

English Translation of Financial Statements Originally Issued in Chinese

PixArt Imaging Inc.

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PixArt Imaging Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3(2) to the financial statements, effective from January 1, 2008, the Company has adopted Accounting Research and Development Foundation Interpretation No. 2007-052 and recognized employees' 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 financial statements, effective from January 1, 2009, the Company has adopted the amendment of R.O.C. Statement of Financial Accounting Standards No. 10, "Accounting for Inventories".

The Company has prepared consolidated financial statements as of December 31, 2009 and 2008 and for the years then ended. We have expressed an unqualified opinion with explanatory paragraph and an unqualified opinion on those consolidated financial statements, respectively.

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

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.

PixArt Imaging Inc.
BALANCE SHEETS

ASSETS	Notes	As of December 31,		LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	As of December 31,	
		2009	2008			2009	2008
Current assets		NTS'000	NTS'000	Current liabilities		NTS'000	NTS'000
Cash and cash equivalents	2, 4(1)	4,766,006	4,680,967	Notes payable		-	135,383
Notes receivable, net	2, 4(2)	702	-	Accounts payable		187,638	120,349
Accounts receivable, net	2, 4(3)	382,459	328,084	Payables to related parties	5	114,992	103,273
Receivable from related parties, net	5	13,560	-	Income tax payable	2, 4(22)	84,517	54,131
Other receivables	4(4)	24,454	25,654	Accrued expenses	2, 4(17)	734,857	829,813
Inventories, net	2, 4(5)	274,741	299,432	Other current liabilities	5	18,170	6,867
Prepayments and other current assets	5	44,726	33,750	Total current liabilities		1,140,174	1,249,816
Deferred income tax assets-current	2, 4(22)	4,518	18,544				
Held to maturity financial assets-current	2, 4(6)	101,367	-	Other liabilities			
Total current assets		5,612,533	5,386,431	Accrued pension liabilities	2, 4(12)	5,975	5,975
				Deposits received		-	931
Funds and investments				Deferred credits	2	335	-
Investments accounted for using equity method	2, 4(7)	267,747	258,968	Total other liabilities		6,310	6,906
Held to maturity financial assets-noncurrent	2, 4(8)	461,259	-	Total liabilities		1,146,484	1,256,722
Financial assets measured at cost-noncurrent	2, 4(9)	300,000	300,000				
Total funds and investments		1,029,006	558,968				
				Shareholders' equity			
Property, plant and equipment	2, 4(10)			Capital	4(13)		
Buildings and facilities		230,416	207,960	Common stock		1,298,589	1,245,803
Research and development equipment		64,449	54,135	Capital stock to be registered		50	1,552
Miscellaneous equipment		78,564	64,556	Capital collected in advance		79,117	100
Total cost		373,429	326,651	Capital reserve			
Less : Accumulated depreciation		(107,872)	(86,748)	Additional paid-in capital	4(14)	1,699,702	1,094,772
Add : Prepayments for equipment		8,977	7,837	Donated by shareholders	4(14)	3,816	3,816
Property, plant and equipment, net		274,534	247,740	Long-term investment transaction	4(14)	106	106
				Employee stock options	4(14), 4(15)	8,016	18,372
Intangible assets	2, 4(11)			Retained earnings			
Patents		8,078	1,636	Legal reserve	4(16)	594,552	458,582
Software		39,195	39,661	Undistributed earnings	4(17), 4(22)	2,445,808	2,482,957
Total intangible assets		47,273	41,297	Other adjustments			
				Cumulative translation adjustments	2	(238)	72
Other assets				Treasury stock	2, 4(18)	(280,834)	(280,834)
Leased assets to others, net	2, 4(10)	-	20,989	Total stockholders' equity		5,848,684	5,025,298
Refundable deposits		2,093	888				
Deferred assets	2	7,518	8,966				
Deferred income tax assets-noncurrent	2, 4(22)	19,211	13,741				
Restricted deposits	6	3,000	3,000				
Total other assets		31,822	47,584				
Total assets		6,995,168	6,282,020	Total liabilities and shareholders' equity		6,995,168	6,282,020

