

**ASUSTeK COMPUTER INC.**  
**Financial Statements**  
**March 31, 2010 and 2009**  
**(With Independent Auditors' Report Thereon)**

## **Independent Auditors' Review Report**

The Board of Directors  
ASUSTek Computer Inc.:

We have reviewed the accompanying balance sheet of ASUSTek Computer Inc. as of March 31, 2010, and the related statements of income and cash flows for the three-month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report on these financial statements based on our review. The accompanying balance sheet of ASUSTek Computer Inc. as of March 31, 2009 and the related statements of income and cash flows for the three-month period then ended were reviewed by other auditors whose report dated April 24, 2009 expressed a qualified review report.

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

As stated in note 4(5) to the financial statements, the long-term equity investments accounted for under the equity method amounting to NT\$108,172,281,000 as of March 31, 2010, and the related investment income of NT\$2,040,381,000 recognized for the three-month period ended March 31, 2010, were based on the investee companies' financial statements prepared by the investee companies.

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

We have also expressed a qualified review report, under separate cover, on the consolidated financial statements of ASUSTek Computer Inc. and subsidiaries as of and for the three-month period ended March 31, 2010.

April 23, 2010

### **Note to Readers**

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

ASUSTeK COMPUTER INC.

Balance Sheets (Unaudited)

March 31, 2010 and 2009  
(expressed in thousands of New Taiwan dollars)

