

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(With Independent Accountants' Report Thereon)

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TABLE OF CONTENTS

Contents	Page
COVER PAGE	1
TABLE OF CONTENTS	2
INDEPENDENT ACCOUNTANTS' AUDIT REPORT	3
CONSOLIDATED BALANCE SHEETS	4
CONSOLIDATED STATEMENTS OF INCOME	5
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	
(1) ORGANIZATION AND BUSINESS	8
(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	8~40
(3) REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES	40
(4) SUMMARY OF MAJOR ACCOUNTS	41~83
(5) RELATED-PARTY TRANSACTIONS	83~89
(6) PLEDGED ASSETS	90
(7) SIGNIFICANT COMMITMENTS AND CONTINGENCIES	90~92
(8) SIGNIFICANT CATASTROPHIC LOSSES	92
(9) SIGNIFICANT SUBSEQUENT EVENTS	92~94
(10) OTHERS	94
(11) BUSINESS SEGMENT FINANCIAL INFORMATION	95~97

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AUDIT REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Pegatron Corporation

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

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

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

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

Note to Readers

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

For the convenience of readers, the accountants' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' report and financial statements shall prevail. Also, please refer to the original Chinese version for the disclosure required that are not required under generally accepted accounting principles in the Republic of China were not translated into English.

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CON'T)
DECEMBER 31, 2011 AND 2010
(All Amounts Expressed in Thousands of New Taiwan Dollars)

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

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

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

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

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

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

Note B: The directors' and supervisors' remuneration of \$12,000 and employees' bonuses of \$127,000 had been deducted from net income for the year.

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

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

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

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

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

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

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

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

1. ORGANIZATION AND BUSINESS :

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Basis of consolidation

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

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
The Company	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	100.00%	100.00%	The Company directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
CASETEK HOLDING	APLUS PRECISION LTD. (APLUS)	Investing and trading activities	-	51.00%	Note B
UNIHAN AND ASUSPOWER INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	38.65%	43.56%	Subsidiary has de facto control
AZURE WAVE	EMINENT STAR COMPANY LIMITED (EMINENT)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
EMINENT	HANNEX INTERNATIONAL LIMITED (HANNEX)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
HANNEX	SCIENTEK. NANJING CO., LTD.	Designing, manufacturing and selling computer products	100.00%	100.00%	Subsidiary directly owns over 50% of equity
EMINENT	JADE TECHNOLOGIES LIMITED (JADE)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
EMINENT·JADE	AZUREWAVE TECHNOLOGY (SHENZHEN) CO., LTD.	Designing, researching and selling computer products	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AZURE WAVE	AZWAVE HOLDING (SAMOA) INC. (AZWAVE SAMOA)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
AMA	EXTECH LTD.	Trading electronic parts	90.51%	90.51%	Subsidiary directly owns over 50% of equity
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	100.00%	100.00%	Subsidiary directly owns over 50% of equity
AMA	TOPTEK PRECISION LNDUSTRY(SUZHOU) CO., LTD	Manufacturing and selling new electronic parts and premium hardware	100.00%	100.00%	Subsidiary directly owns over 50% of equity
THE COMPANY AND ASUS INVESTMENT	ASUS HOLLAND HOLDING B.V.(AHH)	Investing activities	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
AHH	PEGATRON CZECH S.R.O.	Installing, repairing and selling electronic products	100.00%	100.00%	Subsidiary directly owns over 50% of equity
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
POWTEK	POWTEK (SHANGHAI) CO., LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00%	100.00%	Subsidiary directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
PEGATRON HOLDING, KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing and holding activities	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PIOTEK HOLDING	PIOTEK (H.K) TRADING LIMITED	Trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PEGATRON HOLDING	ASLINK PRECISION CO., LTD (ASLINK)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASLINK	ASLINK (H.K.) PRECISION CO., LIMITED	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASLINK	ASAP INTERNATIONAL CO., LIMITED (ASAP)	Investing activities	-	59.17%	-
ASAP	ASAP TECHNOLOGY (JIANGXI) CO., LIMITED	Manufacturing and selling data transmit wire and cable	-	100.00%	-

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	Subsidiary directly owns over 50% of equity
PEGATRON HOLDING	TOP QUARK LIMITED (TOP QUARK)	Investing and holding activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00%	100.00%	Subsidiary directly owns over 50% of equity
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	The Company directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole soling of computer equipment and electronic components	58.65%	58.65%	Subsidiary directly owns over 50% of equity
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Manufacturing and selling database storage and processing equipments	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASIAROCK	ASROCK EUROPE B.V.	Database service and trading electronic components	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASIAROCK	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing and holding activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Leader	Firstplace International Ltd. (Firstplace)	Investing and holding activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
Firstplace	ASROCK America., Inc.	Database service and trading electronic components	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, wholesaling and retailing electronic components, and providing business management consultant service	39.00%	39.00%	Subsidiary has de facto control
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KINSUS INVESTMENT AND ASUSPOWER INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	84.45%	84.45%	Subsidiary directly owns over 50% of equity
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	Subsidiary directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio		Notes
			2011.12.31	2010.12.31	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00%	100.00%	Subsidiary directly and indirectly held 100% of equity
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION (STARLINK)	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	100.00%	Subsidiary directly owns over 50% of equity
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED (CAYMAN) (CASETEK CAYMAN)	Investing activities	100.00%	-	Subsidiary directly owns over 50% of equity
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00%	-	Subsidiary directly owns over 50% of equity
CASETEK CAYMAN	RIH KUAN METAL CORPORATION (RIH KUAN)	Manufacturing iron and aluminum products	100.00%	-	Subsidiary directly owns over 50% of equity
CASETEK CAYMAN	APLUS PRECISION (CAYMAN) LIMITED (APLUS)	Investing and trading activities	100.00%	-	Subsidiary directly owns over 50% of equity
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00%	-	Subsidiary directly owns over 50% of equity
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	100.00%	Subsidiary directly owns over 50% of equity

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

2. In January 2011, ASUSPOWER CORPORATION acquired 100% equity ownership of CASETEK HOLDING LIMITED (CAYMAN) for US\$95,000 thousand. Following its acquisition of equity ownership for US\$201,205 thousand, ASUSPOWER CORPORATION obtained control over RIH LI International Limited (Samoa) and its subsidiaries GLOBAL EXPERT LIMITED, RI-TENG SHANGHAI and RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD. through CASETEK HOLDING LIMITED (CAYMAN).
3. For the year ended December 31, 2011, Asuspower Investment Co., Ltd., Asus Investment Co., Ltd. and Asustek Investment Co., Ltd. has established and invested US\$5,000 thousand, US\$10,000 thousand, NT\$300,000 thousand and US\$1,000 thousand in SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LTD. and RI-MING (SHANGHAI) CO., LTD. in Mainland China and RI-KUAN METAL CORPORATION AND MEGA MERIT LIMITED in Taiwan through ASUSPOWER CORPORATION, respectively. Asuspower Investment Co., Ltd., Asus Investment Co., Ltd. and Asustek Investment Co., Ltd. thus acquired 100% equity ownership of the aforesaid newly established subsidiaries.
4. For the year ended December 31, 2011, Ability Enterprise Co., Ltd. has invested and established VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. in Mainland China through VIEWQUEST TECHNOLOGIES (BVI) INC. Ability Enterprise Co., Ltd. acquired 100% equity ownership of VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD. for US\$3,300 thousand.
5. Ability (TW) invested NT\$40,000 in exchange for an 80% equity ownership of a newly established company named, NOENA CORPORATION (NOENA). In April 2011, Ability (TW) has sold its entire equity ownership in NOENA CORPORATION to a non-related party. Furthermore, Ability (TW) invested and acquired 100% of the equity ownership of Jiujing Viewquest Electronics Inc. through a third party.
6. For the year ended December 31, 2011, the Company has established and invested DIGITEK (CHONGQING) LTD. in Mainland China through DIGITEK GLOBAL HOLDINGS LIMITED. The Company acquired 100% equity ownership of DIGITEK (CHONGQING) LTD. for US\$10,000 thousand.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

