

PEGATRON CORPORATION
FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009
(With Independent Accountants' Review Report)

TABLE OF CONTENTS

Contents	Page
COVER PAGE	1
TABLE OF CONTENTS	2
INDEPENDENT AUDITORS' REVIEW REPORT	3~4
BALANCE SHEETS	5
STATEMENTS OF INCOME	6
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	
(1) ORGANIZATION AND BUSINESS	8
(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	8~16
(3) REASONS FOR AND EFFECTS OF ACCOUNTING CHANGES	16
(4) SUMMARY OF MAJOR ACCOUNTS	17~31
(5) RELATED-PARTY TRANSACTIONS	32~39
(6) PLEDGED ASSETS	39
(7) SIGNIFICANT COMMITMENTS AND CONTINGENCIES	39~40
(8) SIGNIFICANT CATASTROPHIC LOSSES	40
(9) SIGNIFICANT SUBSEQUENT EVENTS	40
(10) OTHERS	40
(11) SEGMENT FINANCIAL INFORMATION	40

(English Translation of Financial Report Originally Issued in Chinese)

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Pegatron Corporation

We have reviewed the accompanying balance sheet of Pegatron Corporation (the “Company”) as of September 30, 2010 and 2009, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to issue the review report based on our reviews. We did not review the financial statements of certain investees, in which the Company had recognized long-term equity investments as of September 30, 2009, of NT\$ 10,696,737 thousand and investment gain of NT\$ 1,062,542 thousand. The financial statements of these investees were reviewed by other auditors whose reports were furnished to us, and our report, insofar as it relates to the amounts included for these companies, is based solely on the reports of the other auditors.

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

As described in Note (4) (e) to the financial statements, the long-term equity investments accounted for by the equity method of NT\$ 88,330,202 and NT\$74,060,085 thousand as of September 30, 2010 and 2009, respectively and the related investment gain of NT\$ 814,632 and \$1,071,309 thousand for the nine months ended September 30, 2010 and 2009, were recognized based on unreviewed financial statements of the investee companies.

Based on our review and the review reports of other auditors, except for the effects of any adjustments to the financial statements described above as of and for the nine-month period ended September 30, 2010, that might have emerged had the financial statements of investees been reviewed by independent accountants, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Entity Accounting Act and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

KPMG

A handwritten signature in black ink, appearing to be the stylized letters 'KPMG' followed by a flourish.

Taipei, Taiwan, R.O.C

October 18, 2010

Note to Readers

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

For the convenience of readers, the independent accountants' review report and the accompanying 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 independent accountants' review report and financial statements shall prevail.

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

PEGATRON CORPORATION

BALANCE SHEETS

September 30, 2010 and 2009

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

	<u>September 30, 2010</u>		<u>September 30, 2009</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
ASSETS				
Current Assets:				
Cash (Note (4)(a))	\$ 5,833,379	3	6,130,432	3
Financial assets reported at fair value through profit or loss — current (Note (4)(b))	-	-	888,706	1
Notes receivable, net of allowance for uncollectible accounts (Notes (4)(c) and (5))				
– Non-related parties	118	-	70	-
– Related parties (Note (5))	-	-	42,104	-
Accounts receivable, net of allowance for uncollectible accounts (Notes (4)(c) and (5))				
– Non-related parties	8,451,925	5	17,108,776	9
– Related parties (Note (5))	54,813,193	32	63,426,307	32
Other receivables, net of allowance for uncollectible accounts				
– Non-related parties	94,570	-	2,185,896	1
– Related parties (Note (5))	347,582	-	621,540	-
Other financial assets — current (Note (6))	71,887	-	111,597	-
Inventories (Notes (4)(d))	8,785,549	5	14,497,040	7
Other current assets	85,044	-	106,797	-
Deferred income tax assets — current (Notes (4)(j))	210,508	-	994,051	-
	<u>78,693,755</u>	<u>45</u>	<u>106,113,316</u>	<u>53</u>
Investments:				
Long-term investments under the equity method (Notes (4)(e))	88,330,202	53	88,217,476	44
Other Financial Assets — Noncurrent (Note (6))				
	<u>11,480</u>	<u>-</u>	<u>315,030</u>	<u>-</u>
Property, Plant and Equipment, at cost :				
Land	2,150,317	1	2,561,627	1
Buildings	1,745,891	1	1,842,219	1
Machinery and equipment	284,240	-	457,299	-
Warehousing equipment	1,199	-	1,920	-
Instrument equipment	295,822	-	544,189	-
Transportation equipment	20,452	-	24,867	-
Office equipment	3,951	-	4,623	-
Leased assets	28,839	-	15,651	-
Miscellaneous equipment	388,270	-	426,652	-
	<u>4,918,981</u>	<u>2</u>	<u>5,879,047</u>	<u>2</u>
Less: Accumulated depreciation	(878,639)	(1)	(1,043,775)	-
Prepayments for equipment	54,375	-	11,777	-
	<u>4,094,717</u>	<u>1</u>	<u>4,847,049</u>	<u>2</u>
Intangible Assets				
	<u>204,772</u>	<u>-</u>	<u>216,094</u>	<u>-</u>
Other Assets — Others (Notes (4)(f))				
	<u>1,556,271</u>	<u>1</u>	<u>1,431,225</u>	<u>1</u>
TOTAL ASSETS	<u>\$ 172,891,197</u>	<u>100</u>	<u>201,140,190</u>	<u>100</u>

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

(English Translation of Financial Report Originally Issued in Chinese)
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PEGATRON CORPORATION
BALANCE SHEETS (CONT'D)
September 30, 2010 and 2009

