

COMPAL ELECTRONICS, INC.
Financial Statements
September 30, 2009 and 2008
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

Compal Electronics, Inc.:

We have reviewed the accompanying balance sheets of Compal Electronics, Inc. as of September 30, 2009 and 2008, and the related statements of income and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report on these financial statements based on our reviews.

Except for the facts stated in the third paragraph, we conducted our reviews in accordance with the guidelines of ROC Statement on Auditing Standards No. 36 "Reviewing Financial Statements". Those guidelines require that we plan and perform the review, which consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China and with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As stated in note 8 to the financial statements, the long-term equity investments accounted for under the equity method amounting to \$42,893,203,000 and \$37,101,741,000 as of September 30, 2009 and 2008, respectively, and the related investment income of \$448,258,000 and \$2,088,709,000 recognized for the nine-month periods ended September 30, 2009 and 2008, respectively, were based on the investee companies' financial statements without review procedures conducted by independent auditors.

Based on our reviews, we are not aware of any modifications that should be made, in any material respects, to the financial statements referred to in the first paragraph in order for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and accounting principles generally accepted in the Republic of China, except for the effect of such adjustments, if any, as might have been determined to be necessary had the investee companies' financial statements as stated in the third paragraph been reviewed.

October 16, 2009

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in 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.

COMPAL ELECTRONICS, INC.

Balance Sheets (Unaudited)

September 30, 2009 and 2008
(expressed in thousands of New Taiwan dollars)

Assets	2009 Amount	%	2008 Amount	%	Liabilities and Stockholders' Equity	2009 Amount	%	2008 Amount	%
Current assets:					Current liabilities:				
Cash and cash equivalents (note 4)	\$ 16,210,883	7.0	19,942,973	12.5	Short-term loans (note 10)	\$ 6,261,518	2.7	1,360,000	0.9
Financial assets measured at fair value through profit or loss – current (notes 5 and 16)	27,471	-	159,046	0.1	Notes and accounts payable	86,017,317	37.4	47,613,021	29.8
Notes and accounts receivable, net (note 6)	120,386,819	52.3	69,000,473	43.2	Notes and accounts payable – related parties (note 17)	33,343,415	14.5	16,296,303	10.2
Notes and accounts receivable, net – related parties (note 17)	1,262,131	0.5	1,101,083	0.7	Income tax payable	2,404,144	1.1	1,736,206	1.1
Other current financial assets (notes 8 and 17)	477,364	0.2	1,387,421	0.9	Accrued expenses and other current liabilities (notes 5, 16 and 17)	4,416,940	1.9	3,927,594	2.5
Inventories, net (note 7)	35,575,419	15.5	17,039,963	10.7	Bonds payable (note 11)	9,262,256	4.0	-	-
Prepayment and other current assets (note 14)	471,666	0.2	288,745	0.2	Accrued product warranty liability	1,872,394	0.8	1,804,181	1.1
	<u>174,411,753</u>	<u>75.7</u>	<u>108,919,704</u>	<u>68.3</u>		<u>143,577,984</u>	<u>62.4</u>	<u>72,737,305</u>	<u>45.6</u>
Investments:					Long-term and non-current liabilities:				
Long-term investment under equity method (note 8)	47,669,048	20.7	44,766,297	28.0	Bonds payable (note 11)	-	-	9,686,770	6.1
Available-for-sale financial assets – non-current (notes 5 and 16)	2,320,337	1.0	1,886,099	1.2	Deferred income tax liabilities and other (notes 8 and 14)	237,249	0.1	267,153	0.2
Financial assets carried at cost – non-current (notes 5 and 16)	1,099,356	0.5	961,659	0.6		<u>237,249</u>	<u>0.1</u>	<u>9,953,923</u>	<u>6.3</u>
Debt investments without quoted price in active markets (notes 5 and 16)	1,471,138	0.6	-	-	Total liabilities	<u>143,815,233</u>	<u>62.5</u>	<u>82,691,228</u>	<u>51.9</u>
Other non-current financial assets (notes 5 and 16)	153,493	0.1	142,000	0.1	Stockholders' equity (note 13):				
	<u>52,713,372</u>	<u>22.9</u>	<u>47,756,055</u>	<u>29.9</u>	Common stock	39,829,012	17.3	39,407,060	24.7
					Capital surplus:				
					Paid-in capital in excess of par value	8,005,508	3.5	7,087,078	4.4
					Other	2,110,236	0.9	1,783,116	1.1
						<u>10,115,744</u>	<u>4.4</u>	<u>8,870,194</u>	<u>5.5</u>
Property, plant and equipment (note 9):					Retained earnings:				
Land	869,400	0.4	886,030	0.6	Legal reserve	9,630,627	4.2	8,366,723	5.2
Buildings	1,619,789	0.7	1,640,478	1.0	Special reserve	1,448,771	0.6	245,036	0.2
Research equipment	369,794	0.2	324,113	0.2	Unappropriated retained earnings	26,199,693	11.4	21,354,324	13.4
Other equipment	329,950	0.1	293,090	0.2		<u>37,279,091</u>	<u>16.2</u>	<u>29,966,083</u>	<u>18.8</u>
	3,188,933	1.4	3,143,711	2.0	Equity adjustment:				
Less: accumulated depreciation	(1,199,956)	(0.5)	(1,105,620)	(0.7)	Foreign currency translation adjustments	(43,317)	-	(52,360)	-
Prepayment for purchase of equipment	10,540	-	5,014	-	Unrealized gains (losses) on financial instruments (notes 5 and 8)	114,325	-	(456,021)	(0.3)
	<u>1,999,517</u>	<u>0.9</u>	<u>2,043,105</u>	<u>1.3</u>	Treasury stock (note 13)	(881,247)	(0.4)	(881,247)	(0.6)
						<u>(810,239)</u>	<u>(0.4)</u>	<u>(1,389,628)</u>	<u>(0.9)</u>
Intangible assets and other assets:					Total stockholders' equity	86,413,608	37.5	76,853,709	48.1
Patent licenses and others (notes 9 and 12)	724,423	0.3	475,383	0.3	Commitments and contingencies (notes 17 and 19)				
Leased assets, net (notes 9 and 17)	379,776	0.2	350,690	0.2					
	<u>1,104,199</u>	<u>0.5</u>	<u>826,073</u>	<u>0.5</u>					
Total assets	\$ <u>230,228,841</u>	<u>100.0</u>	<u>159,544,937</u>	<u>100.0</u>	Total liabilities and stockholders' equity	\$ <u>230,228,841</u>	<u>100.0</u>	<u>159,544,937</u>	<u>100.0</u>

See accompanying notes to financial statements.

COMPAL ELECTRONICS, INC.

Statements of Income (Unaudited)

Nine-month periods ended September 30, 2009 and 2008
(expressed in thousands of New Taiwan dollars, except net income per share amounts)

	2009		2008	
	Amount	%	Amount	%
Net sales (note 17)	\$ 403,995,274	100.0	298,146,298	100.0
Cost of sales (notes 17 and 20)	<u>384,816,735</u>	<u>95.3</u>	<u>283,202,071</u>	<u>95.0</u>
	19,178,539	4.7	14,944,227	5.0
Change in unrealized inter-company profits	<u>1,476</u>	<u>-</u>	<u>49,494</u>	<u>-</u>
Gross profit	<u>19,180,015</u>	<u>4.7</u>	<u>14,993,721</u>	<u>5.0</u>
Operating expenses (notes 13, 17 and 21):				
Selling	1,817,413	0.5	1,532,158	0.5
General and administrative	1,757,448	0.4	1,827,360	0.6
Research and development	<u>3,795,552</u>	<u>0.9</u>	<u>3,437,849</u>	<u>1.2</u>
	<u>7,370,413</u>	<u>1.8</u>	<u>6,797,367</u>	<u>2.3</u>
Operating income	<u>11,809,602</u>	<u>2.9</u>	<u>8,196,354</u>	<u>2.7</u>
Non-operating income and gains:				
Interest income	95,953	-	575,750	0.2
Investment income under the equity method, net (note 8)	687,135	0.2	2,539,354	0.9
Other investment income, net (note 5)	27,518	-	153,219	-
Foreign currency exchange gain, net	147,700	-	-	-
Gain on valuation of financial instruments, net (notes 5 and 16)	-	-	314,675	0.1
Other (note 17)	<u>236,591</u>	<u>0.1</u>	<u>232,336</u>	<u>0.1</u>
	<u>1,194,897</u>	<u>0.3</u>	<u>3,815,334</u>	<u>1.3</u>
Non-operating expenses and losses:				
Interest expense	30,462	-	76,689	-
Foreign currency exchange loss, net	-	-	239,621	0.1
Impairment losses (note 5)	45,161	-	-	-
Other	<u>9,143</u>	<u>-</u>	<u>60</u>	<u>-</u>
	<u>84,766</u>	<u>-</u>	<u>316,370</u>	<u>0.1</u>
Net income before income tax expense	12,919,733	3.2	11,695,318	3.9
Income tax expense (note 14)	<u>1,741,285</u>	<u>0.4</u>	<u>1,794,266</u>	<u>0.6</u>
Net income	\$ <u>11,178,448</u>	<u>2.8</u>	\$ <u>9,901,052</u>	<u>3.3</u>
	Before	After	Before	After
	income tax	income tax	income tax	income tax
Basic net income per share (note 15)	\$ <u>3.33</u>	<u>2.88</u>	<u>3.01</u>	<u>2.54</u>
Basic net income per share calculated by adjusting dividends declared retroactively			\$ <u>2.99</u>	<u>2.53</u>
Diluted net income per share	\$ <u>2.97</u>	<u>2.58</u>	<u>2.72</u>	<u>2.31</u>
Diluted net income per share calculated by adjusting dividends declared retroactively			\$ <u>2.71</u>	<u>2.30</u>

The pro forma information under the assumption that the Company's outstanding shares held by its subsidiaries are not regarded as treasury stock was as follows:

	2009		2008	
	Before	After	Before	After
	income tax	income tax	income tax	income tax
Net income	\$ <u>12,992,941</u>	<u>11,251,656</u>	<u>11,811,869</u>	<u>10,017,603</u>
Basic net income per share	\$ <u>3.31</u>	<u>2.87</u>	<u>3.00</u>	<u>2.54</u>
Basic net income per share calculated by adjusting dividends declared retroactively			\$ <u>2.98</u>	<u>2.53</u>

See accompanying notes to financial statements.

