

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011
(With Independent Accountants' Review Report Thereon)

Address: 5F., No.76, Ligong St., Beitou District, Taipei City 112, Taiwan
Telephone: 886-2-8143-9001

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REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

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

We have reviewed the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries (the Consolidated Company) as of March 31, 2012 and 2011, and the related consolidated statements of income and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Consolidated Company's management. Our responsibility is to express the review report based on our reviews.

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

The financial statements of certain subsidiaries were consolidated based on their unreviewed financial statements as of and for the three months ended March 31, 2012 and 2011. The total assets of these subsidiaries amounted to \$210,315,685 thousand and \$151,692,224 thousand, representing 67.49% and 67.01% of the related consolidated total assets and the consolidated total liabilities amounted to \$88,422,594 thousand and \$41,450,320 thousand, representing 46.16% and 38.13% of the related consolidated liabilities as of March 31, 2012 and 2011, respectively. The operating revenues of these subsidiaries amounted to \$29,378,779 thousand and \$29,127,797 thousand, representing 17.09% and 26.55% of the consolidated operating revenues for the three months ended March 31, 2012 and 2011, respectively, and their net loss amounted to \$378,559 thousand and \$145,215 thousand, representing (18.70)% and (83.72)% of the related consolidated net income, respectively. As disclosed in Note 4(5) to the consolidated financial statements, the financial statements of certain long-term investments accounted for under the equity method were not reviewed by independent accountants. Long-term investments in these companies amounted to \$2,437,577 thousand and \$2,437,153 thousand as of March 31, 2012 and 2011, respectively, and the related investment income thereon amounted to \$16,554 thousand and \$15,046 thousand, respectively.

Based on our reviews and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the financial statements of some consolidated subsidiaries and some equity-method investees as described in the preceding paragraph been reviewed by independent accountants, we are not aware of any material modifications that should be made to the consolidated financial statements referred to the first paragraph for them to be in conformity with Order VI-0960064020 issued by the Financial Supervisory Commission under the Executive Yuan dated November 15, 2007 and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the accounting principles generally accepted in the Republic of China.

CPA: Ulyos Maa
Securities and Futures Commission,
Ministry of Finance, R.O.C. regulation
(88) Tai-Tsai-Jung (6) No. 18311

April 30, 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 certain disclosures not translated into English as they are not required under generally accepted accounting principles in the Republic of China.

(English Translation of Financial Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards.

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2012 AND 2011

(All Amounts Expressed in Thousands of New Taiwan Dollars)

ASSETS	March 31, 2012		March 31, 2011	
	Amount	%	Amount	%
Current Assets:				
Cash (Note 4(1))	\$ 50,188,714	16	36,143,166	16
Financial assets reported at fair value through profit or loss — current (Notes 4(2) and 4(19))	6,145,254	2	6,998,426	3
Available-for-sale financial assets — current (Notes 4(2) and 4(19))	497,581	-	678,996	-
Held-to-maturity financial assets — current (Notes 4(2) and 4(19))	-	-	264,600	-
Notes receivable, net of allowance for uncollectible accounts (Note 4(3))	99,934	-	311,093	-
Accounts receivable, net (Note 4(3))	79,338,350	25	49,218,503	22
Accounts receivable, net — Related parties (Note 5)	5,467,183	2	7,947,360	4
Other receivable	2,337,460	1	2,246,187	1
Other receivable — Related parties (Note 5)	38,421	-	10,787	-
Other financial assets — current (Note 5 and 6)	112,826	-	108,713	-
Inventories (Note 4(4) and 6)	75,301,360	25	48,868,928	22
Long-term equity investment held-for-sale (Notes 4(6) and 4(7))	243,069	-	-	-
Other current assets (Note 5)	5,887,230	2	2,576,878	1
Deferred income tax assets — current	901,705	-	680,207	-
	<u>226,559,087</u>	<u>73</u>	<u>156,053,844</u>	<u>69</u>
Investments:				
Available-for-sale financial assets — noncurrent (Notes 4(2) and 4(19))	644,120	-	1,286,367	1
Financial assets carried at cost — noncurrent (Note 4(2) and 4(19))	699,200	-	732,331	-
Long-term investments under the equity method (Note 4(5))	2,437,577	1	2,437,153	1
	<u>3,780,897</u>	<u>1</u>	<u>4,455,851</u>	<u>2</u>
Other financial assets - noncurrent (Note 6)	<u>236,832</u>	<u>-</u>	<u>266,064</u>	<u>-</u>
Property, Plant and Equipment, at cost (Note 4(8) and 6)				
Land	4,419,113	1	5,392,801	2
Buildings	26,872,278	9	24,545,317	11
Machinery and equipment	56,279,681	18	46,233,892	20
Warehousing equipment	120,298	-	113,305	-
Instrument equipment	1,849,993	1	1,571,388	1
Transportation equipment	240,865	-	263,267	-
Office equipment	863,571	-	1,110,613	-
Miscellaneous equipment	13,939,612	4	8,413,143	4
	<u>104,585,411</u>	<u>33</u>	<u>87,643,726</u>	<u>38</u>
Less: Accumulated depreciation	(41,507,737)	(13)	(35,167,355)	(16)
Less: Accumulated impairment	(196,145)	-	(37,817)	-
Prepayments on purchase of equipment	8,776,671	3	3,784,005	2
	<u>71,658,200</u>	<u>23</u>	<u>56,222,559</u>	<u>24</u>
Intangible Assets				
Goodwill (Note 4(9))	1,871,446	1	2,238,243	1
Deferred pension costs	2,525	-	379	-
Land use rights (Note 4(9))	2,595,834	1	2,354,899	1
Other intangible assets (Note 4(9))	1,174,870	-	1,351,448	1
	<u>5,644,675</u>	<u>2</u>	<u>5,944,969</u>	<u>3</u>
Other Assets				
Deferred charges (Note 4(10))	1,895,319	1	2,161,046	1
Other assets — others (Note 4(8) and 4(10))	1,411,688	-	1,253,567	1
Deferred income tax assets — noncurrent	421,146	-	-	-
	<u>3,728,153</u>	<u>1</u>	<u>3,414,613</u>	<u>2</u>
TOTAL ASSETS	\$ 311,607,844	100	226,357,900	100

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

(With KPMG review report dated April 30, 2012.)

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CON'T)
MARCH 31, 2012 AND 2011
(All Amounts Expressed in Thousands of New Taiwan Dollars)

	March 31, 2012		March 31, 2011	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Short-term loans (Note 4(11))	\$ 24,924,497	8	10,378,049	5
Short-term notes and bills payable	59,997	-	49,926	-
Financial liabilities at fair value through profit or loss – current (Note 4(2) and 4(19))	70,203	-	49,385	-
Notes payable	74,386	-	236,899	-
Accounts payable	105,858,803	34	63,478,206	28
Accounts payable – Related parties (Note 5)	1,919,436	1	1,778,285	1
Income tax payable	2,093,065	1	2,425,537	1
Accrued expenses (Note 5)	11,977,562	4	7,958,871	3
Long-term loans payable – current portion (Notes 4(13) and 4(19))	1,079,515	-	660,542	-
Other financial liabilities – current (Note 5)	3,582,364	1	2,561,356	1
Other current liabilities (Note 5)	5,515,227	2	3,525,781	2
	<u>157,155,055</u>	<u>51</u>	<u>93,102,837</u>	<u>41</u>
Long-Term Liabilities:				
Bonds payable (Notes 4(12) and 4(19))	9,890,709	3	1,381,528	1
Long-term loans (Notes 4(13) and 4(19))	23,329,539	7	11,231,362	5
Long-term accounts payable	-	-	2,000,000	1
Other financial liabilities – noncurrent	470,959	-	370,879	-
	<u>33,691,207</u>	<u>10</u>	<u>14,983,769</u>	<u>7</u>
Other Liabilities:				
Deferred income tax liabilities – noncurrent	654,939	-	546,525	-
Other liabilities – others	63,063	-	67,196	-
	<u>718,002</u>	<u>-</u>	<u>613,721</u>	<u>-</u>
Total Liabilities	<u>191,564,264</u>	<u>61</u>	<u>108,700,327</u>	<u>48</u>
Stockholders' Equity (Note 4(16)):				
Common stock	<u>22,563,669</u>	<u>7</u>	<u>22,563,669</u>	<u>10</u>
Capital surplus				
Premium on capital stock	60,393,247	19	60,393,247	27
Others	3,448,129	2	2,755,153	1
	<u>63,841,376</u>	<u>21</u>	<u>63,148,400</u>	<u>28</u>
Retained earnings:				
Legal reserve	1,836,601	1	1,215,457	1
Special reserve	4,327,629	2	-	-
Unappropriated earnings	1,421,159	-	7,694,861	3
	<u>7,585,389</u>	<u>3</u>	<u>8,910,318</u>	<u>4</u>
Other adjustments to stockholders' equity:				
Cumulative translation adjustments	(2,292,102)	(1)	(4,086,351)	(2)
Unrecognized past service cost	440	-	(16)	-
Unrealized gain on financial assets	252,997	-	512,073	-
Treasury stock	(18,794)	-	(9,322)	-
	<u>(2,057,459)</u>	<u>(1)</u>	<u>(3,583,616)</u>	<u>(2)</u>
Total Parent Company's Equity	<u>91,932,975</u>	<u>30</u>	<u>91,038,771</u>	<u>40</u>
Minority interest	<u>28,110,605</u>	<u>9</u>	<u>26,618,802</u>	<u>12</u>
Total Stockholders' Equity	<u>120,043,580</u>	<u>39</u>	<u>117,657,573</u>	<u>52</u>
Commitments and Contingencies (Note 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 311,607,844</u>	<u>100</u>	<u>226,357,900</u>	<u>100</u>