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

	September 30, 2010		September 30, 2009	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Short-term loans (Note (4)(g))	\$ -	-	691,548	-
Notes payable and Accounts payable				
– Non-related parties	13,301,340	8	24,982,781	13
– Related parties (Note (5))	39,872,612	23	52,685,457	26
Accrued expenses				
– Non-related parties	3,232,761	2	3,368,219	2
– Related parties (Note (5))	11,316,455	7	14,416,074	7
Other financial liabilities – current	-	-	942,314	-
Other current liabilities (Note (5))	2,991,160	1	3,207,043	2
	<u>70,714,328</u>	<u>41</u>	<u>100,293,436</u>	<u>50</u>
Long-Term Loans (Note (4)(h))	<u>7,200,000</u>	<u>4</u>	<u>7,200,000</u>	<u>4</u>
Other Liabilities:				
Other financial liabilities – noncurrent	13,816	-	13,738	-
Deferred income tax liabilities – noncurrent (Notes (4)(j))	294,989	-	167,132	-
Other long-term liabilities– other	6,293	-	98,995	-
	<u>315,098</u>	<u>-</u>	<u>279,865</u>	<u>-</u>
Total Liabilities	<u>78,229,426</u>	<u>45</u>	<u>107,773,301</u>	<u>54</u>
Stockholders' Equity:				
Common stock (Note (4)(k))	<u>22,860,639</u>	<u>13</u>	<u>22,860,539</u>	<u>11</u>
Capital Surplus (Note (4)(k))				
Premium on capital stock	61,188,108	35	61,382,980	31
Other	2,659,306	2	2,319,165	1
	<u>63,847,414</u>	<u>37</u>	<u>63,702,145</u>	<u>32</u>
Retained Earnings (Note (4)(k)):				
Legal reserve	1,215,457	1	552,261	-
Unappropriated earnings	6,963,458	4	4,487,675	2
	<u>8,178,915</u>	<u>5</u>	<u>5,039,936</u>	<u>2</u>
Other Adjustments to Stockholders' Equity:				
Cumulative translation adjustments	(703,320)	-	677,321	-
Unrecognized loss on pension cost	(3,203)	-	(1,106)	-
Unrealized profit on financial assets	1,497,510	1	1,088,054	1
	<u>790,987</u>	<u>1</u>	<u>1,764,269</u>	<u>1</u>
Treasury stock (Note (4)(k))	<u>(1,016,184)</u>	<u>(1)</u>	<u>-</u>	<u>-</u>
Total Stockholders' Equity	<u>94,661,771</u>	<u>55</u>	<u>93,366,889</u>	<u>46</u>
Commitments and Contingencies (Note (7))				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 172,891,197</u></u>	<u><u>100</u></u>	<u><u>201,140,190</u></u>	<u><u>100</u></u>

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

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PEGATRON CORPORATION
STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data))

	For the Nine-Month Period Ended September 30,			
	2010		2009	
	Amount	%	Amount	%
Operating revenues (Note (5))	\$ 232,200,344	100	223,858,503	100
Less: Sales returns	122,126	-	471,532	-
Sales allowances	796,532	-	349,440	-
Net sales	231,281,686	100	223,037,531	100
Cost of sales (Notes (4)(d) and (5))	221,854,227	96	216,917,103	97
Gross profit	9,427,459	4	6,120,428	3
Realized (Unrealized) profit on sales (Note (5))	61,770	-	(84,497)	-
	9,489,229	4	6,035,931	3
Operating expenses (Notes (5))				
Selling expenses	1,387,901	1	1,907,050	1
General and administrative expenses	1,048,797	-	1,147,649	1
Research and development expenses	2,435,350	1	2,873,283	1
	4,872,048	2	5,927,982	3
Income from operations	4,617,181	2	107,949	-
Non-operating income				
Interest revenue	8,601	-	10,067	-
Investment income under the equity method (Note (4)(e))	814,632	-	4,110,469	2
Foreign exchange gain, net	9,212	-	-	-
Rent revenue	46,565	-	48,192	-
Gain on reversal of impairment (Note (4)(f))	9,647	-	20,491	-
Others	861,616	-	836,899	-
	1,750,273	-	5,026,118	2
Non-operating expenses				
Interest expense	70,774	-	88,083	-
Foreign exchange loss, net	-	-	208,911	-
Others	195,940	-	45,865	-
	266,714	-	342,859	-
Income before income tax	6,100,740	2	4,791,208	2
Income tax expense (Note (4)(j))	1,179,451	1	252,653	-
Net income	\$ 4,921,289	1	4,538,555	2
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Earnings per share (Notes (4)(l))				
Primary earnings per share	\$ 2.68	2.16	2.54	2.41
Primary earnings per share - retroactively adjusted			2.10	1.99
Diluted earnings per share	\$ 2.66	2.15	2.52	2.39
Diluted earnings per share - retroactively adjusted			2.08	1.97
Pro forma result of the Company's stocks held by its subsidiary do not count as treasury stock	Before Income Tax	After Income Tax		
Net Income	\$ 6,100,740	4,921,289		
Earnings per share (Note (4)(l))	\$ 2.68	2.16		

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

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PEGATRON CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

	For the Nine-Month Period Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 4,921,289	4,538,555
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	198,020	246,521
Amortization	502,288	467,419
Cash dividend from investments under equity method	2,129,062	1,003,406
(Reversal) Provision for allowance for uncollectable account	(30,879)	47,157
(Reversal) Provision for contingent service cost	(120,000)	(154,375)
Reversal for inventory market price decline and obsolescence, and for impairment l	(35,418)	(760,872)
Investment income under equity method	(814,632)	(4,110,469)
Loss on disposal and retirement of assets, net (accounted under other expenses)	30,933	3,472
Reversal for impairment loss on idle assets	(9,647)	(20,491)
Interest expense generated from the trust of shareholders of parent company	30,632	31,594
Change in assets and liabilities:		
(Unrealized) Realized profits on sales	(61,770)	84,497
Change in assets and liabilities:		
Financial assets reported at fair value through profit or loss — current (increase	-	(888,706)
Decrease (increase) in notes and accounts receivable	20,310,286	(33,870,302)
Decrease in other receivables	899,639	1,364,823
Decrease in inventories	1,767,077	4,985,050
Decrease (increase) in other current assets	(1,063)	4,432
Decrease in deferred income tax assets and liabilities, net	593,782	175,209
Increase (decrease) in notes and accounts payable	(20,013,020)	38,106,343
Increase (decrease) in accrued income tax	455,044	(66,556)
Increase (decrease) in accrued expenses	29,104	(451,614)
Increase (decrease) in other current liabilities	(783,533)	112,599
Increase in deferred income tax liability	130,155	-
Decrease in other financial liabilities	(30)	(8,129)
Net cash provided by operating activities	10,127,319	10,839,563
Cash flows from investing activities:		
Increase in long-term investments under the equity method	(103,364)	(2,015,503)
Proceeds from disposal of long-term investments under the equity method	-	313,784
Returned investments due to subsidiary's capital decrease	-	120,000
Purchase of property, plant and equipment	(52,033)	(185,569)
Proceeds from disposal of assets	1,679	33,298
Increase in deferred expense	(168,029)	(355,438)
Decrease in other account receivable - related party	325,250	-
Purchase of intangible assets	(40,064)	(27,344)
Decrease in other financial assets	261,880	8,802
Net cash provided by (used in) investing activities	225,319	(2,107,970)
Cash flows from financing activities:		
Decrease in short-term loans	(3,023,055)	(7,728,452)
Repayment of long-term loans	-	(800,000)
(Decrease) Increase in deposits received	(1,902)	7,810
Distribution of cash dividend	(4,000,594)	-
Shares issued from reorganization	406	-
Repurchase of treasury stock	(1,006,862)	-
Net cash used in financing activities	(8,032,007)	(8,520,642)
Net increase in cash	2,320,631	210,951
Cash, beginning of the period	3,512,748	5,919,481
Cash, end of the period	\$ 5,833,379	6,130,432
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 70,565	105,820
Income tax	\$ 469	144,282

