

## LISTING PARTICULARS

# PEGATRON

### **Pegatron Corporation**

*(incorporated in Taiwan, the Republic of China)*

**12,163,804 Global Depositary Shares Representing 60,819,020**

### **Common Shares**

Application has been made to list 12,163,804 Global Depositary Shares (the “GDSs”) representing 60,819,020 of common shares, par value NT\$10 per share (the “Common Shares”), of Pegatron Corporation (“Pegatron”, “we”, “our”, “us” or the “Company”) on the official list of the Luxembourg Stock Exchange and to trade on the Euro MTF market (the “Euro MTF market”). Each GDS represents five Common Shares.

The Common Shares are listed on the Taiwan Stock Exchange (the “TWSE”). On August 6, 2010, the closing price of the Common Shares on the TWSE was NT\$37.10 per share. Prior to this listing, there has been no market anywhere for the GDSs.

**Certain risks relating to the Company and the GDSs are set out in “Risk Factors” beginning on page 6.**

The GDSs and the Common Shares represented thereby have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and, subject to certain exemptions, may not be offered or sold within the U.S. The GDSs being listed pursuant to these listing particulars (the “Listing Particulars”) will be distributed (i) in the U.S. to certain existing holders of global depositary shares of ASUSTeK Computer Inc (“Asustek”) in exempt transactions to qualified institutional buyers (“QIBs”) as defined in Rule 144A (“Rule 144A”) under the Securities Act, and (ii) outside the U.S. to certain existing holders of global depositary shares of Asustek in reliance on Regulation S under the Securities Act (“Regulation S”). See “Terms and Conditions of the Global Depositary Shares”.

This document does not constitute an offer to sell or the solicitation of an offer to buy any security. None of the securities referred to in this document shall be sold, issued, or transferred in any jurisdiction in contravention of applicable law.

Delivery of the GDSs is expected to be made in book-entry form through the facilities of The Depository Trust Company (“DTC”) with respect to the Rule 144A GDSs, and DTC, Euroclear Bank S.A./N.V. (“Euroclear”) and Clearstream Banking, société anonyme, Luxembourg (“Clearstream”) with respect to the Regulation S GDSs on or about August 9, 2010.

August 9, 2010.

The delivery of these Listing Particulars shall under no circumstances imply that there has been no change in the affairs of the Company or its subsidiaries or that the information contained herein is correct as of any date subsequent to the earlier of the date hereof or any date specified with respect to such information.

These Listing Particulars have been prepared by the Company solely for the purpose of and in connection with the listing of the GDSs for trading on the Euro MTF market (the "Listing"). No representation or warranty, express or implied, is made as to the accuracy or completeness of the information set forth herein and nothing contained in these Listing Particulars are, or shall be relied upon as, a promise or representation, whether as to the past or the future. No person has been authorized to give any information or to make any representation not contained in these Listing Particulars in connection with the Listing and, if given or made, any such information or representation should not be relied upon as having been authorized by the Company or Citibank, N.A. as the depositary (the "Depositary"). The distribution of these Listing Particulars may, in certain circumstances, be restricted by law.

Having made all reasonable enquiries, the Company confirms that these Listing Particulars contain all information with respect to the Company, its consolidated subsidiaries and its affiliates taken as a whole, the GDSs and the Common Shares, which is material in the context of the issue and Listing, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and Listing of the GDSs and the Common Shares represented thereby, make these Listing Particulars as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect and that all reasonable enquiries have been made by the Company to verify the accuracy of such information. Information provided herein with respect to the ROC, its political status and its economy has been derived from government and other public sources and the Company accepts responsibility only for accurately extracting information from such sources.

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## **GENERAL CONSIDERATIONS**

### **Forward-looking Statements**

These Listing Particulars include statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements relate to matters that are not historical facts.

They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Company concerning, among other things, the investment objective and investment policy, financing strategies, investment performance, results of operations, financial condition, liquidity, prospects, and dividend policy of the Company and the markets in which it, directly or indirectly, will invest. By their nature, these forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

Forward-looking statements are not guarantees of future performance. The Company’s actual investment performance, results of operations, financial condition, liquidity, dividend policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in these Listing Particulars.

In addition, even if the investment performance, results of operations, financial condition, liquidity and dividend policy of the Company, and the development of financial strategies are consistent with the forward-looking statements contained in these Listing Particulars, those results or developments may not be indicative of results or developments in subsequent periods.

Important factors that may cause these differences include, but are not limited to, changes in economic conditions generally and in property markets within the region specifically where the Company operates, legislative/regulatory changes, changes in taxation regimes, the Company’s ability to invest its cash in suitable investments on a timely basis, the availability and cost of capital for future investments, the availability of suitable financing and the Company’s ability to attract and retain suitably qualified personnel.

### **Industry and Market Data**

Information regarding markets, market size, market share, market position, growth rates and other industry data pertaining to the Company’s business contained in these Listing Particulars consist of estimates based on data reports compiled by professional organizations and analysts, on data from other external sources, and on the Company’s knowledge of sales and markets. In certain cases, there is no readily available external information (whether from trade associations, government bodies or other organizations) to validate market-related analyses and estimates, requiring the Company to rely on internally developed estimates. While the Company has compiled, extracted and reproduced market or other industry data from external sources, including third parties or industry or general publications, neither the Company nor the Depositary has independently verified that data. Information in these Listing Particulars which are based on third-party sources has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Subject to the foregoing, neither the Company nor the Depositary can assure investors of the accuracy and completeness of, and take no responsibility for, such data. The source of such third-party information is cited whenever such information is used in these Listing Particulars.

While the Company believes its internal estimates to be reasonable, such estimates have not been verified by any independent sources and neither the Company nor the Depositary can assure the GDS holders as to their accuracy and that a third party using different methods to assemble, analyze or compute market data would obtain the same result. The Company does not intend, and does not assume, any obligations, to update industry or market data set forth in these Listing Particulars, except as required by mandatory law. Finally, behavior, preferences and trends in the marketplace tend to change.

### **Certain Defined Terms**

All references to “Taiwan” or the “ROC” are to the island of Taiwan and other areas under the effective control of the Republic of China. All references herein to the “ROC Government” or the “ROC Company Law” or “Company Act” are references to the government of the Republic of China and the Company Law of the Republic of China, respectively. All references to the “PRC” are to the People’s Republic of China. “ASUS” or “Asustek” refers to ASUSTeK Computer Inc. and its subsidiaries. “Unihan” refers to Unihan Corporation.

## **Presentation of Financial Information**

The financial information included in these Listing Particulars comprise the Company's audited consolidated financial statements as at and for the years ended December 31, 2008 and 2009 and unaudited consolidated financial statements as at and for the three-month period ended March 31, 2010. The Company prepares the financial statements in conformity with Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC (together referred to herein as "ROC GAAP"), which differ in certain material respects from generally accepted accounting principles in the U.S. ("US GAAP").

The financial information set forth in these Listing Particulars have been rounded for ease of presentation. Accordingly, in certain cases, the sum of the numbers in a column in a table may not conform to the total figure given for that column. Percentage figures included in these Listing Particulars have not been calculated on the basis of rounded figures but have rather been calculated on the basis of such amounts prior to rounding.

## **Currency Presentation and Exchange Rates**

The Company publishes its financial statements in New Taiwan Dollars, the lawful currency of the ROC. All references herein to "United States Dollars", "U.S. dollars" and "US\$" are to United States dollars, references to "New Taiwan Dollars", "NT dollars" and "NT\$" are to New Taiwan dollars. Unless otherwise noted, all translations from NT dollars to U.S. dollars and from U.S. dollars to NT dollars contained in these Listing Particulars were made at the noon buying rate in The City of New York for cable transfers in NT dollars per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") as of March 31, 2010, which was NT\$31.73 = US\$1.00 on that date. All amounts translated into U.S. dollars as described above are provided solely for the convenience of the reader, and no representation is made that the NT\$ or US\$ amounts referred to herein could have been or could be converted into US\$ or NT\$, or the case may be, at the above rate, any particular rate or at all.

## **Independent Auditors**

Our audited consolidated financial statements as of and for the years ended December 31, 2008 and 2009 included in these Listing Particulars have been audited, and our unaudited consolidated financial statements as of and for the three months ended March 31, 2010 have been reviewed, by KPMG, independent accountants, as stated in their reports included herein. Such reports express an unqualified opinion on the financial statements. KMPG is located at 68F, Taipei 101 Tower, No. 7, Sec. 5, Xinyi Road, Taipei, 11049, Taiwan, ROC.

## SUMMARY

*The following summary does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of these Listing Particulars.*

### **Pegatron**

We are one of the world's leading manufacturers of computer components, desktop computers and notebook computers which we sell to leading global branded vendors, as a design and manufacturing service (DMS) provider. Through our open vertical integration strategy, we are expanding our product development areas into new product lines related to our current products and are becoming a significant manufacturer of communications and consumer electronics. By leveraging our expertise in components manufacturing and our superior research and development capabilities, we have expanded to become a vertically integrated systems solution provider, which designs and manufactures computer, consumer electronics and communications devices. Our primary products include notebooks, netbook computers, desktop PCs, game consoles, handheld devices, mobile internet devices, motherboards, video graphic cards, broadband communication products (such as set-top boxes and cable modems), media players, e-readers, digital photo frames and LCD-TVs.

We were incorporated on June 27, 2007 as a result of the restructuring of our parent company, Asustek. Asustek, one of the world's largest producers of electronics products, underwent the restructuring in order to increase its competitiveness by dividing its businesses based on specialized work forces and establishing separate companies for each business units. We were formed as a DMS provider of computer-related products that had previously been operated by Asustek. In addition, we acquired from Asustek, Unihan, a manufacturer of non-PC related products, in January 2008.

Since our inception, we have become a leading company providing design and manufacturing service with extensive experience in product development providing innovative solutions to our customers and with vertically integrated capabilities focused on delivering systematic manufacturing services. We differentiate ourselves from other original equipment manufacturing (OEM) companies on the basis of well-diversified product portfolio, extensive design experience, high-quality and effective time-to-market manufacturing capabilities, and reliable after-sale services. We believe that one of the primary reasons for our success derives from our strong research and development capability, which allows us to rapidly incorporate the latest technologies into the high quality products which we mass produce.

### **The Spin-off Plan**

#### *Spin-off and Merger*

In January 2010, Asustek, our parent, announced its two-stage plan to spin off and to transfer its long term equity investment in us to its wholly-owned subsidiary Pegatron International Investment Co., Ltd. ("Patron International") (the "Spin-off"), whereby Patron International issued new shares to Asustek and all shareholders of Asustek as consideration. As a result, Asustek acquired approximately 25% of the equity in Patron International and all shareholders of Asustek acquired approximately 75% of the equity in Patron International. Patron International, from June 1, 2010, the record date of the Spin-off, assumed 100% of Asustek's equity investment in us. Accordingly, Asustek conducted a capital reduction of NT\$36,097,608,610 by cancellation of 3,609,760,861 common shares, at a capital reduction ratio of approximately 85% (the "Capital Reduction").

To complete the Spin-off, Patron International merged with Pegatron on June 10, 2010 in accordance with ROC Mergers and Acquisition Law (the "Merger") and Pegatron is the surviving company. As a result, Asustek held approximately 25% of the equity in Pegatron and all shareholders of Asustek hold approximately 75% of the equity in Pegatron. After the initial public offering of our Common Shares on the TWSE on June 24, 2010, Asustek holds approximately 24% of our outstanding shares after it sold approximately 1% of its shareholding during the initial public offering.

The Spin-off plan was approved by Asustek's shareholders' meeting on February 9, 2010, while the merger of Patron International and us and the concurrent exchange of Patron International common shares for our Common Shares were approved by each of our and Patron International's shareholders in accordance with ROC Mergers and Acquisition Law at separate meetings held on January 17, 2010.

#### *Distribution of Patron Entitlements and Exchange of GDSs*

Our Common Shares became listed on the TWSE on June 24, 2010 and were delivered in Taiwan on the same day to the holders of record of Patron International common shares in Taiwan as of June 10, 2010 (which consist of Asustek and the holders of the Asustek's Common Shares).

The existing holders and beneficial owners of Asustek GDSs, which have been listed and traded on the London Stock Exchange since 1997, were entitled to receive our newly issued Common Shares. As of June 24, 2010, upon surrender of their GDSs to Asustek's depository and payment of applicable depository fees and taxes, such holders and beneficial owners of Asustek GDSs ("Asustek GDS Holders") were entitled to receive and have received (i) 0.15 new Asustek GDS ("New Asustek GDSs"), each New Asustek GDS representing five new Asustek shares, and (ii) one Pegatron entitlement ("Pegatron Entitlement"), each Pegatron Entitlement representing 2.018637 of Common Shares. No fractional New Asustek GDSs were issued. Any fractional entitlements to New Asustek GDSs were aggregated and sold by Asustek's depository and the net proceeds from such sale (after deduction of applicable fees, taxes and expenses) were remitted to the applicable Asustek GDS Holders.

The Pegatron Entitlements are not transferable and are blocked in the accounts of Asustek GDS Holders for a period expiring on September 10, 2010 (the "Three-Month Deadline"). Accordingly, we are establishing a GDS facility as stated in these Listing Particulars so that the Asustek GDS Holders can deposit their newly received Common Shares in the GDS facilities in exchange for Luxembourg Stock Exchanged-listed GDSs. If this GDR program is established by us at any time prior to the Three-Month Deadline, the Pegatron Entitlements will be exchangeable for our GDSs representing the corresponding Common Shares. The process for depositing newly issued Common Shares in exchange for GDSs will be free of charge for those Asustek GDS Holders who deposit their shares in the GDS facility. The foregoing transfer restriction expiring on September 10, 2010 imposed on the Company's Common Shares held in the accounts of Asustek GDS Holders will not apply to the GDSs, and the GDSs will be freely transferable upon the Listing.

Our issued and outstanding share capital will not change as a result of this Listing. The GDSs will only be made available to Asustek GDS Holders and no offer and sale of GDSs to new investors is contemplated. No underwriter will be involved as no offering of GDS will be conducted.

All information necessary to enable participants in the Spin-off plan to make an informed decision has been provided to holders of Asustek GDSs through Citibank, N.A, the depository for the Asustek's existing GDS facility. Relevant filings in the form of Form CB and subsequent amendments have also been made by Asustek and published in English on the website of the U.S. Securities and Exchange Commission ([www.sec.gov](http://www.sec.gov)).

## **The GDSs**

No securities are being offered or sold by means of these Listing Particulars. The Listing is solely to provide a market in our newly issued Common Shares for Asustek GDS Holders. For this reason, we will enter into a Rule 144A deposit agreement and a Regulation S deposit agreement (together, the "Deposit Agreements") in relation to the issuance of Rule 144A GDSs and Regulation S GDSs, respectively, on August 9, 2010 with the Depository under which the Depository agrees, subject to the terms of the Deposit Agreements, to issue the GDSs to Asustek GDS Holders in exchange for our newly issued Common Shares.

One GDSs will represent five Common Shares on deposit with the Custodian. Holders and beneficial owners of GDSs will have only such rights against us and the Depository as are provided in the Deposit Agreements. Application has been made for the listing of the GDSs on the official list of the Luxembourg Stock Exchange and for admission to trading on the Euro MTF. The currency of the GDSs is U.S. dollars. The GDSs will be evidenced by Master GDRs in registered form (one for the Regulation S GDSs and another for the Rule 144A GDSs) held by each registered in the name of Cede & Co, as nominee for DTC for the benefit of account holders of DTC, Euroclear and Clearstream. Holders and beneficial owners of GDSs should be aware of the risk that we may not be able to list the GDSs on any stock exchange or, if the GDSs are listed, that it is unlikely, at least initially, that there will be an active market in the GDSs. The GDSs will be made available for delivery through the facilities of DTC, Euroclear and Clearstream. None of DTC, Clearstream nor Euroclear in any way undertake or shall have responsibility to monitor or ascertain the compliance of any transactions in the GDSs or the underlying securities with any selling or ownership restrictions.

Whenever the Depository receives confirmation from the Custodian of the receipt of any cash dividend or other cash distribution in relation to any Regulation S Deposited Securities and Rule 144A Deposited Securities (as defined in the Deposit Agreements), or receives proceeds from the sale of any shares, rights, securities or other entitlements under the terms of the Deposit Agreements, the Depository will convert the funds received into US dollars upon the terms set forth in the Deposit Agreements and will promptly distribute the US dollar amounts received upon such conversion (after payment, netting or deduction of (a) the applicable fees and charges of, and expenses properly incurred by, the Depository and (b) taxes and other governmental charges, in each case upon the terms set forth in the Deposit Agreements) to the holders entitled thereto. The Depository shall distribute only such amount, however, as can be distributed without attributing to any holder a fraction of one cent, and any balance not so distributable shall be held by the Depository for its own account. Holders must rely upon the procedures of the Depository and the clearing and settlement systems of Euroclear and Clearstream as the case may be, for distribution of such cash dividends (if any). See "Terms and Conditions of the Global Depository Shares".

## SELECTED FINANCIAL INFORMATION

The following tables set out summary financial information derived from our (i) audited consolidated financial statements as of and for the years ended December 31, 2008 and 2009, and (ii) unaudited consolidated financial statements as of and for the three-month period ended March 31, 2010, each included in these Listing Particulars. Our financial statements are prepared in conformity with ROC GAAP, which differs in certain material aspects from US GAAP. The amounts expressed in U.S. dollars do not form part of any of our consolidated and unconsolidated financial statements and are provided solely for the convenience of the reader.

The table below sets forth certain financial data under ROC GAAP for the periods and as of the dates indicated.

	Year Ended and As of December 31,		Three Months Ended March 31,		
	2008	2009	2010		
	NT\$	NT\$	US\$	NT\$	US\$
	(audited)		(unaudited)		
	(in millions, except per share data)				
<b>Consolidated Statement of Income:</b>					
Net Sales .....	513,294.2	538,081.7	16,958.1	130,105.4	4,100.4
Cost of goods sold .....	(486,285.5)	(505,715.4)	(15,938.1)	(121,687.4)	(3,835.1)
Gross profit .....	27,008.6	32,366.3	1,020.1	8,418.0	265.3
Operating expenses .....	(19,214.6)	(21,791.2)	(686.8)	(5,160.6)	(162.6)
Income from operations .....	7,794.0	10,575.1	333.3	3,257.4	102.7
Non-operating income .....	3,340.5	4,134.1	130.3	871.1	27.5
Non-operating expenses .....	(1,989.0)	(1,806.9)	(56.9)	(198.3)	(6.3)
Income before income tax .....	9,145.5	12,902.3	406.6	3,930.1	123.9
Income tax expense .....	(1,217.8)	(2,354.9)	(74.2)	(1,132.2)	(35.7)
Consolidated net income .....	7,927.6	10,547.4	332.4	2,797.9	88.2
Primary earnings per share (after income tax) .....	3.08	2.95	0.09	0.78	0.02
Diluted earnings per share (after income tax) .....	3.07	2.91	0.09	0.77	0.02
<b>Consolidated Balance Sheet Data:</b>					
Current assets .....	142,773.2	155,807.0	4,910.4	151,471.6	4,773.8
Investments .....	4,799.3	4,851.5	152.9	4,854.0	153.0
Other financial assets - noncurrent .....	542.3	468.3	14.8	404.9	12.8
Property, plant and equipment .....	59,281.0	54,666.5	1,722.9	53,365.6	1,681.9
Intangible assets .....	3,703.5	3,748.8	118.1	3,690.6	116.3
Deferred expenses .....	3,127.5	3,257.5	102.7	2,995.9	94.4
Deferred income tax assets – noncurrent .....	33.3	17.0	0.5	-	-
Other assets .....	905.3	1,738.3	54.8	1,963.9	61.9
Total assets .....	215,165.4	224,554.8	7,077.1	218,746.6	6,894.0
Current liabilities .....	96,270.5	95,700.9	3,016.1	90,045.3	2,837.9
Long-term loans .....	8,464.4	8,319.9	262.2	9,596.5	302.4
Other liabilities .....	255.0	380.5	12.0	453.1	14.3
Total liabilities .....	104,989.9	104,401.2	3,290.3	100,094.8	3,154.6
Total stockholders' equity .....	110,175.6	120,153.7	3,786.8	118,651.8	3,739.4
<b>Consolidated Statement of Cash Flows:</b>					
Net cash provided by operating activities .....	1,428.3	18,452.9	581.6	7,065.6	222.7
Net cash used in investing activities .....	(13,715.2)	(6,345.8)	(200.0)	(1,101.5)	(34.7)
Net cash (used in) provided by financing activities .....	36,044.4	(6,308.3)	(198.8)	(1,799.5)	(56.7)
Net increase in cash .....	26,271.8	5,571.4	175.6	3,999.3	126.0
Cash, beginning of the period .....	3.1	26,274.9	828.1	31,846.3	1,003.7
Cash, end of the period .....	26,274.9	31,846.3	1,003.7	35,845.6	1,129.7



## RISK FACTORS

*You should carefully evaluate the risks described below and all the other information set forth in these Listing Particulars. If any of the following risk factors and uncertainties develop into actual events, our businesses, financial condition or results of operations could be materially adversely affected. In such case, the trading price of the GDSs and our Common Shares could decline. You should pay particular attention to the fact that we are an ROC company and are subject to a legal and regulatory regime which in some respects may be different from that which prevails in other countries. These Listing Particulars also contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in these Listing Particulars. See “General Considerations—Forward-looking statements”.*

### RISKS RELATING TO OUR INDUSTRY

***The global financial crisis has put downward pressure on prices and demand for our products.***

Since the second half of 2007, the global financial system has experienced significant difficulties and disruptions, leading to reduced liquidity, greater volatility, widening credit spreads and a lack of price transparency in the U.S. and global credit and financial markets. There are indications that the current financial crisis and economic downturn may persist for a significant amount of time. The slowdown experienced in the economies of the U.S., the European Union and certain Asian countries has adversely affected and may continue to adversely affect prices of and demand for our products. The resulting decrease and slowdown in demand for computing products, communication devices and consumer electronics products have put significant downward pressure on prices. At the same time, reduced corporate and commercial activity has also impacted demand and prices of our products. There can be no assurance as to when the market for our products will recover and that it will not suffer a persisting downturn.

While various governments, including that of the ROC, have announced efforts to increase liquidity in the financial markets and stimulus packages to slow or reverse the economic downturn, there can be no assurance that these measures will be successful. If the economics of the U.S., the European Union and our other core markets, as well as the ROC economy, continue to grow at a slower rate, or experience a prolonged recession, our business, financial condition and results of operations would be adversely affected.

***We operate principally in the highly volatile computer and computer components industry with sales of computers and computer components accounting for a substantial portion of our sales revenues.***

We operate principally in the highly volatile computer and computer components industry, which is characterized by rapidly changing customer demand patterns and severe industry-wide competition for market share resulting in aggressive pricing practices. Our main product offerings include computing products, communication devices and consumer electronics products, which accounted for 68.45%, 20.59% and 10.96% of our consolidated sales revenues in 2009, respectively, and 77.87%, 13.76% and 8.37% in the three-month period ended March 31, 2010, respectively.

We are attempting to reduce the risks inherent in relying on a small number of products by developing and producing new devices in the consumer electronics, the communications and computer markets. We cannot assure you, however, that we will be able to develop and produce these products as planned or that these measures will be effective in reducing the risks associated with our reliance on computer and computer components products.

***We operate in a highly competitive industry and we may not be able to sustain our current market position.***

The information technology, communication and consumer electronics DMS or ODM industry in general is extremely competitive and includes hundreds of companies, several of which have achieved substantial market share. Some of our competitors may have greater design, manufacturing, financial or other resources than us. Current and prospective customers evaluate our capabilities against, among other things, the merits of internally producing their products. In outsourcing, customers seek, among other things, to reduce cost. The competitive nature of our industry has resulted in substantial price competition. In addition, major customers typically outsource the same type of products to at least two or three DMS or ODM companies in order to diversify their supply risks.

Accordingly, we typically compete with other major DMS or ODM companies for orders from the same customers. We face competition from a number of sources, mainly including Taiwanese and American DMS or ODM companies. We also face increasing challenges from PRC and overseas competitors who relocate to the PRC to take advantage of the low labor costs of production in the PRC. We may lose our customers to our competitors if we fail to keep pace with technology changes, enhance product differentiation and improve our cost efficiency. Increased competition could result in significant price competition, reduced revenues, lower profit margins or loss of market share, any of which would have a material adverse effect on our business, financial condition and results of operations. We cannot be certain that we will be able to compete successfully against either current or potential competitors in the

future. In recent years, many participants in the industry, including us, have substantially expanded their manufacturing capacity. There can be no assurance that we will be able to competitively develop the technology and provide the services necessary to retain business or attract new customers.

## **RISKS RELATING TO OUR BUSINESS**

### ***Our operating results may fluctuate due to factors beyond our control.***

Our operating results are affected by a wide variety of factors beyond our control that could materially affect our sales revenues and profitability. These factors could also result in a significant variation in our quarterly or annual operating results. These factors include:

- economic and market conditions in the motherboard and notebook computer sectors;
- customer demand and market acceptance of our products;
- new product introductions and delays in developing the capability to produce new products;
- product obsolescence;
- input component price fluctuations;
- seasonality of operating results;
- varying product mix;
- technological changes and changes in manufacturing processes;
- timing of orders and delays in shipments to customers; and
- volume of orders relative to our production capacity.

Due to the factors listed above, it is possible that in some future period our operating results or growth rate may be below the expectations of investors. If so, the price of the GDSs and Common Shares may fall.

### ***We may not be able to mitigate the effects of price declines over the life cycles of our products.***

All of our product markets are characterized by rapidly changing technology, including advances in both software and hardware functionality and performance, and user preferences, evolving industry standards and the frequent introduction of new products and enhancements. As a result, the price of our products tends to decline over the product life cycle, reflecting product obsolescence, decreased costs of input components, decreased demand and increased competition as more manufacturers are able to produce similar products in large numbers.

To maintain profitability, our strategy has been to design new generations of our products ahead of our competitors. This requires us to obtain and incorporate into our product range new hardware, software, communications and peripheral technologies, some of which are primarily developed by others. These newer generations generally carry higher profit margins but require large expenditures for research and development or the acquisition of new technology. We also try to mitigate the effects of price declines in our products by reducing our input component costs, reducing inventory costs and lowering operating costs.

### ***For our established product lines, we must continually develop innovative new generation products and successfully introduce them into the marketplace rapidly.***

For our established product lines, to maintain our market position, we must continue to enhance our existing products while developing new products. To do so, we must obtain and incorporate into our product range new hardware, software, communications and peripheral technologies, some of which are primarily developed by others. Our product strategy focuses in part on taking advantage of the rapid technological advances in our industry by introducing new products ahead of our competitors while managing the production and marketing cycles of our existing products. There can be no assurance that new generation products introduced by us will achieve market acceptance.

***Our reliance on certain key suppliers could result in delays and adversely affect our output, results of operations and financial condition.***

Our production depends on obtaining adequate supplies of components on a timely basis. We purchase our main components from various third-party component manufacturers that can satisfy our quality standards and meet our volume requirements. However, our reliance on certain key suppliers could result in delays and adversely affect our output, results of operations and financial condition. Reliance on key suppliers generally involves several risks, including the possibility of defective parts, a shortage of components, increases in component costs and reduced control over delivery schedules. For the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010, purchases from our top three suppliers accounted for 37.50%, 34.46% and 22.96%, respectively, of our consolidated gross purchases. There can be no assurance that we will be able to continue to obtain supplies of reliable components in a timely or cost-effective manner in the future. Where alternative sources of components are available, qualification of the alternative suppliers and establishment of reliable supplies from such sources may result in delays that could adversely affect our manufacturing processes, results of operations or financial condition.

***We are dependent on a limited number of customers.***

We are dependent on a limited number of customers, including Asustek. For the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010, sales to our top three customers, on a consolidated basis, accounted for 62.12%, 60.56% and 60.03%, respectively, of our consolidated net revenues. We anticipate that our dependence on a limited number of customers will continue for the foreseeable future. Consequently, reliance on a limited number of customers generally involves several risks including reduction, delay or cancellation of orders from our significant customers; selection by one or more of our significant customers of products competitive with ours; failure to renew sales contracts with one or more of our significant customers; failure to renegotiate favorable terms with us; or failure of any of our significant customers to make timely payment for our products.

***We rely on certain key personnel and failure to attract, retain or replace such personnel could adversely affect our business.***

Our success depends to a significant extent upon, among other factors, the continued service of our key senior executives and research and development, engineering, marketing, sales, production, support and other personnel and on our ability to continue to attract, retain and motivate qualified personnel. The loss of the services from or departure of any of our key personnel without adequate replacement or the inability to attract new qualified personnel could have a material adverse effect on our results of operations or financial condition. We do not maintain insurance with respect to the loss of any of our key personnel.

***We rely on technology provided by third parties; if we are unable to use such technology, our business may suffer.***

From time to time, we have obtained licenses for patent, copyright, trademark and other intellectual property rights in respect of technologies used in the production of our products. We can offer no assurance, however, that in the future we will be able to obtain licenses to the intellectual property of third parties on commercially reasonable terms, or at all. In addition, we could be at a disadvantage if our competitors obtain licenses for protected technologies on more favorable terms. If we or our suppliers are unable to license protected technology used in our products, we could be prohibited from marketing those products or may have to market products without desirable features. We could also incur substantial costs to redesign our products or to defend any legal action taken against us. If our products should be found to infringe protected technology, we could be enjoined from further infringement and be required to pay damages to the infringed party. Any of these factors could have a material adverse effect on our results of operations or financial condition.

***We engage in a variety of transactions with our affiliates.***

We engage in a variety of transactions with our affiliates, in particular Asustek, on an ongoing basis. As of the date hereof, Asustek holds approximately 24% of our outstanding shares. Although there can be no assurance as to the terms of those transactions, our policy is that transactions with related parties will generally be conducted on normal terms that we could obtain in a comparable arm's length transaction with a person who is not a related party. We will continue to enter into additional transactions with our related parties in the future.

***Our multinational operations subject us to various business, economic, political, regulatory and legal risks.***

We have operations in Asia, Europe and the Americas. As a result of our international operations, we are affected by economic and political conditions in foreign countries, including the imposition of government controls, political and economic instability, trade restrictions, changes in tariffs, laws and policies affecting trade and investment, the lack of development of local infrastructure, labor unrest and difficulties in staffing, coordinating communications

among and managing international operations, fluctuations in currency exchange rates and earnings, expatriation restrictions, difficulties in obtaining export licenses, and misappropriation of intellectual property.

If we cannot successfully manage the risks and challenges generally associated with multinational operations, we may have difficulty successfully completing orders, which might lead to customer dissatisfaction and loss of future orders.

***Any outbreak of severe communicable diseases may materially affect our operations and business.***

Several places in the world, including Mexico, Japan and the U.S., has experienced an outbreak of influenza A (H1N1), a communicable disease that is potentially lethal. Influenza A (H1N1), together with other contagious diseases such as severe acute respiratory syndrome or avian flu, may potentially result in a quarantine of infected employees and related persons, and if uncontrolled, may affect our operations at one or more of our facilities. We cannot predict at this time the impact of current or any future outbreak could have on our business and results of operations.

***We are vulnerable to natural disasters and other disruptive events that could severely disrupt the normal operation of our business and adversely affect earnings.***

Many countries, such as the ROC and the PRC, are susceptible to earthquakes. Some earthquakes in recent years caused damage to production facilities and adversely affected the operations of many companies. Although we did not experience significant structural damage to our facilities, there can be no assurance that future earthquakes will not occur and result in major damage to our facilities, which could have a material adverse effect on our results of operations. Our production facilities, as well as many of our suppliers and customers, are located in Taiwan and the PRC. If our customers are affected by earthquakes or other natural disasters, demand for our products could decline. If our suppliers are affected, our production schedule could be interrupted or delayed. As a result, a major earthquake, natural disaster or other disruptive event in Taiwan or elsewhere could severely disrupt the normal operations of our business and have a material adverse effect on our financial condition and results of operations.

## **RISKS RELATING TO THE PRC**

***Our results of operations and prospects are subject, to a significant extent, to legal, political and economic developments in the PRC.***

A significant amount of our products are manufactured in the PRC; consequently, our results of operations and prospects are subject to legal, political and economic developments in the PRC. For instance, the PRC legal system is not fully developed and has inherent uncertainties that could limit the legal protections available to our shareholders. In general, the PRC judiciary is relatively inexperienced in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation. Furthermore, it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction. Another risk is that the introduction of new PRC laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. Also, the PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall economy of the PRC, but may have a negative effect on us. For example, our operating results and financial condition may be adversely affected by government control over capital investments or changes in tax regulations applicable to us.

***Our production facilities in the PRC are subject to risks of power shortages.***

Many cities and provinces in the PRC have historically suffered serious power shortages. Many of the regional grids do not have sufficient power generating capacity to satisfy fully the increased demand for electricity driven by continual economic growth and persistent hot weather. Local governments have required local factories to temporarily shut down their operations, reduce their daily operational hours or operate on different shifts in order to reduce local power consumption levels. Many factories have also experienced temporary power outages as a result of the persistent full load operations of the power grids. To date, our operations in the PRC have not been affected by such administrative measures. However, there is no assurance that our PRC operations will not be affected by those administrative measures in the future, thereby causing material production disruption and delay in delivery schedules. In such event, our business, results of operations and financial condition could be materially adversely affected.

## **RISKS RELATING TO TAIWAN**

***Strained relations between the ROC and the PRC, and political developments in the ROC, could adversely affect our business and the market value of the GDRs or our Common Shares.***

Our principal executive offices and a significant portion of our assets are located in Taiwan. Accordingly, our financial condition and results of operations and the market price of the Common Shares may be affected by changes in the ROC governmental policies, taxation, inflation, interest rates, social instability and other political, economic, diplomatic or social developments in or affecting the ROC which are outside our control. Taiwan has a unique international political status. Both the governments of the PRC and the ROC assert sovereignty over Taiwan. The PRC government does not recognize the legitimacy of the government of the ROC. Although significant economic and cultural relations have been established in the past decade between Taiwan and the PRC, the PRC has refused to renounce the possibility that it may use force to gain control over Taiwan if Taiwan declared independence or if a foreign power interfered in Taiwan's domestic affairs. Relations between the ROC and the PRC have at times been strained. Past developments in relations between the ROC and the PRC have on occasion depressed the market price of the securities of ROC companies. There is no assurance that relations between the ROC and the PRC will not deteriorate, or that future military actions or economic sanctions or other disruptive activities will not be undertaken by either government.

***Financial reporting requirements and accounting standards in the ROC differ from those in other countries.***

We are subject to financial reporting requirements in the ROC that differ in significant respects from those applicable to companies in certain other countries, including European countries. In addition, our financial statements are prepared in accordance with ROC GAAP, which differ in certain material respects from US GAAP. We have not quantified or identified the impact of the differences between ROC GAAP and US GAAP. See "Summary of Certain Significant Differences Between ROC GAAP and US GAAP".

***Holders of the GDRs may have difficulty enforcing any judgment obtained outside Taiwan against us or our directors, supervisors or executive officers.***

We are a company organized under ROC law. Substantially all of our directors, supervisors and executive officers reside in Taiwan. In addition, a significant proportion of our assets and a substantial portion of the assets of those persons are located in Taiwan. As a result, it may be difficult for holders of the GDRs to effect service of process upon us or those persons outside Taiwan. We have, however, irrevocably appointed an agent in New York to receive service of process in any proceedings in New York based on any of the GDRs. Notwithstanding the foregoing, it may be difficult to enforce in the ROC court judgments obtained against us and our directors, supervisors and executive officers in non-ROC courts, including those obtained against us in a New York court.

## **RISKS RELATED TO OUR SHARES AND THE GDSs**

***There are limitations on the voting rights of holders of GDSs.***

Holders of GDSs may exercise voting rights with respect to the Common Shares in the manner set out in "Terms and Conditions of the Global Depository Shares—Voting rights". Holders of GDSs will not have voting rights attaching to the Common Shares on an individual basis. If so instructed by holders of at least 51% of all the GDSs outstanding at the relevant record date specified by the Depository to vote in the same direction, excluding the election of directors and supervisors, the Depository will be required to instruct the chairman of the Company (or his or her designate) as the representative of the Depository to vote all the Common Shares represented by the GDSs for or against resolutions at shareholders' meetings in accordance with the instructions of such majority of GDS holders, subject to certain conditions. In the absence of clear instructions from at least 51% of the holders of GDSs outstanding at the relevant time to vote the Common Shares represented by the GDSs in a specific manner, excluding the election of directors and supervisors, all the holders of GDSs will be deemed to have instructed the Depository to authorize and appoint our chairman (or his or her designate) as representative of the Depository to vote all the Common Shares represented by the GDSs in any manner the chairman (or his or her designate) wishes, which may not be in the interests of the holders of GDSs.

***Withdrawal of Common Shares from, and restrictions on the ability to deposit the Common Shares into, the GDS facilities may adversely affect the liquidity and price of the GDRs.***

On or after the listing date, holders of GDRs may, subject to the relevant provisions of the Deposit Agreements, surrender GDRs to the Depository for withdrawal and receive Common Shares, or request the Depository to sell or cause to be sold on behalf of such holders the Common Shares. Unless additional GDSs are issued, the effect of these transactions will be to reduce the number of outstanding GDSs and, if a significant number of Common Shares are withdrawn, to reduce the liquidity of the GDSs. As a result, the prevailing market price of the GDSs may differ from

the prevailing market price of the Common Shares on the TWSE. Under current ROC law and the Deposit Agreements, unless otherwise approved by the Financial Supervisory Commission, Executive Yuan ("ROC FSC"), the Depository's custodian may not accept deposits of Common Shares, and additional GDSs may not be issued, except in connection with (i) the distribution of additional Common Shares in connection with dividends on or free distributions of Common Shares, (ii) the exercise by holders of their pre-emptive rights applicable to Common Shares evidenced by GDSs in the event of capital increases by cash, (iii) the purchase, as permitted under the Deposit Agreements, directly by any person or through the Depository of Common Shares on the TWSE for deposit in the GDS facility, or delivery by any person of Common Shares held by such person to the custodian for deposit in the GDS facilities and (iv) transfers between the depository facility for the Rule 144A GDSs and the depository facility for the Regulation S GDSs. The number of outstanding GDSs after an issuance in accordance with clause (iii) may not exceed the total number of issued GDSs approved by the ROC FSC plus any GDSs created pursuant to clauses (i) and (ii) of the previous sentence (subject to any adjustment in the number of Common Shares represented by each GDS).

***Holders of GDSs may not be able to participate in rights offerings.***

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. If registration is required in any jurisdiction with respect to the offer to holders of Common Shares of rights, or the Common Shares or other relevant property to which those rights relate, we will not effect that offer or sale to holders in that jurisdiction, unless we have obtained an exemption from, or effected a registration in accordance with, the requirements of that jurisdiction. We are not obligated to obtain any exemption or effect any registration. We will not offer rights to holders of GDSs unless both the rights and the securities to which those rights relate are either exempt from registration under the Securities Act, with respect to a distribution to all holders of GDSs, or are registered under the provisions of the Securities Act. However, under the Deposit Agreements, we are under no obligation to file a registration statement with respect to those rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of GDSs may be unable to participate in rights offerings that we conduct and may experience dilution of their holdings as a result.

***We are an ROC company and, because the rights of shareholders under ROC law differ from those under the laws of some other jurisdictions, holders of our Common Shares may have more difficulty protecting their rights than shareholders in some other jurisdictions.***

Our corporate affairs are governed by our Articles of Incorporation and by the laws governing corporations incorporated in the ROC. The rights of shareholders and the responsibilities of management and the members of our board of directors under ROC law are different from those that apply to a corporation incorporated in some other jurisdictions. The duty of care required of ROC companies' boards of directors may not be similar to the requirements in other jurisdictions and the ability and rights of our shareholders to bring shareholders' suits against us or our board of directors under ROC law are much more limited than those of the shareholders of corporations formed in other jurisdictions, such as the U.S.. Therefore, public shareholders of ROC companies may have more difficulty in protecting their interests in connection with actions taken by management or members of our board of directors than they would as public shareholders in some other jurisdictions.

***A holder of GDSs or its designee requesting the withdrawal of the Common Shares represented by the GDSs may be required to provide certain information to us or the Depository, and failure to provide that information may result in a delay of the withdrawal.***

A holder of the GDSs or its designee requesting the withdrawal of the Common Shares represented by the GDSs may be required to provide certain information to us or the Depository, including the name and nationality of the person to be registered as the shareholder, the number of Common Shares to be acquired by that person and the number of Common Shares acquired by that person in the past through the date of the withdrawal of the Common Shares underlying the GDSs. Under applicable ROC laws, we are required to report to the ROC FSC if the person to be registered as a shareholder (i) is our "related party" as defined in ROC Statement of Financial Accounting Standard No. 6 or (ii) will hold, immediately following the withdrawal, more than 10% of the total number of the Common Shares represented by GDSs. Failure to provide this information may result in a delay of the withdrawal of the Common Shares represented by the GDSs.

***Non-ROC holders of GDSs who withdraw shares will be required to register with the TWSE and appoint a local agent and a tax guarantor in the ROC.***

Under current ROC law, if a non-ROC person wishes to withdraw and hold underlying shares from a depository receipt facility, such non-ROC person will be required to register with the TWSE to obtain a foreign investor investment I.D. ("Foreign Investor Investment I.D.") for making investments in the ROC securities market prior to withdrawing shares. In addition, a non-ROC person will be required to appoint an eligible agent in the ROC to open a securities trading account with a local brokerage firm and a Taiwan Depository & Clearing Corporation ("TDCC") book entry account and a bank account, to pay ROC taxes, remit funds, exercise shareholders' rights and perform such

other functions as such person may designate upon withdrawal. In addition, a non-ROC person will be required to appoint a custodian bank in the ROC to hold the securities in safekeeping, make confirmation, settle trades and report all relevant information. Without obtaining the Foreign Investor Investment I.D. and opening such accounts, a non-ROC person would be unable to hold or subsequently sell the Common Shares withdrawn from the depositary receipt facility or otherwise. In addition, these regulations may change from time to time. There can be no assurance that a non-ROC person will be able to register with the TWSE and open the requisite accounts in a timely manner.

When a non-ROC holder of GDSs withdraws Common Shares represented by GDSs, that holder will be required to appoint an agent (a “Tax Guarantor”) in the ROC. Such Tax Guarantor will be required to meet the qualifications set by the ROC Ministry of Finance and will act as the guarantor of such holder’s tax payment obligations. Generally, evidence of the appointment of a Tax Guarantor and the approval of such appointment may be required as a condition to such holder’s repatriation of profits. There can be no assurance that non-ROC holders of GDSs will be able to appoint and obtain approval for a Tax Guarantor in a timely manner.

Also, if our Common Shares to be received by any non-ROC person upon single conversion or withdrawal will exceed 10% of our total issued and outstanding shares, such non-ROC person must obtain the prior approval from the Investment Commission of the Ministry of Economic Affairs.

***Changes in exchange controls that restrict investors’ ability to convert proceeds received from their ownership of GDSs may have an adverse effect on the value of their investment.***

The imposition of foreign exchange controls may undermine investors’ ability to convert proceeds received from their ownership of GDSs. Under current ROC law, the Depositary, without obtaining further approval from the Central Bank of the Republic of China (Taiwan) (“CBC”) or any other governmental authority or agency of the ROC, may convert NT dollars into other currencies, including US dollars, for:

- the proceeds of the sale of Common Shares represented by GDSs or the proceeds of the sale of Common Shares received as stock dividends which have been deposited into the GDS facilities; and
- any cash dividends or distributions received on the Common Shares represented by GDSs.

The Depositary may, without obtaining approval from the CBC, also convert into NT dollars incoming payments for purchases of Common Shares for deposit in the GDS facilities against the creation of additional GDSs. The Depositary may be required to obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights for new Common Shares. Although we expect that the CBC will grant this approval as a routine matter, we cannot be certain that in the future any approval will be obtained in a timely manner, or at all.

Under current ROC law, a GDS holder, after becoming a holder of Common Shares, without obtaining further approval from the CBC, may convert NT dollars into other currencies, including US dollars, with respect to:

- the proceeds of the sale of any underlying Common Shares or Common Shares received as stock dividends withdrawn from the GDS facilities; and
- any cash dividends or distributions received on the Common Shares.

However, a holder may be required to obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights for new Common Shares if the proceeds are in excess of US\$100,000 per remittance. In addition, under the ROC Foreign Exchange Control Law, the Executive Yuan of the ROC government may, without prior notice but subject to subsequent legislative approval, impose foreign exchange controls for certain periods of time in the event of, among other things, a material change in international economic conditions. We cannot assure holders of GDSs that foreign exchange controls or other restrictions will not be introduced in the future.

***The value of an investor’s investment may be adversely affected by possible future sales of our Common Shares by our shareholders.***

We cannot assure you that one or more of our shareholders will not dispose of its Common Shares in the future. We cannot predict the effect, if any, that future sales of Common Shares or GDSs, or securities that are convertible into or exchangeable for, or that represent the rights to receive any Common Shares or GDSs, or the availability of Common Shares or GDSs, or securities that are convertible into or exchangeable for, or that represent the rights to receive any Common Shares or GDSs for future sale, will have on the market price of the Common Shares or the GDSs prevailing from time to time. Sales of a substantial number of Common Shares or GDSs in the public market, or

the perception that those sales may occur, could adversely affect the prevailing market price of Common Shares or GDSs.



## CAPITALIZATION

The following table sets forth the total capitalization as of March 31, 2010. This table should be read in conjunction with our financial statements, including the notes thereto, found elsewhere in these Listing Particulars.

	NT\$	US\$ <sup>(1)</sup>
	(in millions)	
<b>Long-Term Liabilities:</b>		
Bonds payable .....	1,350.6	42.6
Long-term debt payable .....	8,040.4	253.4
Other financial liabilities - noncurrent .....	205.4	6.5
	<u>9,596.5</u>	<u>302.4</u>
<b>Other Long-Term Liabilities .....</b>	<u>453.1</u>	<u>14.3</u>
<b>Stockholders' Equity:</b>		
Common Stock – authorized 2,500,000 thousand shares, 2,286,054 thousand shares issued and outstanding as of March 31, 2010 .....	22,860.5	720.5
Capital Surplus .....	63,796.7	2,010.6
Retained Earnings .....	5,032.9	158.6
Other Adjustments to Stockholders' Equity .....	1,464.6	46.2
Total Parent Company's Equity...	<u>93,154.8</u>	<u>2,935.9</u>
Minority Interest .....	<u>25,496.9</u>	<u>803.6</u>
<b>Total Stockholders' Equity .....</b>	<u>118,651.8</u>	<u>3,739.4</u>
<b>Total Capitalization (2) .....</b>	<u>128,701.3</u>	<u>4,041.9</u>

(1) Converted with the Noon Buying Rate as of March 31, 2010.

(2) Long-term liabilities plus other long-term liabilities and total shareholders' equity.

## MARKET PRICE INFORMATION

Our Common Shares began trading on the TWSE on June 24, 2010. The table below sets forth, for the period indicated, the high and low closing prices and the average daily volume of trading activity on the TWSE for such Common Shares and the highest and lowest of the daily closing values of the TWSE Index. On August 6, 2010, the reported closing price of the Common Shares was NT\$37.10 per Common Share.

	Price per Common Share			Average Daily Trading Volume in Common Shares  (thousands)	Taiwan Stock Exchange Index	
	High	Low	End of Period		High	Low
	(NT\$)					
2010						
June .....	40.40	30.00	30.05	36,299	7,646	7,049
July .....	37.40	29.10	37.00	14,881	7,799	7,252
August (through August 6) .....	37.95	36.80	37.10	10,811	8,019	7,829

*Source: Taiwan Stock Exchange*

## CHANGES IN SHARE CAPITAL

The following table sets forth the changes in our issued share capital since our inception on June 27, 2007.

<u>Date of Issue</u>	<u>Type of Issue</u>	<u>Number of Shares Issued</u>	<u>Total Number of Issued Shares after the Issue</u>
June 2007	Initial issuance of 100,000 Common Shares for cash	100,000	100,000
November 2007	Issuance of 4,900,000 Common Shares for capital increase for cash	4,900,000	5,000,000
January 2008	Issuance of 1,600,000,000 Common Shares for exchange of assets from Asustek	1,600,000,000	1,605,000,000
June 2008	Issuance of 279,628,141 Common Shares for exchange of subsidiary shareholding from Asustek	279,628,141	1,884,628,141
November 2009	Issuance 401,425,794 Common Shares for capital increase from retained earnings	401,425,794	2,286,053,935
June 2010	Issuance of 10,000 Common Shares for implementation of the Merger and Spin-off according to Taiwan regulations	10,000	2,286,063,935

As of July 1, 2010, we had 2,286,063,935 Common Shares outstanding.