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

English Translation of Financial Statements Originally Issued in Chinese

PixArt Imaging Inc.
STATEMENTS OF INCOME

Description	Notes	For the years ended December 31,			
		2009		2008	
		NTS'000		NTS'000	
Gross sales		3,758,802		4,809,076	
Less : Sales returns		-2,694		-474	
Sales discounts		(1,676)		(3,731)	
Net sales	2, 4(19)	3,754,432		4,804,871	
Cost of goods sold	3(3), 4(5), 4(20), 5	(2,006,642)		(2,471,007)	
Gross profits		1,747,790		2,333,864	
Less : Unrealized gross margin from affiliates	2	(335)		-	
Realized gross margin		1,747,455		2,333,864	
Operating expenses	4(20), 5				
Selling expenses		(98,484)		(117,951)	
Administrative expenses		(257,972)		(372,417)	
Research and development expenses		(483,454)		(536,738)	
Total operating expenses		(839,910)		(1,027,106)	
Operating income		907,545		1,306,758	
Non-operating income and gains					
Interest income		16,115		75,739	
Foreign exchange gain, net	2	-		29,262	
Rent revenue		2,258		4,124	
Other revenue		1,666		141	
Total non-operating income and gains		20,039		109,266	
Non-operating expenses and losses					
Loss on equity investments, net	2, 4(7)	(17,725)		(977)	
Foreign exchange loss, net	2	(9,203)		-	
Other expenses	2, 4(20)	(221)		(8,514)	
Total non-operating expenses and losses		(27,149)		(9,491)	
Income from continuing operations before income tax		900,435		1,406,533	
Income tax expense	2, 4(22)	(52,231)		(46,836)	
Net income		848,204		1,359,697	
Earnings Per Share	2, 4(21)				
Basic Earnings Per Share (in New Taiwan Dollars)		Before	After	Before	After
Net income		<u>income tax</u>	<u>income tax</u>	<u>income tax</u>	<u>income tax</u>
		\$ 7.13	\$ 6.72	\$ 11.28	\$ 10.90
Diluted Earnings Per Share (in New Taiwan Dollars)					
Net income		<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.

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
				Additional paid-in capital	Donated by shareholders	Long-term investment transaction	Employee stock options	Legal reserve	Undistributed earnings			
	NTS'000	NTS'000	NTS'000	NTS'000	NTS'000	NTS'000	NTS'000	NTS'000	NTS'000	NTS'000	NTS'000	NTS'000
Balance as of January 1, 2008	1,170,655	185	105	1,091,677	3,816	-	16,081	296,784	2,391,714	-	(7,245)	4,963,772
Appropriation and distribution of 2007 earnings :												
Legal reserve	-	-	-	-	-	-	-	161,798	(161,798)	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	-	-	-	-	(14,562)	-	-	(14,562)
Cash paid for employees' bonuses and Shareholders' dividends	-	-	-	-	-	-	-	-	(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
Employee stock options distributed to employees	-	-	-	-	-	-	5,218	-	-	-	-	5,218
Adjustment from changes in the percentage of ownership in investees	-	-	-	-	-	106	-	-	-	-	-	106
Treasury stock repurchased	-	-	-	-	-	-	-	-	-	-	(273,589)	(273,589)
Net income for 2008	-	-	-	-	-	-	-	-	1,359,697	-	-	1,359,697
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	72	-	72
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
Appropriation and distribution of 2008 earnings (Note) :												
Legal reserve	-	-	-	-	-	-	-	135,970	(135,970)	-	-	-
Cash paid for Shareholders' dividends	-	-	-	-	-	-	-	-	(737,098)	-	-	(737,098)
Capitalization of stock dividends	12,285	-	-	-	-	-	-	-	(12,285)	-	-	-
Capitalization of employees' bonuses	22,833	-	-	388,612	-	-	-	-	-	-	-	411,445
Issuance of common stock for cash	15,000	-	-	204,030	-	-	-	-	-	-	-	219,030
Exercise of employee stock options	2,668	(1,502)	79,017	12,288	-	-	(12,288)	-	-	-	-	80,183
Employee stock options distributed to employees	-	-	-	-	-	-	1,932	-	-	-	-	1,932
Net income for 2009	-	-	-	-	-	-	-	-	848,204	-	-	848,204
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	(310)	-	(310)
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

(Note) : Profit sharing to employees and bonus to directors in the amount of NTS\$456,445 thousand and NTS\$12,240 thousand, had been charged against earnings of 2008.