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

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PEGATRON CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 AND 2009
(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 accept the OEM business from ASUSTek Computer Inc. on January 1, 2008 as part of the Company’s business restructuring. On April 1, 2008, ASUSALPHA Computer Inc. was merged with the Company. The main activities of the Company are to produce, design and sell OEM business. In January 2010, pursuant to the resolutions of the board of directors, the Company decided to merge with Pegatron International Investment Co., Ltd., and the record date for the merger was June 10, 2010. As the surviving entity from this merger, the Company applied for initial public offering (IPO) to TSEC. The Company’s shares were listed on TSEC on June 24, 2010.

The company’s parent company: None

As of September 30, 2010 and 2009, the Company had 4,289 and 4,224 employees, respectively.

2. Summary of Significant Accounting Policies

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

a. Use of Estimates

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

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PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

b. Foreign Currency Translation

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

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

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

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

d. Asset Impairment

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

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

e. Financial Instruments

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

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

Subsequent to initial recognition, financial instruments are classified, depending on the Company's intention, as follows:

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

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

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

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

g. Inventories

Inventories are carried at the lower of cost or market value using a perpetual inventory basis. Cost is determined using the weighted-average method. Market value is determined by replacement value. A provision for inventory devaluation is recorded when the market value of inventories is less than cost. The fair value of finished goods, merchandise and work in process is determined on the basis of net realizable value, while the fair value of raw material is determined by replacement value. A provision for inventory devaluation and obsolescence is recorded as allowance for loss based on certain percentages according to the aging of inventories.

Effective January 1, 2009, the Company adopts Republic of China Statement of Financial Accounting Standard (SFAS) No. 10 "Inventories". According to SFAS 10, the cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

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

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

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

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

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PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

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

i. Property, Plant, and Equipment, and Depreciation

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

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

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

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

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

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PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

j. Intangible Assets

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

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

Computer software cost	3 to 5 years
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The residual value, the amortization period, and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Any changes thereof are accounted for as changes in accounting estimates.

k. Deferred Expenses

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

l. Pension Plan

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

m. Warranty Reserve

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

n. Revenue Recognition

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

o. Classification of Capital and Operating Expenditures

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

p. 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.

q. Income Tax

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

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

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

r. 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.

s. Spin-Off Transactions

Spin-off transactions are accounted for by the Interpretation (91) 128 issued by the ROC Accounting Research and Development Foundation. If a transferor company and a transferee company are affiliated and the nature of the transfer is group reorganization, the assets and liabilities are recognized by the transferee based on the book value of the assets and liabilities of the transferor company without recognizing any transfer gain/loss. However, if the book value of the assets has any impairment loss, it shall be considered.

t. Employee Bonuses and Remuneration to Directors and Supervisors

Appropriations for employee bonuses and remuneration to directors and supervisors appropriated are accounted for in accordance with Interpretation (96) 052 issued by the ROC Accounting Research and Development Foundation. According to this Interpretation, the 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.

u. Treasury Stocks

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

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

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

3. Reasons for and Effect of Accounting Changes:

Effective January 1, 2009, the Company adopted the amended Republic of China Statement of Financial Accounting Standards (SFAS) No. 10 "Inventories." In accordance with the standards, fixed costs are allocated to finished goods and work in process inventories on the basis of the normal capacity utilization. The adoption of this amended accounting principle decreased the net income by \$67,365, and also decreased earnings per share by \$0.03 for the nine months ended September 30, 2009. However, adoption of the lower of cost or net realisable value method prescribed under this amended accounting principle did not have any significant effect on net income for the nine months ended September 30, 2009.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

4. Summary of Major Accounts

a. Cash

	<u>September 30, 2010</u>	<u>September 30, 2009</u>
Cash on hand		
Demand deposits	\$ 2,513,551	1,063,023
Time deposits	30,000	10,000
Foreign currency deposits	342,010	1,046,434
Foreign currency time deposits	2,947,818	4,010,975
Total	<u>\$ 5,833,379</u>	<u>6,130,432</u>

b. Financial Instruments

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

	<u>September 30, 2010</u>	<u>September 30, 2009</u>
Held for trading - current		
Beneficiary Certificate	\$ -	<u>888,706</u>

2. The income (loss) recognized on financial assets reported at fair value through profit or loss amounted to \$1,493 and \$1,195 for the nine months ended September 30, 2010 and 2009, respectively.

c. Notes and Accounts Receivable — Non-related Parties

	<u>September 30, 2010</u>	<u>September 30, 2009</u>
Notes receivable	\$ 137	496
Less: Allowance for doubtful accounts	(19)	(426)
Net	<u>118</u>	<u>70</u>
Accounts receivable	8,512,297	17,295,227
Less: Allowance for doubtful accounts	(60,372)	(186,451)
Net	<u>8,451,925</u>	<u>17,108,776</u>
Total	<u>\$ 8,452,043</u>	<u>17,108,846</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

d. Inventories

	<u>September 30, 2010</u>	<u>September 30, 2009</u>
Merchandise	\$ 65,891	352,444
Finished goods	3,939,786	7,283,334
Work in process	577,248	1,502,091
Raw materials	4,525,695	5,737,620
Inventories-in-transit	72,007	147,531
Sub-total	9,180,627	15,023,020
Less: Allowance for inventory market decline and obsolescence	(395,078)	(525,980)
Total	<u>\$ 8,785,549</u>	<u>14,497,040</u>

For the nine months ended September 30, 2010 and 2009, the components of cost of sales were as follows:

	<u>For the Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
Cost of goods sold	\$ 221,860,406	217,589,341
Gain on inventory valuation and obsolescence	(35,418)	(760,872)
Others	29,239	88,634
	<u>\$ 221,854,227</u>	<u>216,917,103</u>

e. Long-Term Equity Investments

Name of Investee Company	September 30, 2010			September 30, 2009		
	Equity Holding	Book Value	Original Investment	Equity Holding	Book Value	Original Investment
PEGATRON HOLDING LTD	100.00%	\$ 29,114,325	24,385,030	100.00%	27,582,048	23,316,566
UNIHAN CORPORATION	100.00%	11,680,092	12,098,279	100.00%	15,253,306	12,098,279
ASUSPOWER INVESTMENT CO., LTD.	100.00%	15,146,637	13,033,429	100.00%	13,775,685	13,033,429
ASUS INVESTMENT CO., LTD.	100.00%	15,992,692	16,184,982	100.00%	15,411,165	16,184,982
ASUSTEK INVESTMENT CO., LTD.	100.00%	14,591,589	14,593,543	100.00%	14,648,516	14,593,543
ADVANSUS CORP.	50.00%	242,450	166,364	50.00%	212,187	166,364
ASUS HOLLAND HOLDING B.V.	92.45%	1,544,592	1,153,501	92.45%	1,315,962	1,153,501
PEGATRON USA, INC.	100.00%	17,825	16,085	100.00%	18,607	16,085
Total		<u>\$ 88,330,202</u>			<u>88,217,476</u>	

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

The investment income recognized under the equity method amounted to \$814,632 and \$4,110,469 for the nine months ended September 30, 2010 and 2009, respectively. Part of the long-term investments accounted for under the equity method of \$88,330,202 and \$74,060,085 and the related investment income of \$814,632 and \$1,071,309, respectively, were recognized based on the investees' financial statements, which were not reviewed by independent accountant.

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

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

	<u>September 30, 2010</u>	<u>September 30, 2009</u>
Current assets	\$ 658,131	491,495
Noncurrent assets	14,637	18,326
Current liabilities	457,318	296,892
Other liabilities	-	742
	For the Nine Months Ended	
	September 30,	
	<u>2010</u>	<u>2009</u>
Revenues	\$ 1,816,220	1,106,528
Expenses	1,765,368	1,083,568

f. Idle Assets

- (i) In accordance with Statement of Financial Accounting Standards No. 35 (SFAS 35) "Accounting for Asset Impairment", the Company performs asset impairment test by comparing the recoverable amount with carrying value of the idle assets amount. Based on the results of such assessment, the Company recognized provisions for impairment loss of \$36,487 and \$24,242 as of September 30, 2010 and 2009, respectively.
- (ii) For the nine months ended September 30, 2010 and 2009, the Company recognized a gain from impairment recovery of \$9,647 and \$20,491, and a loss on disposal of idle assets of \$6,784 and \$3,116, respectively.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

g. Short-Term Loans

<u>Nature of the loan</u>		
<u>September 30, 2010</u>	<u>Amount</u>	<u>Range of interest rate</u>
Credit loan	<u>\$ -</u>	<u>0.47%~0.70%</u>
<u>September 30, 2009</u>		
Credit loan	<u>\$ 691,548</u>	<u>0.52%</u>

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

h. Long-Term Loans

The terms and conditions of syndicated facility agreement signed by the Company on October 30, 2008 were as follows:

<u>Types of Debt</u>	<u>Creditor</u>	<u>September 30,</u>		<u>Repayment Schedule</u>	<u>Credit line</u>
		<u>2010</u>	<u>2009</u>		
Credit loan	ANZ , Mega International Commercial Bank and 14 other banks	<u>\$ 7,200,000</u>	<u>7,200,000</u>	2008.10.30~2011.10.30, \$1.5 billion is repayable in 3 semi-annual installments, commencing on April 30, 2010 and the remaining balance is payable on maturity date.	<u>10,500,000</u>

For the nine months ended September 30, 2010 and 2009, long-term loans bore interest at average rates of 1.2295% and 1.14%, respectively. According to the loan agreement, during the loan repayment periods, the Company must comply with certain financial covenants based on the audited consolidated financial statements on the balance sheet date (June 30 and December 31) as follows:

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

As of September 30, 2010 and 2009, the Company was in compliance with the loan covenants mentioned above.

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

i. Pension Plan

For the nine months ended September 30, 2010 and 2009, the pension costs for the defined contribution pension plan of the Company amounted to \$108,697 and \$114,154, respectively.

j. Income Tax

(i) According to the revised income tax law announced on May 27, 2009, the statutory income tax rate is reduced from 25% to 20% effective January 1, 2010. Also, according to the revised income tax law announced on June 15, 2010, this statutory income tax rate is reduced further to 17% effective January 1, 2010. Therefore, the Company is subject to statutory income tax rate of 17% and 25% for the nine months ended September 30, 2010 and 2009, respectively. The Company also complies with the Basic Income Tax Act when calculating its income tax.

(ii) For the nine months ended September 30, 2010 and 2009, the components of income tax expense were as follows:

	For the Nine Months Ended September	
	30,	
	2010	2009
Current income tax expense	\$ 353,405	-
Deferred income tax expense	723,938	174,520
10% surtax on undistributed earnings	102,108	1,378
Prior years income tax adjustment	-	76,755
Income tax expense	\$ 1,179,451	252,653

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

The components of deferred income tax expense were as follows:

	For the Nine Months Ended	
	September 30,	
	2010	2009
Unrealized foreign exchange gain (loss)	\$ (2,180)	107,106
Reversal for loss on allowance for inventory market decline and obsolescence	6,021	216,517
(Realized) Unrealized profits on sales	10,501	(16,174)
Amortization of employee benefits	13	35
Reversal (Provisions) for warranty reserve	85,342	92,299
Organization Costs	-	700
Bonus	-	78,807
Deferred income tax asset	241,622	-
Investment tax credits	214,980	(316,559)
Reversal for impairment loss on assets	1,640	6,335
Loss carry-forward	11,296	(186,370)
Unrealized foreign investment gain	31,421	191,824
Valuation allowance of deferred tax assets	12,960	-
Foreign investment loss reserve	110,250	-
Deferred income tax expense	<u>\$ 723,938</u>	<u>174,520</u>

- (iii) The income tax calculated on pretax financial income at a statutory income tax rate was reconciled with the income tax expense as reported in the accompanying financial statements for the nine months ended September 30, 2010 and 2009 as follows:

	For the Nine Months Ended September	
	30,	
	2010	2009
Income tax expense calculated on pre-tax financial income at the statutory tax rate	\$ 1,038,763	1,197,802
Permanent differences	(127,288)	(788,191)
10% surtax on undistributed earnings	102,108	1,378
Investment tax credits	103,198	(316,559)
Recognition of unrealized foreign investment income or loss	31,421	-
Effect on deferred tax of the change in statutory tax rate	12,960	165,626
Others	18,289	(7,403)
Income tax expense	<u>\$ 1,179,451</u>	<u>252,653</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(iv) As of September 30, 2010 and 2009, the temporary differences, loss carry-forwards and income tax credits, resulting in deferred income tax assets (liabilities), and the related income tax effect thereof were as follows:

Temporary differences resulting in deferred income tax assets(liabilities) – current:	September 30, 2010		September 30, 2009	
	Amount	Income Tax Effects	Amount	Income Tax Effects
Recognition of unrealized foreign exchange gain: taxable	\$ (203,792)	(34,645)	(11,130)	(2,226)
Recognition of loss on allowance for inventory market decline and obsolescence: deductible	395,078	67,163	525,980	105,196
Recognition of deferred employee benefits for tax: deductible	25	4	100	20
Recognition of warranty reserve: deductible	473,321	80,466	1,074,103	214,821
Recognition of organization costs: deductible	6,293	1,070	-	-
Unused balance of investment tax credits	-	338,072	-	489,870
Loss carry-forward	-	-	931,851	186,370
Valuation allowance		(241,622)		-
Net deferred income tax assets		\$ 210,508		994,051
Temporary differences resulting in deferred income tax assets(liabilities) – noncurrent:				
Recognition of impairment loss on assets: deductible	\$ 36,487	6,203	24,242	4,848
Recognition of deferred employee benefits for tax: deductible	200	34	225	45
Recognition of organization costs: deductible	-	-	98,995	19,799
Recognition of gain on foreign investments: taxable	(1,123,388)	(190,976)	(959,120)	(191,824)
Foreign investment loss reserve	(648,527)	(110,250)	-	-
Valuation Allowance		-		-
Net deferred income tax assets (liabilities)		\$ (294,989)		(167,132)

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (v) The Company's tax returns through 2007 have been assessed and approved by the Tax Authority.
- (vi) According to Article 6, Section 3 of the Statute for Upgrading Industries, unused investment tax credits which may be applied to offset against income tax in the future were as follows:

<u>Year of occurrence</u>	<u>Unused investment tax credits</u>	<u>Year of expiration</u>
For the year ended December 31, 2009	<u>\$ 338,072</u>	2013

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

<u>Description</u>	<u>Exemption period</u>
Tenth capital increase used for investment in new equipment.	07/31/06 ~ 07/30/11
Eleventh capital increase used for investment in new equipment.	04/30/07 ~ 04/29/12

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

<u>Undistributed earnings:</u>	<u>September 30, 2010</u>	<u>September 30, 2009</u>
Accumulated in 1997 and prior years	\$ -	-
Accumulated in 1998 and thereafter	6,963,458	4,487,675
Total	<u>\$ 6,963,458</u>	<u>4,487,675</u>
	<u>September 30, 2010</u>	<u>September 30, 2009</u>
Stockholders' imputation tax credit account	<u>\$ 69,729</u>	<u>439,094</u>
	<u>2009 (Expected)</u>	<u>2008 (Actual)</u>
Expected or actual deductible tax ratio	<u>7.54%</u>	<u>3.17%</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

k. Stockholders' Equity

(i) Capital Stock

On June 30, 2009, pursuant to the resolutions of the board of directors (acting on behalf of stockholders), the Company capitalized the earnings of \$4,014,258, divided into 401,426 common stock with par value of \$10 per share. The record date of this capital increase was October 16, 2009 and the Company had completed the process for the relevant registration thereof.

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

In order to integrate the group's OEM business and boost productivity, on April 24, 2008, pursuant to resolutions of the board of directors, the Company proceeded the share swap with UNIHAN CORPORATION (a 100% owned entity of ASUSTek Computer Inc.) effective on May 1, 2008. The share swap ratio was 2.8613 shares of UNIHAN CORPORATION to 1 share of the Company. In accordance with the share swap arrangement, the Company issued 279,628 thousand new shares, resulting in additional capital of \$2,796,281.

In order to enhance own-brand business and boost productivity, the board of directors of ASUSTeK Computer Inc. (ASUSTek) resolved on December 11, 2009 but revised it on January 1, 2010, to spin-off or cede its OEM group (Pegatron Corporation (the Company)) to Pegatron International Investment Co., Ltd. (Pegatron Investment), which is being held by ASUSTeK. Pegatron Investment will issue new shares to ASUSTeK and all shareholders of ASUSTek, for which, ASUSTek and all other shareholders of ASUSTek will acquire 25% ownership and 75% ownership, respectively, of the equity of Pegatron Investment. The record date of this spin-off is June 1, 2010. Following the spin-off, the Company merged with Pegatron Investment. The Company issued 10 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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

As of September 30, 2010 and 2009, the authorized capital of the Company both consisted of 2,500,000 thousand shares, with a par value of \$10(in dollars) per share, and its outstanding capital consisted of 2,286,064 thousand shares and 2,286,054 thousand shares, respectively.

ASUSTeK GDR holders who surrender their ASUSTeK GDRs on or after the Effective Date of Spin-off and Merger in Taiwan will receive the new ASUSTeK GDRs and the Company's entitlement. The Company's entitlement represents the rights to receive 60,819 thousand the Company's common shares in Taiwan. The Company may issue new GDRs with no more than 60,819 thousand common shares and delivered them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines".

As of September 30, 2010, the Company has listed, in total, 12,164 thousand units of GDR on the Luxembourg Stock Exchange. Each unit of deposit receipt represents 5 shares and thereby the Company has listed 60,819 thousand shares in total.

(ii) Legal reserve and capital surplus

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

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

As of September 30, 2010 and 2009, interest revenues generated from the trust of shareholders of parent company were distributed to the employees of the Company as bonuses. These bonuses amounted to \$225,503 and \$156,850, respectively, which were debited to salary expense and credited to capital surplus – others.