7. For the year ended December 31, 2011, Ability (TW) acquired the 52.24% and 0.77% equity ownership of E-PIN from non-related parties and related parties for \$366,664 and \$2,549, respectively. Following the acquisition, Ability(TW) obtained control over E-Pin Optical Industry Co. Ltd. and its subsidiaries.
8. In December 2011, Asuspover Investment Co., Ltd. has invested and established Pegatron Logistic Services Inc. for US\$1,000, and directly owned 100% equity of the aforesaid subsidiary.
9. Due to organization restructuring, Asus Investment Co., Ltd. sold its 7.55% equity ownership of AHH to the Company in December 2011. Thus, the Company held 100% equity ownership of AHH as of December 31, 2011.

According to SFAS No. 7 "Consolidated Financial Statements," if the Consolidated Company has the ability to control the entities described above, those entities are treated as subsidiaries and are included in the consolidation financial statements.

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

Hannex International Limited, Ability Enterprise Co., Ltd. and Kinsus Interconnect Technology Corp., were included in the consolidated financial statements even if the Consolidated Company holds 38.65%, 12.36% and 39.00%, respectively, or less than 50% of their total issued shares because the Consolidated Company has acquired more than 50% of voting shares of each of these entities and has the ability to exercise control over their respective board of directors.

- d. Subsidiaries excluded from consolidation

1. STRATEGY Technology Co., Ltd. went into liquidation on March 26, 2010. Therefore, the net income (loss) of this investee company was excluded in the consolidated financial statements commencing from March 26, 2010.
2. In 2010, NORTH TEC ASIA LIMITED, an investee company wholly owned by Pegatron Holding, merged with PROTEK GLOBAL HOLDING LTD., with PROTEK GLOBAL HOLDING LTD. as the surviving entity from such merger.
3. Due to organizational restructuring, ASLINK PRECISION CO., LTD. (ASLINK PRECISION) acquired 25% equity ownership of ASAP TECHNOLOGY (JIANGXI) CO., LTD. through equity swap on December 31, 2010. Consequently, ASLINK

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

PRECISION's equity ownership in ASAP INTERNATIONAL CO., LIMITED decreased from 59.17% to 45.56%. Following the equity swap, ASLINK PRECISION sold its equity ownership in ASAP INTERNATIONAL CO., LTD. to a non-related party, and thereby the Consolidated Company lost its significant influence on ASAP PRECISION CO., LTD. and ASAP TECHNOLOGY (JIANGXI) CO., LTD.

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

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

(2) Use of Estimates

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

(3) Foreign Currency and Financial Report Translation

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

(5) Assets Impairment

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(6) Cash and Cash Equivalents

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

(7) Financial Instruments

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

Financial instruments are classified into this category if the purpose of acquisition is principally for selling or repurchasing in the near term. All financial instruments that do not meet the criteria for hedge accounting are classified 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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

d. Financial assets carried at cost

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

e. Notes and Account receivables, and other receivables

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

g. Short-term notes payable

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

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

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

(9) Inventories

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

(12) Intangible Assets

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(13) Deferred Charges

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

(14) Bonds Payable

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

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

- a. The difference between the issue price and face value of bonds payable is accounted for as premium or discount which is amortized over the period from the date of issuance to maturity date using the interest method or straight-line method and the amortized amount is recorded as "interest expense". However, the straight-line method is used if the results are not materially different than those resulting from the interest method.
- b. The value of any derivative features (such as a call option and put option) embedded in a compound financial instrument is recognized as "financial assets and financial liabilities at fair value through profit or loss." At the maturity of redemption period, if the fair value of common stock exceeds the redemption price, the fair value of the derivative is recognized as "capital surplus;" however if the fair value of common stock is lower than the redemption price, the fair value of the derivative is recognized as "gain or loss."
- c. A conversion option embedded in the bonds issued by the Consolidated Company, which is convertible to an equity instrument, is recognized and included in "capital surplus," net of income tax effect. When a bondholder exercises the conversion rights, the liability component of the bonds (including corporate bonds and embedded derivatives) are revalued at fair value, and the resulting difference between book value and fair value of bonds is recognized as "gain or loss" in the current period. The fair value of the common stock issued due to the conversion is based on the fair value of the above mentioned liability component plus the book value of the stock warrants.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(15) Pension Plan

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

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

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

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

(16) Warranty Reserve

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

(17) Revenue and Cost Recognition

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

recognized on accrual basis. Also, allowances for sales returns and discounts are estimated based on historical experience. Such allowances are recognized in the same period in which sales are made.

(18) Classification of Capital and Operating Expenditures

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

(19) Employee Stock Option

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

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

(20) Share-based payment transactions

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- ii. A cash-settled shared-based payment transaction is measured at the balance sheet date and the settlement date based on the fair value of the award as of those dates and is recorded as a liability incurred for the goods and services received. Changes in fair values are recognized in profit or loss for the period.
- iii. The fair value of employee share options and similar instruments at grant date is estimated using the Black-Scholes option-pricing model, taking into account the exercise price, the current market price of the underlying shares, management's best estimation of the expected term, the expected volatility, the expected dividends, and the risk-free interest rate.
- iv. According to SFAS No. 39 "Share-based Payment", the Consolidated Company did not need to apply SFAS No. 39 retroactively to the share-based payments that were granted before January 1, 2008; however, the pro forma net income and net income per share should be disclosed.

(21) Employee Bonuses and Remuneration to Directors and Supervisors

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

(22) Treasury Stock

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

When treasury stock is disposed, "capital surplus-premium on capital stock" is debited proportionately according to the equity shareholding ratio. If the book value of the treasury stock exceeds the sum of par value and premium on capital stock, the difference is offset against capital

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

surplus arising from similar treasury stock transactions, and any deficiency is charged against retained earnings. If the book value is lower than the total par value and premium on stock, the difference is added to capital surplus arising from treasury stock transaction of the same category.

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

(23) Income Tax

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(24) Commitments and Contingencies

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

(25) Earnings per Share (“EPS”)

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

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

(26) Spin-Off Transactions

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

(27) Business Combinations

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(24) Operating Segments

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

3. Reasons for and Effect of Accounting Changes:

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. Summary of Major Accounts

(1) Cash and Cash Equivalents

a.

