic of China. 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, in which the significant inter-company transactions were eliminated. As of December 31, 2011 and 2010, the consolidated subsidiaries were as follows:

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
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

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
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	12.36%	12.46%	Subsidiary has de facto control
Ability (TW)	ABILITY ENTERPRISE (BVI) CO., LTD. (ABILITY)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Ability (TW)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Ability (TW)	VIEWQUEST TECHNOLOGIES INTERNATIONAL INC.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Ability (TW)	ASSOCIATION INTERNATIONAL LTD.	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Ability (TW)	VIEWQUEST TECHNOLOGIES (BVI) INC. (VQ(BVI))	Manufacturing and trading computer peripherals, digital cameras and electronic components	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Ability (TW)	Ability International Investment Co., Ltd.(ABILITY INVESTMENT)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Ability (TW)	E-Pin Optical Industry Co. Ltd.(E-PIN)	Selling electronic components of optical products	53.01%	-	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
ABILITY	Ability Technology (Dongguan) Co., Ltd	Producing and selling digital cameras	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ABILITY	Jiujiang Viewquest Electronics Inc.	Producing and selling digital cameras	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ABILITY INVESTMENT	NOENA CORPORATION (NOENA)	Selling computer peripherals and optical products	-	80.00%	-
VQ(BVI)	VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD.	Producing and selling digital cameras	100.00%	-	Subsidiary directly owns over 50% of equity
E-PIN	E-PIN INTERNATIONAL TECH CO., LTD.	Manufacturing optical instruments	65.10%	-	Subsidiary directly owns over 50% of equity
E-PIN	E-PIN OPTICAL INDUSTRY CO., LTD.	Trading activities	100.00%	-	Subsidiary directly owns over 50% of equity
E-PIN	E-PIN OPTICAL INDUSTRY (M.) SDN. BHD.(Malaysia)	Manufacturing precision lenses	100.00%	-	Subsidiary directly owns over 50% of equity
E-PIN	ALL VISION TECHNOLOGY SDN. BHD.	Manufacturing precision lenses	100.00%	-	Subsidiary directly owns over 50% of equity
E-PIN	ALL VISION HOLDING LTD. (AV)	Investing activities	100.00%	-	Subsidiary directly owns over 50% of equity
AV	EVERLIGHT DEVELOPMENT CORPORATION (ED)	Investing activities	100.00%	-	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
AV	E-SKY HOLDING LTD. (ES)	Investing activities	73.04%	-	Subsidiary directly owns over 50% of equity
ED	WEIHAI E-SKY OPTICAL-ELECTRICAL CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	-	Subsidiary directly owns over 50% of equity
ED	NANJING CHANGMING PHOTOELECTRIC TECHNOLOGY CO., LTD.	Manufacturing and developing precision optical lenses	55.45%	-	Subsidiary directly owns over 50% of equity
ES	ZHONGSHAN SANXIN PRECISION INDUSTRY CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	-	Subsidiary directly owns over 50% of equity
ES	NANJING E-PIN OPTOTECH CO., LTD.	Manufacturing and developing precision optical lenses	72.22%	-	Subsidiary directly owns over 50% of equity
UNIHAN	Unihan Holding Ltd. (Unihan Holding)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Unihan Holding	CASETEK HOLDINGS LIMITED (CASETEK HOLDING)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
CASETEK HOLDING	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
CASETEK HOLDING	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00%	100.00%	Subsidiary directly owns over 50% of equity
CASETEK HOLDING	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDING)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
CASETEK HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KAEDAR HOLDING	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00%	100.00%	Subsidiary directly owns over 50% of equity
CASETEK HOLDING	KAEDAR TRADING LTD.	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
CASETEK HOLDING	CORE-TEK (SHANGHAI) LIMITED	Researching and producing the spare parts of notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00%	100.00%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
CASETEK HOLDING	APLUS PRECISION LTD. (APLUS)	Investing and trading activities	-	51.00%	Note B
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	38.65%	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%	Subsidiary directly owns over 50% of equity
HANNEX	SCIENTEK. NANJING CO., LTD.	Designing, manufacturing and selling computer products	100.00%	100.00%	Subsidiary directly owns over 50% of equity
EMINENT	JADE TECHNOLOGIES LIMITED (JADE)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
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
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AZURE WAVE	AZWAVE HOLDING (SAMOA) INC. (AZWAVE SAMOA)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
AZWAVE SAMOA	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and selling computer products	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AZWAVE SAMOA	AZURE LIGHTING TECHNOLOGIES, INC (YANGZHOU)	Manufacturing electronic parts	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AZWAVE SAMOA	AIGALE CORPORATION (SHANGHAI)	Developing, designing and selling communication equipment and electronic products	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00%	100.00%	Subsidiary directly owns over 50% of equity
UNIHAN	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AMA PRECISION	AMA TECHNOLOGY CORPORATION	Trading computer peripherals	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AMA PRECISION	AMA HOLDINGS LIMITED (AMA)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AMA	METAL TRADINGS LTD.(METAL)	Trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
METAL	FENGSHUO TRADING (TONGZHOU) CO., LTD.	Trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
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%	Subsidiary directly owns over 50% of equity
AMA	TOPTEK PRECISION LNDUSTRY(SUZHOU) CO., LTD	Manufacturing and selling new electronic parts and premium hardware	100.00%	100.00%	Subsidiary directly owns over 50% of equity
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%	Subsidiary 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%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
PEGATRON HOLDING, KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing and holding activities	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
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%	Subsidiary directly owns over 50% of equity
PIOTEK HOLDING	PIOTEK (H.K) TRADING LIMITED	Trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PEGATRON HOLDING	ASLINK PRECISION CO., LTD (ASLINK)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASLINK	ASLINK (H.K.) PRECISION CO., LIMITED	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASLINK	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%	-

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
DIGITEK	DIGITEK (CHONGQING) LTD.	Manufacturing, developing, and selling GPS, computer electronic devices, and after-sales services	100.00%	-	Subsidiary directly owns over 50% of equity
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
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%	Subsidiary directly owns over 50% of equity
PEGATRON HOLDING	NORTH TEC ASIA LIMITED (NORTH)	Investing and trading activities	-	-	-
PROTEK AND NORTH	PROTEK (SHANGHAI) LIMITED	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
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%	Subsidiary directly owns over 50% of equity
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00%	100.00%	Subsidiary directly owns over 50% of equity
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
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%	Subsidiary directly owns over 50% of equity
ASIAROCK	ASROCK EUROPE B.V.	Database service and trading electronic components	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASIAROCK	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing and holding activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Leader	Firstplace International Ltd. (Firstplace)	Investing and holding activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Firstplace	ASROCK America., Inc.	Database service and trading electronic components	100.00%	100.00%	Subsidiary directly owns over 50% of equity
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

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
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%	Subsidiary directly owns over 50% of equity
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	Subsidiary directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	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 owns over 50% of equity
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED (CAYMAN) (CASETEK CAYMAN)	Investing activities	100.00%	-	Subsidiary directly owns over 50% of equity
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00%	-	Subsidiary directly owns over 50% of equity
CASETEK CAYMAN	RIH KUAN METAL CORPORATION (RIH KUAN)	Manufacturing iron and aluminum products	100.00%	-	Subsidiary directly owns over 50% of equity
CASETEK CAYMAN	APLUS PRECISION (CAYMAN) LIMITED (APLUS)	Investing and trading activities	100.00%	-	Subsidiary directly owns over 50% of equity
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00%	-	Subsidiary directly owns over 50% of equity
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
UNITED	AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	100.00%	Subsidiary directly owns over 50% of equity
RIH LI	GLOBAL EXPERT LIMITED	Trading activities	-	-	Note C
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	Manufacturing and selling electronic components	100.00%	-	Subsidiary directly owns over 50% of equity
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Manufacturing and selling electronic components	100.00%	-	Subsidiary directly owns over 50% of equity
RIH LI	RI-MING (SHANGHAI) CO.,LTD.	Manufacturing and selling electronic components	100.00%	-	Subsidiary directly owns over 50% of equity
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Manufacturing and selling electronic components	100.00%	-	Subsidiary directly owns over 50% of equity
STARLINK	STRATEGY Technology Co., Ltd.	Investing and trading activities	-	-	-
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.	Maintenance service	100.00%	-	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00%	-	Subsidiary directly owns over 50% of equity
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens Optics)	Developing, manufacturing and selling computer data projectors and related peripherals	56.52%	56.52%	Subsidiary directly owns over 50% of equity
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Lumens Optics	Lumens Digital Image Inc.(SAMOA) (Lumens)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Lumens	Lumens (Suzhou) Digital Image Inc.	Developing, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Lumens Optics	Lumens Europe BVBA	Selling computer communication products and peripherals	100.00%	100.00%	Subsidiary directly owns over 50% of equity

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
Lumens Optics	Jie Xin Inc.	Manufacturing and wholesaling electronic parts	94.00%	94.00%	Subsidiary directly owns over 50% of equity
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
The Company	ADVANSUS CORP.	Manufacturing computer peripherals	50.00%	50.00%	The Company directly owns over 50% of equity (Note A)
The Company	PEGATRON USA, INC.	Sales and repair service center in North America	100.00%	100.00%	The Company directly owns over 50% of equity

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

Note B: For the year 2010, CASETEK HOLDING LIMITED (CASETEK HOLDINGS) acquired 51% of total issued shares of APLUS PRECISION ("APLUS") in exchange of its long-term equity investment. In April 2011, CASETEK HOLDINGS acquired another 19% of total issued shares of APLUS from Avy Precision Technology Inc. for US$10,280,900, which increased its total equity ownership in APLUS to 70%. Also, CASETEK HOLDINGS sold its equity ownership of APLUS at book value to CASETEK HOLDINGS LIMITED (CAYMAN), a subsidiary of the Company, due to the Group's organizational restructuring in June 2011.

Note C: GLOBAL EXPERT LTD. was liquidated in November 2011.

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

1. PEGATRON TECHNOLOGY SERVICE INC. established PEGATRON SERVICO DE INFORMATICA LTDA. and invested US$650 thousand in exchange for its 100% equity ownership in November 2010.

2. In January 2011, ASUSPOWER CORPORATION acquired 100% equity ownership of CASETEK HOLDING LIMITED (CAYMAN) for US$95,000 thousand. Following its acquisition of equity ownership for US$201,205 thousand, ASUSPOWER CORPORATION obtained control over RIH LI International Limited (Samoa) and its subsidiaries GLOBAL EXPERT LIMITED, RI-TENG SHANGHAI and RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD. through CASETEK HOLDING LIMITED (CAYMAN).

3. For the year ended December 31, 2011, Asuspower Investment Co., Ltd., Asus Investment Co., Ltd. and Asustek Investment Co., Ltd. has established and invested US$5,000 thousand, US$10,000 thousand, NT$300,000 thousand and US$1,000 thousand in SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LTD. and RI-MING (SHANGHAI) CO., LTD. in Mainland China and RI-KUAN METAL CORPORATION AND MEGA MERIT LIMITED in Taiwan through ASUSPOWER CORPORATION, respectively. Asuspower Investment Co., Ltd., Asus Investment Co., Ltd. and Asustek Investment Co., Ltd. thus acquired 100% equity ownership of the aforesaid newly established subsidiaries.

4. For the year ended December 31, 2011, Ability Enterprise Co., Ltd. has invested and established VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. in Mainland China through VIEWQUEST TECHNOLOGIES (BVI) INC. Ability Enterprise Co., Ltd. acquired 100% equity ownership of VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. for US$3,300 thousand.

5. Ability (TW) invested NT$40,000 in exchange for an 80% equity ownership of a newly established company named, NOENA CORPORATION (NOENA). In April 2011, Ability (TW) has sold its entire equity ownership in NOENA CORPORATION to a non-related party. Furthermore, Ability (TW) invested and acquired 100% of the equity ownership of Jiujing Viewquest Electronics Inc. through a third party.