(iii) Treasury Stock

- (1) For the nine months ended September 30, 2010, in order to maintain the Company's credit standing and shareholders' equity, the Company bought back 29,697 thousand shares in accordance with Securities and Exchange Act Article 28-2. As of September 30, 2010, the Company had 29,697 thousand shares not yet cancelled, which was recorded as treasury stock of \$1,006,862.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

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

- (2) In accordance with Securities and Exchange Act, the number of treasury shares shall not exceed ten percent of the total number of issued and outstanding shares of the Company. Also, the total amount of the treasury shares may not exceed the amount of retained earnings plus premium on capital stock plus realized capital reserve. The repurchased shares shall not exceed the amount of retained earnings plus premium on capital stock plus realized capital reserve. The repurchased shares held by the Company was 29,697 thousand shares and the maximum total amount of shares held was \$1,006,862 as of September 30, 2010 which conformed to Securities and Exchange Act. The limit of shares the Company repurchased from the active market are up to 228,605 thousand shares amounting to \$66,221,050 which are calculated according to financial reports for the latest accounting period prior to a resolution of a meeting of the board of directors. The number of shares that the Company repurchased was 29,697 thousand shares amounting to \$1,006,862 for the nine months ended September 30, 2010.
- (3) 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.
- (4) As of September 30, 2010, the number of Company's shares held by its subsidiaries was 800 thousand shares amounting to \$32,680.

(iv) Earnings Distribution and Dividend Policy

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

1. No less than 10% as employees' bonuses which are distributable in cash or 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.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

2. Up to 1% as remuneration to directors and supervisors.
3. The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

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

On March 10, 2010 and June 30, 2009 (resolution on such date was amended on December 25, 2009), the Company's board of directors resolved the appropriation of earnings for 2008 and 2009. The distributions of dividends per share and employee bonuses and remuneration to directors and supervisors from the distributable earnings in 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Common stock dividends per share (dollars)		
-Cash	\$ 1.75	0.47
-Stock (at par)	-	2.13
Total	<u>\$ 1.75</u>	<u>2.60</u>
Employee bonus - cash	\$ 1,205,797	497,369
Remuneration to directors and supervisors	60,290	49,737
Total	<u>\$ 1,266,087</u>	<u>547,106</u>

There were no differences between the actual results of earnings distributed in 2009 and those estimated and accrued in the financial statements of 2008. Related information can be acquired from the Observation Post and other pipeline inquiry.

For the nine months ended September 30, 2010 and 2009, the Company estimated employee bonuses and directors' and supervisors' remuneration of \$442,916 and \$835,170, and \$44,292 and \$41,756, respectively, and recognized them as current expenses. Differences between the amounts approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized in profit or loss.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

1. Earnings per Share (EPS)

For the nine months ended September 30, 2010 and 2009, the primary earnings per share, diluted earnings per share and the retroactively adjusted primary and diluted earnings per share were computed as follows:

(Note: shares in thousands)

	For the Nine Months Ended September 30,			
	2010		2009	
	Before income tax	After income tax	Before income tax	After income tax
Net income	<u>\$ 6,100,740</u>	<u>4,921,289</u>	<u>4,791,208</u>	<u>4,538,555</u>
Weighted-average common shares outstanding	2,279,221	2,279,221	1,884,628	1,884,628
Dilutive potential common shares	11,196	11,196	16,858	16,858
Diluted shares	<u>2,290,417</u>	<u>2,290,417</u>	<u>1,901,486</u>	<u>1,901,486</u>
Weighted-average common shares outstanding-retroactively adjusted			2,286,054	2,286,054
Dilutive potential common shares-retroactively adjusted			20,449	20,449
Diluted shares-retroactively adjusted			<u>2,306,503</u>	<u>2,306,503</u>
Primary earnings per share	<u>\$ 2.68</u>	<u>2.16</u>	<u>2.54</u>	<u>2.41</u>
Diluted earnings per share	<u>\$ 2.66</u>	<u>2.15</u>	<u>2.52</u>	<u>2.39</u>
Primary earnings per share-retroactively adjusted			<u>2.10</u>	<u>1.99</u>
Diluted earnings per share-retroactively adjusted			<u>2.08</u>	<u>1.97</u>

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

	For the Nine Months Ended September 30, 2010	
	Before Income Tax	After Income Tax
Net Income	<u>6,100,740</u>	<u>4,921,289</u>
Weighted-average outstanding shares (thousand)	<u>2,279,325</u>	<u>2,279,325</u>
Earnings per share	<u>\$ 2.68</u>	<u>2.16</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

m. Financial Instruments

(i) Fair value of financial instruments

The carrying amounts of the following non-derivative short-term financial instruments such as cash, accounts receivable, accounts payable, short-term bank loans and other payables are estimated base on their fair value as of balance sheet date.

In addition to all of the above, other financial instruments as of September 30, 2010 and 2009 were as follows:

Financial Assets	September 30,2010		September 30,2009	
	Book Value	Fair Value	Book Value	Fair Value
Financial assets at fair value through profit and loss - current	\$ -	-	888,706	888,706
Financial Liabilities				
Bank loans	\$ 7,200,000	7,200,000	7,200,000	7,200,000

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

- (1) 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, whose information can be reasonably obtained by the Company.
- (2) The fair market value of long-term debt is determined by the present value of future cash flow. As the present value derived by using interest rate in discounting future cash flow is close to the book value, the book value is adopted as the fair market value.

(iii) Information on financial risk

(1) Market risk

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(2) Credit risk

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

The Company only transacted with the approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Company would transfer the risk through acquiring guarantees or transacts by L/C. Therefore, the Company believes that there is no significant credit risk. In compliance with the Company's customer credibility evaluation policies, the Company evaluates the customer's credibility and evaluates the collectability of notes and account receivables regularly before doing business. Thus, there is no significant credit risk on doubtful accounts.

The major customers of the Company are concentrated in the high-tech computer industry. As the customers of the Company have good credits and profit records, the Company evaluates the financial conditions of these customers continually to reduce credit risk from accounts receivable. Moreover, the Company also periodically evaluates the customers' financial positions and the possibility of collecting trade receivables. Thus, there is no significant credit risk.

(3) Liquidity risk

The capital and working funds of the Company are sufficient to meet its entire contractual obligations; therefore, no liquidity risk exists.

(4) Cash flow and interest rate risk

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

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

As of September 30, 2010 and 2009, guarantees and endorsements of bank loans, which were provided by the Company for related parties, were discussed in Note (5).