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

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

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

(2) Financial Instruments

a. The components of financial instruments were as follows:

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- b. The convertible bond issued by ABILITY ENTERPRISE CO., LTD. (Ability (TW)) was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call options and put options embedded in bonds payable were separated from bonds payable, and were recognized as "Financial assets or liabilities at fair value through profit or loss" in accordance with SFAS No.34. For years ended December 31, 2011 and 2010, Ability (TW) recognized a loss on financial liability reported at fair value through profit or loss of \$89,842 and \$12,720, respectively. Please refer to Note 4(11) for the main terms and conditions of the 1st unsecured domestic convertible bonds issued by Ability (TW).
- c. For years ended December 31, 2011 and 2010, the Consolidated Company recognized a net gain (loss) on financial assets reported at fair value through profit or loss of \$(160,782) and \$47,110, respectively.
- d. For years ended December 31, 2011 and 2010, the unrealized losses on available-for-sale financial assets amounted to \$1,216,141 and \$885,976, respectively.
- e. The investments in equity securities held by Consolidated Company with no quoted price from active market and the fair value cannot be measured reliably, were reported as financial assets carried at cost-noncurrent. The Consolidated Company evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of \$21,435 and \$109,117 for the years ended December 31, 2011 and 2010, respectively. Following the resolution by the shareholders during their Annual Meeting, ADDTEK Corporation carried out a capital reduction of \$98,125 and \$158,000, divided into 9,812 and 15,800 shares, in order to cover its accumulated deficit at March 30, 2010 and December 31, 2010, respectively.
- f. In 2010, TrendChip Technologies Corp. (TrendChip), in which the Consolidated Company have equity investment classified as available-for-sale financial asset, was merged with Ralink Technology Corporation (Ralink), with Ralink as the surviving entity. Following the merger, all of the equity investments in TrendChip held by the Consolidated Company were reclassified to equity investments in Ralink, accounted under available-for-sale financial assets — noncurrent. Also, the Consolidated recognized dividend income of \$456,260 and other investment loss of \$78,134 on the effective date of such merger.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Ability Enterprise Co., Ltd. entered into derivative contracts during the years ended December 31, 2011 and 2010 to manage exposures due to the fluctuations of exchange rate and interest rate. However, no hedge accounting is adopted as these derivatives do not meet the criteria for hedge accounting.

Furthermore, please refer to Note 4(18) for the risk management of the Consolidated Company.

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(4) Inventories

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(5) Long-Term Equity Investments

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

- a. For the years ended December 31, 2011 and 2010, the Consolidated Company recognized investment income under equity method of \$98,444 and \$207,292, respectively, based on the investees' financial statements which were audited by independent accounts.
- b. For the years ended December 31, 2011 and 2010, the Consolidated Company held less than 50% shares of Shin-Ei Yorkey International Ltd. (BVI) and had no significant control thus Shin-Ei Yorkey International Ltd. (BVI) was excluded from the consolidated financial statements.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- c. Avy Precision Technology Inc., a subsidiary of Ability Enterprise Co., Ltd., had swapped its equity shares with Azure Wave Technologies, Inc., which resulted in a difference between acquisition cost and fair value of the identifiable long-term investment. Since the Consolidated Company has the ability to control Ability Enterprise Co., Ltd., such difference of \$1,114 and \$61,832 as of December 31, 2011 and 2010, respectively, was adjusted using the equity method of accounting based on the percentage of ownership of the Consolidated Company, in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 25 "Business Combinations."
- d. In November 2010, the Consolidated Company had participated in the capital increase of eBizprise Inc. by acquiring new shares worth \$99,000, divided into 5,500 thousand shares with par value of \$18 per share. The increased Consolidated Company's equity ownership to 31.76%. In July 2011, eBizprise Inc. has undergone a capital reduction and capital increment. As the Consolidated Company did not participate in the capital increase of eBizprise Inc. according to its equity holding percentage, the equity ownership of the Consolidated Company has been reduced to 12.93%. Consequently, the Consolidated Company lost its ability to exercise control of eBizprise Inc. The equity investment in eBizprise Inc. has been 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 acquired 25% equity ownership of ASAP TECHNOLOGY (JIANGXI) CO., LTD. through equity swap, which enables it to exercise significant influence over ASAP TECHNOLOGY (JIANGXI) CO., LTD. Please refer to Note 2(1) for details.
- f. In November 2010, CASETEK HOLDING LIMITED (BVI), a subsidiary of the Consolidated Company, had participated in E-PACKING HOLDING's capital increase by purchasing additional equity shares by US\$8,115 thousand, and its ownership percentage increased to 30% after the capital increase.
- g. The Consolidated Company invested US\$1,200 thousand in PENTAX VQ CO., LTD. through ASSOCIATION INTERNATIONAL LTD. (ASSOCIATION), which was approved by the Investment Commission of the Ministry of Economic Affairs. During the first quarter of 2011, the ASSOCIATION was liquidated and the liquidation proceeds of US\$1,432 thousand were remitted to the Consolidated Company. A loss of US\$63 thousand was recognized from the difference between the book value and amount remitted.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(6) Joint Venture Investments

The Company had equity investment in ADVANSUS CORP., which is a joint venture entity. As of December 31, 2011 and 2010, the issued capital of ADVANSUS CORP., amounted to \$360,000 of which 50% was held by the Company as of the same date. The financial accounts of ADVANSUS CORP., which were included in the Company's consolidated financial statements, were as follows:

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

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

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

a. Property, plant and equipment

(a) Based on the results of its evaluation of the recoverability of property, plant and equipment, the Consolidated Company recognized a impairment loss on assets amounting to \$29,519 and \$64,130 for years ended December 31, 2011 and 2010, respectively.

(b) In order to construct operational headquarter and research and development center, Ability Enterprise Co., Ltd. (Ability(TW)) participated in Xinzhuang land auction and acquired a parcel of land worth \$2,468,329 which was accounted under land. The legal process for the registration of this land has been completed. On May 5, 2011, pursuant to the resolutions of the board of directors, Ability(TW) sold 50% of the aforesaid land for \$1,239,706 for the purpose of joint development with builder and recognized a gain thereon of \$5,532 which was recorded under other income. As of December 31, 2011, Ability(TW) has received the full amount from the sale of portion of such land. However, Ability(TW) still retains the mortgage right on the aforesaid land sold.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

b. Rental assets

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

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

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

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

c. Idle assets

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(8) Intangible assets

- a. Goodwill is assessed periodically for impairment in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets." An impairment loss of \$49,180 was recognized for the year ended December 31, 2011. As of December 31, 2011 and 2010, the carrying value of goodwill amounted to \$1,898,499 and \$885,682, respectively.
- b. 'Land use rights' are rights granted to the Company to use government-owned land. These rights were paid in lump sum, which was capitalized and amortized equally over their useful lives. As of December 31, 2011 and 2010, the unamortized amount of land use rights was \$2,672,171 and \$2,198,848, respectively. Please refer to Note 6 for details of the intangible assets pledged as collateral.
- c. Identifiable intangible assets from customer relationships, technology and developments are amortized equally over 3 to 5 years based on their respective expected economic benefits. As of December 31, 2011, the unamortized amount was \$1,108,523.
- d. For the year ended December 31, 2011, the Consolidated Company acquired 100% ownership of RIH LI for \$6,000,000 (with equivalent amount of US\$201,205 thousand) with an equity premium of US\$120,763 thousand. As of June 30, 2011, the amount payable was \$2,949,540 (equivalent to US\$102,682 thousand), of which \$972,444 was due within a year (accounted under other financial liabilities — current), in accordance with the installment payment schedule stated in the contract. In order to meet the demands of the Consolidated Company and the original seller, they renegotiated the terms of payments, under which, the Consolidated Company is required to make an advance payment, with the cost of capital calculated using a discount rate of 2%. The Consolidated Company made an advance payment on August 31, 2011, therefore, the balance of payable was \$0 as of December 31, 2011.

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

e. Supplementary Pro Forma Information for Business Combinations

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

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

(9) Other Assets – Others

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

(10) Short - Term Loans

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

The Consolidated Company issued promissory notes as guarantee for part of credit loan facility.