COMPAL ELECTRONICS, INC.

Statements of Cash Flows (Unaudited)

Nine-month periods ended September 30, 2009 and 2008
(expressed in thousands of New Taiwan dollars)

	2009	2008
Cash flows from operating activities:		
Net income	\$ 11,178,448	9,901,052
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	696,423	439,966
Increase in allowance for doubtful accounts and inventory obsolescence provision	327,791	421,715
Cash dividends received from long-term equity investments	186,153	585,811
Investment income under the equity method, net	(687,135)	(2,539,354)
Increase in notes and accounts receivable	(61,389,494)	(5,675,167)
Increase in inventories	(22,081,701)	(4,713,471)
Decrease (increase) in prepayment, other current assets, and other current financial assets	109,888	(223,800)
Increase in notes and accounts payable	70,531,450	712,077
Increase in accrued expenses, other current liabilities, and accrued product warranty liability	849,946	2,353,399
Increase (decrease) in income tax payable	143,381	(870,708)
Change in deferred income tax assets	(153,902)	683,619
Decrease (increase) in financial assets measured at fair value through profit or loss – current	174,628	(159,046)
Unrealized foreign currency exchange gain on bonds payable	(160,299)	(56,981)
Other	<u>43,704</u>	<u>(96,388)</u>
Net cash provided by (used in) operating activities	<u>(230,719)</u>	<u>762,724</u>
Cash flows from investing activities:		
Additions to property, plant and equipment	(71,330)	(64,427)
Proceeds from sale of property, plant and equipment, and non-current assets held for sale	212	429,157
Increase in patent licenses	(507,297)	(430,645)
Acquisition of long-term equity investments, debt investments without quoted price in active markets, financial assets carried at cost, and other non-current financial assets	(2,178,927)	(4,478,171)
Proceeds from sale of long-term equity investments and available-for-sale financial assets	28,088	238,363
Capital refund from investee	-	260,571
Decrease in long-term receivables – related parties	130,054	11,566
Other	<u>2,764</u>	<u>(2,736)</u>
Net cash used in investing activities	<u>(2,596,436)</u>	<u>(4,036,322)</u>
Cash flows from financing activities:		
Increase in short-term loans	4,261,518	1,360,000
Cash dividends paid	(5,825,807)	(9,278,301)
Directors' and supervisors' remuneration and employee bonuses	-	(307,864)
Other	<u>(132)</u>	<u>(7)</u>
Net cash used in financing activities	<u>(1,564,421)</u>	<u>(8,226,172)</u>
Net decrease in cash and cash equivalents	(4,391,576)	(11,499,770)
Cash and cash equivalents at beginning of period	<u>20,602,459</u>	<u>31,442,743</u>
Cash and cash equivalents at end of period	\$ <u>16,210,883</u>	<u>19,942,973</u>
Supplementary disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ <u>29,586</u>	<u>75,261</u>
Income taxes	\$ <u>1,754,008</u>	<u>1,974,633</u>
Supplementary disclosures of financing activities not affecting cash flows:		
Convertible bonds payable transferred to common stock and capital surplus	\$ <u>448,654</u>	<u>-</u>
Employee bonuses payable transferred to common stock and capital surplus	\$ <u>1,484,455</u>	<u>-</u>

See accompanying notes to financial statements.

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

September 30, 2009 and 2008

(expressed in thousands of New Taiwan dollars unless otherwise specified)

(1) Organization

Compal Electronics, Inc. (the “Company”) was incorporated in the Republic of China (“ROC”) as a company limited by shares in June 1984. The major business activities of the Company are the manufacture and sale of notebook personal computers (“notebook PCs”), monitors, LCD TVs and multiple components and peripherals.

As of September 30, 2009 and 2008, the Company had approximately 3,492 and 3,065 employees, respectively.

(2) Summary of Significant Accounting Policies

The financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling, and accounting principles and practices generally accepted in the Republic of China. The significant accounting policies and measurement basis adopted in preparing the accompanying financial statements are summarized as follows:

(a) Accounting estimates

The preparation of financial statements in conformity with the aforementioned guidelines and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management’s estimates.

(b) Distinction between current and non-current assets and liabilities

Current assets are unrestricted cash and cash equivalents and other assets to be realized in cash, sold, or consumed (prepaid items) within 12 months of the balance sheet date. Current liabilities are obligations to be paid or settled within 12 months of the balance sheet date. All other assets or liabilities are classified as non-current.

(c) Foreign currency transactions and translation

The Company’s reporting currency is the New Taiwan dollar. 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 using the exchange rates on that date. The resulting unrealized exchange income (loss) from such translations is 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 rates at the transaction date. Non-monetary assets and liabilities denominated in

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COMPAL ELECTRONICS, INC.**Notes to Financial Statements (Unaudited)**

foreign currencies that are stated at fair value are translated using the exchange rate 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 income (loss) from such translations is 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 income (loss) from such translations is recorded as a separate component of stockholders' equity.

For long-term equity investments in foreign subsidiaries and investees, which are accounted for by the equity method, their foreign currency financial statements have to be translated into the Company's reporting currency. Translation adjustments resulting from the translation of foreign currency financial statements into the Company's reporting currency are accounted for as translation adjustment, which is a separate component of stockholders' equity.

(d) Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

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

The Company assesses goodwill and intangible assets, which have indefinite useful lives and are not available for use, on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

(e) Cash equivalents

Cash equivalents represent investments in bonds purchased under resale agreements with a maturity of three months or less from the date of investment.

(f) Financial assets

The Company adopted transaction-date accounting for financial instrument transactions. At the beginning of recognition, financial instruments are measured at fair value. Except for trading-purpose financial instruments, the original cost of financial instruments should include the cost of acquisition or issuance.

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COMPAL ELECTRONICS, INC.**Notes to Financial Statements (Unaudited)**

The financial instruments the Company held or issued are classified into the following accounts in accordance with the purpose of holding or issuing after the original recognition:

- a. Financial assets measured at fair value through profit or loss: The main purposes of the financial instruments are selling or repurchasing in the short term. The derivative instruments held by the Company are classified in this account except if they are designated and effective hedging instruments. If a financial instrument that the Company holds is a hybrid instrument that includes an embedded derivative and a non-derivative host contract, the embedded derivatives shall be recorded as financial assets measured at fair value through profit or loss as of the acquisition date.
- b. Available-for-sale financial assets: These are evaluated at fair value, and any changes are recorded as a separate component of stockholders' equity. If there is evidence of impairment, impairment loss should be recognized. If the impairment losses decrease subsequently, the decreased amount of impairment for equity financial instruments should be recorded as an adjustment to equity. If the impairment loss on debt financial instruments decreases and is apparently related to events that occurred after the impairment, the decreased amount of impairment loss should be reversed and recognized in the accompanying statements of income.
- c. Financial assets carried at cost: Equity investments which cannot be evaluated at fair value are booked at original cost. If there is evidence of impairment, impairment loss should be recognized, and the impairment amount cannot be reversed.
- d. Debt investments without quoted price in active markets: These are measured at amortized cost using the effective interest method. If there is an objective evidence which indicates that a financial asset is impaired, an impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount of the financial asset exceeding the amortized cost that would have been determined if no impairment loss had been recognized.

(g) Derivative financial instruments and hedging

The derivative financial instruments held by the Company are for hedging the risk of changes in foreign currency exchange rates and interest rates resulting from operational, financial and investment activities. The derivatives are recognized as financial instruments held for trading when they do not meet the criteria for hedge accounting.

When each of the three hedging relationships—"fair value hedge", "cash flow hedge" and "hedge of a net investment in a foreign operation"—meets all the criteria for hedge accounting, the offsetting effects on gain or loss of changes in the fair value of the hedging instruments and the hedged item are recognized.

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COMPAL ELECTRONICS, INC.**Notes to Financial Statements (Unaudited)**

- a. Fair value hedge: The gain or loss from measuring the hedging instrument at fair value or the foreign currency component of its carrying amount is recognized in gain or loss. The gain or loss on the hedged item attributable to the hedged risk is added to the carrying amount of the hedged item and recognized in non-operating income (expense) of the accompanying statements of income.
- b. Cash flow hedge: The gain or loss on hedging instrument is recognized directly in the statement of changes in stockholders' equity. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognized directly in stockholders' equity are reclassified into non-operating income (expense) in the accompanying statements of income during the period in which the financial assets or liabilities recognized will have a specific effect on gains or losses in the accompanying statements of income.
- c. Hedge of a net investment in a foreign operation: The gain or loss on hedging instrument is recognized directly in the statement of changes in stockholders' equity. The associated gains or losses are reclassified into gain or loss on disposal of foreign operation.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is generally based on management's evaluation of the likelihood of collection of the Company's accounts receivable balances. The management's evaluation considers past experience in the collection of the Company's accounts receivable balances, the credit rating of the customers, aging analysis of outstanding accounts receivable, and the credit policy of the Company.

(i) Inventories

The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, and is calculated based on the weighted-average-cost principle. Inventories are stated at the lower of cost or market value. Market value for raw materials and work in process is based on replacement cost. The market value of finished goods is based on net realizable value. Effective from January 1, 2009, inventories are measured at the lower of cost or net realizable value on an item-by-item basis. Net realizable value is 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.

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COMPAL ELECTRONICS, INC.**Notes to Financial Statements (Unaudited)****(j) Long-term equity investments**

Long-term investments are accounted for under the equity method when the percentage of ownership held by the Company and its subsidiaries exceeds 20% or if the Company and its subsidiaries own less than 20% of the investee's common stock ownership but have significant influence on the investee's operations. If an investee company accounted for under the equity method issues new shares and the Company does not purchase new shares proportionately, then the investment percentage, and therefore the equity in net assets of the investee, will be changed. Such difference shall be used to adjust capital surplus or retained earnings and long-term equity investments.