6. For the year ended December 31, 2011, the Company has established and invested DIGITEK (CHONGQING) LTD. in Mainland China through DIGITEK GLOBAL HOLDINGS LIMITED. The Company acquired 100% equity ownership of DIGITEK (CHONGQING) LTD. for US$10,000 thousand.

7. For the year ended December 31, 2011, Ability (TW) acquired the 52.24% and 0.77% equity ownership of E-PIN from non-related parties and related parties for $366,664 and $2,549, respectively. Following the acquisition, Ability(TW) obtained control over E-Pin Optical Industry Co. Ltd. and its subsidiaries.

8. In December 2011, Asuspower Investment Co., Ltd. has invested and established Pegatron Logistic Services Inc. for US$1,000, and directly owned 100% equity of the aforesaid subsidiary.

9. Due to organization restructuring, Asus Investment Co., Ltd. sold its 7.55% equity ownership of AHH to the Company in December 2011. Thus, the Company held 100% equity ownership of AHH as of December 31, 2011.

According to SFAS No. 7 "Consolidated Financial Statements," if the Consolidated Company has the ability to control the entities described above, those entities are treated as subsidiaries and are included in the 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 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 38.65%, 12.36% and 39.00%, respectively, or less than 50% of their total issued shares because the Consolidated Company has acquired more than 50% of voting shares of each of these entities and has the ability to excise control over their respective board of directors.

d. Subsidiaries excluded from consolidation

1. 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 commencing from March 26, 2010.

2. In 2010, NORTH TEC ASIA LIMITED, an investee company wholly owned by Pegatron Holding, merged with PROTEK GLOBAL HOLDING LTD., with PROTEK GLOBAL HOLDING LTD. as the surviving entity from such merger.

3. 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

PRECITION'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 PRECISION CO., LTD. and ASAP TECHNOLOGY (JIANGXI) CO., LTD.

According to SFAS No. 7 "Consolidated Financial Statements," if the Consolidated Company has lost its ability to control the 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) Use of Estimates

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

(3) Foreign Currency and Financial Report Translation

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

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

(4) Basis for Classifying Assets and Liabilities as Current or Non-Current

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

(5) Assets Impairment

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

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

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

(6) Cash and Cash Equivalents

Cash and cash equivalents are cash, bank deposit, and highly liquid short-term investment which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes resulting from fluctuations in interest rates.

(7) Financial Instruments

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

Financial instruments are classified into this category if the purpose of acquisition is principally for selling or repurchasing in the near term. All financial instruments that do not meet the criteria for hedge accounting are classified uner this category. Financial instruments are measured at fair value at initial recognition. Transaction cost is charged to current expense. Subsequent to initial recognition, changes in fair value are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized using trade-date accounting.

b. Available-for-sale financial assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Available-for-sale financial assets are subsequently 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. Held-to-maturity financial assets

Held-to-maturity financial assets are financial instruments that the Consolidated Company has the positive intention and ability to hold to maturity. At initial recognition, held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, held-to-maturity financial assets are carried at amortized cost. Profit or loss is recognized when these financial assets are derecognized, impaired, or amortized. Acquisition or sale of these financial assets is measured using trade-date accounting.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

d. Financial assets carried at cost

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

e. Notes and Account receivables, and other receivables

Notes and Account receivable are rights resulting from the sale of goods or rendering of services. Other receivables are receivables arising from non-operating activities.

The Consolidated Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The asset impairment loss is determined based on difference between the assets carrying amount and the present value of estimated future cash flows discounted by the financial asset's original effective interest rate. The carrying amount of the assets is reduced for impairment through the use of an allowance account. Impairment loss is recognized in profit or loss. In determining the amount of asset impairment, the collateralized financial asset and related insurance recoverable amount are included in calculating the present value of the estimated future cash flows.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

f. Financial liabilities reported at fair value through profit or loss

Financial instruments are classified into this category if the purpose of acquisition is principally for selling or repurchasing in the near term. All financial instruments that do not meet the criteria for hedge accounting are classified under this category. Financial instruments are measured at fair value at initial recognition. Transaction cost is charged to current expense. Subsequent to initial recognition, changes in fair value are recognized in profit or loss.

g. Short-term notes payable

Short-term notes payable are carried at their present value, and discounts on notes payable are treated as contra accounts to short-term notes payable.

(8) Notes and Accounts Receivable, and Allowance for Uncollectible Accounts

Allowance for uncollectible accounts is based on the aging analysis and results of the Consolidated Company's evaluation of the collectability of outstanding receivable balances. Effective from January 1, 2011, the recognition, subsequent measurement and impairment of loans and receivables are accounted for in accordance with SFAS No. 34 "Accounting for the Financial Instruments: Recognition and Measurement."

(9) Inventories

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

(10) Long-Term Investments at Equity (Including Joint Ventures)

Long-term equity investments in which the Consolidated Company, directly or indirectly, owns 20% or more of the investee's voting shares, or less than 20% of the investee's voting shares but is able to exercise significant influence over the investee's operating and financial policies, are accounted for under the equity method.

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

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

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

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

(11) Property, Plant, and Equipment, Rental Assets, Idle Assets, and Depreciation

Property, plant, and equipment are stated at cost. Interest expense incurred up to the time when the asset is ready for its intended use is capitalized as part of the acquisition cost. Major additions, improvements, and replacements are capitalized.

Depreciation is provided over the estimated economic lives using the straight-line method. Assets still in use at the end of their estimated useful lives are continuously depreciated based on their estimated remaining useful lives and estimated salvage values. Economic lives of major property and equipment are as follows:

Buildings and structures	3 to 60 years
Machinery and equipment	2 to 10 years
Warehousing equipment	5 to 15 years
Instrument equipment	2 to 5 years
Transportation equipment	1 to 20 years
Office equipment	1 to 20 years
Miscellaneous equipment	1 to 20 years

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

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

(12) Intangible Assets

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

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

Computer software cost	1 to 10 years
Trademark rights	5 years
Patents	2 to 5 years
Land usage rights	45 to 50 years
Customer relationship	3 years
Technology	3 years
Development	5 years

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

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

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

(13) Deferred Charges

The costs of renovation project, molds, fixtures and office decorations are deferred and amortized equally over 3 months to 10 years.

(14) Bonds Payable

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

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

a. The difference between the issue price and face value of bonds payable is accounted for as premium or discount which is amortized over the period from the date of issuance to maturity date using the interest method or straight-line method and the amortized amount is recorded as "interest expense". However, the straight-line method is used if the results are not materially different than those resulting from the interest method.

b. The value of any derivative features (such as a call option and put option) embedded in a compound financial instrument is recognized as "financial assets and financial liabilities at fair value through profit or loss." At the maturity of redemption period, if the fair value of common stock exceeds the redemption price, the fair value of the derivative is recognized as "capital surplus;" however if the fair value of common stock is lower than the redemption price, the fair value of the derivative is recognized as "gain or loss."

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

d. Costs incurred on issuance of convertible bonds are proportionately charged to the liability and equity components of the underlying instruments based on initial recognition costs.

(15) Pension Plan

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

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

The Consolidated Company adopted a defined contribution pension plan according to the regulations of their respective jurisdiction and recognize pension contributions as current expenses when the service is rendered. According to the regulations of the Peoples Republic of China government, the subsidiaries in mainland China contribute basic retirement insurance fees equal to the legal percentages of employee's salary and recognize these fees as current expenses on accrual basis.

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

(16) Warranty Reserve

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

(17) Revenue and Cost Recognition

Revenue is recognized when title to the product and the risks and rewards of ownership are transferred to the customer; otherwise revenue recognition is deferred until these criteria are met. The related cost and expenses are recognized as the revenue is recognized. The expenses are recognized on accrual basis. Also, allowances for sales returns and discounts are estimated based on historical experience. Such allowances are recognized in the same period in which sales are made.

(18) Classification of Capital and Operating Expenditures

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

(19) Employee Stock Option

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

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

(20) Share-based payment transactions

The Consolidated Company adopted SFAS No. 39, "Share-based Payment," for share-based payment arrangements with a grant date on or after January 1, 2008, and Interpretations (92) 070, 071 and 072 issued by ROC Accounting Research and Development Foundations (ARDF) for employee stock options that were granted before January 1, 2008.

i. An equity-settled share-based payment transaction is measured based on the fair value of the award at grant date, and recognized as expenses over the vesting period with a corresponding increase in equity. The vesting period is estimated based on the vesting conditions under the share-based payment arrangement. Vesting conditions include service conditions and performance conditions (including market conditions). In estimating the fair value of an equity-settled share-based award, only the effect of market conditions is taken into consideration.

ii. A cash-settled shared-based payment transaction is measured at the balance sheet date and the settlement date based on the fair value of the award as of those dates and is recorded as a liability incurred for the goods and services received. Changes in fair values are recognized in profit or loss for the period.

iii. The fair value of employee share options and similar instruments at grant date is estimated using the Black-Scholes option-pricing model, taking into account the exercise price, the current market price of the underlying shares, management's best estimation of the expected term, the expected volatility, the expected dividends, and the risk-free interest rate.

iv. According to SFAS No. 39 "Share-based Payment", the Consolidated Company did not need to apply SFAS No. 39 retroactively to the share-based payments that were granted before January 1, 2008; however, the pro forma net income and net income per share should be disclosed.

(21) Employee Bonuses and Remuneration to Directors and Supervisors

Appropriations for employee bonuses and remuneration to directors and supervisors are accounted for in accordance with Interpretation (96) 052 issued by the ROC Accounting Research and Development Foundation. According to this Interpretation, the Consolidated Company estimates the amount of employee bonuses and remuneration to directors and supervisors and recognizes it as expenses in the year when services are rendered. The differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized in profit or loss.

(22) Treasury Stock

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

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

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

(23) Income Tax

In accordance with Statement of Financial Accounting Standards No. 22 (SFAS 22) "Income Taxes", income taxes are accounted for using the asset and liability method. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, loss carry forwards and investment tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly. The Consolidated Company recalculates deferred income tax liabilities and deferred income tax assets based on newly modified effective tax rate, and reports the difference between newly calculated amount and the originally calculated one as current expense or benefit. Adjustments to prior years' income taxes are reported as current income taxes.

Deferred income tax assets or liabilities are classified as current and non-current in accordance with the nature of the related assets and liabilities or the length of time to their reversal.

Income taxes credits from purchase of equipment, technical research and development, and personnel training are recognized by the flow-through method.

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

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

(24) Commitments and Contingencies

If loss from a commitment or contingency is deemed highly likely and the amount can be reasonably estimated, then such loss is immediately recognized. Otherwise only the nature of such loss is disclosed in the notes to the financial statements.

(25) Earnings per Share ("EPS")

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

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

(26) Spin–Off Transactions

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

(27) Business Combinations

According to SFAS No. 25 "Business Combination," the equity of the acquiring corporation in a business combination 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 statements of the acquired corporation, are measured based on 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. If the Consolidated Company cannot get further information to identify and determine the fair value of assets acquired and liability assumed, the allocation period of the acquisition price is consummated.

(24) 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

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 net income for the year ended December 31, 2011.

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 year ended December 31, 2011.

4. Summary of Major Accounts

(1)Cash and Cash Equivalents

a.

	December 31, 2011	December 31, 2010
Cash on hand	$ 29,797	23,068
Demand deposits	20,216,877	21,551,078
Time deposits	29,616,259	20,689,861
Cash Equivalents — RP Bonds	590,500	-
Total	**$ 50,453,433**	**42,264,007**

b. The aforesaid RP Bonds' redemption period is from January 2, 2012 to February 2, 2012 and bear interest at annual rates ranging from 0.62% ~ 0.63%.

c. The aforesaid cash and cash equivalents were not pledged as collateral. Pledged time deposits were accounted for under other current assets.

