

English Translation of a Report and Financial Statements Originally Issued in Chinese

**PixArt Imaging Inc.**

**CONSOLIDATED FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**AS OF DECEMBER 31, 2009 AND 2008  
AND FOR THE YEARS THEN ENDED**

Notice to Readers

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

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

## REPRESENTATION LETTER

The entities included in the consolidated financial statements as of December 31, 2009 and for the year then ended prepared under the R.O.C.'s Statement of Financial Accounting Standards No.7 (referred to as "Consolidated Financial Statements") are the same as the entities to be included in the combined financial statements of the Company, if any to be prepared, pursuant to the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises (referred to as "Combined Financial Statements"). Also, the footnotes disclosed in the Consolidated Financial Statements have fully covered the required information in such Combined Financial Statements. Accordingly, the Company did not prepare any other set of Combined Financial Statements than the Consolidated Financial Statements.

Very truly yours,

PixArt Imaging Inc.

Chairman: Sen-Huang Huang

February 23, 2010

English Translation of a Report Originally Issued in Chinese  
**Independent Auditors' Report**

To the Board of Directors and Shareholders  
of PixArt Imaging Inc.

We have audited the accompanying consolidated balance sheets of PixArt Imaging Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years ended December 31, 2009 and 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China and "Guidelines for Certified Public Accountants' Examination and Reports on Financial Statements", which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PixArt Imaging Inc. and subsidiaries as of December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years ended December 31, 2009 and 2008, in conformity with requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As described in Note 3(2) to the consolidated financial statements, effective January 1, 2008, the Company has adopted Accounting Research and Development Foundation Interpretation No. 2007-052, and recognized employee bonuses and remunerations to directors and supervisors as expenses rather than as a distribution of retained earnings.

As described in Note 3(3) to the consolidated financial statements, effective January 1, 2009, the Company has adopted the amendment of R.O.C. Statement of Financial Accounting Standards No. 10, "Accounting for Inventories".

Ernst & Young  
CERTIFIED PUBLIC ACCOUNTANTS  
February 23, 2010  
Taipei, Taiwan  
Republic of China

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

**PixArt Imaging Inc. And Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**

ASSETS	Notes	As of December 31,		LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	As of December 31,	
		2009	2008			2009	2008
<b>Current assets</b>		NTS'000	NTS'000	<b>Current liabilities</b>		NTS'000	NTS'000
Cash and cash equivalents	2, 4(1)	5,135,820	5,045,377	Notes payable		-	135,383
Notes receivable, net	2, 4(2)	702	-	Accounts payable		188,283	120,349
Accounts receivable, net	2, 4(3)	382,513	328,084	Payables to related parties	5	114,992	103,273
Other receivables	4(4)	25,455	25,812	Income tax payable	2, 4(21)	84,541	54,306
Inventories, net	2, 4(5)	277,081	299,432	Accrued expenses	4(16)	736,132	830,441
Prepayments and other current assets	5	47,626	33,894	Other current liabilities		12,239	6,867
Deferred income tax assets-current	2, 4(21)	4,518	18,544	Total current liabilities		<u>1,136,187</u>	<u>1,250,619</u>
Held to maturity financial assets-current	2, 4(6)	101,367	-				
Total current assets		<u>5,975,082</u>	<u>5,751,143</u>	<b>Other liabilities</b>			
<b>Funds and investments</b>				Accrued pension liabilities	2, 4(11)	5,975	5,975
Held to maturity financial assets-noncurrent	2, 4(7)	461,259	-	Deposits received		694	931
Financial assets measured at cost-noncurrent	2, 4(8)	300,000	300,000	Total other liabilities		<u>6,669</u>	<u>6,906</u>
Total funds and investments		<u>761,259</u>	<u>300,000</u>	Total liabilities		<u>1,142,856</u>	<u>1,257,525</u>
<b>Property, plant and equipment</b>	2, 4(9)			<b>Shareholders' equity</b>			
Buildings and facilities		230,416	207,960	Shareholders' equity attributable to parent company's shareholders			
Research and development equipment		65,910	54,135	Capital	4(12)		
Miscellaneous equipment		78,564	64,556	Common stock		1,298,589	1,245,803
Total cost		374,890	326,651	Capital stock to be registered		50	1,552
Less : Accumulated depreciation		(107,980)	(86,748)	Capital collected in advance		79,117	100
Add : Prepayments for equipment		8,977	7,837	Capital reserve			
Property, plant and equipment, net		<u>275,887</u>	<u>247,740</u>	Additional paid-in capital	4(13)	1,699,702	1,094,772
<b>Intangible assets</b>	2, 4(10)			Donated by shareholders	4(13)	3,816	3,816
Patents		8,078	1,636	Long-term investment transaction	4(13)	106	106
Software		41,313	39,661	Employee stock options	4(13), 4(14)	8,016	18,372
Total intangible assets		<u>49,391</u>	<u>41,297</u>	Retained earnings			
<b>Other assets</b>				Legal reserve	4(15)	594,552	458,582
Leased assets to others, net	2, 4(9)	-	20,989	Undistributed earnings	4(16), 4(21)	2,445,808	2,482,957
Refundable deposits		3,350	1,162	Other adjustments			
Deferred assets	2	7,518	8,966	Cumulative translation adjustments	2	(238)	72
Deferred income tax assets-noncurrent	2, 4(21)	19,211	13,741	Treasury stock	2, 4(17)	(280,834)	(280,834)
Restricted deposits	6	3,000	3,000	Total stockholders' equity of parent company		5,848,684	5,025,298
Total other assets		<u>33,079</u>	<u>47,858</u>	Minority interests		103,158	105,215
<b>Total assets</b>		<u>7,094,698</u>	<u>6,388,038</u>	<b>Total shareholders' equity</b>		<u>5,951,842</u>	<u>5,130,513</u>
				<b>Total liabilities and shareholders' equity</b>		<u>7,094,698</u>	<u>6,388,038</u>

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

**PixArt Imaging Inc. And Subsidiaries**  
**CONSOLIDATED STATEMENTS OF INCOME**

Description	Notes	For the year ended December 31,			
		2009		2008	
		NT\$'000		NT\$'000	
<b>Gross sales</b>		3,755,882		4,809,076	
Less: Sales returns		-2,694		-474	
Sales discounts		<u>(1,676)</u>		<u>(3,731)</u>	
Net sales	2, 4(18)	3,751,512		4,804,871	
<b>Cost of goods sold</b>	3(3), 4(5), 4(19), 5	<u>(2,008,936)</u>		<u>(2,471,007)</u>	
<b>Gross profits</b>		<u>1,742,576</u>		<u>2,333,864</u>	
<b>Operating expenses</b>	4(19), 5				
Selling expenses		(98,530)		(117,951)	
Administrative expenses		(272,503)		(375,073)	
Research and development expenses		<u>(483,786)</u>		<u>(536,738)</u>	
Total operating expenses		<u>(854,819)</u>		<u>(1,029,762)</u>	
<b>Operating income</b>		<u>887,757</u>		<u>1,304,102</u>	
<b>Non-operating income and gains</b>					
Interest income		16,633		78,147	
Foreign exchange gain, net	2	-		29,262	
Rent revenue		2,258		4,124	
Other revenue		<u>1,671</u>		<u>141</u>	
Total non-operating income and gains		<u>20,562</u>		<u>111,674</u>	
<b>Non-operating expenses and losses</b>					
Foreign exchange loss, net	2	(9,193)		-	
Other expenses	2, 4(19)	<u>(221)</u>		<u>(8,514)</u>	
Total non-operating expenses and losses		<u>(9,414)</u>		<u>(8,514)</u>	
<b>Income from continuing operations before income tax</b>		898,905		1,407,262	
<b>Income tax expense</b>	2, 4(21)	<u>(52,623)</u>		<u>(47,244)</u>	
<b>Consolidated net income</b>		<u>846,282</u>		<u>1,360,018</u>	
<b>Attributable to:</b>					
<b>Shareholders of the parent</b>		848,204		1,359,697	
<b>Minority interests</b>		<u>(1,922)</u>		<u>321</u>	
<b>Consolidated net income</b>		<u>846,282</u>		<u>1,360,018</u>	
<b>Earnings Per Share</b>	2, 4(20)				
<b>Basic Earnings Per Share (in New Taiwan Dollars)</b>		<b>Before tax</b>	<b>After tax</b>	<b>Before tax</b>	<b>After tax</b>
Consolidated net income		\$ 7.12	\$ 6.70	\$ 11.28	\$ 10.90
Net income attributable to minority interests		<u>0.01</u>	<u>0.02</u>	<u>-</u>	<u>-</u>
Net income attributable to shareholders of the parent		<u>\$ 7.13</u>	<u>\$ 6.72</u>	<u>\$ 11.28</u>	<u>\$ 10.90</u>
<b>Diluted Earnings Per Share (in New Taiwan Dollars)</b>		<b>Before tax</b>	<b>After tax</b>	<b>Before tax</b>	<b>After tax</b>
Consolidated net income		\$ 6.98	\$ 6.57	\$ 10.89	\$ 10.53
Net income attributable to minority interests		<u>0.01</u>	<u>0.01</u>	<u>-</u>	<u>-</u>
Net income attributable to shareholders of the parent		<u>\$ 6.99</u>	<u>\$ 6.58</u>	<u>\$ 10.89</u>	<u>\$ 10.53</u>