## BUSINESS

### Overview

We are one of the world's leading manufacturers of computer components, desktop computers and notebook computers which we sell to leading global branded vendors, as a design and manufacturing service (DMS) provider. Through our open vertical integration strategy, we are expanding our product development areas into new product lines related to our current products and are becoming a significant manufacturer of communications and consumer electronics. By leveraging our expertise in components manufacturing and our superior research and development capabilities, we have expanded to become a vertically integrated systems solution provider, which designs and manufactures computer, consumer electronics and communications devices. Our primary products include notebooks, netbook computers, desktop PCs, game consoles, handheld devices, mobile internet devices, motherboards, video graphic cards, broadband communication products (such as set-top boxes and cable modems), media players, e-readers and digital photo frames and LCD-TVs.

We were incorporated on June 27, 2007 as a result of the restructuring of our parent company, Asustek. Asustek, one of the world's largest producers of electronics products, underwent the restructuring in order to increase its competitiveness by dividing its businesses based on specialized work forces and establishing separate companies for each business units. We were formed as a DMS provider of computer-related products that had previously been operated by Asustek. In addition, we acquired from Asustek, UniHan, a manufacturer of non-PC related products, in January 2008.

Since our inception, we have become a leading company providing design and manufacturing service with extensive experience in product development providing innovative solutions to our customers and with vertically integrated capabilities focused on delivering systematic manufacturing services. We differentiate ourselves from other original equipment manufacturing (OEM) companies on the basis of well-diversified product portfolio, extensive design experience, high-quality and effective time-to-market manufacturing capabilities, and reliable after-sale services. We believe that one of the primary reasons for our success derives from our strong research and development capability, which allows us to rapidly incorporate the latest technologies into the high quality products which we mass produce.

Our product offerings include computing products, communication devices and consumer electronics products, which accounted for 68.45%, 20.59% and 10.96% of our consolidated sales revenues in 2009, respectively, and 77.87%, 13.76% and 8.37% in the three-month period ended March 31, 2010, respectively. We sell our products to Asustek, which is our largest customer, and other leading global branded vendors. Our sales to Asustek accounted for 35.88% and 37.03% of our consolidated net sales for the year ended December 31, 2008 and 2009, respectively.

Since the beginning of our operation, our advanced designing and manufacturing capabilities have been recognized by a number of international awards. They include Germany's iF Design Award in March 2009 for our incorporation of bamboo and acetate fiber materials into information technology devices. In October 2009, we received the China iF Design award for our Mini PC (Cape 7), Orbit and light bulbs, demonstrating our innovative design skills.

### Competitive Strengths

We believe our leadership in our existing product markets and our ability to enter new markets are due in part to our competitive strength described below:

- *Comprehensive and market-leading research and development capability allows us to quickly mass produce and bring to market high quality products incorporating the latest technologies.* We are committed to continued improvement of our products' performance and manufacturing processes, implementation of new technologies and growth into new product lines. We believe our excellent research and development capabilities are the foundation of this improvement and growth, and, in general, one of the primary reasons of success of our company. Through our deep-rooted understanding of the technologies and processes underlying our core products, we are able to introduce product and manufacturing improvements ahead of, and bring cutting edge designs to mass-production more quickly than most of our competitors.
- *Diverse and state-of-the-art line of computer, communications and consumer electronics products.* We have expanded our product lines from components such as motherboards and computer graphics cards and systems such as notebook computers, barebones systems and entertainment computer systems to related products such as consumer electronics products and communication products. We have focused on open vertical integration of our operations to facilitate flexible expansion into these markets. In choosing new products for these markets, we seek to leverage our strengths by choosing products with

high technological entry barriers that highlight our technical and design expertise. We further benefit from our diversified and balanced production units by promoting interactions between different production units. Their mutual assistance and synergy advance our production capabilities, improve our marketing successes and increase our innovative potential.

- *Strong reputation among vendors and consumers for quality, value and service.* Our numerous awards for excellence and our established DMS/OEM relationships with some of the leading global branded computer and component vendors all reflect our focus on product quality and innovation. To ensure the quality of our products, our service centers in North America, Europe, Japan and China aim to provide consistent and reliable after-sale services. We believe that by continually providing leading edge technologies in our products and providing a comprehensive range of services to our clients, we have been able to grow, and will continue to grow, our business through our DMS/OEM client relationships.
- *Ability to provide tailor-made, full-service system solutions to customers.* We act as an DMS/OEM solutions provider for some of the most high profile global branded computer and components vendors. We believe our clients choose us for our complete system solutions capability across a wide range of products. Our ability to provide product innovations, device design, component manufacturing, component sourcing, complete system integration for complex devices such as notebook, netbook computer and video game consoles and logistical expertise have made us a preferred system solution provider for our customers.
- *Professional and experienced management team.* Our management team is formed by experienced people within the industry. Each of them possesses experience in Asustek business operation and has more than 20 years of industrial experience. Our management team has developed a long-term and stable working relationship and work in unison to bring the best new products to market with the greatest speed and efficiency. Through our experienced management team, we seek to dominate certain markets, such as motherboards, notebook and netbook computers, where we have significant technology, cost and reputational advantages. We also pursue opportunities for production of complementary or high-margin products in markets where we may have less of a presence, but still enjoy some competitive advantages.
- *Market penetration through global logistics management.* We distribute most of our products through our DMS/OEM clients. We believe that our DMS/OEM clients choose us partly due to our efficient global logistics capability as we have production and service bases evenly distributed among Europe, America and Asia. These logistic channels allow us to provide timely services to our clients across the world.

## **Business Strategy**

We intend to build upon our existing strengths of product quality, value and service to enhance our position as DMS/OEM service provider of choice for leading global vendors. Key elements of our strategy are described below:

- *Continue to successfully develop innovative designs.* Due to our extensive research and development experience accumulated over the years, our industrial design group has obtained numerous international awards, including Germany's iF Design Award in March 2009 for our incorporation of bamboo and acetate fiber materials into information technology devices, the China iF Design award in October 2009 for our Mini PC (Cape 7), digital photo frame (Orbit) and light bulbs, demonstrating our innovative design skills. Through the collective effort of our research and development teams, we will continue to launch and apply our innovative designs to our new products faster than our competitors.
- *Continue to successfully incorporate new technologies and bring new products to market ahead of our competition.* Time to mass production is one of the key competitive factors in the computer and communications product markets. We believe that our commitment to research and development and our product design capacity have made us a preferred manufacturer among knowledgeable consumers and that by continuing to bring cutting edge products to market in advance of our competitors, we can maintain this position and enhance our reputation for innovative design and manufacturing.
- *Expand production capacity and reduce production costs to dominate our established product markets.* We seek to expand our market share in our established profitable product markets by leveraging our technology, cost and reputational advantages. We believe increased market share will further reduce our production costs through the realization of economies of scale and will provide even greater pricing power for both our end-user products and their components.

- *Leverage our strengths by introducing products in high margin markets with entry barriers and rapidly developing technologies.* Our move towards open vertical integration of our operations has allowed us to enter new product markets by leveraging our design and technology innovations from our core products and using them in designing and manufacturing new devices with similar design issues and components requirements. We believe that this approach to new product developments enabled us to quickly expand into communications and consumer electronics device markets. In choosing target products for these markets, we will focus on those products that provide high margins due to technological, design or high investment entry barriers.

## Operation

We believe our core competencies are superior research and development, product design, production and global logistics. For our customers, we offer a total system solution, providing all aspects of product design and development, product testing, component sourcing, manufacturing and distribution. As part of our strategy to diversify our product lines, we also continue to vertically integrate our business. We have a well-expanded product lines from components such as motherboards and computer graphics cards and systems such as notebook computers, desktop systems, entertainment systems and gaming systems to related products such as broad band communication products, LCD-TVs and mobile telecommunication devices.

We manage our daily operations through several primary business divisions, each responsible for its own group of customers and products and has personnel dedicated to customer services. We believe that this approach allows us to focus on product quality and individual customer needs, which enhances customer loyalty. Without compromising the emphasis on customer service, we manage other aspects of our business, such as material sourcing, research and development, manufacturing, after-sales service, finance, and investment, on a common basis to take advantage of economies of scale and other synergies.

Furthermore, we promote interactions between our various specialized production units. Their mutual assistance and synergy advance our production capabilities, improve our marketing successes and increase our innovative potential. Our specialized research and development teams are also collaborating to design internet devices that integrate technology for non-contact charging, GPS antenna and high speed internet connection for an extended period of usage.

Our manufacturing facilities and service centers have been strategically located all over the world, including Taiwan, China, Czech Republic and Mexico, to provide the most efficient service to our customers. All of our manufacturing sites have passed the ISO 9001 Quality Management System certification. In addition, we request all our suppliers and service providers to pass the ISO 9001 Quality Management System certification to ensure the quality of our products and services.

## Products

### General

Our product offerings include computing products, communication products and consumer electronics products. We emphasize the development of both software and hardware technologies to provide our customers with comprehensive solution and high value-added service. Furthermore, we pursue our strategy of open vertical integration by developing related products that are logical extensions of our existing product lines and utilize our strength in design and technology innovations.



The following table sets forth a breakdown of our consolidated sales revenues by major product groups for the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010:

	Year Ended December 31,				Three Months Ended March 31,	
	2008		2009		2010	
	(millions, except percentages)					
Computing Products .....	NT\$		NT\$		NT\$	
	314,392.6	61.25%	368,316.9	68.45%	101,313.1	77.87%
Consumer Electronics Products .....	151,678.4	29.55%	110,791.0	20.59%	17,902.5	13.76%
Communication Products .....	47,223.1	9.20%	58,973.8	10.96%	10,889.8	8.37%
Total .....	513,294.1	100.00%	538,081.7	100.00%	130,105.4	100.00%

Our main market is Taiwan, but we also sell our products globally. The table below sets forth a breakdown of our consolidated sales by major markets for the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010.

	Year Ended December 31,				Three Months Ended March 31,	
	2008		2009		2010	
	(millions, except percentages)					
Domestic sales .....	NT\$		NT\$		NT\$	
	269,412.5	52.49%	206,678.1	38.41%	59,198.0	45.50%
Foreign sales:						
Asia .....	99,902.3	19.46%	165,105.0	30.68%	31,589.5	24.28%
Europe .....	71,898.0	14.01%	87,867.3	16.33%	20,335.5	15.63%
America .....	71,332.3	13.90%	78,170.7	14.53%	18,878.3	14.51%
Others .....	749.0	0.15%	260.6	0.05%	104.1	0.08%
Subtotal .....	243,881.6	47.51%	331,403.6	61.59%	70,907.4	54.50%
Total .....	513,294.1	100.00%	538,081.7	100.00%	130,105.4	100.00%

### ***Computing Products***

We have extensive in-depth experience in designing and manufacturing PC products accumulated from our experience at Asustek. This product segment includes motherboards, video graphic cards, notebooks, netbook computers and desktop PCs. Among these, notebooks and netbook computers are the major revenue contributors, comprising approximately two-thirds of the total revenue generated by this product segment, while revenues from motherboards and desktop PCs contributed approximately one-third of the total revenue generated by this product segment. We manufacture and supply notebooks and netbook computers to Asustek, our main customer which sells under the ASUS brand name, and have developed DMS/OEM relationships with other notebook and netbook computer vendors.

We use the most up-to-date components and our own engineering efforts to create distinctive and user-friendly notebooks that appeal to the well-informed consumers. We produce and sell a wide range of notebook computer models, which vary as to the processor, memory, hard drive and other modules. The computer industry commonly recognizes four categories of notebook computers: performance (high-end), portable (light weight), ultra portable (thin and light) and value (low-to mid-end). We produce each of these types of notebook computers. Our notebook and netbook computers combine state-of-the-art technology with innovative and creative designs to offer pragmatic, efficient and user-friendly systems for a wide range of applications.

### ***Consumer Electronics Products***

In recent years, we have successfully established our consumer electronics business by focusing on game consoles, multimedia player products and LCD-TVs. We are actively exploring various business opportunities to expand revenues generated from this product segment in the long-term.

We are currently developing a variety of new consumer electronics products, including handheld devices, electronic book readers and digital photo frames. For example, we are incorporating durable E-ink technology into our electronic book readers to enhance shock absorption and developing electronic book covers that use solar energy to charge batteries that extend usage time. Moreover, with respect to digital photo frames, we incorporate 3G/3.5G

applications for enhanced transfer efficiency; ceramic antennas with low noise amplifiers, GPS functions for customized services and embedded software that enable reduction of photo file sizes.

### ***Communication Products***

We globally supply the largest shipment volume of networking and broadband products such as IP set-top boxes and cable modems. Our broadband products combine high-speed connection with a wide range of data and voice transmission, firewall protection and networking solutions. Our network product line includes wireless adaptors and data transfer units using WLAN technology.

Our communications products represent the next stage of our open vertical integration strategy, incorporating design, technology and manufacturing innovations developed for our computer products in non-computer applications. We believe our experience in designing component parts such as graphics cards and complex systems such as notebook computers has contributed to our rapid entry into these markets, and our sophisticated and well-integrated research and development department has enabled us to introduce innovative and pragmatic designs in a short span of time.

We are planning to launch new products by complementing our other existing products. For example, we are researching ways to incorporate communication functionality, such as broadband connectivity, to LCD TVs. In addition, we are planning to further expand our product portfolio by adding mobile communications devices.

### **Research and Development and Intellectual Property**

Developing and designing products that reflect technology trends and meet our customers' needs is central to our research and development strategy. Since the inception of the Company, we have been dedicated to research and development to obtain our own techniques in developing, designing and manufacturing computers, broadband network products and consumer electronics. We will seek to develop 3C (computers, communication and consumer electronics) integration products to fit the emerging trend of merging information and communication products. The number of research and development employees was 6,202, 6,954 and 6,919 persons as of December 31, 2008 and 2009 and March 31, 2010, respectively. As of March 31, 2010, 89.7% of them had received post-secondary education or above.

Our research and development expenses were NT\$6,480.6 million, NT\$8,963.2 million, and NT\$2,031.7 million for the year ended December 31, 2008 and 2009 and the three months ended March 31, 2010, respectively. We plan to continue to dedicate an increasing amount of resources and efforts to research and development.

While we have continued to develop our own technology and applied for patents with the relevant authorities, from time to time we have obtained licenses for patent, copyright and other intellectual property rights in respect of technologies used in the production of our products; if we are unable to use such technology, our business may suffer. We can offer no assurance that in the future we will be able to obtain licenses to the intellectual property of third parties on commercially reasonable terms, or at all. In addition, we could be at a disadvantage if our competitors obtain licenses for protected technologies on more favorable terms. If we or our suppliers are unable to license protected technology used in our products, we could be prohibited from marketing those products or may have to market products without desirable features. We could also incur substantial costs to redesign our products or to defend any legal action taken against us. If our products should be found to infringe protected technology, we could be enjoined from further infringement and be required to pay damages to the infringed party. Any of these factors could have a material adverse effect on our results of operations or financial condition.

### **Employees**

As of March 31, 2010, we had approximately 98,167 employees, among whom approximately 5,646 were stationed in Taiwan, approximately 89,521 in China, approximately 200 in the United States, approximately 2,400 in the Czech Republic, approximately 200 in Mexico and approximately 200 in Japan. Our continued success is dependent in large part on our ability to attract, retain, train and motivate employees. Our workforce structure for our product facilities in 2008 and 2009 and the three months ended March 31, 2010 is set forth in the following table:

	<b>As of December 31,</b>		<b>As of March 31,</b>
	<b>2008</b>	<b>2009</b>	<b>2010</b>
Number of employees:			
Common employees .....	77,121	89,580	91,248
Researchers and developers .....	6,262	6,954	6,919
Total .....	<b>83,383</b>	<b>96,534</b>	<b>98,167</b>
Average age.....	31.90	32.76	32.89



## Fixed Assets and Production Facilities

The following table sets forth the major real properties owned by us as of May 31, 2010:

<b>Property Owned</b>	<b>Gross floor area (square meters)</b>	<b>Main function</b>	<b>Location</b>
Buildings at Beitou Plant	29,404	Manufacturing plant	Beitou, Taiwan
Buildings at Gueishan Plant	80,364	Manufacturing plant	Taoyuan, Taiwan
Headquarters interior decoration construction fixture	-	Office	Beitou, Taiwan
Modular high-speed multi-functional adhesion machine	-	Manufacturing machine	Taoyuan, Taiwan
Land (Lide No. 1 House)	9,389	Office	Beitou, Taiwan
Land (Headquarter)	23,746	Office	Beitou, Taiwan
Land (Lide No.2 House )	1,718	Office	Beitou, Taiwan
Jungli Plant building	33,059.45	not currently in use	Taoyuan, Taiwan
Jungli Plant land	15,510.04	not currently in use	Taoyuan, Taiwan
Gueishan Plant building	3,101.06	not currently in use	Taoyuan, Taiwan
Taoyuan Plant building	22,703.97	not currently in use	Taoyuan, Taiwan
Land	2,656.96	not currently in use	Taoyuan, Taiwan

Other than the above listed properties owned by us, the following table sets forth our major production facilities as of May 31, 2010:

<b>Production Facilities</b>	<b>Gross floor area (square meters)</b>	<b>Main function</b>	<b>Location</b>
Czech Plant	45,800	Manufacturing plant	Ostrava, Czech Republic
Mexico Plant	33,086	Manufacturing plant	Juarez, Mexico
U.S.A. Plant	3,306	Customer service center	Indiana, U.S.A.
Japan Plant	1,673	Customer service center	Chiba, Japan
Shanghai Plant	278,053	Manufacturing plant	Shanghai, China
Suzhou, China	424,500	Manufacturing plant	Suzhou, China

Our principal executive offices and a significant portion of our assets are located in Taiwan; therefore, strained relations between Taiwan and the PRC, and political developments in the Taiwan, could adversely affect our business and the market value of the GDRs or our Common Shares. Taiwan has a unique international political status. In addition, both the governments of the PRC and Taiwan assert sovereignty over Taiwan island. The PRC government does not recognize the legitimacy of Taiwan government. Although significant economic and cultural relations have been established in the past decade between Taiwan and the PRC, the PRC has refused to renounce the possibility that it may use force to gain control over Taiwan if Taiwan declared independence or if a foreign power interfered in Taiwan's domestic affairs. Past developments in relations between Taiwan and the PRC have on occasion depressed the market price of the securities of Taiwanese companies. There is no assurance that relations between Taiwan and the PRC will not deteriorate, or that future military actions or economic sanctions or other disruptive activities will not be undertaken by either government.

## Competition

The notebook, netbook computer, motherboard, computer graphics card and wireless device markets in which we operate are highly competitive. Our principal competitors include contract manufacturers from Taiwan and China, as well as manufacturers from Japan and Korea. We have, both in the past and recently, experienced price and margin pressures due to intense competition. The principal factors relating to competition include product quality and reliability, price, service and support and corporate reputation. While we believe that our products and services compete favorably in these areas, we could be adversely affected if our competitors were to introduce innovative or technologically superior products at favorable prices. Our primary competitors for notebook computer ODM are Quanta Computer, Compal Electronics Inc, Wistron Corporation, Flextronics and Inventec. For desktop PCs, our major competitors include Wistron Corporation, Elitegroup Computer Systems Co., Ltd., Gigabyte Technology Co., Ltd., Micro-Star International and Foxconn. For communication products, our major competitors are Foxconn, Alpha Networks, Gemtek, CyberTAN and Flextronics, and our principal competitors in the motherboard industry include Elitegroup Computer Systems Co., Ltd., Micro-Star International, Gigabyte Technology Co., Ltd and Flextronics.

**Environmental Matters**

We have not incurred any loss due to environmental problems in the past two years and believe we are in compliance with all relevant ROC environmental protection laws. In addition, we have implemented clean production processes, a green supply chain and green production to demonstrate our commitment to the environment. We have a comprehensive environmental policy and procedures starting from the earliest stage of product design, through to component procurement, manufacturing, and customer service. We have passed the Green Partner certification, and in addition, all our global manufacturing sites have passed the ISO 14001 Environmental Management System certification and the IECQ QC 080000 Hazardous Substance Process Management System certification.

## Asustek Group and Organizational Structure

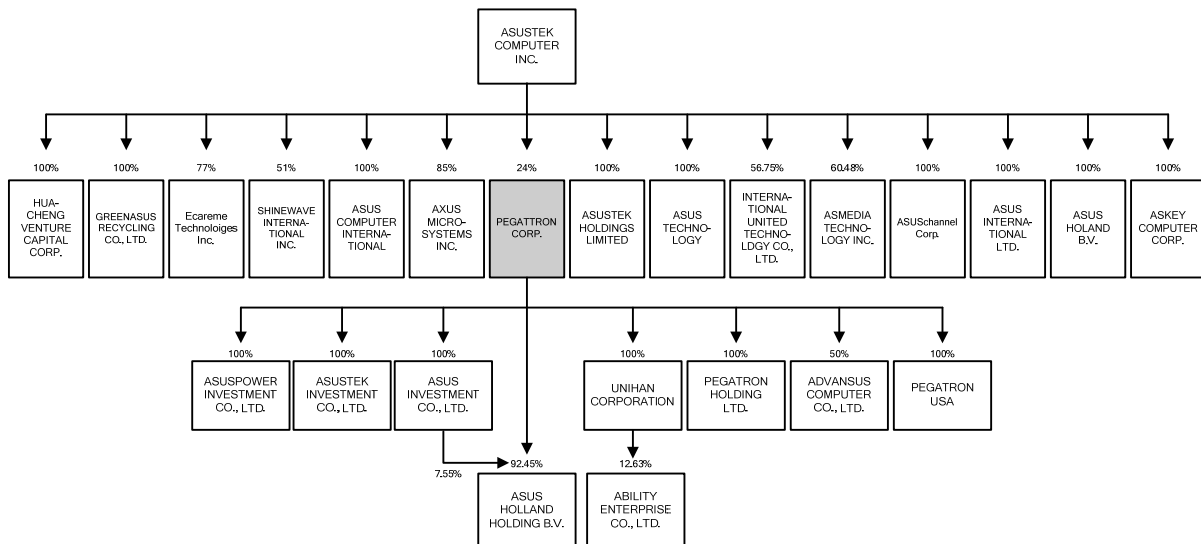
Incorporated on April 2, 1990, Asustek, along with its subsidiaries (together, “Asustek Group”) is one of the world’s leading manufactures of computer components and computing, consumer and communication electronics (“3C”) products. Asustek Group’s 3C products are sold under its well-known brand name, “ASUS”. Asustek Group started its business as a dedicated motherboard producer for x86-CPU based personal computers. Powered by its R&D personnel and fast time-to-market capability, Asustek became a market leader in its product areas.

Asustek Group’s 3C integrated products have been awarded with numerous honors for the excellent quality and advanced technology. In 2009, Asustek received 3,268 awards worldwide from media and professional rating institutes. Asustek has also been selected by Business Week as the Top-100 science and technology companies for eleven years straight from 1998. In 2009, Asustek Group sold the largest quantity of motherboard and Video Graphics Array (VGA) card in the world, and it ranked sixth place worldwide (measured by volume) for sales of notebook computers. Asustek Group is also one of the first in the market that designed and manufactured netbook computers.

While Asustek Group established a solid position for its notebooks, netbook computers and motherboards under its original brand “ASUS,” it also grew its OEM/DMS business and enhanced its reputation in the field. To expand its OEM/DMS business, Asustek Group underwent an internal restructuring in order to increase its competitiveness by dividing its business based on specialized work forces and establishing separate companies for each business units. As a result, Pegatron was incorporated on June 27, 2007. In June 2010, Asustek underwent further restructuring by implementing the Spin-off plan (See “Summary - The Spin-off Plan”).

After the Spin-off, Asustek, as the parent company, focuses on branding business by dedicating itself in marketing “ASUS” brand to further raise its market recognition and acceptance, while Pegatron concentrates on OEM/DMS manufacturing business by taking over Asustek’s existing production facilities and manufacturing segments. Through the separation of branding and manufacturing businesses, Asustek is determined to promote and strengthen its “ASUS” brand in order to compete with other leading branded 3C product vendors, and Pegatron will continue to expand the ODM/DMS businesses and provide services for a broader range of global vendors, which may be Asustek’s competitors and have concerns for sourcing from a company that is directly controlled by a competitor.

The following chart illustrates the corporate structure of Asustek Group including us and our principal subsidiaries as of June 30, 2010. For detailed information of our principal subsidiaries, see “Principal Subsidiaries”.



## RELATED PARTY TRANSACTIONS

We have from time to time engaged in a variety of transactions with our related parties (as defined under ROC GAAP) which include our primary stockholder, Asustek, our subsidiaries, our investee companies and their affiliates. As of June 30, 2010, approximately 24% of our outstanding Common Shares was held by Asustek.

The following is a summary of the related party transactions with affiliates whom we frequently do business. For more complete information of related party transactions, you should read note 5 to our audited consolidated financial statements as of and for the years ended December 31, 2008 and 2009 and note 5 to our unaudited consolidated financial statements as of and for the three months ended March 31, 2010 included elsewhere in these Listing Particulars.

### *Sales*

Name of Related Party	Year Ended December 31,			Year Ended December 31,			Three Months Ended March 31,		
	2008			2009			2010		
	Amount (NT\$)	% of Net Sales	Collection Term	Amount (NT\$)	% of Net Sales	Collection Term	Amount (NT\$)	% of Net Sales	Collection Terms
(in millions, except percentages)									
Asustek.....	184,180.4	35.88	7-90 days from receipt of goods Open account 30-90 days	199,244.0	37.03	30 days from receipt of goods Open account 30-120 days	56,400	43.35%	30-60 days from receipt of goods Open account 30-120 days
Others .....	5,567.0	1.09	7-60 days from receipt of goods Open account 30-60 days	2,784.1	0.52	30-60 days from receipt of goods Open account 30-120 days	81.0	0.06%	30-60 days from receipt of goods Open account 30-120 days
Total	<u>189,747.4</u>	<u>36.97</u>		<u>202,028.1</u>	<u>37.55</u>		<u>56,481.0</u>	<u>43.41%</u>	

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

### *Purchases*

Name of Related Party	Year Ended December 31,			Year Ended December 31,			Three Months Ended March 31,		
	2008			2009	\$ of Net Sales	Collection Term	2010		
	Amount (NT\$)	% of Net Sales	Collection Term	Amount (NT\$)	\$ of Net Sales	Collection Term	Amount (NT\$)	% of Net Sales	Collection Terms
(in millions, except percentages)									
Asustek.....	102,314.6	19.22	7-120 days from receipt of goods Open account 30-120 days	137,317.2	21.19	30-60 days from receipt of goods Open account 30-120 days	39,972.1	16.8	30-60 days from receipt of goods Open account 30-120 days
Others .....	6,398.8	1.20	90-120 days from receipt of goods Open account 30-120 days	5,089.1	0.79	30-90 days from receipt of goods Open account 30-120 days	1,402.8	0.59	30-90 days from receipt of goods Open account 30-120 days
Total	<u>108,713.4</u>	<u>20.42</u>		<u>142,406.3</u>	<u>21.98</u>		<u>41,374.9</u>	<u>17.39</u>	

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

In 2008 and 2009 and the first quarter of 2010, we purchased raw materials from vendors through Asustek.

*Others*

	Year Ended December 31,		Three Months Ended March 31,
	2008	2009	2010
	(in millions)		
After-sales warranty repair expense paid to:	NT\$	NT\$	NT\$
Asus Computer (Shanghai) .....	91.8	85.5	36.3
Asustek Computer (Shanghai) .....	22.0	10.6	1.0
Others.....	1.8	0.3	99.0
<b>Total .....</b>	<b>115.6</b>	<b>96.4</b>	<b>136.3</b>

	Year Ended December 31,		Three Months Ended March 31,
	2008	2009	2010
	(in millions)		
Other income from:	NT\$	NT\$	NT\$
Asustek .....	385.0	768.6	177.6
Others.....	8.2	16.7	0.6
<b>Total .....</b>	<b>393.2</b>	<b>785.3</b>	<b>178.2</b>

We accepted the OEM business from Asustek effective January 1, 2008. The assets and liabilities acquired by us from Asustek then were as follows:

	The Company	Unihan	Total
	(in millions)		
Assets:	NT\$	NT\$	NT\$
Current assets.....	21,999.8	12,555.3	34,555.1
Long-term investments .....	66,867.2	7,060.2	73,927.4
Property, plant and equipment .....	4,762.0	127.1	4,889.1
Other assets.....	353.1	126.8	479.9
<b>Total .....</b>	<b>93,982.0</b>	<b>19,869.4</b>	<b>113,851.5</b>
Liabilities:			
Current liabilities .....	(23,982.0)	(7,869.5)	(31,851.5)
<b>Net assets.....</b>	<b>70,000.0</b>	<b>12,000.0</b>	<b>82,000.0</b>

To mitigate the foreign currency risk from the change in net-assets and inventory denominated in foreign currencies, we signed an agreement with Asustek requiring whoever benefits from foreign currency translation arising from the spin-off transaction shall compensate the other, where appropriate, for the loss due to exchange rate fluctuation, for the period from December 28, 2007 to December 31, 2008. As of December 31, 2008, Asustek was compensated by us for NT\$1,858.5 million, which was recognized as “credit to foreign exchange gain”. However, Asustek also compensated us for NT\$474.6 million, for the loss on valuation of inventory, which was adjusted to “cost of sales”. Such agreement was valid until March 31, 2008. As of December 31, 2008, the net compensation payable of NT\$1,383.9 million from such agreement was fully paid.

For the years ended December 31, 2009 and 2008 and the three months ended March 31, 2010, we incurred other related party transactions recorded as expenses such as processing fee, rental expense, other expense, royalty payment, storage expense, professional service fee, etc, which amounted to NT\$163.3 million, NT\$139.5 million and NT\$13.6 million, respectively.

For the years ended December 31, 2009 and 2008 and the three months ended March 31, 2010, we incurred other related party transactions recorded as processing revenue and repair revenue, which amounted to NT\$279.3 million, NT\$68.7 million and NT\$83.4 million, respectively.

### *Property Transactions*

#### *Properties sold*

<b>For the Year Ended December 31, 2009</b>			
<b>Transaction Party</b>	<b>Sales Price</b>	<b>Book Value</b>	<b>Disposal Gain (Loss)</b>
		<b>(in thousands)</b>	
Others .....	NT\$ 1,640	NT\$ 1,325	NT\$ 315

<b>For the Year Ended December 31, 2008</b>			
<b>Transaction Party</b>	<b>Sales Price</b>	<b>Book Value</b>	<b>Disposal Gain (Loss)</b>
		<b>(in thousands)</b>	
Others .....	NT\$ 1,254	NT\$ 1,210	NT\$ 44

#### *Properties Purchased*

In 2009 and 2008, the prices of the properties purchased from other related parties were NT\$105.0 million, of which NT\$9.6 million accounted for prepayment for equipment, and NT\$80.7 million, respectively.

In the first quarter of 2010, the prices of the properties purchased from other related parties were NT\$38.0 million.

#### *Rental Revenue*

For the years ended December 31, 2009 and 2008, the consolidated company incurred other related party transactions recorded as rental revenue, which amounted to NT\$36.7 million and NT\$26.4 million, respectively.

In the first quarter of 2010, the rental revenue incurred in the related party transactions were NT\$ 7.158 million.

#### *Disposal and transfer shares*

Due to the reorganization in July 2009, the Company transferred all the shares of Enertronix, Inc. for \$313,785 to Asustek.

On January 8, 2009, Enertronix, Inc. acquired 100% ownership of Enertronix Holding Limited from Asustek Holdings Limited for US\$5.7 million.

On January 21, 2009, Asuspower Investment Co., Ltd. acquired 100% ownership of Pega International Limited from Wise Investment Limited for NT\$1.9 million.

On July 1, 2009, Casetek Holdings Limited acquired 51% ownership of United New Limited from Asustek Holdings Limited for US\$15.2 million.

On July 1, 2009, Pegatron Holding Ltd. acquired 100% ownership of Powtek Holdings Limited from Asustek Holdings Limited, which amounted to US\$13.1 million.

On February 5, 2009, AMA Holdings Limited acquired 100% ownership of Toptek Precision Industry (SuZhou) Co., Ltd from AMA Corporation for US\$1.1 million.

On May 13, 2008, Asuspower Investment Co., Ltd., Asus Investment Co., Ltd., and Asustek Investment Co., Ltd. sold their ownerships of all the 6,460, 6,372, and 1,250 thousand shares of International United Technology Co., Ltd. (Taiwan) to Asustek, for NT\$56.1 million, NT\$55.3 million, and NT\$10.9 million, respectively.

In 2008, a subsidiary of Ability Enterprise Co., Ltd. sold for US\$5.3 million its non-current assets held for sale - DongGuan Avy Precision Metal Components Co., Ltd. to Avy High Tech Limited, with book value US\$4.5 million, which resulted in a gain on assets disposal of US\$0.8 million.

On March 31, 2008, Unihan Holding Limited. acquired ownership of the 12,099 thousand shares of Azurewave (Cayman) Holding Inc. from Asus International Limited., for US\$14.3 million. Following the acquisition of those shares, we own 60.49% of the equity of Azurewave (Cayman) Holding Limited.

*Accounts Receivable (Payable)*

	Year Ended December 31, 2008		Year Ended December 31, 2009		Three Months Ended March 31, 2010	
	Amount	%	Amount	%	Amount	%
	(in millions, except percentages)					
Notes and Accounts Receivable:	NT\$		NT\$		NT\$	
Asustek .....	8,490.7	13.13	13,164.4	19.21	9,945.3	18.27
Protek (Shanghai) .....	532.0	0.82	-	-	-	-
Others.....	389.4	0.61	444.0	0.65	213.8	0.39
Sub-total.....	9,412.1	14.56	13,608.4	19.86	10,159.1	18.66
Less: Allowance for uncollectible accounts.....	-		(0.7)		(0.6)	
Total .....	9,412.0		13,607.7		10,158.5	

	Year Ended December 31, 2008		Year Ended December 31, 2009		Three Months Ended March 31, 2010	
	Amount	%	Amount	%	Amount	%
	(in millions, except percentages)					
Other Receivables:	NT\$		NT\$		NT\$	
Asustek .....	1,604.8	34.71	179.8	11.80	689.4	31.75
Others.....	89.5	1.94	16.6	1.09	14.5	0.67
Total .....	1,694.3	36.65	\$196.4	12.89	703.9	32.42
Notes and Accounts Payable:	NT\$		NT\$		NT\$	
Deep Delight Limited .....	4,150.2	6.43	-	-	-	-
Others.....	1,443.7	2.24	1,305.6	1.98	1,477.8	2.43
Total .....	5,593.9	8.67	1,305.6	1.98	1,477.8	2.43

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

	Year Ended December 31, 2008		Year Ended December 31, 2009		Three Months Ended March 31, 2010	
	(in millions)					
Assets:	NT\$		NT\$		NT\$	
Prepayments.....	19.2		0.1		-	
Other current assets.....	8.4		6.2		5.8	
Other financial assets — noncurrent.....	3.7		-		2.0	
	<u>31.3</u>		<u>6.3</u>		<u>7.8</u>	
Liabilities:	NT\$		NT\$		NT\$	
Accrued expenses .....	64.0		24.5		55.3	
Other financial liabilities — current .....	0.2		8.5		0.1	
Other current liabilities .....	12.0		18.7		36.9	
	<u>76.2</u>		<u>51.7</u>		<u>92.3</u>	
	Year Ended December 31, 2008		Year Ended December 31, 2009		Three Months Ended March 31, 2010	
	Amount	%	Amount	%	Amount	%
	(in millions, except percentages)					
Other Receivables:	NT\$		NT\$		NT\$	
Asustek .....	1,604.8	34.71	179.8	11.80	689.4	31.75
Others.....	89.5	1.94	16.6	1.09	14.5	0.67
Total .....	<u>1,694.3</u>	<u>36.65</u>	<u>\$196.4</u>	<u>12.89</u>	<u>703.9</u>	<u>32.42</u>
Notes and Accounts Payable:	NT\$		NT\$		NT\$	
Deep Delight Limited .....	4,150.2	6.43	-	-	-	-
Others.....	1,443.7	2.24	1,305.6	1.98	1,477.8	2.43
Total .....	<u>5,593.9</u>	<u>8.67</u>	<u>1,305.6</u>	<u>1.98</u>	<u>1,477.8</u>	<u>2.43</u>



***Endorsement Guarantee***

As of December 31, 2009 and 2008 and the three months ended March 31, 2010, we provided endorsement guarantee for bank loans obtained by a related party as follows:

	<b>Amount of Guarantee (thousands)</b>		
	<b>Year Ended December 31, 2008</b>	<b>Year Ended December 31, 2009</b>	<b>Three Months Ended March 31, 2010</b>
Name of Related Party Guaranteed			
Linktek Precision (Suzhou) Co Ltd.....	US\$ 705,331	US\$ 800	US\$ 0

As of December 31, 2009 and 2008 and the three months ended March 31, 2010, the endorsement guarantees provided by a related party for the our purchases were as follows:

	<b>Amount of Guarantee (thousands)</b>		
	<b>Year Ended December 31, 2008</b>	<b>Year Ended December 31, 2009</b>	<b>Three Months Ended March 31, 2010</b>
Name of Related Party Guaranteed			
Asustek.....	US\$ 422,200	US\$ 300,000	US\$ 300,000

## MANAGEMENT

### Directors and Supervisors

ROC Company Law and our Articles of Incorporation provide that our directors are to be elected by our shareholders for three-year terms in an ordinary shareholders' meeting. The chairman is a director elected by and from our board. Our board of directors is responsible for the management of our business. Our Articles of Incorporation provide for a board comprising five to nine directors, among them at least two and not fewer than one-fifth of the total number of directors may be independent directors after the public issuance of Common Shares. We currently have three independent directors.

Directors may serve any number of consecutive terms and may be removed from office at any time for a bona fide reason, including breach of duties, by a resolution adopted at a shareholders' meeting. Our current directors were elected at the ordinary shareholders' meeting held on May 18, 2010.

The following table shows certain specified information with respect to each director and supervisor:

Name	Age	Number of shares held	Percentage of shares held	Position Since	Position
Tung Tzu-Hsien .....	50	34,035,809	1.49%	May 18, 2010	Chairman
Hsu Shih-Chan .....	48	52,625,540	2.30%	May 18, 2010	Director
Cheng Jian-Jong .....	50	1,892,959	0.08%	May 18, 2010	Director
Liu Ke-Cheng .....	57	161,490	0.01%	May 18, 2010	Director
Chia Chen-I .....	57	20,186	0.00%	May 18, 2010	Director
C.V. Chen .....	67	-	-	May 18, 2010	Director
Chang Chung-Pen .....	65	-	-	May 18, 2010	Independent Director
Lin Chuan .....	59	-	-	May 18, 2010	Independent Director
Yen Cheng-Shou .....	64	-	-	May 18, 2010	Independent Director
Tong Ching-Hsi .....	74	-	-	May 18, 2010	Supervisor
Chou Ming-Chih .....	48	7,462,968	0.33%	May 18, 2010	Supervisor
Cheng I-Ling .....	53	-	-	May 18, 2010	Supervisor

### Executive Officers

The following table sets forth shareholding information relating to our principal executive officers:

Name	Age	Number of shares held	Percentage of shares held	Position Since	Position
Tung Tzu-Hsien .....	50	34,035,809	1.49%	January 1, 2008	Group Chief Executive Officer
Hsu Shih-Chan .....	48	52,625,540	2.30%	January 1, 2008	Deputy Group Chief Executive Officer
Cheng Jian-Jong .....	50	1,892,959	0.08%	January 1, 2008	President and Chief Executive Officer
Su Yenhsueh .....	40	25,155	0.00%	February 1, 2008	Vice President and Chief Investment Officer
Lin Chiu-Tan .....	45	14,158	0.00%	February 1, 2008	Chief Financial Officer
Cheng Ding-Qun .....	55	-	-	January 1, 2008	Chief Technology Officer
Wu Jing-Ru .....	44	219,020	0.01%	July 1, 2009	Chief of Internal Audit
Ting Yu-Nan .....	58	61,427	0.00%	August 1, 2008	Vice President, General Manager of East China Operation Center and Protek (Shanghai) Limited
Hsu Shih-Chi .....	49	14,967	0.00%	August 1, 2008	Vice President, General Manager of Central China Operation Center and Maintek Computer

Tung Hsu-Tien .....	50	309,838	0.01%	August 1, 2008	(Suzhou) Co., Ltd Vice President, Chief Operating Officer and General Manager of Business Group 1
Shue Yean Jen.....	51	81,687	0.00%	August 1, 2008	Vice President and General Manager of Business Unit 3
Yao Te Tzu.....	49	116,138	0.01%	August 1, 2008	Vice President and General Manager of Business Unit 4
Teng Kuo-Yen.....	47	210,856	0.01%	August 1, 2008	Vice President and General Manager of Business Unit 5
Huang Chung-Yu .....	48	-	-	January 1, 2008	Vice President and General Manager of Business Unit 6
Liao Syh-Jang.....	60	-	-	January 1, 2008	Senior Vice President, General Manager of Business Unit 7 and Procurement Center
Wei Tien-Ting .....	55	1,721,298	0.08%	August 1, 2008	Vice President and General Manager of Business Unit 8
Chang En-Bair.....	44	139,905	0.01%	February 1, 2008	Vice President, General Manager of Mechanical Industrial Design and Business Unit 9
Ku Lai Tsung-Jen.....	50	408,297	0.02%	August 1, 2008	Vice President and General Manager of Customer Service Center
Chang Tian-Bao .....	55	274,805	0.01%	August 1, 2008	Vice President and General Manager of Human Resources and Administration departments
Huang Yung-Ming .....	60	201,535	0.01%	August 1, 2008	Vice President and Chief Quality Control Officer
Chao Li-Ling.....	35	33,746	0.00%	August 1, 2008	General Counsel

The business address of each of our directors, supervisors and executive officers is our registered office.

*Mr. Tung Tzu-Hsien* is our Chairman and Group Chief Executive Officer. Prior to his present position, he was a deputy general manager of Asustek. Mr. Tung obtained a master's degree in computer and communication engineering from National Taipei University of Technology.

*Mr. Hsu Shih-Chan* is our Director and Deputy Group Chief Executive Officer. Prior to his present position, he was a deputy general manager of Asustek. Mr. Hsu obtained a bachelor's degree in electrical engineering from National Taiwan University and an executive master's degree in business administration from National Chiao Tung University.

*Mr. Cheng Jian-Jong* is our Director and he also serves as our President and Chief Executive Officer. Prior to joining us, he was a deputy general manager of Asustek. Mr. Cheng obtained a master's degree in electrical engineering from University of Southern California.

*Mr. Liu Ke-Cheng* is our Director. Prior to joining us, he founded Advantech Corp. Mr. Liu obtained a bachelor's degree in communications engineering from National Chiao Tung University.

*Mr. Chia Chen-I* is our Director. Prior to joining us, he was a deputy chief executive officer of Citibank, Taipei branch. He was also a general manager in charge of Individual Banking Division of Bank SinoPac. Mr. Chia obtained

a bachelor's degree in business school from National Taiwan University and a master's degree in business administration from University of Wisconsin.

*Mr. C.V. Chen* is our Director. Mr. Chen has been a lawyer and a professor of law for over thirty years and was the founding Vice chairman and served as the first-term Secretary general of the Straits Exchange Foundation. Mr. Chen obtained a bachelor's degree in law from National Taiwan University, master's degree in law from University of British Columbia and Harvard Law School and a doctorate degree in law from Harvard Law School.

*Mr. Chang Chung-Pen* is our Independent Director. Prior to joining us, he was a deputy general manager of China Development Industrial Bank. Mr. Chang obtained a bachelor's degree and master's degree in statistics from National Chengchi University.

*Mr. Lin Chuan* is our Independent Director. Prior to joining us, he was appointed as Minister of Finance of the R.O.C. and financial secretary and a directorate-general of budget, accounting and statistic for Taipei City Government. He also served as a director of Vanguard International Semiconductor Corporation. Mr. Lin obtained a master's degree in public finance from National Chengchi University and a doctorate degree in economics from University of Illinois.

*Mr. Yen Cheng-Shou* is our Independent Director. Prior to his present position with us, he had assumed positions in various areas, including as a general manager of American Express Inc. and the Grand Hotel, chairman of Taiwan Visitors Association and The World's Outstanding Hotel System (Asia), director of Pacific Asia Travel Association and deputy chairman in charge of Asia Pacific Region of Young Presidents Organization.

*Mr. Tong Ching-Hsi* is our Supervisor. Prior to joining us, he was a chairman of AVY Precision Technology Inc. and AVY Co., Ltd. Mr. Tong obtained a bachelor's degree in mechanical engineering from Waseda University.

*Mr. Chou Ming-Chih* is our Supervisor. Prior to joining us, he was a director of Shenghua Venture Capital Co., Ltd., supervisor of AmTran Technology Co., Ltd and head of Information Division of Asustek. Mr. Chou obtained a bachelor's degree and master's degree in industrial management from National Taiwan University of Science and Technology.

*Mr. Cheng I-Ling* is our Supervisor. Prior to joining us, he was a director of Cross-Strait Peaceful Co-existence Fund Association, Companies Association and Taipei City Association of Accountants, and a supervisor of International Fiscal Association (PRC region). Mr. Cheng obtained a bachelor's degree in accounting from National Chung Hsing University and a bachelor's degree in law from Chinese Culture University. He is a certified accountant partner at Diwan & Company.

*Ms. Su Yenhsueh* is our Vice President and Chief Investment Officer. Prior to her present position, she was the Chief Investment Officer of Asustek. Ms. Su obtained a master's degree in industrial management from Carnegie Mellon University.

*Mr. Lin Chiu-Tan* is our Chief Financial Officer. Prior to his present position, he was a Deputy Chief Investment Officer of Asustek. Mr. Lin obtained a master's degree in business from the Tunghai University.

*Mr. Cheng Ding-Qun* is our Chief Technology Officer. Prior to joining us, he was a Chief of Staff of Asustek. Mr. Cheng obtained a master's degree in business administration from Tulane University.

*Ms. Wu Jing-Ru* is the Chief of Internal Audit of Pegatron. Prior to joining us, Ms. Wu was the Controller of Asustek. Ms. Wu obtained a master's degree in management from National Taiwan University of Science and Technology.

*Mr. Tsai Jin-Guo* is the Senior Vice President. Prior to joining us, Mr. Tsai was the Chief of Staff of Asustek. Mr. Tsai obtained a bachelor's degree in Transport Engineering and Management from National Chiao Tung University.

*Ms. Ting Yu-Nan* is Vice President, General Manager of East China Operation Center and Protek (Shanghai) Limited. Prior to his present position, she was the assistant vice president of Asustek. Ms. Ting obtained a doctorate's degree in business administration from Shanghai University of Finance and Economics.

*Mr. Hsu Shih-Chi* is our Vice President and General Manager of Central China Operation Center and Maintek Computer (Suzhou) Co., Ltd. Prior to his present position, he was the assistant vice president of Asustek. Mr. Hsu obtained a bachelor's degree from National Taiwan Institute of Technology.

*Mr. Tung Hsu-Tien* is our Senior Vice President, Chief Operating Officer and General Manager of Business Group 1. Prior to his present position, he was the assistant vice president of Asustek. Mr. Tung obtained a bachelor's degree in electrical engineering from National Taiwan University.

*Mr. Shue Yean Jen* is our Vice President and General Manager of Business Unit 3. Prior to his present position, he was the assistant vice president of Asustek. Mr. Shue obtained a doctorate's degree in electrical engineering from University of Florida.

*Ms. Yao Te Tzu* is our Vice President and General Manager of Business Unit 4. Prior to her present position, she was the deputy Chief of Staff of Asustek. Ms. Yao obtained an MBA from Thunderbird Graduate School.

*Mr. Teng Kuo-Yen* is our Vice President and General Manager of Business Unit 5. Prior to his present position, he was the assistant vice president of Asustek. Mr. Teng obtained a bachelor's degree from Taipei Institute of Electronic Engineering.

*Mr. Huang Chung-Yu* is our Vice President and General Manager of Business Unit 6. Prior to his present position, he was the assistant vice president of Asustek. Mr. Huang obtained a bachelor's degree in electrical engineering from National Taiwan University. He also obtained a doctorate's degree in electrical engineering from University of Southern California.

*Mr. Liao Syh Jang* is our Vice President, General Manager of Business Unit 7 and Procurement Center. Prior to his present position, he was the General Manager of Procurement Center. Mr. Liao obtained a bachelor's degree in business administration from Tatung University.

*Mr. Wei Tien-Ting* is our Vice President and General Manager of Business Unit 8. Prior to his present position, he was the assistant vice president of Asustek. Mr. Wei obtained a bachelor's degree in electrical engineering from Chinese Culture University.