The difference between the cost of the investment and the amount of underlying equity in net assets of an investee attributed to depreciable, depleted, or amortizable assets is amortized over the estimated remaining economic years. The difference attributed to the carrying amount in excess of or lower than the fair value of assets is written off entirely when the difference disappears. The cost of investment in excess of the fair value of identifiable net assets is recognized as goodwill and is no longer amortized. The difference attributed to the fair value of identifiable net assets in excess of the cost of investment causes a proportional decrease in the carrying amount of non-current assets. When the carrying amount of non-current assets is decreased to zero, the remaining difference is through extraordinary gain or loss.

The difference between the disposal price and carrying amount of long-term equity investment under the equity method on the disposal date is recognized as gain or loss from disposal of long-term equity investment. The associated capital surplus resulting from long-term equity investment is reclassified into current gain or loss in proportion to disposal of long-term equity investment.

Unrealized inter-company profits or losses resulting from transactions between the Company and its subsidiaries and investees accounted for under the equity method are deferred until realized, or are amortized based on the useful lives of the assets that give rise to such unrealized profits or losses.

As the net equity of investees over which the Company has significant influence but not control is a negative amount, the Company recognizes investment losses in proportion to the percentage of ownership of common stock of the investee if the Company guarantees the debt of the investee, or has a financial commitment for the investee, or the nature of the loss is short-term. Investees that the Company controls are the Company's subsidiaries. The Company recognizes fully investment losses when the equity in net assets of such subsidiaries is negative except to the extent to that the minority shareholders have a binding obligation to, and are able to, make good the losses. Such credit balance of the carrying amount of a long-term equity investment is first offset with accounts receivable from the subsidiaries, and the remaining amount, if any, is recorded as a liability on the balance sheet.

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COMPAL ELECTRONICS, INC.**Notes to Financial Statements (Unaudited)**

The investees over which the Company has control are consolidated into the Company's financial statements. The Company prepares consolidated financial statements on a quarterly basis.

(k) Property, plant and equipment, leased assets, idle assets, and non-current assets held for sale

Property, plant and equipment are stated at cost. Interest expense incurred in connection with the acquisition or construction of property, plant and equipment is capitalized. Excluding land, depreciation of property, plant and equipment is provided for by using the straight-line method over the estimated useful lives of the assets. If the property, plant and equipment have reached the end of their estimated useful lives but are still in use, the Company will estimate the remaining useful lives and residual value, and depreciate the residual value using the same method. The useful lives of assets are as follows:

1. Buildings: 50 years.
2. Building improvement: 8~10 years.
3. Research equipment: 3 years.
4. Other equipment: 3~5 years.

Property, plant and equipment leased to other parties under operating leases are classified as leased assets. Rental income received by the Company is recorded as non-operating income. The related depreciation is accounted for as a reduction of rental income.

Property, plant and equipment not currently used in operations are transferred to idle assets. The cost, accumulated depreciation, and accumulated impairment of the original assets not currently used in operations are all transferred to idle assets or other assets, and depreciated.

Property, plant and equipment are classified into non-current assets held for sale when it is highly probable the Company will sell them within one year. Property, plant and equipment are stated at the lower of cost or market value, and the resulting gain or loss is reflected in the accompanying statement of income.

(l) Intangible assets

Other than an intangible asset acquired by way of a government grant, which should be measured at its fair value, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

(Continued)

COMPAL ELECTRONICS, INC.**Notes to Financial Statements (Unaudited)**

The depreciable amount of an intangible asset is determined by the original cost less its residual value. Amortization is provided for by using the straight-line method over the estimated useful lives of intangible assets from the date that they are available for use. Patents are amortized using the straight-line method over the shorter of the contract period or their estimated useful lives. The cost of computer software for internal use is amortized by using the straight-line method over three years.

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

(m) Convertible bonds payable

According to ROC SFAS No. 36 “Financial Instruments: Disclosure and Presentation”, the convertible bonds with a put option issued by the Company before December 31, 2005, should comply with the previous SFAS No. 21. The derivative embedded in a non-derivative host debt instrument should not be separated from the equity component of the instrument.

For interest-premium of convertible bonds with a put option, the difference between the specified put price and the par value is recognized as a liability by using the interest method over the period from the issuance date of the bonds to the expiry date of the put option. Costs incurred for the issuance of redeemable convertible bonds are amortized during the period between the issuance date and the last redeemable date. When bondholders exercise their redemption rights, the unamortized costs are recognized as interest expense based on the percentage of redemption.

The number of common shares that are to be given is calculated by the conversion price and the bond's par value on the conversion date. The convertible bond payable over the par value of the common stock, recognized interest premium, and deferred issuance costs is transferred to capital surplus upon conversion.

(n) Share-based payment

The employee stock options granted before January 1, 2008, are accounted for by Interpretations (92) 070, 071, and 072 issued by the Accounting Research and Development Foundation (“ARDF”). The Company adopts the intrinsic value method for the employee stock options. Compensation costs are the excess, if any, of the fair value of the stock at the measurement date over the amount employees must pay to acquire the stock. Meanwhile, the compensation costs mentioned above are recorded as current expense and a separate component of stockholders' equity during the service period of the employees specified in the employee stock option plan. According to ROC SFAS No. 39 “Share-based Payment”, the Company need not apply SFAS No. 39 retroactively to the share-based payments that were granted before January 1, 2008; however, the pro forma net income and net income per share should be disclosed.

(Continued)

COMPAL ELECTRONICS, INC.**Notes to Financial Statements (Unaudited)****(o) Retirement plan**

The Company has established an employee noncontributory defined benefit retirement plan covering all regular employees. According to this plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of employee retirement benefits are based on the years of service and the average salary for the six months before the employee's retirement. Each employee who qualifies for retirement is entitled to receive retirement benefits equal to two months' salary for the first 15 years of service and one month's salary for each service year after the sixteenth year. The maximum benefit is 45 months of salary.

The Company previously contributed an amount equal to 5% of salaries and wages to the pension fund maintained with Bank of Taiwan (formerly known as the Central Trust of China). From February 2007, the contribution rate was adjusted to 2%, as approved by the Department of Labor, Taipei City Government. The employee retirement benefits are initially paid out of the pension fund and then by the Company if the fund is insufficient.

Under this defined benefit pension plan, the pension liabilities are actuarially calculated at the year-end date, and the Company recognizes net periodic pension costs, including service cost, interest cost, expected return on plan assets, and amortization of net unrecognized transaction assets over the average remaining service period of the employees of 20 years.

The new Labor Pension Act became effective on July 1, 2005, and prescribes a defined contribution pension plan for all new employees and for any employees employed before that date who opted to adopt it.

Under this defined contribution pension plan, the Company contributes monthly an amount equal to 6% of salaries and wages to employees' individual pension fund accounts with the Bureau of Labor Insurance, and the contribution is recorded as pension expenses in the accompanying statements of income.

(p) Revenue recognition

Revenue derived from product sales is recognized when products are shipped and the significant risks and rewards are transferred to the buyer. The allowance for doubtful accounts is generally based on management's evaluation of the likelihood of sales returns and discounts, and recognized as a reduction of sales in the year the goods are sold.

(Continued)

COMPAL ELECTRONICS, INC.**Notes to Financial Statements (Unaudited)****(q) Employee bonuses and directors' and supervisors' remuneration**

Employee bonuses and directors' and supervisors' remuneration appropriated after January 1, 2008, based on the ROC Company Act and the Company's articles of incorporation, are accounted for by Interpretation (96)052 issued by the ARDF. The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes it as expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

(r) Income taxes

The Company adopts SFAS No. 22 "Income Taxes" for the purpose of making inter- and intra-period income tax allocation, in addition to calculating the current income tax expense (benefit). Accordingly, the income tax effects from taxable temporary differences are recognized as deferred tax liability, while the deductible temporary differences, prior years' loss carryforward benefits, and investment tax credits are accounted for as deferred tax assets but subject to management's judgment that realization is more likely than not. Adjustments to prior year's income tax expenses are charged against current income tax expense.

Deferred income tax assets or liabilities are classified as current or non-current based on the classification of the asset or liability that resulted in the deferred item or, for certain transactions not directly related to an asset or liability, based on the timing of the expected reversal date.

Investment tax credits are accounted for using the flow-through method. Therefore, income tax credits generated from purchases of machinery for automation of production and production technology are recognized in the year in which the credit arises.

The 10% surtax on unappropriated earnings is recorded as current income tax expense in the following year when the shareholders resolve not to distribute the earnings.

(s) Treasury stock

The Company accounts for the cost of purchasing its outstanding stock as "treasury stock". A gain on the sale of treasury stock is credited to capital surplus – treasury stock. Losses are charged to capital surplus, but only to the extent of available net gains from previous sales or retirements of the same class of stock; otherwise, losses are charged to retained earnings. The cost of treasury stock is computed using the weighted-average method.

(Continued)

COMPAL ELECTRONICS, INC.**Notes to Financial Statements (Unaudited)**

When treasury stock is retired, the weighted-average cost of the retired treasury stock is written off against the par value of the shares and the paid-in capital derived from the issuance of shares in excess of par value. If the weighted-average cost written off exceeds the sum of the par value and the paid-in capital in excess of par value, the difference is debited to capital surplus – treasury stock arising from the same class of stock or to retained earnings, and if vice versa, the difference is credited to capital surplus – treasury stock.

The Company's outstanding shares held by its subsidiaries are regarded as treasury stock. When the Company calculates investment income of subsidiaries under the equity method, investment income of subsidiaries from cash dividends paid by the Company is reversed.

(t) Net income per share

Net income per share of common stock is computed based on the weighted-average number of common shares outstanding during the period. Net income per share for the prior period is retroactively adjusted to reflect the effects of new shares issued by transferring capital surplus, retained earnings, and employee bonuses approved in the annual stockholders' meetings held before and in 2008.