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

## PixArt Imaging Inc. And Subsidiaries

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Description	Common stock	Capital stock to be registered	Capital collected in advance	Capital reserve				Retained earnings		Cumulative translation adjustments	Treasury stock	Total stockholders' equity of parent company	Minority interests	Total shareholders' equity
				Additional paid-in capital	Donated by shareholders	Long-term investment transaction	Employee stock options	Legal reserve	Undistributed earnings					
Balance as of January 1, 2008	NTS'000 1,170,655	NTS'000 185	NTS'000 105	NTS'000 1,091,677	NTS'000 3,816	NTS'000 -	NTS'000 16,081	NTS'000 296,784	NTS'000 2,391,714	NTS'000 -	NTS'000 (7,245)	NTS'000 4,963,772	NTS'000 -	NTS'000 4,963,772
Appropriation and distribution of 2007 earnings:														
Legal reserve	-	-	-	-	-	-	-	161,798	(161,798)	-	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	-	-	-	-	(14,562)	-	-	(14,562)	-	(14,562)
Cash paid for employees' bonuses and Shareholders' dividends	-	-	-	-	-	-	-	-	(1,018,602)	-	-	(1,018,602)	-	(1,018,602)
Capitalization of employees' bonuses	27,000	-	-	-	-	-	-	-	(27,000)	-	-	-	-	-
Capitalization of stock dividends	46,492	-	-	-	-	-	-	-	(46,492)	-	-	-	-	-
Exercise of employee stock options	1,656	1,367	(5)	3,095	-	-	(2,927)	-	-	-	-	3,186	-	3,186
Employee stock options distributed to employees	-	-	-	-	-	-	5,218	-	-	-	-	5,218	-	5,218
Adjustment from changes in the percentage of ownership in investees	-	-	-	-	-	106	-	-	-	-	-	106	-	106
Treasury stock repurchased	-	-	-	-	-	-	-	-	-	-	(273,589)	(273,589)	-	(273,589)
Net income attributable to parent company for 2008	-	-	-	-	-	-	-	-	1,359,697	-	-	1,359,697	-	1,359,697
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	72	-	72	-	72
Increase in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	105,215	105,215
Balance as of December 31, 2008	1,245,803	1,552	100	1,094,772	3,816	106	18,372	458,582	2,482,957	72	(280,834)	5,025,298	105,215	5,130,513
Appropriation and distribution of 2008 earnings (Note) :														
Legal reserve	-	-	-	-	-	-	-	135,970	(135,970)	-	-	-	-	-
Cash paid for Shareholders' dividends	-	-	-	-	-	-	-	-	(737,098)	-	-	(737,098)	-	(737,098)
Capitalization of stock dividends	12,285	-	-	-	-	-	-	-	(12,285)	-	-	-	-	-
Capitalization of employees' bonuses	22,833	-	-	388,612	-	-	-	-	-	-	-	411,445	-	411,445
Issuance of common stock for cash	15,000	-	-	204,030	-	-	-	-	-	-	-	219,030	-	219,030
Exercise of employee stock options	2,668	(1,502)	79,017	12,288	-	-	(12,288)	-	-	-	-	80,183	-	80,183
Employee stock options distributed to employees	-	-	-	-	-	-	1,932	-	-	-	-	1,932	-	1,932
Net income attributable to parent company for 2009	-	-	-	-	-	-	-	-	848,204	-	-	848,204	-	848,204
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	(310)	-	(310)	-	(310)
Increase in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(2,057)	(2,057)
Balance as of December 31, 2009	1,298,589	50	79,117	1,699,702	3,816	106	8,016	594,552	2,445,808	(238)	(280,834)	5,848,684	103,158	5,951,842

(Note) : Profit sharing to employees and bonus to directors in the amount of NTS456,445 thousand and NTS12,240 thousand, had been charged against earnings of 2008.

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

**PixArt Imaging Inc. And Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Description	For the year ended December 31,	
	2009	2008
	NTS'000	NTS'000
<b>Cash flows from operating activities:</b>		
Consolidated net income	846,282	1,360,018
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation (including leased assets)	20,778	19,460
Amortization	31,624	30,855
Amortization of financial assets discount or premium	3,138	-
Employee stock options distributed to employees	1,932	5,218
Provision (reversal) of allowance for loss on decline in market value and obsolescence of inventories	(57,928)	83,871
Deferred income tax	8,556	(7,823)
Changes in operating assets and liabilities:		
Notes receivable	(702)	160
Accounts receivable	(54,429)	72,615
Other receivables	357	(9,650)
Inventories	80,279	136,041
Prepayments and other current assets	(13,732)	(25,469)
Notes payable	(135,383)	(25,193)
Accounts payable	67,934	(80,537)
Payables to related parties	11,719	(68,082)
Income tax payable	30,235	29,636
Accrued expenses	317,136	504,097
Other current liabilities	5,372	4,403
Accrued pension liabilities	-	543
Net cash provided by operating activities	<u>1,163,168</u>	<u>2,030,163</u>
<b>Cash flows from investing activities :</b>		
Increase in held to maturity financial assets	(565,764)	-
Purchase of property, plant and equipment	(27,959)	(19,365)
Proceeds from disposal of property, plant and equipment	23	-
Increase in intangible assets	(32,345)	(31,482)
Increase in refundable deposits	(2,188)	(809)
Increase in deferred assets	(5,925)	(7,399)
Net cash used in investing activities	<u>(634,158)</u>	<u>(59,055)</u>
<b>Cash flows from financing activities :</b>		
Decrease in deposits received	(237)	(89)
Directors' and supervisors' remuneration	-	(14,562)
Shareholders' dividends	(737,098)	(906,602)
Employees' bonuses	-	(112,000)
Issuance of common stock for cash	219,030	-
Exercise of employee stock options	80,183	3,186
Treasury stock repurchased	-	(273,589)
(Decrease) increase in minority interest	(135)	105,000
Net cash used in financing activities	<u>(438,257)</u>	<u>(1,198,656)</u>
Effect of exchange rate changes	(310)	72
Net increase in cash and cash equivalents	90,443	772,524
Cash and cash equivalents at the beginning of the year	<u>5,045,377</u>	<u>4,272,853</u>
Cash and cash equivalents at the end of the year	<u>5,135,820</u>	<u>5,045,377</u>
<b>Supplemental disclosures of cash flow information:</b>		
Income tax paid during the year	<u>14,048</u>	<u>25,414</u>
<b>Non-cash activities :</b>		
Stock dividends and employees' bonuses capitalized (including additional paid-in capital)	<u>423,730</u>	<u>73,492</u>

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

English Translation of Financial Statements Originally Issued in Chinese

**PixArt Imaging Inc. And Subsidiaries**

**Notes To Financial Statements**

1. HISTORY AND ORGANIZATION

PixArt Imaging Inc. (the "Company") was incorporated under the Company Law of the Republic of China in July 13, 1998. The numbers of employees as of December 31, 2009 and 2008 were 185 and 172, respectively. The main activities of the Company are in CMOS image sensor and related IC design, research, production, and sales.

The Company's shares were previously registered and traded as the "Emerging Stock" on Taiwan's GreTai Securities Market (formerly known as OTC Market) starting July 2003 and have been listed and publicly traded on the OTC Market since May 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in conformity with requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (R.O.C.).

Summary of significant accounting policies is as follows:

General Descriptions of Reporting Entities

(1) Overview of Consolidation

Investees in which the Company, directly or indirectly, holds more than 50% of voting rights or less than 50% of voting rights but has de facto control, are accounted for under the equity method and consolidated into the Company's financial statements. The consolidated entities are as follows:

A. The parent company: PixArt Imaging Inc. (the "Company")

B. The consolidated subsidiaries are listed as follows:

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**PixArt Imaging Inc. And Subsidiaries**

**Notes To Financial Statements (Continued)**

As of December 31, 2009

<u>Investor</u>	<u>Subsidiary</u>	<u>Nature of business</u>	<u>Percentage of ownership (%)</u>	<u>Note</u>
The Company	Pixart International (BVI) Ltd.	Investment activities	100	-
The Company	Pixart International (SAMOA) Ltd.	Investment activities	100	-
Pixart International (SAMOA) Ltd.	Yuan Xiang Investment Corp.	Investment activities	100	-
The Company	Yuan-Xiang Investment Corp.	Investment activities	100	-
The Company	Yuan-Feng Investment Corp.	Investment activities	100	-
Yuan-Xiang Investment Corp.	PrimeSensor Technology Inc.	IC design	20	1
Yuan-Feng Investment Corp.	PrimeSensor Technology Inc.	IC design	10	1
Pixart International (BVI) Ltd.	YuanXiang Technology (SAMOA) Ltd.	Investment activities	100	-
PrimeSensor Technology Inc.	YuanSheng Investment (SAMOA) Ltd.	Investment activities	100	-
PrimeSensor Technology Inc.	PrimeSensor Technology (SAMOA) Ltd.	Investment activities	100	-
YuanXiang Technology (SAMOA) Ltd.	PrimeSensor Japan Inc.	Technical Support activities	70	-
YuanSheng Investment (SAMOA) Ltd.	PrimeSensor Japan Inc.	Technical Support activities	30	-

As of December 31, 2008

<u>Investor</u>	<u>Subsidiary</u>	<u>Nature of business</u>	<u>Percentage of ownership (%)</u>	<u>Note</u>
The Company	Pixart International (BVI) Ltd.	Investment activities	100	-
The Company	Pixart International (SAMOA) Ltd.	Investment activities	100	-
The Company	Yuan-Xiang Investment Corp.	Investment activities	100	-
The Company	Yuan-Feng Investment Corp.	Investment activities	100	-
Pixart International (SAMOA) Ltd.	Yuan Xiang Investment Corp.	Investment activities	100	-
Yuan-Xiang Investment Corp.	PrimeSensor Technology Inc.	IC design	20	-
Yuan-Feng Investment Corp.	PrimeSensor Technology Inc.	IC design	10	-

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**PixArt Imaging Inc. And Subsidiaries**

**Notes To Financial Statements (Continued)**

Note1: The Company has held less than 50% of voting rights in PrimeSensor Technology Inc. However the Company has de facto control as the Company has power to control the financial, operational and human resources activities of PrimeSensor Technology Inc. PrimeSensor Technology Inc. was included as a subsidiary in the Company's consolidated financial statements for the year ended December 31, 2009.

C. All subsidiaries of the Company have been included as consolidated entities in the consolidated financial statements.

(2) Principles of Consolidation

A. The consolidated financial statements were prepared in accordance with SFAS No. 7. The transactions between the consolidated entities were appropriately eliminated in the consolidated financial statements.