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

PixArt Imaging Inc.
STATEMENTS OF CASH FLOWS

Description	For the years ended December 31,	
	2009	2008
Cash flows from operating activities :	NTS'000	NTS'000
Net income	\$ 848,204	\$ 1,359,697
Adjustments to reconcile net income to net cash provided by operating activities :		
Unrealized gross margin from affiliates	335	-
Depreciation (including leased assets)	20,668	19,460
Amortization	31,499	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
Net loss on equity investments	17,725	977
Deferred income tax	8,556	(7,823)
Changes in operating assets and liabilities:		
Notes receivable	(702)	160
Accounts receivable	(54,375)	72,615
Receivable from related parties	(13,560)	-
Other receivables	1,200	(9,492)
Inventories	82,619	136,041
Prepayments and other current assets	(10,976)	(25,325)
Notes payable	(135,383)	(25,193)
Accounts payable	67,289	(80,537)
Payables to related parties	11,719	(68,082)
Income tax payable	30,386	29,461
Accrued expenses	316,489	503,469
Other current liabilities	11,303	4,403
Accrued pension liabilities	-	543
Net cash provided by operating activities	<u>1,180,138</u>	<u>2,030,318</u>
Cash flows from investing activities :		
Increase in investments accounted for using equity method	(26,814)	(250,000)
Increase in held to maturity financial assets	(565,764)	-
Purchase of property, plant and equipment	(26,496)	(19,365)
Proceeds from disposal of property, plant and equipment	23	-
Increase in intangible assets	(30,102)	(31,482)
Increase in refundable deposits	(1,205)	(535)
Increase in deferred assets	(5,925)	(7,399)
Net cash used in investing activities	<u>(656,283)</u>	<u>(308,781)</u>
Cash flows from financing activities :		
Decrease in deposits received	(931)	(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)
Net cash used in financing activities	<u>(438,816)</u>	<u>(1,303,656)</u>
Net increase in cash and cash equivalents	85,039	417,881
Cash and cash equivalents at the beginning of the year	<u>4,680,967</u>	<u>4,263,086</u>
Cash and cash equivalents at the end of the year	<u><u>4,766,006</u></u>	<u><u>4,680,967</u></u>
Supplemental disclosures of cash flow information :		
Income tax paid during the year	<u>13,289</u>	<u>25,199</u>
Non-cash activities :		
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.

PixArt Imaging Inc.
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 175 and 168, 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 Company's financial statements are prepared in accordance with requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China. Significant accounting policies are summarized as follows:

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.

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. 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 re-measured on the balance sheet date using the exchange rates prevailing as at that date with the resulting exchange gains or losses included in earnings.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

- B. The financial statements of foreign operations are translated into New Taiwan Dollars using the spot rates at the balance sheet date for asset and liability accounts. 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.

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.
- 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.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

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.

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.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

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.

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.

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.

Investment Accounted for Using Equity Method

A. Long-term investments in which the Company holds an interest of 20% or more or has the ability to exercise significant influence are accounted for under the equity method of accounting. The difference between the investment cost and the net equity value of the investee ('investment premium') at the date of acquisition, if arising from depreciable, depletable or amortizable assets, is amortized over remaining economic useful lives of the assets. The remaining unamortized portion of investment premium arising from the difference between the carrying amount of assets and their fair value is eliminated when the difference between carrying amounts of fair value of the assets disappeared.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

Pursuant to the R.O.C. SFAS No. 25 “Business Combinations - Accounting Treatment under Purchased Method”, investment premiums, representing goodwill, are no longer amortized but assessed for impairment at least on an annual basis. If the fair value of the net identifiable assets of the investee exceeds the investment cost, the excess represents investment discount. Investment discounts generated before January 1, 2006, continue to be amortized over the remaining period. Investment discount generated after December 31, 2005 shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired noncurrent assets. If the assigned noncurrent assets are not sufficient to cover the excess, the remaining excess shall be recognized as an extraordinary gain in profit or loss.