The convertible bonds and employee stock options issued by the Company, and employee stock bonuses which have not yet been approved in the stockholders' meeting are potential common shares. Only basic net income per share is disclosed if there is no dilution effect. Otherwise, both basic and diluted net income per share are disclosed. For the purpose of calculating diluted net income per share, the potential common shares are deemed to have been converted into common stock at the beginning of the period, and the effect on net income of the additional common shares outstanding is considered accordingly.

(u) Raw materials processing

The Company engages other companies to process the new materials into finished products, purchases these finished goods back from these companies, and sells them directly to its customers. Although the title to the raw materials is transferred, the Company still carries the risk of carrying raw materials. Pursuant to Regulation No. 6 of the Securities and Futures Bureau ("SFB", formerly known as the Securities and Futures Commission), the above-mentioned transactions are not recognized as sales in the financial statements. In addition, raw materials which are still being processed by the other companies on the balance sheet date are recorded as inventories. The accounts payable to these companies from the raw material processing transactions are offset against the accounts receivable from the raw materials in the custody of the other companies.

(3) Changes in Accounting Policy and Their Influence

- (a) Effective from January 1, 2009, the Company measured its inventories initially and subsequently in accordance with the revised SFAS No. 10 "Inventories". The change had no significant effect on the Company's financial statements for the nine-month period ended September 30, 2009.

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

- (b) Effective from January 1, 2008, the Company adopted SFAS No. 39 and Interpretation (96) 052 issued by the ARDF. In accordance with SFAS No. 39 and the above Interpretation, the Company classified, measured and disclosed the share-based payment transactions, employee bonuses, and directors' and supervisors' remuneration. Accordingly, net income decreased by \$1,320,229 and basic net income per share decreased by 0.34 New Taiwan dollars for the nine-month period ended September 30, 2008. In accordance with the Interpretation issued by the ARDF, the new shares issued as employee bonuses in 2008 and later years are no longer retroactively adjusted when calculating basic net income per share and diluted net income per share. If the employee bonuses issued in stock have a dilution effect, it should be considered when calculating diluted net income per share.

(4) Cash and Cash Equivalents

	September 30, 2009	September 30, 2008
Cash on hand	\$ 1,364	2,002
Checking accounts and demand deposits	579,002	1,311,096
Time deposits	13,188,968	18,088,683
Bonds purchased under resale agreements	2,441,549	541,192
	<u>\$ 16,210,883</u>	<u>19,942,973</u>

(5) Financial Assets

(a) Non-derivative financial instruments

The non-derivative financial instruments held by the Company as of September 30, 2009 and 2008, were as follows:

	September 30, 2009	September 30, 2008
Financial assets measured at fair value through profit or loss – current:		
Financial assets designated as at fair value:		
Convertible bonds	\$ -	92,916
Available-for-sale financial assets – non-current:		
Publicly listed securities:		
Kinpo Electronics, Inc. (“Kinpo”)	\$ 1,074,219	905,519
Cal-comp Electronics (Thailand) Public Co., Ltd.	853,966	774,643
Himax Technologies, Inc. (“Himax”)	309,502	195,553
AimCore Technology Co., Ltd. (“AimCore”)	82,650	-
Others	-	10,384
	<u>\$ 2,320,337</u>	<u>1,886,099</u>

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

September 30, 2009 September 30, 2008

Financial assets carried at cost — non-current:

Security investments:

HUA VI Venture Capital Corp. (“HUA VI”)	\$ 100,000	100,000
HUA VII Venture Capital Corp.	99,505	100,000
Others	<u>625,412</u>	<u>761,659</u>
	\$ <u>824,917</u>	<u>961,659</u>

Debt investments without quoted price in active markets — non-current:

Debt investments — VIBO Telecom Inc. (“VIBO”)	\$ <u>1,471,138</u>	<u>-</u>
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1. Listed convertible bonds are hybrid instruments. Even though it is required to record the host contract and embedded derivative separately, they are recognized as financial assets designated as at fair value through profit or loss because those investments cannot be reliably measured at fair value as of the acquisition date.
2. The Company’s investments in HUA VI and others had no publicly trade price, and their fair values were difficult to determine. Therefore, the investments were stated at cost or amortized cost.
3. The Company subscribed the five-year unsecured convertible bonds issued by VIBO via the private placement for \$1,745,000 in the nine-month period ended September 30, 2009. The maturity year is 2014, the interest rate is 3%, and the convertible price is 5.7 NT dollars per share. Refer to note 5(b) for details of the embedded derivatives.
4. The Company disposed of its convertible bonds classified as financial assets designated as at fair value in the nine-month period ended September 30, 2009. The total related gain thereon amounted to \$9,858.
5. The Company disposed of its entire investment in HannStar Display Corp. and other companies classified as available-for-sale financial assets in the nine-month period ended September 30, 2009. The total related loss thereon amounted to \$3,896. The Company disposed of part of its investments in Himax classified as available-for-sale financial assets and its entire equity ownership in Tong Hsing Electronic Industries, Ltd. in the nine-month period ended September 30, 2008. The total related loss thereon amounted to \$57,789.
6. AimCore was listed on the GreTai Securities Market in April 2009. Therefore, the Company reclassified it to available-for-sale financial assets from financial assets carried at cost.
7. The value of the investee companies’ investments classified as financial assets carried at cost declined materially and permanently, and the Company therefore recognized realized loss thereon for the nine-month period ended September 30, 2009, amounting to \$45,161.

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

8. The unrealized gain or loss on available-for-sale financial assets, net of income taxes, amounting to a gain of \$209,791 and a loss of \$160,051 as of September 30, 2009 and 2008, respectively, were recorded as a separate component of stockholders' equity.
9. The dividend revenue from available-for-sale financial assets and financial assets carried at cost was \$33,170 and \$211,008 for the nine-month periods ended September 30, 2009 and 2008, respectively.

(b) Derivative financial instruments

As of September 30, 2009 and 2008, the derivative financial instruments held by the Company were as follows (in thousands of dollars):

	September 30, 2009		September 30, 2008	
	Book value	Nominal amount	Book value	Nominal amount
Derivative financial assets:				
Call option and put option – VIBO convertible bonds	\$ <u>11,493</u>		<u>-</u>	
Convertible option – VIBO convertible bonds	\$ <u>274,439</u>		<u>-</u>	
USD forward foreign currency exchange contracts sold	\$ <u>27,471</u>	USD <u>128,629</u>	<u>-</u>	<u>-</u>
USD forward foreign currency exchange contracts bought	\$ <u>-</u>	<u>-</u>	<u>66,130</u>	USD <u>306,000</u>
Derivative financial liabilities:				
USD forward foreign currency exchange contracts sold	\$ <u>-</u>	<u>-</u>	<u>61,605</u>	USD <u>301,000</u>
USD forward foreign currency exchange contracts bought	\$ <u>33,946</u>	USD <u>125,000</u>	<u>-</u>	<u>-</u>

The above call and put options were accounted for as other non-current financial assets, and the convertible option was accounted for as financial assets carried at cost – non-current. The remaining derivative financial instruments were accounted for as financial assets measured at fair value through profit or loss – current and other current financial liabilities (recorded as other current liabilities).

The Company entered into forward foreign currency exchange contracts with several banks for the nine-month periods ended September 30, 2009 and 2008. The main purpose of the contracts was to hedge foreign currency risk. The gain or loss resulting from changes in fair value of the forward foreign currency exchange contracts was a loss of \$18,832 and a gain of \$308,759 for the nine-month periods ended September 30, 2009 and 2008, respectively.

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

(6) Notes and Accounts Receivable – Non-related Parties

	September 30, 2009	September 30, 2008
Notes receivable	\$ 3,285	18,939
Accounts receivable	<u>124,454,405</u>	<u>72,580,790</u>
	124,457,690	72,599,729
Less: allowance for doubtful accounts	(607,274)	(489,188)
allowance for sales returns and discounts	<u>(3,463,597)</u>	<u>(3,110,068)</u>
	\$ <u>120,386,819</u>	<u>69,000,473</u>

(7) Inventories

	September 30, 2009	September 30, 2008
Finished goods	\$ 1,756,151	1,798,137
Work in process	417	447
Raw materials	33,027,179	15,144,069
Raw materials in transit	<u>791,672</u>	<u>97,310</u>
	\$ <u>35,575,419</u>	<u>17,039,963</u>

The allowance for inventory valuation loss and obsolescence was \$88,026 and \$89,214 as of September 30, 2009 and 2008, respectively.

The amount of inventories recognized as an expense amounted to \$20,227 and \$48,622 for the nine-month periods ended September 30, 2009 and 2008, respectively. The expenses were write-downs of inventories to net realizable value, and were included in the cost of sales.

The above inventories included the raw materials owned by the Company which were still being processed by other companies with net book value of \$316,026 and \$1,220,954 as of September 30, 2009 and 2008, respectively.

The Company does not provide inventories as collateral for its loans.

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

(8) Long-term Equity Investment

	September 30, 2009	September 30, 2008
Long-term equity investments:		
Under the equity method	\$ 47,716,698	44,741,188
Less: accumulated impairment losses	<u>(53,200)</u>	<u>(53,200)</u>
	47,663,498	44,687,988
Add: Credit balance of long-term equity investments and reductions of accounts receivable	<u>5,550</u>	<u>78,309</u>
	<u>\$ 47,669,048</u>	<u>44,766,297</u>

- (a) The investment income on long-term equity investments of \$687,135 and \$2,539,354 for the nine-month periods ended September 30, 2009 and 2008, respectively, were recognized under the equity method. The long-term equity investments amounting to \$42,893,203 and \$37,101,741 as of September 30, 2009 and 2008, respectively, and the related investment income of \$448,258 and \$2,088,709 recognized for the nine-month periods ended September 30, 2009 and 2008, respectively, were determined based on the investee companies' interim financial statements without review procedures conducted by independent auditors.
- (b) The market value of the shares of listed companies based on the closing price of September 30, 2009 and 2008, was as follows:

	September 30, 2009	September 30, 2008
Compal Communication Inc. ("CCI")	\$ 10,830,275	9,901,136
International Semiconductor Technology Inc. ("IST")	1,045,998	591,764
Arcadyan Technology Corp. ("Arcadyan")	<u>1,483,587</u>	<u>-</u>
	<u>\$ 13,359,860</u>	<u>10,492,900</u>

Arcadyan was listed on the Taiwan Stock Exchange in March 2009.