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

(11) Bonds Payable

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

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

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

(b) After 30 days from issue date (March 7th, 2010) and 10 days prior to maturity date (January 27th, 2015), the bondholders can exercise their rights to convert the bonds into Ability (TW)'s common stock. Under the terms of the convertible bonds, the rights and obligations of the new shares converted from convertible bonds are the same as the issued and outstanding common stock.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (c) The conversion price will be adjusted based on the terms of the conversion plan, and will be reset based on the prescribed formula upon the occurrence of certain events that will have a dilutive effect on the bondholders' rights. The conversion price was originally set at \$60. As Ability (TW) distributes cash dividend on August 1, 2010 and September 6, 2011, the exercise price was adjusted from \$60 to \$55.7 and \$55.7 to \$50.7 on the effective dates, respectively.
- (d) After 3 years from issue date (Feb 6th, 2013), the bondholders shall have the right at such bondholders' option to require Ability (TW) to redeem all or some of the convertible bonds at a price equal to 100% of the principal amount plus interest at the rate of 0.3% per annum, payable annually.
- (e) Ability (TW) may purchase the outstanding bonds at face value under the following conditions: (i) the closing price of the shares for a period of 30 consecutive trading days is above 130% of the conversion price and (ii) the amount of the outstanding bonds is less than 10% of the initial issuance amount of convertible bonds, from the day after the first month of issuance of the bonds to 40 days prior to the maturity date.
- (f) Under the terms of the convertible bonds, the convertible bonds of Ability (TW) which are repurchased, redeemed, or converted to common shares will be retired and cannot be sold or re-issued.
- b. In accordance with SFAS No. 36, convertible bonds are initially treated as compound financial instruments, of which the equity and liability components are separately accounted for. As of December 31, 2011, the issuance of convertible bonds resulted in a "paid-in capital-stock option" of \$153,508. In addition, the fair value of call options and put options embedded in bonds payable was separated from bonds payable, and was recognized as "Financial assets or liabilities at fair value through profit or loss" in accordance with SFAS No. 34. The effective annual interest rate of the bonds ranges from 2.122% to 2.263%.
- c. As of December 31, 2011, the convertible bonds of Ability Enterprise Co., Ltd. have not yet been converted into common shares nor repurchased.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(12) Long - Term Loans

Creditor	Usage and redemption duration	December 31, 2011	December 31, 2010
Citibank Taiwan and 14 other participating financial institutions (Note A)	2010.10.25~2015.10.25, payable in 5 semi-annual installments, commencing from October 25, 2013.	\$ 12,110,000	6,991,200
The Shanghai Commercial & Saving Bank, Ltd.	2010.09.21~2015.09.20 payable in 10 quarterly installments, commencing from April 2013.	1,059,625	1,019,550
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2006.12.08 ~2013.12.08, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	10,091	14,540
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2009.06.23 ~2014.06.23, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	56,766	76,335
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2009.07.23 ~2014.07.23, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	15,611	20,447
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2009.11.23 ~2014.10.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	164,620	210,830
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2010.07.22~2015.07.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	147,591	179,569
The Shanghai Commercial & Savings Bank, Ltd. — International Financial Service Branch	2010.12.24~2014.12.24, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	151,375	145,650

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Creditor	Usage and redemption duration	December 31, 2011	December 31, 2010
The Shanghai Commercial & Savings Bank, Ltd. — International Financial Service Branch	2010.04.20~2013.04.19, payable in 8 quarterly installments, commencing from May 20, 2011. As of June 2011, redeeming method has changed to 8 quarterly installments, commencing from September 21, 2011.	45,413	58,260
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.03.11~2015.03.10, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	151,375	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.11.29~2015.11.28, payable in 12 quarterly installments, commencing from the date of borrowing.	151,375	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.07.01~2015.06.30, payable in 12 quarterly installments, commencing from the date of borrowing.	302,750	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.01.24~2016.01.24, payable in 12 quarterly installments, commencing from the date of borrowing (with a two year grace period).	15,000	-
The Shanghai Commercial & Savings Bank, Ltd. — Chung - Li Branch	2011.10.04~2016.07.15, payable in 11 quarterly installments from the twenty-fifth month, commencing from the date of borrowing (with a one year grace period).	51,160	-
Mega International Commercial Bank — Lan-Ya Branch	2004.12.31~2011.12.31, payable in 20 quarterly installments, commencing from January, April, August, October 15 which date is the nearest date of borrowing.	-	4,873
Mega International Commercial Bank — Lan-Ya Branch	2005.01.31~2012.01.31, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period).	5,639	27,081
Mega International Commercial Bank — Lan-Ya Branch	2009.12.16~2016.12.15, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period).	224,035	316,972

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Creditor	Usage and redemption duration	December 31, 2011	December 31, 2010
Mega International Commercial Bank — Lan-Ya Branch	2010.10.28 ~2015.10.27, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing from the date of borrowing.	317,887	203,560
Mega International Commercial Bank — Lan-Ya Branch	2010.10.28~2015.10.27, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period).	121,100	116,320
Mega International Commercial Bank — Lan-Ya Branch	2010.12.20~2015.12.20, payable in 20 quarterly installments, commencing from the date of borrowing.	847,695	1,019,550
Mega International Commercial Bank — Lan-Ya Branch	2011.02.14~2016.02.13, payable in 20 quarterly installments, commencing from the date of borrowing.	514,671	-
Mega International Commercial Bank — Lan-Ya Branch	2011.03.11~2016.03.10, payable in 20 quarterly installments, commencing from the date of borrowing.	363,299	-
Mega International Commercial Bank — Lan-Ya Branch	2011.08.15~2014.08.15, payable in 20 quarterly installments, commencing from the date of borrowing (with a one year grace period).	14,000	-
Mega International Commercial Bank — Lan-Ya Branch	2011.04.07~2014.04.07, payable in 20 quarterly installments, commencing from the date of borrowing (with a one year grace period).	10,000	-
Mega International Commercial Bank	2011.05.19~2014.05.19, payable in 5 quarterly installments, commencing from May 19, 2013.	1,513,750	-
Mega International Commercial Bank	2011.10.12~2016.10.12, payable in 8 quarterly installments, commencing from January 2015.	1,211,000	-
The Land Bank of Taiwan — Chung - Li Branch	2010.12.24~2015.12.24, payable in 60 monthly installments, commencing from the date of borrowing.	273,141	145,650

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

- Current ratio (current assets/current liabilities): should not be less than 100%.
- Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.
- Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.
- Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.

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

The Company was in compliance with the above financial covenants as of December 31, 2011 and 2010. The Consolidated Company's promissory notes were pledged as a guarantee for the credit loan facility.

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

- I. Credit type A: Term loan with a credit line of NT\$400,000 available in multiple drawings.
- II. Credit type B: Revolving loan with a credit line of NT\$200,000 available in multiple drawings.

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

- a. Current ratio (current assets/current liabilities): should not be less than 100%.
- b. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 125%
- c. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$1,000,000.
- d. Interest coverage ratio (EBITDA/interest expenses): should not be less than 200%.