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

5. Related-Party Transactions

a. Names and relationships of related parties with the Company

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
ASUSTeK Computer Inc.	As investee company accounted for under the equity method. (ASUSTeK Computer Inc. lost control of this investee since May 31, 2010)
ASUS HOLLAND B.V	An investee company accounted for under the equity method by ASUSTeK Computer Inc.
ASUS TECHNOLOGY PTE. LIMITED	//
BIG PROFIT LIMITED	//
Double Tech Ltd.	//
Askey Computer Corp.	//
AGAiT Technology Corporation	//
ASUS TECHNOLOGY INCORPORATION	//
ASMEDIA TECHNOLOGY INC.	//
ASUS Computer (Shanghai) Co., Ltd.	//
ASUSTEK COMPUTER (SHANGHAI) CO., LTD.	//
(ASUS UNITED Technology (Shanghai) Co., Ltd. Formerly)	//
SHINEWAVE INTERNATIONAL INC.	//
ASUS Technology (Suzhou) Co., Ltd.	//
Enertronix, Inc.	An investee company accounted for under the equity method until in July, 2009, when this investee became an investee company accounted for under the equity method of ASUSTeK Computer Inc. following a reorganization
ASHINE TECHNOLOGY (SUZHOU) LTD.	An investee company accounted for under the equity method by ASUSTeK Computer Inc.
ASKEY TECHNOLOGY (JIANG SU) LTD.	//
Powtek (Shanghai) Co., Ltd.	An investee company accounted for under the equity method of ASUSTeK Computer Inc. formerly. In July, 2009, an investee company accounted for under the equity method after reorganization

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
ASIAROCK TECHNOLOGY LIMITED	An investee company accounted for under the equity method
ASLINK (H.K.) PRECISION CO., LTD.	//
ASUSPOWER CORPORATION	//
DIGITEK GLOBAL HOLDINGS LIMITED	//
KAEDAR TRADING LTD.	//
PEGATRON Czech s.r.o (PCZ)	//
PEGATRON JAPAN Inc. (PCJ)	//
PEGATRON MEXICO, S.A. DE C.V.(PCM)	//
PEGATRON TECHNOLOGY Service Inc. (PTSI)	//
Pegatron USA, INC.	//
STRATEGY Technology Co., Ltd.	An investee company accounted for under the equity method. (Liquidated in 2010)
UNITED NEW LIMITED	An investee company accounted for under the equity method
ADVANSUS CORP.	//
KINSUS INTERCONNECT TECHNOLOGY CORP.	//
ASROCK Incorporation	//
Ability Enterprise Co., Ltd.	//
UNIHAN CORPORATION	//
AMA PRECISION INC.	//
CRYSTAL ART ENTERPRISE CO., LTD.	//
Lumens Digital Optics Inc.	//
COTEK ELECTRONICS (SUZHOU)CO.,LTD	//
Toptek Precision Industry(SuZhou) Co., Ltd	//
STARLINK ELECTRONICS CORPORATION	//
ASFLY TRAVEL SERVICE LIMITED	//
AzureWave Technologies, Inc.	//

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
ASLINK PRECISION CO., LTD.	An investee company accounted for under the equity method
Protek (Shanghai) Limited	"
NORTH TEC ASIA (SHANGHAI) LIMITED	An investee company accounted for under the equity method (The investee was merged with Protek (Shanghai)Limited in November 2009 and Protek (Shanghai) Limited is the surviving entity)
SHANGHAI INDEED TECHNOLOGY CO., LTD.	An investee company accounted for under the equity method
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	"
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	"
MAINTEK COMPUTER (SUZHOU) CO., LTD.	"
Piotek Computer (Suzhou) Co., Ltd.	"
CASETEK COMPUTER (SUZHOU) CO., LTD.	"
ASLINK PRECISION CO., LTD.	"
GHING HONG PRECISE MOULD INDUSTRY	"
AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	"
CORE-TEK (SHANGHAI) LIMITED	An investee company accounted for under the equity method
Pegavision Corporation	An investee company accounted for under the equity method by Kinsus Interconnect Technology Corp.
PIOTEK (HK) TRADING LIMITED	An investee company accounted for under the equity method (Named changed from BOARDTEK (HK) TRADING LIMITED)
ASAP INTERNATION CO.,LIMITED	"
RUNTOP(SHANGHAI) CO. LTD	"
All directors, supervisors, general manager and vice president	The company management

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

b. Significant Transactions with Related Parties

(i) Sales

Name of Related Party	For the Nine Months Ended September 30,					
	2010			2009		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTeK	\$160,927,684	69.58%	Open account 60 days	129,837,775	58.21%	Open account 60 days
PCZ	4,481,640	1.94%	120 days from receipt of goods	1,903,128	0.85%	120 days from receipt of goods
Powtek (Shanghai)	2,497,722	1.08%	45 days from receipt of goods	2,813,779	1.26%	45 days from receipt of goods
Others	1,280,024	0.55%	30~90 days from receipt of goods Open account 30~90 days	1,518,920	0.69%	30~90 days from receipt of goods Open account 30~90 days
Total	<u>\$169,187,070</u>	<u>73.15%</u>		<u>136,073,602</u>	<u>61.01%</u>	

The collection term of third-party customer is L/C, T/T or 7 to 120 days from receipt of goods.

For the nine months ended September 30, 2010 and 2009, the Company adjusted the double recording of sales to and purchases from related parties, which amounted to \$145,909,361 and \$94,264,927, respectively.

As of September 30, 2010 and 2009, unrealized profits on sales to related parties were \$6,293 and \$98,995, respectively.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(ii) Purchases

Name of Related Party	2010			2009		
	Amount	% of Gross Purchases	Purchase term	Amount	% of Gross Purchases	Purchase term
ASUSTeK	\$117,973,116	54.76%	Open account 60 days	93,293,332	45.95%	Open account 60 days
Protek (Shanghai)	26,223,219	12.17%	90 days from receipt of goods	14,969,896	7.37%	90 days from receipt of goods
Others	6,345,419	2.95%	30~90 days from receipt of goods Open account 30~120 days	7,779,490	3.83%	30~90 days from receipt of goods Open account 30~120 days
Total	<u>\$150,541,754</u>	<u>69.88%</u>		<u>116,042,718</u>	<u>57.15%</u>	

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

For the nine months ended September 30, 2010 and 2009, the Company purchased raw materials from vendors through ASUSTek.

(iii) Others

	For the Nine Months Ended September 30,	
	2010	2009
(1) After-sales warranty repair expense paid to:		
ASUS Computer (Shanghai)	\$ 29,144	59,814
PTSI	146,647	211,674
PCZ	30,920	28,511
PCJ	13,773	17,452
Others	3,468	6,581
Total	<u>\$ 223,952</u>	<u>324,032</u>
(2) Processing fee paid to:		
PCM	\$ 244,830	302,407
ASUSPOWER	3,699,663	7,365,271
DIGITEK	-	649,833
Total	<u>\$ 3,944,493</u>	<u>8,317,511</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	For the Nine Months Ended September 30,	
	2010	2009
(3) Other income from:		
ASUSTeK	\$ 416,236	416,601
UNIHAN	21,285	47,669
PCJ	36,232	14,562
Others	36,868	15,105
Total	<u>\$ 510,621</u>	<u>493,937</u>

(4) For the nine months ended September 30, 2010 and 2009, the Company incurred other related party transactions recorded as expenses such as rental expense, other expense, royalty payment, storage expense, professional service fee, etc, amounting to \$98,263 and \$93,431, respectively.