B. Investees in which the Company and subsidiaries hold more than 50% of voting rights, including those that are exercisable or convertible, are accounted for under the equity method and shall be consolidated, since the Company and subsidiaries are considered to possess control. An entity shall also be consolidated if any of the following circumstances exists:

- a. The total amount of voting rights held by the investee exceeds 50% due to agreement with other investors;
- b. As permitted by law, or by contract agreements, the Company controls an entity's finances, operations and human resources;
- c. The Company has authority to appoint or discharge more than half members of board of directors (or equivalents), by whom the investee is controlled;
- d. The Company leads and controls more than half of the members of the board of directors(or equivalents), by whom the investee is controlled;
- e. Other indications of control possession.

(3) Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity date that they are subject to an insignificant risk of changes in value from fluctuations in interest rates. Commercial papers, negotiable certificates of deposit, and bank acceptances with original maturities of three months or less are considered to be cash equivalents.

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**PixArt Imaging Inc. And Subsidiaries**

**Notes To Financial Statements (Continued)**

(4) Foreign Currency Transactions and Translation of Financial Statements denominated in Foreign Currency

- A. The Company maintains its accounting records in New Taiwan dollars ("NT Dollars" or "NT\$"), the national currency of the R.O.C. Transactions denominated in foreign currencies are recorded in NT Dollars using the exchange rates in effect at the dates of the transactions. Non-derivative transactions denominated in foreign currencies are recorded in NT Dollars using the exchange rates in effect at the dates of the transactions. When a transaction is settled in a subsequent accounting period, the monetary assets and liabilities denominated in foreign currencies are remeasured on the balance sheet date using the exchange rates prevailing as at that date, with the resulting exchange gains or losses included in earnings.
- B. The assets and liabilities of the foreign subsidiaries are translated into NT Dollars, with the local currency of each foreign subsidiary as its functional currency, at current exchange rates in effect at the balance sheet date. Shareholders' equity accounts should be translated at the historical rate except for the beginning balance of the retained earnings, which is the translated amount from the last period carried forward. Dividends are translated at the spot rate of the declaration date. The financial statements of foreign operations are translated into New Taiwan Dollars using the weighted average exchange rates for profit and loss accounts. The accumulated exchange gains or losses resulting from the translation, after adjusting for percentage of ownership, are recorded in the cumulative translation adjustment in stockholders' equity.

(5) Financial Assets and Financial Liabilities

- A. Financial asset or liability is recognized on the balance sheet when the Company becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets are recognized using either trade date accounting on equity instrument or settlement date accounting on debt security, beneficiary certificate and derivative instrument. As to accounting for de-recognition of financial assets and liabilities, the Company adopted the R.O.C. SFAS No. 33, "Accounting for Transfers of Financial Assets and Extinguishment of Liability".
- B. Upon initial recognition of financial assets or financial liabilities, they shall be measured at fair value. In the case of a financial asset or financial liability at fair value not through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities shall be included as well.

**Notes To Financial Statements (Continued)**

C. Financial assets or financial liabilities are classified as follows:

a. Financial assets measured at cost

Unlisted stock, funds, and other securities without reliable market prices are measured at cost. They are either holdings in unquoted equity instrument or emerging stocks that the Company has no material influence on or derivative assets that are linked to and must be settled by delivery of the abovementioned unquoted equity instruments. When objective evidence of impairment exists, the Company recognizes an impairment loss, which cannot be reversed in subsequent periods.

b. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets if the Company has both the positive intention and ability to hold the financial assets to maturity. Investments intended to be held to maturity are measured at amortized cost. The Company recognizes an impairment loss if objective evidence of impairment loss exists. However, the impairment loss may be reversed if the value of asset recovers subsequently and the Company concludes the recovery is related to improvements in events or factors that originally caused the impairment loss. The new cost basis as a result of the reversal cannot exceed the amortized cost prior to the impairment.

c. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as in any of the preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity. When the investment is derecognized, the cumulative gain or loss previously recorded in equity is recognized in profit or loss.

If there is objective evidence which indicates that the investment is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

**Notes To Financial Statements (Continued)**

An available-for-sale financial asset that would have met the definition of loans and receivables may be reclassified as the bond portfolios with no active market if the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The financial instrument shall be reclassified at its fair value on the date of reclassification. Any gain or loss already recognized as adjustment to stockholder's equity shall be amortized and charge to current income. The fair value of the financial instrument on the date of reclassification becomes its new cost or amortized cost, as applicable.

The fair value for publicly traded securities or close-ended funds is based on closing prices at the balance sheet date, while those of open-ended funds are determined based on net assets value of the balance sheet date. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active market exists for its component parts, fair value is determined on the basis of the relevant market price for the component part.

(6) Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided based on management's judgment of the collectibility and aging analysis of accounts and other receivables as at balance sheet date.

(7) Inventories

Inventories are accounted for on a perpetual basis. Raw materials are recorded at actual purchase costs, while the work in process and finished goods are adjusted to costs using the weighted-average method at the end of each month.

Prior to December 31, 2008, inventories were stated at the lower of aggregate cost or market value as of the balance sheet date. The market values of raw materials and supplies are determined on the basis of replacement cost while the market values of work in process and finished goods are determined by net realizable values.

Effective January 1, 2009, inventories are valued at the lower of cost and net realizable value item by item. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

**Notes To Financial Statements (Continued)**

(8) Property, Plant and Equipment

- A. Property, plant and equipment are stated at cost. Significant improvements and replacements are capitalized and depreciated over their estimated useful lives while ordinary repairs and maintenance are expensed as incurred. Interest expenses incurred in the period of such property, plant and equipment in construction or installation will be capitalized. When property, plant and equipment are disposed of, their original cost and accumulated depreciation are written off. Gains or losses on disposal of property, plant and equipment are reported under non-operating income or expenses. Equipments for lease are reclassified as leased assets to others based on its book value. Depreciation derived from leased assets to others at book value is recorded under non-operating expenses.
- B. Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line basis over the following useful lives (The salvage value of property, plant and equipment that continues to be in use after reaching its originally estimated useful life shall be depreciated over its estimated remaining useful life).

Buildings and facilities	50	years
Research and development equipment	3	years
Miscellaneous equipment	2 to 10	years
Lease Assets	50	years

(9) Intangible Assets

- A. Software, patents and other separately identifiable intangibles with finite lives are stated at cost and amortized on a straight-line basis over the following useful lives:

Software	3 to 5	Years
Patents and Others	3 to 5	Years

The Company will reassess the useful lives and the amortization method of its recognized intangible assets at the end of each reporting period. If there is any change to be made, it will be treated as change of accounting estimation.

- B. Expenditures related to research activities as well as those expenditures not meeting the criteria for capitalization are expensed when incurred. Expenditures related to development activities meeting the criteria for capitalization are capitalized.

**Notes To Financial Statements (Continued)**

(10) Deferred Assets

Deferred charges are stated at cost and amortized on a straight-line basis over their estimated economic lives, normally 2 years.

(11) Asset Impairment

Pursuant to R.O.C. SFAS No. 35, "Accounting for Assets Impairment", the Company is required to perform (1) impairment testing on goodwill annually; (2) impairment testing for intangible assets which have indefinite lives or are not available for use annually; and (3) evaluating whether indicators of impairment exist for assets subject to guidelines set forth under the Statement. The Statement requires that such assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable.

Impairment losses shall be recognized when the carrying amount exceeds the recoverable amount. Impairment losses on goodwill shall not be reversed subsequently. For assets other than goodwill impaired in prior periods, if 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 can be reversed to the extent of the impaired amount. The reversal may not result in a carrying amount that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

(12) Revenue Recognition

Revenue is recognized in accordance with R.O.C. Statement of Financial Accounting Standards No. 32, "Accounting for Revenue Recognition."

(13) Capital expenditures vs. revenue expenditures

An expenditure is capitalized if it increases the future service potential of the assets and the purchase price exceeds a certain monetary threshold. Otherwise, expenditures are expensed as incurred.

(14) Pension plan

A. All regular employees are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited in the committee's name in the Taiwan Bank and, hence, are not associated with or controlled by the Company. Therefore, fund assets are not included in the Company's financial statements. Pension benefits for employees of the subsidiaries are provided in accordance with the relevant local regulations.

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**Notes To Financial Statements (Continued)**

- B. The Labor Pension Act of the R.O.C. (“the Act”), which is accounted for as a defined contribution plan, became effective July 1, 2005. Employees covered by the Labor Standards Law (“the Law”), which is accounted for as a defined benefit plan, were allowed to either elect the pension calculation under the Act or continue to be subject to the pension scheme under the Law. Those employees who elect to be under the Act will retain their seniority achieved under the Labor Standards Law. Under the Act, the Company will make monthly contributions at no less than 6% of these employees’ monthly wages to the employees’ individual pension accounts.
- C. The accounting for the Company’s pension liability is computed in accordance with R.O.C. SFAS No.18. Net pension costs of the defined benefit plan are recorded based on actuarial valuations. Pension cost components such as service cost, interest cost, expected return on plan assets, the amortization of net obligation at transition, pension gain or loss, and prior service cost, are all taken into consideration. Net transition obligations from the plan assets are amortized using the straight-line method over the employees’ expected average remaining service period of 15 years. The Company recognizes expenses from the defined contribution pension plan in the period when the contribution becomes due.

(15) Income taxes

- A. The Company adopted R.O.C. SFAS No. 22, “Accounting for Income Taxes” for inter-period and intra-period income tax allocation. Under the Statement, the tax effects of taxable temporary differences are recognized as deferred income tax liabilities while those of deductible temporary differences, loss carry-forward, and investment tax credits are recognized as deferred income tax assets. A valuation allowance on deferred income tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, its classification is based on the expected reversal date of the temporary difference.
- B. Income tax (10%) on un-appropriated earnings is recorded as an expense in the year following current fiscal year on the portion that the shareholders resolve the earnings not to be distributed.

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**Notes To Financial Statements (Continued)**

- C. According to R.O.C. SFAS No. 12, “Accounting for Income Tax Credits”, the Company recognizes the tax benefit from the purchase of equipment and technology, research and development expenditure, employee training, and certain equity investment using the flow-through method.
- D. The Income Basic Tax Act of the R.O.C. (the IBTA) became effective on January 1, 2006. Set up by the Executive Yuan, the IBTA is a supplemental 10% tax that is payable if the income tax payable determined under the R.O.C. Income Tax Act is below the minimum amount as prescribed by the IBTA. The IBTA is calculated based on taxable income as defined by the IBTA, which includes most income that is exempted from income tax under various legislations. The impact of the IBTA has been considered in the calculation of the Company’s income tax for the current reporting period.