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

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

	For the Three Months ended March 31			
	2012		2011	
	Amount	%	Amount	%
Operating revenues (Note 5)	\$ 172,556,702	100	110,455,217	101
Less: Sales returns and allowances	662,373	-	747,616	1
Net sales	171,894,329	100	109,707,601	100
Cost of sales (Notes 4(4) and 5)	163,758,210	95	104,462,672	95
Gross profit	8,136,119	5	5,244,929	5
Operating expenses (Notes 5)				
Selling expenses	2,190,555	1	1,918,005	2
General and administrative expenses	1,844,464	1	1,786,936	2
Research and development expenses	2,647,238	2	2,071,609	2
	6,682,257	4	5,776,550	6
Income (Loss) from operations	1,453,862	1	(531,621)	(1)
Non-operating income				
Interest revenue	174,179	-	81,070	-
Investment income under the equity method (Note 4(5))	16,554	-	15,046	-
Gain on disposal of fixed assets	-	-	87,972	-
Gain on disposal of investments (Note 4(2))	162	-	331,780	-
Foreign exchange gain, net	621,438	-	453,141	1
Gain on reversal of allowance for uncollectible accounts	48,400	-	7,604	-
Gain on reversal of impairment (Notes 4(2) and 4(8))	-	-	55,445	-
Gain on valuation of financial asset (Notes 4(2) and 4(19))	66,873	-	-	-
Gain on valuation of financial liability (Notes 4(2) and 4(19))	51,278	-	-	-
Others (Notes 4(2), 4(8) and 5)	628,557	-	544,985	1
	1,607,441	-	1,577,043	2
Non-operating expenses				
Interest expense	281,726	-	81,997	-
Loss on disposal of fixed assets (Note 4(8))	119,921	-	-	-
Impairment loss (Notes 4(2) and 4(8))	18,171	-	-	-
Loss on valuation of financial asset (Notes 4(2) and 4(19))	-	-	31,196	-
Loss on valuation of financial liability (Notes 4(2) and 4(19))	-	-	36,159	-
Others (Note 5)	244,439	-	101,331	-
	664,257	-	250,683	-
Income before income tax	2,397,046	1	794,739	1
Income tax expense	373,105	-	621,285	1
Consolidated income	<u>\$ 2,023,941</u>	<u>1</u>	<u>173,454</u>	<u>-</u>
Income (Loss) attributable to :				
Shareholders of parent company	\$ 1,276,693	1	(558,744)	1
Minority interest	747,248	-	732,198	1
	<u>\$ 2,023,941</u>	<u>1</u>	<u>173,454</u>	<u>-</u>
			Before	After
			Income Tax	Income Tax
Earnings (Losses) per share attributable to parent company (Note 4(18))				
Primary earnings (losses) per share	<u>\$ 0.51</u>		<u>(0.23)</u>	<u>(0.25)</u>
Diluted earnings per share	<u>\$ 0.49</u>		<u>0.54</u>	

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011
 (All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Three Months Ended March 31	
	2012	2011
Cash flows from operating activities:		
Consolidated net income	\$ 2,023,941	173,454
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	2,387,140	1,985,826
Amortization	634,282	617,017
Loss on inventory market price decline and obsolescence, and for impairment	907,434	(27,483)
Employee compensation cost	35,529	3,304
Gain on foreign currency exchange on bonds payable	(20,092)	-
Amortization of issuance costs on bonds payable	1,948	-
Investment income under equity method	(16,554)	(15,046)
Cash dividends from investment under equity method	-	74,723
Loss (gain) on disposal and retirement of assets	138,742	(45,971)
Gain on disposal of investments	(162)	(331,780)
Loss (gain) on valuation of financial assets and liabilities	(118,151)	67,355
Impairment loss (reversal gain)	18,171	(55,445)
Allowance for uncollectable accounts	(48,400)	(7,604)
Amortization of discount on bonds payable	11,737	7,727
Change in assets and liabilities:		
Change in assets:		
Financial assets reported at fair value through profit or loss	339,173	(652,506)
Derivative financial assets for hedging — current	-	1,196
Notes and accounts receivable	(2,340,915)	(320,914)
Other accounts receivable	(606,699)	(1,043,210)
Inventories	(11,590,253)	(5,537,117)
Other current assets	(949,956)	(86,351)
Deferred income tax asset and liability, net	97,624	116,088
Other assets — other	(380,702)	(77,089)
Change in liabilities:		
Financial liabilities reported at fair value through profit or loss	(1,512)	1,150
Notes and accounts payable	10,278,780	4,630,817
Income tax payable	230,815	330,189
Accrued expenses	(1,207,418)	584,476
Other financial liabilities — current	(420,136)	(1,489,560)
Other current liabilities	1,094,326	(1,082,123)
Other liabilities — others	10,000	8,566
Net cash provided by (used in) operating activities	<u>508,692</u>	<u>(2,170,311)</u>
Cash flows from investing activities:		
Acquisition of financial assets available-for-sale	11,187	552,419
Acquisition of financial assets carried at cost	-	(174,780)
Proceeds from disposal of financial assets carried at cost	-	118,014
Acquisition of subsidiaries	-	(1,427,750)
Purchase of property, plant and equipment	(8,623,377)	(2,042,956)
Proceeds from disposal of property, plant and equipment, idle assets and deferred charges	65,675	749,580
Increase in deferred charges	(172,903)	(118,760)
Purchase of intangible assets	(22,692)	(27,265)
Proceeds from disposal of intangible assets	737	30,134
Other financial assets — current	(4,305)	1,233,094
Other financial assets — noncurrent	60,233	33,573
Net cash used in investing activities	<u>(8,685,445)</u>	<u>(1,074,697)</u>

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Three Months Ended March 31	
	2012	2011
Cash flows from financing activities:		
Increase (Decrease) in short-term loans	2,151,131	(4,399,508)
Increase (Decrease) in short-term notes and bills payable	(159,938)	2
Increase (Decrease) in long-term loans	(3,508,726)	1,254,577
Issuance of bonds payable	8,835,640	-
Increase in other financial liabilities — noncurrent	50,167	28,004
Increase in minority interest	846,917	20,290
Net cash provided by (used in) financing activities	8,215,191	(3,096,635)
Foreign exchange rate effects	(174,072)	220,802
Effect of changes in certain subsidiaries	(129,085)	-
Net increase (decrease) in cash	(264,719)	(6,120,841)
Cash, beginning of the period	50,453,433	42,264,007
Cash, end of the period	\$ 50,188,714	\$ 36,143,166
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 283,226	64,529
Income tax	\$ 42,566	217,789
Non-cash investing and financing		
Reclassification of current portion of long-term loans	\$ 1,079,515	660,542
Dividend payable (accounted under other financial liabilities — current and long-term payable)	\$ -	3,000,000
Purchase of property and equipment with cash and other payables:		
Property, plant and equipment	\$ 5,146,479	1,693,114
Add: Accounts payable, beginning of the period	4,943,219	468,687
Less: Accounts payable, end of the period	(1,466,321)	(118,845)
Cash paid	\$ 8,623,377	2,042,956
Cash received from acquisition of subsidiaries:		
Cash received		\$ 5,774,189
Less: Proceeds payables, end of the period		(3,000,000)
Proceeds paid during the period		2,774,189
Less: Cash balance from consolidation of subsidiary		(1,346,439)
Cash paid		\$ 1,427,750