- B. Adjustment to capital reserve is required when the holding percentage changes due to un-proportional subscription to investee’s new shares issued. If the capital reserve is insufficient, retained earnings are charged. An investor shall stop to use the equity method from the date that it loses the significant influence over an investee and account for the investment in accordance with the R.O.C. SFAS No. 34 “Accounting for Financial Instruments” from that date. The carrying amount of the investment at the date that it ceases to be an associate shall be regarded as its cost on initial measurement as a financial asset.
- C. Unrealized gains and losses arising from transactions between the Company and investees accounted for under equity method or transactions between investees accounted for under equity method are deferred and recognized when realized.
- D. The Company’s consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of the Company and the account of investee in which the Company has a controlling power over but possesses less than 50% ownership.

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).

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

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

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.

Deferred Assets

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

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.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

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.

Revenue Recognition

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

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.

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.

- 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.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

- 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.

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.
- 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.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

Earnings Per Share

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

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.

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.

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.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

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.

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 the Company’s 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:
 - 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 Company’s 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.

PixArt Imaging Inc.**Notes To Financial Statements (Continued)****4. CONTENTS OF SIGNIFICANT ACCOUNTS****(1) Cash and Cash Equivalents**

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
Cash	50	50
Saving and checking	281,078	153,085
Time deposit	4,160,000	4,200,000
Cash equivalents-CP-Repo	324,878	327,832
Total	4,766,006	4,680,967

(2) Notes Receivable

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

(3) Accounts Receivable

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
Accounts receivable	407,853	353,478
Less: Allowance for doubtful accounts	(19,570)	(19,570)
Allowance for sales discounts	(5,824)	(5,824)
Net	382,459	328,084

(4) Other Receivables

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
VAT refundable	15,121	17,900
Interest receivable	5,560	7,751
Other receivables	3,773	3
Total	24,454	25,654

PixArt Imaging Inc.**Notes To Financial Statements (Continued)**(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	115,548	189,911
Total	309,517	415,215
Less: Allowance for loss on decline in market value and obsolescence	(34,776)	(115,783)
Net	274,741	299,432

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

(7) Long-term investments accounted for under equity method

Investee Company	Shares/units	Amounts (NT\$'000)	Ownership (%)
<u>As of December 31, 2009</u>			
Pixart International (BVI) Ltd.	500,000	7,519	100.00
Pixart International (SAMOA) Ltd.	600,000	9,999	100.00
Yuan-Xiang Investment Corp.	20,000,000	200,423	100.00
Yuan-Feng Investment Corp.	5,000,000	49,806	100.00
Total		267,747	
<u>As of December 31, 2008</u>			
Pixart International(BVI) Ltd.	1	-	100.00
Pixart International (SAMOA) Ltd.	300,000	7,948	100.00
Yuan-Xiang Investment Corp.	20,000,000	200,887	100.00
Yuan-Feng Investment Corp.	5,000,000	50,133	100.00
Total		258,968	

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

- a. For the years ended December 31, 2009 and 2008, the Company recognized investment loss accounted for under the equity method in amount of NT\$17,725 thousand and NT\$977 thousand, respectively, based on the audited financial statements of the investee companies.
- b. In February and October 2009, the Company increased its investment in Pixart International (BVI) Ltd. in total of NT\$17,121 thousand.
- c. In October 2009, the Company increased its investment in Pixart International (SAMOA) Ltd. by NT\$9,693 thousand.
- d. The Company set up Yuan-Xiang Investment Corp. by investing cash of NT\$200,000 thousand during April 2008 for 20,000,000 common stocks (100% ownership). A subsidiary of Yuan-Xiang Investment Corp. resolved a right offering for cash. Yuan-Xiang Investment Corp.'s interest in the subsidiary changed since it forgave its preemptive right and subscribed nothings of the new offering. As a result, for the year ended December 31, 2008, the Company has recognized an addition in capital reserve of NT\$106 thousand.
- e. The Company invests in Yuan-Feng Investment Corp. by cash of NT\$50,000 thousand for 5,000,000 shares (100% ownership) in April 2008.
- f. Cumulative translation adjustments resulting from the translation of the Company's foreign investee accounted for under equity method decreased by NT\$310 thousand and increased NT\$72 thousand for the years ended December 31, 2009 and 2008, respectively.
- g. All of the Company's subsidiaries have been included in the consolidated financial statements.