*Mr. Chang En-Bair* is our Vice President and General Manager of Mechanical Industrial Design and Business Unit 9. Prior to his present position, he was the assistant vice president of Asustek. Mr. Chang obtained a master's degree in industrial design from University of Copenhagen.

*Mr. Ku Lai Tsung-Jen* is our Vice President and General Manager of Customer Service Center. Prior to his present position, he was the assistant vice president of Asustek. Mr. Ku Lai obtained a bachelor's degree in industrial engineering from Tunghai University.

*Mr. Chang Tian-Bao* is our Vice President, General Manager of Human Resources and Administration Center. Prior to his present position, he was a senior manager of Asustek. Mr. Chang obtained a bachelor's degree in traffic management from Chungyu Institute of Technology.

*Mr. Huang Yung-Ming* is our Vice President and Chief Quality Control Officer. Prior to his present position, he was the Chief Quality Control Officer of Asustek. Mr. Huang obtained a bachelor's degree in industrial engineering from Chung Yuan Christian University.

*Ms. Chao Li-Ling* is our General Counsel. Prior to joining us, she was an associate in Baker & McKenzie. Ms. Chao obtained a master's degree in laws from University of Pennsylvania.

## **Compensation**

Our executive officers, as a group in such capacities, received aggregate remuneration or benefits in kind from us of approximately NT\$183.6 million (US\$5.8 million) and NT\$82.3 million (US\$2.6 million) in 2009 and the three months ended on March 31, 2010, respectively. However, our directors and supervisors have not received any compensation in such capacities as of the date hereof. On March 10, 2010, our shareholders approved in our ordinary shareholders' meeting an aggregate remuneration or benefits in kind of approximately NT\$60 million (US\$1.9 million) to be paid to our directors and supervisors. With respect to the bonus and benefit to be paid to the employees including our executive officers, our board resolved on March 3, 2010 an aggregate amount of approximately NT\$1,205 million (US\$38.0 million), the distribution of which is subject to further decision to be made by our board as authorized under our Articles of Incorporation. As of the date hereof, there is no stock option plan for our employees, and no options have been granted to our directors, supervisors, and employees including our executive officers. There are no outstanding loans granted by us to any of the directors, supervisors or executive officers and there are no outstanding guarantees provided by us for the benefit of any of the directors, supervisors or executive officers. In addition, there have been no transactions effected by us where the interests of our directors, supervisors,

executive officers or other members of our administrative, management and supervisory bodies were involved, which were unusual in their nature or conditions, during the year ended December 31, 2009 and the current fiscal year.

For the years ended December 31, 2009 and 2008 and the three months ended March 31, 2010, the details of unconsolidated compensation to our executive officers was as follows:

	<b>Year Ended December 31,</b>		<b>Three Months</b>
	<b>2008</b>	<b>2009</b>	<b>Ended March 31,</b>
	<b>2010</b>		
	<b>(in millions)</b>		
Payroll expense and benefits .....	NT\$ 66.1	118.9	82.3
Employee bonus .....	39.4	64.7	0
Total .....	NT\$ 106.5	183.6	82.3

## PRINCIPAL SHAREHOLDERS

The following table sets forth certain information as of June 10, 2010, the most recent record date, with respect to the Common Shares owned by each of our ten largest shareholders:

Name	Personal Ownership		Ownership by Spouse and Minors	
	Number of shares	Percentage%	Number of shares	Percentage%
ASUSTek Computer Inc. Representative: Si Chong-tang .....	571,523,484	25.00	—	—
Citibank as the depository on behalf of Asustek's GDR holders .....	60,819,026	2.66	—	—
Hsu Shih-Chan .....	52,625,540	2.30	17,143,855	0.75
Hsieh Wei-Chi .....	40,828,655	1.79	—	—
Shih Tsung-Tang .....	39,254,634	1.72	—	—
Tung Tzu-Hsien .....	34,035,809	1.49	11,481,291	0.50
Chungwa Post Co., Ltd .....	31,490,806	1.38	—	—
First Bank (Trustee of Si Chongtang) .....	24,223,644	1.06	—	—
Management Board of the Public Service Pension Fund .....	22,627,477	0.99	—	—
Rabobank (Investment Trustee of Citibank Taiwan) .....	22,507,081	0.98	—	—

## PRINCIPAL SUBSIDIARIES

We maintain shareholdings in our subsidiaries for long-term strategic investment purposes. The following table sets forth certain information as of March 31, 2010 regarding significant subsidiaries in which we hold an equity interest. Among these principal subsidiaries, only the operating revenues of Unihan Corporation accounted for more than 10% of our consolidated revenue as of March 31, 2010. A complete list of our consolidated subsidiaries as of March 31, 2010 is set forth in Note 2 to the financial statements as of and for the three months ended March 11, 2010.

Name	Date of Incorporation	Paid-in Capital	Place of Incorporation	Registered office	Company's Direct and Indirect Interest	Principal Business
Unihan Corporation.....	06/27/2007	NT\$ 8,401,050,000	Taiwan, R.O.C	No.150, Lide Rd, Beitou Dist., Taipei City 112, Taiwan (R.O.C.)	100.00%	Designing, manufacturing, maintaining and selling computers, computer peripherals and audio-video products
ASUSTeK Investment Co., Ltd.....	03/24/1998	NT\$ 8,727,000,000	Taiwan, R.O.C	7F.-2, No.167, Guangming Rd., Beitou Dist., Taipei City 112, Taiwan (R.O.C.)	100.00%	Investing and trading activities
ASUSPower Investment Co., Ltd. ....	12/31/1997	NT\$ 8,419,000,000	Taiwan, R.O.C	7F.-2, No.167, Guangming Rd., Beitou Dist., Taipei City 112, Taiwan (R.O.C.)	100.00%	Investing and trading activities
ASUS Investment, Ltd .....	03/24/1998	NT\$ 9,086,000,000	Taiwan, R.O.C	7F.-2, No.167, Guangming Rd., Beitou Dist., Taipei City 112, Taiwan (R.O.C.)	100.00%	Investing and trading activities
Advansus Computer Co., Ltd.....	01/27/2006	NT\$ 360,000,000	Taiwan, R.O.C	No.1, Aly.20 Ln.26, Ruiguang Rd., Neihu Dist., Taipei City 114, Taiwan (R.O.C.)	50.00%	Manufacturing computers and computer peripherals
Pegatron USA, Inc. ....	01/03/2008	US\$ 50,000	U.S.A.	3167 Skyway Court, Fremont, CA 94538, USA	100.00%	Selling computers and providing after- sale service in North America
Asus Holland Holding B.V. ....	07/26/2002	EURO 29,946,000	Holland	Nieuw Amsterdams- estraat 44, 7814VA Emmen	100.00%	Investing and trading activities
Pegatron Holding Ltd.....	09/07/2007	US\$ 661,406,463	Cayman Islands	P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands	100.00%	Investing and trading activities
Ability Enterprise Co., Ltd.....	05/21/1965	NT\$ 4,374,014,070	Taiwan, R.O.C	1F, No.147, Fuxing N. Rd., Songshan Dist., Taipei City 105, Taiwan (R.O.C.)	12.63%	Manufacturing computers and computer peripherals

### Additional Information regarding Unihan Corporation (Unihan)

Among these principal subsidiaries, the operating revenues of Unihan accounted for more than 10% of our consolidated revenue for the three months ended March 31, 2010 and the investment in the paid up capital of Unihan is valued approximately at NT\$25 billion in the books and accounts of the Company. Furthermore, as of December 31, 2009, the reserves of Unihan were NT\$ 7,007,913,360 and the net profit after tax for the year ended December 31, 2009 was NT\$2,498,375,854. There are no outstanding amounts to be paid to Unihan for its shares we hold. The dividends we received in 2009 in respect of Unihan's shares we held were NT\$1,443,176,154 in cash and 400,050,000 common shares of Unihan. As of March 31, 2010, there was no outstanding loan provided by the Company to Unihan.



## DESCRIPTION OF COMMON SHARES

Set forth below is certain information relating to our share capital, including brief summaries of certain provisions of our Articles of Incorporation, the ROC Securities and Exchange Law, the regulations promulgated under the ROC Securities and Exchange Law and the ROC Company Law as of the date of these Listing Particulars.

### General

We were incorporated on June 27, 2007 as a company limited by shares under the ROC Company Law. The authorized capital of the Company is NT\$28,000,000,000, divided into 2,800,000,000 Common Shares, at a par value of NT\$10 per share. As of June 10, 2010, the Company has issued 2,286,063,935 shares representing issued capital of NT\$22,860,639,350. The shares may be issued in installments, and the shares which have not been issued would be authorized to board of directors to issue in installments. Of the total registered capital, NT\$2,000,000,000 divided into 200,000,000 Common Shares are reserved for the issuance of certificates of warrant, preferred shares with warrants and corporate bonds with warrants, which may be issued in installments pursuant to the resolution of board of directors.

The ROC Company Law and the ROC Securities and Exchange Law provide that any change in the issued share capital of a public company, such as the Company, require (i) the approval of its board of directors, (ii) an amendment of its Articles of Incorporation (which requires shareholders' approval) if the original paid-in share capital plus the number of the shares issuable upon the conversion of convertible securities or exercise of warrants or employee options and the number of any new shares to be issued exceeds the number of shares authorized in the Articles of Incorporation, and (iii) an effective registration with the ROC FSC. Approval of the Ministry of Economic Affairs is also required to amend the corporate registration to reflect the changes to our authorized and paid-in share capital.

### Dividend and Distributions

A company is generally not permitted to distribute interest on capital and dividends or to make any other distributions to shareholders at any time other than when that company is generating net profits ("Earnings") after tax. In addition, before distributing interest on capital and dividends to shareholders, a company must recover any past losses, pay all outstanding taxes and set aside in a reserve (the "Legal Reserve") 10% of its Earnings (less prior years' losses and outstanding tax) until such time when its Legal Reserve equals its paid-in capital. Subject to compliance with these requirements, a company may pay interest on capital and dividends or make other distributions from its Earnings or reserves as permitted by the ROC Company Law as set forth below.

At the annual ordinary shareholders' meeting, the board of directors submits to the shareholders for their approval the Company's financial statements for the preceding fiscal year. Interest on capital and dividends are paid and distributed to shareholders in proportion to the number of shares owned by each shareholder as listed on the shareholders' register as of the record date, either in cash, in the form of shares or a combination of cash and shares.

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

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

According to our Article of Incorporation, not less than 10% of the total dividends to be paid with respect to any fiscal year shall be paid in the form of cash. The distribution of the dividends to shareholders is limited to the shareholders recorded in the shareholders' register five days prior to the record date for distribution of dividends and bonus as determined.

In addition to permitting dividends to be paid out of Earnings, the ROC Company Law permits a company to make distributions to its shareholders (if the Company does not have any losses) in the form of additional shares of common stock from capitalisation of reserves (including the Legal Reserve and capital surplus of premium from issuing stock and earnings from gifts received). In the case of a company's Legal Reserve, however, the recapitalised portion payable out of such Legal Reserve is limited to 50% of the total accumulated Legal Reserve, although under the ruling of the authority of the ROC Company Law, the Company is able to capitalize the portion of the Legal Reserve exceeding 25% of the Company's paid-in capital, and such recapitalised portion can only be effected when the accumulated Legal Reserve exceeds 50% of the paid-in capital of the Company.

Under current ROC law, cash dividends which are unclaimed for a period of five years from the date of the relevant notice of distribution may no longer be claimed. Such unclaimed cash dividends will, upon expiry of such five-year period, become our property. However, stock dividends are not subject to any prescription period under ROC law. Thus, uncollected stock dividends will remain in our safekeeping and continue to be claimable by the relevant shareholders.

### **Pre-emptive Rights and Issues of Additional Common Shares**

Under the ROC Company Law, when a public company (such as the Company) issues new shares of common stock for cash, 10% to 15% of the issue must be offered to its employees. The remaining new shares must be offered to existing shareholders in a pre-emptive rights offering, subject to a requirement under the ROC Securities and Exchange Law that at least 10% of these issuances must be offered to the public except under certain circumstances or when exempted by the ROC FSC. This percentage can be increased by a resolution passed at a shareholders' meeting, thereby limiting the pre-emptive rights of existing shareholders. Unless the percentage of shares to be offered to the public is increased by shareholders, existing shareholders who are listed on the shareholders' register as of the record date have pre-emptive rights to acquire the remaining 75% to 80% of the issue. The shares not subscribed for by the employees and shareholders at the expiration of the period of the exercise of their rights may be freely offered by the Company (subject to ROC law) to the public or any specific persons through the arrangement of the Company's board of directors. The pre-emptive rights provisions will not apply to offerings of new shares through a private placement approved at a shareholders' meeting. Authorized but unissued shares of any class may be issued at such times and, subject to the abovementioned provisions of the ROC Company Law and the ROC Securities Exchange Law, upon such terms as the Company's board of directors may determine.

### **Meetings of Shareholders**

The Company's shareholders' meetings may be ordinary or extraordinary. Ordinary meetings of shareholders are generally held in Taipei, Taiwan, within the first six months after the end of each fiscal year. Extraordinary meetings of shareholders may be convened by resolution of the board of directors whenever it deems necessary, or under certain circumstances, by shareholders or the supervisors. Notice in writing of the Company's shareholders' meetings, stating the place, time and purpose thereof, must be dispatched to each shareholder at least 30 days (in the case of ordinary meetings) and 15 days (in the case of extraordinary meetings) prior to the date set for each meeting.

### **Voting Rights**

A holder of Common Shares has one vote for each Common Share except for those held by the Company or directly or indirectly held by the Company's controlling companies or affiliates. Except as otherwise provided by law, a resolution may be adopted by the holders of a simple majority of the total issued and outstanding Common Shares represented at a shareholders' meeting at which a majority of the holders of the total issued and outstanding Common Shares are present. The election of directors and supervisors at a shareholders' meeting is by cumulative voting unless otherwise provided in the Company's Articles of Incorporation. Ballots for the election of directors are cast separately from those for the election of supervisors. Both are elected by the Company's shareholders at the shareholders' meeting at which ballots for these elections are cast.

The ROC Company Law also provides that, in order to approve certain major corporate actions, including any amendment to the Articles of Incorporation (which is required, inter alia, for any increase in authorized share capital), execution, modification or termination of any contracts regarding leasing of all business or joint operations or mandate of the Company's business to other persons, the dissolution or amalgamation or spin-off of a company, the transfer of the whole or an important part of its business or its properties, the taking over of the whole of the business or properties of any other company which would have a significant impact on the acquiring company's operations, the removal of directors or supervisors or the distribution of any stock dividend, a meeting of the shareholders must be convened with a quorum of holders of at least two-thirds of all issued and outstanding shares of common stock at which the holders of at least a majority of the common stock represented at the meeting vote in favor thereof. However, in the case of a publicly held company such as the Company, such a resolution may be adopted by the holders of at least two-thirds of the shares of common stock represented at a meeting of shareholders at which holders of at least a majority of the issued and outstanding shares of common stock are present.

A shareholder may be represented at a shareholders' meeting by proxy. A valid proxy must be delivered to the Company at least five days prior to the commencement of such shareholders' meeting. Voting rights attaching to Common Shares exercised through a proxy are subject to the proxy regulations promulgated by the ROC FSC.

Any shareholder who has a personal interest in a matter to be discussed at our shareholders' meeting, the outcome of which may impair the Company's interests, shall not vote or exercise voting rights nor vote or exercise voting rights on behalf of another shareholder on such matter.

### **Other Rights of Shareholders**

Under the ROC Company Law, dissenting shareholders are entitled to appraisal rights in the event of amalgamation, spin-off and certain other major corporate actions. A dissenting shareholder may request the Company to redeem all of the Common Shares owned by that shareholder at a fair price to be determined by mutual agreement or a court order if agreement cannot be reached. A shareholder may exercise these appraisal rights by serving written notice on the Company prior to the related shareholders' meeting and by raising an objection at the shareholders' meeting. In addition to appraisal rights, any shareholder has the right to sue for the annulment of any resolution adopted at a shareholders' meeting where the procedures were legally defective within 30 days after the date of the shareholders' meeting. One or more shareholders who have held more than 3% of the issued and outstanding Common Shares for over a year may require a supervisor to bring a derivative action against a director for that director's liability to the Company as a result of that director's unlawful actions or failure to act. In addition, one or more shareholders who have held more than 3% of the Company's issued and outstanding Common Shares for over a year may require the board of directors to convene an extraordinary shareholders' meeting by sending a written request to the board of directors.

The ROC Company Law has been amended to allow shareholder(s) holding 1% or more of the total issued shares of a company, during a period of time prescribed by the Company, to submit one proposal in writing containing no more than 300 words (Chinese characters) for discussion at the ordinary shareholders' meeting. The amendment also provides that a company may adopt a nomination procedure for election of directors or supervisors. If a company wishes to adopt the nomination procedure, it must stipulate such in its articles of incorporation. With such provision in the articles of incorporation of a company, shareholders representing 1% or more of the total issued shares of such company may submit a candidate list in writing to the company along with relevant information and supporting documents within a period specified by the company. The Company's Articles of Incorporation currently only provides a nomination procedure for election of independent directors.

### **Register of Shareholders and Record Dates**

The Company's share registra, Grand Cathay Securities Corporation, maintains the shareholders' register of the Company at its office in Taipei, Taiwan. Under the ROC Company Law, the transfer of shares is effected by endorsement and delivery of the related share certificates. The transferee must have its name and address registered on the shareholders' register in order to assert its rights against the Company. Shareholders are required to file their respective specimen signatures or seals with the Company. The settlement of trading in the Common Shares is normally carried out on the book-entry system maintained by TDCC.

The ROC Company Law permits the Company to set a record date and close the shareholders' register for a specified period in order for the Company to determine the shareholders or pledgees that are entitled to certain rights pertaining to Common Shares by giving advance public notice. As provided in the Company's Articles of Incorporation, the Company's register of shareholders is closed for a period of 60 days, 30 days and five days immediately before each ordinary meeting of shareholders, each extraordinary meeting of shareholders and each record date for determination of the shareholders' entitlement to dividends, bonus or any other profits distributed by the Company, respectively.

### **Annual Financial Statements**

Under the ROC Company Law, 10 days before the ordinary meeting of shareholders, the Company's annual financial statements must be available at the Company's principal office for inspection by the shareholders. According to the regulations of ROC FSC, the Company is required to publish its annual, semi-annual and quarterly financial statements on a consolidated basis from March 29, 2010.

### **Acquisition of Common Shares by the Company**

With other minor exceptions and the exceptions in the succeeding paragraphs, the Company cannot acquire its own Common Shares.

Under the ROC Securities and Exchange Law, a company whose shares are listed on the TWSE or traded on the GreTai Securities Market ("GTSM") may, pursuant to a board resolution adopted by a majority consent at a meeting attended by more than two-thirds of the directors and pursuant to the procedures prescribed by the ROC FSC, purchase its shares on the TWSE or the GTSM or by a tender offer for the following purposes:

- (i) for transfer of shares to its employees;
- (ii) for conversion into shares from bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares or certificates of warrants issued by the Company; or
- (iii) for maintaining its credit and its shareholders' equity, provided that the shares so purchased shall be canceled thereafter.

The total Common Shares purchased by the Company shall not exceed 10% of its total issued Common Shares. In addition, the total amount for purchase of the Common Shares shall not exceed the aggregate amount of the retained earnings, the premium from stock issues and the realized portion of the capital reserve.

The Common Shares purchased by the Company pursuant to items (i) and (ii) above shall be transferred to the intended transferees within three years after the purchase; otherwise the Common Shares shall be canceled. For the Common Shares to be canceled pursuant to item (iii) above, the Company shall complete amendment registration for such cancellation within six months after the purchase.

The Common Shares purchased by the Company shall not be pledged or hypothecated. In addition, the Company may not exercise any shareholders' rights attaching to such Common Shares. The Company's affiliates (as defined in Article 369-1 of the ROC Company Law), directors, supervisors, managers and their respective spouses and minor children and/or nominees are prohibited from selling the Common Shares of the Company held by them during the period in which the Company purchases the Common Shares.

#### **Liquidation Rights**

In the event of the Company's liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and distributions to holders of preferred shares, if any, will be distributed pro rata to the Company's shareholders in accordance with the ROC Company Law.

#### **Transaction Restrictions**

The ROC Securities and Exchange Law (i) requires each director, supervisor, manager or shareholder holding more than 10% of the shares of a public company (such as the Company) to report, on a monthly basis, any changes of that person's shareholding to that company and (ii) limits the number of shares that can be sold or transferred on the TWSE or on the GTSM by that person per day.

In addition, such persons may only sell or transfer such shares on the TWSE or GTSM at least three days following their filing of a notification with the ROC FSC in respect of such sale or transfer provided that such notification will not be required if the number of shares to be sold or transferred does not exceed 10,000.

## TAXATION

### ROC Tax Considerations

*The following is a summary under present law of the principal ROC tax consequences of the ownership and disposition of the Common Shares or GDSs to a Non-ROC Resident Individual or Non-ROC Resident Entity, each a "Non-ROC Holder." As used in the preceding sentence, a "Non-ROC Resident Individual" is a foreign national individual who owns the Common Shares or GDSs and is not physically present in the ROC for 183 days or more during any calendar year and a "Non-ROC Resident Entity" is a corporation or a non-corporate body that owns the Common Shares or GDSs and is organized under the laws of a jurisdiction other than the ROC and has no fixed place of business or business agent in the ROC.*

*You should consult your tax advisors concerning the ROC tax consequences of owning the GDSs or Common Shares and the laws of any relevant taxing jurisdiction to which you are subject.*

#### *Dividends on the Common Shares*

Dividends (whether in cash or Common Shares) distributed by us out of retained earnings and paid out to Non-ROC Holders of Common Shares or GDSs are normally subject to ROC income tax collected by way of withholding at the time of distribution. The current rate of withholding for Non-ROC Holders of Common Shares or GDSs is 20% of the amount of the distribution in the case of cash dividends or the par value of the Common Shares distributed in the case of stock dividends, unless a lower withholding rate is provided under a tax treaty between the ROC and the jurisdiction where the Non-ROC Holder is a resident.

Distributions of stock dividends declared by us out of capital reserves are not subject to withholding tax.

In accordance with the ROC Income Tax Act, a 10% retained earnings tax will be imposed on a company for its after-tax earnings generated after January 1, 1998 which are not distributed in the following year. The retained earnings tax so paid will further reduce the retained earnings available for future distribution. When we distribute dividends out of those retained earnings, a maximum amount of up to 10% of the declared dividends may be credited against the 20% withholding tax imposed on the Non-ROC Holder.

#### *Preemptive Rights*

Distributions of statutory subscription rights for the Common Shares in compliance with the ROC Company Law are not subject to ROC Tax. Proceeds derived from sales of statutory subscription rights evidenced by securities are currently exempted from income tax but are subject to securities transactions tax, currently at the rate of 0.3% of the gross amount received. Proceeds derived from sales of statutory subscription rights which are not evidenced by securities are subject to income tax at the rate of 20% of the gains realized. Subject to compliance with ROC law, we have the sole discretion to determine whether statutory subscription rights shall be evidenced by the issuances of securities.

#### *Sale*

Under current ROC law, capital gains generated from the sale of Common Shares are exempt from ROC income tax.

Sales of GDSs by Non-ROC Holders are not regarded as sales of ROC securities and thus any gain generated therefrom is not subject to ROC income tax.

The ROC Government imposes a securities transaction tax that will apply to sales of the Common Shares. The transaction tax, which is payable by the seller, is levied on sales of Common Shares at the rate of 0.3% of the gross amount received.

A transfer of GDSs, however, is not subject to this tax, nor is a withdrawal of the Common Shares from the deposit facility.

#### *Estate Tax and Gift Tax*

ROC estate tax is payable on any property within the ROC of a deceased Non-ROC Resident Individual, and ROC gift tax is payable on any property within the ROC donated by a Non-ROC Resident Individual. Estate tax and gift tax are currently imposed at the rate of 10%. Under ROC estate and gift tax laws, Common Shares are deemed located in the ROC without regard to the location of the owner. It is unclear whether a Non-ROC Resident Individual who holds GDSs will be considered to own Common Shares for this purpose.

## *Tax Treaty*

At present, the ROC has double tax treaties with Indonesia, Singapore, New Zealand, Australia, South Africa, Gambia, Senegal, Sweden, Swaziland, Malaysia, Macedonia, the Netherlands, Belgium, Denmark, the United Kingdom, Vietnam and Israel that may provide a reduced withholding tax rate on dividends paid with respect to shares in ROC companies. A Non-ROC Holder of GDSs will be considered to own Common Shares for the purposes of such treaties. Accordingly, a holder of the GDSs who is otherwise entitled to the benefit of a treaty should consult its own tax advisers concerning eligibility for benefit under the treaty with respect to the GDSs.

## **United States Federal Income Tax Considerations**

**This disclosure is limited to the U.S. federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the U.S. federal tax treatment of the Common Shares or GDSs. This tax disclosure was written in connection with the promotion or marketing by the Company of the Common Shares or GDSs and it cannot be used by any holder for the purpose of avoiding penalties that may be asserted against the holder under the Internal Revenue Code of 1986, as amended (the “Code”). Holders should seek their own advice based on their particular circumstances from an independent tax adviser.**

The following is a description of certain U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of GDSs or Common Shares, but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person’s decision to hold the securities. This discussion applies only to a U.S. Holder that holds the GDSs or Common Shares as capital assets for tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of the U.S. Holder’s particular circumstances, including alternative minimum tax consequences and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- persons holding GDSs or Common Shares as part of a hedging transaction, straddle, wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the GDSs or Common Shares;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes;
- tax-exempt entities, including “individual retirement accounts” or “Roth IRAs”;
- persons that own or are deemed to own ten percent or more of our voting stock;
- persons who acquired GDSs or Common Shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding GDSs or Common Shares in connection with a trade or business conducted outside of the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Common Shares or GDSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding Common Shares or GDSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the Common Shares or GDSs.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof, any of which is subject to change, possibly with retroactive effect. It is also based in part on representations by the Depositary and assumes that each obligation under the Deposit Agreement and any related agreement will be performed in accordance with its terms.

A “U.S. Holder” is a beneficial owner of Common Shares or GDSs who is a Non-ROC Holder as defined under “ROC Tax Considerations” and for U.S. federal income tax purposes is:

- a citizen or resident of the United States;

- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

In general, a U.S. Holder who owns GDSs will be treated as the owner of the underlying Common Shares represented by those GDSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if a U.S. Holder exchanges GDSs for the underlying Common Shares represented by those GDSs

The U.S. Treasury has expressed concern that parties to whom American depositary shares are released before shares are delivered to the depositary (“pre-release”), or intermediaries in the chain of ownership between holders and the issuer of the security underlying the American depositary shares, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of American depositary shares. These actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate U.S. holders. Accordingly, the creditability of ROC taxes and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders, each described below, could be affected by actions taken by such parties or intermediaries.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of Common Shares or GDSs in their particular circumstances.

This discussion assumes that the Company was not a passive foreign investment company for its most recent taxable year, as described below, and will not become one in the foreseeable future.

### ***Taxation of Distributions***

Distributions paid on GDSs or Common Shares, other than certain *pro rata* distributions of Common Shares, including amounts withheld in respect of ROC withholding taxes, will generally be treated as dividends to the extent paid out of the Company’s current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends paid to certain non-corporate U.S. Holders in taxable years beginning before January 1, 2011 may be taxable at favorable rates, up to a maximum rate of 15%. U.S. Holders should consult their tax advisers regarding the availability of the reduced tax rate on dividends. The amount of a dividend will include any amounts withheld by the Company in respect of ROC taxes (reduced by any credit against such withholding tax as a result of the 10% retained earnings tax previously paid by us). The amount of the dividend will be treated as foreign-source dividend income to U.S. Holders and will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Dividends will be included in a U.S. Holder’s income on the date of the U.S. Holder’s, or in the case of GDSs, the Depositary’s, receipt of the dividend. The amount of any dividend income paid in New Taiwan Dollars will be the U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt.

Subject to applicable limitations, some of which vary depending upon the U.S. Holder’s circumstances and subject to the discussion above regarding concerns expressed by the U.S. Treasury, ROC income taxes withheld from dividends on Common Shares or GDSs will be creditable against the U.S. Holder’s U.S. federal income tax liability. In determining the amounts withheld in respect of ROC taxes, any reduction of the amount withheld on account of the ROC credit in respect of the 10% retained earnings tax imposed on us is not considered a withholding tax. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. The rules governing foreign tax credits are complex and U.S. Holders should consult their tax advisers regarding the creditability of foreign taxes in their particular circumstances. In lieu of claiming a foreign tax credit, U.S. Holders may, at their election, deduct foreign taxes, including the ROC tax, in computing their taxable income, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all taxes paid or accrued in the taxable year to foreign countries and possessions of the United States.

It is possible that *pro rata* distributions of Common Shares to all shareholders may be made in a manner that is not subject to U.S. federal income tax, but is subject to ROC withholding tax as discussed above under “ROC Tax Considerations—Dividends on the Common Shares.” Such distribution will not give rise to U.S. federal taxable income against which the ROC withholding tax imposed on these distributions may be credited. Holders should consult their tax advisers with respect to the creditability of any such ROC tax.

### ***Taxation of Capital Gains***

For U.S. federal income tax purposes, gain or loss realized on the sale or other disposition of Common Shares or GDSs will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder held the Common Shares or GDSs for more than one year. The amount of the gain or loss will equal the difference between the U.S. Holder's tax basis in the Common Shares or GDSs disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. This gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes.

### ***Passive Foreign Investment Company Rules***

The Company believes that it was not a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes for its most recent taxable year. However, because PFIC status depends on the composition of a company's income and assets and the market value of its assets from time to time, there can be no assurance that the Company will not be a PFIC for any taxable year.

If the Company were a PFIC for any taxable year during which a U.S. Holder held Common Shares or GDSs, gain recognized by a U.S. Holder on a sale or other disposition (including certain pledges) of the Common Shares or GDSs would be allocated ratably over the U.S. Holder's holding period for the Common Shares or GDSs. The amounts allocated to the taxable year of the sale or other disposition and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the amount allocated to that taxable year. Further, to the extent that any distribution received by a U.S. Holder on its Common Shares or GDSs exceeds 125% of the average of the annual distributions on the Common Shares or GDSs received during the preceding three years or the U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain, described immediately above. Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment) of the Common Shares or GDSs. U.S. Holders should consult their tax advisers to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in their particular circumstances.

### ***Information Reporting and Backup Withholding***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is a corporation or other exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the IRS.



## **THE DEPOSITARY**

Citibank, N.A., or Citibank, will be appointed as Depositary pursuant to the Deposit Agreements. Citibank is an indirect wholly owned subsidiary of Citigroup Inc., a Delaware corporation. Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the U.S. and the world.

Citibank was originally organized on June 16, 1812, and is now a national banking association organized under the National Bank Act of 1864 of the U.S. of America. Citibank is primarily regulated by the U.S. Office of the Comptroller of the Currency. Its principal executive office is at 399 Park Avenue, New York, NY 10043.

The audited consolidated balance sheets of Citibank as of December 31, 2009 and December 31, 2008, are set forth in Citigroup's 2009 annual report on Form 10-K, and its unaudited consolidated balance sheet as of March 31, 2010 is set forth in Citigroup's quarterly report on Form 10-Q for the three months ended March 31, 2010.

The annual report and quarterly report are on file with the U.S. Securities and Exchange Commission.

Citibank's articles of association and by-laws, each as currently in effect, together with Citigroup's 2009 annual report on Form 10-K and quarterly report on Form 10-Q are available for inspection at the Depositary Receipt office of Citibank, 388 Greenwich Street, New York, New York 10013.

## TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY SHARES

### Description of Global Depositary Shares

Citibank has agreed to act as the Depositary for the Global Depositary Shares, or GDSs. Citibank's depositary offices are located at 388 Greenwich Street, 14th Floor, New York, 10013, USA. Rule 144A and Regulation S Global Depositary Shares are referred to as "Rule 144A GDSs" and "Regulation S GDSs", respectively. In this summary, we intend to use the term "GDSs" to refer to the Rule 144A GDSs and to the Regulation S GDSs. Unless we otherwise state, you should assume that the term "GDSs" encompasses both Rule 144A GDSs and Regulation S GDSs. GDSs are evidenced by Global Depositary Receipt, or GDR, certificates. GDSs represent ownership interests in securities that are on deposit with the Depositary.

The Depositary has appointed a Custodian to hold the securities on deposit in safekeeping. In this case, the Custodian is Citibank Taiwan Ltd., having its principal office at B1, No. 16, Nanking E. Road, Sec. 4, Taipei Taiwan, Republic of China.

We will appoint Citibank as Depositary pursuant to two separate Deposit Agreements, both to be dated as of August 9, 2010, one for the Rule 144A GDSs, or the Rule 144A Deposit Agreement, and one for the Regulation S GDSs, or the Regulation S Deposit Agreement. A copy of the Deposit Agreements and any supplements or amendments thereto may be obtained from the Depositary. This is a summary description of the material terms of the GDSs and of your material rights as an owner of GDSs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of GDSs will be determined by reference to the terms of the applicable Deposit Agreement and not by this summary. We urge you to review the Deposit Agreements in their entirety. Statements printed in italics in this description are provided for your information but may not be contained in the Deposit Agreements.

Each GDS represents five (5) Common Shares, or evidence of Common Shares, on deposit with the Custodian. A GDS will also represent any other property received by the Depositary or the Custodian on behalf of the owner of the GDS but that has not been distributed to the owner of the GDSs because of legal restrictions or practical considerations. The initial deposit of shares, or "Initial Deposit", will take place in connection with our spin-off from Asustek, and the distribution of our shares to the Asustek shareholders.

If you become an owner of GDSs, you will become a party to the applicable Deposit Agreement and therefore will be bound to its terms and to the terms of the GDR certificate that evidences your GDSs. The Deposit Agreements and the GDR certificates specify our rights and obligations as well as your rights and obligations as an owner of GDSs and those of the Depositary. As a GDS owner you appoint the Depositary to act on your behalf for the shares represented by your GDSs, either upon (1) your specific instructions when we call a meeting of shareholders, distribute an elective dividend or make a rights offering, or (2) the specific terms of the applicable Deposit Agreements to receive any dividends we distribute in NT dollars or shares and to convert the NT dollars received. The Deposit Agreements are governed by New York law. However, our obligations to the holders of shares will continue to be governed by ROC laws, which may be different from the laws in the United States. In addition, we note that ROC law and regulations may restrict the deposit and withdrawal of the shares into or from the depositary receipt facilities.

Presently, you may hold your GDSs only through a brokerage or safekeeping account. As such, you must rely on the procedures of your broker or bank to assert your rights as a GDS owner. Please consult with your broker or bank to determine what those procedures are. When we refer to "you", we assume the reader owns GDSs and will own GDSs at the relevant time. When we refer to a "holder", we assume the person owns GDSs and such person's agent, which may be a broker, custodian, bank or trust company, is the holder of the applicable GDR certificate.

### Distinctions Between Rule 144A GDSs and Regulation S GDSs

The Rule 144A GDSs and the Regulation S GDSs are similar in many ways but are different primarily on account of the requirements of the U.S. securities laws. The Rule 144A GDSs are "restricted securities" under the U.S. securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDSs are not per se "restricted securities" under the U.S. securities laws, but we have imposed certain contractual restrictions on the Regulation S GDSs in an effort to prevent the transfer of Regulation S GDSs in violation of the U.S. securities laws. The restrictions we impose on the Regulation S GDSs will be in place for a period of 40 days after the later of the commencement of distribution and the closing date, in each case as part of the Initial Deposit described in these Listing Particulars. We will refer to this 40-day period as the "restricted period".

The differences between the Rule 144A GDSs and the Regulation S GDSs and the restrictions imposed on the Rule 144A GDSs and the Regulation S GDSs cover primarily the following:

- The venue for trading the GDSs:
  - *the Regulation S GDSs may be traded only outside the United States, and*
  - *the Rule 144A GDSs may only be traded among “Qualified Institutional Buyers” (as defined in Rule 144A) in the U.S., and*
  - *the Regulation S GDSs and the Rule 144A GDSs are listed on the Luxembourg Stock Exchange.*
- The persons who may own and trade the GDSs:
  - *only “Qualified Institutional Buyers” (as defined in Rule 144A) and persons located outside of the United States other than “U.S. persons” (as defined in Regulation S) may own and trade Rule 144A GDSs;*
  - *during the “restricted period” applicable to the distribution of GDSs only persons other than “U.S. persons” (as defined in Regulation S) may own and trade the Regulation S GDSs and only outside the United States; and*
  - *upon the expiration of the “restricted period” applicable to the distribution of GDSs any person may own and trade Regulation S GDSs.*
- The persons who may create additional GDSs:
  - only persons located outside of the United States other than “U.S. persons” (as defined in Regulation S) may deposit shares to receive Regulation S GDSs, and
  - only “Qualified Institutional Buyers” (as defined in Rule 144A) and persons located outside of the United States other than “U.S. persons” may deposit shares to receive Rule 144A GDSs.
- The persons to whom you may transfer the GDSs, upon sale or otherwise:
  - you may transfer Rule 144A GDSs only to “Qualified Institutional Buyers” (as defined in Rule 144A) or to persons located outside of the United States other than “U.S. persons” (as defined in Regulation S), and
  - during the “restricted period” applicable to the distribution of GDSs you may transfer the Regulation S GDSs offered herein only outside the United States (in compliance with Regulation S) and to persons other than “U.S. persons” (as defined in Regulation S) or to “Qualified Institutional Buyers” (as defined in Rule 144A) but in this latter case only after “converting” the Regulation S GDSs into Rule 144A GDSs.
- The restrictions on the transfers and withdrawal of the shares represented by the GDSs.
  - Please refer to “— Legends” below.
- The eligibility for book-entry transfer.
  - Please refer to “— Clearance, Settlement and Safekeeping” below.

These distinctions and the requirements of the U.S. securities laws may require us and the Depository to treat the Regulation S GDSs and the Rule 144A GDSs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDSs will receive the same entitlements as holders of Regulation S GDSs and vice versa.

### **Clearance, Settlement and Safekeeping**

#### **Rule 144A GDSs**

*The Depository has made arrangements with DTC to act as securities depository for the Rule 144A GDSs. All Rule 144A GDSs issued as a result of the Initial Deposit will be registered in the name of Cede & Co., DTC’s*

*nominee. One Master Rule 144A GDR certificate will represent all Rule 144A GDSs issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDSs are to be accomplished by entries made on the books of DTC and of the participants in DTC acting on behalf of Rule 144A GDS owners. Owners of Rule 144A GDSs will not receive physical certificates evidencing their ownership interests in the Rule 144A GDSs, except in the event that DTC no longer acts as securities depository and a successor securities depository cannot be appointed. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Rule 144A GDSs evidenced by the Master Rule 144A GDR certificate to such persons may be limited. Because DTC can only act on behalf of direct participants (“Direct Participants”), who in turn act on behalf of indirect participants (“Indirect Participants”), the ability of a person owning Rule 144A GDSs evidenced by the Master Rule 144A GDR certificate to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take action in respect of such interest, may be affected by the lack of physical individual definitive securities in respect of such interest.*

*So long as DTC, or its nominee, is the registered holder of the Master Rule 144A GDR certificate, DTC or such nominee, as the case may be, will be considered the sole holder of the Rule 144A GDSs evidenced thereby for all purposes under the Rule 144A Deposit Agreement and the Rule 144A GDSs.*

*DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDSs at any time by giving reasonable notice to the Depository. Under such circumstances, in the event that a successor securities depository cannot be appointed, Rule 144A GDR certificates will be printed and delivered to the applicable Rule 144A GDS owners.*

*DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that the Direct Participants deposit and facilitates the clearance and settlement of securities transactions among Direct Participants in such securities through electronic computerized book-entry changes in accounts of Direct Participants, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the Managers (and/or their respective affiliates). Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly, or the Indirect Participants. Transfers of ownership or other interests in DTC are to be accomplished by entries made on the books of Direct Participants or Indirect Participants acting on behalf of beneficial owners of GDSs. In addition, beneficial owners of GDSs in DTC will receive all distributions of dividends, GDSs, shares, rights and other distributions, if any, on the GDSs from the Depository through Direct Participants and Indirect Participants.*

## **Regulation S GDSs**

*Arrangements have been made with DTC to act as the securities depository for the Regulation S GDSs. All Regulation S GDSs issued as a result of the Initial Deposit will be registered in the name of Cede & Co., DTC’s nominee. One Master Regulation S GDR certificate will represent all Regulation S GDSs issued to and registered in the name of Cede & Co. The Regulation S GDSs will also be eligible for settlement by Euroclear and Clearstream. Transfers of ownership interests in Regulation S GDSs are to be accomplished by entries made on the books of Clearstream and Euroclear as participants in DTC and participants in Clearstream and Euroclear and on the books of DTC and of the participants in DTC, acting on behalf of Regulation S GDS owners. Owners of Regulation S GDSs will not receive physical certificates representing their ownership interests in the Regulation S GDSs, except in the event that use of the DTC book-entry system for the Regulation S GDSs is discontinued. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Regulation S GDSs evidenced by the Master Regulation S GDR certificate to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person owning Regulation S GDSs evidenced by the Master Regulation S GDR certificate to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take action in respect of such interest, may be affected by the lack of physical individual definitive securities in respect of such interest.*

*So long as DTC, or its nominee, is the registered holder of the Master Regulation S GDR certificate, DTC or such nominee, as the case may be, will be considered the sole holder of the Regulation S GDSs evidenced thereby for all purposes under the Regulation S Deposit Agreement and the Regulation S GDSs.*

*DTC may discontinue providing its services as securities depository with respect to the Regulation S GDSs at any time by giving reasonable notice to the Depository. Under such circumstances, in the event that a successor*

securities depository cannot be appointed, Regulation S GDR certificates will be printed and delivered to the applicable Regulation S GDS owners.

If at any time DTC ceases to make its respective book-entry settlement systems available for the Regulation S GDSs, we and the Depository will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depository will make available Regulation S GDSs in physical certificated form.

## Settlement

Subject to compliance with the transfer restrictions applicable to the GDSs described below, cross-market transfers between DTC participants, on the one hand, and directly or indirectly through Clearstream or Euroclear account-holders, on the other, will be effected through DTC in accordance with DTC rules on behalf of Clearstream or Euroclear, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Clearstream or Euroclear, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Clearstream or Euroclear, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the GDSs, as the case may be, and making or receiving payment in accordance with normal procedures for settlement applicable to DTC. Clearstream and Euroclear account-holders may not deliver instructions directly to the depositories for Clearstream or Euroclear.

Because of time zone differences, the securities of a Clearstream or Euroclear accountholder purchasing an interest in a security from a DTC participant will be credited during the securities settlement processing day (which must be a business day for Clearstream or Euroclear, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in such securities settled during such processing day will be reported to the relevant Clearstream or Euroclear account-holder on such day. Cash received by Clearstream or Euroclear as a result of sales of interests in securities by or through a Clearstream or Euroclear account-holder to a DTC participant will be received for value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

DTC will take any action permitted to be taken by an owner of GDSs only at the direction of one or more DTC participants to whose account or accounts with DTC interests in the GDSs evidenced by the Master GDR certificates are credited and only in respect of such portion of the number of GDSs as to which such DTC participant or DTC participants has or have given such direction. Owners of indirect interests in securities evidenced by the Master GDR certificates through DTC participants have no direct rights to enforce such interests while the securities are in global form.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate the transfer of interests in the Master GDR certificates among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time. None of us, the Depository, the Custodian or any of their agents will have any responsibility for the performance by DTC, Clearstream or Euroclear or their respective participants of their respective obligations under the rules and procedures governing their operations.

## Transfer Restrictions

The GDSs may be resold, pledged or otherwise transferred only in compliance with the U.S. securities laws and are subject to the following restrictions:

Rule 144A GDSs	Regulation S GDSs
The Rule 144A GDSs may be resold, pledged or otherwise transferred only:	During the “restricted period” applicable to the distribution of the Regulation S GDSs as a result of the Initial Deposit the Regulation S GDSs may be resold, pledged or otherwise transferred only:
(i) outside the United States to a person other than a U.S. person (as defined in Regulation S under the Securities Act) in accordance with Regulation S;	(i) outside the United States to a person other than a U.S. person (as defined in Regulation S under the Securities Act) in accordance with Regulation S;
or	or

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Rule 144A GDSs

(ii) to a “Qualified Institutional Buyer” (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A;

or

(iii) pursuant to Rule 144 under the Securities Act, if available;

or

(iv) pursuant to an effective registration statement under the Securities Act.

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Regulation S GDSs

(ii) to a “Qualified Institutional Buyer” (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A;

or

(iii) pursuant to Rule 144 under the Securities Act, if available;

or

(iv) pursuant to an effective registration statement under the Securities Act.

If the Regulation S GDSs are transferred to a “Qualified Institutional Buyer” in a transaction meeting the requirements of Rule 144A, the transferor is required to convert the Regulation S GDSs into Rule 144A GDSs and make delivery of the Rule 144A GDSs to the transferee.

After the “restricted period” applicable to the distribution of Regulation S GDSs as a result of the Initial Deposit, the Regulation S GDSs shall be freely transferable.

**Restrictions Upon Deposit**

Common Shares will be accepted for deposit only if delivered by, or on behalf of, a person that is:

(a) not us or our affiliate or a person acting on behalf of us or our affiliate, and

(b) is (i) a “Qualified Institutional Buyer” (as defined in Rule 144A), or (ii) a person other than a “U.S. Person” (as defined in Regulation S) and located outside the United States.

Common Shares will be accepted for deposit only if delivered by, or on behalf of, a person that is:

(a) not us or our affiliate or a person acting on behalf of us or our affiliate, and

(b) is a person other than a “U.S. Person” (as defined in Regulation S) and located outside the United States.

**Restrictions Upon Withdrawal**

Common Shares may be withdrawn from the Rule 144A Deposit agreement only by:

(i) a person other than a “U.S. Person” (as defined in Regulation S) located outside of the United States who will be the beneficial owner of the Common Shares upon withdrawal;

or

During the “restricted period” applicable to the distribution of Regulation S GDSs as a result of the Initial Deposit, Common Shares may be withdrawn under the Regulation S Deposit Agreement only by:

(i) a person other than a “U.S. Person” (as defined in Regulation S) located outside of the United States (x) who will be the beneficial owner of the Common Shares upon withdrawal and agrees prior to the expiration of the “restricted period” to observe the transfer restrictions applicable to the Regulation S GDSs in respect of the Common Shares so withdrawn or (y) who has sold the Common Shares to a person other than a U.S. Person or to a “Qualified Institutional Buyer” (as defined in Rule 144A), in which case Common Shares will be deposited under the Rule 144A Deposit Agreement and delivered to the purchaser in the form of Rule 144A GDSs,

or

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Rule 144A GDSs

(ii) a “Qualified Institutional Buyer” (as defined in Rule 144A) who:

(x) has sold the Rule 144A GDSs to another “Qualified Institutional Buyer” (as defined in Rule 144A), in a transaction meeting the requirements of Rule 144A, or to a person other than a “U.S. Person” (as defined in Regulation S) in accordance with Regulation S,

or

(y) will be the beneficial owner of the Common Shares and agrees to observe the transfer restrictions applicable to Rule 144A GDSs in respect of the Common Shares so withdrawn.

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Regulation S GDSs

(ii) a “Qualified Institutional Buyer” (as defined in Rule 144A) who will take all action necessary to deposit the Common Shares withdrawn under the Rule 144A Deposit Agreement and to take delivery in the form of Rule 144A GDSs.

After the “restricted period” applicable to the distribution of Regulation S GDSs as a result of the Initial Deposit, Common Shares may be withdrawn by any person and are freely transferable.

### **Dividends and Distributions**

As a holder, you generally have the distributions we make on the securities deposited with the Custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the Deposit Agreements in proportion to the number of GDSs held as of a specified record date.

### **Distributions of Cash**

Subject always to the laws and regulations of the ROC, whenever we make a cash distribution for the securities on deposit with the Custodian, we will notify the Depositary and deposit the funds with the Custodian. Upon receipt of such notice and of confirmation of the deposit of the requisite funds, the Depositary will arrange for the funds to be converted into US dollars and for the distribution of the US dollars to the holders, subject to the laws and regulations of the ROC.

The conversion into US dollars will take place only if practicable and if the US dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. The Depositary will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the Custodian in respect of securities on deposit.