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2012 AND 2011

(Amounts Expressed in Thousands of New Taiwan Dollars,

Except for Per Share Information and Unless Otherwise Stated)

1. ORGANIZATION AND BUSINESS :

According to the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan, Pegatron Corporation (the “Company”) need not disclose the information about organization and business in the consolidated financial statements for the first and third quarters of each year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Consolidated Company’s financial statements were prepared in accordance with the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan on November 15, 2007, Guidelines Governing the Preparation of Financial Reports by Securities, and generally accepted accounting principles of the Republic of China. Except for the following significant accounting policies, other significant policies which are not disclosed herein are the same as those in the Company’s 2011 annual consolidated financial statements

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

(1) Basis of consolidation

- a. The consolidated financial statements include the Company and its controlled subsidiaries, in which the significant inter-company transactions were eliminated. As of March 31, 2012 and 2011, the consolidated subsidiaries were as follows:

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.03.31	2011.03.31	
The Company	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	100.00%	100.00%	The Company directly owns over 50% of equity
UNIHAN AND ASUSPOWER INVESTMENT	Ability Enterprise Co., LTD. (Ability(TW))	Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products leasing	12.36%	12.40%	Subsidiary has de facto control

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.03.31	2011.03.31	
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
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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.03.31	2011.03.31	
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
AV	E-SKY HOLDING LTD. (ES)	Investing activities	73.04%	-	Subsidiary directly owns over 50% of equity

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.03.31	2011.03.31	
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
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

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.03.31	2011.03.31	
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 spare parts for 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
CASETEK HOLDING	APLUS PRECISION LTD. (APLUS)	Investing and trading activities	-	51.00%	Note B

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.03.31	2011.03.31	
UNIHAN, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	38.08%	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

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.03.31	2011.03.31	
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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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.03.31	2011.03.31	
AMA	EXTECH LTD.	Trading electronic parts	90.51%	90.51%	Subsidiary directly owns over 50% of equity
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	100.00%	100.00%	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	ASUS HOLLAND HOLDING B.V.(AHH)	Investing activities	100.00%	100.00%	The Company 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.03.31	2011.03.31	
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
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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.03.31	2011.03.31	
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
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
PEGATRON HOLDING	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.03.31	2011.03.31	
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PEGATRON HOLDING	TOP QUARK LIMITED (TOP QUARK)	Investing and holding activities	100.00%	100.00%	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

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.03.31	2011.03.31	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling 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

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Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.03.31	2011.03.31	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, wholeselling 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
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION	Investing activities	100.00%	-	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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2012.03.31	2011.03.31	
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	Subsidiary directly owns over 50% of equity
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 wholeselling electronic components	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED (CAYMAN) (CASETEK CAYMAN)	Investing activities	94.72%	100.00%	Subsidiary directly owns over 50% of equity
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
CASETEK CAYMAN	RIH KUAN METAL CORPORATION (RIH KUAN)	Manufacturing iron and aluminum products	100.00%	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

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			2012.03.31	2011.03.31	
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
UNITED	AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	100.00%	Subsidiary directly owns over 50% of equity
RIH LI	GLOBAL EXPERT LIMITED	Trading activities	-	100.00%	-
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	Manufacturing and selling electronic components	100.00%	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%	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
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

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			2012.03.31	2011.03.31	
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.(PCBR)	Maintenance service	100.00%	100.00%	Subsidiary directly owns over 50% of equity
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

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			2012.03.31	2011.03.31	
Lumens Optics	Lumens Europe BVBA	Selling computer communication products and peripherals	100.00%	100.00%	Subsidiary directly owns over 50% of equity
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%	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 as of and for the three months ended March 31, 2011 include only a proportion of the joint venture owned by the Company. As of March 31, 2012, ADVANSUS CORP. was excluded from the consolidated financial statements due to disposal of the Company's entire equity ownership.

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\$10,281 thousand, 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.

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b. Increases or decreases in the number of consolidated subsidiaries as of March 31, 2012 were as follows:

1. 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).
2. 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.
3. For the year ended December 31, 2011, Ability (TW) 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.
4. 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 to a non-related party. Furthermore, Ability (TW) invested and acquired 100% of the equity ownership of Jiuqing Viewquest Electronics Inc. through a third party.
5. 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.

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6. 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.
7. 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.
8. 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.
9. For the three months ended March 31, 2012, the Consolidated Company disposed all equity ownership in ADVANSUS CORP. Please refer to Note 4(6) for details of the disposal.
10. For the three months ended March 31, 2012, PEGAVISION CORPORATION has invested and established PEGAVISION HOLDINGS CORPORATION for US\$120 thousand and directly owned 100% equity of the aforesaid subsidiary.

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 38.08%, 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. Refer to Note 4(12) for related information on convertible bonds and new shares issued by subsidiaries.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) 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 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.

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.

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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 accounts receivable, and other receivables

Notes and accounts 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.

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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.

h. Compound financial instruments

Compound financial instruments issued by the Consolidated Company comprise both financial liabilities and convertible notes that can be converted into share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized based on the excess of the fair value of the compound financial instrument as a whole over the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method, unless it is designated at fair value through profit or loss. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

(3) Long-term Equity Investments Held-for-Sale

As the Company had contracted to sell its long-term equity investment in a subsidiary, it ceases control over the said subsidiary. This formal commitment by the Company to sell its long-term equity investment is deemed within the scope of SFAS No. 38 “Non-current Assets Held for Sale and Discontinued Operations” so that this investment was reclassified to long-term equity investment held-for-sale. Also, the said subsidiary was excluded from the consolidated financial statements effective from the date of reclassification and the long-term equity investment held-for-sale are measured at the lower of its carrying value or fair value.

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3. Reasons for and Effect of Accounting Changes:

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

4. Summary of Major Accounts

(1)Cash and Cash Equivalents

	March 31, 2012	March 31, 2011
Cash on hand	\$ 19,029	13,927
Demand deposits	23,910,875	17,051,595
Time deposits	25,519,539	19,077,644
Cash equivalents — RP Bonds	739,271	-
Total	\$ 50,188,714	36,143,166

- a. The aforesaid RP Bonds cover a redemption period from April 12, 2012 to May 3, 2012 and bear interest at annual rate of 0.63% ~ 1.5%.
- b. The aforesaid cash and cash equivalents were not pledged as collateral. Pledged time deposits were accounted for under other financial assets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Financial Instruments

a. The components of financial instruments were as follows:

	March 31, 2012	March 31, 2011
Financial assets reported at fair value through profit or loss — current:		
Financial assets held-for-trading — current		
Stock of listed companies	\$ 422,472	223,383
Beneficiary certificates	5,677,932	6,198,275
Forward exchange contracts	3,947	2,131
Option exchange	-	15,691
Foreign exchange swap contracts	3,201	12,171
Depository receipts	-	19,666
Corporate bonds	37,702	527,109
	\$ 6,145,254	6,998,426
Available-for-sale financial assets — current:		
Stock of overseas listed companies	\$ 497,581	678,996
Available-for-sale financial assets — noncurrent:		
Stock of listed companies	\$ 644,120	1,286,367
Held-to-maturity financial assets — current:		
Corporate bonds	\$ -	264,600
Financial assets carried at cost — noncurrent:		
Equity securities — common stock	\$ 414,815	379,001
Equity securities — preferred stock	284,385	253,330
Corporate bonds	-	85,435
Option	-	14,565
	\$ 699,200	732,331

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	March 31, 2012	March 31, 2011
Financial liabilities reported at fair value through profit or loss — current:		
Financial liabilities held-for-trading — current		
Foreign exchange swap contracts	\$ -	1,322
Forward exchange contracts	87	-
Option exchange	-	882
Sub-total	<u>\$ 87</u>	<u>2,204</u>
Financial liabilities reported at fair value through profit or loss — current:		
Domestic convertible bonds — put and call options	\$ (1,578)	(1,578)
Adjustments	57,477	48,759
	<u>55,899</u>	<u>47,181</u>
Foreign convertible bonds — put and call options	20,410	-
Adjustments	(6,193)	-
	<u>14,217</u>	<u>-</u>
Sub-total	<u>70,116</u>	<u>47,181</u>
Total	<u>\$ 70,203</u>	<u>49,385</u>