(5) For the nine months ended September 30, 2010 and 2009, the Company incurred other related party transactions recorded as rental revenue, amounting to \$36,582 and \$48,273, respectively.

(6) For the nine months ended September 30, 2010 and 2009, the Company had other related party transactions recorded as non-operating expense amounting to \$21,625 and \$275, respectively

(iv) Accounts receivable (payable)

	September 30, 2010		September 30, 2009	
	Amount	%	Amount	%
Notes and Accounts Receivable:				
Protek (Shanghai)	\$ 42,698,477	67.43%	50,796,783	62.90%
ASUSTeK	10,050,335	15.87%	9,789,716	12.12%
PCZ	1,559,503	2.46%	1,222,672	1.51%
Others	504,878	0.80%	1,659,240	2.05%
Total	<u>\$ 54,813,193</u>	<u>86.56%</u>	<u>63,468,411</u>	<u>78.58%</u>
Other Receivables:				
PCZ	\$ 312,932	70.77%	1,012	0.04%
ASUSTeK	7,469	1.69%	434,941	15.49%
Unihan	8,748	1.98%	666	0.02%
Protek (Shanghai)	334	0.08%	168,825	6.01%
Others	18,099	4.09%	16,096	0.58%
Total	<u>\$ 347,582</u>	<u>78.61%</u>	<u>621,540</u>	<u>22.14%</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

	<u>September 30, 2010</u>		<u>September 30, 2009</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Notes and Accounts Payable:</u>				
Protek (Shanghai)	\$ 38,592,193	72.58%	49,578,984	63.83%
CASETEK (SUZHOU)	223,284	0.42%	898,401	1.16%
SHANGHAI INDEED	332,449	0.61%	739,547	0.95%
PIOTEK (SUZHOU)	133,808	0.25%	379,982	0.49%
Others	600,878	1.13%	1,088,543	1.40%
Total	<u>39,872,612</u>	<u>74.99%</u>	<u>52,685,457</u>	<u>67.83%</u>
<u>Accrued Expenses:</u>				
ASUSPOWER	\$ 10,730,912	73.76%	13,974,022	78.58%
PCM	333,114	2.29%	94,595	0.53%
Protek (Shanghai)	167,476	1.15%	283,195	1.59%
Others	84,953	0.58%	64,262	0.36%
Total	<u>\$ 11,316,455</u>	<u>77.78%</u>	<u>14,416,074</u>	<u>81.06%</u>

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

	<u>September 30, 2010</u>	<u>September 30, 2009</u>
<u>Assets:</u>		
Prepayments	\$ 14,196	10,717
Temporary payments	12,161	6,429
	<u>\$ 26,357</u>	<u>17,146</u>
	<u>September 30, 2010</u>	<u>September 30, 2009</u>
<u>Liabilities:</u>		
Temporary receipts	<u>\$ 76,180</u>	<u>135,466</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(v) Endorsement Guarantee

As of September 30, 2010 and 2009, the Company provided endorsement guarantee for bank loans obtained by a related party as follows:

<u>Name of Related Party Guaranteed</u>	<u>Amount of Guarantee (thousands)</u>	
	<u>September 30, 2010</u>	<u>September 30, 2009</u>
ASUSPOWER	15,000	30,000
PCZ	10,000	-
	<u>USD 25,000</u>	<u>30,000</u>

As of September 30, 2010 and 2009, the endorsement guarantees provided by the related party for the Company's purchases were as follows:

<u>Name of Related Party Guarantor</u>	<u>Amount of Guarantee (thousands)</u>	
	<u>September 30, 2010</u>	<u>September 30, 2009</u>
ASUSTeK	<u>USD 300,000</u>	<u>USD 300,000</u>

(vi) Financing

As of September 30, 2010 and 2009, financing provided by the Company for a related party was as follows:

	<u>September 30, 2010</u>	
	<u>Ending Balance</u>	<u>The Highest Balance</u>
PCZ	<u>USD 10,000</u>	<u>20,000</u>

The loan to PCZ bears annual interest of 1%.

6. Pledged Assets

As of September 30, 2010 and 2009, pledged assets were as follows:

<u>Asset</u>	<u>September 30,</u>	<u>September 30,</u>	<u>Purpose of pledge</u>
	<u>2010</u>	<u>2009</u>	
Restricted deposit	\$ 71,887	111,597	Deposits for customs duties.
Refundable deposits	11,480	304,500	Deposits for
			performance guarantee
	<u>\$ 83,367</u>	<u>416,097</u>	

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

- (a) As of September 30, 2010 and 2009, the Company had unused letters of credit of USD 926, NTD 15,000, and EUR 267 and EUR 100, respectively.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (b) As of September 30, 2010 and 2009, the Company had promissory notes and certificate of deposit obtained for business purpose of \$13,327 and \$21,996, respectively.
- (c) Future lease commitments from the lease of buildings under the operating lease agreements were as follows:

Year	Rent expense	Future lease commitments			
		2011	2012	2013	2014
2010	\$ 57,188	51,711	47,601	27,053	-

8. Significant Catastrophic Losses: None.

9. Significant Subsequent Events: None.

10. Others

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

Categorized as Nature	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
Personnel expense						
Salary expense	488,148	2,505,184	2,993,332	624,734	2,979,469	3,604,203
Health and labor insurance expense	35,395	137,027	172,422	39,738	132,556	172,294
Pension expense	21,903	86,794	108,697	25,607	88,547	114,154
Other expense	26,579	97,797	124,376	32,001	92,859	124,860
Depreciation expense	38,597	143,529	182,126	62,905	168,921	231,826
Amortization expense	331,676	170,612	502,288	302,358	165,061	467,419

Note A: For the nine months ended September 30, 2010 and 2009, the Company recognized depreciation expense (accounted for as non-operating expense), excluding those of rental assets and idle-assets, of \$15,894 and \$14,695, respectively.

- b. Certain accounts in the financial statements as of and for the nine months ended September 30, 2009, were reclassified to conform to the presentation adopted in the financial statements as of and for the nine months ended September 30, 2010.

11. SEGMENT INFORMATION

Disclosure of segmental information is not required for interim financial statements as explained in paragraph 25 of SFAS No. 23.