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

- (c) The Company purchased newly issued shares of Auscom Engineering, Inc. (“Auscom”) and High Shine Industrial Corp. (“HSI”) for \$85,072 and \$219,635, respectively. Also, the Company invested \$52,000 for 52% equity ownership in Compal Broadband Networks Inc. in the nine-month period ended September 30, 2009. The Company purchased newly issued shares of VIBO Telecom Inc. (“VIBO”), Flight Global Holding Inc. (“FGH”), Golden Achiever International Ltd. and Lipo Holding Co., Ltd. for \$2,499,317, \$1,079,666, \$58,176 and \$104,169, respectively, and invested \$493,049 and \$90,156 for 100% equity ownership in HSI and Compal Europe (Poland) Sp.zo.o (“CEP”), respectively, in the nine-month period ended September 30, 2008. In May 2008, VIBO decreased its common stock to offset accumulated deficits and then issued new shares. Because the Company did not purchase new shares proportionately, the percentage of equity ownership in VIBO was increased. The difference resulting from the change in percentage of ownership amounting to \$88,020 was recorded as a decrease in capital surplus and retained earnings.
- (d) The investee companies of Maxima Ventures I, Inc. and Accesstek, Inc. decreased their common stock in the nine-month period ended September 30, 2008. The Company received a capital refund of \$255,571 accordingly.
- (e) The unrealized losses on financial instruments resulting from long-term equity investments were \$95,466 and \$295,970 as of September 30, 2009 and 2008, respectively.
- (f) The cash dividends receivable from investee companies accounted for under the equity method were \$406,998 and \$1,151,672 as of September 30, 2009 and 2008, respectively. The cash dividends receivable were accounted for as other current financial assets.
- (g) As of September 30, 2009 and 2008, the original investment costs of long-term equity investments accounted for under the equity method were as follows:

	September 30, 2009	September 30, 2008
Toppoly Optoelectronics Corp. (“TPO”)	\$ 11,804,744	11,804,744
VIBO	10,542,126	8,542,317
Just International Ltd. (“Just”)	1,480,509	1,480,509
Panpal Technology Corp. (“Panpal”)	4,728,018	4,728,018
CCI	2,531,668	2,531,668
Compal International Holding Co., Ltd. (“CIH”)	1,314,834	1,314,834
FGH	1,203,565	1,203,565
Hong Ji Capital Co., Ltd.	1,000,000	1,000,000
IST	967,637	967,637
HSI	963,709	493,049
Gempal Technology Corp. (“Gempal”)	900,036	900,036
Others	4,919,952	5,022,168
	\$ 42,356,798	39,988,545

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

(9) Property, Plant and Equipment, Leased Assets, and Idle Assets

- (a) The Company entered into agreements to lease a portion of its office space and plant facilities. Under these agreements, the rental is payable monthly. As of September 30, 2009 and 2008, the leased assets consisted of the following:

	September 30, 2009	September 30, 2008
Land	\$ 176,452	159,821
Buildings and others	<u>282,889</u>	<u>255,796</u>
	459,341	415,617
Less: accumulated depreciation	<u>(79,565)</u>	<u>(64,927)</u>
	\$ <u>379,776</u>	<u>350,690</u>

- (b) As of September 30, 2009 and 2008, the idle assets of the Company were machinery. As of September 30, 2009 and 2008, the idle assets (recorded as other assets) were as follows:

	September 30, 2009	September 30, 2008
Machinery and equipment	\$ 46,863	72,178
Less: accumulated depreciation	(39,689)	(56,674)
provision for losses	<u>(7,174)</u>	<u>(15,504)</u>
	\$ <u>-</u>	<u>-</u>

- (c) The Company does not provide property, plant and equipment, leased assets, or idle assets as collateral for its loans.

(10) Short-term Loans

	September 30, 2009	September 30, 2008
Credit loan	\$ <u>6,261,518</u>	<u>1,360,000</u>
Unused credit line for short-term loan	\$ <u>28,734,000</u>	<u>27,123,000</u>
Annual interest rates	<u>0.52%~2.28%</u>	<u>2.41%~3.31%</u>

(11) Bonds Payable

The Company issued the fourth overseas unsecured zero coupon convertible bonds, which were listed on the Singapore Exchange with a face value of US\$300,000,000 on August 19, 2005. Because the convertible bonds would mature on August 19, 2010, they were classified as an item under current liabilities. As of September 30, 2009 and 2008, the convertible bonds payable consisted of the following:

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

	September 30, 2009	September 30, 2008
Aggregate principal amount (US\$300,000,000)	\$ 9,646,500	9,646,500
Accumulated redeemed amount (US\$100,000)	(3,297)	(3,297)
Accumulated converted amount (US\$13,816,000)	(448,654)	-
Foreign currency exchange loss	<u>67,707</u>	<u>43,567</u>
	\$ <u>9,262,256</u>	<u>9,686,770</u>

The significant terms of the convertible bonds are as follows:

1. Interest rate: 0%;
2. Duration: five years (August 19, 2005, to August 19, 2010);
3. Redemption at the option of the Company: The Company may redeem the bonds in US dollars at a redemption price equal to 100% of the unpaid principal amount under the following circumstances:
 - 1) On or after August 19, 2007, if the closing price (translated into US dollars at the prevailing rate) of the Company's common shares on the Taiwan Stock Exchange for a period of 20 consecutive trading days before redemption has been at least 130% of the conversion price (translated into US dollars at the fixed rate of 31.884 NT dollars) in effect on each such trading day;
 - 2) In the event that at least 90% of the principal amount of the bonds originally outstanding has been redeemed, converted, or purchased and canceled; or
 - 3) In the event of certain changes relating to tax laws in the ROC, the Company becomes obligated to pay additional amounts.
4. Repurchase at the option of bondholders: The bondholders have the right to require the Company to repurchase the bonds at a price equal to 100% of the unpaid principal amount in US dollars under the following circumstances:
 - 1) The bondholders could exercise the repurchase option on August 19, 2007. Those who would like to exercise the option must deliver a written irrevocable notice to the Company on any business day which is not more than 60 nor less than 30 business days prior to the repurchase day;
 - 2) In the event that the Company's shares cease to be listed or admitted to trading on the Taiwan Stock Exchange;
 - 3) In the event of change of control of the Company.

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

The bondholders required the Company to repurchase the bonds amounting to US\$100,000 on August 19, 2007, and the repurchase rights were no longer valid after that day. If the bonds have not been redeemed, converted, or purchased, the Company will redeem the bonds in US dollars at a redemption price equal to 100% of the unpaid principal amount on August 19, 2010.

5. Terms of conversion:

- 1) Bondholders may opt to have the bonds converted into common stock or GDSs of the Company on or after September 18, 2005, and prior to July 20, 2010;
- 2) Conversion price: 27.80 NT dollars per share of common stock (the conversion price was 38.4 NT dollars at the issued day); and
- 3) The conversion price is translated into New Taiwan dollars at the fixed rate of 31.884 NT dollars = 1 US dollar.

(12) Pension

The net pension costs in 2009 and 2008 consisted of the following:

	Nine-month period ended September 30, 2009	Nine-month period ended September 30, 2008
Net pension cost		
Defined benefit pension plan	\$ 20,540	16,323
Defined contribution pension plan	94,794	78,609
	\$ <u>115,334</u>	<u>94,932</u>
	September 30, 2009	September 30, 2008
Pension fund deposits in Bank of Taiwan	\$ <u>664,169</u>	<u>646,233</u>
Prepaid pension	\$ <u>51,462</u>	<u>55,045</u>
Vested benefits	\$ <u>442,238</u>	<u>400,827</u>

(13) Stockholders' Equity

(a) Capital increase

Based on the resolution approved by the stockholders during their annual stockholders' meeting on June 13, 2008, the Company declared a 2.4 New Taiwan dollar cash dividend per share, which amounted to \$9,278,301, and increased its common stock by capitalizing its capital surplus, retained earnings and employee stock bonuses amounting to \$747,471.

(Continued)

COMPAL ELECTRONICS, INC.**Notes to Financial Statements (Unaudited)**

Based on the resolution approved by the stockholders during their annual stockholders' meeting on June 19, 2009, the Company declared a 1.5 New Taiwan dollar cash dividend per share, which amounted to \$5,825,807, and increased its common stock by capitalizing its capital surplus, retained earnings and employee stock bonuses amounting to \$831,846. The registration procedure related to this issuance has been completed.

The overseas unsecured zero coupon convertible bonds converted into common stock amounted to \$158,456 in the nine-month period ended September 30, 2009.

As of September 30, 2009 and 2008, the authorized common stock, with par value of 10 New Taiwan dollars per share, amounted to \$46,500,000.

(b) Treasury stock

The subsidiaries of the Company did not sell the common stock of the Company in the nine-month periods ended September 30, 2009 and 2008. As of September 30, 2009 and 2008, Panpal and Gempal, subsidiaries of the Company, held 49,050 and 48,805 thousand shares, respectively, of common stock of the Company with a book value of 18.0 and 18.1 New Taiwan dollars per share, respectively. The total cost was \$881,247 as of September 30, 2009 and 2008. The fair value of the common stock of the Company was 37.45 and 23.00 New Taiwan dollars per share as of September 30, 2009 and 2008, respectively.

(c) Capital surplus

Pursuant to the ROC Company Act, capital surplus can only be used to offset a deficit or to increase common stock. Cash dividends can not be declared out of capital surplus. According to Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases through the capitalization of paid-in capital in excess of par value should not exceed 10% of total common stock outstanding. In addition, capital increases through the capitalization of paid-in capital in excess of par value can only commence in the year following the initial year.

The overseas unsecured zero coupon convertible bonds converted into common stock in excess of par value amounting to 290,198 in the nine-month period ended September 30, 2009, was accounted for as capital surplus.