(16) Earnings Per Share

Earnings per share are computed according to R.O.C. SFAS No. 24, “Earnings per Share.”

(17) Treasury Stock

In accordance with R.O.C. SFAS No. 30, “Accounting for Treasury Stock”, treasury stock held by the Company is accounted for under the cost method. When treasury stock is retired, the treasury stock account is credited and all capital account balances related to the treasury shares, including capital reserve - treasury stock transactions, are reduced on a proportionate basis. Any difference, if on credit side, is recorded in capital reserve - treasury stock transactions; if on debit side, retained earnings is reduced.

(18) Employee Stock Option

The Company used intrinsic value method to recognize compensation cost for its employee stock options issued between January 1, 2004 and December 31, 2007, in accordance with Accounting Research and Development Foundation interpretation Nos. 2003-070~072. Under the method, the excess of the market price over exercise price at the plan date is adjusted under shareholders’ equity and expensed over vesting periods. Disclosure of pro forma information for net income and earnings per share using fair value method is required.

For stock options granted on or after January 1, 2008, the Company recognizes compensation cost using the fair value method in accordance with R.O.C. SFAS No. 39 “Accounting for Share-Based Payment.” In accordance with R.O.C. SFAS No. 39, share-based payment transaction shall be measured by reference to the fair value of the equity instruments at the date when they are granted. The fair value is determined by an external appraisal using an appropriate pricing model.

**Notes To Financial Statements (Continued)**

The Company enters into equity-settled share-based payment transaction only with its employees. Pursuant to R.O.C. SFAS No. 39, the goods or services received under such transaction, and the corresponding increase in equity, shall be measured by reference to the fair value of the equity instruments granted. If there is no limitation or condition to the vesting of equity instrument, the equity instrument is deemed to vest at the grant date. The employee compensation costs and a correspondent equity are recognized then. If the equity instrument is vested over a certain period of time, the employee compensation costs shall be recognized over that period with a corresponding increase in equity.

In valuing the fair value of the equity instrument granted, no account is taken of any vesting conditions other than market conditions. Instead, non-market vesting conditions shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount, so that, ultimately, the amount recognized for goods or services received as consideration for the equity instruments granted shall be based on actual number of equity instruments that eventually vest. For grants of equity instruments with market conditions, the Company shall recognize the goods or services received from a counterparty that satisfies all other vesting conditions, irrespective of whether the market condition is satisfied.

(19) Employee Bonuses and Remunerations Paid to Directors and Supervisors

In accordance with Accounting Research and Development Foundation interpretation No. 2007-052 effective January 1, 2008, employee bonuses and remunerations paid to directors and supervisors are charged to income statements at fair value.

3. REASONS AND EFFECTS FOR ACCOUNTING CHANGES

(1) Effective from January 1, 2008, the Company adopted R.O.C. SFAS No. 39, “Accounting for Share-Based Payment” to account for share-based payments transactions. This change in accounting principles has no significant impact on consolidated net income and EPS for the year then ended December 31, 2008.

(2) Effective January 1, 2008, the Company adopted Accounting Research and Development Foundation interpretation No. 2007-052 to account for employee bonuses and remunerations paid to directors and supervisors.

(3) Effective January 1, 2009, the Company adopted the newly revised ROC SFAS No. 10, “Accounting for Inventories”. The main revision is as follows:

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**Notes To Financial Statements (Continued)**

- a. Inventories are valued at the lower of cost and net realizable value item by item;
- b. Unallocated overheads resulted from low production or idle capacity are recognized as costs of goods sold in the period in which they are incurred; and
- c. Abnormal amounts of production cost and loss on decline in the market value of inventories (or gains on recovery in market value of inventories) are recognized as cost of goods sold.

Such changes in accounting principle did not have significant impacts on the consolidated financial statements for the year ended December 31, 2009. The non-operating income of NT\$3,085 thousand and the non-operating expense of NT\$83,871 thousand for the year ended December 31, 2008 were reclassified to cost of goods sold accordingly.

**4. CONTENTS OF SIGNIFICANT ACCOUNTS**

(1) Cash and Cash Equivalents

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
Cash	79	50
Savings and checking	360,863	182,495
Time deposit	4,450,000	4,535,000
Cash equivalents-CP-Repo	324,878	327,832
Total	<u>5,135,820</u>	<u>5,045,377</u>

(2) Notes Receivable

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
Notes receivable	702	-
Less: Allowance for doubtful accounts	-	-
Net	<u>702</u>	<u>-</u>

(3) Accounts Receivable

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
Accounts receivable	407,907	353,478
Less: Allowance for doubtful accounts	(19,570)	(19,570)
Allowance for sales discounts	(5,824)	(5,824)
Net	<u>382,513</u>	<u>328,084</u>

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**Notes To Financial Statements (Continued)**

(4) Other Receivables

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
VAT refundable	15,363	17,900
Interest receivable	5,560	7,909
Other receivables	4,532	3
<b>Total</b>	<b>25,455</b>	<b>25,812</b>

(5) Inventories

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
Raw materials	21,939	6,149
Supplies	5,976	10,963
Work in process	166,054	208,192
Finished goods	117,888	189,911
<b>Total</b>	<b>311,857</b>	<b>415,215</b>
Less: Allowance for loss on decline in market value and obsolescence	(34,776)	(115,783)
<b>Net</b>	<b>277,081</b>	<b>299,432</b>

Because of disposal of inventories, the Company recorded a gain of NT\$57,928 thousand on recovery of market value of inventories during the year ended December 31, 2009. The inventory loss provision of NT\$83,871 thousand for the year ended December 31, 2008 were reclassified for cost of goods sold.

(6) Held to maturity financial assets-current

Investment items	December 31, 2009	
	Shares/units	Amounts (NT\$'000)
94 Taiwan Power 3A04 corporate bond	100	101,367

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**Notes To Financial Statements (Continued)**

(7) Held to maturity financial assets-noncurrent

Investment items	December 31, 2009	
	Shares/units	Amounts (NT\$'000)
95 Formosa Plastics Corp. No.2 corporate bond	50	50,640
95 Formosa Plastics Corp. No.1 corporate bond	100	102,160
90 Formosa Petrochemical co. 2B06 corporate bond	100	103,843
95 Taiwan Power 1A corporate bond	100	101,860
95 CPC 1A corporate bond	100	102,756
		<u>461,259</u>

(8) Financial assets measured at cost-noncurrent

Investee Company	As of December 31,			
	2009	Ownership	2008	Ownership
	NT\$'000	%	NT\$'000	%
Shieh Yong Investment Co., Ltd.	300,000	4.55	300,000	4.55

(9) Property, Plant and Equipment

a. No interest was capitalized for the years ended December 31, 2009 and 2008.

b. The Company had leased part of its buildings and facilities since 2005, which were recorded under leased assets as below. The Company cancelled the lease and utilized the underlying buildings and facilities by its own starting July 1, 2009.

Items	For the year ended December 31,	
	2009	2008
	NT\$'000	NT\$'000
Buildings and facilities	-	22,457
Less : Accumulated depreciation	-	(1,468)
Leased assets to others, net	-	<u>20,989</u>

(10) Intangible Assets

	As of December 31, 2009		
	Patents	Software	Total
Original cost	NT\$'000	NT\$'000	NT\$'000
Balance at beginning of period	1,900	61,314	63,214
Increase – separately acquired	4,207	28,138	32,345
Decrease – disposed	-	(9,741)	(9,741)
Reclassification	6,834	(6,834)	-
Balance at end of period	<u>12,941</u>	<u>72,877</u>	<u>85,818</u>

(To be continued)

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**Notes To Financial Statements (Continued)**

(Continued)	As of December 31, 2009		
	Patents	Software	Total
Accumulated amortization			
Balance at beginning of period	264	21,653	21,917
Increase – amortization	3,460	20,791	24,251
Decrease – disposed	-	(9,741)	(9,741)
Reclassification	1,139	(1,139)	-
Balance at end of period	4,863	31,564	36,427
Net	8,078	41,313	49,391

	As of December 31, 2008		
	Patents	Software	Total
Original cost	NT\$'000	NT\$'000	NT\$'000
Balance at beginning of period	47,522	40,959	88,481
Increase – separately acquired	1,900	29,582	31,482
Decrease – disposed	(47,522)	(9,227)	(56,749)
Balance at end of period	1,900	61,314	63,214
Accumulated amortization			
Balance at beginning of period	39,602	15,076	54,678
Increase – amortization	8,184	15,804	23,988
Decrease – disposed	(47,522)	(9,227)	(56,749)
Balance at end of period	264	21,653	21,917
Net	1,636	39,661	41,297

(11) Pension Fund

- a. The Company periodically made contribution to a fiduciary account in Bank of Taiwan for its defined benefit pension plan. The fund balances were NT\$10,292 thousand and NT\$9,156 thousand as of December 31, 2009 and 2008, respectively. The total pension expenses, including net pension cost under the old Standard Labor Law and the pension expenses under the new Labor Pension Act, totaled to NT\$10,488 thousand and NT\$9,509 thousand for the years ended December 31, 2009 and 2008, respectively. The pension expenses under the Labor Pension Act amounted to NT\$9,659 thousand and NT\$7,886 thousand, respectively.

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**Notes To Financial Statements (Continued)**

b. Pension cost:

	For the year ended December 31,	
	2009	2008
<u>The old Standard Labor Law</u>	NT\$'000	NT\$'000
Service cost	309	761
Interest cost	215	637
Expected return on plan assets	(229)	(235)
Amortization	(385)	460
Net periodic pension cost	(90)	1,623
Over-accrual	919	-
Net periodic pension cost	829	1,623
<u>The new Labor Pension Act</u>		
Pension expenses	9,659	7,886
Total	10,488	9,509

c. The funding status of pension plan under old regulation was summarized as follows:

	As of December 31,	
	2009	2008
Benefit obligation	NT\$'000	NT\$'000
Vested benefit obligation	-	-
Non-vested benefit obligation	(5,878)	(4,434)
Accumulated benefit obligation	(5,878)	(4,434)
Effect on projected salary increase	(11,580)	(4,179)
Projected benefit obligation	(17,458)	(8,613)
Fair value of plan assets	10,292	9,156
Funded status	(7,166)	543
Unrecognized net transitional benefit obligation	843	963
Unrecognized loss (gain)	1,379	(7,481)
Accrued pension liabilities	(4,944)	(5,975)
Over-accrual	(1,031)	-
Accrued pension liabilities	(5,975)	(5,975)

d. The vested benefit was nil as of December 31, 2009 and 2008.