(2) Financial Instruments

a. The components of financial instruments were as follows:

	December 31, 2011	December 31, 2010
Financial assets reported at fair value through profit or loss — current:		
Financial assets held-for-trading - current		
Stock of listed companies	$ 739,571	257,800
Beneficiary certificates	5,639,583	5,547,942
Forward exchange contracts and others	2,085	-
Option exchange	4,496	-
Foreign exchange swap contracts	135	18,049
Depositary receipts	-	24,155
Corporate bonds	31,815	529,172
	$ 6,417,685	**6,377,118**
Available-for-sale financial assets — current:		
Stock of listed companies	$ 40,015	-
Stock of overseas listed companies	414,737	765,417
Total	**$ 454,752**	**765,417**

		December 31, 2011	December 31, 2010
Available-for-sale financial assets — noncurrent:			
Stock of listed companies	$	463,921	1,359,938
Stock of overseas listed companies		-	464,308
Total	**$**	**463,921**	**1,824,246**
Held-to-maturity financial assets — current:			
Corporate bonds	**$**	**-**	**262,170**
Financial assets carried at cost — noncurrent:			
Equity securities – common stock	$	414,729	628,655
Equity securities – preferred stock		325,580	35,108
Corporate bonds		-	100,000
	$	**740,309**	**763,763**
Financial liabilities reported at fair value through profit or loss — current:			
Financial liabilities held-for-trading — current			
Foreign exchange swap contracts	$	1,367	-
Forward exchange contracts		232	-
Subtotal	**$**	**1,599**	**-**
Financial liabilities reported at fair value through profit or loss — current:			
Domestic convertible bonds	$	(1,578)	(1,578)
Adjustments		102,562	12,720
Subtotal		100,984	11,142
Total	**$**	**102,583**	**11,142**

b. The convertible bond issued by ABILITY ENTERPRISE CO., LTD. (Ability (TW)) was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call options and put options embedded in bonds payable were separated from bonds payable, and were recognized as "Financial assets or liabilities at fair value through profit or loss" in accordance with SFAS No.34. For years ended December 31, 2011 and 2010, Ability (TW) recognized a loss on financial liability reported at fair value through profit or loss of $89,842 and $12,720, respectively. Please refer to Note 4(11) for the main terms and conditions of the 1st unsecured domestic convertible bonds issued by Ability (TW).

c. For years ended December 31, 2011 and 2010, the Consolidated Company recognized a net gain (loss) on financial assets reported at fair value through profit or loss of $(160,782) and $47,110, respectively.

d. For years ended December 31, 2011 and 2010, the unrealized losses on available-for-sale financial assets amounted to $1,216,141 and $885,976, respectively.

e. The investments in equity securities 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. The Consolidated Company evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of $21,435 and $109,117 for the years ended December 31, 2011 and 2010, respectively. Following the resolution by the shareholders during their Annual Meeting, ADDTEK Corporation carried out a capital reduction of $98,125 and $158,000, divided into 9,812 and 15,800 shares, in order to cover its accumulated deficit at March 30, 2010 and December 31, 2010, respectively.

f. In 2010, TrendChip Technologies Corp. (TrendChip), in which the Consolidated Company have equity investment classified as available-for-sale financial asset, was merged with Ralink Technology Corporation (Ralink), with Ralink as the surviving entity. Following the merger, all of the equity investments in TrendChip held by the Consolidated Company were reclassified to equity investments in Ralink, accounted under available-for-sale financial assets － noncurrent. Also, the Consolidated recognized dividend income of $456,260 and other investment loss of $78,134 on the effective date of such merger.

g. The Consolidated Company's investments in Ralink, accounted under available-for-sale financial asset － noncurrent, was transferred to investments in MediaTek Inc. as MediaTek Inc. acquired Ralink via shares swap in October 2012. The Consolidated Company recognized the cost of the transferred stock as the fair value of the investments in Ralink on the effective date of stock conversion and recognized the accumulated unrealized gain of $338,716 as current profit.

h. During the first quarter of 2011, the Consolidated Company sold for US$18,904 thousand to a third party all of its equity ownership in Atheros Communications Inc. of 443,741 shares at US$ 42.6 per share and recognized a gain thereon of $331,781.

i. During the first quarter of 2011, KINSUS sold all of its equity ownership in KINMAC SOLAR CO., LTD., of 10,710,869 shares to WIN Semiconductors Corporation and 50,000 shares to a third party, totaling 10,760,869 shares at $11 per share, for a total selling price of $118,015, net of securities transaction tax.

j. As of December 31, 2011 and 2010, the components of financial derivatives of Ability Enterprise Co., Ltd. and United New Limited were as follows:

	December 31, 2011		
	Book Value	**Notional Principal (thousands)**	**Maturity Date/ Contract Period**
Derivative financial assets not for hedge			
Forward exchange contract (sell)	**$ (232)**	**USD 16,000**	2011.12~2012.01
Forward exchange contract (buy) and others	**$ 2,085**	**USD 28,000**	2011.12~2012.01
Option exchange (long call)	**$ 4,496**	**USD 950**	2011.08~2012.02
Foreign exchange swap contracts	**$ 135**	**USD 30,000**	2011.12~2012.01
Foreign exchagne swap contracts	**$ (1,367)**	**USD 950**	2011.08~2012.02

	December 31, 2010		
	Book Value	**Notional Principal (thousands)**	**Maturity Date/ Contract Period**
Derivative financial assets not for hedge			
Foreign exchange swap contracts	**$ 18,049**	**USD 46,700**	2010.12~2011.01

Ability Enterprise Co., Ltd. entered into derivative contracts during the years ended December 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

	December 31, 2011	December 31, 2010
Notes receivable	$ 107,364	134,100
Less: Allowance for uncollectible accounts	-	-
Net	107,364	134,100
Account receivable	73,339,944	44,000,174
Less: Allowance for uncollectible accounts	(757,685)	(669,632)
Less: Allowance for sales returns and discounts	(94,369)	-
Net	74,487,890	43,330,542
Total	**$ 74,595,254**	**43,464,642**

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

	Amount derecognized		Credit advanced			Credit (thousands)	
Purchaser	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010	Collateral	December 31, 2011	December 31, 2010
Mega International Commercial Bank	$ 757,753	557,560	-	345,599	None	USD 30,000	USD 30,000

(4) Inventories

	December 31, 2011	December 31, 2010
Merchandise	$ 3,450,561	1,852,765
Less: Allowance for inventory market decline and obsolescence	(103,710)	(171,449)
Sub-total	3,346,851	1,681,316
Finished goods	24,246,122	13,721,704
Less: Allowance for inventory market decline and obsolescence	(1,058,396)	(806,498)
Sub-total	23,187,726	12,915,206
Work in process	7,425,363	5,347,180
Less: Allowance for inventory market decline and obsolescence	(881,151)	(337,607)
Sub-total	6,544,212	5,009,573
Raw materials	33,483,652	23,710,612
Less: Allowance for inventory market decline and obsolescence	(2,471,768)	(2,192,329)
Sub-total	31,011,884	21,518,283
Inventory-in-transit	1,625,767	943,375
Total	**$ 65,716,440**	**42,067,753**

For years ended December 31, 2011 and 2010, the components of cost of goods sold were as follows:

	For the Years Ended December 31	
	2011	2010
Cost of goods sold	$ 570,585,475	499,887,356
Provision for inventory market price decline	1,007,142	1,036,824
Loss (Gain) on disposal of inventory	2,725,527	(914,395)
Idle Capacity	308,801	92,492
Others	(1,681,025)	273,818
	$ 572,945,920	**500,366,095**

(5) Long-Term Equity Investments

	December 31, 2011		December 31, 2010	
Name of Investee Company	**Equity Holding**	**Book Value**	**Equity Holding**	**Book Value**
INDEED HOLDINGS LTD.	49.00%	$ 772,946	49.00%	740,759
AVY PRECISION TECHNOLOGY INC.	20.25%	800,532	20.25%	768,479
EBIZPRISE INC.	- %	-	31.76%	86,448
ASAP TECHNOLOGY (JIANGXI) CO., LTD.	25.00%	229,550	25.00%	149,407
WILSON HOLDINGS LTD.	49.00%	163,358	49.00%	156,040
EVER PINE INTERNATIONAL LTD. (BVI)	34.65%	80,793	34.65%	113,325
PENTAX VQ CO., LTD.	- %	-	40.00%	41,866
WISE INVESTMENT LTD.	48.78%	39,920	48.78%	35,808
SHIN-EI YORKEY INTERNATIONAL LTD. (BVI)	50.00%	12,286	50.00%	14,818
ZHANGJIAGANG DONGBU HIGH TECHNOLOGY METAL PRODUCTS CO., LTD.	20.00%	47,109	20.00%	43,292
E-PACKING HOLDING LTD.	30.00%	302,194	30.00%	248,215
YOFREE TECHNOLOGY CO., LTD.	17.50%	13,439	17.50%	10,811
Subtotal		2,462,127		2,409,268
Add: Fair value adjustment for identifiable assets		1,114		61,832
Total		**$ 2,463,241**		**2,471,100**

a. For the years ended December 31, 2011 and 2010, the Consolidated Company recognized investment income under equity method of $98,444 and $207,292, respectively, based on the investees' financial statements which were audited by independent accounts.

b. For the years ended December 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.

c. 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 $1,114 and $61,832 as of December 31, 2011 and 2010, respectively, 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."

d. 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. The increased Consolidated Company's equity ownership to 31.76%. In July 2011, eBizprise Inc. has undergone a capital reduction and capital increment. As the Consolidated Company did not participate in the capital increase of eBizprise Inc. according to its equity holding percentage, the equity ownership of the Consolidated Company has been reduced to 12.93%. Consequently, the Consolidated Company lost its ability to exercise control of eBizprise Inc. The equity investment in eBizrise Inc. has been reclassified to financial assets carried at cost. In December 2011, the Consolidated Company has disposed its equity investment in eBizrise Inc. at original acquisition cost.

e. 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 details.

f. In November 2010, CASETEK HOLDING LIMITED (BVI), a subsidiary of the Consolidated Company, had participated in E-PACKING HOLDING's capital increase by purchasing additional equity shares by US$8,115 thousand, and its ownership percentage increased to 30% after the capital increase.

g. The Consolidated Company invested US$1,200 thousand in PENTAX VQ CO., LTD. through ASSOCIATION INTERNATIONAL LTD. (ASSOCIATION), which was approved by the Investment Commission of the Ministry of Economic Affairs. During the first quarter of 2011, the ASSOCIATION was liquidated and the liquidation proceeds of US$1,432 thousand were remitted to the Consolidated Company. A loss of US$63 thousand was recognized from the difference between the book value and amount remitted.

h. For the years ended December 31, 2011 and 2010, the Consolidated Company received cash dividends of $139,460 and $118,221, respectively, from its investee companies accounted under equity method.

(6) Joint Venture Investments

The Company had equity investment in ADVANSUS CORP., which is a joint venture entity. As of December 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:

	December 31, 2011	December 31, 2010
Current assets	$ 411,541	523,492
Non-current assets	11,417	14,317
Current liabilities	179,889	289,987

	For the Years Ended December 31	
	2011	2010
Revenues	$ 1,447,598	2,358,362
Expenses	1,416,366	2,302,139

(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 impairment loss on assets amounting to $29,519 and $64,130 for years ended December 31, 2011 and 2010, respectively.

(b) In order to construct operational headquarter and research and development center, Ability Enterprise Co., Ltd. (Ability(TW)) 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. On May 5, 2011, pursuant to the resolutions of the board of directors, Ability(TW) sold 50% of the aforesaid land for $1,239,706 for the purpose of joint development with builder and recognized a gain thereon of $5,532 which was recorded under other income. As of December 31, 2011, Ability(TW) has received the full amount from the sale of portion of such land . However, Ability(TW) still retains the mortgage right on the aforesaid land sold.

(c) For the year ended December 31, 2011, Ability(TW) recognized interest expenses capitalized amounted to $6,373.