### **Distributions of Common Shares**

Subject always to the laws and regulations of the ROC, whenever we make a free distribution of Common Shares for the securities on deposit with the Custodian, we will notify the Depositary and deposit the applicable number of shares with the Custodian. Upon receipt of notice of such deposit, the Depositary will either distribute to holders new GDSs representing the Common Shares deposited or modify the GDS-to-shares ratio, in which case each GDS you hold will represent rights and interests in the additional Common Shares so deposited. Only whole new GDSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDSs or the modification of the GDS-to-shares ratio upon a distribution of Common Shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes or governmental charges, the Depositary may sell all or a portion of the new Common Shares so distributed.

No such distribution of new GDSs will be made if it would violate U.S. law, including the U.S. securities laws, or if it is not operationally practicable. If the Depositary does not distribute new GDSs as described above, it

will use its best efforts to sell the Common Shares received and will distribute the proceeds of the sale as in the case of a distribution of cash.

### **Distributions of Common Rights**

Subject always to the laws and regulations of the ROC, whenever we intend to distribute rights to purchase additional Common Shares, we will give prior notice to the Depositary and will indicate whether we wish the distribution of rights to be made available to you. In such case, we will assist the Depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDSs to holders.

The Depositary, with our assistance, will establish procedures to distribute rights to purchase additional GDSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of GDSs, and if we provide all of the documentation contemplated in the applicable Deposit Agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new GDSs upon the exercise of your rights. The Depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new Common Shares other than in the form of GDSs.

The Depositary will not distribute the rights to you if:

- We do not timely request that the rights be distributed to you or we request that the rights not be distributed to you; or
- We fail to deliver satisfactory documents to the Depositary; or
- It is not reasonably practicable to distribute the rights.

If registration of the rights or the securities to which such rights relate may be required under the Securities Act or any other applicable law in order for us to offer such rights or such securities to holders and to sell the securities represented by such rights, the Depositary will not distribute rights to holders of GDSs unless and until a registration statement under the Securities Act covering such distribution is in effect. We have no obligation under the Deposit Agreements to prepare and file a registration statement for any purpose.

The Depositary will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

### **Elective Distributions**

Subject always to the laws and regulations of the ROC, whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional Common Shares, we will give prior notice thereof to the Depositary and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the Depositary in determining whether such distribution is lawful and reasonably practicable.

The Depositary will make the election available to you only if it is reasonably practicable and if we have provided all of the documentation contemplated in the Deposit Agreements. In such case, the Depositary will establish procedures to enable you to elect to receive either cash or additional GDSs, in each case as described in the Deposit Agreements.

If the election is not made available to you, you will receive either cash or additional GDSs, depending on what a shareholder in the ROC would receive upon failing to make an election, as more fully described in the corresponding Deposit Agreement.

### **Other Distributions**

Subject always to the laws and regulations of the ROC, whenever we intend to distribute property other than cash, Common Shares or rights to purchase additional Common Shares, we will notify the Depositary in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the Depositary in determining whether such distribution to holders is lawful and reasonably practicable.



If it is reasonably practicable to distribute such property to you and if we provide all of the documentation contemplated in the Deposit Agreements, the Depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes and governmental charges, the Depositary may sell all or a portion of the property received.

The Depositary will not distribute the property to you and will sell the property if:

- We do not request that the property be distributed to you or if we ask that the property not be distributed to you; or
- We do not deliver satisfactory documents to the Depositary; or
- The Depositary determines that all or a portion of the distribution to you is not reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems practicable under the circumstances.

### **Redemption**

To the extent permitted by applicable laws, whenever we decide to redeem any of the securities on deposit with the Custodian, we will notify the Depositary. If it is reasonably practicable and if we provide all of the documentation contemplated in the Deposit Agreements, the Depositary will mail notice of the redemption to the holders.

The Custodian will be instructed to surrender the Common Shares being redeemed against payment of the applicable redemption price. The Depositary will convert the redemption funds received into US dollars upon the terms of the Deposit Agreements and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their GDSs to the Depositary. You may have to pay fees, expenses, taxes and other governmental charges upon the redemption of your GDSs. If less than all GDSs are being redeemed, the GDSs to be retired will be selected by lot or on a pro rata basis, as the Depositary may determine.

### **Changes Affecting Common Shares**

The Common Shares held on deposit for your GDSs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such Common Shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, your GDSs would, to the extent permitted by law, represent the property received or exchanged in respect of the Common Shares held on deposit. The Depositary may in such circumstances deliver new GDR certificates to you or call for the exchange of your existing GDR certificates for new GDR certificates. If the Depositary may not lawfully distribute such property to you, the Depositary may sell such property and distribute the net proceeds to you as in the case of a cash distribution.

### **Issuance of GDSs Upon Deposit of Common Shares**

Subject to limitations set forth in the Deposit Agreements and the GDR certificates, after the Initial Deposit, the Depositary may create GDSs on your behalf if you or your broker deposit Common Shares with the Custodian. The Depositary will deliver these GDSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the Common Shares to the Custodian and you provide the applicable deposit certification. Your ability to deposit Common Shares and receive GDSs may be limited by U.S. and ROC legal considerations applicable at the time of deposit.

Under current ROC law, after the Initial Deposit, no deposits of Common Shares may be made in a depositary receipt facility, and no GDSs may be issued against such deposits, without specific approval of the Financial Supervisory Commission (Financial Supervisory Commission), except in connection with the distribution and the issuance of additional GDSs in connection with (i) dividends on, or free distributions of, Common Shares, (ii) the exercise by holders of existing GDSs of their pre-emptive rights in the event of capital increases for cash, (iii) to the extent that previously issued GDSs have been canceled, reissuances of GDSs up to an aggregate amount of

outstanding GDSs equal to the total number of GDSs (subject to adjustment for the issuances described in clauses (i) and (ii)) that were originally approved by the Financial Supervisory Commission and issued in connection with the Listing or (iv) the exchange of Rule 144A GDSs for Regulation S GDSs and vice versa; provided, that the Depository will refuse to accept Common Shares for deposit under clause (iii) if such deposit is not permitted under any restriction notified by the Company to the Depository from time to time, which restriction may specify blackout periods during which deposits may not be made, time periods during which deposits may be made, and minimum and maximum size and frequency of deposits.

The Depository and the Custodian will refuse to accept Common Shares for deposit whenever they are notified in writing that such deposit would result in any violation of applicable laws, including ownership restrictions under the laws of the ROC. The Depository will also refuse (i) to accept certain Common Shares for deposit under the Rule 144A Deposit Agreement if notified in writing that such Common Shares are listed on a U.S. securities exchange or quoted on a U.S. automated inter-dealer quotation system, unless accompanied by evidence satisfactory to the Depository that any Common Shares presented for deposit are eligible for resale pursuant to Rule 144A, or (ii) to issue GDSs representing the new Common Shares that are separate and distinct from GDSs representing the existing Common Shares. In addition, the Depository will refuse to accept Common Shares for deposit under clause (iv) of the immediately preceding paragraph if such deposit is not permitted under any restriction notified by the Company to the Depository from time to time, which restriction may specify blackout periods during which deposits may not be made, time periods during which deposits may be made, and minimum and maximum size and frequency of deposits.

The issuance of GDSs may be delayed until the Depository or the Custodian receives confirmation that all required approvals have been given and that the Common Shares have been duly transferred to the Custodian. The Depository will only issue GDSs in whole numbers.

When you make a deposit of Common Shares, you will be responsible for transferring good and valid title to the Depository. As such, you will be deemed to represent and warrant that:

- Such Common Shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.
- All pre-emptive (and similar) rights, if any, with respect to such Common Shares have been validly waived or exercised.
- You are duly authorized to deposit such Common Shares.
- The Common Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, and, in the case of Regulation S GDSs, are not, and the Regulation S GDSs issuable upon such deposit will not be, “restricted securities” (as defined in the Regulation S Deposit Agreement).
- The Common Shares presented for deposit have not been stripped of any rights or entitlements.

If any of the representations or warranties is incorrect in any way, we and the Depository may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When you deposit Common Shares to receive Rule 144A GDSs, you will be required to provide the Depository with a deposit certification stating, inter alia, that:

- you acknowledge that the Common Shares and the Rule 144A GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- you are not an “affiliate” of ours and you are not acting on behalf of us or one of our “affiliates”; and
- you certify that you are, or are acting on behalf of, (i) a “Qualified Institutional Buyer” (as defined in Rule 144A), or (ii) a person other than a U.S. Person (as defined in Regulation S) and are located outside the United States and will acquire the Common Shares to be deposited outside the United States; and
- you agree, as the owner of the Rule 144A GDSs, to offer, sell, pledge and otherwise transfer the Rule 144A GDSs or the Common Shares represented by the Rule 144A GDSs in accordance with the applicable U.S. state securities laws and only:

(a) to a “Qualified Institutional Buyer” (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

(b) outside the United States to a person other than a “U.S. Person” (as defined in Regulation S) in accordance with Regulation S, or

(c) in accordance with Rule 144 under the Securities Act, if available, or

(d) pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDSs is attached to the Rule 144A Deposit Agreement and may be obtained from the Depository upon request.

When you deposit Common Shares to receive Regulation S GDSs, you will be required to provide the Depository with a deposit certificate stating, inter alia, that:

- you acknowledge that the Common Shares and the Regulation S GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- you are not an “affiliate” of ours and you are not acting on behalf of us or one of our “affiliates”; and
- you certify that you are, or are acting on behalf of, (i) a person other than a U.S. Person (as defined in Regulation S) and are located outside the United States and (ii) a person that is not in the business of buying and selling securities, or, if you or such person is in such business, you or such person did not acquire the Common Shares to be deposited from us or any affiliate in the initial distribution of Regulation S GDSs, Common Shares and Rule 144A GDSs; and
- you agree, as the owner of the Regulation S GDSs (or the person you are acting on behalf of has confirmed its agreement to you), to offer, sell, pledge and otherwise transfer the Regulation S GDSs or the Common Shares represented by the Regulation S GDSs in accordance with the applicable U.S. state securities laws and during the applicable “restricted period” only:

(a) to a “Qualified Institutional Buyer” (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, in which case you or such person are required to “convert” the Regulation S GDSs into Rule 144A GDSs prior to making delivery to the transferee, or

(b) outside the United States to a person other than a “U.S. Person” (as defined in Regulation S) in accordance with Regulation S, or

(c) in accordance with Rule 144 under the Securities Act, if available, or

(d) pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Regulation S GDSs is attached to the Regulation S Deposit Agreement and may be obtained from the Depository upon request.

### **Withdrawal of Common Shares Upon Cancellation of GDSs**

Under current ROC law, if you wish to withdraw and hold underlying shares from a depository receipt facility, you will be required to appoint an eligible agent in the ROC to open a securities trading account with a local brokerage firm (after receiving an approval from the TWSE) and a bank account (the securities trading account and the bank account collectively, the “Accounts”), to pay ROC taxes, remit funds, exercise shareholders’ rights and perform such other functions as you may designate upon such withdrawal. In addition, you will be required to appoint a custodian bank to hold the securities in safekeeping, make confirmation and settle trades and report all relevant information. Without the opening of such Accounts, the withdrawing owner would be unable to hold or subsequently sell the underlying shares withdrawn from the depository receipt facility on the TWSE or otherwise. In addition, you will be required to register with the TWSE for making investments in the ROC securities market prior to withdrawing shares. These laws may change from time to time. We cannot assure you that current ROC law will remain in effect or that future changes in ROC law will not adversely affect your ability to withdraw our shares from the applicable GDS facility.

Under current ROC law, a holder who is not a PRC person and who wishes to hold Common Shares in Taiwan upon cancellation will be required to obtain a Foreign Investor Investment I.D. Currently, a holder of GDSs who is a PRC person may not withdraw and hold shares unless (i) it is a qualified domestic institutional investor, or QDII or (ii) if all the businesses of the issuer are in the positive list promulgated by the ROC Executive Yuan, the holder withdrawing shares which account for 10% or more of the issuer's issued shares otherwise obtains the approval of the Investment Commission of the ROC Ministry of Economic Affairs. However, QDIIs are currently prohibited from investing in certain industries and their investment in a given company in certain other industries is restricted to a certain percentage pursuant to a list promulgated by the ROC Financial Supervisory Commission and amended from time to time. In addition, there are restrictions on the remittance amount in or out of Taiwan for each individual QDII and for QDIIs in the aggregate. Accordingly, the qualification criteria for a PRC person, the restrictions on the investment industries and amounts imposed by the ROC Financial Supervisory Commission might cause a holder of depositary shares who is a PRC person to be unable to withdraw and hold the underlying shares.

Holders of GDSs withdrawing shares represented by GDSs are also required under current ROC law and regulations to appoint an agent in the ROC for filing tax returns and making tax payments. Such agent must meet certain qualifications set by the ROC Financial Supervisory Commission and, upon appointment, becomes a guarantor of such withdrawing owner's ROC tax obligations. Evidence of the appointment of such agent and the approval of such appointment by the ROC tax authorities may be required as conditions to such withdrawing holder's repatriation of the proceeds from the sale of the withdrawn shares. There can be no assurance that such withdrawing holder will be able to appoint and obtain approval for such agent in a timely manner.

Subject to the withdrawal of deposited property being permitted under ROC law and regulations, you may also request that our shares represented by your GDSs be sold on your behalf. The Depository may require that you deliver your request for sale in writing. Any sale of our shares will be conducted according to applicable ROC law through a securities company in the ROC on the TWSE or in another manner as is permitted under applicable ROC law. Any sale will be at your risk and expense. You may also be required to enter into a separate agreement to cover the terms of the sale of our shares.

Upon receipt of any proceeds from any sale, subject to any restrictions imposed by ROC law and regulations, the Depository shall convert the proceeds into US dollars and distribute the proceeds to you, net of any fees, expenses, taxes or governmental charges (including, without limitation, any ROC and U.S. taxes) incurred in connection with the sale. Although sales of GDSs by a non-resident individual or a corporation that has no fixed place of business or other permanent establishment or business agent in the territory of the ROC are not currently subject to ROC taxation on capital gains, sales of our shares by such individual or corporation may in the future be subject to ROC taxation on capital gains and will be subject to a securities transaction tax in the ROC.

In order to withdraw or instruct the sale of the shares represented by your GDSs, you will be required to pay to the Depository the fees for cancellation of GDSs and any charges and taxes payable upon the transfer of the shares being withdrawn and you will be required to provide to the Depository the applicable withdrawal certification. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the GDSs will not have any rights under the corresponding Deposit Agreement.

If you hold a GDR certificate registered in your name, the Depository may ask you to provide proof of identity and genuineness of any signature and such other documents as the Depository may deem appropriate before it will cancel your GDSs. The withdrawal of the shares represented by your GDSs may be delayed until the Depository receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the Depository will only accept GDSs for cancellation that represent a whole number of securities on deposit.

We have reporting obligations under ROC law in respect of the GDS facilities. In order to enable us to gather the information necessary for these reporting obligations, you will be asked to complete and sign a certification upon withdrawal of shares from the applicable GDS facility. In this certification you will be asked to disclose, among other information, the name, nationality and address of the beneficial owner of the GDSs presented for cancellation, the number of shares owned by the beneficial owner and whether certain affiliations exist between the beneficial owner and us. The Depository will refuse to release shares to you until you deliver a completed and signed certification to it.

If the shares are withdrawn from the depository facility, such holder will be required to provide information to enable our compliance with our obligations set forth under the laws and regulations of the ROC, including a certification that:

- the holder is or is not a "related person", as such term is defined in the applicable Deposit Agreement, to us;

- the holder will own a certain number of our shares after cancellation of the GDSs surrendered thereby, as well as a certain number of GDSs representing our shares after cancellation of the GDSs surrendered thereby;
- the holder, or the person on whose account he acts, is the beneficial owner of the GDSs surrendered to the Depositary thereby;
- the name, address and nationality of the beneficial owner of the GDSs, as included upon presentation of GDSs for cancellation, is true and correct;
- the number of GDSs surrendered and the number of shares withdrawn, as included upon presentation of GDSs for cancellation, is true and correct;
- if the presenter is a broker-dealer, the owner of the account for which he is acting has confirmed the accuracy of the above representations;
- the holder is or is not a PRC person meeting the qualifications required under the laws of the ROC (“Qualified PRC Persons”), as such term is defined in the applicable laws of the ROC; and
- if the holder is a Qualified PRC person, its aggregate holding (including, direct and beneficial ownership) in our Company, and if the aggregate holding will, immediately upon the withdrawal, be more than 10% of our issued and outstanding shares, the evidence showing the receipt of the prior approval required under the laws of the ROC.

You will have the right to withdraw the securities represented by your GDSs subject to:

- temporary delays because (1) the transfer books for our shares or GDSs are closed, or (2) our shares are frozen due to a shareholders’ meeting or a payment of dividends;
- obligations to pay fees, taxes and similar charges; and
- restrictions imposed by law.

When you request the withdrawal of the shares represented by your Rule 144A GDSs, you will be required to provide the Depositary with a withdrawal certification stating, inter alia, that:

- you acknowledge that the shares represented by your Rule 144A GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- you certify that either:
  - (X) you are a “Qualified Institutional Buyer” (as defined in Rule 144A) who is the beneficial owner of the Rule 144A GDSs presented for cancellation, or you are acting on behalf of a Qualified Institutional Buyer who is the beneficial owner of the Rule 144A GDSs presented for cancellation and
    - i. you have, or the person on whose behalf you are acting has, sold or agreed to sell the Rule 144A GDSs or shares to a person other than a “U.S. Person” (as defined in Regulation S) in accordance with Regulation S, or
    - ii. you have, or the person on whose behalf you are acting has, sold or agreed to sell the Rule 144A GDSs or shares to another “Qualified Institutional Buyer” (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or
    - iii. you (or the person on whose behalf you are acting) will be the beneficial owner of the shares upon withdrawal and you (or the person on whose behalf you are acting) (x) will not deposit the shares in any depositary receipt facility that is not a “restricted” depositary receipt facility and (y) will sell the shares only

- a) to another Qualified Institutional Buyer (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or
- b) outside the United States to a person other than a “U.S. Person” (as defined in Regulation S) in accordance with Regulation S, or
- c) in accordance with Rule 144 (if available), or
- d) pursuant to an effective registration statement under the Securities Act;

OR

- (Y) you are a person other than a “U.S. Person” (as defined in Regulation S) and are located outside the United States and you acquired or agreed to acquire the Rule 144A GDSs or shares outside the United States and will be the beneficial owner of the Rule 144A GDSs or shares upon withdrawal.

When you request the withdrawal of the shares represented by your Regulation S GDSs at any time during the “restricted period”, you will be required to provide the Depository with a withdrawal certification stating, *inter alia*, that:

- you acknowledge that the shares represented by your Regulation S GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- you certify that either:

- (X) you are a person other than a “U.S. Person” (as defined in Regulation S) who is the beneficial owner of the Regulation S GDSs presented for cancellation and you are located outside the United States, and either

- i. you have sold or agreed to sell the Regulation S GDSs or shares to a person other than a “U.S. Person” (as defined in Regulation S) in accordance with Regulation S, or
- ii. you have sold or agreed to sell the Regulation S GDSs or shares to a “Qualified Institutional Buyer” (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, and will make delivery thereof in the form of Rule 144A GDSs, or
- iii. in accordance with Rule 144 (if available), or
- iv. pursuant to an effective registration statement under the Securities Act, or
- v. you (or the person on whose behalf you are acting) will be the beneficial owner of the shares upon withdrawal and you (or the person on whose behalf you are acting) will at any time during the “restricted period” sell the shares only

- a) to a Qualified Institutional Buyer (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or
- b) to a person other than a “U.S. Person” (as defined in Regulation S) in accordance with Regulation S, or
- c) in accordance with Rule 144 (if available), or
- d) pursuant to an effective registration statement under the Securities Act;

OR

- (Y) you are a “Qualified Institutional Buyer” (as defined in Rule 144A), acting on your own behalf or on behalf of Qualified Institutional Buyers, and you (or the person on whose behalf you are acting) have agreed to acquire the Regulation S GDSs or the shares in a transaction made in reliance on

Rule 144A and you (or the person on whose behalf you are acting) will take all action necessary to cause the shares to be withdrawn and deposited under the Rule 144A Deposit Agreement for the purpose of receiving Rule 144A GDSs.

### **Voting Rights**

Except as described below, you generally have no right under the Deposit Agreements to instruct the Depository to exercise the voting rights for the shares represented by your GDSs. Instead, by accepting GDSs or any beneficial interest in GDSs, you will be deemed to have authorized and directed the Depository to appoint the chairman of the Company (or his or her designate) for a particular meeting of shareholders as representative (the "Voting Representative") to represent you at our shareholders' meeting and to vote the shares deposited with the Custodian according to the terms of the GDSs. The voting rights of holders of shares are described in "Description of Common Shares — Voting Rights".

The Depository will mail to you any notice of shareholders' meeting received from us together with information explaining how to instruct the Depository to exercise the voting rights of the securities represented by GDSs.

If we fail to provide in a timely manner the Depository with an English language translation of our notice of meeting or other materials related to any meeting of owners of shares, the Depository will endeavor to cause all the deposited securities represented by GDSs to be present at the applicable meeting, insofar as practicable and permitted under applicable law, but will not cause those securities to be voted.

According to the ROC Company Act, a shareholder's voting rights must, as to all matters brought to a vote of shareholders, be exercised as to all shares held by the shareholder in the same manner, except in the case of an election of directors and supervisors, which may be conducted by means of cumulative voting or other mechanisms adopted in our Articles of Incorporation. Pursuant to ROC Company Act and our Articles of Incorporation, the election of directors and supervisors is by means of cumulative voting.

If the Depository receives in a timely manner voting instructions from holders of at least 51.0% of the outstanding GDSs to vote in the same direction regarding one or more resolutions to be considered at the meeting, excluding the election of directors and supervisors, the Depository will notify the Voting Representative of the instructions and appoint the Voting Representative, as the representative of the Depository and such holders to attend the meeting and vote all the securities represented by GDSs in accordance with the direction received from holders of at least 51.0% of the outstanding GDSs.

If we have provided in a timely manner the Depository with the materials described in the applicable Deposit Agreement and the Depository has not timely received instructions from holders of at least 51.0% of the outstanding GDSs to vote in the same direction regarding any resolution to be considered at the meeting, excluding the election of directors and supervisors, then, subject to the terms of the Deposit Agreements, you will be deemed to have authorized and directed the Depository to give a discretionary proxy to the Voting Representative to attend and vote at the meeting all the securities represented by your GDSs in any manner the Voting Representative may wish, which may not be in the interests of GDS holders. If no Voting Representative is appointed, the Depository will endeavor to cause all the securities represented by your GDSs to be present but not cause the securities to be voted.

If the Depository receives timely voting instructions from holders for the election of directors and supervisors, the Depository will appoint the Voting Representative as the representative of the Depository and the holders of GDSs to attend the meeting and vote the securities represented by GDSs in accordance with the instructions received from holders, subject to restrictions imposed by ROC laws and our Articles of Incorporation.

By accepting and continuing to hold GDSs or any interest therein, a holder will be deemed to have agreed to the voting provisions set forth in the applicable Deposit Agreement, as such provisions may be amended from time to time to comply with applicable ROC law.

Please note that the ability of the Depository to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the Depository in a timely manner.

### **Right to submit Nominations**

Holders of one percent (1%) or more of our total issued and outstanding shares as of the applicable record date for determining holders of Shares with the right to vote at a meeting of our shareholders would be entitled to

submit a roster of candidates to be considered for nomination to our board of directors at a meeting of our shareholders involving the election of independent directors, provided that: (i) the number of independent director candidates contained in the nomination shall not exceed the number of the independent directors to be elected at such meeting, (ii) the nomination is submitted to us prior to the expiration of the period for submission of nominations, (iii) the nomination shall contain the name, educational background and past work experience of each independent director candidate identified in the nomination, (iv) the nomination shall include a letter of consent issued by each independent director candidate identified in the nomination consenting to act as director if she/he/it is elected as such, (v) a written statement by each independent director candidate assuring that she/he/it is not in violation of any of the circumstances set forth in Article 30 of the ROC Company Law, as amended, and (vi) any further conditions under Article 192-1 of the ROC Company Law, the ROC Securities Exchange Act and other applicable laws and regulations, each as amended, and of the Company's amended Articles of Incorporation are so satisfied.

As holder of the Deposited Securities, the Depository is entitled to submit only one nomination for each meeting involving the election of independent directors in respect of all of the shares held on deposit as of the applicable record date. Holders and Beneficial Owners of GDSs do not under ROC law have individual rights to submit nominations to us for consideration at a meeting of our shareholders involving the election of independent directors but may be able to submit a nomination to us for consideration at a meeting of our shareholders involving the election of independent directors if the Beneficial Owners (i) timely present their GDSs to the Depository for cancellation pursuant to the terms of the Deposit Agreements and become holders of shares in the ROC prior to the expiration of the applicable nomination submission period and prior to the applicable nomination record date, and (ii) otherwise satisfy the conditions of ROC law applicable to the submission of nominations to us for consideration at a meeting of our shareholders involving the election of independent directors. Beneficial Owners of GDSs may not receive sufficient advance notice of a meeting of our shareholders involving the election of independent directors to enable the timely withdrawal of Shares to make a nomination and may not be able to re-deposit under the Deposit Agreements the shares so withdrawn. We have informed the Depository that a nomination shall only be voted upon at a meeting of our shareholders involving the election of independent directors if the nomination is accepted by the board of directors of the Company as eligible in accordance with Article 192-1 of the ROC Company Law and our Articles of Incorporation for consideration at a meeting of the our shareholders involving the election of independent directors.

Holders and Beneficial Owners of GDSs do not have individual nomination rights. The Depository will if so requested by Beneficial Owner(s) as of the applicable record date that own(s), individually or as a group, at least 51% of the GDSs outstanding as of the applicable record date submit to us for consideration at a meeting of our shareholders involving the election of independent directors one nomination, provided that: (i) the number of independent director candidates contained in the nomination does not exceed the number of the independent directors to be elected at such meeting, (ii) the nomination contains the name, educational background and past work experience of each independent director candidate identified in the nomination, (iii) the nomination includes a letter of consent issued by each independent director candidate identified in the nomination consenting to act as director if she/he/it is elected as such, (iv) a written statement by each independent director candidate assuring that she/he/it is not in violation of any of the circumstances set forth in Article 30 of the ROC Company Law, the ROC Securities Exchange Act and other applicable laws and regulations, each as amended, (v) any further conditions under Article 192-1 of the ROC Company Law, as amended, and of our Articles of Incorporation are so satisfied, (vi) the nomination is submitted to the Depository by the nominating person(s) at least two (2) Business Days prior to the expiration of the applicable nomination submission period, (vii) the nomination is accompanied by a written certificates signed by each nominating person, addressed to the Depository and to us and in a form satisfactory to the Depository and to us certifying certain information set forth in the Deposit Agreements, (viii) the nomination is accompanied by a joint and several irrevocable undertaking of all nominating persons that each such nominating person shall pay all fees and expenses incurred in relation to the submission of the nomination at the meeting of our shareholders, and (ix) the shares registered in the name of the Depository or its nominee as representative of the Holders and Beneficial Owners constitute one percent (1%) or more of our total issued and outstanding Shares as of the candidate nomination record date. Each Beneficial Owner hereby agrees and acknowledges that in no event shall the Depository or its nominee be nominated by the nominating person(s) for election as a director at a meeting of the Company's shareholders.

Upon the timely receipt by the Depository of any nomination which the Depository reasonably believes to be in full compliance with the immediately preceding paragraph, the Depository shall submit a copy of such nomination and of the other materials received from the nominating person(s) to us prior to the expiration of the nomination submission period. The Depository shall not have any obligation to verify the accuracy of the information contained in any document submitted to it by the nominating person(s). Neither the Depository nor its nominee shall be obligated to attend and speak at the meeting of our shareholders involving the election of independent directors on behalf of the nominating person(s).

Notwithstanding anything contained in the Deposit Agreements or any GDR, the Depository shall not be obligated to provide to the Holders or Beneficial Owners of GDSs any notices relating to the nomination rights,



including, without limitation, notice of the nomination submission period, or the receipt of any nomination(s) from nominating persons, or of the holdings of any GDSs by any persons.

### **Right to Submit Proposals**

Under ROC Company Law holders of one percent (1%) or more of our total issued and outstanding shares as of the applicable record date for determining holders of shares with the right to vote at an annual ordinary meeting of our shareholders are entitled to submit one (1) written proposal each year for consideration at the annual ordinary meeting of our shareholders, provided that: (i) the proposal is in the Chinese language and does not exceed 300 Chinese characters (including the reason(s) for the proposal and all punctuation marks) in length, (ii) the proposal is timely submitted to us, (iii) only one (1) matter for consideration at the annual ordinary meeting of our shareholders shall be allowed in each proposal, and (iv) the proposing shareholder shall attend, in person or by a proxy, such annual ordinary meeting of our shareholders whereat the proposal is to be discussed in the Chinese language and such proposing shareholder, or his or her or its proxy, shall take part in the discussion of such proposal in the Chinese language.

As the holder of the Deposited Securities, the Depositary or its nominee is entitled, provided the conditions of ROC law are satisfied, to submit only one proposal each year in respect of all of the shares held on deposit as of the applicable record date. Holders and Beneficial Owners of GDSs do not under ROC law have individual rights to submit proposals to us for consideration at the annual ordinary meeting of our shareholders but may be able to submit proposals to us for consideration at the annual ordinary meeting of our shareholders if the Beneficial Owners (i) timely present their GDSs to the Depositary for cancellation pursuant to the terms of the Deposit Agreement and become holders of shares in the ROC prior to the expiration of the applicable submission period and prior to the applicable record date, and (ii) otherwise satisfy the conditions of ROC law applicable to the submission of proposals to us for consideration at an annual ordinary meeting of our shareholders. Beneficial Owners of GDSs may not receive sufficient advance notice of an annual ordinary meeting of our shareholders to enable the timely withdrawal of shares to make a proposal to the Company and may not be able to re-deposit under the Deposit Agreement the shares so withdrawn. We have informed the Depositary that a proposal shall only be voted upon at the annual ordinary meeting of our shareholders if the proposal is accepted by our board of directors as eligible in accordance with Article 172-1 of the ROC Company Law and our Articles of Incorporation for consideration at an annual ordinary meeting of our shareholders.

Holders and Beneficial Owners of GDSs do not have individual proposal rights. The Depositary will, if so requested by (a) Beneficial Owner(s) as of the applicable record date that own(s), individually or as a group, at least 51% of the GDSs outstanding as of the applicable record date submit to us for consideration at the annual ordinary meeting of our shareholders one proposal each year provided that (i) the proposal submitted to the Depositary is in the Chinese language and does not exceed 300 Chinese characters (including the reason(s) for the proposal and all punctuation marks) in length, (ii) the proposal is submitted to the Depositary at least two (2) Business Days prior to the expiration of the applicable submission period, (iii) the proposal is accompanied by written certificates signed by the submitting persons satisfying the requirements set forth in the Deposit Agreements, (iv) the proposal is accompanied by a joint and several irrevocable undertaking to pay all fees and expenses incurred in relation to the submission of the proposal, (v) the shares registered in the name of the Depositary or its nominee as representative of the Holders and Beneficial Owners constitute one percent (1%) or more of the total issued and outstanding shares as of the applicable record date, (vi) such proposal contains only one (1) matter for consideration at the annual ordinary meeting of our shareholders, and (vii) the submitting person(s) attend(s) the annual ordinary meeting of our shareholders and take(s) part in the discussions of the proposal in the Chinese language.

Upon the timely receipt by the Depositary of any proposal which the Depositary reasonably believes to be in full compliance with the terms of the Deposit Agreement, the Depositary shall submit a copy of such proposal and of the other materials received from the submitting persons to us prior to the expiration of the submission period. The Depositary shall not have any obligation to verify the accuracy of the information contained in any document submitted to it by the submitting person(s). Neither the Depositary nor its nominee shall be obligated to attend and speak at the annual ordinary meeting of our shareholders on behalf of the submitting person(s).

Notwithstanding anything contained in the Deposit Agreements or any GDR, the Depositary shall not be obligated to provide to the Holders or Beneficial Owners of GDSs any notices relating to the proposal rights, including, without limitation, notice of the submission period, or the receipt of any proposal(s) from submitting persons, or of the holdings of any GDSs by any persons.

### **Fees and Charges**

As a GDS holder, you will be required to pay the following service fees to the Depositary:

Service	Fees
Issuance of GDSs	Up to US\$0.05 per GDS issued
Cancellation of GDSs	Up to US\$0.05 per GDS canceled
Distribution of GDSs pursuant to securities dividends, free securities distributions or exercise of rights	Up to US\$0.05 per GDS held
Distribution of cash dividends or other cash distributions	Up to US\$0.05 per GDS held
Distribution of securities other than GDSs or rights to purchase additional GDSs	Up to US\$0.05 per GDS held
Depository services fee	Up to US\$0.05 per GDS held as of any record date established by the Depository
Transfer of GDR certificates	US\$1.50 per certificate presented for transfer

As a GDS holder you will also be responsible to pay certain fees and expenses incurred by the Depository and certain taxes and governmental charges such as:

- fees for the transfer and registration of shares charged by the registrar and transfer agent for the shares in the ROC upon deposits and withdrawals of shares;
- expenses incurred for converting foreign currency into US dollars;
- expenses for cable, telex and fax transmissions and for delivery of securities;
- taxes and duties upon the transfer of securities when shares are deposited or withdrawn from deposit.

We have agreed to pay certain other charges and expenses of the Depository. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the Depository. You will receive prior notice of such changes.

### **Amendments and Termination**

We may agree with the Depository to modify the Deposit Agreements at any time without your consent. We undertake to give GDS holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the Deposit Agreements. We will not consider to be materially prejudicial to your substantial rights any modifications or supplements that are reasonably necessary for the (i) GDSs to be registered under the Securities Act, and (ii) GDSs to be settled in electronic book-entry form, in each case without imposing or increasing the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the Deposit Agreements if you continue to hold your GDSs after the modifications to the applicable Deposit Agreements become effective. The Deposit Agreements cannot be amended to prevent you from withdrawing the shares represented by your GDSs (except as mandated by law).

We have the right to direct the Depository to terminate the Deposit Agreements. Similarly, the Depository may in certain circumstances on its own initiative terminate the Deposit Agreements. In either case, the Depository must give notice to the holders at least 30 days before termination.

After termination, the Depository will continue to collect distributions received (but will not distribute any such property until you request the cancellation of your GDSs) and may sell the securities held on deposit. After the sale, the Depository will hold the proceeds from such sale and any other funds then held for the holders of GDS in a non-interest bearing account. At that point, the Depository will have no further obligations to holders other than to account for the funds then held for the holders of GDSs still outstanding (after deduction of applicable fees, taxes and expenses).

## **Books of the Depositary**

The Depositary will maintain GDS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDSs and the Deposit Agreements.

The Depositary will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of GDSs. These facilities may be closed from time to time, to the extent not prohibited by law.

## **Limitations on Obligations and Liabilities**

The Deposit Agreements limit our obligations and the Depositary's obligations to you. Please note the following:

We and the Depositary are obligated only to take the actions specifically stated in the Deposit Agreements without negligence or bad faith.

The Depositary disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the Deposit Agreements.

The Depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to you on our behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in shares, for the validity or worth of the shares, for any tax consequences that result from the ownership of GDSs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the Deposit Agreements, for the timeliness of any of our notices or for our failure to give notice.

The Depositary will not be obligated in any way to maintain or enforce our obligations.

- We and the Depositary will not be obligated to perform any act that is inconsistent with the terms of the Deposit Agreements.
- We and the Depositary disclaim any liability if we are prevented or forbidden from acting on account of any law or regulation, any provision of our Articles of Incorporation, any provision of any securities on deposit or by reason of any act of God or war or terrorism or other circumstances beyond our control.
- We and the Depositary disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements or in our Articles of Incorporation or in any provisions of securities on deposit.
- We and the Depositary further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting shares for deposit, any holder of GDSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.
- We and the Depositary also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of shares but is not, under the terms of the Deposit Agreements, made available to you.
- We and the Depositary may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- We and the Depositary also disclaim any liability for consequential or punitive damages for any breach of the terms of the applicable Deposit Agreements.

## **Pre-Release Transactions and Pre-cancellation Transactions**

To the extent permitted by applicable laws and regulations, the Depositary may, in certain circumstances, issue GDSs before receiving a deposit of shares and deliver deposited shares prior to the delivery and cancellation of GDSs. These transactions are commonly referred to as “pre-release transactions” and “pre-cancellation transactions”, respectively. The Deposit Agreements limit the aggregate size of pre-release and pre-cancellation transactions and impose a number of conditions on such transactions, including the need to receive collateral, the type of collateral required and the representations required from brokers. The Depositary may retain the compensation received from the pre-release and pre-cancellation transactions.

## **Taxes**

You will be responsible for the taxes and other governmental charges payable on the GDSs and the securities represented by the GDSs. We, the Depositary and the Custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The Depositary may refuse to issue GDSs, to deliver, transfer, split and combine GDR certificates or to release securities on deposit until all taxes and charges are paid by the applicable holder. The Depositary and the Custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the Depositary and to the Custodian proof of taxpayer status and residence and such other information as the Depositary and the Custodian may require to fulfill legal obligations. You are required to indemnify us, the Depositary and the Custodian for any claims with respect to taxes based on any tax benefit obtained for you.

## **Foreign Currency Conversion**

Subject to ROC law, the Depositary will arrange for the conversion of all foreign currency received into US dollars if such conversion is practicable, and it will distribute the US dollars in accordance with the terms of the Deposit Agreements. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the Depositary may take the following actions in its discretion:

- convert the foreign currency to the extent practicable and lawful and distribute the US dollars to the holders for whom the conversion and distribution is lawful and practicable;
- distribute the foreign currency to holders for whom the distribution is lawful and practicable; or
- hold the foreign currency (without liability for interest) for the applicable holders.

## **Legends**

**The Rule 144A GDRs issued to represent the Rule 144A GDSs offered for sale herein shall contain, and all owners of Rule 144A GDSs shall be bound by the terms of, the following legend:**

NEITHER THIS RULE 144A GDR, NOR THE RULE 144A GDSs EVIDENCED HEREBY, NOR THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY, HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR AND THE RULE 144A GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR, THE RULE 144A

GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

THE BENEFICIAL OWNER OF RULE 144A DEPOSITED SECURITIES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDS MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SECURITIES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SECURITIES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE RULE 144A DEPOSITED SECURITIES OR THE RULE 144A GDSs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR OR A BENEFICIAL INTEREST IN THE RULE 144A GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

**The Regulation S GDRs issued to represent the Regulation S GDSs offered for sale herein shall contain, and all owners of Regulation S GDSs shall be bound by the terms of, the following legend:**

NEITHER THIS REGULATION S GDR, NOR THE REGULATION S GDSs EVIDENCED HEREBY, NOR THE REGULATION S DEPOSITED SECURITIES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE REGULATION S DEPOSITED SECURITIES REPRESENTED THEREBY EACH IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR AND THE REGULATION S GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE REGULATION S DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE REGULATION S DEPOSITED SECURITIES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND, PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD (DEFINED AS 40 DAYS AFTER THE LATER OF (I) THE COMMENCEMENT OF THE DISTRIBUTION OF (A) REGULATION S GDSs OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND ANY OTHER APPLICABLE LAW IN TRANSACTIONS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT AND (B) RULE 144A GDSs IN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS AND (II) THE CLOSING DATE WITH RESPECT TO THE REGULATION S GDSs), IN EACH CASE AS PART OF THE INITIAL DEPOSIT, ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT; PROVIDED

THAT IN CONNECTION WITH ANY TRANSFER UNDER (2) ABOVE, THE TRANSFEROR SHALL, PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE REGULATION S DEPOSITED SECURITIES REPRESENTED BY SUCH REGULATION S GDSs IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE REGULATION S DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH REGULATION S DEPOSITED SECURITIES BE DELIVERED TO THE CUSTODIAN UNDER THE RULE 144A DEPOSIT AGREEMENT FOR ISSUANCE, IN ACCORDANCE WITH THE TERMS AND CONDITIONS THEREOF, OF RULE 144A GDSs TO OR FOR THE ACCOUNT OF SUCH QUALIFIED INSTITUTIONAL BUYER.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR OR BENEFICIAL INTEREST IN THE REGULATION S GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, AT ANY TIME DURING THE RESTRICTED PERIOD, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS. UPON THE EXPIRATION OF THE RESTRICTED PERIOD, THIS REGULATION S GDR, THE REGULATION S GDSs EVIDENCED HEREBY AND THE REGULATION S DEPOSITED SECURITIES REPRESENTED THEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND; PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER AND SALE OF THE REGULATION S GDSs EVIDENCED HEREBY AND THE REGULATION S DEPOSITED SECURITIES REPRESENTED THEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE, TERRITORY OR POSSESSION OF THE UNITED STATES.

## SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN ROC GAAP AND US GAAP

Our consolidated financial statements have been prepared in conformity with ROC GAAP, which differ in certain significant respects from US GAAP. A brief description of certain significant differences between ROC GAAP and US GAAP is set out below. The regulatory organizations that promulgate ROC GAAP and US GAAP have projects ongoing that could have a significant impact on future comparisons such as the comparison below.

The summary is not intended to provide a comprehensive listing of all existing or future differences between ROC GAAP and US GAAP, including those specifically related to us and our subsidiaries or to the industries in which we operate. No attempt has been made to identify (a) future differences between ROC GAAP and US GAAP that may arise as a result of prescribed changes in accounting standards, or (b) disclosure, presentation or classification differences that would affect the manner in which transactions and events are reflected in our financial statements, or the financial statements of any of our subsidiaries, or the respective notes thereto. Further, had we undertaken to identify the differences specifically affecting the financial statements presented in these Listing Particulars, other potentially significant differences may have come to our attention which are not provided in the following summary. Accordingly, this summary is not intended to provide a complete description of all differences which may have a significant impact on our financial statements. US GAAP is generally more restrictive and comprehensive than ROC GAAP regarding the recognition and measurement of transactions, account classification and disclosure requirements.

The following discussion refers to our historical practices in preparing our financial statements in accordance with ROC GAAP. We expect that we will follow comparable practices when preparing our financial statements in the future.

In making any investment decision, the holder and beneficial owner of the GDSs must rely upon their own examination of us and the financial information. Potential investors shall consult their own professional advisors for an understanding of the differences between ROC GAAP and US GAAP and how these differences might affect the financial information included herein.

Management has not quantified the effects of the differences between ROC GAAP and US GAAP on our financial results or the financial results of any of our subsidiaries.

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### ROC GAAP

### US GAAP

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#### **Bonuses to Employees, Directors and Supervisors**

Under the ROC regulations and the company's Articles of Incorporation, a portion of distributable earnings should be set aside as bonuses to employees, directors and supervisors. Bonuses to directors and supervisors are always paid in cash. However, bonuses to employees may be granted in cash or shares or both. Shares issued as part of these bonuses are not necessarily recorded at fair value as they are normally determined based on a fixed amount determined and approved by the Board of Directors and Shareholders and the number of shares thereof are determined by simply dividing such fixed amount by the par value per share of NT\$10. All of these appropriations are charged against retained earnings after such appropriations are formally approved by the shareholders in the following year.

Bonuses and remuneration are generally estimated and expensed as services are rendered. Shares issued as part of these bonuses are recorded at fair market value. There is no "true-up" to the actual outcome.

Effective January 1, 2008, the directors' and supervisors' remunerations and employee bonuses are estimated and expensed in the period when services are rendered under ROC GAAP. This change in accounting principle is accounted for prospectively in accordance with ARDF

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Interpretation No. 2007-052.

However, a “true-up” (prior year) adjustment is made if the estimated amounts of employee bonus and directors’ and supervisors’ remuneration and actual outcomes resolved by the board of directors thereof differ.

### **Stock dividends**

Under ROC GAAP, stock dividends are recorded as a reduction to retained earnings using the par value of the stock issued, and the same amount is recorded to the common stock account. Unlike US GAAP, there is no such de minimis test for recording stock dividends using fair value method and for determining stock split.

Under US GAAP, when the ratio of distribution is less than 20% or 25% of shares of the same class outstanding, stock dividends are generally recorded based on the fair value method, with the par value recorded in the capital stock accounts and the excess of fair value over the par value being recorded as additional paid-in capital. Distribution in excess of 20% or 25% is generally considered as stock split.

### **Equity-method investments and other-than-temporary impairment**

Under ROC GAAP, in accordance with ROC SFAS No. 35, an equity-method investment is considered to be impaired if there is objective evidence of impairment as a result of one or more events that had occurred as of the balance sheet date indicating that the recoverable amount is below the carrying amount of the investment. Impairment is assessed at the individual security level. The recoverable amount is determined based on one of the two following approaches: (1) the discounted expected future net cash flows from the investee company; or (2) the combination of expected cash dividends from the investee company and the discounted cash flows from the ultimate disposal of the investment. The impairment loss is recorded in profit or loss. If the recoverable amount increases in the future period, the amount previously recognized as impairment loss could be reversed and recognized as a gain in profit or loss.

Under US GAAP, an equity-method investment is considered to be impaired if such impairment is other than temporary. The amount of the impairment loss is calculated by reference to the excess of the carrying value of the equity-method investment over its fair value. In determining whether a decline in value is other than temporary, the duration and severity of the decline in value, the financial condition of the investee, the extent of recovery in market value subsequent to the reporting date, and reports of external market analysts for the investee and/or the industry that the investee operates in were considered. Unlike ROC GAAP, an impairment loss recognized cannot be reversed subsequently.

### **Accounting for changes in ownership interest in investee companies**

Under ROC GAAP, when an investee company issues additional shares and the investor’s ownership interest changes as a result, any resulting difference between the investor’s investment balance and its proportionate share of the investee company’s net equity is adjusted to the investor’s investment account against the investor’s capital reserve or retained earnings if the related capital reserve balance is insufficient. Upon subsequent disposition of the investment, amounts previously recorded to capital reserve or retained earnings relating to the respective investment will be reversed and recorded as part of the gain or loss on disposal.

Under US GAAP, if the reduction in the investor’s equity interest occurs due to a public offering by the investee company to external investors, gain recognition is permitted provided the transaction is not ‘a part of a broader corporate reorganization’ planned by the investor company. Gains and losses arising from issuances by an investee company of its own stock should be presented as a separate line item in the consolidated income statement and clearly be designated as non-operating income.

Examples of situations where gain recognition would not be appropriate are:

- (a) where subsequent capital transactions are contemplated that raise concerns about the investor realizing the gain



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**ROC GAAP****US GAAP**

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that arises; or

- (b) where the investee company is a start-up company, a research and development company or an entity with going concern problems.

In such cases, realization is not assured and so the change in the investor's proportionate share of an investee's equity should be accounted as an equity transaction, i.e. through reserves.

**impairment of long-lived assets and long-lived assets to be disposed of**

Reversal of losses is permitted in certain circumstances, but no reversal is permitted for impairment of goodwill.

Reversals of impairment losses are prohibited.

**Accounting for financial instruments**

ROC GAAP allows classification of any financial asset or financial liability with an available public market price as financial assets/liabilities at fair value through profit or loss.

There is no such provision under US GAAP.

Reversals of impairment losses for held-to-maturity are permitted in certain circumstances.

Reversals of impairment losses are prohibited for held-to-maturity.

**Cost of sales**

Under ROC GAAP, the unrealized gross profit generated from downstream intercompany transactions for equity method investees is eliminated and presented as a reconciling item of realized gross profit in the statement of income. A corresponding liability is recorded for the amount of the unrealized gross profit in the balance sheet.

Under US GAAP, the unrealized gross profit generated from downstream transactions is generally charged against cost of sales and credited to the investment account.

**Segment information**

ROC GAAP requires disclosure of segmental information in the footnotes to the financial statements according to industry and geographic information, which need not necessarily be the same as the management's approach for reporting segmental information to the company's chief operating decision makers that are used internally for evaluating segmental performance and deciding resource allocation to segments.

Under US GAAP, a public business enterprise is required to present segmental information based on operating segments. Several operating segments may, provided aggregation criteria are met, be aggregated to reportable segments for which the required information is disclosed. Disclosure is based on the management's approach for reporting segmental information to the company's chief operating decision makers that are used internally for evaluating segmental performance and deciding resource allocation to segments.

**Statement of cash flows**

Under ROC GAAP, certificates of time deposits with original maturities of greater than three months and within one year are classified as cash and cash

Under US GAAP, certificates of time deposits with original maturities of over three months are classified as available-for-sale securities.

equivalents.

Under ROC GAAP, prior to January 1, 2008, remuneration to directors and supervisors and employee bonuses are presented under financing activities in the consolidated statement of cash flows. Effective January 1, 2008, such remuneration or bonuses are presented under operating activities in the consolidated statement of cash flows.

Under US GAAP, remuneration to directors and supervisors and employee bonuses are presented under operating activities in the consolidated statement of cash flows.