Assets	2010		2009		Liabilities and Stockholders' Equity	2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents (note 4(1))	\$ 14,709,614	6.1	20,549,225	9.9	Notes and accounts payable	\$ 32,916,864	13.7	9,661,359	4.7
Financial assets measured at fair value through profit or loss – current (note 4(2))	13,951,363	5.8	11,603,622	5.6	Notes and accounts payable – related parties (note 5)	10,745,000	4.5	6,990,173	3.4
Available-for-sale financial assets – current (note 4(2))	397,433	0.2	353,014	0.2	Income tax payable	2,032,851	0.8	3,851,637	1.8
Financial assets carried at cost – current (note 4(2))	41,162	-	-	-	Accrued expenses and other current liabilities (note 5)	9,036,033	3.8	7,175,322	3.5
Notes and accounts receivable, net (note 4(3))	1,695,231	0.7	537,328	0.3	Financial liabilities measured at fair value through profit or loss – current (notes 4(2) and 4(7))	284,681	0.1	252,944	0.1
Notes and accounts receivable, net – related parties (note 5)	53,366,636	22.2	27,445,751	13.3	Receipts in advance (note 5)	792,037	0.3	1,286,634	0.6
Other receivables (notes 4(5) and 5)	6,913,143	2.9	866,870	0.4	Bonds payable – current (note 4(7))	<u>3,668,729</u>	<u>1.5</u>	<u>4,992,226</u>	<u>2.4</u>
Inventories, net (note 4(4))	17,668,591	7.3	13,474,995	6.5		<u>59,476,195</u>	<u>24.7</u>	<u>34,210,295</u>	<u>16.5</u>
Prepaid and other current assets (note 7)	2,204,074	0.9	587,610	0.3	<b>Long-term and other liabilities:</b>				
Deferred income tax assets – current (note 4(9))	<u>1,454,065</u>	<u>0.6</u>	<u>1,694,716</u>	<u>0.8</u>	Deferred credits (notes 4(5) and 5)	2,380,574	1.0	937,612	0.4
	<u>112,401,312</u>	<u>46.7</u>	<u>77,113,131</u>	<u>37.3</u>	Deferred income tax liabilities and others (note 4(9))	<u>1,736,347</u>	<u>0.7</u>	<u>1,986,605</u>	<u>1.0</u>
						<u>4,116,921</u>	<u>1.7</u>	<u>2,924,217</u>	<u>1.4</u>
<b>Investments:</b>					<b>Total liabilities</b>	<u>63,593,116</u>	<u>26.4</u>	<u>37,134,512</u>	<u>17.9</u>
Long-term investments under equity method (note 4(5))	115,606,755	48.0	120,771,710	58.4	<b>Stockholders' equity:</b>				
Available-for-sale financial assets – non-current (note 4(2))	5,229,991	2.2	3,727,271	1.8	Common stock (note 4(8))	<u>42,467,775</u>	<u>17.7</u>	<u>42,460,513</u>	<u>20.5</u>
Financial assets carried at cost – non-current (note 4(2))	<u>242,859</u>	<u>0.1</u>	<u>79,210</u>	<u>-</u>	Additional paid-in capital (note 4(8))				
	<u>121,079,605</u>	<u>50.3</u>	<u>124,578,191</u>	<u>60.2</u>	Paid-in capital in excess of par value	28,274,481	11.8	27,861,248	13.5
					Others	<u>1,984,815</u>	<u>0.7</u>	<u>1,958,694</u>	<u>0.9</u>
<b>Property, plant and equipment:</b> (note 4(6))						<u>30,259,296</u>	<u>12.5</u>	<u>29,819,942</u>	<u>14.4</u>
Land	981,191	0.4	1,019,424	0.5	Retained earnings (note 4(8))				
Buildings	2,421,641	1.0	2,429,897	1.2	Legal reserve	18,910,213	7.9	17,264,557	8.3
Machinery and equipment	900,569	0.4	870,176	0.4	Unappropriated retained earnings	<u>82,553,700</u>	<u>34.3</u>	<u>76,111,228</u>	<u>36.8</u>
Other equipment	<u>1,629,929</u>	<u>0.7</u>	<u>2,330,782</u>	<u>1.1</u>		<u>101,463,913</u>	<u>42.2</u>	<u>93,375,785</u>	<u>45.1</u>
	5,933,330	2.5	6,650,279	3.2	Equity adjustment:				
Less: accumulated depreciation	(1,751,552)	(0.7)	(1,972,374)	(0.9)	Cumulative translation adjustments	990,313	0.4	6,380,723	3.1
Prepayments for purchase of equipment	<u>110,138</u>	<u>-</u>	<u>186,197</u>	<u>-</u>	Net loss not recognized as pension cost	(3,202)	-	(1,115)	-
	<u>4,291,916</u>	<u>1.8</u>	<u>4,864,102</u>	<u>2.3</u>	Unrealized gains (losses) on financial assets	1,832,199	0.8	(1,254,809)	(0.6)
					Treasury stock (note 4(8))	<u>-</u>	<u>-</u>	<u>(873,459)</u>	<u>(0.4)</u>
						<u>2,819,310</u>	<u>1.2</u>	<u>4,251,340</u>	<u>2.1</u>
<b>Intangible assets and other assets:</b>					<b>Total stockholders' equity</b>	<u>177,010,294</u>	<u>73.6</u>	<u>169,907,580</u>	<u>82.1</u>
Computer software	149,243	0.1	196,190	0.1					
Leased assets, net (note 4(6))	98,498	0.1	41,460	-	<b>Total liabilities and stockholders' equity</b>	<b>\$ 240,603,410</b>	<b>100.0</b>	<b>207,042,092</b>	<b>100.0</b>
Refundable deposits and others (note 6)	98,480	-	94,784	-					
Deferred expenses	71,606	-	154,234	0.1					
Other assets – others (notes 4(6) and 7)	<u>2,412,750</u>	<u>1.0</u>	<u>-</u>	<u>-</u>					
	<u>2,830,577</u>	<u>1.2</u>	<u>486,668</u>	<u>0.2</u>					
<b>Total assets</b>	<b>\$ 240,603,410</b>	<b>100.0</b>	<b>207,042,092</b>	<b>100.0</b>					

See accompanying notes to financial statements.