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(13) Pension Plan

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(14) Income Tax

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

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

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

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

The components of deferred income tax expense were as follows:

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

	December 31, 2011		December 31, 2010	
	Amount	Income Tax Effect	Amount	Income Tax Effect
Temporary differences of deferred income tax liabilities - current				
Others	\$ (168)	(54)	(253)	(82)
Valuation on allowance		-		-
Net deferred income tax liabilities		<u>\$ (54)</u>		<u>(82)</u>
Temporary differences of deferred income tax liabilities - noncurrent				
Unrealized impairment loss on assets: deductible	\$ 8,038	1,366	36,487	6,203
Recognition of gain on foreign investments: taxable	(2,411,812)	(465,023)	(1,173,636)	(199,518)
Reserve for overseas investment losses	(1,002,382)	(170,405)	(1,002,382)	(170,405)
Others	(97,225)	(19,799)	100	17
Net deferred income tax liabilities		<u>\$ (653,861)</u>		<u>(363,703)</u>

(v) Income Tax

- a. The Company's income tax returns through 2009 have been assessed and approved by the Tax Authority. However, the tax return for 2008 is still under review.
- b. The income tax returns of Unihan Corporation, Azurewave Technologies Inc., and Kinsus Interconnect Technology Corp. through 2009 have been assessed and approved by the Tax Authority.
- c. As of December 31, 2011, the income tax returns of Ability Enterprise Co., Ltd. (Ability(TW)) through 2009 have been assessed and approved by the tax authority. However, Ability(TW) disagreed with the results of the tax authorities' examinations of its 2007, 2008, and 2009 income tax returns, in which the research and development tax credit were reduced after the Tax Authority's review. Ability(TW) has estimated and recognized relative income tax liability and filed a formal appeal for reexamination to the tax authority which is still under review.
- d. The income tax returns of Asrock Incorporation through 2008 have been assessed and approved by the Tax Authority.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

(viii) Five year income tax exemption period

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

(15) Stockholders' Equity

a. Capital Stock

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

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

(a) Voting Rights

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

b. Share-based payment transactions

(a) Share-based payment transaction as of December 31, 2011 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	7.9%
Estimated future turnover rate of employees	16.28%

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

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

	<u>For the Years ended December 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 options.

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

c. Legal reserve and capital surplus

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

In accordance with the ROC Company Law, as amended in January 2012, capital surplus can not be distributed as dividends in cash or shares unless it offsets deficit. The realized capital surplus includes the reserves generated from donation and the excess of the issuance price over the par value of capital stock. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, when capital reserve is capitalized in batches, the combined amount of capital reserve capitalized in batches in any one year can not exceed 10 % of paid-in capital.

Dividends yield by the trust of the shareholders of parent company were distributed to the employees of the Company as bonuses. These bonuses amounted to \$409,917 and \$232,803 which were credited to capital surplus-others as of December 31, 2011 and 2010, respectively.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

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 stock of the Company. Also, the total amount of treasury shares may not exceed the amount of retained earnings plus the amounts of premium on capital stock and realized capital reserve. The repurchased shares held by the Company amounted to \$1,006,862, divided into 29,697 thousand shares as of December 31, 2010 which conformed to Securities and Exchange Act. The number of shares the Company can repurchase from the active market is limited to up to 228,605 thousand shares worth \$66,221,050 which is calculated according to its financial reports for the latest accounting period prior to a resolution of a meeting of the board of directors.
- (b) In accordance with Securities and Exchange Act, treasury shares cannot be pledged. Also, treasury shares do not bear the shareholder's right prior to being sold to third parties.
- (c) As of December 31, 2011, the Company's shares held by its subsidiaries were 1,700 thousand shares worth \$56,015 at fair value.

e. Earnings Distribution and Dividend Policy

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

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 net debit balance of the other components of shareholders' equity such as the unrealized loss on financial instruments and cumulative translation adjustments. When the net debit balance in the shareholders' equity is reversed, the appropriated special reserve can be reversed.

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(16) Employee Stock Option

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

(a) On November 20, 2007, pursuant to the resolutions of its board of directors, Ability Enterprise Co., Ltd. (Ability(TW)) had issued employee stock options covering a total number of 19,500 units. Each unit bears an option to subscribe for one thousand share of Ability(TW)'s common stock. Therefore, 10,000 thousand shares of new common stock were issued from the exercise of 10,000 units of employee stock option. Following the issuance of employee stock options, any event, such as additional change to common stock of Ability(TW), distributions of cash dividends, and occurrence of merger and acquisition will result in adjustments in the price of the stock options. The employee stock options cover a contractual life of 7 years, and are exercisable in accordance with certain schedules as prescribed by the plan starting 2 years from the date of grant. As of December 31, 2011 and 2010, the weighted-average expected life of the employee stock options was 3.24 years and 4.24 years, respectively.

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

	For the Years Ended December 31			
	2011		2010	
	Quantity of stock option (thousand shares)	Weighted-average exercise price	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	6,678	\$ 38.3	10,000	41.3
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	(1,599)	38.3	(3,322)	38.3
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>5,079</u>	34.9	<u>6,678</u>	38.3
Exercisable at the end of the period	<u>3,079</u>		<u>2,678</u>	

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

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 Years Ended December 31	
	2011	2010
Net income		
Net income	\$ 1,089,319	2,364,919
Pro forma net income	1,070,918	2,332,829
Basic earnings per share		
Earnings per share	2.45 dollars	5.39 dollars
Pro forma earnings per share	2.40 dollars	5.31 dollars
Diluted earnings per share		
Earnings per share	2.30 dollars	5.03 dollars
Pro forma earnings per share	2.26 dollars	4.92 dollars

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

	November 20, 2007
Dividend yield	0.00%
Volatility factors of the expected market	39.87%
Risk-free interest rate	2.54%
Weighted-average expected life of the options	5.10 years
Stock options granted	10,000 thousand shares
Weighted-average fair value (per share)	20.6025 dollars

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

- (a) On November 20, 2007, pursuant to resolutions of its board of directors, Ability Enterprise Co., Ltd. (Ability(TW)) had issued employee stock options covering a total number of 19,500 units. The second batch of employee stock option 9,500 units was issued on October 13, 2008. Each unit bears an option to subscribe for one shares of Ability(TW)'s common stock at an exercise price of \$22.2 per share. As of December 31, 2011 and 2010, the weighted-average expected life of the employee stock options was 3.75 years and 4.75 years, respectively.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

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 Years Ended December 31			
	2011		2010	
	Quantity of stock option (thousand shares)	Weighted-average exercise price	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	6,802	\$ 19.3	9,500	20.8
Granted	-	-	-	-
Added or adjusted	-	-	-	-
Exercised	(470)	19.3	(2,698)	19.3
Exercised	(1,444)	17.6	-	-
Forfeited	-	-	-	-
Outstanding at the end of the period	<u>4,888</u>	17.6	<u>6,802</u>	19.3
Exercisable at the end of the period	<u>1,088</u>		<u>1,102</u>	

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

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

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

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

	For the Years Ended December 31	
	2011	2010
Equity transaction	<u>\$ 11,810</u>	<u>36,316</u>

- c. The relevant registration processes for changes of capital resulting from the exercise of employee stock options and conversion of convertible bonds should be completed within at least each quarter when those changes occur. As of December 31, 2011, Ability (TW) increased its capital by \$14,440 due to the exercise of employee stock options.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(17) Earnings per Share (EPS)

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

(Note: shares in thousands)

For the Years Ended December 31

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

(18) Financial Instruments

a. Fair value of financial instruments

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

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

Non-Financial Instruments Financial Assets	December 31, 2011		December 31, 2010	
	Book Value	Fair Value	Book Value	Fair Value
Financial asset reported at fair value through profit or loss — current	\$ 6,417,685	6,417,685	6,377,118	6,377,118
Available-for-sale financial asset — current	454,752	454,752	765,417	765,417
Financial assets held-to-maturity — current	-	-	262,170	262,170
Available-for-sale financial asset — noncurrent	463,922	463,922	1,824,246	1,824,246
Financial assets carried at cost — noncurrent	740,309	-	763,763	-