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

b. Rental assets

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

	December 31, 2011	December 31, 2010
Land	$ 286,573	286,573
Buildings	579,063	579,063
Less: Accumulated depreciation	(130,497)	(119,155)
Less: Accumulated impairment	(12,030)	(12,030)
Add: Fair value adjustment for identifiable assets	6,279	7,986
	$ 729,388	**742,437**

(b) In accordance with SFAS 25, as the Consolidated Company has the ability to control Ability Enterprise Co., Ltd. through a share swap, the difference between the acquisition cost and the fair value of the rental assets was adjusted based on the Consolidated Company's percentage of ownership. As of December 31, 2011 and 2010, the fair value adjustment for identifiable assets amounted to $6,279 and $7,986, respectively.

(c) In October 2010, Ability Enterprise Co., Ltd. sold portion of its leased real estate located in Wuquan W. Rd., Nantun Dist., Taichung City and recognized a gain thereon of $10,221, net of accumulated impairment of $57,031 and related expenses.

c. Idle assets

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

	December 31, 2011	December 31, 2010
Land	$ 39,978	385,564
Buildings	205,845	705,523
Machinery and others	1,206,743	1,560,458
Less: Accumulated depreciation	(933,482)	(1,253,312)
Less: Accumulated impairment	(341,505)	(477,734)
	$ 204,579	**920,499**

(b) As these idle assets were not used in operation, the Consolidated Company valued these assets based on the recoverable amount. For the years ended December 31, 2011 and 2010, a gain of $28,450 and $232,177, respectively, was recognized from impairment loss recovery for these idle assets.

(8) Intangible assets

a. Goodwill is assessed periodically for impairment in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets." An impairment loss of $49,180 was recognized for the year ended December 31, 2011. As of December 31, 2011 and 2010, the carrying value of goodwill amounted to $1,898,499 and $885,682, respectively.

b. 'Land use rights' are rights granted to 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 December 31, 2011 and 2010, the unamortized amount of land use rights was $2,672,171 and $2,198,848, respectively. Please refer to Note 6 for details of the intangible assets pledged as collateral.

c. Identifiable intangible assets from customer relationships, technology and developments are amortized equally over 3 to 5 years based on their respective expected economic benefits. As of December 31, 2011, the unamortized amount was $1,108,523.

d. For the year ended December 31, 2011, the Consolidated Company acquired 100% ownership of RIH LI for $6,000,000 (with equivalent amount of US$201,205 thousand) with an equity premium of US$120,763 thousand. As of June 30, 2011, the amount payable was $2,949,540 (equivalent to US$102,682 thousand), of which $972,444 was due within a year (accounted under other financial liabilities － current), in accordance with the installment payment schedule stated in the contract. In order to meet the demands of the Consolidated Company and the original seller, they renegotiated the terms of payments, under which, the Consolidated Company is required to make an advance payment, with the cost of capital calculated using a discount rate of 2%. The Consolidated Company made an advance payment on August 31, 2011, therefore, the balance of payable was $0 as of December 31, 2011.

In accordance with SFAS No. 25 "Business Combinations," the Consolidated Company allocates the acquisition costs to the assets acquired and liabilities assumed based upon their fair values at the acquisition date within one year after the date of acquisition. The excess of the acquisition price over the fair value of identifiable net assets acquired is recognized as goodwill.

As of December 31, 2011, the acquisition price which was determined based on the report of independent appraiser was allocated as follows:

	(unit: US$ thousand)
Acquisition price	$ 201,205
Less: Fair value of identifiable net assets	
- Current assets	212,588
- Current liabilities	(196,143)
- Fixed assets	98,783
- Other identifiable net assets	659
- Other identifiable net liabilities	(5,309)
- Intangible assets with definite useful lives	57,094
Subtotal	167,672
Goodwill	**$ 33,533**

e. Supplementary Pro Forma Information for Business Combinations

For the year ended December 31, 2011, the Consolidated Company acquired 100% equity ownership of RIH LI INTERNATIONAL LTD. and 53.01% equity ownership of E-Pin Optical Industry Co. Ltd. These investees were included in the consolidated financial statements from the date when control over these investees commences. The supplementary pro forma information as if the business combination occurred on January 1, 2011 was as follows:

	For the Years Ended December 31	
	2011	**2010**
Consolidated net sales	**$ 601,354,770**	**545,157,578**
Consolidated net income before tax	**$ 4,193,120**	**13,997,038**
Consolidated net income	**$ 2,762,198**	**11,382,293**
Pro forma primary earnings per share	**$ 0.03**	**3.22**

(9) Other Assets – Others

This consisted of deferred charges arising from capitalized costs of small molds, fixtures and office decorations, which are amortized equally over 9 months to 5 years. As of December 31, 2011 and 2010, the unamortized amount of deferred charges was $2,075,803 and $2,442,013, respectively.

Also included in this account is a farm land that KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS) purchased in the name of KINSUS's chairman instead of KINSUS, due to the restriction imposed by the local government. Before KINSUS can have the title to this-farmland as well as complete the registration procedures, the land is temporarily recorded as other assets.

As of December 31, 2011 and 2010, the carrying value of this farmland was both $30,784.

Based on the results of impairment test performed on other assets, an impairment loss of $51,424 was recognized thereon for the year ended December 31, 2010.

(10) Short - Term Loans

	December 31, 2011	December 31, 2010
Credit loans	$ 22,704,923	14,252,818
Collateralized loans	68,443	98,966
	$ 22,773,366	**14,351,784**
Range of interest rate	**0.05% ~ 6.53%**	**0.40% ~ 5.00%**

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

	December 31, 2011	December 31, 2010
Bond payable	$ 1,500,000	1,500,000
Less: Discounts on bonds payable	(95,293)	(126,199)
Total	**$ 1,404,707**	**1,373,801**

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

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

(b) After 30 days from issue date (March 7th, 2010) and 10 days prior to maturity date (January 27th, 2015), the bondholders can exercise their rights 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 was originally set at $60. As Ability (TW) distributes cash dividend on August 1, 2010 and September 6, 2011, the exercise price was adjusted from $60 to $55.7 and $55.7 to $50.7 on the effective dates, respectively.

(d) After 3 years from issue date (Feb 6th, 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 under the following conditions: (i) the closing price of the shares for a period of 30 consecutive trading days is above 130% of the conversion price and (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 of Ability (TW) 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, of which the equity and liability components are separately accounted for. As of December 31, 2011, the issuance of convertible bonds resulted in a "paid-in capital-stock option" of $153,508. In addition, the fair value of call options and put options embedded in bonds payable was separated from bonds payable, and was recognized as "Financial assets or liabilities at fair value through profit or loss" in accordance with SFAS No. 34. The effective annual interest rate of the bonds ranges from 2.122% to 2.263%.

c. As of December 31, 2011, the convertible bonds of Ability Enterprise Co., Ltd. have not yet been converted into common shares nor repurchased.

(12) Long - Term Loans

Creditor	Usage and redemption duration	December 31, 2011	December 31, 2010
Citibank Taiwan and 14 other participating financial institutions (Note A)	2010.10.25~2015.10.25, payable in 5 semi-annual installments, commencing from October 25, 2013.	$ 12,110,000	6,991,200
The Shanghai Commercial & Saving Bank, Ltd.	2010.09.21~2015.09.20 payable in 10 quarterly installments, commencing from April 2013.	1,059,625	1,019,550
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.	10,091	14,540
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.	56,766	76,335
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.	15,611	20,447
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.	164,620	210,830
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.	147,591	179,569
The Shanghai Commercial & Savings Bank, Ltd. — International Financial Service Branch	2010.12.24~2014.12.24, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	151,375	145,650

Creditor	Usage and redemption duration	December 31, 2011	December 31, 2010
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. As of June 2011, redeeming method has changed to 8 quarterly installments, commencing from September 21, 2011.	45,413	58,260
The Shanghai Commercial & Savings Bank, Ltd. － Chung - Li Branch	2011.03.11~2015.03.10, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	151,375	-
The Shanghai Commercial & Savings Bank, Ltd. － Chung - Li Branch	2011.11.29~2015.11.28, payable in 12 quarterly installments, commencing from the date of borrowing.	151,375	-
The Shanghai Commercial & Savings Bank, Ltd. － Chung - Li Branch	2011.07.01~2015.06.30, payable in 12 quarterly installments, commencing from the date of borrowing.	302,750	-
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	2011.10.04~2016.07.15, payable in 11 quarterly installments from the twenty-fifth month, commencing from the date of borrowing (with a one year grace period).	51,160	-
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.	-	4,873
Mega International Commercial Bank － Lan-Ya Branch	2005.01.31~2012.01.31, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period).	5,639	27,081
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).	224,035	316,972

Creditor	Usage and redemption duration	December 31, 2011	December 31, 2010
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.	317,887	203,560
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).	121,100	116,320
Mega International Commercial Bank — Lan-Ya Branch	2010.12.20~2015.12.20, payable in 20 quarterly installments, commencing from the date of borrowing.	847,695	1,019,550
Mega International Commercial Bank — Lan-Ya Branch	2011.02.14~2016.02.13, payable in 20 quarterly installments, commencing from the date of borrowing.	514,671	-
Mega International Commercial Bank — Lan-Ya Branch	2011.03.11~2016.03.10, payable in 20 quarterly installments, commencing from the date of borrowing.	363,299	-
Mega International Commercial Bank — Lan-Ya Branch	2011.08.15~2014.08.15, payable in 20 quarterly installments, commencing from the date of borrowing (with a one year grace period).	14,000	-
Mega International Commercial Bank — Lan-Ya Branch	2011.04.07~2014.04.07, payable in 20 quarterly installments, commencing from the date of borrowing (with a one year grace period).	10,000	-
Mega International Commercial Bank	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,513,750	-
Mega International Commercial Bank	2011.10.12~2016.10.12, payable in 8 quarterly installments, commencing from January 2015.	1,211,000	-
The Land Bank of Taiwan — Chung - Li Branch	2010.12.24~2015.12.24, payable in 60 monthly installments, commencing from the date of borrowing.	273,141	145,650

Creditor	Usage and redemption duration	December 31, 2011	December 31, 2010
The Land Bank of Taiwan — Chung - Li Branch	2011.03.14~2014.03.13, interest is payable in 36 monthly installments and principal is payable on maturity date, commencing from the date of borrowing.	302,750	-
The Land Bank of Taiwan — Chung - Li Branch	2011.11.28~2016.11.27, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	151,375	-
The Land Bank of Taiwan — Chung - Li Branch	2011.07.04~2016.07.03, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	302,750	-
Hua Nan Bank and 6 other banks (Note B)	2009.08.31~2014.08.31, payable in 6 semi-annual installments, commencing from August 31, 2011. The repayment schedule is 10% for first 4 installments, 15% for the following 2 installments and the remaining amount is payable on maturity date.	360,000	-
The Shanghai Commercial & Savings Bank, Ltd. — Tian - Mu Branch	2009.06.23~2019.06.23, payable in equal monthly installments.	29,591	-
The Shanghai Commercial & Savings Bank, Ltd. — Tian - Mu Branch	2010.09.07~2013.09.07, payable in equal monthly installments.	5,833	-
ANZ	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,513,750	-
DBS	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,513,750	-

Creditor	Usage and redemption duration	December 31, 2011	December 31, 2010
DBS	2011.11.17~2016.11.16, payable in 6 installments. The repayment schedule is 15% for the 30th and 33rd month, 17.5% for the 42nd, 48th , 54th and 60th month, commencing from the date of borrowing .	1,211,000	-
Taiwan Cooperative Bank OBU Branch	2011.10.13~2016.10.13, payable in 4 semi-annual installments, commencing from April 2015.	1,513,750	-
HSBC (Taiwan)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,513,750	-
Total		28,267,268	10,550,387
Less: Current portion		(913,849)	(407,007)
		$ 27,353,419	**10,143,380**
Range of interest rate		**0.79%~3.88%**	**0.85%~1.33%**

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 $90,000,000.