**ASUSTeK COMPUTER INC.**

**Statements of Income (Unaudited)**

**For the three-month periods ended March 31, 2010 and 2009**  
(expressed in thousands of New Taiwan dollars, except earnings per share amounts)

	<b>2010</b>		<b>2009</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Sales revenue</b> (note 5)	\$ 75,208,096	100.5	40,961,615	101.4
Less: sales returns and allowances	397,649	0.5	567,195	1.4
<b>Net sales</b>	74,810,447	100.0	40,394,420	100.0
<b>Cost of sales</b> (notes 4(4), 5 and 10)	70,294,611	94.0	39,718,645	98.3
<b>Gross profit</b>	4,515,836	6.0	675,775	1.7
Changes in unrealized inter-company profits	(453,448)	(0.6)	(456,220)	(1.1)
<b>Realized gross profit</b>	4,062,388	5.4	219,555	0.6
<b>Operating expenses:</b> (notes 4(8), 5 and 10)				
Selling	616,562	0.8	505,896	1.2
General and administrative	509,750	0.7	264,399	0.7
Research and development	1,539,658	2.0	945,924	2.3
	2,665,970	3.5	1,716,219	4.2
<b>Operating income (loss)</b>	1,396,418	1.9	(1,496,664)	(3.6)
<b>Non-operating income and gains:</b>				
Interest income	21,544	-	40,005	0.1
Investment income under the equity method, net (note 4(5))	3,942,146	5.3	413,230	1.0
Foreign currency exchange gain, net	157,616	0.2	783,202	1.9
Gain on valuation of financial liabilities, net (note 4(7))	-	-	288,175	0.7
Others (note 4(2))	163,612	0.2	160,296	0.4
	4,284,918	5.7	1,684,908	4.1
<b>Non-operating expenses and losses:</b>				
Interest expense (note 4(7))	21,433	0.1	65,646	0.2
Others (notes 4(6) and (7))	20,954	-	50,623	0.1
	42,387	0.1	116,269	0.3
<b>Net income before income tax expense</b>	5,638,949	7.5	71,975	0.2
Income tax expense (benefit) (note 4(9))	700,407	0.9	(381,586)	(0.9)
<b>Net income</b>	\$ 4,938,542	6.6	453,561	1.1
	<b>Before</b>	<b>After</b>	<b>Before</b>	<b>After</b>
	<b>income tax</b>	<b>income tax</b>	<b>income tax</b>	<b>income tax</b>
<b>Earnings per share</b>				
<b>Basic earnings per share (in dollars)</b>	<b>\$ <u>1.33</u></b>	<b><u>1.16</u></b>	<b><u>0.02</u></b>	<b><u>0.11</u></b>
<b>Diluted earnings per share (in dollars)</b>	<b>\$ <u>1.31</u></b>	<b><u>1.15</u></b>	<b><u>(0.01)</u></b>	<b><u>0.08</u></b>