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**Notes To Financial Statements (Continued)**

e. The actuarial assumptions are as follows:

	<u>For the year ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Discount rate	2.25%	2.50%
Rate of salary increase	5.00%	3.00%
Expected return on plan assets	2.25%	2.50%

(12) Common Stock

As of January 1, 2008, the Company's authorized common stock amounted to NT\$1,500,000 thousand, divided into 150,000,000 shares (including 7,500,000 shares reserved for exercises of employee stock options) and each share at par value of NT\$10. The Company issued common stock amounted to NT\$1,170,655 thousand (including NT\$185 thousand which were recorded under Common stock to be registered).

In the shareholders' general meeting on June 13, 2008, the Company amended its Articles of Incorporation to increase the reserve for the grant of employees' options to 10,000,000 shares. The shareholders also approved the capitalization of shareholders' dividend of NT\$46,492 thousand and employees' bonus of NT\$27,000 thousand by issuing 7,349,241 new shares, each share at par value of NT\$10. The capitalization date was at August 26, 2008 and the governmental approval has been successfully obtained.

Based on the resolution of shareholders' general meeting on April 30, 2009, the Company resolved to issue 3,511,788 new shares, each share at par value of NT\$10, for the capitalization of shareholders' dividend of NT\$12,285 thousand and employees' bonus of NT\$411,445 thousand. The capitalization date was set on September 1, 2009 and the government approval has been successfully obtained.

On April 30, 2009, the board of the directors of the Company was authorized by the shareholders' meeting to issue new shares from private placement in total shares at no more than 2,000 thousand shares. The issuance can be at one time or multiple times starting from the approval day. The actual issue date and the issue price can be determined based on the investors and market conditions. Accordingly, on July 22, 2009, the Company issued 1,500 thousand new shares from private placement amounting to NT\$219,030 thousand, each at a par value on NT\$10 while the private placement price per share was on NT\$146.02. The government approval has been successfully obtained.

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**Notes To Financial Statements (Continued)**

Due to the exercise of employees' stock options granted, additional 301,722 common shares (including 10,000 shares of capital collected in advance) were issued for the year ended December 31, 2008. The governmental approval has been successfully obtained. For the year ended December 31, 2009, additional 533,598 common shares were issued at par value of NT\$10 for the exercise of employees' stock options granted. As of December 31, 2009, 5,000 shares have been issued but not yet registered. They were recorded under the caption of common shares to be registered at par value of NT\$50 thousand. Meanwhile, the Company has received subscription of NT\$79,117 thousand from exercise of employee options for 427,000 shares, which was recorded under capital collected in advance as of December 31, 2009 due the underlying shares have not yet been issued.

As of December 31, 2009, the Company's authorized common stock amounted to NT\$1,500,000 thousand, divided into 150,000,000 shares (including 10,000,000 shares reserved for exercises of employee stock options) each share at par value of NT\$10. The Company issued common stock amounted to NT\$1,377,756 thousand (including NT\$1,298,589 thousand of common stocks, NT\$50 thousand recorded under common stock to be registered and NT\$ 79,117 thousand recorded under capital collected in advance).

(13) Capital Reserve

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
Additional paid-in capital	1,699,702	1,094,772
Donated by shareholders	3,816	3,816
Long-term equity investment	106	106
Employee stock options	8,016	18,372
Total	<u>1,711,640</u>	<u>1,117,066</u>

According to the R.O.C. Company Law, capital reserve can only be used for making up losses or reclassifying to paid-in capital using only balances in additional paid-in capital or donated assets. The Company shall not use capital reserve to make up its loss unless legal reserve is insufficient for making good such losses.

The Company issued 2,283,292 new shares at par value of NT\$10 for the capitalization of employees' bonus of NT\$411,445 thousand and generated paid in capital in excess of par value in amount of NT\$388,612 thousand. Please refer to Note 4(12) to the financial statements.

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**Notes To Financial Statements (Continued)**

(14) Employee Stock Options

The options are valid for six years and exercisable at certain percentage subsequent to the second anniversary from the granted date. Detailed information relevant to the employee stock options is disclosed as follows:

Date of grant	Total number of options granted (in thousands)	Total number of options outstanding (in thousands)	Shares Available for option holders (in thousands)	Exercise price (NTD) (Remark)
2005.11.24	440	72.5	72,500	10.0
2006.01.16	110	7.5	7,500	10.0
2006.02.24	30	7.5	7,500	10.0
2006.04.11	225	60.5	60,500	10.0
2007.12.27	5,000	3,888	3,888,000	193.9

Remark: The shares available for option holders are subject to adjustments in accordance with the plan in the event that changes to the capital structure might occur.

The Company used the intrinsic value method to recognize compensation cost for its employee stock options, which are classified as equity-settled share-based payment transaction and issued between 2004 and 2007, in accordance with Accounting Research and Development Foundation interpretation Nos. 2003-070~072. Employees' stock options granted between 2005 and 2006 were accounted for under intrinsic value method. Accordingly, the Company provides NT\$1,932 thousand and NT\$5,218 thousand of compensation expense for the years ended December 31, 2009 and 2008, respectively. Because the exercise price at the plan date for stock option plan of 2007 was close to the market price, the Company provided no compensation expense under the intrinsic value method.

The respective information of the units and weighted average exercise prices for stock option plans of the Company is disclosed as follows:

	For the year ended December 31, 2009	
	Options (in thousand units)	Weighted-average Exercise Price per share (NTD)
Outstanding at beginning of period	4,826.5	192.9
Granted	-	-
Exercised	(542)	148.1
Expired	(248.5)	180.9
Outstanding at end of period	4,036	187.2
Exercisable at end of period	1,836	
Weighted-average fair value of options granted during the period (in NTD)	-	

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**Notes To Financial Statements (Continued)**

	For the year ended December 31, 2008	
	Options (in thousand units)	Weighted-average Exercise Price per share (NTD)
Outstanding at beginning of period	5,622	202.7
Granted	-	-
Exercised	(251.5)	10.7
Expired	(544)	192.0
Outstanding at end of period	<u>4,826.5</u>	192.9
Exercisable at end of period	<u>78</u>	
Weighted-average fair value of options granted during the period (in NTD)	<u>-</u>	

Information for options granted after January 1, 2004 are as follows:

Year	Outstanding Stock Options				Exercisable Stock Options	
	Range of Exercise Price (NTD)	Options (Unit)	Weighted- average Expected Remaining Years	Weighted- average Exercise Price per share (NTD)	Options (Unit)	Weighted- average Exercise Price per share (NTD)
Stock option plan of 2005	10	72.5	0.17	10	72.5	\$10
Stock option plan of 2006	10	75.5	0.49	10	23.0	10
Stock option plan of 2007	193.9	3,888.0	2.25	193.9	1,740.5	193.9
Total		<u>4,036.0</u>	2.18	187.2	<u>1,836.0</u>	184.3

The fair value of the options outstanding as of December 31, 2009 and 2008 were estimated at the date of grant using the Black-Scholes options pricing model. The Company's pro-forma information is set forth as follows:

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	For the year ended December 31,	
	2009	2008
Net income-as reported (NT\$'000)	848,204	1,359,697
Basic earnings per share-as reported (NT\$)	6.72	10.90
Diluted earnings per share -as reported (NT\$)	6.58	10.53
Net income-pro forma (NT\$'000)	723,105	1,221,596
Basic earnings per share-pro forma (NT\$)	5.73	9.79
Diluted earnings per share -pro forma (NT\$)	5.61	9.46

Pro forma information under fair value method using Black-Scholes Option Pricing Model is as follows:

	Employee stock option plan in 2005	First employee stock option plan in 2006	Second employee stock option plan in 2006	Third employee stock option plan in 2006	Employee stock option plan in 2007
Expected dividend yield	1.58%	1.52%	1.90%	1.58%	3.09%
Expected volatility	103.54%	119.69%	131.54%	147.96%	48.40%
Risk free interest rate	1.63%	1.63%	1.63%	1.63%	2.625%
Expected life	4.25 years	4.25 years	4.25 years	4.25 years	4.25 years

(15) Legal Reserve

According to the R.O.C. Company Law, 10% of the Company's net income, after deducting previous years' losses, if any, shall be appropriated for legal reserve prior to any distribution, until such reserve is equal to the Company's paid-in capital. When legal reserve has reached 50% of paid-in capital, 50% of such reserve may be distributed to the Company's shareholders through the issuance of additional common shares.

(16) Earnings Distribution and Dividends Distribution Policy

According to the Company's Articles of Incorporation, Current year's earnings, if any, shall be distributed in the following order:

- (a) Income tax obligation;
- (b) Offsetting accumulated deficits, if any;
- (c) Legal reserve at 10% of net income after tax;
- (d) Special reserve in compliance with the Company Law or the Securities and Exchange Law;

**Notes To Financial Statements (Continued)**

- (e) Remuneration for directors and supervisors to a maximum of 1% of the remaining Current year's earnings after deducting for item (a) through to (d).
- (f) After deducting for item (a) through to (d) above from the current year's earnings, no less than 1% of the remaining amount together with the prior years' unappropriated earnings is to be allocated as employees' bonus.
- (g) The remaining, after all the above appropriations and distributions, may be retained or distributed proportionally as shareholder's bonus. The distribution will be proposed by the board of directors and resolved in the shareholders' meeting.

The policy for dividend distribution should reflect factors such as the current and future fund requirements and long-term financial planning. The board of directors shall make the distribution proposal in the subsequent year and submit it to the annual shareholders' meeting for approval.