- 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 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 three months ended March 31, 2012 and 2011, Ability (TW) recognized a gain (loss) on financial liability reported at fair value through profit or loss of \$45,085 and \$(36,039), respectively. Please refer to Note 4(12) for the main terms and conditions of the 1st unsecured domestic convertible bonds issued by Ability (TW).
- c. For three months ended March 31, 2012 and 2011, the Consolidated Company recognized a net gain (loss) on financial assets reported at fair value through profit or loss of \$118,151 and \$(67,355), respectively.
- d. For three months ended March 31, 2012 and 2011, the unrealized gain (loss) on available-for-sale financial assets amounted to \$295,096 and \$(492,709), respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- 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 \$40,812 and \$6,724 for the three months ended March 31, 2012 and 2011, respectively.
- f. 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.
- g. 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.
- h. The Company separately accounts for the equity components and liability components of the overseas convertible corporate bonds in accordance with SFAS 36. Please refer to Note 4(12) for details.
- i. As of March 31, 2012 and 2011, the components of financial derivatives of Ability Enterprise Co., Ltd. and GLOBAL EXPERT LIMITED were as follows:

	March 31, 2012		
	Book Value	Notional Principal (thousands)	Maturity Date/ Contract Period
Derivative financial assets not for hedge			
Forward exchange contract (sell)	\$ (87)	USD 3,000	2012.03~2012.05
Forward exchange contract (buy)	\$ 3,947	USD 54,000	2012.03~2012.05
Foreign exchange swap contracts	\$ 3,201	USD 82,530	2012.02~2012.04
	March 31, 2011		
	Book Value	Notional Principal (thousands)	Maturity Date/ Contract Period
Derivative financial assets not for hedge			
Foreign exchange swap contracts	\$ 12,171	USD 101,460	2011.03~2011.04
Forward exchange contracts (sell)	\$ 2,131	USD 19,300	2011.02~2011.05
Option exchange (long call)	\$ 15,691	USD 4,750	2011.01~2011.09
Option exchange (short call)	\$ (882)	USD 3,000	2010.05~2011.06
Foreign exchange swap contracts	\$ (1,322)	USD 4,750	2011.01~2011.09

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Ability Enterprise Co., Ltd. entered into derivative contracts during the three months ended March 31, 2012 and 2011 to manage exposures due to the fluctuations of exchange rate and interest rate. However, no hedge accounting was adopted as these derivatives do not meet the criteria for hedge accounting.

Furthermore, please refer to Note 4(19) for the risk management of the Consolidated Company.

(3) Notes and Accounts Receivable

	March 31, 2012	March 31, 2011
Notes receivable	\$ 99,934	311,458
Less: Allowance for uncollectible accounts	-	(365)
Net	99,934	311,093
Accounts receivable	80,141,839	49,880,233
Less: Allowance for uncollectible accounts	(710,494)	(661,730)
Less: Allowance for sales returns and discounts	(92,995)	-
Net	79,338,350	49,218,503
Total	\$ 79,438,284	49,529,596

As of March 31, 2012 and 2011, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

Purchaser	Amount derecognized		Credit advanced		Collateral	Credit (thousands)	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011		March 31, 2012	March 31, 2011
Mega International Commercial Bank	\$ 745,132	660,113	-	234,159	None	USD 30,000	USD 30,000

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Inventories

	March 31, 2012	March 31, 2011
Merchandise	\$ 2,839,127	2,200,529
Less: Allowance for inventory market decline and obsolescence	(91,727)	(361,375)
Sub-total	<u>2,747,400</u>	<u>1,839,154</u>
Finished goods	21,865,606	13,512,784
Less: Allowance for inventory market decline and obsolescence	(1,050,851)	(1,158,393)
Sub-total	<u>20,814,755</u>	<u>12,354,391</u>
Work in process	15,091,596	10,225,174
Less: Allowance for inventory market decline and obsolescence	(744,355)	(330,417)
Sub-total	<u>14,347,241</u>	<u>9,894,757</u>
Raw materials	38,526,413	26,208,511
Less: Allowance for inventory market decline and obsolescence	(2,344,284)	(1,873,083)
Sub-total	<u>36,182,129</u>	<u>24,335,428</u>
Inventory-in-transit	1,209,835	445,198
Total	<u><u>\$ 75,301,360</u></u>	<u><u>48,868,928</u></u>

For three months ended March 31, 2012 and 2011, the components of cost of goods sold were as follows:

	For the Three Months Ended March 31	
	2012	2011
Cost of goods sold	\$ 162,803,771	104,200,772
Reversal of inventory market price decline	(283,808)	(271,528)
Loss on disposal of inventory	1,191,242	244,045
Idle capacity	47,005	289,383
	<u><u>\$ 163,758,210</u></u>	<u><u>104,462,672</u></u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(5) Long-Term Equity Investments

Name of Investee Company	March 31, 2012		March 31, 2011	
	Equity Holding	Book Value	Equity Holding	Book Value
INDEED HOLDINGS LTD.	49.00%	\$ 750,328	49.00%	702,707
AVY PRECISION TECHNOLOGY INC.	20.25%	807,677	20.25%	788,744
EBIZPRISE INC.	- %	-	31.76%	77,072
ASAP TECHNOLOGY (JIANGXI) CO., LTD.	25.00%	233,449	25.00%	172,244
WILSON HOLDINGS LTD.	49.00%	159,236	49.00%	159,110
EVER PINE INTERNATIONAL LTD. (BVI)	34.65%	73,382	34.65%	114,376
WISE INVESTMENT LTD.	48.78%	39,859	48.78%	35,724
SHIN-EI YORKEY INTERNATIONAL LTD. (BVI)	50.00%	17,916	50.00%	14,955
ZHANGJIAGANG DONGBU HIGH TECHNOLOGY METAL PRODUCTS CO., LTD.	20.00%	43,985	20.00%	43,224
E-PACKING HOLDING LTD.	30.00%	297,621	30.00%	256,354
YOFREE TECHNOLOGY CO., LTD.	17.50%	13,010	17.50%	10,811
Sub-total		2,436,463		2,375,321
Add: Fair value adjustment for identifiable assets		1,114		61,832
Total		<u>\$ 2,437,577</u>		<u>2,437,153</u>

- a. For the three months ended March 31, 2012 and 2011, the Consolidated Company recognized investment income under equity method of \$16,554 and \$15,046, respectively, based on the investees' financial statements, which were not reviewed by independent accounts.
- b. For the three months ended March 31, 2012 and 2011, the Consolidated Company held less than 50% shares of Shin-Ei Yorkey International Ltd. (BVI) and had no significant control thus Shin-Ei Yorkey International Ltd. (BVI) was excluded from the consolidated financial statements.

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- 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 March 31, 2012 and 2011, 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. so that the equity investment in eBizprise Inc. was reclassified to financial assets carried at cost. In December 2011, the Consolidated Company has disposed its equity investment in eBizprise Inc. at original acquisition cost.
- e. 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 based on the difference between the book value of the investment in ASSOCIATION and amount remitted.

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(6) Joint Venture Investments

The Company had equity investment in ADVANSUS CORP., which is a joint venture entity. As of March 31, 2011, the issued capital of ADVANSUS CORP. amounted to \$360,000, of which 50% was held by the Company as of the same date. The financial accounts of ADVANSUS CORP., which were included in the Company's consolidated financial statements, were as follows:

	<u>March 31, 2011</u>	
Current Assets	\$	507,010
Non-current Assets		13,050
Current Liabilities		266,266
		For the Three Months
		Ended March 31, 2011
Revenues	\$	366,648
Expenses		360,676

In order to enhance resource efficiency, the Company sold all its equity ownership in ADVANSUS CORP. ("ADVANSUS") to the other joint venture party for \$306,000 on January 5, 2012 and agreed to complete the transfer of equity ownership in June 2012. As this transaction is deemed as a transaction relating to assets held-for-sale as defined in SFAS 38, the equity investment in ADVANSUS was reclassified to long-term equity investment held-for-sale. Please refer to Note 4(7) for details of long-term equity investment held-for-sale.