If the aforesaid covenants are breached, the syndicate banks will, depending on the circumstances, based on the majority decision of the syndicate banks to either suspend the subsequent credit usage or demand an immediate repayment.

The Company was in compliance with the above financial covenants as of December 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.

Note B: The consolidated subsidiary, E-Pin Optical Industry Co., Ltd., signed a syndicated loan agreement on August 14, 2009 with a total credit line of NT$600,000. The components of this credit line were as follows:

I. Credit type A: Term loan with a credit line of NT$400,000 available in multiple drawings.

II. Credit type B: Revolving loan with a credit line of NT$200,000 available in multiple drawings.

According to the agreement, debtor of credit type A must complete drawing of the loan within 6 months of the contract date, and the unused credit line will be cancelled. Debtor of credit type B can draw and pay each loan within 90 to 180 days. However the due date of each loan cannot go beyond the term of the loan. Also, debtor must comply with the following financial covenants:

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 125%
c. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than $1,000,000.
d. Interest coverage ratio (EBITDA/interest expenses): should not be less than 200%.

Compliance with the aforesaid financial covenants is determined based on the audited annual and semi-annual consolidated financial statements (June 30 and December 31). Based on its 2011 annual consolidated financial statements, E-Pin Optical Industry Co., Ltd. failed to comply with the aforesaid financial covenants on interest coverage ratio and current ratio, as determined by the majority decision of the syndicate banks. However, E-Pin Optical Industry Co., Ltd. had obtained additional financing under the long-term financing facilities agreement that was concluded with Taipei Fubon Bank before December 31, 2011. The proceeds from this new long-term loan were used to settle the syndicated loan on January 31, 2012 so that the new loan is still accounted for under long-term loan

(13) Pension Plan

The Consolidated Company's domestic public listed subsidiaries have established an employee non-contributory defined benefit pension plan covering all regular employees. According to this plan, payments of pension benefits are based on the employee's of service years and average monthly salary during the six months before the employee's retirement. Each employee earns two months' salary for the first 15 years of service and one month's salary for each service year starting from the sixteenth year. According to the retirement plan, the payments of retirement benefits are the responsibility of the Company. Under the Labor Pension Act (the "Act"), effective July 1, 2005, employees of the Company (who were hired prior to July 1, 2005) may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standard Law. Employees who are hired by the Company after July 1, 2005, shall comply with the provisions of this Act. For employees subject to this Act, the Company contributes monthly to the employees' individual pension accounts an amount equal to not less than 6% of the employees' monthly wage and deposits it in a personal retirement benefit account with Bank of Taiwan. However, if there are provisions of the Act which are not yet included in the existing retirement plans of domestic subsidiaries, those domestic subsidiaries still need to comply with those provisions of the Act.

Beginning July 1, 2005, pursuant to the newly effective ROC Labor Pension Act, the Company makes a monthly contribution at a rate of no less than 6% of the employee's monthly wages to the employee's individual pension fund account at the ROC Bureau of Labor Insurance.

Each foreign consolidated entity contributes to the employee's pension fund in accordance with the respective jurisdiction.

For the years ended December 31, 2011 and 2010, the pension costs and related information were as follows:

	2011	2010
Balance of pension fund - ending	$ 149,454	111,237
Current pension expenses:		
Defined benefit pension plan	16,433	8,971
Defined contribution pension plan	1,448,996	1,011,287

a. The actuarial assumptions used in pension costs calculation were as follows:

	2011	2010
Discount rate	2.00%	2.00%
Future salary increase rate	1.50% ~3.00%	2.75% ~ 3.00%
Estimated long-term rate of return on pension fund	2.00%	2.00%

b. As of December 31, 2011 and 2010, of the funded status was reconciled with accrued pension liability per books as follows:

	As of December 31, 2011	As of December 31, 2010
Benefit obligation		
Vested benefit obligation	$ (16,536)	(14,369)
Non-vested benefit obligation	(135,650)	(108,606)
Accumulated benefit obligation	(152,186)	(122,975)
Effect of future salary increase	(126,839)	(107,020)
Estimated benefit obligation	(279,025)	(229,995)
Fair value of pension fund assets	150,033	111,428
Funded status	(128,992)	(118,567)
Unrecognized net transitional benefit obligation	3,665	1,989
Unrecognized gain on pension fund	133,975	126,784
Additional pension liability	(18,216)	(19,603)
Accrued pension liability	**$ (9,568)**	**(9,397)**

As of December 31, 2011 and 2010, the Consolidated Company's vested benefit obligation under the Consolidated Company's pension plan was $16,536 and $14,369, respectively.

c. The Company's pension information under the defined benefit plan was as follows:

	2011	2010
Service cost	$ 2,305	1,827
Interest cost	8,016	3,523
Estimated return on pension fund assets	(2,464)	(2,114)
Amortization of unrecognized net transitional benefit obligation	8,576	5,735
Net periodic pension cost	**$ 16,433**	**8,971**

(14) Income Tax

(i) According to the revised Income Tax Law announced on June 15, 2010, the statutory and its domestic subsidiaries income tax rate is reduced further to 17% effective January 1, 2010. Therefore, the Company and its domestic subsidiaries are subject to statutory income tax rate of 17% for both the years ended December 31, 2011 and 2010. The Company and its domestic subsidiaries also comply with the Basic Income Tax Act when calculating its income tax.

Other foreign subsidiaries are subject to income tax in compliance with their respective local income tax law.

(ii) For the years ended December 31, 2011 and 2010, the components of income tax expense (benefit) were as follows:

	For the Years Ended December 31	
	2011	2010
Current income tax expense	$ 1,644,771	1,917,230
Deferred income tax expense	(429,460)	287,635
10% surtax on undistributed earnings	203,674	216,277
Prior years income tax adjustment	3,245	(57,564)
Income tax expense	**$ 1,422,230**	**2,363,578**

The components of deferred income tax expense were as follows:

	For the Years Ended December 31	
	2011	2010
Unrealized exchange gain (loss)	$ (290,526)	160,750
Provision of allowance for loss on inventory market decline and obsolescence	(280,887)	(178,794)
Unrealized (Realized) profits on sales	(45,243)	19,972
Reversal (Provision) of warranty reserve	(77,746)	107,628
Provision for loss on uncollectible accounts	(35,740)	(1,652)
Unrealized allowance for sales discount	(2,335)	2,993
Investment tax credits	400,619	(261,694)
Provision (Reversal) of impairment loss on assets	11,375	(12,312)
Loss carry-forward	(383,160)	(254,392)
Unrealized foreign investment income	188,351	36,886
Valuation on allowance for deferred tax assets	337,221	658,912
Unrealized expenses	(207,594)	-
Effect on deferred tax of the change in statutory tax rate	-	25,438
Others	(43,795)	(16,100)
Deferred income tax expense (benefit)	**$ (429,460)**	**287,635**

(iii) The income tax calculated on pretax financial income at a statutory income tax rate was reconciled with the income tax expense (benefit) as reported in the accompanying financial statements for the years ended December 31, 2011 and 2010 as follows:

	For the Years Ended December 31	
	2011	**2010**
Income tax calculated on pre-tax financial income at statutory tax rate	$ 1,405,382	3,342,505
Permanent differences	(974,027)	(929,994)
Tax-exempt income	(15,364)	(175,148)
Investment tax credits (increase)	253,967	(73,434)
Unused investment tax credit	-	27,232
Adjustment to prior year's deferred income tax assets	(245,986)	(181,247)
Adjustment to prior year's income tax	3,245	3,314
Valuation allowance of deferred income tax assets	501,985	62,144
Basic income tax	30,951	840
Loss carry-forward	103,640	-
Effect of the change in statutory tax rate	(46,999)	25,438
Others	201,762	45,651
10% surtax on undistributed earnings	203,674	216,277
Income tax expense (benefit)	**$ 1,422,230**	**2,363,578**

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

	December 31, 2011		December 31, 2010	
Temporary differences of deferred income tax assets - current	**Amount**	**Income Tax Effect**	**Amount**	**Income Tax Effect**
Unrealized foreign exchange loss (gain): deductible (taxable)	$ 414,786	70,514	(1,294,192)	(220,012)
Allowance for loss on inventory market decline and obsolescence: deductible	3,926,921	626,114	2,059,241	349,976
Unrealized intercompany profit: deductible	149,383	25,395	(116,751)	(19,848)
Warranty reserve: deductible	548,698	93,278	699,335	118,887
Unrealized expenses: deductible	1,015,006	153,952	-	-
Unused balance of investment tax credits: deductible	-	585,664	-	951,682
Loss carry-forward: deductible	1,295,166	215,731	1,573,219	268,663
Allowance for uncollectible accounts: deductible	244,774	41,557	118,254	20,100
Unrealized sales discount: deductible	38,248	6,309	-	-
Depreciation of assets: deductible	(78,002)	(14,840)	(107,409)	(21,542)
Others	273,537	51,465	60,066	10,636
Valuation on allowance		(603,624)		(770,589)
Net deferred income tax assets		**$ 1,251,515**		**687,953**

Temporary differences of deferred income tax assets - noncurrent	Amount	Income Tax Effect	Amount	Income Tax Effect
Unrealized impairment loss on assets: deductible	$ 68,098	10,215	111,265	16,754
Amortization of employee benefits: deductible	6,068	1,706	6,184	1,647
Reserve for overseas investment losses: Taxable	(13,112)	(2,229)	(13,112)	(2,229)
Unused balance of investment tax credits: deductible	-	481,906	-	531,258
Recognition of gain on foreign investments: taxable	500,482	85,082	40,009	6,801
Loss carry-forward: deductible	2,600,623	492,719	333,102	56,627
Allowance for loss on inventory market decline and obsolescence: deductible	23,417	5,659	5,351	910
Pension over the limited amount: deductible	12,292	2,090	12,292	2,090
Recognition of impairment loss on long-term investment: deductible	152,642	25,949	173,644	29,519
Recognition of loss on allowance for uncollectible accounts: deductible	70,386	19,246	29,198	4,964
Depreciation of assets: deductible	22,323	5,302	(8,321)	(2,371)
Unrealized gain on deferred rent: deductible	13,621	3,882	15,218	4,337
Deferred charges: deductible	63,662	9,549	-	-
Warranty reserve: deductible	826,841	103,355	-	-
Interest expense of bonds payable: deductible	52,863	8,986	-	-
Others	321,790	48,284	34,140	5,930
Valuation on allowance		(1,133,818)		(644,382)
Net deferred income tax assets		**$ 167,883**		**11,855**

Temporary differences of deferred income tax liabilities - current	December 31, 2011 Amount	December 31, 2011 Income Tax Effect	December 31, 2010 Amount	December 31, 2010 Income Tax Effect
Others	$ (168)	(54)	(253)	(82)
Valuation on allowance		-		-
Net deferred income tax liabilities		**$ (54)**		**(82)**

Temporary differences of deferred income tax liabilities - noncurrent	December 31, 2011 Amount	December 31, 2011 Income Tax Effect	December 31, 2010 Amount	December 31, 2010 Income Tax Effect
Unrealized impairment loss on assets: deductible	$ 8,038	1,366	36,487	6,203
Recognition of gain on foreign investments: taxable	(2,411,812)	(465,023)	(1,173,636)	(199,518)
Reserve for overseas investment losses	(1,002,382)	(170,405)	(1,002,382)	(170,405)
Others	(97,225)	(19,799)	100	17
Net deferred income tax liabilities		**$ (653,861)**		**(363,703)**

(v) Income Tax

a. The Company's income tax returns through 2009 have been assessed and approved by the Tax Authority. However, the tax return for 2008 is still under review.

b. The income tax returns of Unihan Corporation, Azurewave Technologies Inc., and Kinsus Interconnect Technology Corp. through 2009 have been assessed and approved by the Tax Authority.

c. As of December 31, 2011, the income tax returns of Ability Enterprise Co., Ltd. (Ability(TW)) through 2009 have been assessed and approved by the tax authority. However, Ability(TW) disagreed with the results of the tax authorities' examinations of its 2007, 2008, and 2009 income tax returns, in which the research and development tax credit were reduced after the Tax Authority's review. Ability(TW) has estimated and recognized relative income tax liability and filed a formal appeal for reexamination to the tax authority which is still under review.

d. The income tax returns of Asrock Incorporation through 2008 have been assessed and approved by the Tax Authority.