Since 2008, the distribution of employee bonus and remuneration for directors and supervisors shall be accrued as an expense at the year the employees, directors and supervisors grant their services. If the accrued amount is modified and proposed to shareholders' meeting by the board of directors in the subsequent year and the difference is not significant, the Company shall recognize the difference in earnings then. If the accrued or proposed amount is further modified at shareholders' general meeting held in the subsequent year, the Company shall recognize the difference in earnings then as well.

In the case that stock, instead of cash, is to distribute for employee bonus purpose, the number of shares distributed will be computed by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day immediately preceding the shareholders' meeting.

Shareholders' dividends may be distributed in the form of shares, cash, or a combination of both. Cash dividends may not be less than 10% of total dividends to be distributed. Remuneration for directors and supervisors' services is limited to cash only.

During the years ended December 31, 2009 and 2008, the amounts of the employee bonuses were NT\$285,278 thousand and NT\$456,445 thousand, respectively. During the year ended December 31, 2009 and 2008, remunerations to directors and supervisors were NT\$7,631 thousand and NT\$12,240 thousand, respectively. The employee bonuses and remunerations to directors were accrued in accordance with the Company's Articles of Incorporation and counted without considering the cost of employee bonus and its related income tax. The accrual was charged to earnings.

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Based on the resolution of the board of directors' meeting on March 10, 2009 and April 24, 2008, the Company resolved the distribution of earnings of 2008 and 2007. The distributions of earnings were approved by the shareholders' general meetings. Details of the settlement of employees' bonus and remuneration of directors and supervisors were as follows:

	As approved in the shareholders' meeting held on April 30, 2009	As approved by the shareholders' meeting on June 13, 2008
	NT\$'000 except otherwise stated	NT\$'000 except otherwise stated
Remuneration of directors and supervisors	12,237	14,562
Profit sharing to employees - in cash	45,000	112,000
Profit sharing to employees - in stock		
Amount	411,445	27,000
Number of shares (par value of NT\$10)	2,283,292 shares	2,700,000 shares
Market price (NT dollar)	180.198(Remark)	-
Shareholders' cash dividends	737,098	906,602
Shareholders' stock dividends		
Amount	12,285	46,492
Number of shares (par value of NT\$10)	1,228,496 shares	4,649,241 shares

Remark: The profit sharing to employee in stock of 2,283,292 shares was determined by the closing price of the Company's common shares (after considering the effect of dividends) of the day immediately preceding the shareholders' meeting, each share priced at NT\$180.198.

The resolved amounts of the profit sharing to employees and bonus to directors were consistent with the resolutions of the stockholders' general meeting held on April 30, 2009 and the minor different amount had been charged against earnings of 2009. The detail is as follows:

Distribution items	Amount resolved by the board of directors	Amount recognized in accrued year	Difference	Reason of differences and further procedures
	NT\$'000	NT\$'000	NT\$'000	
Profit sharing to employees - in cash	411,445	411,445	-	-
Profit sharing to employees - in stock	45,000	45,000	-	-
Remuneration of directors and supervisors	12,237	12,240	3	(Remark)

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Remark: This was an estimated difference and recognized the change as an adjustment to income of 2009.

The information about the appropriations of profit sharing to employees and bonus to directors is available at the Market Observation Post System website.

(17) Treasury Stock

The movement of treasury stock for the years ended December 31, 2009 and 2008 is as follows:

Reason	January 1, 2009		Additions		December 31, 2009	
	Shares	Amount (NT\$'000)	Shares	Amount (NT\$'000)	Shares	Amount (NT\$'000)
Transferring shares to employees	1,965,000	280,834	-	-	1,965,000	280,834

Reason	January 1, 2008		Additions		December 31, 2008	
	Shares	Amount (NT\$'000)	Shares	Amount (NT\$'000)	Shares	Amount (NT\$'000)
Transferring shares to employees	30,000	7,245	1,935,000	273,589	1,965,000	280,834

- a. According to the Securities and Exchange Law of the R.O.C., total shares of treasury stock shall not exceed 10% of the Company's issued stock and the total purchase amount shall not exceed the sum of the retained earnings, additional paid-in capital – premiums, and realized additional paid-in capital. The ceiling of number of shares and the dollar amount of treasury stock that the Company could hold as of December 31, 2009 was 12,986,391 shares and NT\$4,741,702 thousand and, respectively.
- b. Pursuant to the Securities and Exchange Law, treasury stock shall not be pledged, nor does it possess voting rights or the rights to receive dividends. Treasury stock shall be transferred to employees within three years from the repurchased date or cancelled.
- c. None of the Company's treasury stock was transferred to employees as of December 31, 2009.

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(18) Net Operating Revenue

	For the year ended December 31,	
	2009	2008
	NT\$'000	NT\$'000
Sale of goods	3,732,017	4,805,333
Other operating revenue	23,865	3,743
Total	3,755,882	4,809,076
Less: Sale returns	(2,694)	(474)
Less: Sale discounts	(1,676)	(3,731)
Net Operating Revenue	3,751,512	4,804,871

(19) Operating Cost and Expenses

	For the year ended December 31,					
	2009			2008		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
	NT\$'000	NT\$'000	NT\$'000	NT\$'000	NT\$'000	NT\$'000
Personnel Expense						
Salary & wage	16,185	488,936	505,121	22,885	667,094	689,979
Insurance	-	12,848	12,848	-	10,813	10,813
Pension	344	10,144	10,488	324	9,185	9,509
Other expenses	-	2,378	2,378	-	2,127	2,127
Total	16,529	514,306	530,835	23,209	689,219	712,428
Depreciation (Remark)	720	19,837	20,557	1,459	17,561	19,020
Amortization	6,663	24,961	31,624	15,051	15,804	30,855

Remark: Depreciation expenses amounted to NT\$20,778 thousand and NT\$19,460 thousand, including depreciation of leased assets recorded under non-operating expenses-other losses in amount of NT\$221 thousand and NT\$440 thousand, for the years ended December 31, 2009 and 2008, respectively.

(20) Earnings Per Share

The capital structure of the Company is considered complex since there are stock options outstanding. The Company presents basic and diluted earnings per share for the years ended December 31, 2009 and 2008 since its stock options would have a dilutive effect if they had been fully exercised.

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	For the year ended December 31,	
	2009	2008
	In shares	In shares
Common shares outstanding, beginning	124,735,528	117,084,010
Employees' stock options exercised(Remark)	79,075	169,670
Purchase treasury stock(Remark)	(1,965,000)	(1,071,008)
Employee's bonus in shares on Aug. 26, 2008	-	2,699,687
Stock dividends on Aug. 26, 2008	-	4,648,703
Employee's stock bonus (Remark)	1,538,876	-
Capital increase on July 22, 2009	669,863	-
Stock dividends on Sep. 1, 2009	1,220,220	1,211,577
Weighted average of shares outstanding for basic EPS computation	126,278,562	124,742,639
Potential common share equivalents:		
The dilutive effect of stock options (assuming fully exercised)	792,952	429,626
Bonus to employees	1,802,106	4,003,902
Weighted-average of dilutive shares outstanding:	128,873,620	129,176,167

Remark: Computed on a weighted-average basis.

	Amount (Numerator)			Earnings per share	
	Before tax (NT\$'000)	After tax (NT\$'000)	Shares (Denominator)	Before tax(NT\$)	After tax(NT\$)
<u>For the year ended December 31, 2009:</u>					
<u>Consolidated net income attributable to parent</u>					
<u>company's shareholders</u>					
Basic EPS					
Net income	900,790	848,204	126,278,562	7.13	6.72
Diluted EPS					
Net income	900,790	848,204	128,873,620	6.99	6.58

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For the year ended December 31, 2009:

Consolidated net income attributable to minority

interests

Basic EPS

Net loss	<u>(1,885)</u>	<u>(1,922)</u>	<u>126,278,562</u>	<u>(0.01)</u>	<u>(0.02)</u>
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Diluted EPS

Net loss	<u>(1,885)</u>	<u>(1,922)</u>	<u>128,873,620</u>	<u>(0.01)</u>	<u>(0.01)</u>
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	<u>Amount (Numerator)</u>			<u>Earnings per share</u>	
	<u>Before tax</u>	<u>After tax</u>	<u>Shares</u>	<u>Before</u>	<u>After</u>
	<u>(NT\$'000)</u>	<u>(NT\$'000)</u>	<u>(Denominator)</u>	<u>tax(NT\$)</u>	<u>tax(NT\$)</u>

For the year ended December 31, 2008:

Consolidated net income attributable to parent

company's shareholders

Basic EPS

Net income	<u>1,406,880</u>	<u>1,359,697</u>	<u>124,742,639</u>	<u>11.28</u>	<u>10.90</u>
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Diluted EPS

Net income	<u>1,406,880</u>	<u>1,359,697</u>	<u>129,176,167</u>	<u>10.89</u>	<u>10.53</u>
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For the year ended December 31, 2008:

Consolidated net income attributable to minority

interests

Basic EPS

Net loss	<u>382</u>	<u>321</u>	<u>124,742,639</u>	<u>-</u>	<u>-</u>
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Diluted EPS

Net loss	<u>382</u>	<u>321</u>	<u>129,176,167</u>	<u>-</u>	<u>-</u>
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**(21) Income Taxes**

- a. Tax authorities have assessed the income tax returns up to the year 2006. However, additional income taxes were levied on the Company in total of NT\$73,271 thousand for the years 2004, 2005 and 2006. The Company has fully accrued the additional tax liability while filing administrative appeals to tax authority and courts in light that the discrepancy between the Company's tax return filings and the authority's assessment resulted from the different viewpoints on the calculation of tax exemption.

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- b. Pursuant to the “Statute for Upgrading Industries”, the Company is qualified as a technical service industry and is therefore entitled to an income tax exemption period for five consecutive years on the income generated from qualifying high technology activities. The Company has elected the tax exemption period to start from the year 2004.
- c. The Company and subsidiaries have filed respective business income tax return separately. There is no allowance for combining their filings into one.
- d. As of December 31, 2009, unused tax credits available to reduce future taxable income are as follows:

Year incurred	Total credit amount (NT\$'000)	Unused amount (NT\$'000)	Expired after
2007	71,079	26,313	2011
2008	56,089	36,324	2012
2009(Estimated)	167,931	167,931	2013
Total	<u>295,099</u>	<u>230,568</u>	

Investment tax credits have been included in calculation of deferred income tax assets.