(7) Long-Term Equity Investment Held-For-Sale

	<u>March 31, 2012</u>	
ADVANSUS CORP.	\$	<u>243,069</u>

As the Company intends to sell its equity ownership of ADVANSUS CORP. within one year, the Company ceased to apply the equity method in the accounting of this investment, which is now measured at lower of carrying amount or fair value.

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(8) 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 reversal of impairment loss on assets amounting to \$20,791 and \$209 for the three months ended March 31, 2012 and 2011, 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.
- (c) For the three months ended March 31, 2012, Ability(TW) capitalized interest amounted to \$6,404.
- (d) Please refer to Note 6 for details of the property, plant, and equipment pledged as collateral.

b. Rental assets

- (a) As of March 31, 2012 and 2011, the components of rental assets were as follows:

	<u>March 31, 2012</u>	<u>March 31, 2011</u>
Land	\$ 294,555	286,573
Buildings	632,538	579,063
Less: Accumulated depreciation	(143,382)	(121,991)
Less: Accumulated impairment	(12,030)	(12,030)
Add: Fair value adjustment for identifiable assets	5,853	7,559
	<u>\$ 777,534</u>	<u>739,174</u>

- (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 March 31, 2012 and 2011, the fair value adjustment for identifiable assets amounted to \$5,853 and \$7,559, respectively.

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c. Idle assets

(a) As of March 31, 2012 and 2011, the components of idle assets were as follows:

	<u>March 31, 2012</u>	<u>March 31, 2011</u>
Land	\$ 39,978	56,969
Buildings	205,845	346,427
Machinery and others	1,142,991	1,591,550
Less: Accumulated depreciation	(904,376)	(1,229,082)
Less: Accumulated impairment	(280,893)	(424,060)
	<u>\$ 203,545</u>	<u>341,804</u>

(b) As these idle assets were not used in operation, the Consolidated Company valued these assets based on the recoverable amount. For the three months ended March 31, 2012 and 2011, a gain of \$1,850 and \$61,960, respectively, was recognized from impairment loss recovery for these idle assets.

(9) 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." As of March 31, 2012 and 2011, the carrying value of goodwill amounted to \$1,871,446 and \$2,238,243, 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 March 31, 2012 and 2011, the unamortized amount of land use rights was \$2,595,834 and \$2,354,899, respectively.
- 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 March 31, 2012 and 2011, the unamortized amount was \$959,143 and \$1,013,833, respectively.
- d. In April 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 remaining amount of payable arising from this transaction 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

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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.

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 March 31, 2012, 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
Sub-total	167,672
Goodwill	\$ 33,533

e. Supplementary Pro Forma Information for Business Combinations

For the three months ended March 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 Three Months Ended March 31, 2011
Consolidated net sales	\$ 110,128,541
Consolidated net income before tax	\$ 734,138
Consolidated net income	\$ 112,851
Pro forma primary losses per share	\$ (0.25)

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(10) Other Assets – Others

This consisted of deferred charges arising from capitalized costs of small molds, fixtures and office decorations, which are amortized equally over 3 months to 10 years. As of March 31, 2012 and 2011, the unamortized amount of deferred charges was \$1,895,319 and \$2,161,046, 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 March 31, 2012 and 2011, the carrying value of this farmland was both \$30,784.

(11) Short - Term Loans

	<u>March 31, 2012</u>	<u>March 31, 2011</u>
Credit loans	\$ 24,180,220	10,297,334
Collateralized loans	744,277	80,715
	<u>\$ 24,924,497</u>	<u>10,378,049</u>
Range of interest rate	<u>0.70% ~ 6.53%</u>	<u>0.40% ~ 5.00%</u>

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.

(12) Bonds Payable

	<u>March 31, 2012</u>	<u>March 31, 2011</u>	<u>Collateral</u>
Overseas convertible bonds payable	\$ 8,874,000	-	None
Less: Discount on overseas bonds payable	(375,633)	-	
Less: Foreign currency valuation, end of the period	(20,092)	-	
Net	<u>8,478,275</u>	<u>-</u>	
Less: Current portion of bonds payable	-	-	
Sub-total	<u>8,478,275</u>	<u>-</u>	
Domestic convertible bonds payable	1,500,000	1,500,000	None
Less: Discount on domestic bonds payable	(87,566)	(118,472)	
Sub-total	<u>1,412,434</u>	<u>1,381,528</u>	
Total	<u>\$ 9,890,709</u>	<u>1,381,528</u>	

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- a. As of March 31, 2012, the offering information on the unsecured convertible bonds were as follows:

<u>Item</u>	<u>1st overseas unsecured convertible bonds issued in 2012</u>
1. Offering amount	US\$300 million with each unit valued at US\$200 thousand.
2. Issue date	February 6, 2012
3. Listing place	Singapore Exchange Securities Trading Limited (the "SGX-ST")
4. Interest	The Bonds will not bear any interest.
5. Issue period	5 years, commencing from February 6, 2012 and matured on February 6, 2017.
6. Settlement	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 semi-annual basis.
7. Redemption at the option of the Company	<p>(1) The Company may redeem the Bonds, in whole but not in part, at the early redemption amount at any time on or after February 6, 2015 if the closing price of the common shares on TWSE (translated into U.S. Dollars at the fixing rate at 11:00 a.m. Taipei time as quoted by Taipei Forex Inc.) on each trading day during a period of 20 consecutive trading dates exceeds at least 125% of the quotient of the early redemption amount divided by the number of shares to be issued upon conversion of US\$200,000 principal amount of Bonds on the applicable trading day based on the conversion price then in effect (translated into U.S. Dollars at the fixed exchange rate of NT\$29.761 = US\$1.00).</p> <p>(2) If more than 90% in principal amount of the Bonds originally outstanding has been redeemed, repurchased and cancelled or converted, the Company has the right to redeem all but not in portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) The Bonds may be redeemed, in whole but not in part, if the affect of change in the tax laws of ROC resulting in increasing the Company's tax liability, interest expense or related cost from the Bonds. Holders may elect not to have their bonds redeemed with no entitlement to any additional amount of reimbursement of additional tax.</p>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>Item</u>	<u>1st overseas unsecured convertible bonds issued in 2012</u>
8. Redemption at the option of the Holder	<p>(1) Each Holder have the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds on February 6, 2015 at a redemption price equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(2) In the event that the Common Shares cease to be listed or admitted to trading on the TWSE, each Holder have the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) In the event of change of control occurs with respect to the Company, each Holder have the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount.</p>
9. Conversion	<p>(1) Conversion period Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, each Holder of the Bonds will have the right at anytime during the conversion period commencing March 18, 2012 (the 41st day following the Closing Date) and ending at the close of business on January 27, 2017 (the 10th day prior to the Maturity Date), to convert their bonds.</p> <p>(2) Conversion price The conversion price will be NT\$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012.</p> <p>(3) Conversion to common shares Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT\$29.761 = US\$1.00) divided by the conversion price on the conversion date.</p>

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The Company separately accounts for the the equity components and liability components of the overseas convertible corporate bonds. The equity components are accounted for under capital surplus and the liability components are accounted for under financial liabilities reported at fair value through profit or loss and bonds payable in accordance with SFAS 36. As of March 31, 2012, information on the aforesaid convertible bonds were as follows:

<u>1st overseas unsecured convertible bonds issued in 2012</u>	<u>March 31, 2012</u>
Total issue price	\$ 8,874,000
Discount on bonds payable	(339,221)
Discount on bonds payable — transaction cost	(36,412)
Accumulated converted amount	-
Accumulated redeemed amount	-
Bonds payable, end of the period	8,498,367
Less: Valuation of bonds payable	(20,092)
Less: Current portion of bonds payable	-
Bonds payable, net, end of the period	<u>\$ 8,478,275</u>
Equity components — capital surplus on stock options	<u>\$ 329,225</u>
Liability components — financial liabilities (put and call options) reported at fair value through profit or loss	<u>\$ 14,217</u>
	For the Three Months Ended March 31, 2012
Liability components — gain on valuation	<u>\$ (6,193)</u>
Interest expense	<u>\$ 30,602</u>

b. The key terms and conditions of the 1st unsecured domestic convertible bonds of the consolidated subsidiary, Ability Enterprise Co., Ltd. (Ability (TW)), 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.

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- (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.
- c. 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 March 31, 2012, 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%.
- d. As of March 31, 2012, the convertible bonds of Ability Enterprise Co., Ltd. have not yet been converted into common shares nor repurchased.