(8) Held to maturity financial assets-noncurrent

Investment items	As of 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
		461,259

PixArt Imaging Inc.**Notes To Financial Statements (Continued)**(9) 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

(10) 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	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
Buildings and facilities	-	22,457
Less : Accumulated depreciation	-	(1,468)
Leased assets to others, net	-	20,989

(11) Intangible Assets

	As of December 31, 2009		
	Patents	Software	Total
	NT\$'000	NT\$'000	NT\$'000
Original cost			
Balance at beginning of period	1,900	61,314	63,214
Increase – separately acquired	4,207	25,895	30,102
Decrease – disposed	-	(9,741)	(9,741)
Reclassification	6,834	(6,834)	-
Balance at end of period	12,941	70,634	83,575
Accumulated amortization			
Balance at beginning of period	264	21,653	21,917
Increase - amortization	3,460	20,666	24,126
Decrease – disposed	-	(9,741)	(9,741)
Reclassification	1,139	(1,139)	-
Balance at end of period	4,863	31,439	36,302
Net	8,078	39,195	47,273

PixArt Imaging Inc.**Notes To Financial Statements (Continued)**

	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

	As of December 31, 2008		
	Patents	Software	Total
Accumulated amortization	NT\$'000	NT\$'000	NT\$'000
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

(12) 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.

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

PixArt Imaging Inc.**Notes To Financial Statements (Continued)**

	For the year ended December 31,	
	2009	2008
<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, which is accounted for as a defined benefit plan, 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
Funding 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.

- e. The actuarial assumptions are as follows:

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

(13) 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).

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

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.

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.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

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).

(14) 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 option	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(13) to the financial statements.

(15) 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:

PixArt Imaging Inc.**Notes To Financial Statements (Continued)**

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)	-	

PixArt Imaging Inc.**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	4,826.5	192.9
Exercisable at end of period	78	
Weighted-average fair value of options granted during the period (in NTD)	-	

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		4,036.0	2.18	187.2	1,836.0	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:

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

	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

(16) 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.

(17) 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;

PixArt Imaging Inc.

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.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

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)

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

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.

(18) 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.

PixArt Imaging Inc.**Notes To Financial Statements (Continued)****(19) Net Operating Revenue**

	For the year ended December 31,	
	2009	2008
	NT\$'000	NT\$'000
Sale of goods	3,734,937	4,805,333
Other operating revenue	23,865	3,743
Total	3,758,802	4,809,076
Less: Sale returns	(2,694)	(474)
Less: Sale discounts	(1,676)	(3,731)
Net Operating Revenue	3,754,432	4,804,871

(20) 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	482,482	498,667	22,885	666,800	689,685
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	507,852	524,381	23,209	688,925	712,134
Depreciation (Remark)	672	19,775	20,447	1,459	17,561	19,020
Amortization	6,663	24,836	31,499	15,051	15,804	30,855

Remark: Depreciations amounted to NT\$20,668 thousand and NT\$19,460 thousand, including depreciation expenses 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.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

(21) 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.

	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)		Shares (Denominator)	Earnings per share	
	Before tax (NT\$'000)	After tax (NT\$'000)		Before tax(NT\$)	After tax(NT\$)
<u>For the year ended December 31, 2009:</u>					
Basic EPS					
Net income	900,435	848,204	126,278,562	7.13	6.72
Diluted EPS					
Net income	900,435	848,204	128,873,620	6.99	6.58

PixArt Imaging Inc.**Notes To Financial Statements (Continued)**

	Amount (Numerator)			Earnings per share	
	Before tax	After tax	Shares	Before	After
	(NT\$'000)	(NT\$'000)	(Denominator)	tax(NT\$)	tax(NT\$)
<u>For the year ended December 31, 2008:</u>					
Basic EPS					
Net income	<u>1,406,533</u>	<u>1,359,697</u>	<u>124,742,639</u>	<u>11.28</u>	<u>10.90</u>
Diluted EPS					
Net income	<u>1,406,533</u>	<u>1,359,697</u>	<u>129,176,167</u>	<u>10.89</u>	<u>10.53</u>

(22) 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.
- 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. 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.