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Non-Financial Instruments	December 31, 2011		December 31, 2010	
Financial Liabilities				
Financial liability reported at fair value through profit or loss — current	\$ 102,583	102,583	11,142	11,142
Bonds payable	1,404,707	1,485,000	1,373,801	1,599,000
Long-term loans (including current portion)	28,267,268	28,267,268	10,550,387	10,550,387
Financial Instruments	December 31, 2011		December 31, 2010	
Financial Assets	Book Value	Fair Value	Book Value	Fair Value
Foreign exchange swap contracts	\$ 135	135	18,049	18,049
Forward exchange contracts	2,085	2,085	-	-
Option exchange	4,496	4,496	-	-
Financial Instruments				
Financial Liabilities				
Foreign exchange swap contracts	232	232	-	-
Forward exchange contracts	1,367	1,367	-	-
Embedded derivatives - convertible bonds	100,984	100,984	11,142	11,142

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

- (a) The fair value of financial instruments, which are carried at fair value through profit or loss and traded in active markets, is based on quoted market prices. If the financial instruments are not traded in an active market, then the fair value is determined by using valuation techniques, under which, the estimates and assumptions used are consistent with prevailing market conditions.
- (b) Financial assets carried at cost, are measured at carrying value, as their market price is difficult to determine, due to lack of objective 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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (d) The fair market value of long-term loans is determined by the present value of future cash flow. As the value derived by using floating interest rate in discounting is close to the book value, the book value is adopted as the fair market value.
- (e) The fair value of the derivatives traded in active markets is determined by their carrying value, which approximates market value on the balance sheet date. If the derivatives are not traded in active markets, then the fair value is determined by using valuation techniques, under which the estimates and assumptions used are consistent with prevailing market conditions.
- c. Gain (Loss) recognized from changes in the fair values of financial assets, which were estimated by using valuation techniques, amounted to \$(161,543) and \$47,110, for the years ended December 31, 2011 and 2010, respectively.
- d. Loss recognized from changes in the fair values of financial liabilities, which were estimated by using valuation techniques, amounted to \$89,081 and \$12,720, for the years ended December 31, 2011 and 2010, respectively.
- e. Information on financial risks

- (a) Market risk

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

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

- (b) Credit risk

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

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

(c) Liquidity risk

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

f. Procedure of financial risk control and hedge

Ability Enterprise Co., Ltd. (Ability (TW)) adopted overall risk management and control system to identify all the risks, including market risk, credit risk and operational risk, so that Ability (TW)'s management is not expecting any significant issue on doubtful account.

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

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

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(19)Others

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

	December 31, 2011			December 31, 2010		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial Assets						
Monetary Items						
USD	\$3,055,948	30.2750	95,518,826	1,678,967	29.1300	48,908,309
RMB	1,648,237	4.8049	7,919,614	1,510,878	4.4405	6,709,054
Long-term Equity Investments						
USD	44,020	30.2750	1,332,691	47,266	29.1300	1,376,854
Financial Liabilities						
Monetary Items						
USD	4,421,720	30.2750	133,867,573	1,936,867	29.1300	56,420,936
RMB	1,676,068	4.8409	8,053,339	170,808	4.4405	758,473

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 that ceased to be a parent company effective May 31, 2010.
ASUS HOLLAND B.V.	An investee company accounted for under the equity method by ASUSTeK Computer Inc. (Note)
ASUS TECHNOLOGY PTE. LTD.	"
ASUS COMPUTER INTERNATIONAL	"
BIG PROFIT LTD.	"
ASKEY COMPUTER CORP.	"
ASUS TECHNOLOGY INC.	"
ASMEDIA TECHNOLOGY INC.	"
ASUS COMPUTER (SHANGHAI) CO., LTD. (ASUS UNITED TECHNOLOGY (SHANGHAI) CO., LTD. FORMERLY) (ASUS COMPUTER (SHANGHAI))	"

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
SHINEWAVE INTERNATIONAL INC.	An investee company accounted for under the equity method by ASUSTeK Computer Inc. (Note)
ENERTRONIX, INC.	//
EMES (SUZHOU) CO., LTD.	//
ASKEY TECHNOLOGY (JIANG SU) LTD. (ASKEY TECHNOLOGY)	//
INTERNATIONAL UNITED TECHNOLOGY CO., LTD.	//
UNIMAX ELECTRONICS INC.	//
ASUS TECHNOLOGY (SUZHOU) CO., LTD.	//
AGAIT TECHNOLOGY CORP.	//
AAEON TECHNOLOGY INC.	//
ASKEY INTERNATIONAL CORP.	//
ASHINE PRECISION CO., LTD.	An investee company accounted for under the equity method
AVY PRECISION TECHNOLOGY INC. (AVY PRECISION)	//
AVY CO., LTD.	//
DONGGUAN AVY PRECISION METAL COMPONENTS CO., LTD. (DONGGUAN AVY)	//
DONGGUAN CHENGGUANGP PRECISION HARDWARE CO., LTD.	//
AVY PRECISION METAL COMPONENTS (SUZHOU) CO., LTD.	//
CRYSTAL ART ENTERPRISE CO., LTD.	//
YOGREE TECHNOLOGY CO., LTD.	
SHANGHAI INDEED TECHNOLOGY CO., LTD. (SHANGHAI INDEED)	//
ASAP TECHNOLOGY (JIANGXI) CO., LTD.	An investee company accounted for under the equity method. The Company has ceased control effective December 31, 2010.
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	An investee company accounted for under the equity method

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Name of Related Party	Relationship with the Company
GING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	An investee company accounted for under the equity method
HOLD JUMPER PACKING (SUZHOU) CO., LTD.	"
HOLD JUMPER PACKING (SHANGHAI) CO., LTD.	"
SUZHOU DELUXE PACKING PRODUCTION CO., LTD.	"
AVY HIGH TECH LTD.	"
BLACKROCK MARYLAND INTERNATIONAL CORP.	"
GREEN PACKING LTD.	"
PENTAX VQ CO., LTD. (PVQ)	"
SHINE TRADE INTERNATIONAL LTD.	"
YORKEY OPTICAL TECHNOLOGY LTD. (SAMOA)	"
HOLD JUMPER INTERNATIONAL CO., LTD.	"
ABICO (GUANGZHOU) INTERNATIONAL TRADING CO., LTD.	"
TAISHIBA INTERNATIONAL CO., LTD.	An affiliate of Ability Enterprise Co., Ltd
All directors, supervisors, general manager and vice president	The Consolidated Company management

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Significant Transactions with Related Parties

a. Sales

Name of Related Party	For the Years Ended December 31					
	2011			2010		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTEK	\$ 170,276,412	28.39	Open account 60 days	210,769,021	39.73	Open account 60 days
Others	25,300	-	30~90 days from receipt of goods Open account 30~90 days	139,408	0.02	30~90 days from receipt of goods Open account 30~90 days
Total	<u>\$ 170,301,712</u>	<u>28.39</u>		<u>210,908,429</u>	<u>39.75</u>	

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

b. Purchases

Name of Related Party	For the Years Ended December 31					
	2011			2010		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$ 125,965,080	21.73	Open account 60 days	151,316,954	31.50	Open account 60 days
Others	6,169,061	1.06	30~90 days from receipt of goods Open account 30~120 days	6,200,221	1.29	30~90 days from receipt of goods Open account 30~120 days
Total	<u>\$ 132,134,141</u>	<u>22.79</u>		<u>157,517,175</u>	<u>32.79</u>	

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

c. Others

	For the Years Ended December 31	
	2011	2010
(a) After-sales warranty repair expense paid to:		
ASTP	\$ -	93,162
ASUS COMPUTER (SHANGHAI)	1,245	14,531
Others	138	4,334
Total	<u>\$ 1,383</u>	<u>112,027</u>

	For the Years Ended December 31	
	2011	2010
(b) Other income from:		
ASUSTeK	\$ 527,415	614,203
Others	5,122	3,497
Total	<u>\$ 532,537</u>	<u>617,700</u>

(c) For the years ended December 31, 2011 and 2010, the Consolidated Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, professional service fee, etc, amounted to \$18,334 and \$42,666, respectively.