Under ROC GAAP, cash flows from the derivative financial instrument transactions are presented under operating activities in the consolidated statement of cash flows.

Under US GAAP, cash flows from the derivative financial instrument transactions are presented under investing activities in the consolidated statement of cash flows.

### Comprehensive income

Under ROC GAAP, there is currently no specific standard for accounting and reporting of comprehensive income.

Comprehensive income and its components (revenues, expenses, gains and losses) must be presented in a full set of financial statements under US GAAP. Comprehensive income includes all changes in stockholders' equity during a period except for those resulting from investments by or distributions to owners, including certain items not included in the current results of operations.

### Valuation of inventory

Prior to January 1, 2009, inventory is valued at the lower of cost or market. Market is determined on the basis of replacement cost or net realizable value. Any write-down of inventory that is no longer required must be reversed.

Inventory is valued at the lower of cost or market, with market limited to an amount that is not more than net realizable value nor less than net realizable value less a normal profit margin. Any write-down of inventory that is no longer required must not be reversed.

Effective January 1, 2009, under the amended ROC SFAS No. 10, "Inventory", market is determined on the basis of net realizable value.

### Employee stock options

Prior to January 1, 2008, the employee stock options were accounted for based on Interpretations (92) 070, 071 and 072 issued by the Accounting Research and Development Foundation, under which, the intrinsic value method is adopted to recognize the compensation cost, which is the difference between the market price of the stock and the exercise price of the employee stock option on the measurement date. Any compensation cost is charged to expense over the employee vesting period and increases the stockholders' equity accordingly.

Before the revised U.S. SFAS 123 became effective in 2006, US GAAP offered a choice of two methods to account for share based compensation (including stock options): either the intrinsic value method or the fair value method; under the intrinsic value method compensation cost is measured as the excess, if any, of the quoted price of the stock at the measurement date over the amount paid by the employee. Under the fair value method, compensation cost is measured at the fair value of the award on the applicable measurement date. U.S. SFAS 123 (R), which is effective for the annual reporting beginning after December 15, 2005, establishes fair value as the measurement objectives in accounting for share-based payment arrangements (including employee stock options) and requires all entities to apply a fair-value based measurement method in accounting for share-based transactions with employees, except for equity instruments held by employee share ownership plans. However, it provides certain exceptions to

Effective from January 1, 2008, under ROC SFAS No. 39, "Accounting for Share-based Payment," share based payment transactions are measured at fair value and charged against profit and loss.

that measurement method if it is not possible to reasonably estimate the fair value of an award at the grant date.

### Treasury stock

When a company acquires its outstanding shares as treasury stock, the acquisition cost is debited to the treasury stock account if the shares are purchased. The carrying value of treasury stock is calculated by using the weighted average approach according to the same class of treasury stock (common stock or preferred stock).

Only cost method is allowed under ROC GAAP.

Under ROC GAAP, for a stock purchase plan that is effective prior to January 1, 2008, the difference, if any, between the cost paid by the company for the treasury stock and the cash received from employees is charged to a shareholders' equity account. However, the ARDF Interpretation No. 96-266, "Accounting for treasury stock purchased by employees" issued in 2008, requires recognition of compensation expenses on treasury stock sold to employees from the stock purchase plan that is effective from January 1, 2008.

### Income tax

ROC SFAS No. 22 "Accounting for Income Taxes" which was issued in June 1994, is substantially similar to US GAAP. However, under ROC GAAP, the criteria for determining whether a valuation allowance is required are less stringent as compared to US GAAP.

Under ROC GAAP, in accordance with ROC SFAS 22, there are no differences in the calculation of income tax provision and the same corporate income tax rate of 25% is adopted for both periods between annual financial statements and interim quarterly financial statements.

Companies in the ROC are subject to a 10% tax on profits retained and earned after December 31, 1997. If the retained profits are distributed to the shareholders in the following fiscal year, no 10% surtax is due. Under ROC GAAP, income tax expense is recorded in the statement of operations in the following fiscal year if the earnings are not distributed to the shareholders.

Two general methods of handling treasury stock in the accounts are the cost method and the par value method. Both methods are generally acceptable. The cost method is debiting the Treasury Stock account for the reacquisition cost and reporting this account as a deduction from the total paid-in capital and retained earnings on the balance sheet. The par value method records all transactions in treasury shares at their par value and reports the treasury stock as a deduction from capital stock only. An excess of purchase price over par value may be allocated between capital surplus and retained earnings. Alternatively, the excess may be charged entirely to retained earnings. An excess of par value over purchase price should be credited to capital surplus.

Under US GAAP, current tax liabilities are recognized for estimated taxes payable for the current period. U.S. SFAS No. 109 requires that all temporary differences between the carrying amounts of assets and liabilities and their respective tax bases be recognized as deferred tax liabilities or assets. A valuation allowance is not provided on tax assets to the extent that it is not "more likely than not" that such deferred tax assets will be realized. Under US GAAP, if a company has experienced cumulative losses in recent years, it is not generally able to consider projections of future operating profits for the purpose of determining the valuation allowance for deferred income tax assets. A change in tax rate or law requires an adjustment to such deferred tax assets and liabilities in the period of enactment and is reported as part of the results of operations.

Under US GAAP, tax provisions in interim quarterly financial statements are provided based on an estimated effective tax rate expected to be applicable to the full fiscal year. Such estimated effective tax rate takes into account all anticipated tax attributes for the full fiscal year.

Under US GAAP, income tax expense related to the 10% retained profit tax is recorded in the statement of income in the year that the profits were earned based on management's estimate of the amount of profits to be retained. The income tax expense, including the tax effects of temporary differences, is measured by using the rate that includes the estimated tax on undistributed earnings.

**Earnings per share**

Under ROC GAAP, basic earnings per share are calculated by dividing net income attributable to common shareholders by the weighted average number of shares outstanding during the year. The shares distributed for employee bonus are treated as outstanding at the beginning of each period. Diluted earnings per share are calculated by taking basic earnings per share into consideration plus additional common shares that would have been outstanding if the dilutive share equivalents had been issued. Net income is also adjusted for the interest and other income or expenses derived from any underlying dilutive share equivalents. The weighted average shares outstanding are adjusted retroactively for stock dividends issued, capitalization of additional paid-in capital and employee bonus. Anti-dilutive effects are not included in the dilutive EPS calculation. Under the ARDF Interpretation No. 97-169 "Impacts of Employee Stock Bonuses on Earnings Per Share" which took effect in 2008, the shares distributed for employee bonus are treated as outstanding as of their grant date in the calculation of basic earnings per share after 2008. For employee bonus that may be distributed in shares, the number of shares to be distributed is taken into consideration assuming the distribution will be made entirely in shares when calculating for diluted earnings per share in and after 2008. Commencing from 2009, distribution of employees' bonus in the form of shares is not adjusted retroactively.

Under US GAAP, when a simple capital structure exists, basic earnings per share is based on the weighted average number of shares outstanding. When a complex capital structure exists, diluted earnings per share is based on the weighted average number of shares outstanding plus the number of additional shares that would have been outstanding if dilutive potential common shares had been issued, with appropriate adjustments to income or loss that would result from the assumed conversions of those potential common shares. The materiality of the dilutive effect is not considered.

**Disclosure of new accounting pronouncements**

Under ROC GAAP, disclosure of recently issued accounting standards but not yet effective as of the balance sheet date is not required.

US GAAP requires disclosure of the impact that recently issued accounting standards will have on the financial statement of the company when adopted in the future

## ADDITIONAL INFORMATION

### Approval and Consents

The listing of the GDSs was authorized and approved by our board of directors at the meeting held on July 9, 2010. All consents, approvals, authorizations or other orders required under the prevailing laws of the ROC have been given or obtained for the listing of the GDSs.

### Listing

Application has been made to list the Regulation S GDSs and the Rule 144A GDSs on the official list of the Luxembourg Stock Exchange and to trade on the Euro MTF of the Luxembourg Stock Exchange. For so long as any of the GDSs are outstanding and listed on the official list of the Luxembourg Stock Exchange and traded on the Euro MTF of the Luxembourg Stock Exchange, we will publish all notices to holders of the GDSs on the website of the Luxembourg Stock Exchange, which is [www.bourse.lu](http://www.bourse.lu).

### Clearance System and Settlement

The GDSs have been accepted for clearance and settlement through the facilities of the DTC, Euroclear and Clearstream. Relevant trading information is set forth below:

	ISIN	CUSIP	Common Code
Rule 144A GDSs.....	US7055801085	705580108	053108083
Regulation S GDSs.....	US7055802075	705580207	053056768

### Share Capital

The authorized capital of the Company is NT\$28,000,000,000, divided into 2,800,000,000 Common Shares, at a par value of NT\$10 per share. As of June 10, 2010, the Company has issued 2,286,063,935 shares representing issued capital of NT\$22,860,639,350. The shares may be issued in installments, and the shares which have not been issued would be authorized to board of directors to issue in installments. Of the total registered capital, NT\$2,000,000,000 divided into 200,000,000 Common Shares are reserved for the issuance of stock options, warrants attached to preferred shares and warrants attached to corporate bonds, which may be issued in installments pursuant to the resolution of board of directors.

### Principle Future Investments

As of the date hereof, we do not have any definitive plan for a principle future investment.

### Form of the Common Shares

According to article 7 of our Articles of Incorporation, share certificates of the Company shall be in registered form, attached with serial numbers and signed or sealed by at least three directors, and issued after the authentication in accordance with laws. The issued shares may be exempted from printing any share certificate and a consolidated share certificate representing the total number of each issuance may be printed, provided that such issuance shall be duly registered or kept with the securities depository and clearing agent.

### Restrictions of Transferability

The ROC Securities and Exchange Law (1) requires each director, supervisor, manager or shareholder holding more than 10% of the shares of a public company to report, on a monthly basis, any changes in that person's shareholding to the company and (2) limits the number of shares that can be sold or transferred on the TWSE by that person per day.

### Classes of Common Shares and Voting Rights

According to article 14 of our Articles of Incorporation, except in the circumstances set forth in Article 179 of the Company Act where there is no voting right for a share, each shareholder of the Company shall have one vote for each share held.

Unless otherwise specified in the Company Act, resolutions at a shareholders' meeting shall be adopted by a majority vote of the shareholders present in person or through proxy, who represent more than one-half of the total number of voting shares.

See below "Articles of Incorporation—Annual general meetings and extraordinary general meetings" for further provisions on proceedings of shareholders' meetings.

### **Available Documents**

Copies of our Articles of Incorporation, Charter and By-laws of the Depositary, the two Deposit Agreements and the Spin-off Plan will, for so long as the GDSs are listed on the official list of the Luxembourg Stock Exchange and traded on the Euro MTF of the Luxembourg Stock Exchange, be available for inspection during usual business hours on any weekday (except public holidays) at the offices of the listing agent in Luxembourg. We have prepared consolidated financial statements of and for the years ended December 31, 2008 and 2009 and the three months ended March 31, 2010 in accordance with ROC GAAP. In addition, English copies of 2007, 2008, and 2009 pro forma financial statements prepared solely for the purpose of regulatory requirements in relation to the listing of our Common Shares on the TWSE in June 2010 may be inspected at the registered office of the Company or on the website of the Company (<http://www.pegatroncorp.com/>) where such documents can be downloaded. As long as any of the GDSs remain outstanding, English copies of our most recent (i) audited consolidated annual and audited consolidated semi-annual financial statements; (ii) audited unconsolidated annual and audited unconsolidated semi-annual financial statements; and (iii) unaudited consolidated and unconsolidated quarterly financial statements published by us will be delivered to and be obtainable from the offices of the listing agent specified on the back cover of these Listing Particulars and so long as the GDSs are listed and traded on the Luxembourg Stock Exchange in Luxembourg. We are required by the ROC law or under the ROC GAAP to publish audited consolidated and unconsolidated annual and semi-annual financial statements and unaudited consolidated and unconsolidated quarterly financial statements, which can be downloaded from our website (<http://www.pegatroncorp.com/>). Any financial notices (such as dividend notices, rights issues, capital increase, etc) will be published on (1) the website of the TWSE (<http://newmops.twse.com.tw>); and (2) the website of the Company (<http://www.pegatroncorp.com/>).

Prior to the approval by Asustek GDS Holders who participated in the Spin-off, information necessary to enable Asustek GDS Holders to make an informed decision has been provided through Citibank, N.A, the Depositary for Asustek's existing GDS facility. Relevant filings have also been made and published in English on (1) the website of the United States Securities and Exchange Commission ([www.sec.gov](http://www.sec.gov)); and (2) the website of the TWSE (<http://newmops.twse.com.tw>).

The Bank of New York Mellon (Luxembourg) SA, will, for so long as the GDSs are listed on the Luxembourg Stock Exchange, serve as an intermediary between the Luxembourg Stock Exchange and persons connected with the issue and listing of the GDSs.

### **Registration**

We are registered with the ROC Ministry of Economic Affairs. Our registration number is 28689155. Our Common Shares trade on the TWSE under the stock code 4938. Our registered office is located at 5F, No. 76, Ligong Street, Beitou District, Taipei 11259, Taiwan (ROC).

### **Articles of Incorporation**

#### ***The Company's objects and purposes***

According to article 2 of our Articles of Incorporation, the business scope of the Company is as following: (i) restrained telecom radio frequency equipments and materials manufacturing; (ii) restrained telecom radio frequency equipments and materials import; and (iii) all business items that are not prohibited or restricted by laws and regulations, except for those subject to special approval.

#### ***Board of directors and supervisors***

##### *General provisions*

According to chapter 4 of the Articles of Incorporation, the board of directors is composed of directors. The functions and responsibilities of the board of directors shall be as follows:

- To determine the business plans,
- To propose distribution of profit or appropriation of losses,

- To propose capital increase or decrease,
- To enact important rules and organizational regulations of the Company,
- To engage and terminate the manager of the Company,
- To determine the establishment and winding-up of branches,
- To produce the budget and the final accounts, and
- To perform other duties authorized by the Company Act or the resolution of the shareholders' meeting(s).

According to chapter 4 of the Articles of Incorporation, the power and duties of supervisors are as follows:

- To audit the financial status of the Company,
- To audit the accounting books and documents of the Company,
- To inquire about the business of the Company,
- To approve the budget and the final accounts,
- To review the proposal of distribution of profit or appropriation of losses, and
- To perform other duties authorized by the Company Act.

The Company shall have five to nine directors and one to three supervisors. The term of their offices shall be three years. They shall be elected from among persons with full legal capacity by the shareholders' meeting and may be re-elected for consecutive terms. During the term of their offices, the Company may purchase liability insurance for the directors and supervisors to indemnify them for the potential liabilities, according to the relevant laws, to be borne by the directors and supervisors when they perform their duties for the Company.

After the public issuance of the Company's shares, the Company may have independent directors within the aforementioned number of directors and the number of independent directors shall be no less than one-fifth of the total number of directors and shall not be less than two. The Company is required to adopt a candidate nomination system for election of our independent directors. The professional qualifications, shareholdings, restrictions on concurrent position, nomination, and other compliance matters shall be handled in accordance with relevant regulations of the securities authorities.

The Chairman will be elected among directors by a majority vote at a board meeting at which at least two-thirds of directors are present, and one Vice Chairman may be elected among directors in view of business need. The Chairman shall be the representative of the Company externally.

The remuneration of directors and supervisor may be determined by taking into account their participation in the Company's business, the value of their contribution, and domestic and overseas industry standards. Furthermore, if the director of the Company holds any position in the Company, in addition to the remuneration distributed pursuant to article 28 of Articles of Incorporation (see below "Accounting and dividends"), monthly payment of salary based on the standard of managers may also be granted.

The Company may have various managers. The appointment, discharge and the remuneration of the managers shall be handled in accordance with Article 29 of the Company Act.

#### ***Proceedings of the meetings of board of directors***

Board meetings shall be convened by the Chairman unless the Company Act provides otherwise. Unless otherwise provided for in the Company Act, resolutions of the board of directors shall be adopted by a majority of the directors present at a meeting attended by a majority of the directors.

The Chairman will preside the board meetings. In the event that the Chairman is on leave or unable to perform his/her duties, the deputy shall be appointed in accordance with Article 208 of the Company Act. The directors shall personally attend the board meeting, and if the directors cannot attend the board meeting for certain reasons, he/she may appoint another director as his/her proxy each time with a power of attorney stating the scope of authority with reference to the subjects to be discussed at the meeting and powers granted; provided that a director may act as the

proxy for only one another director. For the directors who live overseas, he/she may appoint other shareholders who live domestically in writing to be his/her deputy to attend the board meeting regularly.

The board meeting may be convened via video conference, and the directors who attend the board meeting via video conference shall be deemed to have attended the meeting in person.

Convening the board meeting shall be handled in accordance with Article 204 of the Company Act. If the board meeting needs to be convened due to emergency, notice may be made by fax or e-mail instead of written notice, and the board meeting may be convened at any time.

#### ***Ordinary shareholders meetings and extraordinary shareholders meetings***

According to article 11 of the Articles of Incorporation the Company's shareholders' meeting shall be of two types: ordinary shareholders' meeting and extraordinary shareholders' meeting. Ordinary shareholders' meeting shall be convened at least once a year, and shall be convened within six months after close of each fiscal year. Extraordinary shareholders' meeting shall be convened when necessary in accordance with the relevant laws and regulations.

A notice to convene an ordinary shareholders' meeting shall be given to each shareholder no later than 30 days prior to the scheduled meeting date, and a notice to convene an extraordinary shareholders' meeting shall be given to each shareholder no later than 15 days prior to the scheduled meeting date. Such notice shall specify the meeting date, meeting venue, and proposed agendas and be sent to the shareholders in writing or by electronic transmission, provided that for the shareholders who hold less than 1,000 Common Shares, such notice may be publicly announced instead.

The shareholders who hold 1% or more may submit the written proposal to the Company when convening the ordinary shareholders' meeting, provided that only one proposal may be submitted for each shareholder. If there is more than one proposal, all the proposals shall not be listed in the agenda. Relevant procedures shall be handled in accordance with the Company Act and relevant regulations.

When the shareholders meeting was convened at the request of the board of directors, the shareholders' meeting shall be presided by the Chairman of the board of directors. If the Chairman is absent, the Chairman may designate one of the directors to act on his/her behalf. Where the Chairman does not designate a proxy, the directors may elect a person among themselves to act as the chairman of the meeting. When the shareholders' meeting was convened by other persons who has the right to make such request, the shareholders' meeting shall be presided by the person who requested the meeting. When there are two or more of such persons, they shall elect among themselves to act as the chairman of the meeting.

Resolutions adopted at a shareholders' meeting shall be recorded in the minutes of the meeting, which shall be affixed with the signature or seal of the chairman of the meeting and shall be distributed in writing or by electronic transmission to all shareholders of the Company within twenty days after the close of the meeting. The distribution of the minutes of shareholders' meeting to the registered stock holders whose shareholding is less than 1,000 shares may be effected by means of a public notice.

When a shareholder for any reasons cannot attend the shareholders' meeting in person, he/she/it may attend the meeting by proxy by executing a power of attorney form provided by the Company stating therein the scope of power authorized to the proxy. The proxy for attending the shareholders' meeting shall be handled in accordance with Article 177 of the Company Act and the promulgated Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies.

If the shareholder of the Company is composed of a sole institutional shareholder, functions of the Company's shareholders' meetings shall be carried out by the Company's board of directors. In that case, all provisions in the Company's Articles of Incorporation in connection with shareholders' meetings shall not apply.

#### ***Accounting and dividends***

The fiscal year of the Company is from January 1 to December 31. Final accounts shall be handled at the end of each fiscal year. After the end of each fiscal year, the board of directors shall produce the following documents and statements to the supervisor for review 30 days prior to the ordinary shareholders' meeting, and then submit the same and the supervisor's report to the ordinary shareholders' meeting for recognition in accordance with Article 228 of the Company Act. The documents to be produced and submitted are: (i) business report, (ii) financial statements and (iii) proposal for distribution of profit or appropriation of losses.



The distribution of dividend and profit shall be based on the shareholding of each shareholder. If the Company does not have any earnings, no dividend or profit may be distributed.

When it is determined that the Company has earnings for a fiscal year, the earnings shall firstly be appropriated to profit-seeking enterprise income tax payable, and make up the losses of previous years. Then, the Company shall reserve 10% of the remaining earnings as the legal reserve if there is any remaining amount, unless the accumulated legal reserve has amounted to the total capital, and then set aside special reserve in accordance with the requirements under the laws and regulations or of the competent authorities. Should there be any residual, it may be distributed according to the following sequence:

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

According to our Article of Incorporation, not less than 10% of the total dividend to be paid with respect to any fiscal year shall be paid in the form of cash. The distribution of the dividends to shareholders is limited to the shareholders recorded in the shareholders' register five days prior to the record date for distribution of dividends and bonus as determined.

#### **Legal Proceedings**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during the period covering the 12 months prior to the date of these Listing Particulars, which may have or have had in the previous 12 months significant effects on our financial position or profitability.

#### **Convertible Debt, Exchangeable Debt, or any Debt Securities with Warrants**

As of the date of these Listing Particulars, there are no outstanding convertible debt securities, exchangeable debt securities or debt securities with warrants attached.

#### **No Material Change**

There has been no material adverse change in our financial position since December 31, 2009, the date of our last audited consolidated financial statements. There has been no material adverse change in our financial condition, capitalization or prospects since March 31, 2010.

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(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 consolidated balance sheet of Pegatron Corporation and its subsidiaries (the Consolidated Company) as of March 31, 2010, and the related consolidated statement of income and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue the review report based on our review.

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

The consolidated financial statements of certain subsidiaries were consolidated based on their unreviewed financial statements as of and for the three-month period ended March 31, 2010. As of March 31, 2010, total assets of these subsidiaries amounted to \$145,017,190 thousand, representing 66.29% of the related consolidated total assets and total liabilities amounted to \$43,731,682 thousand, representing 43.69% of the related consolidated liabilities. For the three-month period ended March 31, 2009, the operating revenues of these subsidiaries amounted to \$27,714,331 thousand, representing 21.30% of the consolidated operating revenues and their net income amounted to \$915,182 thousand, representing 32.71% of the consolidated net income. As disclosed in Note (4) (e) to the consolidated financial statement, the financial statements of certain long-term investments accounted for under the equity method were not reviewed by independent accountants. Long-term investments in these companies amounted to \$2,036,817 thousand as of March 31, 2010 and the related investment income thereon amounted to \$45,611 thousand for the three-month period then ended.

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

The consolidated company issued the consolidated financial statements as of and for the three months then ended March 31, 2010, which were the first time the consolidated company issued consolidated financial statements to public after initial public offering (IPO). These consolidated financial statements covered a single period only in conformity with the regulation issued by Financial Supervisory Commission Executive Yuan and which did not conform to the "Rules Governing the Preparation of Financial Statements by Securities Issuers".

KPMG

Taipei, Taiwan, R.O.C

April 20, 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 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.

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

**(English Translation of Financial Report Originally Issued in Chinese)**  
**Reviewed only, not audited in accordance with generally accepted auditing standards.**  
**Pegatron Corporation And Its Subsidiaries**

**CONSOLIDATED BALANCE SHEET**  
**March 31, 2010**

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

Assets	March 31, 2010	
	Amount	%
<b>Current Assets:</b>		
Cash (Notes (4)(a)) .....	\$ 35,845,618	16
Financial assets reported at fair value through profit or loss — current (Notes (4)(b)) .....	7,632,546	3
Available for sale financial assets — current (Notes (4)(b)) .....	981,274	1
Notes receivable, net of allowance for uncollectible accounts (Notes (4)(c) and (5)) .....	29,932	—
Accounts receivable, net of allowance for uncollectible accounts (Notes(4)(c)) .....	43,646,617	20
Accounts receivable— related parties (Note (5)) .....	10,158,457	5
Other receivables, net of allowance for uncollectible accounts .....	1,379,370	1
Other receivables— related parties (Note (5)) .....	703,881	—
Other financial assets — current (Note (6)) .....	148,610	—
Inventories (Notes (4)(d) and (6)) .....	48,749,584	22
Other current assets .....	1,606,639	1
Deferred income tax assets — current (Notes (4)(i)) .....	589,087	—
	151,471,615	69
<b>Investments:</b>		
Available-for-sale financial assets — noncurrent (Notes(4)(b)) .....	2,043,394	1
Financial assets measured at cost - noncurrent (Notes(4)(b)) .....	773,805	—
Long-term investments under the equity method (Notes (4)(e)) .....	2,036,817	1
	4,854,016	2
<b>Other Financial Assets — Noncurrent (Note (6)) .....</b>	<b>404,935</b>	<b>—</b>
<b>Property, Plant and Equipment, at cost :(Notes (4)(g) and (6))</b>		
Land .....	2,805,128	1
Buildings .....	23,110,916	11
Machinery and equipment .....	45,617,321	21
Warehousing equipment .....	114,103	—
Instrument equipment .....	1,658,488	1
Transportation equipment .....	200,882	—
Office equipment .....	1,072,240	—
Miscellaneous equipment .....	5,967,804	3
	80,546,882	37
Less: Accumulated depreciation .....	(29,371,799)	(13)
Less: Accumulated impairment .....	(179,793)	—
Prepayments on purchase of equipment .....	2,370,283	1
	53,365,573	25
<b>Intangible Assets (Notes (4)(h) and (6))</b>		
Goodwill .....	890,002	1
Deferred pension costs .....	4,894	—
Land use rights .....	2,360,767	1
Other intangible assets .....	434,974	—
	3,690,637	2
<b>Other Assets:</b>		
Deferred expenses (Notes(4)(i)) .....	2,995,922	1
Other Assets — Others (Notes (4)(g), (4)(i) and (6)) .....	1,963,854	1
	4,959,776	2
<b>Total Assets .....</b>	<b>\$ 218,746,552</b>	<b>100</b>

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

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(English Translation of Financial Report Originally Issued in Chinese)  
Reviewed only, not audited in accordance with generally accepted auditing standards.  
Pegatron Corporation And Its Subsidiaries  
Consolidated Balance Sheet (Cont'd)  
March 31, 2010  
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

Liabilities And Stockholders' Equity	March 31, 2010	
	Amount	%
<b>Current Liabilities:</b>		
Short-term debt (Note (4)(j)) .....	\$ 7,622,538	3
Short-term notes and bills payable.....	49,936	—
Financial liabilities at fair value through profit or loss – current (Notes(4)(b)).....	14,948	—
Derivative financial liability for hedging purposes (Notes(4)(b)).....	5,619	—
Notes payable .....	158,225	—
Accounts payable.....	59,196,837	27
Accounts payable – related parties (Note (5)).....	1,477,753	1
Income tax payable.....	1,871,915	1
Accrued expenses – non–related parties .....	8,723,878	4
Accrued expenses – –related parties (Note (5)).....	55,322	—
Dividend payable (Note (5)).....	4,000,594	2
Current portion of long–term loans payable (Notes(4)(l)).....	70,864	—
Other financial liabilities – current .....	1,289,048	—
Other current liabilities (Note (5)).....	5,507,789	3
	<u>90,045,266</u>	<u>41</u>
<b>Long–Term Liabilities:</b>		
Bonds payable (Notes(4)(k)) .....	1,350,622	1
Long–term debt payable (Notes(4)(l)).....	8,040,435	4
Other financial liabilities – noncurrent .....	205,394	—
	<u>9,596,451</u>	<u>5</u>
<b>Other Liabilities:</b>		
Deferred income tax liabilities – noncurrent.....	326,591	—
Other long–term liabilities– other.....	126,494	—
	<u>453,085</u>	<u>—</u>
<b>Total Liabilities</b> .....	<u>100,094,802</u>	<u>46</u>
<b>Stockholders' Equity:</b>		
Common stock –authorized 2,500,000 thousand shares, 2,286,054 thousand shares issued and outstanding as of March 31, 2010 (Notes(4)(o)).....	22,860,539	10
<b>Capital Surplus (Note (4)(o))</b>		
Premium on capital stock.....	61,188,108	28
Others .....	2,608,589	1
	<u>63,796,697</u>	<u>29</u>
<b>Retained Earnings (Note (4)(o)):</b>		
Legal reserve.....	1,215,457	—
Unappropriated earnings.....	3,817,485	2
<b>Other Adjustments to Stockholders' Equity:</b>		
Cumulative translation adjustments.....	(225,012)	—
Unrecognized loss on pension cost .....	(3,202)	—
Unrealized gain of financial assets .....	1,692,848	1
<b>Total Parent Company's Equity</b> .....	<u>93,154,812</u>	<u>42</u>
<b>Minority interest</b> .....	<u>25,496,938</u>	<u>12</u>
<b>Total Stockholders' Equity</b> .....	<u>118,651,750</u>	<u>54</u>
<b>Commitments and Contingencies (Note (7))</b>		
<b>Total Liabilities And Stockholders' Equity</b> .....	<u>\$ 218,746,552</u>	<u>100</u>

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

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

**CONSOLIDATED STATEMENT OF INCOME**

Three Months Ended March 31, 2010

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

	Three Months Ended March 31, 2010	
	Amount	%
<b>Operating revenues (Note (5))</b> .....	\$130,845,702	101
Less: Sales returns and allowances.....	740,290	1
<b>Net sales</b> .....	130,105,412	100
<b>Cost of sales (Notes (4)(d) and (5))</b> .....	121,687,404	94
<b>Gross profit</b> .....	8,418,008	6
<b>Operating expenses (Notes (5))</b>		
Selling expenses.....	1,488,688	1
General and administrative expenses .....	1,640,230	1
Research and development expenses .....	2,031,703	2
	5,160,621	4
<b>Income from operations</b> .....	3,257,387	2
<b>Non-operating incomes</b>		
Interest revenue .....	26,139	-
Investment income under the equity method .....	45,611	-
Gain on disposal of investments.....	76,210	-
Gain on valuation of financial asset .....	5,625	-
Others.....	717,474	1
	871,059	1
<b>Non-operating expenses</b>		
Interest expense.....	40,725	-
Loss on disposal of assets .....	51,862	-
Foreign exchange loss, net .....	2,395	-
Impairment loss.....	8,156	-
Loss on valuation of financial liability .....	20,950	-
Others.....	74,220	-
	198,308	-
<b>Income before income tax</b> .....	3,930,138	3
<b>Income Tax (Note (4)(n))</b> .....	1,132,243	1
<b>Consolidated net income</b> .....	\$2,797,895	2
<b>Income attributable to:</b>		
Shareholders of parent company .....	\$1,775,316	1
Minority interest income .....	1,022,579	1
	\$2,797,895	2
	<b>Before</b>	<b>After</b>
	<b>Income Tax</b>	<b>Income Tax</b>
Earnings per share attributable to parent company (Notes (4)(q))		
Primary earnings per share .....	\$1.13	0.78
Diluted earnings per share.....	\$1.11	0.77

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

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Pegatron Corporation And Its Subsidiaries

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**Three Months Ended March 31, 2010**  
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	<b>Three Months Ended March 31, 2010</b>
<b>Cash flows from operating activities:</b>	
Consolidated net income .....	\$2,797,895
<b>Adjustments to reconcile net income to net cash provided by/(used in) operating activities:</b>	
Depreciation.....	1,951,420
Amortization .....	576,838
Ownership of employee stock option and treasury stock were transferred to employee compensation cost.....	5,433
Amortization of discount on bonds payable .....	5,151
Loss for market price decline and obsolete and slow-moving inventories.....	135,753
Investment income under the equity method .....	(45,611)
Gain on disposal of investments .....	(76,210)
Loss on disposal of assets .....	62,375
Loss on valuation of financial asset .....	15,325
Impairment loss .....	8,156
<b>Change in assets and liabilities:</b>	
Financial assets reported at fair value through profit or loss — current .....	(307,136)
Notes and accounts receivable .....	13,977,148
Other receivables .....	(648,323)
Inventories .....	(5,475,405)
Other current assets.....	232,618
Deferred income tax assets and liabilities, net .....	361,162
Other assets .....	(61,602)
Financial liabilities at fair value through profit or loss — current .....	16,525
Derivative financial liability for hedging purposes.....	5,619
Notes and accounts payable .....	(7,089,102)
Income tax payable .....	595,750
Accrued expenses .....	627,762
Other financial liabilities — current .....	(460,712)
Other current liabilities .....	(220,546)
Other liabilities — current .....	75,285
Net Cash provided by Operating activities	7,065,568

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



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Pegatron Corporation And Its Subsidiaries  
**CONSOLIDATED STATEMENT OF CASH FLOWS (Cont'd)**  
**Three Months Ended March 31, 2010**  
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	Three Months Ended March 31, 2010
<b>Cash flows from investing activities:</b>	
Decrease in other financial assets .....	\$47,517
Increase in long-term investments under the equity method.....	(36,609)
Disposal of long-term investments .....	127,635
Purchase of property, plant and equipment.....	(2,299,931)
Disposal of property, plant and equipment, deferred charges and idle assets .....	1,369,038
Purchase of deferred charges .....	(280,791)
Purchase of intangible assets .....	(91,718)
Decrease in other financial assets — noncurrent .....	63,372
<b>Net cash used in investing activities .....</b>	<b>(1,101,487)</b>
<b>Cash flows from financing activities:</b>	
Increase in short-term loans .....	(3,256,501)
Increase in short-term notes and bills payable .....	2
Increase in bonds payable .....	1,497,401
Decrease in long-term loan .....	(14,463)
Decrease in other financial liabilities — noncurrent.....	(35,911)
Increase in minority interest .....	10,000
<b>Net cash used in financing activities .....</b>	<b>(1,799,472)</b>
<b>Foreign exchange rate effects.....</b>	<b>(161,411)</b>
<b>Effect of changes of certain subsidiaries .....</b>	<b>(3,860)</b>
<b>Net increase in cash .....</b>	<b>3,999,338</b>
<b>Cash, beginning of the period .....</b>	<b>31,846,280</b>
<b>Cash, end of the period.....</b>	<b>\$35,845,618</b>
<b>Supplemental disclosures of cash flow information:</b>	
<b>Cash paid during the period for:</b>	
Interest .....	\$34,614
Income tax .....	\$172,232
<b>Non-cash investing and financing activities:</b>	
Current portion of long-term loans payable .....	70,864
Dividend payable .....	\$4,000,594
<b>Purchase of property and equipment with cash and other payables:</b>	
Property, plant and equipment .....	\$2,403,973
Add: Other payables, beginning of the year .....	97,397
Less: Other payables, end of the year .....	(201,439)
<b>Cash paid .....</b>	<b>\$2,299,931</b>

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

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## NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. ORGANIZATION AND BUSINESS :

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's consolidated financial statements were prepared in accordance with the order VI-0960064020 issued by Financial Supervisory Commission, Executive Yuan on November 15, 2007 and generally accepted accounting principles of the Republic of China. Except for the following significant accounting policies, other significant policies which are not disclosed herein are the same as those in the 2009 annual consolidated financial statements.

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

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

#### a. Basis of consolidation

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

Investor	Subsidiary	Nature of business	Shareholding ratio	Notes
			2010.03.31	
The Company	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	100.00%	Subsidiary directly held over 50% by the Company
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	12.63%	Subsidiary has de facto control
Ability (tw)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	Subsidiary directly held over 50%
"	VIEWQUEST TECHNOLOGIES INTERNATIONAL LTD.	Selling computer peripherals, digital cameras and electronic components	100.00%	"
"	ASSOCIATION INTERNATIONAL LTD.	Investing activities	100.00%	"
Ability (tw)	ABILITY ENTERPRISE (BVI) CO., LTD.(ABILITY)	Investing activities	100.00%	"

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

Investor	Subsidiary	Nature of business	Shareholding ratio	Notes
			2010.03.31	
ABILITY	Ability Technology (Dongguan) Co., Ltd	Producing and selling digital cameras	100.00%	Subsidiary directly held over 50%
Ability (tw)	VIEQUEST TECHNOLOGIES (BVI) INC.	Manufacturing and selling computer peripherals, digital cameras and electronic components	100.00%	"
"	Ability International Investment Co., Ltd.	Investing activities	100.00%	"
Ability International Investment Co., Ltd.	NOENA CORPORATION	Selling computer peripherals, digital cameras and optical products	80.00%	"
UNIHAN	Unihan Holding Ltd. (Unihan Holding)	Investing activities	100.00%	"
Unihan Holding	CASETEK HOLDINGS LIMITED (CASETEK HOLDING)	Investing and trading activities	100.00%	"
CASETEK HOLDING	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	"
"	CASETEK COMPUTER (SUZHOU) CO., LTD	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00%	"
"	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDING)	Investing and trading activities	100.00%	"
KAEDAR HOLDING	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD	Tooling module of stainless steel computer cases	100.00%	"
CASETEK HOLDING	KAEDAR TRADING LTD.	Investing and trading activities	100.00%	"

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

Investor	Subsidiary	Nature of business	Shareholding ratio	Notes
			2010.03.31	
CASETEK HOLDING	CORE-TEK (SHANGHAI) LIMITED	Researching and producing the parts of notebooks, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00%	Subsidiary directly held over 50%
"	APLUS PRECISION (Cayman) LIMITED (APLUS)	Investing and trading activities	51.00%	"
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	"
UNITED	AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	"
UNIHAN and ASUSTEK INVESTMENT	AzureWave Technologies, Inc. (AzureWave)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	43.56%	Subsidiary has de facto control
AzureWave	Eminent Star Company Limited (Eminent)	Investing activities	100.00%	Subsidiary directly held over 50%
Eminent	Hannex International Limited (Hannex)	Investing activities	100.00%	"
Hannex	Scientek. Nanjing Co.,Ltd	Designing, researching and selling computer products	100.00%	"
Eminent	Jade Technologies Limited (Jade)	Investing activities	100.00%	"
Eminent and Jade	Azurewave Technology (Shenzhen) Co., Ltd.	Designing, researching and selling computer products	100.00%	Subsidiary comprehensive held 100%
AzureWave	EZWAVE TECHNOLOGIES, INC.	Selling computer peripherals	100.00%	Subsidiary directly held over 50%

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

Investor	Subsidiary	Nature of business	Shareholding ratio	Notes
			2010.03.31	
"	Azwave Holding (Samoa) Inc. (Azwave Samoa)	Investing activities	100.00%	Subsidiary directly held over 50%
Azwave Samoa	AzureWave Technologies (Shanghai) Inc.	Manufacturing electronic parts	100.00%	"
"	AzureLighting Technologies ,INC (Yangzhou)	Manufacturing electronic parts	100.00%	"
AzureWave	EZWAVE TECHNOLOGIES, INC.	Manufacturing electronic parts	100.00%	"
UNIHAN	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	"
AMA PRECISION	AMA Technology Corporation	Trading computer peripherals	100.00%	"
"	AMA Holdings Limited (AMA)	Investing activities	100.00%	"
AMA	METAL TRADINGS LTD. (METAL)	Trading activities	100.00%	"
METAL	FENGSHUO TRADING (TONGZHOU) CO. LTD	Trading activities	100.00%	"
AMA	EXTECH LTD.	Trading electronic parts	90.51%	"
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD	Manufacturing, developing and selling electronic parts	100.00%	"
AMA	Toptek Precision Industry(SuZhou) Co., Ltd	Manufacturing and selling new electronic parts and premium hardware	100%	"
The Company and ASUS INVESTMENT	ASUS HOLLAND HOLDING B.V. (AHH)	Investing activities	100.00%	Subsidiary comprehensive held 100%

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

Investor	Subsidiary	Nature of business	Shareholding ratio	Notes
			2010.03.31	
AHH	PEGATRON Czech s.r.o.	Installing, repairing and selling electronic products	100.00%	Subsidiary directly held over 50%
The Company	Pegatron Holding Ltd. (Pegatron Holding)	Investing activities	100.00%	"
Pegatron Holding	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00% (Note (A))	"
POWTEK	Powtek (Shanghai) Co., Ltd.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00%	"
Pegatron Holding	BOARDTEK HOLDINGS LTD. (CAYMAN) (BOARDTEK CAYMAN)	Investing and holding activities	100.00%	"
BOARDTEK CAYMAN	BOARDTEK HOLDING LIMITED (BOARDTEK HOLDING)	Investing and trading activities	100.00%	"
BOARDTEK CAYMAN	BOARDTEK COMPUTER (SUZHOU) CO., LTD	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	"
BOARDTEK HOLDING	BOARDTEK(H.K.) TRADING LIMITED	Trading activities	100.00%	"
Pegatron Holding	ASLINK PRECISION CO., LTD (ASLINK)	Investing and trading activities	100.00%	"
ASLINK	ASLINK (H.K.) PRECISION CO., LIMITED	Investing and trading activities	100.00%	"

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

Investor	Subsidiary	Nature of business	Shareholding ratio	Notes
			2010.03.31	
"	ASAP INTERNATIONAL CO., LIMITED (ASAP)	Investing activities	59.17%	Subsidiary directly held over 50%
ASAP	ASAP TECHNOLOGY (JIANGXI) CO., LIMITED	Manufacturing and selling data transit wire and cable	100.00%	"
Pegatron Holding	DIGITEK GLOBAL HOLDINGS LIMITED	Investing and trading activities	100.00%	"
Pegatron Holding	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	"
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%	"
Pegatron Holding	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00%	"
"	NORTH TEC ASIA LIMITED (NORTH)	Investing and trading activities	100.00%	"
PROTEK AND NORTH	Protek (ShangHai) Limited	Manufacturing, developing and selling computers, printers and electronic components, and providing after-sales service	100.00%	Subsidiary comprehensive held 100%
Pegatron Holding	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	Subsidiary directly held over 50%
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing , manufacturing and selling new electronic components, providing mold technology, and after-sales service	100.00%	"

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

Investor	Subsidiary	Nature of business	Shareholding ratio	Notes
			2010.03.31	
Pegatron Holding	TOP QUARK LIMITED (TOP QUARK)	Investing and holding activities	100.00%	Subsidiary directly held over 50%
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%	"
The Company	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	The Company directly held over 50%
"	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	"
"	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	"
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%	Subsidiary directly held over 50%
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Manufacturing and selling database storage and processing equipments	100.00%	"
ASIAROCK	ASROCK EUROPE B.V.	Database service and trading electronic components	100.00%	"
"	CalRock Holdings, LLC.	Office building leasing	100.00%	"
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing activities	100.00%	"
Leader	Firstplace International Ltd. (Firstplace)	Investing activities	100.00%	"

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



Investor	Subsidiary	Nature of business	Shareholding ratio	Notes
			2010.03.31	
Firstplace	Asrock America, Inc.	Database service and trading electronic components	100.00%	Subsidiary directly held over 50%
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00%	Subsidiary comprehensive held 100%
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%	Subsidiary has de facto control
KINSUS	KINSUS INVESTMENT CO., LTD (KINSUS INVESTMENT)	Investing activities	100.00%	Subsidiary directly held over 50%
KINSUS INVESTMENT AND ASUSPOWER INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	84.45%	"
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	"
"	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	"
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	"
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	"
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00%	Subsidiary comprehensive held 100%

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

Investor	Subsidiary	Nature of business	Shareholding ratio	Notes
			2010.03.31	
"	STARLINK ELECTRONICS CORPORATION (STARLINK)	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	Subsidiary comprehensive held 100%
STARLINK	STRATEGY Technology Co., Ltd.	Investing and trading activities	100.00%	Subsidiary directly held over 50% (Note B)
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	Subsidiary directly held over 50%
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC.	Sales and repair service center in North America	100.00%	"
"	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	"
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00%	"
ASUSPOWER INVESTMENT , ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens)	Researching, manufacturing and selling computer data projectors and related peripherals	56.52%	"
Lumens	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	"
"	Lumens Digit Image Inc. (SOMOA)(Lumens SOMOA)	Investing activities	100.00%	"
Lumens SOMOA	Lumens (Suzhou) Digital Image Inc.	Researching, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	"
Lumens	Lumens Europe BVBA	Selling computer communication products and peripherals	100.00%	"

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

Investor	Subsidiary	Nature of business	Shareholding ratio	Notes
			2010.03.31	
"	Jie Xin Inc.	Manufacturing and wholesaling electronic parts	94.00%	Subsidiary directly held over 50%
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	"
The Company	ADVANSUS CORP.	Manufacturing computer peripherals	50.00%	The Company directly held over 50% (Note A)
The Company	PEGATRON USA, INC.	Sales and repair service center in North America	100.00%	"

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

Note B: The investee company went into liquidation on March 26, 2010. Its profit or loss had not been included in the consolidated financial statement from the effective date of its liquidation.

2. Increases or decreases of consolidated subsidiary as of March 31, 2010 were summarized as follows:

CASETEK HOLDING LIMITED acquired 51% of total issued shares of APLUS PRECISION (Cayman) LIMITED ("APLUS") by exchanging its long-term investment. And Ability (tw) invested \$40,000 in a newly established company, NOENA CORPORATION (NOENA), and held 80% shares of this company. According to SFAS No.7 "Consolidated Financial Statements.", if the Company has controlling power over these entities, then they should be treated as subsidiaries and included in consolidation financial statements.

3. The entities in which less than 50% voting shares were held by the Company but were included in the consolidated financial statements were as follows:

The Company held less than 50% of voting shares of Hannex International Limited, Ability Enterprise Co., Ltd and Kinsus Interconnect Technology Corp, or 43.56%, 12.63% and 39% of total issued shares of these entities, but it has the ability to control the board of directors, thus these entities were included in the consolidated financial statements.

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

4. Subsidiaries excluded from consolidation

STRATEGY Technology Co., Ltd. went into liquidation on March 26, 2010. Therefore, the net income (loss) of this investee company was excluded in the consolidated financial statements as of March 27, 2010. Since STRATEGY Technology Co., Ltd. has not completed its liquidation process, the equity investments in STARLINK were reclassified as “financial assets measured at cost”.

5. Refer to Note (4)(k) for related information on convertible bonds and new shares issued by subsidiaries.

**b. Financial derivatives and hedging**

If a cash flow hedge meets the criteria for hedge accounting, the gain or loss on hedged items is recognized as an adjustment of stockholders’ equity. If a hedging transaction is recognized as assets or liabilities, the gain or loss recorded in stockholders’ equity is reclassified as current gain or loss in the financial statements. And if a hedging transaction will influence the net gain or loss, the above-mentioned gain or loss recognized in stockholders’ equity is reclassified as a current gain or loss in the financial statements.

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. If hedging relationships meet the criteria for hedge accounting, they are accounted for as follows:

(i) Fair value hedges

Changes in the fair value of a hedging instrument designated as a fair value hedge are recognized in profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged, with any gain or loss being recognized in profit or loss.

**c. Bonds payable**

For the bonds payable issued after January 1, 2006, the issuer shall classify the instrument, 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 and issued after January 1, 2006, is treated a compound financial instruments, with a portion classified as equity and the rest as a liability and 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 required to be amortized over the period from the date of issuance to maturity date using the interest method or straight line method and is recorded as “interest expense”. However, the straight line method may be used if the result were 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 the 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 “paid-in capital”; 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 Company, which is convertible to an equity instrument, is recognized and included in “capital reserve from stock warrants”, 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, and the resulting difference is recognized as “gain or loss” in the current period. The book value of the common stock issued due to the conversion is based on the adjusted book value of the abovementioned liability component plus the book value of the stock warrants.
- (D) Costs incurred on issuance of convertible bonds are proportionately charged to the liabilities and equities of the underlying instruments based on initial recognition costs.

**3. Reasons for and Effect of Accounting Changes: None.**

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

#### 4. Summary of Major Accounts

##### a. Cash

	<u>March 31, 2010</u>
Cash on hand	\$ 50,343
Demand deposits	23,903,972
Time deposits	11,891,303
Total	<u>\$ 35,845,618</u>

##### b. Financial Instruments

(i) The components of financial instruments were as follows:

	<u>March 31, 2010</u>
Financial assets reported at fair value through profit or loss-current :	
Stocks of listed companies	\$ 210,139
Beneficiary certificates	6,248,528
Currency swap contracts	3,886
Overseas notes	619,636
Depository receipts	18,008
Corporate bonds	532,349
Total	<u>\$ 7,632,546</u>

	<u>March 31, 2010</u>
Available-for-sale financial assets-current:	
Stocks of listed companies	\$ 50,537
Stock of overseas listed companies	930,737
Total	<u>\$ 981,274</u>

Available-for-sale financial assets-non current:	
Stocks of listed companies	\$ 1,497,158
Stock of overseas listed companies	546,236
Total	<u>\$ 2,043,394</u>

Financial assets carried at cost	
Equity securities	<u>\$ 773,805</u>

Financial liabilities held for trading-current	
Forward exchange contracts	\$ 458
Adjustments	753
Sub-total	<u>\$ 1,211</u>

Financial liabilities designated as at FVTPL-current	
Domestic convertible bonds-put and call option	\$ (1,578)

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

Adjustments	15,315
Sub-total	<u>13,737</u>
Total	<u><u>\$ 14,948</u></u>

Derivative financial liability for hedging

Forward exchange contracts	<u>\$ 5,619</u>
----------------------------	-----------------

The convertible bond issued by Ability Enterprise Co., Ltd. was treated as a compound financial instrument, with a portion classified as equity and the rest as a liability. And 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. For three-month period ended March 31, 2010, Ability Enterprise Co., Ltd. recognized a loss on financial liability reported at fair value through profit or loss of \$15,315.