- d. 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>314,180</u>	<u>438,386</u>
(c) Valuation allowance against deferred tax assets	<u>290,184</u>	<u>406,066</u>

PixArt Imaging Inc.**Notes To Financial Statements (Continued)**

(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	18,883	3,776	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)
Investment tax credits		230,568		330,263

e.

	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

f.

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
Deferred income tax assets-noncurrent	235,539	327,921
Valuation allowance-deferred income tax assets-noncurrent	(216,328)	(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

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

g. 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	225,098	351,263
10% income tax on undistributed earnings	47,435	34,953
Tax exemption	(199,299)	(372,814)
Permanent difference	239	(172)
Investment tax credits	(21,292)	(201,825)
Decrease in investment tax credits	65,322	-
Change in valuation allowance	(96,175)	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	1,130	-
Estimative change	(12,344)	15,844
Income tax expense	52,231	46,836

h. Integrated income tax information:

	As of December 31,	
	2009	2008
	NT\$'000	NT\$'000
Balance of the imputation credit account (ICA)	27,664	31,109

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

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.

PixArt Imaging Inc.**Notes To Financial Statements (Continued)**

i. Information related to undistributed retained earnings

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

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
PrimeSensor Technology Inc. (PrimeSensor)	Subsidiary’s equity investee
Five people, including Jhih-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. Sales:

Name of related parties	For the year ended December 31,			
	2009		2008	
	Amount (NT\$'000)	Percentage (%)	Amount (NT\$'000)	Percentage (%)
PrimeSensor	17,667	0.47	-	-

Sales prices to the above related parties were similar to those to third-party customers. For the years ended 31 December, 2009, the payment terms for the related party were 30 days and for third-party customers were 30 to 90 days.

b. 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

PixArt Imaging Inc.**Notes To Financial Statements (Continued)**

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) Technology License Agreement:

The technology patent and license agreement was entered into in November 2009 by and between the Company and PrimeSensor. The Company has received NT\$7,500 thousand from PrimeSensor and recorded under other current liabilities as of December 31, 2009.

(4) Accounts resulted from the above transactions:

<u>Receivables from related parties</u>	As of December 31,			
	2009		2008	
	Amount (NT\$'000)	Percentage (%)	Amount (NT\$'000)	Percentage (%)
Name of related party				
PrimeSensor	13,560	3.42	-	-

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

(5) 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

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.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

6. ASSETS PLEDGED AS COLLATERAL

Account	As of December 31,		Secured financial institutions	Contents
	2009 (NT\$'000)	2008 (NT\$'000)		
Restricted deposits-Non-Current	3,000	3,000	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	23,176

8. SIGNIFICANT DISASTER LOSS

None.

9. SIGNIFICANT SUBSEQUENT EVENT

None.

PixArt Imaging Inc.**Notes To Financial Statements (Continued)****10. OTHER DISCLOSURES****(1) Financial Instruments****a. Fair value of financial instruments:**

The Company 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>				
Assets	NT\$'000	NT\$'000	NT\$'000	NT\$'000
Cash and cash equivalents	4,766,006	4,766,006	4,680,967	4,680,967
Receivables (Including receivables from related parties)	396,721	396,721	328,084	328,084
Other Receivables	24,454	24,454	25,654	25,654
Held to maturity financial assets	562,626	561,204	-	-
Investments accounted for using equity method	267,747	-	258,968	-
Financial assets measured at cost-noncurrent	300,000	-	300,000	-
Refundable deposits	2,093	2,093	888	888
Restricted deposits	3,000	3,000	3,000	3,000
Liabilities				
Payables(Including payables to related parties)	302,630	302,630	359,005	359,005
Income tax payable	84,517	84,517	54,131	54,131
Accrued expenses	734,857	734,857	829,813	829,813
Deposits received	-	-	931	931

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

(i) The fair values of the Company's short-term financial instruments approximate to their carrying values at the reporting date due to their short maturities. This method was applied to cash and cash equivalents, receivable (including receivables from related parties), other receivables, payables (including payables to related parties), income taxes payables and accrued expenses.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

- (ii) The fair values of the Company's refundable deposits, deposits received and restricted deposits approximate to 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 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	4,441,128	4,353,134	324,878	327,832
Receivables (including receivables from related parties)	-	-	396,721	328,084
Other receivables	-	-	24,454	25,654
Refundable deposits	-	-	2,093	888
Restricted deposits	3,000	3,000	-	-
Financial Liabilities				
Payables(Including payables to related parties)	-	-	302,630	359,005
Income tax payable	-	-	84,517	54,131
Accrued expenses	-	-	734,857	734,857
Deposits received	-	-	-	931

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

- (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 while 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\$16,115 thousand and NT\$75,739 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\$80 thousand as of December 31, 2009 and 2008, respectively.
- (b) Credit risk
The Company's 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. The Company's 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 exposes 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 suffer a

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

financial loss as a result.