(d) For the year ended December 31, 2010, the Consolidated Company incurred other related party transactions recorded as processing revenue and repair revenue, which amounted to \$94,417.

(e) Promotion expenses

	For the Years Ended December 31	
	2011	2010
ASUSTeK	<u>\$ 4,344</u>	<u>102,252</u>

d. Property Transactions

(a) Purchase of properties

i. For the years ended December 31, 2011 and 2010, properties purchased from other related parties amounted to \$121,993 and \$143,218, respectively.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

ii. For the year ended December 31, 2011, the Consolidated Company sold its equity ownership of NOEA CORPORATION to Avy Precision Technology Inc. for \$38,042 and recognized a loss on disposal of investment for \$44.

(b) Disposal of properties

For the year ended December 31, 2010, properties disposed to other related parties amounted to \$109.

(c) Rental revenue

For the years ended December 31, 2011 and 2010, the Consolidated Company incurred other related party transactions of \$28,442 and \$27,148, respectively, which were accounted as rental revenue.

e. Accounts Receivable (Payable)

Accounts Receivable:	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
ASUSTeK	\$ 9,646,625	11.45	9,448,413	17.68
Others	3,654	-	7,132	0.01
Total	\$ 9,650,279	11.45	9,455,545	17.69
Other Receivable:				
SHANGHAI INDEED	\$ 6,254	0.28	-	-
DONGGUAN AVY	1,455	0.07	-	-
ASUSTeK	435	0.02	5,775	0.54
PROTEK	758	0.03	-	-
Others	-	-	1,709	0.10
Total	\$ 8,902	0.40	7,484	0.64
Notes and Accounts Payable:				
ASKEY TECHNOLOGY	\$ 534,352	0.53	334,634	0.61
SHANGHAI INDEED	778,663	0.78	441,994	0.81
AVY PRECISION	518,036	0.52	507,525	0.92
Others	446,702	0.45	446,983	0.81
Total	\$ 2,277,753	2.28	1,731,136	3.15

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Accrued Expenses:	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
ASUSTeK	\$ 396,690	2.97	55,862	0.62
Others	10,524	0.08	7,384	0.08
Total	\$ 407,204	3.05	63,246	0.70

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

	December 31, 2011	December 31, 2010
Assets:		
Temporary payments	\$ 534	5,243
Other current assets	-	5,254
	\$ 534	10,497
Liabilities:		
Other financial liabilities – current	\$ 320	232
Other current liabilities	3,641	4,770
	\$ 3,961	5,002

f. Endorsement Guarantee

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

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

g. Remuneration

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

	2011	2010
Salary and Bonus (including Board of Directors' remuneration)	\$ 351,873	301,363
Professional fees	210	210
Employee Bonus	102,083	105,945
Total	\$ 454,157	407,518

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

6. Pledged Assets

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

Asset	December 31		Purpose of pledge
	2011	2010	
Restricted deposit	\$ 111,049	1,343,307	Customs duty guarantee, bank loans, rental deposits, credit contracts, issued letter of credit, travel agency guarantee, etc.
Property, plant and equipment	939,363	1,464,747	Bank loans
Inventories	-	16,410	Lawsuit collateral (Note A)
Refundable deposits	32,327	126,694	Deposits for performance guarantee
	<u>\$ 1,082,739</u>	<u>2,951,158</u>	

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

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

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

Unused standby letters of credit	December 31, 2011	December 31, 2010
NTD	\$ 6,753	400
EUR	3,927	2,575
JPY	4,808,946	2,245,366
USD	26,654	20,508

(2) As of December 31, 2011 and 2010, promissory notes and certificate of deposit obtained for business purpose amounted to \$17,332 and \$13,674, respectively.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

Year	Future lease commitments					
	2012	2013	2014	2015	2016	After 2016
Future Lease Commitments	<u>\$449,803</u>	<u>242,867</u>	<u>172,033</u>	<u>148,896</u>	<u>57,606</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:

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

- (4) As of December 31, 2011 and 2010, the significant contracts for purchase of properties signed by the Consolidated Company amounted to \$29,520,477 and \$1,374,565, of which \$16,974,382 and \$269,577 were unpaid, respectively.

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

	December 31, 2011	December 31, 2010
Jointly issued with VQ (BVI)	<u>USD 10,000</u>	<u>USD 12,000</u>
Jointly issued with VQ (BVI)	<u>-</u>	<u>NTD 569,800</u>
Jointly issued with ABILITY (BVI)	<u>-</u>	<u>USD 19,000</u>
Jointly issued with E-PIN	<u>NTD 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(7).

- (7) As of December 31, 2011, Azure Wave Technologies Inc. issued a tariff guarantee of \$10,000 to the bank for the purpose of importing goods.

- (8) In order to expand the business and factories, Ri-Teng Computer Accessory (Shanghai) Co., Ltd. (Ri-Teng) signed with a non-related party (original petitioner) an agreement to purchase land use right and the existing buildings for RMB\$285,000. Under this agreement, the original petitioner is responsible for acquiring the land use right from the landlord and constructing a factory that conforms to the requirement of Ri-Teng's. As of December 31, 2011, the Consolidated Company has prepaid RMB\$250,000 thousand, which was accounted for under

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

unfinished construction and prepayments for business facilities. However, in order to facilitate the acquisition of the land use right, the board of directors of the Company resolved on December 13, 2011 to restructure the agreement so that the contracting parties will involve the original petitioner, the landlord and the Consolidated Company and the total contract amount is amended to RMB\$382,811. On January 18, 2012, a tripartite contract was signed, under which, the three parties agreed not to revoke, cancel, or early terminate the contract or do other activities that will makes the contract invalid. The original petitioner is responsible for the process of transferring the ownership of the factory to the Consolidated Company. Also, when the Consolidated Company make the payment of the total contract amount o the landlord, the original petitioner will return the prepaid amount to the Consolidated Company.

- (9) ASUSPOWER INVESTMENT CO., LTD. has undertaken an administrative remedy due to the disagreement with Tax Authority in determining the nature of the equity transactions in 2006 and 2007. ASUSPOWER INVESTMENT CO., LTD. has adopted an appropriate accounting treatment thereon.

8. SIGNIFICANT CATASTROPHIC LOSSES

- (1) On December 17, 2011, the dust collecting equipment of CASETEK HOLDING ILMITED and its subsidiaries in Shanghai had a small gas explosion. Based on the result of the preliminary assessment by the Consolidated Company, a loss of \$28,197 was recognized and accounted for under catastrophic loss. The actual amount of damages will be adjusted in the year when the amount of insurance claims will be confirmed
- (2) On November 6, 2011, the factory of CASETEK HOLDING LIMITED and its subsidiaries-in Suzhou had occurred a conflagration. The carrying value of damaged molds accounted for under deferred expenses, fixed assets, and inventories amounted to \$46,163. The actual amount of damages will be adjusted in the year when the amount of insurance claims will be confirmed.