(d) Special reserve

According to the Company's articles of incorporation, a special reserve is set aside for the unrealized foreign currency exchange gains accounted for under SFAS No. 14 before the earnings are appropriated. The special reserve is transferred to retained earnings when the exchange gains are realized.

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

(e) Employee stock options

At a meeting held on October 31, 2007, the Company's board of directors decided to issue 100,000,000 units of stock options, with an exercisable right of one share of the Company's common stock per unit. The stock option issuance was authorized by the Financial Supervisory Commission, Executive Yuan, on November 19, 2007. Total options issued were 100,000,000 units. The information on total options issued was as follows:

<u>Date of issuance</u>	<u>Nine-month period ended September 30, 2009</u>					
	<u>2009.1.1 Outstanding units</u>	<u>Current units granted</u>	<u>Current units exercised</u>	<u>Current units abandoned</u>	<u>2009.9.30 Outstanding units</u>	<u>2009.9.30 Exercisable units</u>
December 21, 2007	<u>99,850,000</u>	<u>-</u>	<u>-</u>	<u>400,000</u>	<u>99,450,000</u>	<u>-</u>

<u>Date of issuance</u>	<u>Nine-month period ended September 30, 2008</u>					
	<u>2008.1.1 Outstanding Units</u>	<u>Current units granted</u>	<u>Current units exercised</u>	<u>Current units abandoned</u>	<u>2008.9.30 Outstanding units</u>	<u>2008.9.30 Exercisable units</u>
December 21, 2007	<u>100,000,000</u>	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>99,850,000</u>	<u>-</u>

The issuance terms of the stock options are as follows.

- (i) Exercised price: 27.00 NT dollars per share (the exercised price was 31.6 NT dollars at the issued date)
- (ii) Exercisable duration: After two years, the employees who received stock options can exercise a specific percentage in each period as below. The exercisable duration of the options is seven years. No transfer, pledge, donation or other methods of disposal are allowed except for inheritance.

<u>Period to exercise options</u>	<u>Exercisable percentage (cumulative)</u>
2 years after options received	40%
3 years after options received	70%
4 years after options received	100%
7 years after options received	All unexercised options will be retired

- (iii) Exercise method: The Company would issue new shares as the options are exercised.

- (iv) Exercise procedure: In accordance with the Company's issuance and exercise rules, the entitlement certification of stock options exercised is registered as common stock four times a year.

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

The compensation cost of the stock options issued before December 31, 2007, was computed by the intrinsic value method. Because the fair value of the Company's common stock on the measurement date was not in excess of the exercise price of the stock options, the Company did not have to recognize the compensation cost. If the compensation cost of the issued stock option were computed by the fair value method, the pro forma information would be as follows:

- (i) The compensation cost for the nine-month periods ended September 30, 2009 and 2008, would be \$124,163 and \$137,662, respectively, if the Company used the fair value method instead. The Company adopted the Black-Scholes model to compute the fair value on the grant date, and the assumptions are summarized as follows:

Exercised price (NT dollars)	\$ 31.60
Current price (NT dollars)	\$ 31.60
Expected dividend yield rate	5.56%
Expected volatility	33.56%
Risk-free interest rate	2.54%
Expected life of the option	5 years

- (ii) The pro forma information for the compensation cost by using the fair value method on net income and net income per share would be as follows:

		Nine-month period ended September 30, 2009	Nine-month period ended September 30, 2008
Net income	Actual	\$ 11,178,448	9,901,052
	Pro forma	11,054,285	9,763,390
Basic net income per share	Actual	2.88	2.54
(NT dollars)	Pro forma	2.85	2.51
Diluted net income per share	Actual	2.58	2.31
(NT dollars)	Pro forma	2.55	2.28

- (f) Legal reserve and limitation on distribution of retained earnings

Based on the Company's articles of incorporation, 10% of annual net income after offsetting prior years' deficits, if any, is to be set aside as legal reserve; less than 2% of the unappropriated earnings, after deducting the legal reserve, is distributed as remuneration to the directors and supervisors, and more than 2% as bonus to employees. The remaining balance is distributed as dividends to stockholders after appropriating the special reserves, if any. Dividends to stockholders shall not be lower than 10% of annual net income after deducting the above items. If the annual net income per share is less than 1 New Taiwan dollar, the Company may opt to retain net income.

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

Pursuant to the ROC Company Act, the legal reserve must be used exclusively to offset losses and cannot be used for any other purpose, except that one-half of the legal reserve may be capitalized based on a resolution of the stockholders' meeting when it equals at least 50% of paid-in capital.

According to Securities and Futures Bureau (former Securities and Futures Commission) regulations, when there is a deduction in stockholders' equity (excluding treasury stock) during the year, an amount equal to the deduction item is set aside as a special reserve before the earnings are appropriated. A special reserve is made available for dividend distribution only after the related stockholders' equity deduction item has been reversed.

The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the ROC Company Act and the Company's articles of incorporation for the interim financial statements. In 2009, the employee bonuses and directors' and supervisors' remuneration were a fixed amount and amortized quarterly, and were estimated based on a specific percentage approved by the management and in accordance with the Company's articles of incorporation. In 2008, they were a specific percentage, approved by the board of directors, of net income after deducting the legal reserve. The Company recognized employee bonuses of \$1,051,875 and \$1,425,781 and directors' and supervisors' remuneration of \$73,125 and \$133,667 for the nine-month periods ended September 30, 2009 and 2008, respectively. The number of shares of the dividend distribution is based on the closing price of the day before the shareholders' meeting and considering the ex-rights and ex-dividend effects. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the distribution year.

(g) Based on the resolutions approved by the stockholders during their annual stockholders' meetings on June 19, 2009, and June 13, 2008, the employee bonuses, and directors' and supervisors' remuneration were appropriated from the distributable retained earnings of 2008 and 2007 as follows:

	2008	2007
Employee bonuses – stock (note)	\$ 1,484,455	554,173
Employee bonuses – cash	164,939	61,568
Directors' and supervisors' remuneration	<u>113,751</u>	<u>246,296</u>
	\$ <u>1,763,145</u>	<u>862,037</u>

Note: In 2007, employee bonuses – stock is presented at par value.

The above earnings distribution for the fiscal year 2008 had no difference from the estimated distribution of the financial reporting for 2008.

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

The related information about the distribution for employee bonuses and directors' and supervisors' remuneration determined by the meeting of the board of directors and approved in the stockholders' meeting can be accessed from the Market Observation Post System after the holding of these meetings.

(14) Income Taxes

- (a) The operations of the Company are subject to income tax at a rate of 25%. The Company has applied the "Income Basic Tax Act" to calculate income tax. According to the amendatory tax law issued on May 27, 2009, the operations of the Company are going to be subject to a 20% income tax rate from 2010. The components of income tax expense of the Company for the nine-month periods ended September 30, 2009 and 2008, were as follows:

	Nine-month period ended September 30, 2009	Nine-month period ended September 30, 2008
Current income tax expense	\$ 2,728,753	1,531,097
10% surtax on unappropriated earning	447,337	209,717
Investment tax credits used against current tax expense	<u>(1,280,903)</u>	<u>(630,167)</u>
	<u>1,895,187</u>	<u>1,110,647</u>
Deferred income tax expense (benefit)		
Increase (decrease) in unrealized foreign currency exchange gain, net	(12,952)	141,289
Increase (decrease) in valuation allowance for deferred income tax assets	(166,175)	652,516
Increase in sales returns and discount allowances	(38,736)	(104,120)
Deferred income tax effect resulting from change in income tax rate	4,065	-
Other deferred income tax expense (benefit)	<u>59,896</u>	<u>(6,066)</u>
	<u>(153,902)</u>	<u>683,619</u>
Total income tax expense	\$ <u><u>1,741,285</u></u>	<u><u>1,794,266</u></u>

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

- (b) The income tax computed at the statutory rate of 25% was reconciled with the actual income tax expense for the nine-month periods ended September 30, 2009 and 2008, as follows:

	Nine-month period ended September 30, 2009	Nine-month period ended September 30, 2008
Income tax calculated on pre-tax financial income	\$ 3,229,923	2,923,819
10% surtax on unappropriated earnings	447,337	209,717
Realized investment loss	(30,124)	(657,176)
Investment tax credits	(1,280,903)	(630,167)
Increase (decrease) in valuation allowance for deferred income tax assets	(188,308)	652,516
Estimated tax effect of tax exemption on investment income, net	(166,039)	(688,377)
Tax effect resulting from change in income tax rate	15,335	-
Estimated tax effect of prior years and others	(285,936)	(16,066)
Income tax expense	<u>\$ 1,741,285</u>	<u>1,794,266</u>

- (c) The components of deferred income tax assets (liabilities) as of September 30, 2009 and 2008, were as follows:

	September 30, 2009	September 30, 2008
Deferred income tax assets:		
Sales returns and discounts	\$ 692,719	777,517
Accrued warranty cost	374,479	459,582
Inventory provisions	17,290	21,458
Unrealized foreign currency exchange loss	364,529	313,375
Other	71,357	104,647
	1,520,374	1,676,579
Valuation allowance	(902,394)	(1,186,534)
Net deferred income tax assets	<u>617,980</u>	<u>490,045</u>
Deferred income tax liabilities:		
Reserve for loss on outward investment	(97,447)	(105,371)
Unrealized foreign currency exchange gain	(286,949)	(440,077)
Unrealized gains on financial instruments	(75,091)	(29,148)
Accumulated foreign currency translation adjustment	-	(5,274)
	(459,487)	(579,870)
	<u>\$ 158,493</u>	<u>(89,825)</u>
Net deferred income tax assets – current	\$ 338,640	52,923
Net deferred income tax liabilities – non-current	(180,147)	(142,748)
	<u>\$ 158,493</u>	<u>(89,825)</u>

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

(d) The ROC tax authorities have examined the Company's income tax returns through 2007 except for 2006. The tax authorities assessed the Company additional income tax for 1999 to 2005 and 2007. The Company disagreed with the assessment and filed formal tax appeals for 1999 to 2005, and will file formal tax appeals for 2007 before the expiry date. The total amounts of the assessed additional income tax were recognized in the accompanying statements of income. Any differences will be reflected as an adjustment after the tax appeal is resolved.