- e. As of December 31, 2009, the unutilized accumulated losses for the Company and subsidiaries were as follows:

Year incurred	Total credit amount (NT\$'000)	Unused amount (NT\$'000)	Expired after
2009 (Estimated)	<u>1,056</u>	<u>1,056</u>	2019

- f. Deferred income tax assets and liabilities are as follows:

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
(a) Total deferred income tax liabilities	<u>267</u>	<u>35</u>
(b) Total deferred income tax assets	<u>314,725</u>	<u>438,386</u>
(c) Valuation allowance against deferred tax assets	<u>290,729</u>	<u>406,066</u>

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(d) Temporary differences that generated deferred income tax assets or liabilities:

	As of December 31,			
	2009		2008	
	Amount	Tax Effect	Amount	Tax Effect
	NT\$'000	NT\$'000	NT\$'000	NT\$'000
Unrealized estimated expense	334,506	66,901	281,471	70,368
Unrealized pension expense	5,975	1,195	5,975	1,494
Unrealized inventory provision	34,776	6,955	115,783	28,946
Unrealized bad debt expense	15,407	3,081	16,094	4,023
Allowance on sales returns and discounts	5,824	1,165	5,824	1,456
Unrealized investment loss under equity method	20,552	4,110	1,889	472
Unrealized gross margin	335	67	-	-
Unrealized exchange loss	2,357	472	5,454	1,364
Unrealized exchange gain	(1,334)	(267)	(140)	(35)
Unutilized accumulated losses	1,056	211	-	-
Investment tax credits		230,568		330,263

g.

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
Deferred income tax assets-current	78,641	110,465
Valuation allowance-deferred income tax assets-current	(73,856)	(91,886)
Net deferred income tax assets-current	4,785	18,579
Deferred income tax liabilities-current	(267)	(35)
Net deferred income tax assets and liabilities-current	4,518	18,544

h.

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
Deferred income tax assets-noncurrent	236,084	327,921
Valuation allowance-deferred income tax assets-noncurrent	(216,873)	(314,180)
Net deferred income tax assets-noncurrent	19,211	13,741
Deferred income tax liabilities-noncurrent	-	-
Net deferred income tax assets and liabilities-noncurrent	19,211	13,741

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- i. According to the newly revised Income Tax Law of the R.O.C. on May 27, 2009, the statutory tax rate of the Company will be changed from 25% to 20% effective January 1, 2010. Income tax payable and income tax expense are reconciled as follows:

	For the year ended December 31,	
	2009	2008
	NT\$'000	NT\$'000
Tax on pre-tax income at statutory tax rate	224,522	352,031
10% income tax on undistributed earnings	47,545	34,953
Tax exemption	(199,299)	(372,814)
Permanent difference	441	(172)
Investment tax credits	(21,292)	(201,825)
Change in Investment tax credits	65,322	-
Change in valuation allowance	(95,630)	192,268
Assessed additional income tax	41,886	26,450
Taxation separately	231	509
Change in deferred tax assets and liabilities resulting from the change of statutory tax rate	1,266	-
Estimative change	(12,369)	15,844
Income tax expense	<u>52,623</u>	<u>47,244</u>

- j. Integrated income tax information:

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
Balance of the imputation credit account (ICA)	<u>27,644</u>	<u>31,109</u>

	For the year ended December 31,	
	2009	2008
Expected (Actual) creditable ratio	<u>1.68%(Remark)</u>	<u>1.72%</u>

Remark : The ratio was computed based on the amount of actual available shareholders' tax credits plus estimated income tax payable as of December 31, 2009.

- k. Information related to undistributed retained earnings

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
After 1998	<u>2,445,808</u>	<u>2,482,957</u>

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5. RELATED PARTY TRANSACTIONS

(1) Related Parties and Relations with the Company

Related parties	Relations
United Microelectronics Corporation (“UMC”)	Related party in substance
UMC JAPAN (“UMC-J”)	Related party in substance
Five people, including Jih-Hong Lu	Directors of the Company
Three people, including Sheng-Cheng Chou	Supervisors of the Company
Two people, including Sen-Huang Huang	Vice president and above

(2) Major transactions with related parties

a. Purchases:

Name of related parties	For the year ended December 31,			
	2009		2008	
	Amount (NT\$'000)	Percentage (%)	Amount (NT\$'000)	Percentage (%)
UMC	768,845	82.83	809,657	75.17
UMC-J	-	-	44,703	4.15
Total	768,845	82.83	854,360	79.32

There is no comparable price available from other suppliers for the purchase price from related parties due to unique product specification and customization. Payment terms for above purchase are 45 days from the date of monthly closing. The total cost of wafer purchased from UMC and used for R&D purpose amounting to NT\$13,477 thousand and NT\$22,942 thousand were recorded under R&D expenses for the years ended December 31, 2009 and 2008. The Company has paid NT\$169 thousand to UMC as prepayment as of December 31, 2009.

(3) Payables resulted from the above transactions:

<u>Payables to related parties</u>	As of December 31,			
	2009		2008	
	Amount (NT\$'000)	Percentage (%)	Amount (NT\$'000)	Percentage (%)
UMC	114,992	38.00	103,273	28.77

(4) Remunerations paid to directors, supervisors and key managers:

	For the year ended December 31,	
	2009	2008
Salaries, reward, compensation, special allowance and bonus	44,325	65,358

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The information about the compensation of directors and management personnel is available in the annual report for the shareholders' meeting. Total compensation expense for the year ended December 31, 2009 includes estimated profit sharing to employees and bonus to directors of the Company that relate to 2009 but will be paid in the following year. The actual amount will be finalized and approved upon the resolution of the shareholders' meeting in 2010. The total compensation for the year ended December 31, 2008 included the bonuses appropriated from earnings of 2008 which was approved by the shareholders' meeting held in 2009.

**6. ASSETS PLEDGED AS COLLATERAL**

Account	As of December 31,		Secured financial institutions	Contents
	2009 (NT\$'000)	2008 (NT\$'000)		
Restricted deposits-Non-Current	<u>3,000</u>	<u>3,000</u>	Custom	Custom duty guarantee

**7. COMMITMENTS AND CONTINGENCIES**

Significant commitments and contingencies of the Company as of December 31, 2009 were as follows:

- a. The Company has paid royalty based on certain rate of selling dollar money or quantity for certain product.
- b. The Company has entered into certain lease agreement for land with the Administrative Bureau of HSIP for its need of operations. Related minimum rental to be incurred in the future is as follows:

Lease Period	Amount (NT\$'000)
2010.01.01~2010.12.31	2,449
2011.01.01~2011.12.31	2,449
2012.01.01~2012.12.31	2,449
2013.01.01~2013.12.31	2,449
2014.01.01~2014.12.31	2,449
2015.01.01~2024.12.31	10,931
Total	<u>23,176</u>

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8. SIGNIFICANT DISASTER LOSS

None.

9. SIGNIFICANT SUBSEQUENT EVENT

None.

10. OTHER DISCLOSURES

(1) Financial Instruments

a. Fair value of financial instruments:

The Company and subsidiaries didn't engage in certain derivative instruments for the years ended December 31, 2009 and 2008. Fair value of financial instruments in non-derivative instruments is shown as follows:

	As of December 31,			
	2009		2008	
	Book value	Fair value	Book value	Fair value
<u>Non-derivative instruments</u>				
<u>Assets</u>				
	NT\$'000	NT\$'000	NT\$'000	NT\$'000
Cash and cash equivalents	5,135,820	5,135,820	5,045,377	5,045,377
Receivables	383,215	383,215	328,084	328,084
Other Receivables	25,455	25,455	25,812	25,812
Held to maturity financial assets	562,626	561,204	-	-
Financial assets measured at cost-noncurrent	300,000	-	300,000	-
Refundable deposits	3,350	3,350	1,162	1,162
Restricted deposits	3,000	3,000	3,000	3,000
<u>Liabilities</u>				
Payables(Including payables to related parties)	303,275	303,275	359,005	359,005
Income tax payable	84,541	84,541	54,306	54,306
Accrued expenses	736,132	736,132	830,441	830,441
Deposits received	694	694	931	931

- (a) The following methods and assumptions were used by the Company in estimating the fair value of financial instruments:

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- (i) The fair values of the Company's short-term financial instruments approximate their carrying values at the reporting date due to their short maturities. This method was applied to cash and cash equivalents, receivable, other receivables, payables (including payables to related parties), income taxes payables and accrued expenses.
- (ii) The fair values of the Company's refundable deposits, deposits received and restricted deposits approximate their carrying value because the Company predicts the future cash inflows or outflows will be of similar amount to the carrying value.
- (iii) The fair values of the Company's investments accounted for under the equity method were based on quoted market prices, if available, at the reporting date. If the quoted prices were not available and other valuation method was impractical, the Company did not provide the information of fair values.
- (iv) The fair values of held-to-maturity financial assets were based on their quoted market prices, if available, at the reporting date. If market prices were impractical and not available, fair values are determined using valuation techniques. Such techniques use rates of returns from similar financial instruments as discount rates.
- (v) Financial assets carried at cost are the shares of private companies held by the Company without significant influence and no fair values were available and presentable either.