The Company evaluated the credit risks in considering whether the financial instruments for any possible counter-party or third-parties are reputable financial institutions, business enterprises, and government agencies. The Company believed that the Company's exposure to credit risk as of December 31, 2009 was not significant.

(c) Liquidity risk

The Company has 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

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

11. ADDITIONAL DISCLOSURES

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

A. Financing provided: None;

B. Endorsement/guarantee provided: None;

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

C. MARKETABLE SECURITIES HELD

AS OF DECEMBER 31, 2009

Holding 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	Pixart International (BVI) Ltd.	Subsidiary	Investments accounted for using equity method	500,000	\$7,519	100.00	15.04	-
		Pixart International (SAMOA) Ltd.	Subsidiary	Investments accounted for using equity method	600,000	9,999	100.00	16.67	-
		Yuan-Xiang Investment Corp.	Subsidiary	Investments accounted for using equity method	20,000,000	200,423	100.00	10.02	-
		Yuan-Feng Investment Corp.	Subsidiary	Investments accounted for using equity method	5,000,000	49,806	100.00	9.96	-
		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	-

(To be continued)

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

(Continued)

Holding Company Name	Marketable Securities Type	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2009				
					Shares/Un its	Carrying Value (NT\$'000)	Percentage of Ownership (%)	Net Asset Value (NT\$)	Note
The Company	Bonds	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	-

PixArt Imaging Inc.**Notes To Financial Statements (Continued)**

**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 corpotate 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)

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

(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.

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;

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

G. TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2009

Company Name	Counter-party	Related Party	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable	
			Purchases/ Sales	Amount (NT\$'000)	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance (NT\$'000)	% to Total
The Company	UMC	Related party in substance	purchase	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.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

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

A. NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE AS OF DECEMBER 31, 2009

Monetary unit: US dollars/NT thousand dollars

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount (NT\$'000)		Balance as of December 31, 2009			Net Income (Losses) of the Investee (NT\$'000)	Equity in the Earnings (NT\$'000)
				December 31,		Shares	Percentage of Ownership (%)	Carrying Value (NT\$'000)		
				2009	2008					
The Company	Pixart International (BVI) Ltd.	BVI	Investment activities	17,121	\$-	500,000	100.00	7,519	(9,401)	(9,401)
	Pixart International (SAMOA) Ltd.	SAMOA	Investment activities	19,460	9,767	600,000	100.00	9,999	(7,592)	(7,592)
	Yuan-Xiang Investment Corp.	Taiwan	Investment activities	200,000	200,000	20,000,000	100.00	200,423	(425)	(425)
	Yuan-Feng Investment Corp.	Taiwan	Investment activities	50,000	50,000	5,000,000	100.00	49,806	(307)	(307)
Pixart International (SAMOA) Ltd.	Yuan Xiang Investment Corp.	Republic of Mauritius	Investment activities	- (Remark 1)	-	1,000,000	100.00	-	-	-
Yuan-Xiang Investment Corp.	PrimeSensor Technology Inc.	Taiwan	IC design	30,000	30,000	3,000,000	20.00	29,474	-	(Remark 2)
Yuan-Feng Investment Corp.	PrimeSensor Technology Inc.	Taiwan	IC design	15,000	15,000	1,500,000	10.00	14,737	-	(Remark 2)
PrimeSensor Technology Inc.	YuanSheng Investment (SAMOA) Ltd.	SAMOA	Investment activities	6,077	-	175,000	100.00	4,252	-	(Remark 2)
PrimeSensor Technology Inc.	PrimeSensor Technology (SAMOA) Ltd.	SAMOA	Investment activities	6,764	-	210,000	100.00	6,726	-	(Remark 2)

(To be Continued)