(e) Imputation credit account and creditable ratio

Beginning from 1998, the corporate income tax paid by the corporate level can be used to offset the resident shareholders' individual income tax. The amount of imputation credit which shareholders can claim depends on the total corporate income tax paid at the corporate level. Beginning in 1998, corporations have been required to set up an imputation credit account (ICA) to keep track of the corporate income taxes paid and the imputation credit they have allocated for shareholders. In addition, the creditable ratio, which represents the imputation credit per dollar of accumulated retained earnings, shall be calculated for resident shareholders when corporations declare dividends.

Calculation of the ICA balance as of September 30, 2009 and 2008, and the creditable ratio for 2008 and 2007 was as follows:

	September 30, 2009	September 30, 2008
Unappropriated earnings retained prior to January 1, 1998	\$ -	1,149,301
Unappropriated earnings retained after January 1, 1998	26,650,181	20,450,059
Total	\$ <u>26,650,181</u>	<u>21,599,360</u>
ICA balance	\$ <u>2,462,438</u>	<u>2,427,016</u>
	2008	2007
Creditable ratio for earnings distribution	<u>15.48%</u> (expected)	<u>21.01%</u> (actual)

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

(15) Net Income per Share

Net income per share for the nine-month periods ended September 30, 2009 and 2008, was computed as follows. All net income per share amounts are expressed in dollars.

	Nine-month period ended September 30, 2009		Nine-month period ended September 30, 2008	
	Before <u>income tax</u>	After <u>income tax</u>	Before <u>income tax</u>	After <u>income tax</u>
Basic net income per share:				
Net income	<u>\$ 12,919,733</u>	<u>11,178,448</u>	<u>11,695,318</u>	<u>9,901,052</u>
Weighted-average number of shares outstanding, before retroactive adjustments (thousands)	<u>3,878,197</u>	<u>3,878,197</u>	<u>3,891,900</u>	<u>3,891,900</u>
Net income per share before retroactive adjustments	<u>\$ 3.33</u>	<u>2.88</u>	<u>3.01</u>	<u>2.54</u>
Weighted-average number of shares outstanding, after retroactive adjustments (thousands)			<u>3,911,076</u>	<u>3,911,076</u>
Net income per share after retroactive adjustments			<u>\$ 2.99</u>	<u>2.53</u>
Diluted net income per share:				
Net income	\$ 12,919,733	11,178,448	11,695,318	9,901,052
Effects of dilutive potential common stock:				
Convertible bonds payable	(160,299)	(120,224)	(56,981)	(42,736)
	<u>\$ 12,759,434</u>	<u>11,058,224</u>	<u>11,638,337</u>	<u>9,858,316</u>
Weighted-average number of shares outstanding, before retroactive adjustments (thousands)	3,878,197	3,878,197	3,891,900	3,891,900
Effects of dilutive potential common stock:				
Convertible bonds payable	328,112	328,112	319,586	319,586
Employee bonuses	83,651	83,651	61,990	61,990
	<u>4,289,960</u>	<u>4,289,960</u>	<u>4,273,476</u>	<u>4,273,476</u>
Net income per share before retroactive adjustments	<u>\$ 2.97</u>	<u>2.58</u>	<u>2.72</u>	<u>2.31</u>
Weighted-average number of shares outstanding, after retroactive adjustments (thousands)			<u>4,292,652</u>	<u>4,292,652</u>
Net income per share after retroactive adjustments			<u>\$ 2.71</u>	<u>2.30</u>

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

Note: The employee stock options had no dilution effect for the nine-month periods ended September 30, 2009 and 2008. Therefore, when the Company calculates the effects of dilutive potential common stock, the employee stock options are not considered for the nine-month periods ended September 30, 2009 and 2008.

(16) Related Information about Financial Instruments

(a) Fair value of financial instruments

As of September 30, 2009 and 2008, the details of fair value of financial assets and financial liabilities were as follows:

	September 30, 2009		September 30, 2008	
	Book Value	Fair Value	Book Value	Fair Value
Financial assets:				
Financial assets designated as at fair value – current	\$ -	-	92,916	92,916
Available-for-sale financial assets – non-current	2,320,337	2,320,337	1,886,099	1,886,099
Financial assets carried at cost – non-current	1,099,356	-	961,659	-
Debt investments without quoted price in active markets – non-current	1,471,138	-	-	-
Call option and put option – convertible bonds	11,493	11,493	-	-
Forward foreign currency exchange contracts	27,471	27,471	66,130	66,130
Financial liabilities:				
Forward foreign currency exchange contracts	33,946	33,946	61,605	61,605

(b) The following methods and assumptions were used in estimating fair values:

1. The book value of short-term financial instruments is considered to be the fair value due to the short-term nature of these instruments, and the book value method is considered to be a reasonable basis to assess the fair value. Such method is applicable to cash and cash equivalents, notes and accounts receivable/payable, other current financial assets, short-term loans, accrued expenses and other payables (except forward foreign currency exchange contracts).

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

2. If public quoting of financial assets and liabilities is available, then the quoted price will be the fair value. If there is no quoted price in an active market, its fair value is estimated on the basis of the result of a valuation technique that refers to quoted prices provided by financial institutions. The estimations, hypotheses and discounting rates for valuation refer to quoted prices of financial instruments having substantially the same terms and characteristics, including the credit quality of the issuer, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal, and the currency in which the payments are to be made.
 3. The financial assets carried at cost were investments in companies whose shares were not publicly listed and have no available market prices.
 4. Debt investments without quoted price in active markets are measured at amortized cost. The discount rate used by the Company was equivalent to the rate of return on the financial instruments with the same terms and characteristics. The terms and characteristics include the credit quality of the issuer, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal, and the currency in which the payments are to be made.
- (c) The fair value of financial assets and financial liabilities evaluated by the Company under public quoting or an assessment method was as follows:

	<u>September 30, 2009</u>		<u>September 30, 2008</u>	
	<u>Public</u> <u>quote value</u>	<u>Assessment</u> <u>value</u>	<u>Public</u> <u>quote value</u>	<u>Assessment</u> <u>value</u>
Financial assets:				
Financial assets designated as at fair value – current	\$ -	-	92,916	-
Available-for-sale financial assets – non-current	2,320,337	-	1,886,099	-
Call option and put option – convertible bonds	-	11,493	-	-
Forward foreign currency exchange contracts	-	27,471	-	66,130
Financial liabilities:				
Forward foreign currency exchange contracts	-	33,946	-	61,605

The gain and loss resulting from public quoting or an assessment method were a loss of \$6,549 and a gain of \$10,441 for the nine-month periods ended September 30, 2009 and 2008, respectively.

(Continued)

COMPAL ELECTRONICS, INC.**Notes to Financial Statements (Unaudited)****(d) Information about financial risk****1. Market risk**

The equity securities held by the 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 Company has risk exposure related to changes in fair value in an equity securities market.

2. Credit risk

- (i) The amount of the credit risk is a potential loss of the Company if the counterpart involved in that transaction defaults. Since the Company's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, management does not believe that there is significant credit risk from these transactions.
- (ii) The primary potential credit risk is from financial instruments like cash, cash equivalents, debt investments without quoted price in active markets, and accounts receivable. The Company deposits cash in different financial institutions. Cash equivalents represent investments in bonds purchased under resale agreements with a maturity of three months or less from the date of investment. As for the debt investments without quoted price in active markets, the Company has evaluated the credit conditions of the counterparty. Therefore, management does not believe that there is significant credit risk from these transactions. The Company manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk of cash and cash equivalents. As the clients of the Company are mainly high-tech companies, the Company evaluates the financial condition of these clients to reduce credit risk of accounts receivable.

3. Liquidity risk (in thousands of New Taiwan and US dollars)

As the capital and working capital of the Company are sufficient to fulfill all contract obligations, there is no liquidity risk related to unfulfilled contract obligations.

The marketable securities investments held by the Company have public quoted prices and would be sold at the approximate market price. The Company will have cash inflows and outflows within the periods shown below. There are no significant financing risks due to expected sufficient capital. Management believes that the cash flow risk is not significant because contracted foreign currency exchange rates are fixed.

Meanwhile, the Company believes that there is liquidity risk relating to the debt investments without quoted price in active markets.

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

Nine-month period ended September 30, 2009

<u>Financial instruments</u>	<u>Date</u>	<u>Cash outflow</u>		<u>Cash inflow</u>	
USD forward exchange contracts sold	October 9~October 29, 2009	USD	128,000	NTD	4,145,196
USD forward exchange contracts sold	December 14, 2009	USD	629	JPY	57,300
USD forward exchange contracts bought	October 19~November 2, 2009	NTD	4,035,065	USD	125,000

Nine-month period ended September 30, 2008

<u>Financial instruments</u>	<u>Date</u>	<u>Cash outflow</u>		<u>Cash inflow</u>	
USD forward exchange contracts sold	October 1~November 3, 2008	USD	301,000	NTD	9,630,057
USD forward exchange contracts bought	October 1~November 3, 2008	NTD	9,758,567	USD	306,000

4. Cash flow risk arising from variation in interest rates

The Company's short-term loans are based on floating interest rates. Changes in the prevailing market rate will affect the interest on short-term loans and cause future cash flows to fluctuate. The Company will increase its cash outflow by \$62,615 in the following year for every 1% increase in the market rate.