(b) How the fair value of financial instruments were determined are shown as follows:

	Quoted market		Valuation method	
	As of December 31		As of December 31	
	2009	2008	2009	2008
Financial Assets	NT\$'000	NT\$'000	NT\$'000	NT\$'000
Cash and cash equivalents	4,810,942	4,717,545	324,878	327,832
Receivables	-	-	383,215	328,084
Other receivables	-	-	25,455	25,812
Refundable deposits	-	-	3,350	1,162
Restricted deposits	3,000	3,000	-	-

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**Notes To Financial Statements (Continued)**

	Quoted market		Valuation method	
	As of December 31		As of December 31	
	2009	2008	2009	2008
Financial Liabilities				
Payables				
(Including payables to related parties)	-	-	303,275	359,005
Income tax payable	-	-	84,541	54,306
Accrued expenses	-	-	736,132	829,441
Deposits received	-	-	694	931

- (c) Gain (Loss) recognized for the changes in fair value of financial assets estimated using valuation techniques were nil for the years ended December 31, 2009 and 2008, respectively.
- b. As of December 31, 2009 and 2008, financial assets exposed to interest rate risk were NT\$2,237,504 thousand and NT\$1,927,832 thousand, financial liabilities exposed to interest rate risk were nil.
- c. Interest income recognized from financial assets and financial liabilities that are not at fair value through profit or loss amounted to NT\$16,633 thousand and NT\$78,147 thousand for the years ended December 31, 2009 and 2008, respectively.
- d. Information of financial risks  
The Company held certain non-derivative financial instruments, including cash and cash equivalents. The Company held the financial instruments to meet the need in operating cash and also held other financial instruments such as receivables, payables and financial assets measured at cost-noncurrent. Major risks of financial instruments were summarized as follows:

(a) Market risk

Market risk includes currency rate risk. It comes from the purchases or sales activities which are not denominated in functional currency. Had the US dollar appreciated against the NT dollar for one cent, financial assets would increase in fair values by NT\$842 thousand and NT\$82 thousand as of December 31, 2009 and 2008, respectively.

(b) Credit risk

The Company and subsidiaries' exposure to credit risk arises from potential default of the counter-party or other third-party. The level of exposure depends on several factors including concentrations of credit risk, components of credit risk, the price of contract and other receivables of financial instruments.

Since the counter-party or third-party to the foregoing forward exchange contracts are all reputable financial institutions, management believes that the Company and subsidiaries' exposure to default by those parties is minimal. The Company and subsidiaries' credit risk mainly comes from the collectibility of accounts receivable while receivable balances are monitored on an ongoing basis and an allowance for doubtful receivables is provided. Thus, the net book value of accounts receivable are properly evaluated and reflect the credit risk the Company expose to. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk, which arises when counter-party or third-party to a financial instrument fails to discharge an obligation and the Company and subsidiaries suffer a financial loss as a result.

Credit risk of credit-linked deposits and exchange rate-linked deposits arises if the issuing banks breached the contracts or the debt issuer could not pay off the debts; the maximum exposure is the carrying value of credit-linked deposits. Therefore, the Company and subsidiaries minimized the credit risk by only transacting with counter-party who is reputable, transparent and in good financial standing.

(c) Liquidity risk

The Company and subsidiaries have sufficient operating capital to meet the need in cash upon the settlement of financial instruments. Therefore, the liquidity risk is nil.

(d) Cash flow interest rate risk

Since the duration of the financial assets exposed to cash flow interest rate risk is short, the cash flow risk from fluctuation in interest rate is minimized.

(2) Other

- A. Certain comparative amounts have been reclassified to conform to the current year's presentation of financial statements.

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**B. INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**

As of December 31, 2009

Transaction Number (Remark 1)	Company Name	Counter Party	Relationship with Counter Party (Remark 2)	December 31, 2009			
				Financial Statement Account	Carrying Value (NT\$'000)	Terms and Conditions	Percentage of Consolidation (%) (Remark 3)
0	The Company	PrimeSensor Technology Inc.	1	Receivables from related party	13,560	T/T 30days	0.19
			1	Operating Revenues	17,667		0.47
			1	Advance receipts	7,500	By contracts	0.11
1	YuanXiang Technology (SAMOA) Ltd.	PrimeSensor Japan Inc.	3	Payables to related parties	5,092	By contracts	0.07
			3	Operating expenses	5,177		0.14

As of December 31, 2008: None.

Remark 1: Inter-company relationships' and significant inter-company transactions' codes were listed as follows:

- A. The Company: 0.
- B. Subsidiaries were assigned numbers which started from 1.

Remark 2: Relation codes were listed as follows:

- A. The Company to subsidiaries.
- B. Subsidiaries to the Company.
- C. Subsidiaries to subsidiaries.

Remark 3: Calculation of the percentage were listed as follows:

- A. Ratio of assets or liabilities to consolidated assets for the year ended December 31, 2009.
- B. Ratio of revenues or expenses to consolidated gross sales.

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11. ADDITIONAL DISCLOSURES

(1) Following are the additional disclosures for the Company:

A. Financing provided: None;

B. Endorsement/guarantee provided: None;

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C. MARKETABLE SECURITIES HELD

DECEMBER 31, 2009

Held Company Name	Marketable Securities Type	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2009				
					Shares/Units	Carrying Value (NT\$'000)	Percentage of Ownership (%)	Net Asset Value (NT\$)	Note
The Company	Stocks	Shieh Yong Investment Co., Ltd.	-	Financial assets measured at cost-noncurrent	34,686,000	300,000	4.55	8.33	-
	Bonds	94 Taiwan Power 3A04 corporate bond	-	Held to maturity financial assets-current	100	101,367	-	102,400	-
		95 Formosa Plastics co. No.2 corporate bond	-	Held to maturity financial assets-noncurrent	50	50,640	-	50,593	-
		95 Formosa Plastics co. No.1 corporate bond	-	Held to maturity financial assets-noncurrent	100	102,160	-	102,051	-
		90 Formosa Petrochemical co. 2B06 corporate bond	-	Held to maturity financial assets-noncurrent	100	103,843	-	103,168	-
		95 Taiwan Power 1A corporate bond	-	Held to maturity financial assets-noncurrent	100	101,860	-	101,278	-
		95 CPC 1A corporate bond	-	Held to maturity financial assets-noncurrent	100	102,756	-	101,714	-

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D. MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20%  
OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2009

Company Name	Marketable Securities Type and Name	Counter-party	Nature of Relationship	Financial Statement Account	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares /Units	Amount (NT\$'000)	Shares /Units	Amount (NT\$'000)	Shares /Units	Amount (NT\$'000)	Carrying Value (NT\$'000)	Gain (Loss) of Disposal (NT\$'000) (Remark)	Shares /Units	Amonut (NT\$'000)
The Company	94 Taiwan Power 3A04 corportate bond	-	-	Held to maturity financial assets-current	-	-	100	101,947	-	-	-	(580)	100	101,367
	95 Formosa Plastics co. No.1 corporate bond	-	-	Held to maturity financial assets-noncurrent	-	-	100	102,482	-	-	-	(322)	100	102,160
	90 Formosa Petrochemical co. 2B06 corporate bond	-	-	Held to maturity financial assets-noncurrent	-	-	100	105,156	-	-	-	(1,313)	100	103,843
	95 Taiwan Power 1A corporate bond	-	-	Held to maturity financial assets-noncurrent	-	-	100	102,324	-	-	-	(464)	100	101,860

(To be continued)

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(Continued)

Company Name	Marketable Securities Type and Name	Counter-party	Nature of Relationship	Financial Statement Account	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares /Units	Amount (NT\$'000)	Shares /Units	Amount (NT\$'000)	Shares /Units	Amount (NT\$'000)	Carrying Value (NT\$'000)	Gain (Loss) of Disposal (NT\$'000) (Remark)	Shares /Units	Amonut (NT\$'000)
The Company	95 CPC 1A corporate bond	-	-	Held to maturity financial assets-noncurrent	-	-	100	102,976	-	-	-	(220)	100	102,756

Remark : Amortation of financial assets premium.

E. Acquisition of individual real estate properties at costs of at least NT\$100 million or 20% of the paid-in capital: None;

F. Disposal of individual real estate properties at prices of at least NT\$100 million or 20% of the paid-in capital: None;

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G. TRANSACTIONS WITH RELATED PARTIES AT COST OR PRICE OF AT LEAST NT\$100 MILLION OR 20% OF PAID-IN CAPITAL:

Company Name	Counter Party	Nature of Relationship	Transactions				Terms and conditions different with third parties		Accounts (notes) receivable and payable	
			Purchases or Sales	Amount (NT\$'000)	Percentage of consolidated purchases or sales	Credit Period	Unit price	Credit Period	Carrying Value (NT\$'000)	Percentage of consolidated accounts (notes) receivable and payable
The Company	UMC	Related party in substance	Purchases	768,845 (Remark)	82.83%	45 days	-	-	(114,992)	38.00%

Remark: The total cost of wafer purchased from UMC amounted to NT\$782,322 thousand, of which NT\$768,845 thousand were recorded under raw materials and NT\$13,477 thousand under R&D expenses.

H. Receivable from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None;

I. Information about derivatives of investees over which the Company has a controlling interest: None.

(2) The following are additional disclosures for the Company's affiliates:

The Company and its subsidiaries do not have any investee company which the Company or its subsidiaries exercise significant influence over. All investee companies controlled by the Company or its subsidiaries have been included as consolidated entities in the consolidated financial statements. Therefore no relevant disclosure is required.

(3) INFORMATION OF INVESTMENT IN MAINLAND CHINA FOR THE YEAR ENDED DECEMBER 31, 2009

None.

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12. SEGMENT FINANCIAL INFORMATION

1. Revenues from customer representing over 10% of total net sales were as follows:

Customer Name	For the year ended December 31,			
	2009		2008	
	Amount (NT\$'000)	Percentage (%)	Amount (NT\$'000)	Percentage (%)
A	1,327,790	35.39	2,600,189	54.12
C	1,048,989	27.96	947,493	19.72
D	380,275	10.14	402,837	8.38
Total	2,757,054	73.49	3,950,519	82.22

2. Export sales

The Company's export sales amounted to NT\$3,402,315 thousand and NT\$4,349,223 thousand, representing 90.69% and 90.52% of net sales for the years ended December 31, 2009 and 2008, respectively.

Location	For the year ended December 31,	
	2009	2008
	NT\$'000	NT\$'000
Asia	3,394,674	4,348,629
Other	7,641	594
Taiwan	349,197	455,648
Net Income	3,751,512	4,804,871

3. Operations in different geographic areas

The Company has no reportable division in overseas geographic areas.

4. Operations in different industries

The main activities of the Company are in CMOS image sensor and related IC design, research, production, and sale. The Company operates predominantly in one industry segment.