(vi) As of December 31, 2011, according to ROC Income Tax Act, unused investment tax credits which may be applied to offset against income tax in the future are as follows:

Company Name	Year of occurrence	Unused balance	Expiry year
The Company	2008~2011	$ 508,659	2011~2013
UNIHAN	2011	16,049	2011
KINSUS	2008~2010	500,282	2012~2014
ABILITY	2010~2011	39,893	2012~2013
AMA PRECISION	2009	2,687	2013
		$ 1,067,570	

(vii) As of December 31, 2011, according to ROC Income Tax Act, unused loss carry-forward which may be applied to offset against income tax in the future are as follows:

Company Name	Year of occurrence	Unused balance	Expiry year
PROTEK	2010	$ 819,963	2015
UNIHAN	2010	871,366	2020
STARLINK	2004~2010	124,867	2014~2020
PEGAVISION	2009~2011	180,610	2019~2021
AMA PRECISION	2009~2011	128,905	2019~2021
DIGITEK	2011	222,377	2016
PCBR	2011	39,429	2016
ABILITY	2003~2011	898,740	2013~2021
AZUREWAVE	2011	20,812	2021
AVY	2007~2011	588,720	2012~2016
		$ 3,895,789	

(viii) Five year income tax exemption period

a. Due to the increase in its investments in new equipment, the Company was granted several income tax exemptions for its manufacturing and sales of "motherboard" out of the new equipment purchased from the proceeds of its capital increase. As of December 31, 2011, the five year income tax exemption periods were as follows:

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

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

Item	Approving Office	Approval document number	Tax exemption period
1	Industrial Development Bureau	09605016580	09/30/2006~09/29/2011
2	Industrial Development Bureau	09605016590	09/30/2006~09/29/2011
3	Industrial Development Bureau	09605034400	08/31/2007~08/30/2012
4	Industrial Development Bureau	09805018460	09/30/2008~09/29/2013
5	Industrial Development Bureau	10005112010	unknown

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

Accumulated earnings:	December 31, 2011	December 31, 2010
Accumulated in 1997 and prior years	$ -	-
Accumulated in 1998 and thereafter	144,466	8,253,605
Total	**$ 144,466**	**8,253,605**
Stockholders' imputation tax credit account	**$ 3,448**	**200,504**
	2011 (Expected)	**2010 (Actual)**
Expected or actual deductible tax ratio	**0.09%**	**9.32%**

(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 December 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 both consisted of 2,256,367 thousand shares.

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

The Company may issue new GDRs with no more than 60,819,020 Pegatron common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issuing Guidelines". As of December 31, 2011, the Company has offered GDRs totaling 9,900 thousand units on the Luxembourg Stock Exchange. As each unit of GDR represents 5 shares, the Company has offered Company shares totaling 49,501 thousand shares. Major terms and conditions for GDRs were as follows:

(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. Share-based payment transactions

(a) Share-based payment transaction as of December 31, 2011 were as follows:

	Employee Stock Option Plan
Grant date	July 1, 2011
Thousand units granted	40,679
Contractual life	3 years
Vesting period	2 years
Actual turnover rate of employees	7.9%
Estimated future turnover rate of employees	16.28%

The Company obtained the approval from the Financial Supervisory Commission and issued on April 14, 2011 50,000 units of Employee Stock Options with an exercisable right of 1,000 shares of the Company's common shares per unit. When the stock options are exercised, the Company will issue its own new common shares on settlement, and the exercise price shall be equal to the closing price of the Company's common stock on grant date. The expected life of the stock options is estimated to be 3 years, and stock options granted to an employee shall not be transferable to any person. The employee shall forego his/her right to exercise the vested options when the exercise period expires. Except for the forfeiture of vested options, all stock options shall be vest from the second year of grant date, and the employees should exercise the right to apply for shares against the option vested in them in pursuance of the stock options.

(b) The Company adopted the Black-Scholes model in estimating the fair value of stock options on grant date. Under this valuation model, the assumptions used were as follows:

	For the Years ended December 31, 2011	
Exercise price (Note)	$	30
Current market price		30
Expected dividend yield rate (Note)		- %
Expected volatility		37.0531%
Risk-free interest rate		1.0838%
Expected life of the option		3 years

Note: After the issuance of the employee stock option, if the Company increases its capital by surplus and/or capital reserve, the exercise price will be adjusted accordingly. Therefore, the expected dividend yield rate is excluded in calculating the fair value of the stock options.

(c) The movements in the balance of employee stock options and the weighted-average exercise price for the year ended December 31, 2011 were as follows:

	For the Year Ended December 31, 2011	
	Number of Exercisable Thousand Shares	**Weighted-average Exercise Price**
Balance, beginning of period	-	$ -
Granted	40,679	28.38
Exercised	-	-
Forfeited	3,031	-
Expired	-	-
Balance, end of period	37,648	28.38
Exercisable, end of period	**37,648**	
Weighted-average fair value of options granted	**7.9**	

The exercise price of stock options outstanding as of December 31, 2011 was $28.38 with remaining contractual life of 1.50 years. The expenses incurred in share-based payment transactions amounted to $49,513 for the year ended December 31, 2011.

c. Legal reserve and capital surplus

In accordance with the ROC Company Law, as amended in January 2012 and the Company's Articles of Incorporation, 10% of the annual earnings (net of losses of prior years, if any) are retained as statutory reserve until the reserve equals the amount of the Company's paid-in capital. The distribution of remaining earnings, either as stock dividends or cash dividends, are subject to the approval of the Company's stockholders. However, the legal reserve appropriation from annual earnings can not exceed 25% of the Company's paid-in capital.

In accordance with the ROC Company Law, as amended in January 2012, capital surplus can not be distributed as dividends in cash or shares unless it offsets deficit. The realized capital surplus includes the reserves generated from donation and the excess of the issuance price over the par value of capital stock. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, when capital reserve is capitalized in batches, the combined amount of capital reserve capitalized in batches in any one year can not exceed 10 % of paid-in 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 $409,917 and $232,803 which were credited to capital surplus-others as of December 31, 2011 and 2010, respectively.

d. 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 stock of the Company. Also, the total amount of treasury shares may not exceed the amount of retained earnings plus the amounts of premium on capital stock and realized capital reserve. The repurchased shares held by the Company amounted to $1,006,862, divided into 29,697 thousand shares as of December 31, 2010 which conformed to Securities and Exchange Act. The number of shares the Company can repurchase from the active market is limited to up to 228,605 thousand shares worth $66,221,050 which is calculated according to its financial reports for the latest accounting period prior to a resolution of a meeting of the board of directors.

(b) In accordance with Securities and Exchange Act, treasury shares cannot be pledged. Also, treasury shares do no bear the shareholder's right prior to being sold to third parties.

(c) As of December 31, 2011, the Company's shares held by its subsidiaries were 1,700 thousand shares worth $56,015 at fair value.

e. 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 shares of 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.

Pursuant to the Regulations of Securities and Futures Bureau Commission, a special reserve is set aside from the current year's net income after tax and prior year's unappropriated earnings at an amount equal to net debit balance of the other components of shareholders' equity such as the unrealized loss on financial instruments and cumulative translation adjustments. When the net debit balance in the shareholders' equity is reversed, the appropriated special reserve can be reversed.

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 June 24, 2011 and March 10, 2010, the Company's shareholders' meeting and the board' meeting on behalf of shareholders' meeting resolved to appropriate the 2010 and 2009 earnings. These earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

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

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 years ended December 31, 2011 and 2010, employee bonuses of $12,100 and $127,000, and directors' and supervisors' remuneration of $1,000 and $12,000, respectively, were estimated and recognized as current expenses. Differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, are to be accounted for as changes in accounting estimates and recognized in profit or loss.

(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(TW)) 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(TW)'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(TW), 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 December 31, 2011 and 2010, the weighted-average expected life of the employee stock options was 3.24 years and 4.24 years, respectively.

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

	For the Years Ended December 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	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	(1,599)	38.3	(3,322)	38.3
Forfeited	-	-	-	-
Outstanding at the end of the period	**5,079**	34.9	**6,678**	38.3
Exercisable at the end of the period	**3,079**		**2,678**	

(c) For the employee stock options of Ability(TW) granted between January 1, 2004 and December 31, 2007, Ability(TW) recognized compensation cost using the fair value method. Pro forma information on net income and earnings using the fair value method were as follows:

	For the Years Ended December 31	
	2011	**2010**
Net income		
Net income	$ 1,089,319	2,364,919
Pro forma net income	1,070,918	2,332,829
Basic earnings per share		
Earnings per share	2.45 dollars	5.39 dollars
Pro forma earnings per share	2.40 dollars	5.31 dollars
Diluted earnings per share		
Earnings per share	2.30 dollars	5.03 dollars
Pro forma earnings per share	2.26 dollars	4.92 dollars

(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:

	November 20, 2007
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(TW)) 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(TW)'s common stock at an exercise price of $22.2 per share. As of December 31, 2011 and 2010, the weighted-average expected life of the employee stock options was 3.75 years and 4.75 years, respectively.

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

	For the Years Ended December 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	6,802	$ 19.3	9,500	20.8
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	(470)	19.3	(2,698)	19.3
Exercised	(1,444)	17.6	-	-
Forfeited	-	-	-	-
Outstanding at the end of the period	**4,888**	17.6	**6,802**	19.3
Exercisable at the end of the period	**1,088**		**1,102**	

(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 Years Ended December 31	
	2011	2010
Equity transaction	**$ 11,810**	**36,316**

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 December 31, 2011, Ability (TW) increased its capital by $14,440 due to the exercise of employee stock options.

(17) Earnings per Share (EPS)

For years ended December 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 Years Ended December 31			
	2011		**2010**	
	Before income tax	**After income tax**	**Before income tax**	**After income tax**
Net income	**$ 58,514**	**111,365**	**7,316,410**	**6,211,436**
Weighted-average common shares outstanding	2,255,192	2,255,192	2,273,429	2,273,429
Dilutive potential common shares	7,981	7,981	7,821	7,821
Diluted shares	**2,263,173**	**2,263,173**	**2,281,250**	**2,281,250**
Primary earnings per share	**$ 0.03**	**0.05**	**3.22**	**2.73**
Diluted earnings per share	**$ 0.03**	**0.05**	**3.21**	**2.72**

(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 instruments 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 December 31, 2011 and 2010, except for those financial assets and liabilities described above, the Consolidated Company's other financial assets and liabilities were as follows:

Non-Financial Instruments	**December 31, 2011**		**December 31, 2010**	
Financial Assets	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Financial asset reported at fair value through profit or loss — current	$ 6,417,685	6,417,685	6,377,118	6,377,118
Available-for-sale financial asset — current	454,752	454,752	765,417	765,417
Financial assets held-to-maturity — current	-	-	262,170	262,170
Available-for-sale financial asset — noncurrent	463,922	463,922	1,824,246	1,824,246
Financial assets carried at cost — noncurrent	740,309	-	763,763	-

Non-Financial Instruments	December 31, 2011		December 31, 2010	
Financial Liabilities				
Financial liability reported at fair value through profit or loss — current	$ 102,583	102,583	11,142	11,142
Bonds payable	1,404,707	1,485,000	1,373,801	1,599,000
Long-term loans (including current portion)	28,267,268	28,267,268	10,550,387	10,550,387

Financial Instruments	December 31, 2011		December 31, 2010	
Financial Asses	**Book Value**	**Fair Value**	**Book Value**	**Fair Value**
Foreign exchange swap contracts	$ 135	135	18,049	18,049
Forward exchange contracts	2,085	2,085	-	-
Option exchange	4,496	4,496	-	-
Financial Instruments				
Financial Liabilities				
Foreign exchange swap contracts	232	232	-	-
Forward exchange contracts	1,367	1,367	-	-
Embedded derivatives - convertible bonds	100,984	100,984	11,142	11,142

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 evidence~~s~~, in practice.