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(13) Long - Term Loans

Creditor	Usage and redemption duration	March 31, 2012	March 31, 2011
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.	\$ 8,853,000	7,056,000
The Shanghai Commercial & Saving Bank, Ltd.	2010.09.21~2015.09.20 payable in 10 quarterly installments, commencing from April 2013.	1,032,850	1,029,000
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.	8,607	13,475
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.	49,798	71,662
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.	13,833	19,294
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.	147,089	199,828
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.	134,270	171,990
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.	122,958	147,000

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Creditor	Usage and redemption duration	March 31, 2012	March 31, 2011
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.	36,888	58,800
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.	147,550	147,000
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.	147,550	-
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.	295,100	-
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	15,000
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.10.04~2016.07.15, payable in 11 quarterly installments commencing from the twenty-fifth month of borrowing.	51,160	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2012.01.18~2017.01.05, payable in 11 quarterly installments commencing from the twenty-fifth month of borrowing.	15,000	-
Mega International Commercial Bank — Lan-Ya Branch	2004.12.31~2011.12.31, payable in 20 quarterly installments, commencing from January, April, July, October 15 which date is the nearest date of borrowing.	-	3,696
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).	-	21,903

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Creditor	Usage and redemption duration	March 31, 2012	March 31, 2011
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).	207,455	320,460
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.	165,994	205,800
Mega International Commercial Bank — Lan-Ya Branch	2010.10.28~2015.10.27, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period).	250,835	117,600
Mega International Commercial Bank — Lan-Ya Branch	2010.12.20~2015.12.20, payable in 20 quarterly installments, commencing from the date of borrowing.	774,552	977,550
Mega International Commercial Bank — Lan-Ya Branch	2011.02.14~2016.02.13, payable in 20 quarterly installments, commencing from the date of borrowing.	472,160	588,000
Mega International Commercial Bank — Lan-Ya Branch	2011.03.11~2016.03.10, payable in 20 quarterly installments, commencing from the date of borrowing.	331,988	441,000
Mega International Commercial Bank — Lan-Ya Branch	2011.08.15~2014.08.15, payable in 8 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 8 quarterly installments, commencing from the date of borrowing (with a one year grace period).	10,000	-
Mega International Commercial Bank (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,475,500	-
Mega International Commercial Bank	2011.10.12~2016.10.12, payable in 8 quarterly installments, commencing from January 2015.	1,180,400	-

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Creditor	Usage and redemption duration	March 31, 2012	March 31, 2011
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.	250,367	139,846
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.	295,100	147,000
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.	147,550	-
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.	295,100	-
Taipei Fubon Banks	2012.01.31~2015.01.31, payable in 9 quarterly installments, commencing from January 31, 2013. The repayment schedule is 10% for first 8 installments, and the remaining amount is payable on maturity date.	385,000	-
ANZ (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,475,500	-
DBS (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,475,500	-
DBS	2011.11.17~2016.11.16, payable in 6 installments. The repayment schedule is 15% for the 30 th and 33 rd month, 17.5% for the 42 nd , 48 th , 54 th and 60 th month, commencing from the date of borrowing.	1,180,400	-

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Creditor	Usage and redemption duration	March 31, 2012	March 31, 2011
Taiwan Cooperative Bank OBU Branch	2011.10.13~2016.10.13, payable in 4 semi-annual installments, commencing from April 2015.	1,475,500	-
HSBC (Taiwan) (Note B)	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,475,500	-
Total		24,409,054	11,891,904
Less: Current portion		(1,079,515)	(660,542)
		\$ 23,329,539	11,231,362
Range of interest rate		0.91%~2.33%	0.81%~1.31%

Note A: According to the agreement, during the loan repayment periods, the Company must comply with certain financial covenants based on its 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 March 31, 2012 and 2011. 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.

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Note B: The consolidated subsidiary, PROTEK (SHANGHAI) LTD., signed a syndicated loan agreement on April 7, 2011 with a total credit line of US\$200,000 thousand. The components of this credit line were 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% (total total liabilities include short-term loans, short-term notes payable, rents payable, current portion of long-term loans, current portion of bonds payable, long-term loans and bonds payable).
- 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 NT\$90,000,000.

Compliance with the above-mentioned financial covenants is determined based on the annual and semi-annual consolidated financial statements (June 30 and December 31) audited by independent auditors provided by the guarantor, the Company. Also, management representation letters which includes the calculations and results of the above-mentioned financial covenants were issued by the management of the Company-guarantor in connection with such audit.

(14) Pension Plan

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

(15) Income Tax

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

(16) 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

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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 Company's total outstanding capital amounted to \$22,860,639, divided into 2,286,064 thousand shares with par value of \$10 per share.

In November, 2010, the Company had retired treasury stock of 29,697 thousand shares valued at \$296,970. As of March 31, 2012 and 2011, 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 March 31, 2012, the Company has listed, in total, 9,884 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 49,421 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 GDRs have same rights on dividend distribution and share distribution as the Company's existing common shareholders.

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b. Share-based payment transactions

- (a) Information about share-based payment transaction as of March 31, 2012 were as follows:

	<u>Employee Stock Option Plan</u>
Grant date	July 1, 2011
Thousand units granted	40,679
Contractual life	3 years
Vesting period	2 years
Actual turnover rate of employees	11.67%
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. If the exercise period expires, the employee forfeits his/her 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.

- (b) The Company adopted the Black-Scholes model to calculate the fair value of the stock option at grant date, and the assumptions adopted in this valuation model were as follows:

	<u>For the Three Months ended March 31, 2011</u>	
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.

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- (c) The components of employee stock option plan and the weighted-average exercise price as of March 31, 2012 were as follows:

	<u>For the Three Months ended March 31, 2012</u>	
	<u>Number of Exercisable Thousand Shares</u>	<u>Weighted-average Exercise Price</u>
Balance, beginning of year	37,648	\$ 28.38
Granted	-	-
Exercised	-	-
Forfeited	1,375	-
Expired	-	-
Balance, end of year	<u>36,273</u>	28.38
Exercisable, end of year	<u>36,273</u>	
Weighted-average fair value of options granted	<u>7.9</u>	

The exercise price of share option outstanding as of March 31, 2012 was \$28.38 with remaining contractual life of 1.25 years. The expenses incurred in share-based payment transactions amounted to \$24,567 for the three months ended March 31, 2012.

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 is initially used to cover accumulated deficit and the balance, if any, can be distributed as dividends in cash or shares. The realized capital surplus includes donation and premium derived from the issuance of capital stock in excess of par value. 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 March 31, 2012 and 2011, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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 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.
- (b) In accordance with Securities and Exchange Act, treasury shares cannot be pledged. Also, treasury shares do not bear the shareholder's right prior to being sold to third parties.
- (c) As of March 31, 2012 and 2011, the Company's shares held by its subsidiaries were 1,700 thousand and 800 thousand shares amounting to \$78,200 and \$26,680, respectively, 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 shares of stock, employees qualifying for such distribution may include the employees of subsidiaries of the Company who meet certain specific requirements. Such qualified employees and distribution ratio shall be decided by the Board of Directors.
- (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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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 the debit balance of contra accounts in the shareholders' equity such as the unrealized loss on financial instruments and cumulative translation adjustments. When the debit balance of any of these contra accounts in the shareholders' equity is reversed, the special reserve can be reversed to retained earnings.

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 dividends, if the distributions include cash dividends.

On March 19, 2012 and June 24, 2011, the meetings of the Company's board of directors and shareholders resolved to appropriate the 2011 and 2010 earnings. Except for the appropriation for 2011 directors' and supervisors' remuneration which is yet to be resolved by the shareholders, these earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

	<u>2011</u>	<u>2010</u>
Common stock dividends per share (dollars)		
-Cash	<u>\$ -</u>	<u>1.45</u>
Employee bonus - cash	\$ 12,100	127,000
Remuneration to directors and supervisors	-	12,000
Total	<u>\$ 12,100</u>	<u>139,000</u>

The approved earnings distribution for 2010 agreed with those accrued and reflected in the financial statements for the year ended December 31, 2010. Related information can be accessed from the Market Observation Post System on the website.