For three-month period ended March 31, 2010, the Company and subsidiaries recognized a loss on financial assets reported at fair value through profit or loss amounted \$15,325.

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

(ii) Available-for-sale financial assets

For three months ended March 31, 2010, the unrealized losses on available-for-sale financial assets amounted to \$5,500.

(iii) Financial assets carried at cost

Impairment loss recognized on financial assets carried at cost amounted to \$40,159 for three-month period ended March 31, 2010.

(iv) As of March 31, 2010, the components of financial derivatives of Ability Enterprise Co., Ltd. and United New Limited were as follows:

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

Ability (tw) entered into derivative contracts during the three-month period ended March 31, 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)(r) for the risk management of the Company and its subsidiaries.

**c. Notes and Accounts Receivable**

(i) Non-related parties

	<b>March 31, 2010</b>
Notes receivable .....	\$ 29,932
<b>Less: Allowance for doubtful accounts:</b>	-
Net .....	29,932
Accounts receivable .....	44,246,199
Less: Allowance for doubtful accounts .....	(599,580)
Net .....	43,646,617
Total .....	<b>\$ 43,676,549</b>

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

<b>Purchaser</b>	<b>Amount Derecognized</b>	<b>Credit advanced</b>	<b>Collateral</b>	<b>Credit (thousands)</b>
Mega International Commercial Bank .....	<b>\$ 496,974</b>	<b>255,188</b>	None	USD 30,000

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

d. Inventories

	<b>March 31, 2010</b>
Merchandise .....	\$ 1,354,395
Finished goods .....	12,891,830
Work in process.....	7,549,188
Raw materials.....	27,375,176
Inventories-in-transit .....	21,137,585
Sub-total .....	51,308,174
Less: Allowance for inventory market decline and obsolescence .....	(2,558,590)
Total .....	<b>\$ 48,749,584</b>

For three-month period ended March 31, 2010, the components of cost of goods sold were as follows:

	<b>Three Months ended March 31, 2010</b>
Cost of goods sold .....	\$ 121,450,892
Loss on disposal of scrapping .....	36,509
Idle capacity .....	100,759
Loss on inventory valuation and obsolescence.....	99,244
Total .....	<b>\$ 121,687,404</b>

e. Long-Term Equity Investments

	<b>March 31, 2010</b>	
	<b>Equity Holding</b>	<b>Book Value</b>
<b>Name of Investee company:</b>		
Indeed Holdings Limited.....	49.00%	\$ 750,446
Avy Precision Technology Inc. ....	20.39%	758,576
Wilson Holdings Limited .....	49.00%	163,048
Ever Pine International Ltd. (BVI).....	34.65%	127,763
Pentax Vq Co., Ltd.....	40.00%	58,762
Wise Investment Limited .....	48.78%	37,035
Shin-Ei Yorkey International Ltd. (BVI) .....	50.00%	23,226
ZhangJiaGang dongbu High Technology Metal Products Co., Ltd.....	20.00%	45,229
Yofree Technology Co., Ltd.....	17.50%	10,900
Subtotal .....		1,974,985
Add: Fair value adjustment for identifiable assets .....		61,832
Total .....		<b>\$ 2,036,817</b>

Investment income of \$45,611 for three-month period ended March 31, 2010, was recognized under the equity method based upon the financial statements without auditing or reviewing.

Avy Precision Technology Inc., a subsidiary of Ability Enterprise Co., Ltd., had swapped its equity shares with AzureWave Technologies, Inc., which resulted in a difference between acquisition cost and fair value of the identifiable long-term investment. Since the Consolidated Company has the ability to control Ability Enterprise Co., Ltd., such difference of \$61,832 as of March 31, 2010, was adjusted using the equity method of accounting based on the percentage of ownership of the Consolidated Company, in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 25 "Business Combinations".



**f. Joint Venture Investments**

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

	<b>March 31, 2010</b>
Current assets .....	\$ 567,028
Non current assets .....	17,440
Current liabilities.....	352,185
	<b>Three Month Ended</b>
	<b>March 31, 2010</b>
Revenues .....	\$ 457,664
Expenses.....	445,780

**g. Property, Plant and Equipment, Idle Assets, and Rental Assets**

(i) Property, plant and equipment

Based on the results of its evaluation of the recoverability of property, plant and equipment, the Consolidated Company recognized a gain on recovery of impairment of assets amounted to \$32,523 for three-month period ended March 31, 2010.

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

(ii) Rental assets

1) As of March 31, 2010, the components of rental assets were as follows:

	<b>March 31, 2010</b>
Land .....	\$ 345,749
Buildings .....	623,417
Less: accumulated depreciation.....	(124,706)
Less: accumulated impairment .....	(69,061)
Add: fair value adjustment for identifiable assets .....	9,266
	<b>\$ 784,665</b>

2) In accordance with SFAS 25, the Company has control over Ability Enterprise Co., Ltd. through a share swap and adjusted the difference between the acquisition cost and the fair value of the rental assets based on the Consolidated Company's percentage of ownership. As of March 31, 2010, the fair value adjustment for identifiable assets amounted to \$9,266.

(iii) Idle assets

1) As of March 31, 2010, the components of idle assets were as follows:

	<b>March 31, 2010</b>
Land .....	\$ 394,645
Buildings .....	740,901
Machinery and others .....	1,842,112
Less: accumulated depreciation.....	(1,033,883)
Less: accumulated impairment .....	(970,828)
	<b>\$ 972,947</b>

2) As these idle assets were not used in operation, the Consolidated Company recognized their net fair value as the recoverable amount. For the three-month period ended March 31, 2010, a gain on recovery of impairment recognized for these idle assets amounted to \$20.

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

#### **h. Intangible assets**

Goodwill is assessed periodically for impairment in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets". As of March 31, 2010, the book value of goodwill was \$890,002.

'Land use rights' are rights for the Company to use government-owned land. These rights were paid in lump sum, which was capitalized and amortized equally over their useful lives. As of March 31, 2010, the unamortized amount of land use rights was \$2,360,767.

#### **i. Other Assets – Other**

Deferred expenses consist of capitalized costs of small molds, fixtures and office decorations, which are amortized equally over 9 to 10 years. As of March 31, 2010, the unamortized amounts was \$2,995,922. For three-month period ended March 31, 2010, impairment loss recognized for these deferred expenses amounted to \$540.

Due to the restriction imposed by local government, KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS) purchased a farm land in the name of KINSUS's chairman instead of KINSUS. Before KINSUS may take over the title to the farmland as well as completing the registration procedures, the land is temporarily recorded as other assets. As of March 31, 2010, the book value of this farmland was \$30,784.

#### **j. Short - Term Loans**

	<b>March 31, 2010</b>
Credit loans .....	\$ 6,734,369
Collateralized loan .....	888,169
Total .....	<b>\$ 7,622,538</b>
Range of interest rate.....	<b>0.45%~5.04%</b>

The 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.

#### **k. Bonds Payable**

	<b>March 31, 2010</b>
Bonds payable .....	\$ 1,500,000
Less: discounts on bonds payable.....	(149,378)
Total .....	<b>\$ 1,350,622</b>

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

- i. Ability (TW) issued the 1<sup>st</sup> unsecured domestic convertible bonds of NT\$1,500 million with each bond having coupon rate of 0% an issue price of 100.2% over par value, and maturing in 5 years (During Feb 6<sup>th</sup>, 2010 to Feb 8<sup>th</sup>, 2015). These convertible bonds are payable in full at par on maturity date and are listed on Over-the-Counter Market on February 8<sup>th</sup>, 2010.
- ii. After 30 days from issue date (March 7<sup>th</sup>, 2010) and 10 days prior to maturity date (January 27<sup>th</sup>, 2010), the bondholders can exercise their right to convert the bonds into the Company'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.
- iii. 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. As of March 31, 2010, the conversion price is \$60.
- iv. After 3 years from issue date (Feb 6<sup>th</sup>, 2013), the bondholders shall have the right at such bondholders' option to require the Company 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.

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

- v. The Company may purchase the outstanding bonds at face value after the following events, provided the (1) the closing price of the shares for a period of 30 consecutive trading day is above 130% of the conversion price (2) 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.
- vi. Under the terms of the convertible bonds, the convertible bonds which are repurchased, redeemed, or converted to common shares will be retired and cannot be sold or re-issued.

2. In accordance with SFAS No. 36, convertible bonds are initially treated as compound financial instruments, with a portion classified as equity and the rest as a liability. As of March 31, 2010, the issuance of convertible bonds, which classified as equity portion are recorded under “additional paid-in capital-stock option” amounted \$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 under “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 range is from 2.122% to 2.263%.

#### **I. Long - Term Loans**

<b>Creditor</b>	<b>Usage and redemption duration</b>	<b>March 31, 2010</b>
ABN AMRO, Mega International Commercial Bank and 14 other participating financial institutions (Note A)	2008.10.30~2011.10.30, \$1.5 billion is payable in 3 semi-annual installments, commencing on April 30, 2010 and the remaining amount is payable on maturity date.	\$7,200,000
Industrial and Commercial Bank of China — Ji-An Branch	2009.10.09~2011.10.08, interest is payable quarterly, and total outstanding amount is payable on maturity date.	139,754
Mega International Commercial Bank — Lan-Ya Branch	2004.12.31~2012.01.31, payable in 20 quarterly installments, commencing from the date of borrowing (with a two year grace period).	56,602
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).	345,966
The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch	2006.12.08 ~2013.10.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing.	19,837
The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch	2009.06.23 ~2014.06.23, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing.	95,220
The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch	2009.07.23 ~2014.07.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing.	23,805
The Shanghai Commercial & Savings Bank, Ltd. — Chung — Li Branch	2009.11.23 ~2014.10.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing.	230,115
Subtotal		8,111,299
Less: Current portion		(70,864)
		8,040,435
Range of interest rate		<b>0.79%~4.86%</b>

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

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:

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

The 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.

**m. Pension Plan :**

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

**n. Income Tax :**

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

**o. 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 thousand new shares with par value of \$10 per 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. Thereafter, the total outstanding capital amounted to \$18,846,281, divided into 1,884,628 thousand shares with par value of \$10 per share. This capital increase was approved by the central government authority, and the Company had completed the process for the registration thereof.

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 will merge with Pegatron Investment. As a surviving entity from this merger, the Company will apply for the initial public offering (IPO) to the TWSE. This merger plan has been resolved by both the board of directors of the Company and Pegatron Investment on January 1, 2010, and also

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

resolved by both shareholders' meetings of the Company and Pegatron Investment on January 17, 2010. The record date for this merger is June 10, 2010

(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.

For the three-month period ended March 31, 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 \$194,872, which were debited to salary expense and credited to capital surplus—others.

(iii) 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.
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 30, 2010, the Company's board of directors resolved the appropriation of earnings for 2009. The distributions of employee bonuses and remuneration to directors and supervisors from the distributable earnings in 2009 were as follows:

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

There were no differences between the actual results of earnings distributed in 2009 and those estimated and accrued in the financial statements of 2009.

For the three-month period ended March 31, 2010, the distribution for employee bonus and remuneration to directors and supervisors from the distributable earnings amounted to \$177,014 and \$8,851, respectively. Differences between the amounts approved in the shareholders' meeting and

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

recognized in the financial statements, if any, are to be accounted for as changes in accounting estimates and recognized in profit or loss next year.

**p. Employee Stock Option**

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

- 1) On November 20, 2007, pursuant to the resolutions of its board of directors, Ability Enterprise Co., Ltd. (Ability) had issued employee stock options covering a total number of 19,500 units. Each unit bears an option to subscribe for one thousand share of Ability's common stock. Therefore, 10,000 thousand shares of new common stock were issued from the exercise of 10,000 units of employee stock option. Following the issuance of employee stock options, any event, such as additional change to common stock of Ability, distributions of cash dividends, and occurrence of merger and acquisition will result in adjustments in the price of the stock options. The employee stock options cover a contractual life of 7 years, and are exercisable in accordance with certain schedules as prescribed by the plan starting 2 years from the date of grant. As of March 31, 2010, the weighted-average expected life of the employee stock options was 4.99 years.
- 2) The number and weighted average exercise price of the first employee stock options issued in 2007 were as follows:

	<b>Three Months Ended March 31, 2010</b>	
	<b>Quantity of stock option (thousand shares)</b>	<b>Weighted-average exercise price (dollars)</b>
Outstanding at the beginning or the year.....	10,000	41.3
Granted.....	-	-
Added or adjusted.....	-	-
Exercised.....	-	-
Forfeited.....	-	-
Outstanding at the end of the year.....	<u>10,000</u>	<u>41.3</u>
Exercisable at the end of the year.....	<u>-</u>	

3) For employee stock options of Ability Enterprise Co., Ltd. granted between January 1, 2004 and December 31, 2007, the Company recognizes compensation cost using the fair value method. Pro forma information on net income and earnings using the fair value method was as follows:

	<b>Three Months Ended March 31, 2010</b>	
<b>Net income:</b>		
Net income .....	\$	604,466
Pro forma net income .....		596,444
Basic earning per share		
Earnings per share .....		1.38 dollars
Pro forma earning per share .....		1.36 dollars
Diluted earning per share		
Earnings per share.....		1.33 dollars
Pro forma earning per share .....		1.31 dollars

4) The Black-Schole 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:

	<b>November 20, 2007</b>
Dividend yields .....	-%
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

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

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

- 1) On November 20, 2007, pursuant to resolutions of its board of directors, Ability Enterprise Co., Ltd. (Ability) had issued employee stock options covering a total number of 19,500 units. The second batch of employee stock option, 9,500 units, was issued on October 13, 2008. Each unit bears an option to subscribe for one thousand shares of Ability's common stock at an exercise price of \$22.2 per share. As of March 31, 2010, the weighted-average expected life of the employee stock options was 5.50 years.
- 2) The number and weighted average exercise price of the second batch of employee stock options issued in 2007 were as follows:

	<b>Three Months Ended March 31, 2010</b>	
	<b>Quantity of stock option (thousand shares)</b>	<b>Weighted-average exercise price (dollars)</b>
Outstanding at the beginning of the year.....	9,500	20.8
Granted.....	—	—
Added or adjusted.....	—	—
Exercised.....	—	—
Forfeited.....	—	—
Outstanding at the end of the year.....	<u>9,500</u>	<u>20.8</u>
Exercisable at the end of the year.....	<u>—</u>	<u>—</u>

- 3) 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.

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

	<b>Three Months Ended March 31, 2010</b>
Equity transaction.....	<u>5,433</u>

**q. Earnings per Share (EPS)**

For three-month period ended March 31, 2010, the Parent company's basic earnings per share, diluted earnings per share and adjustments were computed as follows:

(Note: shares in thousands)

	<b>Three Months Ended March 31, 2010</b>	
	<b>Before income tax</b>	<b>After income tax</b>
	<b>(Note: shares in thousands)</b>	
Net income .....	\$ 2,585,017	\$ 1,775,316
Weighted-average common shares outstanding .....	2,286,054	2,286,054

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

	<b>Three Months Ended March 31, 2010</b>	
	<b>Before income tax</b>	<b>After income tax</b>
	(Note: shares in thousands)	
Dilutive potential common shares .....	33,129	33,129
Diluted shares.....	2,319,183	2,319,183
Primary earnings per share .....	\$ 1.13	\$ 0.78
Diluted earnings per share.....	\$ 1.11	\$ 0.77

**r. Financial Instruments**

- (i) 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 March 31, 2010, were as follows:

	<b>March 31, 2010</b>	
	<b>Book Value</b>	<b>Fair Value</b>
<b>Non-Financial Instruments</b>		
Financial assets carried a cost-non current .....	\$ 773,805	\$ -
<b>Financial Liabilities:</b>		
Bonds payable .....	1,350,622	1,350,622
Long-term loans (includes current portion).....	8,111,299	8,111,299
<b>Financial Instruments</b>		
<b>Financial Assets:</b>		
Currency swap contracts .....	\$ 3,866	\$ 3,866
<b>Financial Liabilities:</b>		
Forward exchange contracts-hedging.....	458	458
Forward exchange contracts-non-hedging.....	5,619	5,619
Forward exchange contracts.....	753	753
Embedded derivatives-convertible bonds.....	13,737	13,737

- (ii) Methods and assumptions used by the Consolidated 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.
  - 2) 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.
  - 3) 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 book value.
  - 4) The fair market value of long-term debt 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.
  - 5) The fair value of the derivatives is determined by their book value on the balance sheet date. If the derivatives are not traded in active markets, then the fair value is determined by using valuation techniques, under which the estimates and assumptions used are consistent with prevailing market conditions.
- (iii) Loss recognized from changes in the fair values of financial assets and liabilities, which were estimated by using valuation techniques, amounted to \$15,325, for the three-month period ended March 31, 2010.

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



(iv) 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. In addition, the Company conducts foreign exchange activities on spot market in order to hedge its foreign exchange risks.

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

2) Credit risk

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

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

The 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 transacting by L/C. Therefore, the Company believes that there is no significant credit risk. According to the Company's customer credibility evaluation policies, the Company has to evaluate the customer's credibility and evaluate the collectability of notes and account receivables constantly before doing business. Thus, there is no significant issue on doubtful accounts.

The major customers of the Consolidated Company are concentrated in the high-tech computer industry. As the customers of the 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 Company's 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 Consolidated Company are sufficient to meet its entire contractual obligations and un-hedging forward exchange contracts; therefore, no liquidity risk exists.

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

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

4) 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.

(v) Risk control, Hedging strategies and related activities

For the hedge designation, UNITED NEW entered into derivatives to avoid the exchange rate risk exposure by operating activities. If the derivatives do not meet the criteria for hedge accounting, they will be classified as held-for trading financial assets or liabilities.

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

UNITED NEW held accounts payable in foreign exchange and its fair value will float with the exchange rate. UNITED NEW reduced the exchange rate risk by entering to forward exchange contracts.

As of March 31, 2010, financial instruments transactions accounted for using the hedge accounting were as follows:

<u>Hedged item</u>	<u>Derivative Financial Instruments</u>	<u>March 31, 2010</u>
		<u>Hedging instrument designated at fair value</u>
Payables—foreign currency .....	Forward exchange contracts	\$ (5,619)

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

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

## 5. Related-Party Transactions

### a. Names and Relationships of Related Parties with the Consolidated Company

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
ASUSTeK Computer Inc.	The parent company
Askey Computer Corp.	An investee company accounted for under the equity method by the parent
ASMEDIA Technology Inc.	“
International United Technology Co., Ltd. (Taiwan)	“
Shinewave International Inc.	“
UNIMAX ELECTRONICS INCORPORATION	“
ASUS TECHNOLOGY INCORPORATION	“
ASUS Computer (Shanghai) CO., LTD.	“
Powtek (Shanghai) Co., Ltd.	“
ASUS Technology (Suzhou) Co., Ltd.	“
eMES (SUZHOU) CO., LTD.	“
ASHINE TECHNOLOGY (SUZHOU) LTD.	“
Huizhou Enertronix Co., Ltd.	“
ASUS COMPUTER INTERNATIONAL	“
ASUS HOLLAND B.V.	“
ASUS TECHNOLOGY PTE. LIMITED (ASTP)	“
ASKEY TECHNOLOGY (JIANGSU) LTD.	“
ASUSTEK COMPUTER (SHANGHAI) CO., LTD.	“
(ASUS UNITED Technology (Shanghai) Co., Ltd. formerly)	“
AGAiT Technology Corporation	“
ASHINE PRECISION CO., LTD.	“
Avy Precision Technology Inc.	“
Avy Co., Ltd.	“
DongGuan Avy Precision Metal Components Co., Ltd.	“
DongGuan ChengGuangp Precision Hardware Co., Ltd.	“
AVY PRECISION METAL COMPONENTS (SUZHOU)	“
SHINE TRADE INTERNATIONAL LTD.	“
YORKEY OPTICAL TECHNOLOGY LTD. (SAMOA)	“
AVY HIGH TECH LIMITED	“
SHANGHAI INDEED TECHNOLOGY CO., LTD.	“
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	“
GHING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD	“

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

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
Taishiba International Co., Ltd.	An affiliate of Ability Enterprise Co., Ltd.

**b. Significant Transactions with Related Parties**

(i) Sales

<u>Name of Related Party</u>	<u>Three Months Ended March 31, 2010</u>		
	<u>Amount</u>	<u>% of Net Sales</u>	<u>The collection term</u>
ASUSTeK .....	\$ 56,399,740	43.35%	30~60 days from receipt of goods Open account 30~120 days
Others .....	80,968	0.06%	30~60 days from receipt of goods Open account 30~120 days
Total .....	<u>\$ 56,480,708</u>	<u>43.41%</u>	

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

(ii) Purchases

<u>Name of Related Party</u>	<u>Three Months Ended March 31, 2010</u>		
	<u>Amount</u>	<u>% of Net Sales</u>	<u>The collection term</u>
ASUSTeK .....	\$ 39,972,077	16.80%	30~60 days from receipt of goods Open account 30~120 days
Others .....	1,405,832	0.59%	30~60 days from receipt of goods Open account 30~120 days
Total .....	<u>\$ 41,374,909</u>	<u>17.39%</u>	

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

For three-month period ended March 31, 2010, the Company purchased raw materials from vendors through ASUSTeK.

(iii) Others

1)

<u>After-sales warranty repair expense paid to:</u>	<u>Three Months Ended March 31, 2010</u>
ASTP .....	\$ 99,027
ASUS Computer (Shanghai) .....	36,278
ASUSTEK COMPUTER (SHANGHAI) .....	952
Total .....	<u>\$ 136,257</u>

2)

<u>Other income from</u>	<u>Three Months Ended March 31, 2010</u>
ASUSTeK .....	\$ 177,645
Others .....	629
Total .....	<u>\$ 178,274</u>

3) For three-month period ended March 31, 2010, the Consolidated Company incurred other related party transactions recorded as expenses such as processing fee, rental expense, other expense, royalty payment, storage expense, professional service fee, etc, which amounted to \$13,622.

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

(iv) Property Transactions

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

1. Properties Purchased

For three-month period ended March 31, 2010, properties purchased from other related parties amounted to \$38,017.

2. Rental Revenue

For three-month period ended March 31, 2010, the Consolidated Company incurred other related party transactions recorded as rental revenue, which amounted to \$7,158.

(v) Accounts Receivable (Payable)

	<b>March 31, 2010</b>	
	<b>Amount (\$)</b>	<b>%</b>
<b>Notes and Accounts Receivable:</b>		
ASUSTeK .....	9,945,332	18.27%
Others .....	213,790	0.39%
Sub-total .....	10,159,122	<b>18.66%</b>
Less: Allowance for doubtful accounts .....	(665)	
Total .....	<b>10,158,457</b>	
<b>Other receivables:</b>		
ASUSTeK .....	689,351	31.75%
Others .....	14,530	0.67%
Total .....	<b>703,881</b>	<b>32.42%</b>
<b>Notes and Accounts Payable</b>		
SHANGHAI INDEED TECHNOLOGY CO., LTD. ....	662,924	1.09%
Avy Precision Technology Inc. ....	283,901	0.47%
Others .....	530,928	0.87%
Total .....	<b>1,477,753</b>	<b>2.43%</b>

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

	<b>March 31, 2010</b>	
<b>Assets:</b>		
Other current assets .....	\$ 5,767	
Other financial assets-non current .....	2,029	
	<b>\$ 7,796</b>	
<b>Liabilities:</b>		
Accrued expenses .....	\$ 55,322	
Other financial liabilities-current .....	137	
Other current liabilities.....	36,926	
	<b>\$ 92,385</b>	

(vi) Endorsement Guarantee

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

<b>Name of Related Party Guarantee</b>	<b>Amount of Guarantee (thousands) March 31, 2010</b>
ASUSTeK .....	<b>USD 300,000</b>

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

## 6. Pledged Assets

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

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

Note A: Accounted for restricted assets, included in other current assets.

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

As of March 31, 2010, major commitments and contingencies were as follows:

(a)

(Thousands dollars)

Unused Standby Letter of credit:	March 31, 2010
NTD .....	\$15,000
EUR.....	359
JPY.....	2,432,122
USD.....	44,010

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

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

	Future lease commitments				
	2011	2012	2013	2014	2015
Future lease commitments.....	187,035	135,863	98,291	12,529	6,353

(d) As of March 31, 2010, the significant contracts for purchase of properties signed by the Consolidated Company amounted to \$1,786,522, of which \$443,432 were unpaid

(e) AVerMedia Technologies Inc. filed an attachment for damage loss against Lumens Digital Optics Inc. with the Taiwan HsinChu District court on January 3, 2005. Lumens Digital Optics Inc. pledged a deposit of \$90,000 as counter-security to the Court for rescinding the attachment. In addition, AVerMedia Technologies Inc., again, filed an attachment for the same reason with the court. HsinChu District court has seized the inventory of Lumens Digital Optics Inc. amounting to \$16,410. This case is currently under investigation and Lumens Digital Optics Inc. believes that there is no material loss on the aforementioned case.

(f) One of ASUSPOWER CORPORATION's American customers voluntarily filed for bankruptcy with United States Bankruptcy Court of California District. The customer has made payments for goods amounting to US\$1,439,484 to ASUSPOWER COPORATION 90 days before filing for bankruptcy. Insolvency administrator of the customer filed a lawsuit with California court later on claiming that according to United States Bankruptcy Code § 547, the payments could be returned and requested ASUSPOWER CORPORATION to return the amount paid. ASUSPOWER CORPORATION received a notice from the court in September 2009, and entered a plea. This lawsuit is still under investigation.

(g) As of March 31, 2010, the tax returns of the Ability Enterprise Co., Ltd. through 2006, have been assessed and approved by the tax authority. The Company disagreed with the examination results of the 2004, 2005 and 2006 income tax return, in which the tax authority reduced the company's tax benefits amounted \$43,019, \$61,898 and \$82,105, respectively, and had filed administrative proceedings..

## 8. SIGNIFICANT CATASTROPHIC LOSSES: None.

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

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

**10. OTHERS:**

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

**11. DISCLOSURES REQUIRED:**

In accordance with the order VI- 0960064020 issued by the Financial Supervisory Commission, Executive Yuan, Roc, the following information need not be disclosed.

a. Information on significant transactions:

In accordance with the order VI- 0960064020 issued by the Financial Supervisory Commission, Executive Yuan, Roc, the following information need not be disclosed.

b. Information on investee companies:

In accordance with the order VI- 0960064020 issued by the Financial Supervisory Commission, Executive Yuan, Roc, the following information need not be disclosed.

c. Information on investment in Mainland China:

In accordance with the order VI- 0960064020 issued by the Financial Supervisory Commission, Executive Yuan, Roc, the following information need not be disclosed.

d. Transactions between the Company and its subsidiaries (Disclose the transaction amount above 100 million)

(1) For the three months ended March 31, 2010

No. (Note 1)	Name	Object of transaction	Relationship (Note 2)	Details of transaction			Percentage of consolidated income or total assets (Note 3)
				Account	Amount	Terms of collection/ payment	
0	The Company	ASAROCK TECHNOLOGY LIMITED	1	Account receivable	289,465	30 days from receipt of goods	0.13%
0	The Company	PEGATRON Czech s.r.o.	1	Account receivable	2,940,056	120 days from receipt of goods	1.34%
0	The Company	PEGATRON Czech s.r.o.	1	Other receivable	636,000	Interest 1%	0.29%
0	The Company	UNIHAN	1	Account receivable	112,121	60 days from receipt of goods	0.05%
0	The Company	UNIHAN	1	Other receivable	2,100,263	-	0.96%
0	The Company	Protek (ShangHai) Limited	1	Account receivable	50,167,658	90 days from receipt of goods	22.93%
0	The Company	Powtek (ShangHai) Co., Ltd	1	Account receivable	1,006,909	45 days from receipt of goods	0.46%
1	UNIHAN	PEGATRON Czech s.r.o.	3	Account receivable	5,666,291	Open account 120 days	2.59%
2	MAINTEK COMPUTER (SUZHOU) CO., LTD.	ASUSPOWER CORPORATION	3	Other receivable	1,197,270	Open account 60 days	0.55%
2	MAINTEK COMPUTER (SUZHOU) CO., LTD.	CASETEK COMPUTER (SUZHOU) CO.,LTD	3	Other receivable	631,012	both parties agreed	0.29%
3	BOARDTEK COMPUTER (SUZHOU) CO., LTD.	BOARDTEK (H.K.) TRADING LIMITED	3	Account receivable	410,785	Open account 60-90 days	0.19%
3	BOARDTEK COMPUTER (SUZHOU) CO., LTD.	The Company	2	Account receivable	251,268	Open account 90 days	0.11%
3	BOARDTEK COMPUTER (SUZHOU) CO., LTD.	UNIHAN	3	Account receivable	233,930	Open account 60 days	0.11%

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

No. (Note 1)	Name	Object of transaction	Relationship (Note 2)	Details of transaction			Percentage of consolidated income or total assets (Note 3)
				Account	Amount	Terms of collection/ payment	
3	BOARDTEK COMPUTER (SUZHOU) CO., LTD.	Protek (ShangHai) Limited	3	Account receivable	193,730	Open account 60 days	0.09%
4	Protek (ShangHai) Limited.	The Company	2	Account receivable	46,420,583	Open account 90 days	21.22%
4	Protek (ShangHai) Limited.	The Company	2	Other receivable	566,407	Open account 90 days	0.26%
5	Toptek Precision Industry(SuZhou) Co., Ltd.	AMA Technology Corporation	3	Account receivable	123,467	Open account 30 days	0.06%
6	AzureWave Technologies, Inc.	The Company	2	Account receivable	153,949	Open account 60 days	0.07%
6	AzureWave Technologies, Inc.	Protek (ShangHai) Limited.	3	Account receivable	505,604	60~90 days from receipt of goods	0.23%
7	CASETEK COMPUTER (SUZHOU) CO., LTD	PEGATRON Czech s.r.o.	3	Account receivable	319,572	Open account 60 days	0.15%
7	CASETEK COMPUTER (SUZHOU) CO., LTD	The Company	2	Account receivable	726,341	Open account 60 days	0.33%
7	CASETEK COMPUTER (SUZHOU) CO., LTD	UNIHAN	3	Account receivable	319,342	Open account 60 days	0.15%
7	CASETEK COMPUTER (SUZHOU) CO., LTD	Protek (ShangHai) Limited.	3	Account receivable	239,719	Open account 60 days	0.11%
8	AMA PRECISION INC.	Toptek Precision Industry (SuZhou) Co., Ltd.	3	Account receivable	315,528	Open account 60 days	0.14%
9	ASROCK Incorporation	ASROCK AMERICA, INC.	3	Account receivable	328,543	Open account 90 days	0.15%
9	//	ASROCK EUROPE B.V.	3	Account receivable	332,347	45 days from receipt of goods	0.15%
10	ACTION PIONEER INTERNATIONAL LTD.	Ability Enterprise Co., Ltd.	3	Account receivable	106,904	both parties agreed	0.05%
11	AMA Technology Corporation	AMA PRECISION INC.	3	Account receivable	223,334	Open account 90 days	0.10%
12	ASIAROCK TECHNOLOGY LIMITED	ASROCK Incorporation	3	Account receivable	1,473,764	Open account 60 days	0.67%
13	ASUSPOWER CORPORATION	The Company	2	Account receivable	10,958,270	30 days from receipt of goods	5.01%
13	ASUSPOWER CORPORATION	UNIHAN	3	Account receivable	10,168,737	30 days from receipt of goods	4.65%
13	ASUSPOWER CORPORATION	MAINTEK COMPUTER (SUZHOU) CO., LTD.	3	Account receivable	1,548,719	Open account 90 days	0.71%
13	ASUSPOWER CORPORATION	BOARDTEK COMPUTER (SUZHOU) CO., LTD.	3	Account receivable	2,690,484	Open account 90 days	1.23%
13	ASUSPOWER CORPORATION	COTEC ELECTRONICS (SUZHOU) CO., LTD.	3	Account receivable	718,645	Open account 90 days	0.33%
13	ASUSPOWER CORPORATION	CASETEK COMPUTER (SUZHOU) CO.,LTD	3	Account receivable	1,676,025	Open account 90 days	0.77%
14	PEGATRON Czech s.r.o.	UNIHAN	3	Account receivable	1,210,596	30 days from receipt of goods	0.55%
15	PEGATRON Mexico, S.A. DE C.V.	The Company	2	Other receivable	364,293	30 days from receipt of goods	0.17%
16	VIEWQUEST TECHNOLOGIES (BVI) INC.	Ability Enterprise Co., Ltd.	3	Account receivable	3,639,299	both parties agreed	1.66%

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

No. (Note 1)	Name	Object of transaction	Relationship (Note 2)	Details of transaction			Percentage of consolidated income or total assets (Note 3)
				Account	Amount	Terms of collection/ payment	
0	The Company	ASIAROCK TECHNOLOGY LIMITED	1	Sales	263,781	30 days from receipt of goods	0.20%
0	The Company	PEGATRON Czech s.r.o.	1	Sales	1,839,311	120 days from receipt of goods	1.41%
0	The Company	UNIHAN	1	Sales	110,766	60 days from receipt of goods	0.09%
0	The Company	Powtek (ShangHai) Co., Ltd	1	Sales	1,347,031	45 days from receipt of goods	1.04%
2	MAINTEK COMPUTER (SUZHOU) CO., LTD.	ASUSPOWER CORPORATION	3	Service revenue	2,195,871	Open account 60 days	1.69%
3	BOARDTEK COMPUTER (SUZHOU) CO., LTD.	BOARDTEK (H.K.) TRADING LIMITED	3	Sales	412,825	Open account 60-90 days	0.32%
3	BOARDTEK COMPUTER (SUZHOU) CO., LTD.	UNIHAN	3	Sales	234,847	Open account 60 days	0.18%
3	BOARDTEK COMPUTER (SUZHOU) CO., LTD.	The Company	2	Sales	249,032	Open account 90 days	0.19%
3	BOARDTEK COMPUTER (SUZHOU) CO., LTD.	Protek (ShangHai) Limited	3	Sales	301,888	Open account 60 days	0.23%
4	Protek (ShangHai) Limited.	The Company	2	Sales	7,628,771	Open account 90 days	5.86%
5	Toptek Precision Industry(SuZhou) Co., Ltd.	AMA Technology Corporation	3	Sales	216,674	Open account 30 days	0.17%
6	AzureWave Technologies, Inc.	The Company	2	Sales	317,295	60 days from receipt of goods	0.24%
6	AzureWave Technologies, Inc.	Protek (ShangHai) Limited.	3	Sales	612,421	60-90 days from receipt of goods	0.47%
7	CASETEK COMPUTER (SUZHOU) CO., LTD	PEGATRON Czech s.r.o.	3	Sales	350,845	Open account 60 days	0.27%
7	CASETEK COMPUTER (SUZHOU) CO., LTD	UNIHAN	3	Sales	308,903	Open account 60 days	0.24%
7	CASETEK COMPUTER (SUZHOU) CO., LTD	The Company	2	Sales	557,067	Open account 60 days	0.43%
7	CASETEK COMPUTER (SUZHOU) CO., LTD	Protek (ShangHai) Limited.	3	Sales	273,628	Open account 60 days	0.21%
9	ASROCK Incorporation	ASROCK AMERICA, INC.	3	Sales	322,907	Open account 90 days	0.25%
9	„	ASROCK EUROPE B.V.	3	Sales	1,083,198	45 days from receipt of goods	0.83%
10	ACTION PIONEER INTERNATIONAL LTD.	Ability Enterprise Co., Ltd.	3	Sales	136,358	both parties agreed	0.10%
11	AMA Technology Corporation	AMA PRECISION INC.	3	Sales	289,379	Open account 90 days	0.22%
12	ASIAROCK TECHNOLOGY LIMITED	ASROCK Incorporation	3	Sales	1,837,448	Open account 60 days	1.41%
13	ASUSPOWER CORPORATION	The Company	2	Service revenue	1,181,024	30 days from receipt of goods	0.91%
13	ASUSPOWER CORPORATION	UNIHAN	3	Service revenue	1,102,847	30 days from receipt of goods	7.66%
16	VIEWQUEST TECHNOLOGIES (BVI) INC.	Ability Enterprise Co., Ltd.	3	Sales	9,971,274	both parties agreed	1.66%
17	AVY PRECISION ELECTROPLATING (SUZHOU) Co., LTD.	United New Limited	3	Sales	616,133	60 days from receipt of goods	0.47%

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



No. (Note 1)	Name	Object of transaction	Relationship (Note 2)	Details of transaction			Percentage of consolidated income or total assets (Note 3)
				Account	Amount	Terms of collection/ payment	
18	Lumens	Lumens Integration	3	Sales	124,777	30 days from receipt of goods	0.10%

Note 1: For transactions between the Company and its subsidiaries, numbers are assigned as follows:

1. 0 represents the Company.
2. Serial numbers for the subsidiaries begin from number 1.

Note 2: Relationships are stated as follows:

1. The Company to subsidiary.
2. Subsidiary to the Company.
3. Subsidiary to other subsidiary

Note 3: The percentage with respect to the consolidated asset/liability for transactions of balance sheet items are based on each item's balance at period-end.

For profit or loss items, cumulative balances are used as basis.

Note 4: According to the transactions between the Company and its subsidiaries, only sales and accounts receivable are disclosed.

Note 5: When amount of the transaction is minor, it would not be disclosed.

Note 6: MAINTEK manufactured for the Company and UNIHAN on a consign process contract through ASUSPOWER CORPORATION.

**12. BUSINESS SEGMENT FINANCIAL INFORMATION: Financial information disclosure by industry segment is not required for interim report.**

(English Translation of Financial Report Originally Issued in Chinese)

**INDEPENDENT AUDITORS' REPORT**

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, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year 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 audits. The accompanying consolidated balance sheet of Pegatron Corporation as of December 31, 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended were audited by other auditors whose report dated March 24, 2009, expressed a modified unqualified opinion.

We conducted our audit in accordance with "Rules 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 consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidences supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 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, 2009 and the results of its operations and its consolidated cash flows for the year then ended in conformity with Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

As stated in Note 3, to the consolidated financial statements, effective January 1, 2009, the Consolidated Company adopted Republic of China Statement of Financial Accounting Standards (SFAS) No. 10 "Inventories", resulting in a decrease of \$143,272 thousand in net income and \$0.06 in earnings per share for the year ended December 31, 2009.

KPMG

CPA: Charlotte Lin  
Ulyos Maa

Taipei, Taiwan, ROC  
March 3, 2010

**(English Translation of Financial Report Originally Issued in Chinese)**  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2009 AND 2008**

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

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>Current Asset:</b>				
Cash (Notes (2) and (4)(1))	\$ 31,846,280	14	26,274,861	12
Financial assets reported at fair value through profit or loss — current (Notes (2) and (4)(b))	7,337,537	3	3,952,004	2
Available-for-sale financial assets — current (Notes (2) and (4)(b))	1,021,413	1	8,881	—
Notes receivable, net of allowance for doubtful accounts (Notes (2), (4)(c) and (5))				
— Non-related parties	64,401	—	11,861	—
— Related parties	9,390	—	—	—
Accounts receivable, net of allowance for doubtful accounts (Notes (2), (4)(c) and (5))				
— Non-related parties	54,140,039	24	54,426,084	25
— Related parties	13,598,323	6	9,412,008	4
Other receivables, net of allowance for doubtful accounts (Note (5))				
— Non-related parties	1,238,616	1	2,928,642	1
— Related parties	196,313	—	1,694,333	1
Other financial asset — current (Note (6))	196,127	—	178,461	—
Inventories (Notes (2), (4)(d) and (6))	43,409,932	19	40,975,383	19
Non-current assets held for sale (Notes (2) and (4)(h))	—	—	182,876	—
Other current assets	1,812,360	1	1,462,134	1
Deferred income tax assets — current (Notes (2) and (4)(n))	936,214	—	1,265,686	1
	<u>155,806,945</u>	<u>69</u>	<u>142,773,214</u>	<u>66</u>
<b>Investments:</b>				
Available-for-sale financial assets — noncurrent (Notes (2) and (4)(b))	2,245,648	1	837,958	—
Financial assets carried at cost — noncurrent (Notes (2) and (4)(b))	609,243	—	1,295,298	1
Long-term investments under the equity method (Notes (2), (4)(e) and (4)(f))	1,996,644	1	2,665,994	1
	<u>4,851,535</u>	<u>2</u>	<u>4,799,250</u>	<u>2</u>
<b>Other financial assets — noncurrent (Note (6))</b>	<u>468,308</u>	<u>—</u>	<u>542,317</u>	<u>—</u>
<b>Property, Plant and Equipment, at cost (Notes (2), (4)(g) and (6)):</b>				
Land	2,830,983	1	3,248,728	2
Buildings and structures	23,975,458	11	21,144,123	10
Machinery and equipment	45,331,786	21	46,462,058	22
Warehousing equipment	112,268	—	82,247	—
Instrument equipment	1,630,341	1	2,095,122	1
Transportation equipment	198,608	—	186,983	—
Office equipment	1,039,897	—	1,090,000	—
Miscellaneous equipment	5,508,471	3	3,960,795	2
	<u>80,627,812</u>	<u>37</u>	<u>78,270,056</u>	<u>37</u>
Less: Accumulated depreciation	(28,277,988)	(13)	(23,623,114)	(11)
Less: Accumulated impairment	(86,691)	—	(454,082)	—
Prepayments for equipment	2,403,392	1	5,088,121	2
	<u>54,666,525</u>	<u>25</u>	<u>59,280,981</u>	<u>28</u>
<b>Intangible Assets (Notes (2), (4)(j) and (6))</b>				
Consolidated debit	890,311	1	882,284	1
Deferred pension cost	4,894	—	8,029	—
Land use rights	2,387,720	1	2,333,541	1
Other intangible assets	465,826	—	479,685	—
	<u>3,748,751</u>	<u>2</u>	<u>3,703,539</u>	<u>2</u>
<b>Other Assets</b>				
Deferred expenses (Notes (2) and (4)(j))	3,257,467	1	3,127,472	1
Deferred income tax assets — noncurrent (Notes (2) and (4)(n))	16,988	—	33,338	—
Other assets (Notes (2), (4)(g), (4)(i) and (6))	1,738,313	1	905,313	1
	<u>5,012,768</u>	<u>2</u>	<u>4,066,123</u>	<u>2</u>
<b>TOTAL ASSETS</b>	<b>\$ 224,554,832</b>	<b>100</b>	<b>215,165,424</b>	<b>100</b>

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

**English Translation of Financial Report Originally Issued in Chinese)**  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (CONT'D)**  
**DECEMBER 31, 2009 AND 2008**  
**(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)**

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Short-term loans (Note (4)(k))	\$ 10,879,039	5	14,288,407	7
Short-term notes and bills payable	49,933	—	—	—
Financial liabilities reported at fair value through profit or loss — current (Notes (2) and (4)(b))	—	—	409	—
Notes payable	79,147	—	96,876	—
Accounts payable				
— Non-related parties	64,658,372	29	58,816,628	27
— Related parties (Note (5))	1,305,645	1	5,593,849	2
Income tax payable	1,276,165	1	1,598,570	1
Accrued expenses				
— Non-related parties	10,059,126	4	7,963,481	4
— Related parties (Note (5))	24,538	—	64,007	—
Current portion of long-term loans (Note (4)(l))	48,006	—	118,751	—
Other financial liabilities — current	1,592,246	1	2,034,544	1
Other current liabilities (Note (5))	5,728,335	2	5,678,089	3
Deferred income tax liabilities (Notes (2) and (4)(n))	304	—	16,921	—
	95,700,856	43	96,270,532	45
<b>Long-Term Loans:</b>				
Long-term loans (Note (4)(l))	8,078,551	3	8,212,695	4
Other financial liabilities — noncurrent	241,305	—	251,665	—
	8,319,856	3	8,464,360	4
<b>Other Liabilities:</b>				
Deferred income tax liabilities — noncurrent (Notes (2) and (4)(n))	329,240	—	195,190	—
Other liabilities (Notes (2) and (4)(m))	51,210	—	59,788	—
	380,450	—	254,978	—
<b>Total Liabilities</b>	104,401,162	46	104,989,870	49
<b>Stockholders' Equity:</b>				
Common stock — authorized 2,500,000 thousand shares, 2,286,054 thousand shares issued and outstanding in 2009; 1,884,628 thousand shares issued and outstanding in 2008 (Note (4)(o))	22,860,539	10	18,846,281	9
Capital Surplus (Note (4)(o))				
Premium on capital stock	61,188,108	28	61,188,108	29
Others	2,588,515	1	2,393,989	1
	63,776,623	29	63,582,097	30
Retained Earnings: (Note (4)(o))				
Legal reserve	545,570	—	—	—
Unappropriated earnings	6,712,650	3	5,455,699	2
	7,258,220	3	5,455,699	2
Other Adjustments to Stockholders' Equity:				
Cumulative translation adjustments	198,092	—	1,849,737	1
Unrecognized loss on pension cost	(3,202)	—	(1,128)	—
Unrealized gain on financial assets	1,680,205	1	241,398	—
	1,875,095	1	2,090,007	1
<b>Total Parent Company's Equity</b>	95,770,477	43	89,974,084	42
<b>Minority interest</b>	24,383,193	11	20,201,470	9
<b>Total Stockholders' Equity</b>	120,153,670	54	110,175,554	51
<b>Commitments and Contingencies (Note (7))</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	\$ 224,554,832	100	215,165,424	100

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

**(English Translation of Financial Report Originally Issued in Chinese)**  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER, 2009 AND 2008**  
**(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)**

	For The Year Ended December 31			
	2009		2008	
	Amount	%	Amount	%
Operating Revenues (Note (5))	\$ 542,355,154	101	516,434,810	101
Less: Sales returns and allowances	(4,273,493)	(1)	(3,140,655)	(1)
Net sales	538,081,661	100	513,294,155	100
Cost of goods sold (Notes (2), (4)(d) and (5), (10)(a))	(505,715,364)	(94)	(486,285,510)	(95)
Gross profit	32,366,297	6	27,008,645	5
Operating expenses (Notes (5) and (10)(a))				
Selling expenses	(6,340,717)	(1)	(7,383,043)	(1)
General and administrative expenses	(6,487,296)	(1)	(5,351,049)	(1)
Research and development expenses	(8,963,234)	(2)	(6,480,557)	(1)
	(21,791,247)	(4)	(19,214,649)	(3)
Income from operations	10,575,050	2	7,793,996	2
Non-operating incomes				
Interest income	120,681	–	475,472	–
Investment income under the equity method (Note (4)(e))	312,360	–	84,927	–
Dividend income	13,561	–	89,254	–
Gain on disposal of investments	534,823	–	210,530	–
Gain on valuation of financial assets (Note (4)(b))	116,880	–	–	–
Others (Note (5))	3,035,816	1	2,480,287	–
	4,134,121	1	3,340,470	–
Non-operating expenses				
Interest expense	(153,355)	–	(283,371)	–
Foreign exchange loss, net	(115,074)	–	(168,638)	–
Impairment loss	(478,402)	–	(754,957)	–
Loss on valuation of financial assets (Note (4)(b))	–	–	(52,570)	–
Others	(1,060,051)	–	(729,456)	–
	(1,806,882)	–	(1,988,992)	–
Income before income tax	12,902,289	3	9,145,474	2
Income tax expense (Note (4)(n))	(2,354,902)	(1)	(1,217,835)	–
Consolidated net income	<b>\$ 10,547,387</b>	<b>2</b>	<b>7,927,639</b>	<b>2</b>
Income attributable to :				
Shareholders of parent company	\$ 6,751,588	1	5,526,317	1
Minority interest income	3,795,799	1	2,401,322	1
	<b>\$ 10,547,387</b>	<b>2</b>	<b>7,927,639</b>	<b>2</b>
	<b>Before</b>	<b>After</b>	<b>Before</b>	<b>After</b>
	<b>Income Tax</b>	<b>Income</b>	<b>Income Tax</b>	<b>Income</b>
Earnings per share attributable to parent company (Notes (2) and (4)(q))				
Primary earnings per share	<b>\$ 3.15</b>	<b>2.95</b>	<b>2.80</b>	<b>3.08</b>
Primary earnings per share – retroactively adjusted			<b>\$ 2.31</b>	<b>2.54</b>
Diluted earnings per share	<b>\$ 3.10</b>	<b>2.91</b>	<b>2.79</b>	<b>3.07</b>
Diluted earnings per share – retroactively adjusted			<b>\$ 2.30</b>	<b>2.53</b>