(c) The fair value of call options and put options embedded in the convertible bonds, which were issued after January 1st, 2006, is determined by their fair market value.

(d) The fair market value of long-term loans 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 traded in active markets is determined by their carrying value, which approximates market 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. Gain (Loss) recognized from changes in the fair values of financial assets, which were estimated by using valuation techniques, amounted to $(161,543) and $47,110, for the years ended December 31, 2011 and 2010, respectively.

d. Loss recognized from changes in the fair values of financial liabilities, which were estimated by using valuation techniques, amounted to $89,081 and $12,720, for the years ended December 31, 2011 and 2010, respectively.

e. Information on financial risks

(a) Market risk

The Consolidated Company's foreign currency denominated purchases and sales are denominated mainly in US dollars. This exposes the Consolidated Company to the current and future foreign exchange fluctuation 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 manage its foreign exchange risks.

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

(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. Also, 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 transacted only 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. Under its customer credibility evaluation policies, the Consolidated Company evaluates the customer's credibility and collectability of notes and account receivables regularly before doing business. Thus, management is not expecting any 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, management is not expecting any significant issue on credit risk.

(c) Liquidity risk

The capital and working funds of the Consolidated Company are sufficient to meet its entire contractual obligations and nonhedging forward exchange contracts; therefore, management is not expecting any significant issue on liquidity risk.

The funds and marketable securities investments held by the Consolidated Company have publicly quoted prices and could be sold at 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.

f. Procedure of financial risk control and hedge

Ability Enterprise Co., Ltd. (Ability (TW)) adopted 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 is not expecting any significant issue on doubtful account.

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 manage 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 manage import and export transactions denominated in foreign currencies.

(3) To mitigate price risk, Ability (TW) sets a stop-loss point on derivatives to limit potential loss.

(4) Derivative counterparties are limited to international financial institutions with high-credit-quality. 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 avoid liquidity risk arising from insufficient funds and to fulfill contractual obligations.

(6) Ability (TW) has policies to avoid significant concentration of credit risk on cash, securities and linked notes held.

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

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

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

(19)Others

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

	December 31, 2011			December 31, 2010		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	$3,055,948	30.2750	95,518,826	1,678,967	29.1300	48,908,309
RMB	1,648,237	4.8049	7,919,614	1,510,878	4.4405	6,709,054
Long-term Equity Investments						
USD	44,020	30.2750	1,332,691	47,266	29.1300	1,376,854
Financial Liabilities						
Monetary Items						
USD	4,421,720	30.2750	133,867,573	1,936,867	29.1300	56,420,936
RMB	1,676,068	4.8409	8,053,339	170,808	4.4405	758,473

Related-Party Transactions

1) Names and Relationships of Related Parties with the Consolidated Company

Name of Related Party	Relationship with the Company
ASUSTEK COMPUTER INC. (ASUSTeK)	An investor company that ceased to be a parent company effective May 31, 2010.
ASUS HOLLAND B.V.	An investee company accounted for under the equity method by ASUSTeK Computer Inc. (Note)
ASUS TECHNOLOGY PTE. LTD.	〃
ASUS COMPUTER INTERNATIONAL	〃
BIG PROFIT LTD.	〃
ASKEY COMPUTER CORP.	〃
ASUS TECHNOLOGY INC.	〃
ASMEDIA TECHNOLOGY INC.	〃
ASUS COMPUTER (SHANGHAI) CO,. LTD. (ASUS UNITED TECHNOLOGY (SHANGHAI) CO., LTD. FORMERLY) (ASUS COMPUTER (SHANGHAI))	〃

Name of Related Party	Relationship with the Company
SHINEWAVE INTERNATIONAL INC.	An investee company accounted for under the equity method by ASUSTeK Computer Inc. (Note)
ENERTRONIX, INC.	〃
EMES (SUZHOU) CO., LTD.	〃
ASKEY TECHNOLOGY (JIANG SU) LTD. (ASKEY TECHNOLOGY)	〃
INTERNATIONAL UNITED TECHNOLOGY CO., LTD.	〃
UNIMAX ELECTRONICS INC.	〃
ASUS TECHNOLOGY (SUZHOU) CO., LTD.	〃
AGAIT TECHNOLOGY CORP.	〃
AAEON TECHNOLOGY INC.	〃
ASKEY INTERNATIONAL CORP.	〃
ASHINE PRECISION CO., LTD.	An investee company accounted for under the equity method
AVY PRECISION TECHNOLOGY INC. (AVY PRECISION)	〃
AVY CO., LTD.	〃
DONGGUAN AVY PRECISION METAL COMPONENTS CO., LTD. (DONGGUAN AVY)	〃
DONGGUAN CHENGGUANGP PRECISION HARDWARE CO., LTD.	〃
AVY PRECISION METAL COMPONENTS (SUZHOU) CO., LTD.	〃
CRYSTAL ART ENTERPRISE CO., LTD.	〃
YOGREE TECHNOLOGY CO., LTD.	
SHANGHAI INDEED TECHNOLOGY CO., LTD. (SHANGHAI INDEED)	〃
ASAP TECHNOLOGY (JIANGXI) CO., LTD.	An investee company accounted for under the equity method. The Company has ceased control effective December 31, 2010.
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	An investee company accounted for under the equity method

Name of Related Party	Relationship with the Company
GING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	An investee company accounted for under the equity method
HOLD JUMPER PACKING (SUZHOU) CO., LTD.	〃
HOLD JUMPER PACKING (SHANGHAI) CO., LTD.	〃
SUZHOU DELUXE PACKING PRODUCTION CO., LTD.	〃
AVY HIGH TECH LTD.	〃
BLACKROCK MARYLAND INTERNATIONAL CORP.	〃
GREEN PACKING LTD.	〃
PENTAX VQ CO., LTD. (PVQ)	〃
SHINE TRADE INTERNATIONAL LTD.	〃
YORKEY OPTICAL TECHNOLOGY LTD. (SAMOA)	〃
HOLD JUMPER INTERNATIONAL CO., LTD.	〃
ABICO (GUANGZHOU) INTERNATIONAL TRADING CO., LTD.	〃
TAISHIBA INTERNATIONAL CO., LTD.	An affiliate of Ability Enterprise Co., Ltd
All directors, supervisors, general manager and vice president	The Consolidated Company management

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

	For the Years Ended December 31					
	2011			2010		
Name of Related Party	**Amount**	**% of Net Sales**	**The collection term**	**Amount**	**% of Net Sales**	**The collection term**
ASUSTEK	$ 170,276,412	28.39	Open account 60 days	210,769,021	39.73	Open account 60 days
Others	25,300	-	30~90 days from receipt of goods Open account 30~90 days	139,408	0.02	30~90 days from receipt of goods Open account 30~90 days
Total	**$ 170,301,712**	**28.39**		**210,908,429**	**39.75**	

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

b. Purchases

	For the Years Ended December 31					
	2011			2010		
Name of Related Party	**Amount**	**% of Gross Purchases**	**Purchase term**	**Amount**	**% of Gross Purchases**	**Purchase term**
ASUSTeK	$ 125,965,080	21.73	Open account 60 days	151,316,954	31.50	Open account 60 days
Others	6,169,061	1.06	30~90 days from receipt of goods Open account 30~120 days	6,200,221	1.29	30~90 days from receipt of goods Open account 30~120 days
Total	**$ 132,134,141**	**22.79**		**157,517,175**	**32.79**	

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

For years ended December 31, 2011 and 2010, the Company purchased raw materials from vendors through ASUSTek.

c. Others

	For the Years Ended December 31	
	2011	2010
(a) After-sales warranty repair expense paid to:		
ASTP	$ -	93,162
ASUS COMPUTER (SHANGHAI)	1,245	14,531
Others	138	4,334
Total	**$ 1,383**	**112,027**

	For the Years Ended December 31	
	2011	2010
(b) Other income from:		
ASUSTeK	$ 527,415	614,203
Others	5,122	3,497
Total	**$ 532,537**	**617,700**

(c) For the years ended December 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, amounted to $18,334 and $42,666, respectively.

(d) For the year ended December 31, 2010, the Consolidated Company incurred other related party transactions recorded as processing revenue and repair revenue, which amounted to $94,417.

(e) Promotion expenses

	For the Years Ended December 31	
	2011	2010
ASUSTeK	**$ 4,344**	**102,252**

d. Property Transactions

(a) Purchase of properties

i. For the years ended December 31, 2011 and 2010, properties purchased from other related parties amounted to $121,993and $143,218, respectively.

ii. For the year ended December 31, 2011, the Consolidated Company sold its equity ownership of NOEA CORPORATION to Avy Precision Technology Inc. for $38,042 and recognized a loss on disposal of investment for $44.

(b) Disposal of properties

For the year ended December 31, 2010, properties disposed to other related parties amounted to $109.

(c) Rental revenue

For the years ended December 31, 2011 and 2010, the Consolidated Company incurred other related party transactions of $28,442 and $27,148, respectively, which were accounted as rental revenue.

e. Accounts Receivable (Payable)

	December 31, 2011		December 31, 2010	
Accounts Receivable:	**Amount**	**%**	**Amount**	**%**
ASUSTeK	$ 9,646,625	11.45	9,448,413	17.68
Others	3,654	-	7,132	0.01
Total	**$ 9,650,279**	**11.45**	**9,455,545**	**17.69**
Other Receivable:				
SHANGHAI INDEED	$ 6,254	0.28	-	-
DONGGUAN AVY	1,455	0.07	-	-
ASUSTeK	435	0.02	5,775	0.54
PROTEK	758	0.03	-	-
Others	-	-	1,709	0.10
Total	**$ 8,902**	**0.40**	**7,484**	**0.64**
Notes and Accounts Payable:				
ASKEY TECHNOLOGY	$ 534,352	0.53	334,634	0.61
SHANGHAI INDEED	778,663	0.78	441,994	0.81
AVY PRECISION	518,036	0.52	507,525	0.92
Others	446,702	0.45	446,983	0.81
Total	**$ 2,277,753**	**2.28**	**1,731,136**	**3.15**

	December 31, 2011		December 31, 2010	
Accrued Expenses:	**Amount**	**%**	**Amount**	**%**
ASUSTeK	$ 396,690	2.97	55,862	0.62
Others	10,524	0.08	7,384	0.08
Total	**$ 407,204**	**3.05**	**63,246**	**0.70**

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

	December 31, 2011	December 31, 2010
Assets:		
Temporary payments	$ 534	5,243
Other current assets	-	5,254
	$ 534	**10,497**
Liabilities:		
Other financial liabilities — current	$ 320	232
Other current liabilities	3,641	4,770
	$ 3,961	**5,002**

f. Endorsement Guarantee

As of December 31, 2011 and 2010, the endorsement guarantees provided by a related party for the Consolidated Company's purchases were as follows:

	Amount of Guarantee (thousands)	
Name of Related Party Guarantee	**December 31, 2011**	**December 31, 2010**
ASUSTeK	**-**	**USD 300,000**

g. Remuneration

For the years ended December 2011 and 2010, the total remuneration paid to the members of Board of Directors and Supervisors and of Executive management were as follow:

	2011	2010
Salary and Bonus (including Board of Directors' remuneration)	$ 351,873	301,363
Professional fees	210	210
Employee Bonus	102,083	105,945
Total	**$ 454,157**	**407,518**

6. Pledged Assets

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

Asset	December 31 2011	December 31 2010	Purpose of pledge
Restricted deposit	$ 111,049	1,343,307	Customs duty guarantee, bank loans, rental deposits, credit contracts, issued letter of credit, travel agency guarantee, etc.
Property, plant and equipment	939,363	1,464,747	Bank loans
Inventories	-	16,410	Lawsuit collateral (Note A)
Refundable deposits	32,327	126,694	Deposits for performance guarantee
	$ 1,082,739	**2,951,158**	

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

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

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

Unused standby letters of credit	December 31, 2011	December 31, 2010
NTD	$ 6,753	400
EUR	3,927	2,575
JPY	4,808,946	2,245,366
USD	26,654	20,508

(2) As of December 31, 2011 and 2010, promissory notes and certificate of deposit obtained for business purpose amounted to $17,332 and $13,674, respectively.