For the three months ended March 31, 2012, employee bonuses of \$115,174 and directors' and supervisors' remuneration of \$9,033 were estimated and recognized as current expenses. Management is expecting that the differences between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, will be treated as changes in accounting estimates and charged to profit or loss. For the three months ended March 31, 2011, the Company did not estimate and recognize employee bonuses and directors' and supervisors' remuneration due to the net loss after tax incurred during that period.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(17) 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 March 31, 2012 and 2011, the weighted-average expected life of the employee stock options was 2.99 years and 3.99 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 Three Months Ended March 31			
	2012		2011	
	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	5,079	\$ 34.9	6,678	38.3
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	-	-	(1,587)	38.3
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>5,079</u>	34.9	<u>5,091</u>	38.3
Exercisable at the end of the period	<u>3,079</u>	34.9	<u>1,091</u>	38.3

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (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 Three Months Ended	
	March 31	
	2012	2011
Net income		
Net income	\$ 322,956	216,077
Pro forma net income	320,924	211,477
Basic earnings per share		
Earnings per share	0.87 dollars	0.49 dollars
Pro forma earnings per share	0.72 dollars	0.48 dollars
Diluted earnings per share		
Earnings per share	0.81 dollars	0.47 dollars
Pro forma earnings per share	0.68 dollars	0.46 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 March 31, 2012 and 2011, the weighted-average expected life of the employee stock options was 3.5 years and 4.5 years, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

	For the Three Months Ended March 31			
	2012		2011	
	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	4,888	\$ 17.6	6,802	19.3
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	(138)	17.6	(442)	19.3
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>4,750</u>	17.6	<u>6,360</u>	19.3
Exercisable at the end of the period	<u>950</u>	17.6	<u>660</u>	19.3

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

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

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

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

	For the Three Months Ended March 31	
	2012	2011
Equity transaction	<u>\$ 1,898</u>	<u>3,304</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- c. The relevant registration processes for changes of capital resulting from the exercise of employee stock options and conversion of convertible bonds should be completed within at least each quarter when those changes occur. As of March 31, 2012, Ability (TW) increased its capital by \$1,380 due to the exercise of employee stock options.

(18) Earnings per Share (EPS)

For the three months ended March 31, 2012 and 2011, the parent company's primary earnings per share, diluted earnings per share and the retroactively adjusted primary and diluted earnings per share were computed as follows

	For the Three Months Ended March 31			
	2012		2011	
	Before income tax	After income tax	Before income tax	After income tax
Net income (loss)	\$ 1,152,286	1,276,693	(509,233)	(558,744)
Effect of dilutive potential common shares	30,602	25,400		
Diluted net income	<u>\$ 1,182,888</u>	<u>1,302,093</u>		
Weighted-average common shares outstanding	2,254,667	2,254,667	<u>2,255,567</u>	<u>2,255,567</u>
Dilutive potential common shares	140,385	140,385		
Diluted shares	<u>2,395,052</u>	<u>2,395,052</u>		
Primary earnings (losses) per share	<u>\$ 0.51</u>	<u>0.57</u>	<u>(0.23)</u>	<u>(0.25)</u>
Diluted earnings per share	<u>\$ 0.49</u>	<u>0.54</u>		

(19) 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, other receivables, other receivables — related parties, short-term bank loans, and accrued expenses.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

As of March 31, 2012 and 2011, except for those financial assets and liabilities described above, the Consolidated Company's other financial assets and liabilities were as follows:

Non-Financial Instruments	March 31, 2012		March 31, 2011	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets				
Financial asset reported at fair value through profit or loss — current	\$ 6,145,254	6,145,254	6,998,426	6,998,426
Available-for-sale financial asset — current	497,581	497,581	678,996	678,996
Financial assets held-to-maturity — current	-	-	264,600	264,600
Available-for-sale financial asset — noncurrent	644,120	644,120	1,286,367	1,286,367
Financial assets carried at cost — noncurrent	699,200	-	732,331	-
Non-Financial Instruments				
Financial Liabilities				
Financial liability reported at fair value through profit or loss — current	\$ 70,203	70,203	49,385	49,385
Bonds payable	9,890,709	9,890,709	1,381,528	1,381,528
Long-term loans (including current portion)	24,409,054	24,409,054	11,891,904	11,891,904
Financial Instruments				
Financial Assets				
Foreign exchange swap contracts	\$ 3,201	3,201	12,171	12,171
Forward exchange contracts	3,947	3,947	2,131	2,131
Option exchange	-	-	15,691	15,691
Financial Instruments				
Financial Liabilities				
Forward exchange contracts	87	87	-	-
Foreign exchange swap contracts	-	-	1,322	1,322
Option exchange	-	-	882	882
Embedded derivatives - convertible bonds	70,116	70,116	47,181	47,181

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- b. Methods and assumptions used by the Consolidated Company to evaluate the fair value of financial instruments were as follows:
- (a) The fair value of financial instruments, which are carried at fair value through profit or loss and traded in active markets, is based on quoted market prices. If the financial instruments are not traded in an active market, then the fair value is determined by using valuation techniques, under which, the estimates and assumptions used are consistent with prevailing market conditions.
 - (b) Financial assets carried at cost, are measured at carrying value, as their market price is difficult to determine, due to lack of objective evidences, in practice.
 - (c) The fair value of call options and put options embedded in the convertible bonds, which were issued after January 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 \$66,873 and \$(31,196), for the three months ended March 31, 2012 and 2011, respectively.
- d. Gain (Loss) recognized from changes in the fair values of financial liabilities, which were estimated by using valuation techniques, amounted to \$51,278 and \$(36,159), for the three months ended March 31, 2012 and 2011, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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 uncollectible accounts.

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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 non-hedging 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. In the case of foreign currency swap contracts, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

f. Financial risk control and hedging strategy

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 accounts.

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 March 31, 2012 and 2011, guarantee and endorsements for bank loans were provided by the Consolidated Company for related parties, as discussed in Note 5.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(20) Others

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

	March 31, 2012			March 31, 2011		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	\$3,595,269	29.51	106,096,388	2,196,841	29.40	64,587,125
RMB	2,205,482	4.6884	10,340,182	2,726,054	4.4842	12,224,171
Long-term Equity Investments						
USD	44,039	29.51	1,299,597	53,597	29.40	1,575,752
Financial Liabilities						
Monetary Items						
USD	5,050,382	29.51	149,036,773	2,175,788	29.40	63,968,167
RMB	1,440,281	884	6,752,613	999,214	4.4842	4,480,675

5. 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 accounting its investment in the Company under the equity method
ASUS TECHNOLOGY PTE. LTD.	An investee company accounted for under the equity method by ASUSTeK Computer Inc. (Note)
ASUS COMPUTER INTERNATIONAL	"
ASKEY COMPUTER CORP.	"
ASUS TECHNOLOGY INC.	"
ASMEDIA TECHNOLOGY INC.	"
ASUSTEK COMPUTER (SHANGHAI) CO., LTD.	"
ASUS COMPUTER (SHANGHAI) CO., LTD. (ASUS COMPUTER (SHANGHAI))	"
SHINEWAVE INTERNATIONAL INC.	"
ENERTRONIX, INC.	"

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Name of Related Party	Relationship with the Company
EMES (SUZHOU) CO., LTD.	An investee company accounted for under the equity method by ASUSTeK Computer Inc. (Note)
ASKEY TECHNOLOGY (JIANG SU) LTD. (ASKEY TECHNOLOGY)	//
UNIMAX ELECTRONICS INC.	//
ASUS TECHNOLOGY (SHANGHAI) CO., LTD.	//
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.	//
SHANGHAI INDEED TECHNOLOGY CO., LTD. (SHANGHAI INDEED)	//
ASAP TECHNOLOGY (JIANGXI) CO., LTD.	//
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	//
GING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	//
HOLD JUMPER PACKING (SUZHOU) CO., LTD.	//
HOLD JUMPER PACKING (SHANGHAI) CO., LTD.	//
SUZHOU DELUXE PACKING PRODUCTION CO., LTD.	//
BLACKROCK MARYLAND INTERNATIONAL CORP.	//

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Name of Related Party	Relationship with the Company
GREEN PACKING LTD.	An investee company accounted for under the equity method
SHINE TRADE INTERNATIONAL LTD.	//
YORKEY OPTICAL TECHNOLOGY LTD. (SAMOA)	//
TAISHIBA INTERNATIONAL CO., LTD.	An affiliate of Ability Enterprise Co., Ltd.