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

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**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

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

	Retained Earnings				Stock holders' Equity Adjustments			Minority Interest	Total
	Capital Stock	Capital Surplus	Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrecognized Loss on Pension Cost	Unrealized Gain on Financial Instruments		
<b>Balance as of January 1, 2008</b>	\$ 50,000	165,375	–	(3,705)	–	–	–	–	211,670
Consolidated net income for the year ended December 31, 2008	–	–	–	5,526,317	–	–	–	2,401,322	7,927,639
Issuance of new stocks in exchange of spin-off assets	16,000,000	54,121,343	–	–	(535,174)	(826)	414,657	13,562,537	83,562,537
Issuance of new stocks in exchange of subsidiary capital	2,796,281	9,339,718	–	(23,806)	(14,235)	537	(216)	6,379,850	18,478,129
Interest expense generated from the trust of shareholders of parent Company	–	156,850	–	–	–	–	–	–	156,850
Cumulative translation adjustments	–	–	–	–	2,399,146	–	–	–	2,399,146
Adjustment arising from changes in percentage of ownership in long-term equity investments	–	(201,189)	–	(43,107)	–	(839)	(173,043)	–	(418,178)
Change in minority interests	–	–	–	–	–	–	–	(2,142,239)	(2,142,239)
<b>Balance as of December 31, 2008</b>	18,846,281	63,582,097	–	5,455,699	1,849,737	(1,128)	241,398	20,201,470	110,175,554
2008 earnings distribution and appropriation:									
Legal reserve	–	–	545,570	(545,570)	–	–	–	–	–
Cash dividends	–	–	–	(882,092)	–	–	–	–	(882,092)
Stock dividends	4,014,258	–	–	(4,014,258)	–	–	–	–	–
Consolidated net income for the year ended December 31, 2009	–	–	–	6,751,588	–	–	–	3,795,799	10,547,387
Cash dividends distributed by minority interests	–	–	–	–	–	–	–	(1,765,838)	(1,765,838)
Returned investments by decreasing in capital for minority interests	–	–	–	–	–	–	–	(985,909)	(985,909)
Issuance of new shares for cash from minority interests	–	–	–	–	–	–	–	441,894	441,894
Changes in minority interests	–	–	–	–	–	–	–	479,826	479,826
Effect of initial merge to minority interests	–	–	–	–	–	–	–	2,215,951	2,215,951
Interest expense generated from the trust of shareholders of parent Company	–	38,022	–	–	–	–	–	–	38,022
Cumulative translation adjustments	–	–	–	–	(1,651,645)	–	–	–	(1,651,645)
Adjustment arising from changes in percentage of ownership in long-term equity investments	–	156,504	–	(52,717)	–	–	–	–	103,787
Unrealized gain on available-for-sale financial assets of subsidiaries	–	–	–	–	–	–	1,438,807	–	1,438,807
Unrecognized loss on pension cost	–	–	–	–	–	(2,074)	–	–	(2,074)
<b>Balance as of December 31, 2009</b>	<b>\$ 22,860,539</b>	<b>63,776,623</b>	<b>545,570</b>	<b>6,712,650</b>	<b>198,092</b>	<b>(3,202)</b>	<b>1,680,205</b>	<b>24,383,193</b>	<b>120,153,670</b>

**(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, 2009 AND 2008**  
**(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)**

	For The Year Ended December 31	
	2009	2008
	Amount	Amount
<b>Cash flows from operating activities:</b>		
<b>Consolidated net income</b>	\$ 10,547,387	7,927,639
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	8,304,441	6,827,594
Amortization	2,305,900	1,300,625
Loss on disposal and retirement of assets, net	114,521	45,700
Impairment loss	478,402	754,957
Income from long-term equity investments over cash dividends received	(229,861)	271,724
Gain on disposal of investments	(457,126)	(155,922)
Interest expense generated from the trust of shareholders of parent Company	38,022	154,881
Ownership of employee stock option and treasury stock were transferred to employee compensation cost	133,384	4,929
Change in assets and liabilities:		
Financial assets reported at fair value through profit or loss — current	(2,712,294)	853,278
Notes and accounts receivable	(3,185,334)	(42,013,018)
Other receivables	3,183,799	19,743,597
Inventories	(1,973,976)	15,733,976
Other financial assets — current	-	-
Other current assets	(151,988)	38,855
Deferred income tax assets and liabilities, net	486,044	(884,938)
Financial liabilities reported at fair value through profit or loss — current	(409)	371
Notes and accounts payable	2,243,798	(18,155,790)
Accrued expenses	230,524	(8,189,741)
Other financial liabilities — current	(449,772)	14,061,834
Income tax payable	(356,536)	32,535
Other current liabilities	(96,184)	3,091,138
Accrued pension liabilities / Deferred pension cost	153	(15,885)
Net cash provided by operating activities	<u>18,452,895</u>	<u>1,428,339</u>

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**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For The Year Ended December 31	
	2009	2008
	Amount	Amount
<b>Cash flows from investing activities:</b>		
Increase in funds and investments	\$ (1,726,866)	(2,244,016)
Proceeds from disposal of investments	2,387,316	1,472,034
Purchase of intangible assets	(126,445)	(965,828)
Purchase of deferred charges	(1,802,159)	(2,030,042)
Purchase of property, plant and equipment	(6,002,266)	(10,123,755)
Proceeds from sale of assets	689,201	440,298
Returned investments due to subsidiary company's capital decrease	933	151,838
Increase in other financial assets — current	(16,535)	(191,961)
Decrease (Increase) in other financial assets — noncurrent	153,569	(459,350)
Others	97,499	235,537
<b>Net cash used in investing activities</b>	<b>(6,345,753)</b>	<b>(13,715,245)</b>
<b>Cash flows from financing activities:</b>		
(Decrease) Increase in short-term loans	(3,295,203)	7,953,771
(Decrease) Increase in long-term loans	(192,647)	7,848,548
Increase in short-term notes and bills payable	49,933	-
(Decrease) Increase in other financial liabilities — noncurrent	(10,359)	93,678
(Decrease) Increase in other liabilities	(17,777)	5,405
Cash dividends, employee bonuses and remuneration to directors and supervisors	(2,647,930)	(2,649,848)
Returned investments by decreasing in capital of subsidiary company	(985,909)	-
Redemption of treasury stock	(30,550)	(405,206)
Transfer treasury stock to employees	380,256	-
Issuance of stock for cash	441,894	200,900
Cash provided by spin-off	-	22,997,146
<b>Net cash (used in) provided by financing activities</b>	<b>(6,308,292)</b>	<b>36,044,394</b>
Foreign exchange rate effects	(918,727)	(27,504)
Effect of changes of certain subsidiaries	(265,407)	(124,034)
Effect of initial consolidation of subsidiaries	956,703	2,665,816
<b>Net increase in cash</b>	<b>5,571,419</b>	<b>26,271,766</b>
<b>Cash, beginning of the year</b>	<b>26,274,861</b>	<b>3,095</b>
<b>Cash, end of the year</b>	<b>\$ 31,846,280</b>	<b>26,274,861</b>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the year for:</b>		
Interest	<b>\$ 173,609</b>	<b>267,108</b>
Income tax	<b>\$ 2,040,095</b>	<b>2,169,587</b>
<b>Non-cash investing and financing activities:</b>		
Current portion of long-term loans	<b>\$ 48,006</b>	<b>118,751</b>
<b>Purchase of property and equipment with cash and other payables:</b>		
Property, plant and equipment	\$ 6,395,935	10,098,942
Add: Other payables, beginning of the year	138,654	163,467
Less: Other payables, end of the year	(97,397)	(138,654)
<b>Cash paid</b>	<b>\$ 6,437,192</b>	<b>10,123,755</b>



**(English Translation of Financial Report Originally Issued in Chinese)**  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**  
**(Amounts Expressed in New Taiwan Dollars in Thousands,**  
**Except for Per Share Information and Unless Otherwise Stated)**

**NOTE TO CONSOLIDATED FINANCIAL STATEMENTS**

**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 to restructure the Company’s business. ASUSALPHA Computer Inc. was merged by the Company on April 1, 2008. The main activities of the Company are to produce, design and sell OEM business. The Company’s parent company is ASUSTeK Computer Inc.

As of December 31, 2009 and 2008, the Company and its subsidiaries (the “Consolidated Company”) had 96,534 and 83,323 employees, respectively.

**2. Summary of Significant Accounting Policies**

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

**a. Basis of consolidation**

When the Consolidated Company holds more than 50% of the voting rights of investees (including the exercisable and convertible potential voting rights owned by the Consolidated Company except when there is any evidence indicating that the Consolidated Company has no controlling power considering their percentage of ownership) or when any one of the criteria listed below is met, the Consolidated Company is considered to have control over the investees. The Consolidated Company not only accounts for such investments under the equity method but also consolidates them into the Company’s consolidated financial statements quarterly.

- 1) Has ability to have more than half of investee’s voting rights with agreement of other investors.
- 2) Has ability to control the financial, operating and human resources functions of investee according to regulations or agreements.
- 3) Has authority to appoint more than half of the members of the board of directors (or its equivalent) to control the board (or its equivalent).
- 4) Has authority to secure more than half of the voting rights of the board of directors (or its equivalent) to control the board (or its equivalent).
- 5) Has other circumstances that prove the controlling power.

As of December 31, 2009 and 2008, the consolidated subsidiaries were as follows:

Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
The Company	UNIHAN CORPORATION (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	100.00%	100.00%
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	12.63%	12.99%
Ability (tw)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%
Ability (tw)	VIEWQUEST TECHNOLOGIES INTERNATIONAL LTD.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%
Ability (tw)	ASSOCIATION INTERNATIONAL LTD.	Investing activities	100.00%	100.00%
Ability (tw)	ABILITY ENTERPRISE (BVI) CO., LTD.(ABILITY)	Investing activities	100.00%	100.00%
ABILITY	Ability Technology (Dongguan) Co., Ltd	Producing and selling digital cameras	100.00%	100.00%
Ability (tw)	VIEQUEST TECHNOLOGIES (BVI) INC.	Manufacturing and selling computer peripherals, digital cameras and electronic components	100.00%	100.00%
Ability (tw)	Ability International Investment Co., Ltd.	Investing activities	100.00%	100.00%
UNIHAN	Unihan Holding Ltd. (Unihan Holding)	Investing activities	100.00%	100.00%
Unihan Holding	CASETEK HOLDINGS LIMITED (CASETEK HOLDING)	Investing and trading activities	100.00%	100.00%
CASETEK HOLDING	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%

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

Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
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%
CASETEK HOLDING	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDING)	Investing and trading activities	100.00%	100.00%
KAEDAR HOLDING	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD	Tooling module of stainless steel computer cases	100.00%	100.00%
CASETEK HOLDING	KAEDAR TRADING LTD.	Investing and trading activities	100.00%	100.00%
CASETEK HOLDING	CORE-TEK (SHANGHAI) LIMITED	Researching and producing the parts of notebooks, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00%	100.00%
CASETEK HOLDING	UNITED NEW LIMITED (UNITED)	Investing and trading activities	51.00%	-%
UNITED	AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic and camera components, and accessories	100.00%	-%
UNIHAN and ASUSTEK INVESTMENT	AzureWave Technologies, Inc. (AzureWave)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	43.56%	58.09%
AzureWave	Eminent Star Company Limited (Eminent)	Investing activities	100.00%	100.00%
Eminent	Hannex International Limited (Hannex)	Investing activities	100.00%	100.00%
Hannex	Scientek. Nanjing Co.,Ltd	Designing, researching and selling computer products	100.00%	100.00%

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

Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
Eminent	Jade Technologies Limited (Jade)	Investing activities	100.00%	100.00%
Eminent and Jade	Azurewave Technology (Shenzhen) Co., Ltd.	Designing, researching and selling computer products	100.00%	100.00%
AzureWave	EZWAVE TECHNOLOGIES, INC.	Selling computer peripherals	100.00%	100.00%
AzureWave	Azwave Holding (Samoa) Inc. (Azwave Samoa)	Investing activities	100.00%	100.00%
Azwave Samoa	AzureWave Technologies (Shanghai) Inc.	Manufacturing electronic parts	100.00%	100.00%
Azwave Samoa	AzureLighting Technologies ,INC (Yangzhou)	Manufacturing electronic parts	100.00%	-%
AzureWave	EZWAVE TECHNOLOGIES, INC.	Manufacturing electronic parts	100.00%	-%
UNIHAN	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	100.00%
AMA PRECISION	AMA Technology Corporation	Trading computer peripherals	100.00%	100.00%
AMA PRECISION	AMA Holdings Limited (AMA)	Investing activities	100.00%	100.00%
AMA	METAL TRADINGS LTD. (METAL)	Trading activities	100.00%	100.00%
METAL	FENGSHUO TRADING (TONGZHOU) CO. LTD	Trading activities	100.00%	100.00%
AMA	EXTECH LTD.	Trading electronic parts	90.49%	88.91%
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD	Manufacturing, developing and selling electronic parts	100.00%	100.00%

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

Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
AMA	Toptek Precision Industry(SuZhou) Co., Ltd	Manufacturing and selling new electronic parts and premium hardware	100%	-%
The Company and ASUS INVESTMENT	ASUS HOLLAND HOLDING B.V. (AHH)	Investing activities	100.00%	100.00%
AHH	PEGATRON Czech s.r.o.	Installing, repairing and selling electronic products	100.00%	100.00%
The Company	Pegatron Holding Ltd. (Pegatron Holding)	Investing activities	100.00%	100.00%
Pegatron Holding	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00% (Note (A))	-%
POWTEK	Powtek (Shanghai) Co., Ltd.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00%	-%
Pegatron Holding	BOARDTEK HOLDINGS LTD. (CAYMAN) (BOARDTEK CAYMAN)	Investing and holding activities	100.00%	-%
BOARDTEK CAYMAN	BOARDTEK HOLDING LIMITED (BOARDTEK HOLDING)	Investing and trading activities	100.00%	100.00%
BOARDTEK HOLDING	BOARDTEK 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%
BOARDTEK HOLDING	BOARDTEK(H.K.) TRADING LIMITED	Trading activities	100.00%	-%
Pegatron Holding	ASLINK PRECISION CO., LTD (ASLINK)	Investing and trading activities	100.00%	100.00%

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

Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
ASLINK	ASLINK (H.K.) PRECISION CO., LIMITED	Investing and trading activities	100.00%	100.00%
ASLINK	ASAP INTERNATIONAL CO., LIMITED (ASAP)	Investing activities	59.17%	51.00%
ASAP	ASAP TECHNOLOGY (JIANGXI) CO., LIMITED	Manufacturing and selling date transit wire and cable	100.00%	100.00%
Pegatron Holding	DIGITEK GLOBAL HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%
Pegatron Holding	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00%	100.00%
Pegatron Holding	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00%	100.00%
Pegatron Holding	NORTH TEC ASIA LIMITED (NORTH)	Investing and trading activities	100.00%	100.00%
PROTEK AND NORTH	Protek (ShangHai) Limited	Manufacturing, developing and selling computers, printers and electronic components, and providing after-sales service	100.00%	100.00%
Pegatron Holding (Note (B))	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	R&D, manufacturing and selling new electronic components, providing mold technology, and after-sales service	100.00%	100.00%

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Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
Pegatron Holding	TOP QUARK LIMITED (TOP QUARK)	Investing and holding activities	100.00%	-%
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00%	-%
The Company	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%
The Company	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%
The Company	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%
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%	58.41%
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Manufacturing and selling database storage and processing equipments	100.00%	100.00%
ASIAROCK	ASROCK EUROPE B.V.	Database service and trading electronic components	100.00%	100.00%
ASIAROCK	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing activities	100.00%	100.00%
Leader	Firstplace International Ltd. (Firstplace)	Investing activities	100.00%	100.00%

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			2009.12.31	2008.12.31
Firstplace	Asrock America, Inc.	Database service and trading electronic components	100.00%	100.00%
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00%	100.00%
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%
KINSUS	KINSUS INVESTMENT CO., LTD (KINSUS INVESTMENT)	Investing activities	100.00%	-%
KINSUS INVESTMENT AND ASUSPOWER INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	84.45%	-%
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	100.00%
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%



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Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00%	100.00%
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%
STARLINK	STRATEGY Technology Co., Ltd.	Investing and trading activities	100.00%	100.00%
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC.	Sales and repair service center in North America	100.00%	100.00%
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	-%
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00%	100.00%
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens)	Researching, manufacturing and selling computer data projectors and related peripherals	56.52% (Note (C))	-%
Lumens	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	-%
Lumens	Lumens Digit Image Inc. (SOMOA)(Lumens SOMOA)	Investing activities	100.00%	-%
Lumens SOMOA	Lumens (Suzhou) Digital Image Inc.	Researching, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	-%

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Investor	Subsidiary	Nature of business	Shareholding ratio	
			2009.12.31	2008.12.31
Lumens	Lumens Europe BVBA	Selling computer communication products and peripherals	100.00%	-%
Lumens	Jie Xin Inc.	Manufacturing and wholesaling electronic parts	94.00%	-%
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%
The Company	ADVANSUS CORP.	Manufacturing computer peripherals	50.00% (Note (D))	50.00% (Note (D))
The Company	PEGATRON USA, INC.	Sales and repair service center in North America	100.00%	100.00%
NORTH	NORTH TEC ASIA (SHANGHAI) LIMITED	Manufacturing, developing and selling mobile phones, computers, routers, DTV and electronic components, and after-sales service	-% (Note (F))	100.00%
Pegatron Holding	STRONG CHOICE GROUP LIMITED	Investing and trading activities	-% (Note (E))	100.00%
Pegatron Holding	WEST TEC ASIA LIMITED	Investing and trading activities	-% (Note (E))	100.00%

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Subsidiaries, which were not included in the consolidated financial statements were as follows:

Subsidiary	Note	Shareholding ratio	
		2009.12.31	2008.12.31
Azurewave (Cayman) Holding Inc.	This entity is under liquidation, therefore, its profit or loss had not been included in the consolidated financial statements from the date following the effective date of its liquidation.	-%	60.49%
Enertronix, Inc.	Due to organization restructuring	-%	100.00%
Entertronix International Limited	Due to organization restructuring	-%	100.00%
Asus Service Canada, Inc.	Ceased controlling power	-%	100.00%
LINKTEK PRECISION (SUZHOU) CO., LIMITED	This entity is under liquidation, therefore, its profit or loss had not been included in the consolidated financial statements from the date following the effective date of its liquidation.	-%	100.00%

Note A: Due to the organization restructuring.

Note B: Due to the reorganization, the investee was transferred from Strategy Technology Co., Ltd to Pegatron Holding.

Note C: The investee was accounted for as financial assets carried at cost; then, the ability to control is achieved this year.

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

Note E: STRONG CHOICE GROUP LIMITED and WEST TEC ASIA LIMITED merged with MAGNIFICENT BRIGHTNESS LIMITED in 2009.

Note F: NORTH TEC ASIA (SHANGHAI) LIMITED merged with Protek (ShangHai) Limited in 2009.

All significant inter-company accounts and transactions have been eliminated.

**b. 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 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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**c. Foreign Currency Translation**

The Consolidated Company records its transactions in New Taiwan dollars. All foreign currency-denominated consolidated subsidiaries record their transactions in their functional currency. 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.

**d. 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.

**e. Asset Impairment**

The Consolidated 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 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 the goodwill and intangible assets that have indefinite lives or that is not yet available for use periodically on an annual basis and recognizes an impairment loss on the carrying value in excess of 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.

**f. Financial Instruments**

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

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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

These financial assets and liabilities are subsequently measured at fair value with changes in fair value recognized in profit and loss. Stocks of listed companies, convertible bonds and closed-end funds are measured at closing prices on the balance sheet date. Open-end funds are measured at the unit price of the net assets on the balance sheet date.

A financial asset or financial liability may be designated as at fair value through profit or loss only when either of the following conditions is met:

(1)The financial asset or financial liability designated is a hybrid financial instrument.

(2)It eliminates or significantly reduces a measurement or recognition inconsistency.

(3)A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

ii. Financial assets carried at cost

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

iii. Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized in earnings. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

**g. Notes and Accounts Receivable, and Allowance for Doubtful Accounts**

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

**h. 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.

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Effective January 1, 2009, the Consolidated Company adopts Republic of China Statement of Financial Accounting Standards (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 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.

**i. Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amounts are recoverable through a sale transaction within one year rather than through continuing use. Non-current assets held for sale (disposal group) are measured at the lower of carrying amount or fair value less costs to sell.

**j. 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 a joint venture investment in which the Company has the ability to control is accounted for under the equity method. Also, such investment is included in the consolidated financial statements by using the proportionate consolidation method on balance sheet date.

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.

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.

**k. 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	3 to 60 years
Machinery and equipment	2 to 10 years
Warehousing equipment	5 to 10 years

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Instrument equipment	1 to 5 years
Transportation equipment	1 to 20 years
Office equipment	1 to 7 years
Miscellaneous equipment	1 to 20 years

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

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

**l. 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 5 years
Trademarks	5 to 20 years
Patent	2 to 10 years
Land using right	20 to 50 years

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.

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

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

**m. Deferred Expenses**

The costs of renovation project, molds, fixtures and office decorations are deferred and amortized equally over 9 months to 10 years.

**n. 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 recognized as pension expense during the period when contributions are made.

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The Company and some subsidiaries adopt a defined contribution pension plan according to the regulations of their respective jurisdiction and recognize monthly pension contributions as current expenses. 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.

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

**O. Warranty Reserve**

A warranty reserve provided for products sold with a warranty based on estimated warranty service cost and in consideration of past experience, such as historical return rates, repair costs, failure rates and warranty period.

**P. 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.

**Q. 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.

**R. Commitments and Contingencies**

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

**S. Income Tax**

In accordance with Statement of Financial Accounting Standards No. 22 (SFAS 22) "Income Taxes", income taxes are accounted for using the asset and liability method. The income tax effects resulting from 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 statutory income tax rate, and reports the difference between the 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.



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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.

**t. 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 the grant date of the equity-settled share-based payments is expensed over the vesting period, with a corresponding increase in equity.

**u. 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.

**v. Spin-Off Transactions**

Spin-off transactions are accounted for by the Interpretation (91) 128 issued by the ROC Accounting Research and Development Foundation, under which a transferee company recognizes at book value the assets received and liabilities assumed from a transferor company. However, if there is any impairment loss happened, the capitalized cost of transferee company shall be net of impairment losses. Based on the net value of assets and liabilities the transferee company recognized, the amount equaled to net value is accounted for capital stock and the amount excess of net value is accounted for paid-in capital.

**w. Business Combinations**

Combination transaction is accounted for by the Interpretation (91) 243 and (91) 244 issued by the ROC Accounting Research and Development Foundation. The Consolidated Company made the combination transaction for group restructuring purpose, which according to the Interpretation. On the effective date of combination, the survival company acquired assets from terminated company and credits the long term investment account.

**x. Employee Bonuses and Remuneration to Directors and Supervisors**

Appropriations for employee bonuses and remuneration to directors and supervisors appropriated are accounted for by 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

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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.

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

Effective January 1, 2009, the Consolidated Company adopts Republic of China Statement of Financial Accounting Standards (SFAS) No. 10 "Inventories". According to SFAS 10, fixed production overheads are allocated to finished goods and work in process inventories based on the normal capacity of production facilities. Inventories are measured individually at the lower of cost or net realizable value. The effects of the adoption of this new accounting principle on net income and earnings per share for the year ended December 31, 2009, were as follows:

Nature of change in accounting principle	Effect of account	Decrease in net income (after income tax)	Decrease in EPS
Allocation of fixed production overheads based on the normal capacity .....	Cost of goods sold	\$ 116,562	0.05
Measurement of inventories individually .....	“	26,710	0.01
Total.....		<u>\$ 143,272</u>	<u>0.06</u>

Effective January 1, 2008, the Consolidated Company adopts Republic of China Statement of Financial Accounting Standards (SFAS) No. 39 "Share-based Payment" and Interpretation (96)052 issued by the ROC Accounting Research and Development Foundation (ARDF) in the accounting of employees bonuses and directors' and supervisors' remuneration. The adoption of these new accounting principles decreased net income attributable to stockholders of the parent and earnings per share by \$906,597 and \$0.51(NT dollars), respectively, for the year ended December 31, 2008.

**4. Summary of Major Accounts**

**a. Cash**

	December 31, 2009	December 31, 2008
Cash on hand .....	\$ 40,329	\$ 148,154
Demand deposits.....	17,738,019	7,885,664
Time deposits.....	14,067,932	18,241,043
Total.....	<u>\$ 31,846,280</u>	<u>\$ 26,274,861</u>

**b. Financial Instruments**

(i) The components of financial instruments were as follows:

	December 31, 2009	December 31, 2008
<b>Financial assets reported at fair value through profit or loss – current</b>		
<b>Financial assets held for trading – current:</b>		
Stocks of listed companies .....	\$ 209,202	\$ 34,873
Beneficiary certificates.....	6,263,933	2,867,440
Currency swap contracts .....	12,112	4,264
Overseas notes.....	301,862	289,167
Depositary receipts.....	10,389	16,171
Corporate bonds .....	540,039	699,351
Sub-total .....	<u>7,337,537</u>	<u>3,911,266</u>

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	<u>December 31, 2009</u>	<u>December 31, 2008</u>
<b>Financial assets designated as at fair value through profit or loss – current:</b>		
Structure notes.....	—	40,738
Total .....	<u>\$ 7,337,537</u>	<u>\$ 3,952,004</u>
<b>Available-for-sale financial assets – current:</b>		
Stocks of listed companies .....	\$ 77,925	\$ 8,881
Stock of overseas listed companies .....	943,488	—
Total .....	<u>\$ 1,021,413</u>	<u>\$ 8,881</u>
<b>Available-for-sale financial assets – noncurrent:</b>		
Stocks of listed companies .....	\$ 1,693,881	\$ 837,958
Stock of overseas listed companies .....	551,767	—
Total .....	<u>\$ 2,245,648</u>	<u>\$ 837,958</u>
<b>Financial assets carried at cost – noncurrent:</b>		
Equity securities-common stock.....	\$ 609,243	\$ 1,295,298
<b>Financial liabilities reported at fair value through profit or loss – current</b>		
<b>Financial liabilities held for trading – current:</b>		
Forward exchange contracts .....	<u>\$ —</u>	<u>\$ 409</u>

- (ii) Financial assets reported at fair value through profit or loss

For the years ended December 31, 2009 and 2008, the Consolidated Company recognized a gain and a loss on financial assets reported at fair value through profit or loss of \$116,880 and \$52,570, respectively.

- (iii) Available-for-sale financial assets

Based on the results of its impairment assessment, the Consolidated Company recognized an impairment loss on available-for-sale financial assets of \$61,662 and \$132,143 for the years ended December 31, 2009 and 2008, respectively.

For the years ended December 31, 2009 and 2008, the unrealized gains and losses on available-for-sale financial assets amounted to \$1,574,634 and \$238,408, respectively.

- (iv) Financial assets carried at cost

Impairment loss recognized on financial assets carried at cost amounted to \$38,788 and \$158,771 for the years ended December 31, 2009 and 2008, respectively.

On June 10, 2009, KINSUS INTERCONNECT TECHNOLOGY CORP (KINSUS) had formally contracted with Solar Technology Investment (Cayman) Corp., under which, KINSUS will sell its ownership of the shares of Kinmacsolar Co., Ltd. to Solar Technology Investment (Cayman) Corp. for \$236,739, purposely to subscribe to the new issued shares from Solargiga Energy Holdings Limited. However, this contract was terminated as of December 31, 2009, because the procedures for the transfer of ownership were not completed.

- (v) As of December 31, 2009 and 2008, the components of financial derivatives of Ability Enterprise Co., Ltd. were as follows:

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Financial Instruments	December 31, 2009		December 31, 2008	
	Book Value	Nominal Principal (thousands)	Book Value	Nominal Principal (thousands)
<b>Derivative financial assets:</b>				
Currency swap contracts .....	\$ 12,112	USD49,600	\$ 4,264	USD31,740
<b>Derivative financial liability:</b>				
Forward exchange contracts .....	\$ —	—	409	EUR2,509

For the years ended December 31, 2009 and 2008, Ability Enterprise Co., Ltd. entered into forward exchange contracts and currency swap contracts with financial institutions in order to hedge the exchange rate risk. For the years ended December 31, 2009 and 2008, the gains from valuation of financial assets reported at fair value through profit or loss were \$12,112 and \$3,855, respectively.

**C. Notes and Accounts Receivable**

(i) Non-related parties

	December 31, 2009	December 31, 2008
Notes receivable .....	\$ 64,740	\$ 12,102
Less: Allowance for doubtful accounts .....	(339)	(241)
Net .....	64,401	11,861
Accounts receivable .....	54,843,416	55,222,875
Less: Allowance for doubtful accounts .....	(703,377)	(796,791)
Net .....	54,140,039	54,426,084
Total .....	<u>\$ 54,204,440</u>	<u>\$ 54,437,945</u>

(ii) Related parties

	December 31, 2009	December 31, 2008
Notes receivable .....	\$ 9,390	\$ —
Accounts receivable .....	13,599,030	9,412,008
Less: Allowance for doubtful accounts .....	(707)	—
Net .....	13,598,323	9,412,008
Total .....	<u>\$ 13,607,713</u>	<u>\$ 9,412,008</u>

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(iii) As of December 31, 2009 and 2008, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

Purchaser	Amount Derecognized		Credit Advanced		Collateral	Credit (thousands)	
	December 31		December 31			December 31	
	2009	2008	2009	2008		2009	2008
Mega International Commercial Bank.....	\$ 313,090	\$ 233,717	\$ 192,404	—	None	USD 30,000	USD 30,000

**d. Inventories**

	December 31, 2009	December 31, 2008
Merchandise .....	\$ 1,824,315	\$ 1,644,878
Finished goods .....	14,477,390	15,612,544
Work in process.....	3,497,250	4,030,017
Raw materials.....	23,943,479	21,116,379
Inventories-in-transit .....	2,138,557	1,227,206
Subtotal .....	45,880,991	43,631,024
Less: Allowance for inventory market decline and obsolescence.....	(2,471,059)	(2,655,641)
Total .....	\$ 43,409,932	\$ 40,975,383

For the years ended December 31, 2009 and 2008, the components of cost of goods sold were as follows:

	December 31, 2009	December 31, 2008
Cost of goods sold.....	\$ 505,441,633	\$ 484,755,195
Loss on disposal of scrapping .....	321,764	156,913
Idle capacity .....	105,375	—
(Gain) Loss on inventory valuation and obsolescence .....	(31,274)	1,926,682
Others.....	(122,134)	(553,280)
	\$ 505,715,364	\$ 486,285,510

In accordance with Statement of Financial Accounting Standards (SFAS) No. 10, the loss on physical inventory and revenue from disposal of scraps (originally reflected under non-operating income and expense) of \$18,983 and \$572,263, respectively, in 2008 were both reclassified to the cost of goods sold for the year ended December 31, 2008.

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**e. Long-Term Equity Investments**

Name of Investee Company	December 31, 2009		December 31, 2008	
	Equity Holding	Book Value	Equity Holding	Book Value
YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.....	—%	\$ —	20.69%	\$ 1,169,211
INDEED HOLDINGS LIMITED .....	49.00%	726,939	49.00%	471,971
Avy Precision Technology Inc. ....	20.39%	750,051	19.60%	359,343
WILSON HOLDINGS LIMITED.....	49.00%	160,340	49.00%	153,279
ASHINE PRECISION CO., LTD. ....	—%	—	40.00%	141,989
EVER PINE INTERNATIONAL LTD. (BVI) .....	34.65%	121,207	34.65%	136,963
PENTAX VQ CO., LTD. ....	40.00%	58,530	40.00%	62,164
WISE INVESTMENT LIMITED .....	48.78%	37,125	48.78%	35,758
SHIN-EI YORKEY INTERNATIONAL LTD. (BVI) .....	50.00%	28,420	50.00%	29,971
ZhangJiaGang Dongbu High Technology Metal Products Co., LTD .....	20.00%	42,333	20.00%	29,723
YOFREE TECHNOLOGY CO., LTD.....	17.50%	9,867	33.33%	4,282
Subtotal .....		1,934,812		2,594,654
Add: Fair value adjustment for identifiable assets .....		61,832		71,340
Total .....		<u>\$ 1,996,644</u>		<u>\$ 2,665,994</u>

Investment income of \$312,360 and \$84,927 for the years ended December 31, 2009 and 2008, respectively, were recognized under the equity method based upon the financial statements of investee companies audited by independent accountants.

Avy Precision Technology Inc., a subsidiary of Ability Enterprise Co., Ltd., had swapped its equity shares with AzureWave Technologies, Inc., which resulted in a difference between acquisition cost and fair value of the identifiable long-term investment. Since the Consolidated Company has the ability to control Ability Enterprise Co., Ltd., such difference of \$61,832 and \$71,340 as of December 31, 2009 and 2008, 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".

In accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets", an impairment loss of \$217,745 was recognized on goodwill generated from the acquisition of Ability Enterprise Co., Ltd. for the year ended December 31, 2008, which was accounted for under purchasing method.

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Since August, 2009, the Consolidated Company had continuously disposed the shares of YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD. Consequently, its equity ownership was reduced to less than 20% of the investee's voting shares and lost significant influence over the investee's operating and financial decisions. Therefore, the Consolidated Company discontinued accounting for its investment on this investee under the equity method. Moreover, pursuant to the resolutions of the board of directors, the Consolidated Company reclassified this investment from long-term equity investment under the equity method to available for sale financial assets – current.

In February 2008, Ability Enterprise Co., Ltd subscribed for 5,000 thousand shares at \$13.5 par share from the issuance of new shares for cash by ASHINE PRECISION CO., LTD., an investee of Ability Enterprise Co., Ltd. Ability Enterprise Co., Ltd sold to its related party, Avy Precision Technology Inc., its entire ownership of 10,000 thousand shares of ASHINE PRECISION CO., LTD. for \$17.8 par share and recognized a gain and unrealized gain thereon of \$26,166 and \$7,488, respectively. (Unrealized gain was accounted for other liabilities-other).

**f. Joint Venture Investments**

The Company had equity investment in ADVANSUS CORP., which is a joint venture entity. As of December 31, 2009 and 2008, the issued capital of ADVANSUS CORP., amounted to \$360,000 and \$600,000, respectively, of which 50% was held by the Company as of the same dates. The financial accounts of ADVANSUS CORP., which were included in the Company's consolidated financial statements, were as follows:

	December 31, 2009	December 31, 2008
Current assets .....	\$ 487,823	\$ 420,029
Noncurrent assets .....	17,290	24,495
Current liabilities.....	283,972	134,951
Other liabilities.....	742	345
	For the Year Ended December 31,	
	2009	2008
Revenues .....	\$ 1,473,862	\$ 978,070
Expenses.....	1,442,692	955,173

**g. Property, Plant and Equipment, Idle Assets, and Rental Assets**

(i) Property, plant and equipment

Based on the results of its evaluation of the recoverability of property, plant and equipment, the Consolidated Company recognized a gain on recovery of impairment of assets amounted to \$564,687 and a loss on impairment of assets amounted to \$135,825 for the years ended December 31, 2009 and 2008, respectively.

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

(ii) Rental assets

1) As of December 31, 2009 and 2008, the components of rental assets were as follows:

	December 31, 2009	December 31, 2008
Land .....	\$ 336,171	\$ 210,743
Buildings.....	575,303	426,981
Less: accumulated depreciation .....	(114,077)	(71,842)

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	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Less: accumulated impairment.....	\$ (69,061)	\$ -
Add: fair value adjustment for identifiable assets .....	9,692	11,104
	\$ 738,028	\$ 576,986

- 2) In accordance with SFAS 25, the Consolidated Company owned control over Ability Enterprise Co., Ltd. through a share swap and adjusted the difference between the acquisition cost and the fair value of the rental assets based on the Consolidated Company's percentage of ownership. As of December 31, 2009 and 2008, the fair value adjustments for identifiable assets were amounted to \$9,692 and 11,104, respectively.

(iii) Idle assets

- 1) As of December, 2009 and 2008, the components of idle assets were as follows:

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Land .....	\$ 374,609	\$ 78,998
Buildings.....	612,220	54,250
Machinery and others.....	1,873,455	462,221
Less: accumulated depreciation .....	(1,024,369)	(327,250)
Less: accumulated impairment.....	(988,657)	(187,670)
	\$ 847,258	\$ 80,549

- 2) As these idle assets were not used in operation, the Consolidated Company recognized their net fair value as the recoverable amount. For the years ended December 31, 2009 and 2008, impairment loss recognized for these idle assets amounted to \$942,639 and 110,473, respectively.
- 3) Please refer to Note (6) for details of idle assets pledged as collateral.



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**h. Non-Current Assets Held-for-Sale**

Items	December 31, 2008		
	Cost	Accumulated Depreciation	Book Value
Land .....	\$ 110,115	\$ —	\$ 110,115
Buildings and structures .....	58,203	18,064	40,139
	<u>\$ 168,318</u>	<u>\$ 18,064</u>	150,254
Add: Fair value adjustment for identifiable assets .....			32,622
			<u>\$ 182,876</u>

The Consolidated Company achieved control over Ability Enterprise Co., Ltd. through a share swap and adjusted the difference between the acquisition cost and the fair value of the non-current assets held for sale based on the Consolidated Company's percentage of ownership, in accordance with SFAS 35. As of December 31, 2008, the fair value adjustment amounted to \$32,622.

In March 2009, Ability Enterprise Co., Ltd. formally contracted with non-related parties to sell its non-current assets held-for-sale for \$360,000. The gain on disposal thereof amounted to \$178,573, after deducting the carrying value and related expenses.

**i. Other Assets – Other**

Due to the restriction imposed by local government, KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS) purchased farmland in the name of KINSUS's chairman instead of KINSUS. Before KINSUS may take over the title to the farmland as well as completing the registration procedures, the land is temporarily recorded as other assets. As of December 31, 2009 and 2008, the book values of the farmland were both \$30,784.

**j. Intangible assets and deferred expense**

Consolidated debit, which is goodwill, was assessed periodically for impairment in accordance with the Republic of China Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets". As of December 31, 2009 and 2008, the book values of consolidated debit were \$890,311 and \$882,284, respectively.

Land use rights, are rights 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, 2009 and 2008, the unamortized amounts of land use rights were \$2,387,720 and \$2,333,541, respectively.

Deferred expenses consist of capitalized costs of small molds, fixtures and office decorations, which are amortized equally over 9 to 10 years. As of December 31, 2009 and 2008, the unamortized amounts were \$3,257,467 and \$3,127,472, respectively.

Please refer to Note (6) for details of intangible assets pledged as collateral.

**k. Short - Term Loans**

	December 31, 2009	December 31, 2008
Credit loans .....	\$ 10,799,394	\$ 13,940,407
Collateralized loan .....	79,645	348,000
Total .....	<u>\$ 10,879,039</u>	<u>\$ 14,288,407</u>
Range of interest rate.....	0.44%~5.04%	1.16%~5.82%

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

Please refer to Note (6) for details regarding the related assets pledged as collateral.

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**I. Long - Term Loans**

Creditor	Usage and redemption duration	December 31, 2009	December 31, 2008
ABN AMRO, Mega International Commercial Bank and 14 other participating financial institutions (Note A)	2008.10.30~2011.10.30, \$1.5 billion is repayable in 3 semi-annual installments, commencing on April 30, 2010 and the remaining amount is payable on maturity date.	\$ 7,200,000	\$ 8,000,000
Industrial and Commercial Bank of China – Ji-An Branch	2009.10.09~2011.10.08, interest is payable quarterly, and total outstanding amount is payable on maturity date.	140,549	—
Mega International Commercial Bank – Lan-Ya Branch	2004.03.31~2009.07.30, interest is payable quarterly, and total outstanding amount is payable on maturity date. The entire debt was paid in advance in 2009.	—	26,750
Mega International Commercial Bank – Lan-Ya Branch	2004.12.31~2011.12.31, payable in 20 quarterly installments, commencing the closest 15th of January, April, July or October of the date of borrowing.	10,720	248,221
Mega International Commercial Bank – Lan-Ya Branch	2005.01.31~2012.01.31, payable in 20 quarterly installments, commencing the date of borrowing with an extension of two years.	53,606	—
Mega International Commercial Bank – Lan-Ya Branch	2009.12.16~2016.12.15, payable in 20 quarterly installments, commencing the date of borrowing with an extension of two years.	348,582	—
The Shanghai Commercial & Savings Bank, Ltd. – Chung – Li Branch	2006.12.08 ~2013.10.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing.	21,320	29,167
The Shanghai Commercial & Savings Bank, Ltd. – Chung – Li Branch	2006.12.08 ~2013.10.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing in December 2006. The entire debt was fully paid in advance on June 30, 2009.	—	27,308
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 the date of borrowing.	95,940	—

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Creditor	Usage and redemption duration	December 31, 2009	December 31, 2008
The Shanghai Commercial & Savings Bank, Ltd. – Chung – Li Branch	2009.07.23 ~2014.07.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing.	23,985	—
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 the date of borrowing.	231,855	—
Subtotal		8,126,557	8,331,446
Less: Current portion		(48,006)	(118,751)
		<u>\$ 8,078,551</u>	<u>\$ 8,212,695</u>
Range of interest rate		0.89%~4.86%	1.84%~5.82%

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

- (1) Current ratio (current assets/current liabilities): should not be no less than 100%.
- (2) Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.
- (3) Interest coverage ratio (EBITDA/interest expenses): should not be no less than 400%.
- (4) Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90 billion.

As of December 31, 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.

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

**m. Pension Plan**

Domestic subsidiaries, which are public or listed, maintain and fund a retirement plan covering all regular employees. Payments of pension benefits are calculated based on the average monthly salary and numbers of year service received for the last six months prior to approve retirement and base point (b.p.) entitlement. Each employee earns 2 b.p. each year for the first 15 years of completed service, and 1 b.p. each year commencing from the 16th year and thereafter. The Labor Pension Act of R.O.C. ("the Act"), which adopts a defined contribution pension plan, takes effect from July 1, 2005. In accordance with this Act, employees of the domestic subsidiaries, which are public or listed, (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 Standards Law. Employees who are hired by the domestic subsidiaries after July 1, 2005, shall comply with the provisions of this Act. For employees subject to this Act, the domestic subsidiaries contribute monthly to the employees' individual pension accounts an amount equal to not less than 6% of the employees' monthly wages 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.

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In accordance with The Labor Pension Act of R.O.C. (“the Act”), which adopts a defined contribution pension plan, takes effect from July 1, 2005, domestic subsidiaries, which are private, contribute monthly to the employees’ individual pension accounts an amount equal to not less than 6% of the employees’ monthly wages and deposits it in a personal retirement benefit account with Bank of Taiwan.

Overseas companies contribute monthly an amount equal to certain percentage of gross salary to a pension fund in accordance with the policy of each local government.

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For the years ended December 31, 2009 and 2008, the pension costs and related information were as follows:

	For the Year Ended December 31,	
	2009	2008
Balance of pension fund-ending.....	\$ 94,894	\$ 78,972
Current pension costs:		
Defined benefit pension plan.....	8,819	10,940
Defined contribution pension plan .....	1,156,290	306,333

(i) The actuarial assumptions used in actuarial calculation were as follows:

	December 31, 2009	December 31, 2008
Discount rate.....	2.00%~2.25%	2.50%~2.75%
Future salary increase rate .....	2.00%~3.00%	2.00%~3.00%
Expected long-term rate of return on pension fund assets .....	2.00%~2.25%	2.50%~2.75%

(ii) As of December 31, 2009 and 2008, the funded status was reconciled with accrued pension liabilities per books as follows:

	December 31, 2009	December 31, 2008
Benefit obligation:		
Vested benefit obligation .....	\$ (2,543)	\$ —
Non vested benefits obligation.....	(81,994)	(75,227)
Accumulated benefit obligation .....	(84,537)	(75,227)
Effect of future salary increase .....	(72,002)	(66,689)
Estimated benefit obligation .....	(156,539)	(141,916)
Fair value of pension fund assets .....	94,894	78,972
Funded status .....	(61,645)	(62,944)
Additional minimum pension liability .....	(23,599)	(20,087)
Unrecognized net transition obligation .....	5,180	8,372
Unrecognized gain (loss) on pension fund.....	61,310	54,526
Accrued pension liability .....	\$ (18,754)	\$ (20,133)

As of December 31, 2009 and 2008, vested benefit obligations of the Consolidated Company under its pension plan were \$2,780 and \$0, respectively.

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(iii) The net pension costs for the years ended December 31, 2009 and 2008 were as follows:

	For the Year Ended December 31,	
	2009	2008
Service cost.....	\$ 1,609	\$ 1,918
Interest cost.....	3,548	4,066
Expected return on pension fund assets .....	(1,984)	(1,770)
Amortization and deferral .....	5,646	6,726
Net pension costs .....	<u>\$ 8,819</u>	<u>\$ 10,940</u>

**n. Income Tax**

(i) As of December 31, 2009 and 2008, deferred income tax assets and liabilities were as follows:

	December 31, 2009	December 31, 2008
1) Total deferred income tax assets .....	\$ 1,709,260	\$ 1,990,896
2) Total deferred income tax liabilities.....	329,544	212,111
3) Allowance for deferred income tax assets.....	756,058	691,872
4) Deductible temporary differences due to:		
- Unrealized foreign exchange (gain) loss: (taxable)		
deductible .....	(80,728)	158,008
- Allowance for inventory market decline and		
obsolescence: deductible .....	196,519	471,303
- Unrealized gain on investments: taxable.....	(358,874)	(207,622)
- Unrealized intercompany profits: (taxable)		
deductible .....	(2,257)	12,060
- Recognition of impairment loss on assets:		
deductible .....	18,974	23,536
- Warranty reserve: deductible .....	265,370	321,866
- Allowance for doubtful accounts: deductible.....	25,727	37,032
- Recognition of retirement reserve: deductible .....	2,458	3,073
- Others: deductible .....	17,250	126,656
- Unused balance of investment tax credits .....	1,221,246	809,463
- Loss carry-forward .....	74,031	23,410
	December 31, 2009	December 31, 2008
(ii) Deferred income tax assets — current .....	\$ 1,108,391	\$ 1,560,128
Allowance for deferred income tax assets — current .....	(172,177)	(294,442)
Deferred income tax liabilities — current.....	(304)	(16,921)
(iii) Deferred income tax assets — noncurrent .....	\$ 600,869	\$ 430,768
Allowance for deferred income tax assets —		
noncurrent .....	(583,881)	(397,430)
Deferred income tax liabilities — noncurrent.....	(329,240)	(195,190)

(iv) The components of income tax expense were as follows:

	For the Year Ended December 31,	
	2009	2008
Current income tax expense .....	\$ 2,076,587	\$ 2,539,909
Deferred income tax expense (benefit).....	28,821	(1,316,520)
Under - accrual of prior years' income tax .....	249,494	(5,554)
Income tax expense .....	<u>\$ 2,354,902</u>	<u>\$ 1,217,835</u>

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The components of deferred income tax expense (benefit) were as follows:

	For the Year Ended December 31,	
	2009	2008
Reversal (Provisions) for warranty reserve .....	\$ 105,489	\$ (149,236)
Unrealized exchange gain (loss).....	243,627	(158,296)
Unrealized foreign investment gain.....	141,039	11,307
Loss on doubtful accounts .....	17,756	(3,502)
Unrealized profits on sales .....	29,354	(3,067)
Reversal (Provisions) for loss on allowance for inventory market decline and obsolescence.....	321,151	(325,239)
Investment tax credits.....	(964,543)	(629,702)
Loss carry-forward .....	(27,547)	150,802
Reversal (Provisions) for impairment loss on assets .....	2,152	—
Others .....	108,059	(117,314)
Valuation allowance for deferred income tax assets.....	52,284	(92,273)
Total .....	\$ 28,821	\$ (1,316,520)

- (v) The Company and subsidiaries in R.O.C. are subject to income tax at a statutory rate of 25%. The Company and subsidiaries in R.O.C. are also subject to the Income Basic Tax Act to calculate income tax. According to the revised tax law issued on May 27, 2009, this statutory income rate will be reduced to 20% commencing from 2010. Those subsidiaries of the Company located outside of the R.O.C. are subject to income tax according to the tax laws of the related foreign jurisdiction.