(17) Related-party Transactions

(a) Names of the related parties and relationship

Related Party	Relationship with the Company
Bizcom Electronics, Inc. ("Bizcom")	100%-owned subsidiary company
Compal Europe (UK) Limited ("CEUK")	100%-owned subsidiary company
Auscom	100%-owned subsidiary company
CEP	100%-owned subsidiary company
CIH and its subsidiaries	100%-owned subsidiary company
Just and its subsidiaries	100%-owned subsidiary company
Compal Electronics International Ltd. ("CII") and its subsidiaries	100%-owned subsidiary company
CCI	Subsidiary company
Swenc Technology Corp. ("Swenc")	Subsidiary company

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

Related Party	Relationship with the Company
Arcadyan and its subsidiaries	Subsidiary company
Compalead Eletronica do Brasil Industria e Comercio Ltda. ("CEB", formerly named CEB Eletronica do Brasil Industria e Comercio Ltda.)	Subsidiary company
TPO	Investee company accounted for under the equity method
Compower International Ltd. ("Compower")	Investee company accounted for under the equity method
Mototech Inc. ("Mototech")	A director of Mototech's parent company was a 100%-owned subsidiary company of the Company until May 22, 2009

(b) Summary of significant transactions with related parties

1. Sales and purchases

- (i) Sales to related parties for the nine-month periods ended September 30, 2009 and 2008, were as follows:

	Nine-month period ended September 30, 2009		Nine-month period ended September 30, 2008	
	Amount	% of net sales	Amount	% of net sales
CIH and its subsidiaries	\$ 22,877,408	5.7	7,698,491	2.6
Bizcom	1,251,967	0.3	1,632,788	0.6
CEB	302,708	0.1	-	-
CEUK	-	-	71,332	-
Mototech	-	-	127,047	-
Other	<u>45,250</u>	<u>-</u>	<u>1,601</u>	<u>-</u>
	<u>\$ 24,477,333</u>	<u>6.1</u>	<u>9,531,259</u>	<u>3.2</u>

Sales prices for related parties were similar to those for third-party customers. The collection periods were approximately 120 days for CIH and its subsidiaries, CEUK and CEB, and 45 to 180 days for Bizcom, and prepayment in advance for Mototech, which could be extended when necessary.

- (ii) Purchases from related parties for the nine-month periods ended September 30, 2009 and 2008, were as follows:

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

	Nine-month period ended September 30, 2009		Nine-month period ended September 30, 2008	
	Amount	% of net purchases	Amount	% of net purchases
CIH and its subsidiaries	\$ 98,771,265	24.2	73,666,818	25.6
Just and its subsidiaries	22,645,830	5.6	24,464,867	8.5
Arcadyan	1,172,959	0.3	125,892	-
CII and its subsidiaries	376,658	0.1	839,507	0.3
Other	12,122	-	5	-
	<u>\$ 122,978,834</u>	<u>30.2</u>	<u>99,097,089</u>	<u>34.4</u>

Purchase prices for finished goods and raw materials from related parties were similar to those from third-party suppliers. The payment periods were approximately 120 days for CIH and its subsidiaries, Just and its subsidiaries, and CII and its subsidiaries, and 45 days for Arcadyan (60 days effective from August 2009), which could be extended when necessary.

- (iii) The balances resulting from the above sales and purchases as of September 30, 2009 and 2008, were as follows:

	September 30, 2009		September 30, 2008	
	Amount	%	Amount	%
Notes and accounts receivable:				
Bizcom	\$ 884,994	0.7	1,052,069	1.5
CEB	362,504	0.3	-	-
CEUK	-	-	47,408	0.1
Other	20,183	-	12,743	-
	<u>1,267,681</u>	<u>1.0</u>	<u>1,112,220</u>	<u>1.6</u>
Less: credit balance of long-term equity investments	<u>(5,550)</u>	<u>-</u>	<u>(11,137)</u>	<u>-</u>
	<u>\$ 1,262,131</u>	<u>1.0</u>	<u>1,101,083</u>	<u>1.6</u>
	September 30, 2009		September 30, 2008	
	Amount	%	Amount	%
Notes and accounts payable:				
CIH and its subsidiaries	\$ 29,023,250	24.3	12,991,988	20.3
Just and its subsidiaries	3,900,867	3.3	2,836,096	4.5
Arcadyan	393,304	0.3	72,817	0.1
CII and its subsidiaries	25,994	-	386,158	0.6
Other	-	-	9,244	-
	<u>\$ 33,343,415</u>	<u>27.9</u>	<u>16,296,303</u>	<u>25.5</u>

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

2. Product warranty service expenses

The product warranty service expenses paid to related parties for the nine-month periods ended September 30, 2009 and 2008, were as follows:

	Nine-month period ended September 30, 2009	Nine-month period ended September 30, 2008
Bizcom	\$ 196,570	219,082
CEP	6,984	-
CEUK	-	8,285
	\$ <u>203,554</u>	<u>227,367</u>

As of September 30, 2009 and 2008, there were no unpaid warranty service expenses.

3. Technical service expense

The Company engaged Auscom to research and develop notebooks, and the related technical service expenses for the nine-month period ended September 30, 2009, amounted to \$70,188, recorded as research and development expenses. As of September 30, 2009, the unpaid payable amounted to \$81,559.

4. Rental income

The Company entered into an agreement with CCI and Swenc to lease a portion of its office space and plant facility. The related rental income for the nine-month periods ended September 30, 2009 and 2008, was as follows:

	Nine-month period ended September 30, 2009	Nine-month period ended September 30, 2008
CCI	\$ 15,766	16,432
Swenc	<u>17,266</u>	<u>16,219</u>
	\$ <u>33,032</u>	<u>32,651</u>

5. Other receivables

The receivables (recorded as other current financial assets) arising from the disposal of and additions to machinery and equipment in the related-party transactions mentioned above as of September 30, 2009 and 2008, were as follows:

(Continued)

COMPAL ELECTRONICS, INC.**Notes to Financial Statements (Unaudited)**

	September 30, 2009	September 30, 2008
Just and its subsidiaries	\$ 10,306	18,487
CEB	<u>1,528</u>	<u>-</u>
	\$ <u>11,834</u>	<u>18,487</u>

6. Guarantees (in thousands of dollars)

	September 30, 2009	September 30, 2008
CEB	US\$ 10,000	US\$ -
CEUK	US\$ -	US\$ 1,000

7. Other

Due to the price adjustment of the Company's disposal of shares of Compal Communication Korea, Inc. (formerly named Vacom Wireless, Inc.), the Company could receive additional proceeds of \$96,493 from CCL. As of September 30, 2008, the receivable had not been collected and was accounted for as other current financial assets. However, all of the receivable had been collected in October 2008.

(18) Pledged Assets

There were no pledged assets as of September 30, 2009 and 2008.

(19) Commitments and Contingencies

As of September 30, 2009, the details of commitments and contingencies were as follows:

- (a) In the syndicated loan agreement of VIBO with the banks, the Company together with its subsidiaries and Kinpo committed to hold a specific portion of VIBO's outstanding shares as well as a certain number of seats on VIBO's board of directors (exclusive of the independent directors). During the duration of the syndicated loan, should the Company and its affiliates extend shareholder loans to VIBO, the Company agrees to subordinate the claim for such shareholder loans to any indebtedness of VIBO at that time or thereafter to the syndicated banks under this syndicated loan facility. During the duration of the syndication loan, if VIBO fails to fulfill its payment of principal and/or interest obligations, Compal, Kinpo, and their affiliates will take necessary actions, including, but not limited to, cash injection through capital increase, to help VIBO to fulfill the loan repayment and interest obligations.

(Continued)

COMPAL ELECTRONICS, INC.**Notes to Financial Statements (Unaudited)**

- (b) In the syndicated loan agreement of TPO with the banks, the Company together with its subsidiaries and Kinpo committed to hold a specific portion of TPO's outstanding shares as well as a certain number of seats on TPO's board of directors and supervisor positions (exclusive of the independent directors and supervisors), and to influence TPO's management of operations. During the duration of the syndicated loan, should the Company and its affiliates extend shareholder loans to TPO, the Company agrees to subordinate the claim for such shareholder loans to any indebtedness of TPO at that time or thereafter to the syndicated banks under this syndicated loan facility. During the duration of the syndication loan, if TPO fails to fulfill its payment of principal and/or interest obligations, Compal and its affiliates will take necessary actions, including, but not limited to, cash injection through capital increase to help TPO to fulfill the loan repayment and interest obligations.
- (c) In order to assist the investee companies Hong Ya Technology, Inc. ("Hong Ya Tech"), Simpall Electronics Co., Ltd. ("Simpal"), Compal Precision Module China Holdings Limited ("Compal Precision Module", formerly named Hong Ya Holding Ltd.), Compal Precision Module (Jiang Su) Co., Ltd. ("Compal Precision") and International Semiconductor Technology (Kunshan) Co., Ltd. to apply for the general banking facility, the Company issued Letters of Support under which the Company undertakes to provide all necessary assistance to assure the business operation and adherence to the contracts of the above investee companies. Meanwhile, the Company committed to hold a specific portion of the outstanding shares of Hong Ya Tech, Simpall, Compal Precision Module and Compal Precision.
- (d) The Company entered into various patent license agreements with non-related parties, and was required to make royalty payments of a predetermined amount periodically.
- (e) See note 17 for guarantees made to related parties.

(20) Subsequent Events

In October 2009, the Company and its subsidiaries subscribed 2,800,000 thousand shares of the newly issued shares of Chunghwa Picture Tube Co., Ltd. via the private placement with a subscription price of 2.5 NT dollars per share for \$7,000,000 and 16.98% equity ownership.

(Continued)

COMPAL ELECTRONICS, INC.

Notes to Financial Statements (Unaudited)

(21) Others

- (a) Employee expenses, depreciation expenses, and amortization expenses for the nine-month periods ended September 30, 2009 and 2008, were as follows:

	Nine-month period ended September 30, 2009			Nine-month period ended September 30, 2008		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee expenses						
Salaries and wages	-	3,557,370	3,557,370	-	3,399,030	3,399,030
Labor and health insurance	-	139,031	139,031	-	110,093	110,093
Pension expense	-	115,334	115,334	-	94,932	94,932
Other	-	162,813	162,813	-	146,994	146,994
Depreciation expenses	-	107,232	107,232	-	100,922	100,922
Amortization expenses	242,006	341,832	583,838	23,835	310,140	333,975

(b) Reclassification

Certain accounts in the financial statements for the nine-month period ended September 30, 2008, have been reclassified to conform to the 2009 presentation. Such reclassification does not have a significant impact on the accompanying financial statements.