Note: As ASUSTek COMPUTER INC. (ASUSTEK) ceased 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

Name of Related Party	For the Three Months Ended March 31					
	2012			2011		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTeK	\$ 35,497,356	20.65	Open account 60 days	30,714,137	28.00	Open account 60 days
Others	16,390	0.01	30~90 days from receipt of goods Open account 30~90 days	9,829	0.01	30~90 days from receipt of goods Open account 30~90 days
Total	<u>\$ 35,513,746</u>	<u>20.66</u>		<u>30,723,966</u>	<u>28.01</u>	

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

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b. Purchases

Name of Related Party	For the Three Months Ended March 31					
	2012			2011		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$ 28,754,057	17.21	Open account 60 days	20,073,444	19.32	Open account 60 days
Others	1,952,844	1.17	30~90 days from receipt of goods Open account 30~120 days	1,545,751	1.49	30~90 days from receipt of goods Open account 30~120 days
Total	<u>\$ 30,706,901</u>	<u>18.38</u>		<u>21,619,195</u>	<u>20.81</u>	

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

For three months ended March 31, 2012 and 2011, the Company purchased raw materials from vendors through ASUSTek.

c. Others

	For the Three Months Ended March 31, 2012	
	2012	2011
(a) After-sales warranty repair expense paid to:		
ASUS COMPUTER (SHANGHAI)	\$	3,533
Others		28
Total	<u>\$</u>	<u>3,561</u>
(b) Other income from:		
ASUSTeK	\$	41,885
Others		3,763
Total	<u>\$</u>	<u>45,648</u>

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(c) For the three months ended March 31, 2012 and 2011, the Consolidated Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, and professional service fee, etc, amounting to \$5,194 and \$16,021, respectively.

d. Property Transactions

(a)Purchase of properties

For the three months ended March 31, 2012 and 2011, properties purchased from other related parties amounted to \$12,238 and \$47,366, respectively.

(b)Rental revenue

For the three months ended March 31, 2012 and 2011, the Consolidated Company incurred other related party transactions of \$15,493 and \$7,086, respectively, which were accounted as rental revenue.

e. Accounts Receivable (Payable)

	March 31, 2012		March 31, 2011	
	Amount	%	Amount	%
Accounts Receivable:				
ASUSTeK	\$ 5,446,574	6.42	7,939,261	13.66
Others	20,609	0.03	8,099	0.10
Total	<u>\$ 5,467,183</u>	<u>6.45</u>	<u>7,947,360</u>	<u>13.76</u>
Other Receivable:				
ASUSTeK	\$ 34,552	1.45	5,074	0.22
Others	3,869	0.17	5,713	0.25
Total	<u>\$ 38,421</u>	<u>1.62</u>	<u>10,787</u>	<u>0.47</u>
Accounts Payable:				
ASKEY TECHNOLOGY	\$ 698,332	0.65	563,363	0.86
SHANGHAI INDEED	705,319	0.65	409,477	0.63
AVY PRECISION	271,408	0.25	371,863	0.57
Others	244,377	0.23	433,582	0.67
Total	<u>\$ 1,919,436</u>	<u>1.78</u>	<u>1,778,285</u>	<u>2.73</u>
Accrued Expenses:				
ASUSTeK	\$ 323,607	2.70	2,347	0.03
Others	8,096	0.07	4,426	0.06
Total	<u>\$ 331,703</u>	<u>2.77</u>	<u>6,773</u>	<u>0.09</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

	March 31, 2012	March 31, 2011
Liabilities:		
Other financial liabilities — current	\$ 320	269
Other current liabilities	6,015	8,721
	\$ 6,335	8,990

6. Pledged Assets

As of March 31, 2012 and 2011, pledged assets were as follows:

Asset	March 31		Purpose of pledge
	2012	2011	
Restricted deposit (accounted under other financial asset — current)	\$ 112,826	128,249	Customs duty guarantee, bank loans, rental deposits, credit contracts, issued letter of credit, travel agency guarantee, etc.
Property, plant and equipment	819,763	1,437,523	Bank loans
Inventories	-	16,410	Lawsuit collateral (Note)
Refundable deposits (accounted under other financial asset — noncurrent)	22,655	103,897	Deposits for performance guarantee
	\$ 955,244	1,686,079	

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(1) As of March 31, 2012 and 2011, major commitments and contingencies were as follows:

<u>Unused standby letters of credit</u>	<u>March 31, 2012</u>	<u>March 31, 2011</u>
NTD	\$ 6,464	-
EUR	3,927	2,558
JPY	5,637,769	1,614,349
USD	23,093	13,655

(2) As of March 31, 2012 and 2011, promissory notes and certificate of deposit obtained for business purpose amounted to \$17,332 and \$733,420, respectively.

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

<u>Year</u>	<u>Future lease commitments</u>					
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>After 2017</u>
Future Lease Commitments	<u>\$ 385,421</u>	<u>234,405</u>	<u>166,032</u>	<u>124,015</u>	<u>82,679</u>	<u>122,301</u>

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:

<u>Duration</u>	<u>Amount</u>	<u>Present Value</u>
2017.01.01~2025.01.31	<u>\$ 143,854</u>	<u>122,301</u>

(4) As of March 31, 2012 and 2011, the significant contracts for purchase of properties signed by the Consolidated Company amounted to \$11,044,098 and \$2,467,467, of which \$3,106,632 and \$972,716, respectively, were unpaid.

(5) The promissory notes issued for bank loans were as follows:

	<u>March 31, 2012</u>		<u>March 31, 2011</u>	
	<u>USD</u>	<u>10,000</u>	<u>USD</u>	<u>12,000</u>
Jointly issued with VQ (BVI)				
Jointly issued with VQ (BVI)		<u>-</u>	<u>NTD</u>	<u>562,000</u>
Jointly issued with ABILITY (BVI)		<u>-</u>	<u>USD</u>	<u>19,000</u>
Jointly issued with E-PIN	<u>NTD</u>	<u>700,000</u>		<u>-</u>

(6) For details of Ability Enterprise Co., Ltd.'s construction contract for the construction of its operational headquarter and research and development center in Xinzhuan, please refer to Note 4(8).

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- (7) As of March 31, 2012, 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 thousand. 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. 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 thousand. 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 make 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. As of the report date, the Consolidated Company has received the entire prepaid amount from the original petitioner and prepaid RMB\$374,060 thousand for the land use right to the landlord, which was accounted for under prepayment on purchase equipment. However, the legal process for the transfer of ownership of the land use right is still in progress.
- (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. However, ASUSPOWER INVESTMENT CO., LTD. has accrued the income taxes due thereon.

8. SIGNIFICANT CATASTROPHIC LOSSES: None.

9. SIGNIFICANT SUBSEQUENT EVENTS: None.

10. OTHERS

- (1) In accordance with the order VI-0960064020 issued by the Financial Supervisory Commission, Executive Yuan, ROC, the information on personnel, depreciation, and amortization expense need not be disclosed.
- (2) Certain accounts in the financial statements as of and for the three months ended March 31, 2011, were reclassified to conform to the presentation adopted in the financial statements as of and for the three months ended March 31, 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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 three months ended March 31, 2012 and 2011, 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, strategic investments and other related investments arms. 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 assess 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 Three Months Ended March 31, 2012	DMS	Strategic Investment Group	Adjustment and eliminations	Total
External Revenue	\$ 147,549,848	24,344,481	-	171,894,329
Intra-Group Revenue	1,693,774	2,392,690	(4,086,464)	-
Total segment Revenue	\$ 149,243,622	26,737,171	(4,086,464)	171,894,329
Segment profit (loss)	\$ 1,369,696	2,259,812	(1,232,462)	2,397,046
Segment assets	\$ 236,536,090	179,309,800	(104,238,046)	311,607,844
For the Three Months Ended March 31, 2011	DMS	Strategic Investment Group	Adjustment and eliminations	Total
External Revenue	\$ 84,880,401	24,827,200	-	109,707,601
Intra-Group Revenue	740,329	1,788,374	(2,528,703)	-
Total segment Revenue	\$ 85,620,730	26,615,574	(2,528,703)	109,707,601
Segment profit (loss)	\$ (416,137)	709,898	500,978	794,739
Segment assets	\$ 161,626,928	155,082,350	(90,351,378)	226,357,900

As of March 31, 2012, ADVANSUS CORP. was excluded from the consolidated financial statements due to disposal of the Company's entire equity ownership.