9. SIGNIFICANT SUBSEQUENT EVENTS

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

The Company has completed the pricing of its Overseas Unsecured Convertible Corporate Bonds on January 30, 2012 and offered US\$300,000 thousand dollars aggregate principle amount of Zero Coupon Convertible Bonds with the principle amount US\$200 thousand dollars

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

on February 6, 2012. These Convertible Bonds, with an initial conversion price of NT\$42.11, will mature on February 5, 2017. Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on Maturity Date at an amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on a semi-annual basis.

- (2) In order to strengthen cooperative relations between the Company and Advansus Corp. (Advansus) and coordinate the integration of joint venture resources with Advansus and the other party, the Company sold all its equity ownership in Advansus to the other party of joint venture for \$306,000 on January 5, 2012 and proposed to complete the transfer ownership of those shares in June 2012.
- (3) In order to acquire a property for plant expansion, CASETEK HOLDING LIMITED and its subsidiaries have signed a tripartite agreement for this purpose on January 18, 2011 with non-related parties. Refer to Note 7(8) for related information.
- (4) For the purpose of raising working capital, CASETEK HOLDING LIMITED loaned from MAINTEK COMPUTER (SUZHOU) CO., LTD. of US\$70,000 thousand dollars and US\$50,000 thousand dollars in January 2012 and February 2012, respectively. These loans both bear interest at rate of 1%, and the term of two years.
- (5) For the purpose of expanding production capacity, CASETEK HOLDING LIMITED acquired machinery equipment from ASUSPOWER for RMB\$324,085 thousand dollars.
- (6) For the purpose of investing in mainland subsidiaries and increasing machinery equipment and production capacity, the Consolidated Company increased its capital by issuing new shares of stock worth \$133,580, divided into 13,358 thousand shares with par value of \$10 per share on February 20, 2012, the effective date of capital increase. The issuance price was \$41.81 per share, and the premium from the issuance of those shares of stock amounted to \$424,909, which was accounted under capital surplus. As of the reporting date, the process of the aforesaid stock issuance are still in process.
- (7) In October 2011, pursuant to the resolutions of the board of directors, AZUREWAVE TECHNOLOGIES INC. resolved to increase its capital by issuing new shares worth \$440,000, divided into 20,000 thousand shares with par value of \$22 per share on February 5, 2012, the effective date of capital increase, for the purpose of redemption of bank loans and commercial paper. If the aforesaid capital increase needed to be change due to the change in regulation and objective market environment, the board resolved to authorized the president take care all the capital increase issues.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (8) On February 13, 2012, ASUSPOWER INVESTMENT CO., LTD. sold for \$350,945 to a third party its equity ownership in MediaTek Inc. of 1,214 thousand shares and recognized a loss on disposal of investment thereon of \$41,680.
- (9) Based on their interim meeting on January 31, 2012, the shareholders approved a resolution to liquidate E-PIN INTERNATIONAL TECH CO., LTD. effective April 15, 2012.
- (10) Based on its annual consolidated financial statements for the year ended December 31, 2011, E-Pin Optical Industry Co., Ltd. failed to comply with its syndicated loan financial covenants concerning the interest coverage ratio and current ratio. Refer to Note 4(12) for related information.

10. OTHERS:

- (1) The employment, depreciation, depletion and amortization expenses, categorized by function, were as follows:

Categorized as Nature	For the Year Ended December 31, 2011			For the Year Ended December 31, 2010		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salary expense	17,560,050	9,010,159	26,570,209	13,070,982	8,175,749	21,246,731
Health and labor insurance expense	824,880	551,833	1,376,713	841,701	494,983	1,336,684
Pension expense	994,344	471,085	1,465,429	659,016	361,242	1,020,258
Other expense	1,154,658	460,534	1,615,192	716,288	336,533	1,052,821
Depreciation expense (Note A)	7,221,782	1,205,067	8,426,849	6,637,381	1,133,461	7,770,842
Amortization expense	1,473,142	1,040,939	2,514,081	1,494,012	835,092	2,329,104

Note A: For the years 2011 and 2010, the Consolidated Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle-assets of \$21,647 and \$254,243, respectively.

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

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

For the Year Ended December 31, 2011	DMS	Strategic Investment Group	Adjustment and eliminations	Total
External Revenue	\$ 453,636,342	146,306,364	-	599,942,706
Intra-Group Revenue	46,929,465	11,694,900	(58,624,365)	-
Total segment revenue	<u>\$ 500,565,807</u>	<u>158,001,264</u>	<u>(58,624,365)</u>	<u>599,942,706</u>
Segment profit (loss)	<u>\$ 63,089</u>	<u>6,603,540</u>	<u>(1,939,237)</u>	<u>4,727,392</u>
Other significant non-monetary items:				
Investment income (loss) under equity method	<u>1,989,701</u>	<u>(94,972)</u>	<u>(1,796,285)</u>	<u>98,444</u>
Asset				
Long-term investment under equity method	<u>\$ 39,401,686</u>	<u>57,659,663</u>	<u>(94,598,108)</u>	<u>2,463,241</u>
Segment assets	<u>\$ 227,604,810</u>	<u>176,419,009</u>	<u>(104,450,051)</u>	<u>299,573,768</u>
Other significant non-monetary items				
Goodwill	-	1,058,865	839,634	1,898,499
Segment liabilities	<u>\$ 136,020,602</u>	<u>55,982,832</u>	<u>(10,626,395)</u>	<u>181,377,039</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

For the Year Ended December 31, 2010	DMS	Strategic Investment Group	Adjustment and eliminations	Total
External Revenue	\$ 434,895,780	95,635,571	-	530,531,351
Intra-Group Revenue	592,263	12,744,390	(13,336,653)	-
Total segment revenue	\$ 435,488,043	108,379,961	(13,336,653)	530,531,351
Segment profit (loss)	\$ 7,314,892	8,812,888	(3,157,436)	12,970,344
Other significant non-monetary items:				
Investment income (loss) under equity method	2,853,455	446,089	(3,092,252)	207,292
Asset				
Long-term investment under equity method	\$ 31,019,596	54,287,558	(82,836,054)	2,471,100
Segment assets	\$ 160,090,411	142,816,596	(86,903,415)	216,003,592
Other significant non-monetary items				
Goodwill	-	49,031	836,651	885,682
Segment liabilities	\$ 69,249,181	34,961,161	(4,824,249)	99,386,093

(2) Industrial Information

a. Geographic information

(a) External Sales

Region	2011	2010
Taiwan	\$ 242,873,453	217,078,171
China	52,244,102	40,933,261
USA	127,999,962	63,099,032
Japan	86,382,723	112,249,687
Others	90,442,466	97,171,200
Total	\$ 599,942,706	530,531,351

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(a) Non-current assets

<u>Region</u>	<u>2011</u>	<u>2010</u>
Taiwan	\$ 13,868,216	14,358,310
China	60,434,117	41,391,477
Others	5,539,743	5,244,374
Total	<u>\$ 79,842,076</u>	<u>60,994,161</u>

b. Major Customer

Customers with revenues exceeding 10% of the total revenues in 2011 and 2010 were as follows:

<u>Customer</u>	<u>2011</u>	<u>2010</u>
A	\$ 170,276,412	210,769,021
B	55,951,280	70,316,794
C	72,526,182	7,077,051
	<u>\$ 298,753,874</u>	<u>288,162,866</u>