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

	Future lease commitments					
Year	2012	2013	2014	2015	2016	After 2016
Future Lease Commitments	**$449,803**	**242,867**	**172,033**	**148,896**	**57,606**	**122,301**

The present value of the future lease commitments of CASETEK HOLDINGS LIMIED and its subsidiaries which was estimated using the average loan interest rate of 1.98% in 2011 as the discounting rate was as follows:

Duration	Amount	Present Value
2017.01.01~2025.01.31	**$ 143,854**	**122,301**

(4) As of December 31, 2011 and 2010, the significant contracts for purchase of properties signed by the Consolidated Company amounted to $29,520,477 and $1,374,565, of which $16,974,382 and $269,577 were unpaid, respectively.

(5) The promissory notes issued for bank loans were as follows:

	December 31, 2011		December 31, 2010	
Jointly issued with VQ (BVI)	**USD**	**10,000**	**USD**	**12,000**
Jointly issued with VQ (BVI)		**-**	**NTD**	**569,800**
Jointly issued with ABILITY (BVI)		**-**	**USD**	**19,000**
Jointly issued with E-PIN	**NTD**	**700,000**		**-**

(6) For details of Ability Enterprise Co., Ltd.'s construction contract for the construction of its operational headquarter and research and development center in Xinzhuang, please refer to Note 4(7).

(7) As of December 31, 2011, Azure Wave Technologies Inc. issued a tariff guarantee of $10,000 to the bank for the purpose of importing goods.

(8) In order to expand the business and factories, Ri-Teng Computer Accessory (ShangHai) Co., Ltd. (Ri-Teng) signed with a non-related party (original petitioner) an agreement to purchase land use right and the existing buildings for RMB$285,000. Under this agreement, the original petitioner is responsible for acquiring the land use right from the landlord and constructing a factory that conforms to the requirement of Ri-Teng's. As of December 31, 2011, the Consolidated Company has prepaid RMB$250,000 thousand, which was accounted for under

unfinished construction and prepayments for business facilities. However, in order to facilitate the acquisition of the land use right, the board of directors of the Company resolved on December 13, 2011 to restructure the agreement so that the contracting parties will involve the original petitioner, the landlord and the Consolidated Company and the total contract amount is amended to RMB$382,811. On January 18, 2012, a tripartite contract was signed, under which, the three parties agreed not to revoke, cancel, or early terminate the contract or do other activities that will makes the contract invalid. The original petitioner is responsible for the process of transferring the ownership of the factory to the Consolidated Company. Also, when the Consolidated Company make the payment of the total contract amount o the landlord, the original petitioner will return the prepaid amount to the Consolidated Company.

(9) ASUSPOWER INVESTMENT CO., LTD. has undertaken an administrative remedy due to the disagreement with Tax Authority in determining the nature of the equity transactions in 2006 and 2007. ASUSPOWER INVESTMENT CO., LTD. has adopted an appropriate accounting treatment thereon.

8. SIGNIFICANT CATASTROPHIC LOSSES

(1) On December 17, 2011, the dust collecting equipment of CASETEK HOLDING ILMITED and its subsidiaries in Shanghai had a small gas explosion. Based on the result of the preliminary assessment by the Consolidated Company, a loss of $28,197 was recognized and accounted for under catastrophic loss. The actual amount of damages will be adjusted in the year when the amount of insurance claims will be confirmed

(2) On November 6, 2011, the factory of CASETEK HOLDING LIMITED and its subsidiaries-in Suzhou had occurred a conflagration. The carrying value of damaged molds accounted for under deferred expenses, fixed assets, and inventories amounted to $46,163. The actual amount of damages will be adjusted in the year when the amount of insurance claims will be confirmed.

9. SIGNIFICANT SUBSEQUENT EVENTS

(1) For the purpose of raising future working capital, the Company's Board of directors had approved the offering and the issuance of Overseas Unsecured Convertible Corporate Bonds on December 1, 2011, and the offering was approved by the Financial Supervisory Commission Executive Yuan on December 30, 2011.

The Company has completed the pricing of its Overseas Unsecured Convertible Corporate Bonds on January 30, 2012 and offered US$300,000 thousand dollars aggregate principle amount of Zero Coupon Convertible Bonds with the principle amount US$200 thousand dollars on February 6, 2012. These Convertible Bonds, with an initial conversion price of NT$42.11, will mature on February 5, 2017. Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on Maturity Date at an amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on a semi-annual basis.

(2) In order to strengthen cooperative relations between the Company and Advansus Corp. (Advansus) and coordinate the integration of joint venture resources with Advansus and the other party, the Company sold all its equity ownership in Advansus to the other party of joint venture for $306,000 on January 5, 2012 and proposed to complete the transfer ownership of those shares in June 2012.

(3) In order to acquire a property for plant expansion, CASETEK HOLDING LIMITED and its subsidiaries have signed a tripartite agreement for this purpose on January 18, 2011 with non-related parties. Refer to Note 7(8) for related information.

(4) For the purpose of raising working capital, CASETEK HOLDING LIMITED loaned from MAINTEK COMPUTER (SUZHOU) CO., LTD. of US$70,000 thousand dollars and US$50,000 thousand dollars in January 2012 and February 2012, respectively. These loans both bear interest at rate of 1%, and the term of two years.

(5) For the purpose of expanding production capacity, CASETEK HOLDING LIMITED acquired machinery equipment from ASUSPOWER for RMB$324,085 thousand dollars.

(6) For the purpose of investing in mainland subsidiaries and increasing machinery equipment and production capacity, the Consolidated Company increased its capital by issuing new shares of stock worth $133,580, divided into 13,358 thousand shares with par value of $10 per share on February 20, 2012, the effective date of capital increase. The issuance price was $41.81 per share, and the premium from the issuance of those shares of stock amounted to $424,909, which was accounted under capital surplus. As of the reporting date, the process of the aforesaid stock issuance are still in process.

(7) In October 2011, pursuant to the resolutions of the board of directors, AZUREWAVE TECHNOLOGIES INC. resolved to increase its capital by issuing new shares worth $440,000, divided into 20,000 thousand shares with par value of $22 per share on February 5, 2012, the effective date of capital increase, for the purpose of redemption of bank loans and commercial paper. If the aforesaid capital increase needed to be change due to the change in regulation and objective market environment, the board resolved to authorized the president take care all the capital increase issues.

(8) On February 13, 2012, ASUSPOWER INVESTMENT CO., LTD. sold for $350,945 to a third party its equity ownership in MediaTek Inc. of 1,214 thousand shares and recognized a loss on disposal of investment thereon of $41,680.

(9) Based on their interim meeting on January 31, 2012, the shareholders approved a resolution to liquidate E-PIN INTERNATIONAL TECH CO., LTD. effective April 15, 2012.

(10) Based on its annual consolidated financial statements for the year ended December 31, 2011, E-Pin Optical Industry Co., Ltd. failed to comply with its syndicated loan financial covenants concerning the interest coverage ratio and current ratio. Refer to Note 4(12) for related information.

10. OTHERS:

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

	For the Year Ended December 31, 2011			For the Year Ended December 31, 2010		
Categorized as Nature	**Operating Cost**	**Operating Expense**	**Total**	**Operating Cost**	**Operating Expense**	**Total**
Personnel expense						
Salary expense	17,560,050	9,010,159	26,570,209	13,070,982	8,175,749	21,246,731
Health and labor insurance expense	824,880	551,833	1,376,713	841,701	494,983	1,336,684
Pension expense	994,344	471,085	1,465,429	659,016	361,242	1,020,258
Other expense	1,154,658	460,534	1,615,192	716,288	336,533	1,052,821
Depreciation expense (Note A)	7,221,782	1,205,067	8,426,849	6,637,381	1,133,461	7,770,842
Amortization expense	1,473,142	1,040,939	2,514,081	1,494,012	835,092	2,329,104

Note A: For the years 2011 and 2010, the Consolidated Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle-assets of $21,647 and $254,243, respectively.

(2) Certain accounts in the financial statements as of and for the year ended December 31, 2010, were reclassified to conform to the presentation adopted in the financial statements as of and for the year ended December 31, 2011.

11. BUSINESS SEGMENT FINANCIAL INFORMATION:

(1) General Information

The Consolidated Company identifies 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 years ended December 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.

For the Year Ended December 31, 2011	DMS	Strategic Investment Group	Adjustment and eliminations	Total
External Revenue	$ 453,636,342	146,306,364	-	599,942,706
Intra-Group Revenue	46,929,465	11,694,900	(58,624,365)	-
Total segment revenue	**$ 500,565,807**	**158,001,264**	**(58,624,365)**	**599,942,706**
Segment profit (loss)	**$ 63,089**	**6,603,540**	**(1,939,237)**	**4,727,392**
Other significant non-monetary items:				
Investment income (loss) under equity method	**1,989,701**	**(94,972)**	**(1,796,285)**	**98,444**
Asset				
Long-term investment under equity method	**$ 39,401,686**	**57,659,663**	**(94,598,108)**	**2,463,241**
Segment assets	**$ 227,604,810**	**176,419,009**	**(104,450,051)**	**299,573,768**
Other significant non-monetary items				
Goodwill	**-**	**1,058,865**	**839,634**	**1,898,499**
Segment liabilities	**$ 136,020,602**	**55,982,832**	**(10,626,395)**	**181,377,039**

For the Year Ended December 31, 2010	DMS	Strategic Investment Group	Adjustment and eliminations	Total
External Revenue	$ 434,895,780	95,635,571	-	530,531,351
Intra-Group Revenue	592,263	12,744,390	(13,336,653)	-
Total segment revenue	**$ 435,488,043**	**108,379,961**	**(13,336,653)**	**530,531,351**
Segment profit (loss)	**$ 7,314,892**	**8,812,888**	**(3,157,436)**	**12,970,344**
Other significant non-monetary items:				
Investment income (loss) under equity method	**2,853,455**	**446,089**	**(3,092,252)**	**207,292**
Asset				
Long-term investment under equity method	**$ 31,019,596**	**54,287,558**	**(82,836,054)**	**2,471,100**
Segment assets	**$ 160,090,411**	**142,816,596**	**(86,903,415)**	**216,003,592**
Other significant non-monetary items				
Goodwill	**-**	**49,031**	**836,651**	**885,682**
Segment liabilities	**$ 69,249,181**	**34,961,161**	**(4,824,249)**	**99,386,093**

(2) Industrial Information

a. Geographic information

(a) External Sales

Region	2011	2010
Taiwan	$ 242,873,453	217,078,171
China	52,244,102	40,933,261
USA	127,999,962	63,099,032
Japan	86,382,723	112,249,687
Others	90,442,466	97,171,200
Total	**$ 599,942,706**	**530,531,351**

(a) Non-current assets

Region	2011	2010
Taiwan	$ 13,868,216	14,358,310
China	60,434,117	41,391,477
Others	5,539,743	5,244,374
Total	**$ 79,842,076**	**60,994,161**

b. Major Customer

Customers with revenues exceeding 10% of the total revenues in 2011 and 2010 were as follows:

Customer	2011	2010
A	$ 170,276,412	210,769,021
B	55,951,280	70,316,794
C	72,526,182	7,077,051
	$ 298,753,874	**288,162,866**

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