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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 years ended December 31, 2009 and 2008 as follows:

	<b>For the Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
Income tax expense calculated on pre-tax financial income at the statutory tax rate .....	\$ 4,741,062	\$ 3,419,176
Permanent differences.....	(1,676,340)	(1,495,580)
Tax-exempt income .....	(100,390)	(5,325)
10% surtax on undistributed earnings.....	171,326	147,542
Investment tax credits .....	(538,579)	(527,694)
Unused investment tax credits .....	(581,870)	(157,938)
Adjustments to deferred tax assets previously .....	(20,657)	(106,021)
Effect on deferred tax of the change in statutory tax rate .....	27,466	-
Under - accrual of prior years' income tax .....	249,494	(5,554)
Valuation allowance for deferred income tax assets.....	53,048	(51,526)
Basic tax .....	30,342	755
Income tax expense (benefit).....	<u>\$ 2,354,902</u>	<u>\$ 1,217,835</u>

- (vi) The Company's tax returns through 2007 have been assessed and approved by the Tax Authority.
- (vii) 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:

<b>Name of Companies</b>	<b>Year of occurrence</b>	<b>Unused investment tax credits</b>	<b>Year of expiration</b>
The Company .....	2008~2009	\$ 553,053	2012~2013
KINSUS INTERCONNECT TECHNOLOGY CORP.....	2006~2009	627,526	2010~2013
ASUS INVESTMENT CO., LTD. ....	2007	18,725	2011
ADVANSUS CORP. ....	2008~2009	7,614	2012~2013
STARLINK ELECTRONICS CORPORATION .....	2006	2,431	2010
AMA PRECISION INC.....	2008~2009	11,897	2012~2013
		<u>\$ 1,221,246</u>	

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(viii) According to ROC Income Tax Act, unused operating loss carry-forwards which can be applied to offset against income tax in the future are as follows:

Name of Companies	Year of occurrence	Unused investment tax credits	Year of expiration
The Company .....	2009	\$ 13,289	2019
KINSUS INTERCONNECT TECHNOLOGY CORP.....	2009	3,575	2019
STARLINK ELECTRONICS CORPORATION .....	2003~2009	48,127	2013~2019
HUA-YUAN INVESTMENT LIMITED .....	2007	1	2017
AMA PRECISION INC.....	2009	9,039	2019
		<u>\$ 74,031</u>	

(ix) According to ROC Income Tax Act, unused operating losses carry forwards may be applied to offset against income tax in the future are as follows:

1) Due to the increase in its investments in new equipment, the Company granted several income tax exemptions for its manufacturing and sales of “motherboard” out of the new equipment purchased from the proceeds of capital increase. As of December 31, 2009, the five year income tax exemption periods are as follows:

Description	Exemption period
Ninth capital increase used for investment in new equipment	01/31/2005 ~ 01/30/2010
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

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

Item	Approving Office	Approval document number	Tax exemption period
1	Industrial Development Bureau	09305055510	07/01/2004~06/30/2009
2	Industrial Development Bureau	09505017710	07/01/2005~06/30/2010
3	Industrial Development Bureau	09605016580	09/30/2006~09/29/2011
4	Industrial Development Bureau	09605016590	09/30/2006~09/29/2011
5	Industrial Development Bureau	09605034400	08/31/2007~08/30/2012
6	Industrial Development Bureau	09805018460	09/30/2008~09/29/2013

- (x) Tax appeals of the Consolidated Company:

- 1) Ability Enterprise disagreed with the tax office’s income tax assessment for the years 2004, 2005 and 2006 regarding investment tax credits. Therefore, Ability Enterprise has filed formal tax appeals thereon.
- 2) TWINHAN Technology Co., Ltd (liquidated after its merger with AzureWave in 2008) disagreed with the tax office’s assessment on its tax exemption periods from 2002 to 2004. After it was turned down during the administrative proceeding, AzureWave has appealed such assessment to the Supreme Court in December 2008. However, AzureWave has recognized the possible additional tax liabilities from the said assessment.

- (xi) Stockholders’ imputation tax credit account and tax rate:

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Stockholders’ imputation tax credit account	<b>\$ 5,331</b>	<b>199,647</b>
Expected or actual deductible tax ratio	<b>0.12%</b>	<b>18.31%</b>
<b>Undistributed earnings:</b>	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Accumulated in 1997 and prior years	\$ -	-
Accumulated in 1998 and thereafter	6,712,650	5,455,699
Total	<b>\$ 6,712,650</b>	<b>5,455,699</b>

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**O. 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 thousand common stock with par value of \$10 per share. The record date of this capital increase was October 16, 2009 and the Company 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 thousand 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 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. Thereafter, the total outstanding capital amounted to \$18,846,281, divided into 1,884,628 thousand shares with par value of \$10 per share. This capital increase was approved by central authority, and the Company completed the process for the registration thereof.

(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.

In 2009 and 2008, 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 \$194,872 and \$156,850, respectively, which were debited to salary expense and credited to capital surplus—others.

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(iii) 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.
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 June 30, 2009 (resolution on such date was amended on December 25, 2009) and February 5, 2010, the Company's board of directors resolved the appropriation of earnings for 2008 and 2009. The distributions of employee bonuses and remuneration to directors and supervisors from the distributable earnings in 2008 and 2009 were as follows:

	<u>2008</u>	<u>2009</u>
Common stock dividends per share (dollars)		
Cash .....	\$ 0.47	\$ 1.75
Stock (at par).....	2.13	—
Total.....	<u>\$ 2.60</u>	<u>\$ 1.75</u>

	<u>2008</u>	<u>2009</u>
Employee bonus – cash.....	\$ 497,369	\$ 1,205,797
Remuneration to directors and supervisors .....	49,737	60,290
Total.....	<u>\$ 547,106</u>	<u>\$ 1,266,087</u>

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There were no differences between the actual results of earnings distributed in 2009 and those estimated and accrued in the financial statements of 2008.

The distribution for employee bonus and remuneration to directors and supervisors from the distributable earnings in 2009 was approved by the board of directors on February 5, 2010. Differences between the amounts approved in the shareholders' meeting and recognized in the financial statements, if any, are to be accounted for as changes in accounting estimates and recognized in profit or loss in 2010.

**p. Employee Stock Option**

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

1) On November 20, 2007, pursuant to the resolutions of its board of directors, Ability Enterprise Co., Ltd. (Ability) had issued employee stock options covering a total number of 19,500 units. Each unit bears an option to subscribe for one thousand share of Ability's common stock. Therefore, 10,000 thousand shares of new common stock were issued from the exercise of 10,000 units of employee stock option. After the issuance of employee stock option, any situation happened, such as additional change to common stock of Ability, distributions of cash dividends, and occurrence of merging 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, 2009 and 2008, the weighted-average expected life of the employee stock options was 5.24 years and 6.24 years, respectively.

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

	For the Year Ended December 31,			
	2009		2008	
	Quantity of stock option (thousand shares)	Weighted- average exercise price (dollars)	Quantity of stock option (thousand shares)	Weighted- average exercise price (dollars)
Outstanding at the beginning of the year .....	10,000	\$ 44.2	10,000	\$ 52.8
Granted .....	—	—	—	—
Added or adjusted .....	—	—	—	—
Exercised.....	—	—	—	—
Forfeited.....	—	—	—	—
Outstanding at the end of the year .....	10,000	41.3	10,000	44.2
Exercisable at the end of the year .....	2,000		—	

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- 3) The pro forma net income and earnings per share of Ability Enterprise Co., Ltd.'s employee stock option, whose grant date after January 1, 2004 and before December 31, 2007, evaluated under fair value method were as follows:

	For the Year Ended December 31,	
	2009	2008
Net Income:		
Net income .....	\$ 2,152,046	\$ 1,355,528
Pro forma net income .....	2,079,218	1,282,046
Basic earning per share		
Earnings per share .....	5.00 dollars	3.17 dollars
Pro forma earning per share .....	4.84 dollars	2.99 dollars
Diluted earning per share		
Earnings per share .....	4.89 dollars	3.09 dollars
Pro forma earning per share .....	4.73 dollars	2.92 dollars

- 4) The Black-Schole 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 yields .....	—%
Volatility factors of the expected market price .....	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

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

- 1) On November 20, 2007, pursuant to resolutions of its board of directors, Ability Enterprise Co., Ltd. (Ability) had issued employee stock options covering a total number of 19,500 units. The residual part of employee stock option, 9,500 units, was actual issued until October 13, 2008. Each unit bears an option to subscribe for one thousand shares of Ability's common stock at an exercise price of \$22.2 per share. As of December 31, 2009 and 2008, the weighted-average expected life of the employee stock options was 5.75 years and 6.75 years, respectively.

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

	For the Year Ended December 31,			
	2009		2008	
	Quantity of stock option (thousand shares)	Weighted- average exercise price (dollars)	Quantity of stock option (thousand shares)	Weighted- average exercise price (dollars)
Outstanding at the beginning of the year .....	9,500	\$ 22.2	—	\$ —
Granted .....	—	—	9,500	22.2
Added or adjusted .....	—	—	—	—
Exercised.....	—	—	—	—
Forfeited.....	—	—	—	—
Outstanding at the end of the year .....	9,500	20.8	9,500	20.8
Exercisable at the end of the year .....	—	—	—	—

- 3) 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	Grant 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 resulted from past three years' return rate on stock price, started from the measure date of employee stock option.

- 4) The expenses resulted from the transactions of the share-based payment agreement were as follows:

	For the Year Ended December 31,	
	2009	2008
Equity transaction .....	\$ 21,732	\$ 5,433



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(iii) The transfer of treasury stock by Ability Enterprise Co., Ltd. to its employees in 2009:

- 1) On July 30, 2009, pursuant to the resolutions of its board of directors and in accordance with its policy of treasury stock of transfer, Ability Enterprise Co., Ltd. transferred 10,000 thousand of its own shares, which was in the seventh purchase-back, to its employees for \$426,209. The transfer price after the adjustment was \$38.14, which was calculated by the average cost of treasury stock plus an amount adjusted from the proportion of increase of ex-dividend for 2009 and 2008.
- 2) The Black-Schole 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	Grant 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
Treasury stocks transferred to employees.....	2009.07.30	\$ 49.30	38.14	39.23% (Note)	0.0417 years	—%	0.29%	11.1652 dollars

Note: Volatility factors of the expected market price were estimated by volatility of historical stock price for the past three months from the grant date.

- 3) The expenses resulted from the transactions of the share-based payment agreement were as follows:

	For the Year Ended December 31,	
	2009	2008
Equity transaction .....	\$ 111,652	\$ —
Cash transaction.....	—	—
Total.....	<u>\$ 111,652</u>	<u>—</u>

- 4) The relevant registration processes for changes of capital resulting from the exercise of employee stock options and conversion of convertible bonds should be completed with in at least each quarter when those changes occur.

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**q. Earnings per Share (EPS)**

For the years ended December 31, 2009 and 2008, the Parent company's basic earnings per share, diluted earnings per share and adjustments were computed as follows:

(Note: shares in thousands)

	For the Year Ended December 31,			
	2009		2008	
	Before income tax	After income tax	Before income tax	After income tax
Net income .....	\$ 7,195,049	\$ 6,751,588	\$ 5,023,700	\$ 5,526,317
Weighted-average common shares outstanding .....	2,286,054	2,286,054	1,791,419	1,791,419
Dilutive potential common shares .....	33,953	33,953	10,418	10,418
Diluted shares .....	<u>2,320,007</u>	<u>2,320,007</u>	<u>1,801,837</u>	<u>1,801,837</u>
Weighted-average common shares outstanding-retroactively adjusted .....			2,172,991	2,172,991
Dilutive potential common shares- retroactively adjusted .....			12,637	12,637
Diluted shares-retroactively adjusted .....			<u>2,185,628</u>	<u>2,185,628</u>
Primary earnings per share .....	<u>\$ 3.15</u>	<u>\$ 2.95</u>	<u>\$ 2.80</u>	<u>\$ 3.08</u>
Diluted earnings per share .....	<u>\$ 3.10</u>	<u>\$ 2.91</u>	<u>\$ 2.79</u>	<u>\$ 3.07</u>
Primary earnings per share-retroactively adjusted .....			<u>\$ 2.31</u>	<u>\$ 2.54</u>
Diluted earnings per share-retroactively adjusted .....			<u>\$ 2.30</u>	<u>\$ 2.53</u>

**r. Financial Instruments**

(i) Fair value of financial instruments

	December 31, 2009		December 31, 2008	
	Book Value	Fair Value	Book Value	Fair Value
<b>Financial Assets</b>				
Financial assets reported at fair value through profit or loss – current .....	\$ 7,337,537	\$ 7,337,537	\$ 3,952,004	\$ 3,952,004
Available-for-sale financial assets – current .....	1,021,413	1,021,413	8,881	8,881
Available-for-sale financial assets – noncurrent .....	2,245,648	2,245,648	837,958	837,958
Financial assets carried at cost – noncurrent .....	609,243	—	1,295,298	—
Book value equal to fair value .....	101,757,797	101,757,797	95,651,443	95,651,443
Total financial assets .....	<u>\$ 112,971,638</u>		<u>\$ 101,745,584</u>	
<b>Financial Liabilities</b>				
Financial liabilities reported at fair value through profit or loss – current .....	\$ —	\$ —	\$ 409	\$ 409
Long-term loans (includes current portion) .....	8,126,557	8,126,557	8,331,446	8,331,446
Book value equal to fair value .....	88,889,351	88,889,351	89,109,457	89,109,457
Total financial liabilities .....	<u>\$ 97,015,908</u>		<u>\$ 97,441,312</u>	

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- (ii) Methods and assumptions used by the Consolidated Company to evaluate the fair value of financial instruments were as follows:
- 1) The fair value of short-term financial instruments is determined by their book value on the balance sheet date. As these instruments have short term maturity period, the book value serves as a reasonable basis for establishing the fair value. This method is applied to cash, accounts receivable, other receivables, other financial assets — current, non — current assets held for sale short-term loans, accounts payable, other payables, accrued expenses, and other financial liabilities — current, etc. (Both income tax refund receivable and income tax payable are legal obligations, not contract obligations, so they do not belong to financial assets and financial liabilities.)
  - 2) With respect to financial instruments such as refundable deposits that are an indispensable guarantee for the on-going operation of the Consolidated Company, it is impossible to estimate the time necessary to accomplish the exchange of assets. Consequently, the fair market value of such financial instruments can not be established. Therefore, the book value is used as the fair market value.
  - 3) 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.
  - 4) 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.
  - 5) The fair market value of long-term debt 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.

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- (iii) The fair values of financial assets/ liabilities, which were measured at quoted market value or estimated by using evaluation techniques, were as follows:

	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Measured at quoted market price</u>	<u>Estimate using evaluation techniques</u>	<u>Measured at quoted market price</u>	<u>Estimate using evaluation techniques</u>
<b>Financial Assets:</b>				
Financial assets reported at fair value				
through profit or loss — current .....	\$ 209,202	\$ 7,128,335	\$ 34,873	\$ 3,917,131
Available-for-sale financial assets —				
current.....	1,021,413	—	8,881	—
Available-for-sale financial assets —				
noncurrent.....	2,245,648	—	837,958	—
	<u>\$ 3,476,263</u>	<u>\$ 7,128,335</u>	<u>\$ 881,712</u>	<u>\$ 3,917,131</u>
<b>Financial Liabilities:</b>				
Financial liabilities reported at fair				
value through profit or loss — current ....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 409</u>

- (iv) Gain and loss recognized from changes in the fair values of financial assets and liabilities, which were estimated by using valuation techniques, amounted to \$119,083 and \$52,570, for the years ended December 31, 2009 and 2008, respectively.

- (v) 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. In addition, the Company conducts foreign exchange activities on spot market in order to hedge its foreign exchange risks.

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

2) 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.

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

The 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 transacting by L/C. Therefore, the Company believes that there is no significant credit risk. Account to the Company's customer credibility evaluation policies, the Company has to evaluate the customer's credibility and evaluate the collectability of notes and account receivables constantly before doing business. Thus, there is no significant issue on doubtful accounts.

The major customers of the Consolidated Company are concentrated in the high-tech computer industry. As the customers of the 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 Company's 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 Consolidated Company are sufficient to meet its entire contractual obligations and un-hedging forward exchange contracts; therefore, no liquidity risk exists.

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

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

4) Cash flow risk arising from variation in interest rates

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

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

As of December 31, 2009 and 2008, guarantee and endorsements of bank loans were provided by the Consolidated Company for related parties, as discussed in Note (5).

**5. Related-Party Transactions**

**a. Names and Relationships of Related Parties with the Consolidated Company**

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
ASUSTeK Computer Inc.	The parent company
Askey Computer Corp.	An investee company accounted for under the equity method by the parent
ASMEDIA TECHNOLOGY INC.	"
International United Technology Co., Ltd. (Taiwan)	"
Shinewave International Inc.	"
UNIMAX ELECTRONICS INCORPORATION	"
ASUS TECHNOLOGY INCORPORATION	"
ASUS TECHNOLOGY PTE. LIMITED	"
ASUS Computer (Shanghai) CO., LTD.	"
Powtek (Shanghai) Co., Ltd.	An investee company accounted for under the equity method by the parent company formerly. Due to oversea organization restructuring of the group, an investee company was incorporated into the Company's consolidated financial statements in 2009.
Toptek Precision Industry (SuZhou) Co., Ltd.	"
ASUS Technology (Suzhou) Co., Ltd.	An investee company accounted for under the equity method by the parent
eMES (SUZHOU) CO., LTD.	"
ASHINE TECHNOLOGY (SUZHOU) LTD.	"
Shandong Enertronix Co., Ltd.	"
Huizhou Enertronix Co., Ltd.	"
Enertronix, Inc.	"
ASUS COMPUTER INTERNATIONAL	"
ASUS HOLLAND B.V.	"
ASUS INTERNATIONAL LIMITED	"
ASUS TECHNOLOGY PTE. LIMITED	"
Double Tech Ltd.	"
DEEP DELIGHT LIMITED	"
ASKEY INTERNATIONAL CORP	"
OPENBASE LIMITED	"

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<b>Name of Related Party</b>	<b>Relationship with the Company</b>
ASKEY TECHNOLOGY (JIANGSU) LTD.	An investee company accounted for under the equity method by the parent
ASUSTEK COMPUTER (SHANGHAI) CO., LTD. (ASUS UNITED Technology (Shanghai) Co., Ltd. formerly)	"
ASUSTEK HOLDINGS LIMITED	"
AMA CORPORATION	"
AGAiT Technology Corporation	"
ASHINE PRECISION CO., LTD.	"
Avy Precision Technology Inc.	An investee company accounted for under the equity method.
PENTAX VQ CO., LTD.	"
YOFREE TECHNOLOGY CO., LTD.	"
PEGA INTERNATIONAL LIMITED	Formerly, an investee company accounted for under the equity method. Due to organization restructuring of the Group overseas, this investee company was incorporated into the Company's consolidated financial statements in 2009.
AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD. Avy Co., Ltd.	" An investee company accounted for under the equity method.
DongGuan Avy Precision Metal Components Co., Ltd.	"
DongGuan ChengGuangp Precision Hardware Co., Ltd.	"
CRYSTAL ART ENTERPRISE CO., LTD.	"
AVY PRECISION METAL COMPONENTS (SUZHOU) Ability Investment Co., Ltd.	" "
SHINE TRADE INTERNATIONAL LTD.	"
YORKEY OPTICAL TECHNOLOGY LTD. (SAMOA)	"
AVY HIGH TECH LIMITED	"
SHANGHAI INDEED TECHNOLOGY CO., LTD.	"
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	"
GHING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD	"
Taishiba International Co., Ltd.	An affiliate of Ability Enterprise Co., Ltd.
LINKTEK PRECISION (SUZHOU) CO., LIMITED	In the process of liquidation. An investee company was reclassified as financial assets carried at cost in 2009.
All board directors、supervisors、general managers and deputy general managers	The Company's key management

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**b. Significant Transactions with Related Parties**

(i) Sales

Name of Related Party	For the Year Ended December 31,					
	2009			2008		
	Amount	% of Net Sales	The collection term	Amount	% of Net Sales	The collection term
ASUSTeK .....	\$ 199,243,981	37.03%	30 days from receipt of goods Open account 30-120 days	\$ 184,180,390	35.88%	7-90 days from receipt of goods Open account 30-90 days
Others .....	2,784,092	0.52%	30-60 days from receipt of goods Open account 30-120 days	5,567,026	1.09%	7-60 days from receipt of goods Open account 30-60 days
Total .....	<u>\$ 202,028,073</u>	<u>37.55%</u>		<u>\$ 189,747,416</u>	<u>36.97%</u>	

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

(ii) Purchases

Name of Related Party	For the Year Ended December 31,					
	2009			2008		
	Amount	% of Gross Purchases	The collection term	Amount	% of Gross Purchases	The collection term
ASUSTeK .....	\$ 137,317,191	21.19%	30-60 days from receipt of goods Open account 60-120 days	\$ 102,314,601	19.22%	7-120 days from receipt of goods Open account 30-120 days
Others .....	5,089,090	0.79%	30-90 days from receipt of goods Open account 30-120 days	6,398,820	1.20%	90-120 days from receipt of goods Open account 30-120 days
Total .....	<u>\$ 142,406,281</u>	<u>21.98%</u>		<u>\$ 108,713,421</u>	<u>20.42%</u>	

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

In 2009 and 2008, the Company purchased raw materials from vendors through ASUSTek.



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(iii) Others

1)

	<b>For the Year Ended December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>After-sales warranty repair expense paid to:</b>		
ASUS Computer (Shanghai).....	\$ 85,505	\$ 91,786
ASUSTEK COMPUTER (SHANGHAI) .....	10,601	21,977
Others.....	327	1,766
Total.....	\$ 96,433	\$ 115,529

2)

<b>Other income from:</b>		
ASUSTeK.....	\$ 768,628	\$ 384,958
Others.....	16,726	8,230
Total.....	\$ 785,354	\$ 393,188

- 3) The Consolidated Company accepted the OEM business from ASUSTeK Computer Inc. effective January 1, 2008. The assets and liabilities acquired by the Consolidated Company from this spin-off were as follows:

	<b>The Company</b>	<b>UNIHAN</b>	<b>Total</b>
<b>Assets:</b>			
Current assets.....	\$ 21,999,830	\$ 12,555,287	\$ 34,555,117
Long-term investments .....	66,867,161	7,060,209	73,927,370
Property, plant and equipment .....	4,761,981	127,143	4,889,124
Other assets.....	353,066	126,822	479,888
Total.....	93,982,038	19,869,461	113,851,499
<b>Liabilities:</b>			
Current liabilities .....	(23,982,038)	(7,869,461)	(31,851,499)
Net assets .....	\$ 70,000,000	\$ 12,000,000	\$ 82,000,000

- 4) To mitigate the foreign currency risk from the change in net-assets and inventory denominated in foreign currencies, the Consolidated Company signed an agreement with ASUSTeK Computer Inc. requiring whoever benefits from foreign currency translation arising from the spin-off transaction shall compensate the other, where appropriate, for the loss due to exchange rate fluctuation, for the period from December 28, 2007 to December 31, 2008. As of December 31, 2008, ASUSTeK Computer Inc. was compensated by the Consolidated Company for \$1,858,459, which was recognized as "credit to foreign exchange gain". However, ASUSTeK Computer Inc. also compensated the Consolidated Company for \$474,573, for the loss on valuation of inventory, which was adjusted to "cost of sales". Such agreement was valid until March 31, 2008. As of December 31, 2008, the net compensation payable of \$1,383,886 from such agreement was fully paid.
- 5) For the years ended December 31, 2009 and 2008, the Consolidated Company incurred other related party transactions recorded as expenses such as processing fee, rental expense, other expense, royalty payment, storage expense, professional service fee, etc, which amounted to \$163,308 and \$139,488, respectively.
- 6) For the years ended December 31, 2009 and 2008, the Consolidated Company incurred other related party transactions recorded as processing revenue and repair revenue, which amounted to \$279,331 and \$68,700, respectively.

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(iv) Property Transactions

1. Properties sold

Transaction Party	For the Year Ended December 31, 2009		
	Sales Price	Book Value	Disposal Gain (Loss)
Others.....	\$ 1,640	\$ 1,325	\$ 315

Transaction Party	For the Year Ended December 31, 2008		
	Sales Price	Book Value	Disposal Gain (Loss)
Others.....	\$ 1,254	\$ 1,210	\$ 44

2. Properties Purchased

In 2009 and 2008, the prices of the properties purchased from other related parties were \$105,028, of which \$9,635 accounted for prepayment for equipment, and \$80,668, respectively.

3. Rental Revenue

For the years ended December 31, 2009 and 2008, the Consolidated Company incurred other related party transactions recorded as rental revenue, which amounted to \$36,704 and \$26,428, respectively.

4. Disposal and transfer shares

Due to the reorganization in July 2009, the Company transferred all the shares of Enertronix, Inc. for \$313,785 to ASUSTeK Computer Inc..

On January 8, 2009, Enertronix, Inc. acquired 100% ownership of ENERTRONIX HOLDING LIMITED from ASUSTEK HOLDINGS LIMITED for USD 5,696 thousand dollars.

On January 21, 2009, ASUSPOWER INVESTMENT CO., LTD. acquired 100% ownership of PEGA INTERNATIONAL LIMITED from WISE INVESTMENT LIMITED for \$1,885.

On July 1, 2009, CASETEK HOLDINGS LIMITED acquired 51% ownership of UNITED NEW LIMITED from ASUSTEK HOLDINGS LIMITED for USD 15,220 thousand dollars.

On July 1, 2009, Pegatron Holding Ltd. acquired 100% ownership of POWTEK HOLDINGS LIMITED from ASUSTEK HOLDINGS LIMITED, which amounted to USD 13,146 thousand dollars.

On February 5, 2009, AMA HOLDINGS LIMITED acquired 100% ownership of Toptek Precision Industry (SuZhou) Co., Ltd from AMA CORPORATION for USD 1,109 thousand dollars.

On May 13, 2008, ASUSPOWER INVESTMENT CO., LTD., ASUS INVESTMENT CO., LTD., and ASUSTEK INVESTMENT CO., LTD. sold their ownerships of all the 6,460, 6,372, and 1,250 thousand shares of International United Technology Co., Ltd. (Taiwan) to ASUSTeK Computer Inc., for \$56,072, \$55,307, and \$10,850, respectively.

In 2008, a subsidiary of Ability Enterprise Co., Ltd. sold for USD 5,276 thousand dollars its non-current assets held for sale - DongGuan Avy Precision Metal Components Co., Ltd. to AVY

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HIGH TECH LIMITED, with book value USD 4,514 thousand dollars, which resulted in a gain on assets disposal of USD 762 thousand dollars.

On March 31, 2008, Unihan Holding Limited. acquired ownership of the 12,099 thousand shares of Azurewave (Cayman) Holding Inc. from ASUS INTERNATIONAL LIMITED., for USD 14,258 thousand dollars. Following the acquisition of those shares, the Company owns 60.49% of the equity of Azurewave (Cayman) Holding Limited.

(v) Accounts Receivable (Payable)

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
<b>Notes and Accounts Receivable:</b>				
ASUSTeK .....	\$ 13,164,371	19.21%	\$ 8,490,651	13.13%
Protek (Shanghai) .....	—	—%	531,952	0.82%
Others .....	444,049	0.65%	389,405	0.61%
Sub-total .....	13,608,420	<u>19.86%</u>	9,412,008	<u>14.56%</u>
Less: Allowance for doubtful accounts .....	(707)		—	
Total .....	<u>\$ 13,607,713</u>		<u>\$ 9,412,008</u>	

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
<b>Other Receivables:</b>				
ASUSTeK .....	\$ 179,761	11.80%	\$ 1,604,840	34.71%
Others .....	16,552	1.09%	89,493	1.94%
Total .....	<u>\$ 196,313</u>	<u>12.89%</u>	<u>\$ 1,694,333</u>	<u>36.65%</u>

<b>Notes and Accounts Payable:</b>				
DEEP DELIGHT LIMITED .....	\$ —	—%	\$ 4,150,115	6.43%
Others .....	1,305,645	1.98%	1,443,734	2.24%
Total .....	<u>\$ 1,305,645</u>	<u>1.98%</u>	<u>\$ 5,593,849</u>	<u>8.67%</u>

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

	December 31, 2009	December 31, 2008
<b>Assets:</b>		
Prepayments .....	\$ 130	\$ 19,211
Other current assets .....	6,224	8,439
Other financial assets – noncurrent .....	—	3,660
	<u>\$ 6,354</u>	<u>\$ 31,310</u>
<b>Liabilities:</b>		
Accrued expenses .....	\$ 24,538	\$ 64,007
Other financial liabilities – current .....	8,478	201
Other current liabilities .....	18,671	12,029
	<u>\$ 51,687</u>	<u>\$ 76,237</u>

(vi) Endorsement Guarantee

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As of December 31, 2009 and 2008, the Consolidated Company provided endorsement guarantee for bank loans obtained by a related party as follows:

Name of Related Party Guaranteed	Amount of Guarantee (thousands)	
	December 31, 2009	December 31, 2008
LINKTEK (SUZHOU).....	USD 800	USD 705,331

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As of December 31, 2009 and 2008, 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, 2009	December 31, 2008
ASUSTeK .....	USD 300,000	USD 422,200

(vii) Key Management Compensation Costs.

For the years ended December 31, 2009 and 2008, the details of management compensation costs were as follows:

	For the Year Ended December 31,	
	2009	2008
Payroll expense and bonus (including remuneration of directors and supervisors) .....	\$ 208,504	\$ 163,136
Professional execution .....	153	—
Employee bonus .....	151,520	90,010
Total .....	<u>\$ 360,177</u>	<u>\$ 253,146</u>

**6. Pledged Assets**

As of December 31, 2009 and 2008, pledged assets were as follows:

Asset	December 31, 2009	December 31, 2008	Purpose of pledge
Restricted deposit .....	\$ 197,627	\$ 191,961	Customs duty guarantee, bank loans, rental deposits, credit contracts, issued letter of credit, travel agency guarantee, etc.
Property, plant and equipment .....	2,955,155	309,984	Bank loans
Idle assets .....	—	—	" (Note A)
Intangible Assets .....	605,487	—	"
Inventories .....	16,410	—	Lawsuit collateral (Note B)
Refundable deposits	291,189	53,057	Deposits for performance guarantee
	<u>\$ 4,065,868</u>	<u>\$ 555,002</u>	

Note A: As of December 31, 2009 and 2008, the unadjusted book value of idle assets amounted to \$7 and \$100, respectively. After recognizing the impairment losses, the net book value was reduced to zero as of the same dates.

Note B: Accounted for restricted assets, included in other current assets.

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

As of December 31, 2009 and 2008, major commitments and contingencies were as follows:

(Thousands dollars)

(a)

<u>Unused standby letters of credit:</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
NTD .....	\$ 5,141	\$ —
EUR .....	497	210
JPY .....	3,112,833	1,525,135
USD .....	38,079	5,870
GBP .....	9	—

(b)

<u>Promissory notes and certificate of deposit obtained for business purpose:</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
NTD .....	\$ 18,719	\$ 18,684

(c) Rental expense and future lease commitments of the lease agreements of buildings are as follows:

	<u>Future lease commitments</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Future lease commitments .....	206,869	158,546	125,117	65,143	40,717

(d) As of December 31, 2009 and 2008, the significant contracts for purchasing properties signed by the Consolidated Company amounted to \$3,834,469 and \$2,492,935, of which \$185,385 and \$ 603,296 were unpaid, respectively.

(e) Considering its acquisition of the OEM business spun off from its parent company effective from January 1, 2008, the Company assumed the related liabilities from its parent company based on the range of the amount of capital invested. In addition, debt holders' rights of claim on previous parent company are forfeited if such claim is not executed within two years.

(f) In December, 2007, a US company named the Company as a defendant in the patents infringement suit filed in United States International Trade Commission. The investigation had been completed in July, 2009 by the United States International Trade Commission. The result of the investigation revealed that the product of the Company did not infringe the patent for which the US company is accusing the Company for infringing it. However, both parties had subscribed to the reconciliation agreement in September, 2009.

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- (g) AVerMedia Technologies Inc. filed an attachment for damage loss against Lumens Digital Optics Inc. with Taiwan HsinChu District court on January 3, 2005. Lumens Digital Optics Inc. pledged a deposit of \$90,000 as counter-security to the Court for rescinding the attachment. In addition, AVerMedia Technologies Inc., again, filed an attachment for the same reason with the court. HsinChu District court has seized the inventory of Lumens Digital Optics Inc. amounting to \$16,410. This case is currently under investigation and Lumens Digital Optics Inc. believes that there is no material loss on the aforementioned case.
- (h) One of ASUSPOWER CORPORATION's American customers voluntarily filed for bankruptcy with United States Bankruptcy Court of California District. The customer has made payments for goods amounting to US\$1,439,484 to ASUSPOWER CORPORATION 90 days before filing for bankruptcy. Insolvency administrator of the customer filed a lawsuit with California court later on claiming that according to United States Bankruptcy Code § 547, the payments could be returned and requested ASUSPOWER CORPORATION to return the amount paid. ASUSPOWER CORPORATION received a notice from the court in September 2009, and entered a plea. This lawsuit is still under investigation.

**8. Significant Catastrophic Losses: None.**

**9. Significant Subsequent Events:**

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 will merge with Pegatron Investment. As a surviving entity from this merger, the Company will apply for the initial public offering (IPO) to the TWSE. This merger plan has been resolved by both the board of directors of the Company and Pegatron Investment on January 1, 2010, and resolved by both shareholders' meetings of the Company and Pegatron Investment on January 17, 2010. The record date for this merger is June 10, 2010.

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**10. Others**

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

Categorized as Nature	For the year ended December 31, 2009			For the year ended December 31, 2008		
	Operating Cost	Operating Expense	Total	Operating Cost	Operating Expense	Total
<b>Personal expense</b>						
Salary expense .....	\$ 12,253,027	\$ 9,763,772	\$ 22,016,799	\$ 13,243,757	\$ 6,307,931	\$ 19,551,688
Health and labor insurance expense .....	381,099	424,267	805,366	524,364	321,198	845,562
Pension expense .....	810,118	354,991	1,165,109	139,664	177,609	317,273
Other expense .....	151,206	287,301	438,507	228,035	241,040	469,075
Depreciation expense .....	6,856,639	1,345,263	8,201,902	5,604,254	1,207,722	6,811,976
Amortization expense .....	1,345,628	960,272	2,305,900	731,912	568,713	1,300,625

Note A: For the years ended December 31, 2009 and 2008, the Consolidated Company recognized depreciation expense of rental assets and idle assets amounting to \$102,539 and \$15,618, respectively (accounted for as non-operating expense). Those depreciation expenses were excluded from the depreciation expense listed above.

- b. Account reclassification:

Certain accounts in the financial statements as of and for the year ended December 31, 2008, were reclassified to conform to the financial presentation adopted in the statements as of and for the year ended December 31, 2009.



## APPENDIX A – SPIN-OFF PLAN

(Translation – In case of any discrepancy between the Chinese and English versions, the Chinese version shall prevail)

### ASUSTeK Computer Inc.

To maximize the efficiency of the own-brand business and dedicated ODM business, ASUSTeK Computer Inc. (“ASUS”) is actively undertaking corporate restructuring in hopes of efficiently dividing the businesses and increasing their competitiveness. ASUS plans to spin off relevant businesses of the ODM business (refers to ASUS’ 100% owned long-term equity investment in Pegatron Corporation (“Pegatron”)) to the Company’s wholly-owned subsidiary Pegatron International Investment Co., Ltd. (“Pegatron International”, \*Chinese name is 和碩國際投資股份有限公司) (the “Spin-off”), whereby Pegatron International will issue new shares to ASUS and all shareholders of ASUS as consideration. The following spin-off plan (the “Spin-off Plan”) is produced in accordance with the Enterprise Merger and Acquisition Act, the Company Act and the relevant laws and regulations of the Republic of China:

#### **Article 1: Method of Spin-off and companies participating in the Spin-off**

The Spin-off Plan is for the spin-off and transfer of the relevant businesses of the ODM business (this refers to ASUS’ 100% long-term equity investment in Pegatron) by ASUS to the surviving company Pegatron International, whereby Pegatron International will issue new shares to ASUS and all shareholders of ASUS as consideration. It is expected that ASUS will acquire approximately 25% of the equity in Pegatron International and all shareholders of ASUS will in total acquire approximately 75% of the equity in Pegatron International. Pegatron International will, from the record date of the Spin-off, assume 100% of ASUS’ equity investment in Pegatron, and ASUS will at the same time reduce capital by the value of the business to be spun off (the “Business Value of the Spin-off”).

Companies participating in this Spin-off are as follows:

Spun-off Company: ASUS.

Surviving Company to assume the business: Pegatron International.

#### **Article 2: The proposed amendment to the Articles of Incorporation of the surviving company assuming the business and the election of directors and supervisors**

1. The proposed amendments to the Articles of Incorporation of the surviving company assuming the business: Please refer to Attachment I.
2. Election of directors and supervisors: After the Spin-off, the directors and supervisors elected before the record date of the Spin-off by Pegatron International shall serve as the directors and supervisors of Pegatron International.

#### **Article 3: Business scope, business value, assets and liabilities assigned by the spun-off company**

1. Scope of the business to be transferred for the Spin-off:
  - (a) Assets of the long-term equity investment (this refers to ASUS’ 100% long-term equity investment in Pegatron) and the relevant ODM business.
  - (b) Assets, liabilities, rights and obligations relationship, rights and interests, tax incentives enjoyed by the businesses/properties to be spun-off and assigned which have not yet expired or credited, licenses, approvals and relevant legal relationships, factual relationships and status which are related to the aforementioned long-term equity investment.

2. Business Value of the Spin-off and the relevant adjustments of shareholders' equity: The estimated value is NTD 92,894,089,000 calculated by subtracting the liabilities from the assets of the Spin-off. However, after deducting the adjustments of shareholders' equity totaling NTD 1,938,844,000, the net Business Value of the Spin-off is NTD 90,955,245,000.
3. Assets of the Spin-off: The assets of the Spin-off are estimated to be NTD 92,894,089,000 as reflected in Attachment II.
4. The aforementioned business value of the Spin-off is temporarily based on the book value on ASUS' financial statements as of September 30, 2009 reviewed by the CPA, which shall be adjusted based on the book value of ASUS on record date of the Spin-off.
5. Where there is a need to adjust the aforementioned scope of the business of the Spin-off (including assets and liabilities), the shareholders' meeting may authorize the board of directors to make the adjustments. The same applies if the business value or the number of shares to be issued by Pegatron International or the issuance price need to be adjusted.

**Article 4: Share exchange ratio in connection with the spin-off and transfer of the business of the spun-off company to the surviving company and the calculation basis**

1. Share exchange ratio: Pursuant to the Business Value of the Spin-off, Pegatron International anticipates to issue 2,286,053,935 new common shares, among which 25% of the common shares totaling 571,513,484 shares will be issued to the Company, and 75% of the common shares totaling 1,714,540,451 shares will be issued to all the shareholders of the Company. That is, Pegatron International will issue common shares to the original shareholders of the Company where each 1,000 shares held by the shareholders of Company (as of the record date of the Spin-off) is expected to be allocated 403.7274 shares of Pegatron International. However, such ratio will still be determined based on the actual number of common shares issued by the Company on the record date of the Spin-off.
2. Basis of calculation: The aforementioned share exchange ratio is determined based on the pro-forma book value of the assets and liabilities of the business to be spun off assigned on the record date of the Spin-off and the independent professional's fairness opinion on the share exchange ratio for the Spin-off. Please refer to Attachment III for the independent professional's fairness opinion on the share exchange ratio for the Spin-off.

**Article 5: The total number of shares, classes of shares, and amount of shares issued by the surviving company which assumes the business; The total number of shares, classes of shares, and amount of shares acquired by the spun-off company and its shareholders and the requirement of cash payment for fractional shares**

1. Pegatron International has issued 10,000 shares to present, and shall issue a total of 2,286,053,935 common shares at a par value of NTD 10 per share as the consideration for the business assumed. It is anticipated that the total number of common shares issued by Pegatron International after the assumption of business is 2,286,053,935 shares.
2. On the record date of the Spin-off, ASUS will hold 25% of the shares in Pegatron International, and all shareholders of ASUS will hold a total of 75% of the shares in Pegatron International in proportion to their shareholdings stipulated in the shareholders roster.
3. Pegatron International shall issue new shares to ASUS and its shareholders on the record date of the Spin-off. Pegatron International shall issue 571,513,484 new common shares to ASUS and shall issue 1,714,540,451 new shares to all shareholders of ASUS on the record date of the Spin-off. For fractional shares which are less than one share, Pegatron International will round off to a dollar and, within 30 days from the record date of the Spin-

off, make a one-time cash payment to ASUS and the shareholders of ASUS equal to the net worth per share of Pegatron International on the record date of the Spin-off. In addition, all the fractional shares which are less than one share will be consolidated into full shares, and the Chairman of Pegatron International is authorized to seek specific persons to subscribe for these shares at a cost equal to the net worth per share.

**Article 6: The business value and the assets assigned by the spun-off company, the number of shares issued by the surviving company as consideration for the business assumed, and adjustment to the exchange ratio**

For the ratio to exchange the new shares issued by Pegatron International stipulated in the Spin-off Plan, where any of the following circumstances occurs, the shareholders' meeting of ASUS may authorize its board of directors to amend the number of shares to be issued or price per share, and the business value obtained by Pegatron International as a result of the assumption of business shall be adjusted accordingly:

1. Where there is a need for adjustment due to a significant increase or decrease to the business value as a result of changes to the scope of assets or other reasons on the record date of the Spin-off for the business to be spun off and assigned under the Spin-off Plan.
2. Where there is a need for other adjustments due to changes to the laws and regulations or rulings of the relevant competent authorities.

**Article 7: Capital Reduction and cancellation of shares of spun-off company**

1. The authorized capital of ASUS is NTD 47,500,000,000, divided into 4,750,000,000 shares, and its paid-in capital is NTD 42,467,774,840, divided into 4,246,777,484 shares, at a par value of NTD 10 per share. For the spin-off of its long-term equity investment to Pegatron International, ASUS intends to reduce its capital by NTD 36,097,608,610 at a capital reduction ratio of approximately 85%. After the Spin-off and capital reduction, the paid-in capital of ASUS will be NTD 6,370,166,230, divided into 637,016,623 shares.
2. It is expected that 850 shares will be reduced for each 1,000 shares based on the shareholdings of the shareholders set forth in the shareholder roster as of the record date of the Spin-off. However, the actual number of shares reduced for each 1,000 shares will still be determined based on the number of common shares actually issued by the Company on the record date of capital reduction. For fractional shares which are less than one share after the capital reduction, it will be paid in cash to a dollar (it will be rounded off) based on the closing price of the shares of the Company on the first trading date after the capital reduction. The Chairman is authorized to contact and select specific persons to subscribe for such shares.
3. If there are any changes to the number of outstanding shares of ASUS prior to the capital reduction date, the capital reduction ratio and the amount of capital after capital reduction will be adjusted accordingly, and the board of directors is authorized to handle the matters at full discretion then.
4. For the aforementioned capital reduction, including but not limited to, as necessary due to changes of the laws and regulations, determinations of the competent authorities or objective factual events, the board of directors shall be authorized to have full discretion to handle the relevant matters.

**Article 8: Repurchase and cancellation of dissenting shareholders' shares**

Where a shareholder of ASUS objects to the Spin-off Plan in writing before or during the shareholders' meeting to resolve the Spin-off Plan or objects orally at the meeting with records, and have waived their voting rights, he/she/it may request ASUS to repurchase his/her/its shares, and ASUS shall repurchase the shares held by such dissenting shareholder in accordance with the relevant laws and regulations. The shares so repurchased may, within the scope allowed by laws and regulations, (1) all or part of such repurchased shares may be transferred to other shareholders of the company, (2) the corporate registration be amended accordingly, (3) all or part of such repurchased shares may be

sold within three years of the repurchase date based on the market value. Shares not sold within such period will be regarded as shares which have not been issued by the Company and the corporate registration shall be amended accordingly.

**Article 9: Duty to give notice to creditors and public announcement**

1. After the resolution of the Spin-off Plan is approved by the shareholders' meeting of ASUS, ASUS shall notify each creditor of the Spin-off resolution and make a public announcement, and shall set forth a period of at least 30 days during which creditors may raise an objection. If a creditor raises an objection during the given period, ASUS shall handle it in accordance with the relevant laws and regulations.
2. If the debts owed by ASUS to a creditor who has raised an objection in accordance with the preceding requirement fall within the scope of the Spin-off and assignment under the Spin-off Plan, the board of directors of ASUS is authorized to adjust the business scope, business value, assets and liabilities defined under Article 3. Where there is therefore a need to adjust the exchange ratio or price of the new shares to be issued by the surviving company, it shall be handled in accordance with Article 6.

**Article 10: Rights and obligations and relevant matters after the Spin-off**

1. All ASUS' assets and liabilities of the Spin-off, and all its rights and obligations still in effect as of the record date of the Spin-off shall, from the record date of the Spin-off, be generally assumed by Pegatron International in accordance with the Company Act. ASUS shall cooperate in connection with the necessary relevant procedures.
2. Apart from the adjustments of shareholders equity relating to the Spin-off, Pegatron International shall, within the scope of capital contribution for the business assumed, be jointly and severally liable with ASUS for ASUS' liabilities existing prior to the record date of the Spin-off in accordance with Article 32(6) of the Enterprise Merger and Acquisition Act. However, the joint and several claims of creditors for the repayment of a debt will expire if it not exercised within two years from the record date of the Spin-off.

**Article 11: Record date of the Spin-off**

1. The record date of the Spin-off shall be determined by the board of directors of ASUS after the Spin-off Plan is resolved by the shareholders' meeting of ASUS and approved by the relevant competent authorities (including the Financial Supervisory Commission of the Executive Yuan and the TWSE, etc.). The record date of the Spin-off is temporarily set on June 1, 2010. The board of directors of ASUS is authorized to set the date where there is a need to change the record date of the Spin-off.
2. ASUS shall, on the record date of the Spin-off, transfer its businesses and assets to be spun off as stipulated in the Spin-off Plan to Pegatron International.

**Article 12: Implementation schedule of the plan, tentative completion date and handling of delay in time**

1. It is expected that the Spin-off Plan will be resolved and passed by the shareholders' meeting convened by ASUS on February 9, 2010; provided that its board of directors may set another date for the shareholders' meeting depending on the actual circumstances.
2. If there is a delay in the completion of the Spin-off Plan and the tentative implementation schedule, the board of directors of both parties are authorized to, based on the actual circumstances and needs, agree on the date of the board meeting or shareholders' meeting to be convened in accordance with the laws and regulations and other relevant matters. Where it is desired to terminate the Spin-off Plan or the proposed Spin-off, the board of directors of ASUS is authorized with full discretion to handle to the extent permissible under the laws and regulations without requiring prior resolution by the shareholders' meeting; provided that the board of directors shall report to the shareholders' meeting afterwards.

**Article 13: Allocation of taxes and expenses**

1. Unless otherwise provided by the Spin-off Plan, all the taxes and expenses incurred as a result of the execution or performance of the Spin-off Plan shall be shared and borne by both parties on an equal basis, unless such tax or levy is exempted. If the Spin-off Plan does not take effect as it is disapproved at the shareholders' meeting or is disapproved by the relevant competent authorities or does not take effect for other reasons, the attorney fees, accountant fees and relevant expenses incurred shall be borne by ASUS.
2. ASUS and Pegatron International shall cooperate with each other to obtain the tax incentives relating to this project.

**Article 14: Governing Law**

The Spin-off Plan shall be construed in accordance with the laws of the Republic of China. In the event of any disputes in relation to the Plan, the Taipei District Court shall be the court of first instance.

**Article 15: Other matters**

1. If any provisions under the Spin-off Plan are held invalid due to violation of the relevant laws and regulations, only the part in violation shall be invalid, and the other provisions shall remain valid. For the provisions held invalid due to violation of the relevant laws and regulations, the board of directors is, to the extent permitted by the laws, authorized by the shareholders' meeting to determine and handle in accordance with relevant laws and regulations.
2. If any provision of the Spin-off Plan needs to be amended as required by the relevant competent authorities, such provision shall be amended accordingly or by the board of directors of ASUS in accordance with the requirement of the relevant competent authorities.
3. The Spin-off Plan shall not take effect until it is submitted to and approved by the shareholders' meeting of ASUS. However, if the Spin-off Plan is not approved by the shareholders' meeting or disapproved by the relevant competent authorities, the Spin-off Plan shall be deemed to be void ab initio.

**Article 16:**

Matters not covered under the Spin-off Plan shall be handled in accordance with the relevant laws and regulations, and the requirements of the competent authorities. In the absence of laws and regulations or rules of the competent authorities, the board of directors is authorized by the shareholders' meeting of ASUS to handle such matters at full discretion.

Planner:

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Representative: Shih, Tsung-Tang

Pegatron International Investment Co., Ltd.  
Representative: Tung Tzu-Hsien

Date: January 1, 2010

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**Pegatron Corporation**

**12,163,804 Global Depositary Shares Representing 60,819,020 Common Shares**

**PEGATRON**

LISTING PARTICULARS

AUGUST 9, 2010

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