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount (NT\$'000)		Balance as of December 31, 2009			Net Income (Losses) of the Investee (NT\$'000)	Equity in the Earnings (NT\$'000)
				December 31,		Shares	Percentage of Ownership (%)	Carrying Value (NT\$'000)		
				2009	2008					
Pixart International (BVI) Ltd.	YuanXiang Technology (SAMOA) Ltd.	SAMOA	Investment activities	USD 500,000	-	500,000	100.00	USD 234,655	-	(Remark 2)
YuanXiang Technology (SAMOA) Ltd.	PrimeSensor Japan Inc.	Japan	Technical Support activities	USD 358,864	-	700	70.00	USD 260,357	-	(Remark 2)
YuanSheng Investment (SAMOA) Ltd.	PrimeSensor Japan Inc.	Japan	Technical Support activities	USD 153,799	-	300	30.00	USD 111,582	-	(Remark 2)

Remark 1: As of December 31, 2009, the investment amounts of Yuan Xiang Investment Corp. (Republic of Mauritius)have not yet been made.

Remark 2: The investee company recongnized investment losses and gains under the equity method on the long-term equity investment in the list of remark 2 which were included in the investee company's investment losses and gains, respectively.

B. Following are the additional disclosures required for the Company's investees:

a. Financing provided: None;

b. Endorsement/guarantee provided: None;

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

c. MARKETABLE SECURITIES HELD
AS OF DECEMBER 31, 2009

Monetary unit: US dollars/NT thousand dollars

Holding 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
Pixart International (SAMOA) Ltd.	Stocks	Yuan Xiang Investment Corp.	Investee company of Pixart International (SAMOA) Ltd.	Investments accounted for using equity method	1,000,000	- (Remark)	100.00	-	-
Yuan-Xiang Investment Corp.	Stocks	PrimeSensor Technology Inc.	Affiliates	Investments accounted for using equity method	3,000,000	29,474	20.00	9.82	-
Yuan-Feng Investment Corp.	Stocks	PrimeSensor Technology Inc.	Affiliates	Investments accounted for using equity method	1,500,000	14,737	10.00	9.82	-
PrimeSensor Technology Inc.	Stocks	YuanSheng Investment (SAMOA) Ltd.	Subsidiary of PrimeSensor Technology Inc.	Investments accounted for using equity method	175,000	4,252	100.00	24.30	-
PrimeSensor Technology Inc.	Stocks	PrimeSensor Technology (SAMOA) Ltd.	Subsidiary of PrimeSensor Technology Inc.	Investments accounted for using equity method	210,000	6,726	100.00	32.03	-
Pixart International (BVI) Ltd.	Stocks	YuanXiang Technology (SAMOA) Ltd.	Subsidiary of Pixart International (BVI) Ltd.	Investments accounted for using equity method	500,000	USD 234,655	100.00	USD 0.47	-
YuanXiang Technology (SAMOA) Ltd.	Stocks	PrimeSensor Japan Inc.	Subsidiary of YuanXiang Technology (SAMOA) Ltd	Investments accounted for using equity method	700	USD 260,357	70.00	USD 371.94	-
YuanSheng Investment (SAMOA) Ltd.	Stocks	PrimeSensor Japan Inc.	Investee under equity Investment of YuanSheng Investment (SAMOA) Ltd.	Investments accounted for using equity method	300	USD 111,582	30.00	USD 371.94	-

Remark : As of December 31, 2009, the investment amount has not yet been made.

PixArt Imaging Inc.

Notes To Financial Statements (Continued)

d. Marketable securities acquired or disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: None;

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;

g. Total purchases from or sales to related parties of at least NT\$100 million or 20% of the paid-in capital: None;

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.

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

None.

PixArt Imaging Inc.**Notes To Financial Statements (Continued)****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	35.37	2,600,189	54.12
C	1,045,233	27.84	947,493	19.72
D	380,275	10.13	402,837	8.38
Total	2,753,298	73.34	3,950,519	82.22

(2) Export sales

The Company's export sales amounted to NT\$3,387,568 thousand and NT\$4,349,223 thousand, representing 90.23% 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	3,379,927	4,348,629
Other	7,641	594
Taiwan	366,864	455,648
Net Income	3,754,432	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.