**ASUSTeK COMPUTER INC.**  
**Statements of Cash Flows (Unaudited)**

**For the three-month periods ended March 31, 2010 and 2009**  
(expressed in thousands of New Taiwan dollars)

	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 4,938,542	453,561
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	266,207	261,031
Investment income under the equity method, net	(3,942,146)	(413,230)
Loss (gain) on valuation of financial liabilities	(1,142)	(288,175)
Decrease (increase) in financial assets measured at fair value through profit or loss– current	(715,536)	(3,248,427)
Decrease (increase) in notes and accounts receivable	(7,993,177)	10,928,543
Decrease (increase) in other receivables	2,701,857	5,281,722
Decrease (increase) in inventories, net	(2,581,096)	13,909,943
Decrease (increase) in prepaid and other current assets	(139,933)	146,920
Changes in deferred income tax assets and liabilities, net	143,623	(476,708)
Increase (decrease) in notes and accounts payable	5,895,321	(7,818,186)
Increase (decrease) in income tax payable	(444,402)	91,506
Increase (decrease) in accrued expenses, receipts in advance, and other current liabilities	(114,349)	(684,328)
Increase (decrease) in deferred credits	453,448	456,220
Others	35,359	129,549
<b>Net cash provided by (used in) operating activities</b>	<u>(1,497,424)</u>	<u>18,729,941</u>
<b>Cash flows from investing activities:</b>		
Acquisition of property, plant and equipment	(220,412)	(148,120)
Additions to deferred expenses and intangible assets	(7,300)	(241,118)
Others	31,979	(45,197)
<b>Net cash used in investing activities</b>	<u>(195,733)</u>	<u>(434,435)</u>
<b>Cash flows from financing activities:</b>		
Redemption of bonds payable	-	(7,650,882)
Redemption of treasury stock	-	(873,459)
Others	681	(249)
<b>Net cash provided by (used in) financing activities</b>	<u>681</u>	<u>(8,524,590)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(1,692,476)	9,770,916
<b>Cash and cash equivalents at beginning of period</b>	16,402,090	10,778,309
<b>Cash and cash equivalents at end of period</b>	<b>\$ <u>14,709,614</u></b>	<b><u>20,549,225</u></b>
<b>Supplementary disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ <u>59,247</u>	<u>16</u>
Income tax	\$ <u>1,001,185</u>	<u>3,616</u>
<b>Investing and financing activities not affecting cash flows:</b>		
Reclassification of current portion of long-term liabilities	\$ <u>3,668,729</u>	<u>4,992,226</u>
Cash dividends receivable from long-term investments under equity method	\$ <u>4,000,594</u>	<u>-</u>

See accompanying notes to financial statements.

# ASUSTeK COMPUTER INC.

## Notes to Financial Statements

March 31, 2010 and 2009

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

### 1. Organization

ASUSTeK Computer Inc. (the Company) was established on April 2, 1990. The Company's common shares were listed on the Taiwan Stock Exchange (TSE). Its main activities are to produce, design and sell notebook PCs, main boards, CD-ROMs and add-on cards.

The Company resolved to spin-off its OEM businesses on January 1, 2008. Pursuant to the Company's resolution, the Company transferred its computer and non-computer OEM businesses to its spun-off subsidiaries PEGATRON CORPORATION (PEGATRON) and UNIHAN CORPORATION (UNIHAN), respectively.

The Company's headcounts aggregated to 3,413 and 3,850 employees as of March 31, 2010 and 2009, respectively.

### 2. Summary of Significant Accounting Policies

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

#### (1) Use of estimates

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

#### (2) Classification of current and non-current assets and liabilities

Cash or cash equivalents, and assets that are held primarily for the purpose of being traded or are expected to be realized within 12 months after the balance sheet date are classified as current assets; all other assets are classified as non-current assets.

Liabilities that are held primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities are classified as non-current liabilities.

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**ASUSTeK COMPUTER INC.****Notes to Financial Statements****(3) Foreign currency transactions and translation of financial statements in foreign currencies**

Transactions involving non-derivative financial instruments denominated in foreign currencies are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occurred. Translation gains or losses arising from the settlement of assets and liabilities denominated in foreign currencies are included in profit or loss in the year of actual settlement.

Monetary assets and liabilities denominated in foreign currencies are remeasured on the balance sheet date using the exchange rates in effect on that date, with related exchange gains and losses included in the statements of income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value through stockholders' equity are remeasured at the exchange rate prevailing on the balance sheet date, with related exchange gains or losses recorded as cumulative translation adjustment in stockholders' equity. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value through profit or loss are remeasured at the exchange rate prevailing on the balance sheet date, with related exchange gains or losses recorded in the statements of income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at cost are remeasured at the historical exchange rate.

Long-term investments in foreign investees, which are accounted for under the equity method, are stated on the basis of stockholders' equity in the foreign-currency financial statements of investees. Translating gains or losses from long-term investments are recognized as cumulative transition adjustment in stockholders' equity.

**(4) Impairment of assets**

The Company assesses all applicable assets subject to R.O.C. Statement of Financial Accounting Standard ('SFAS') No. 35 for indication of impairment on the balance sheet date. If any indication of impairment exists, the Company then compares the carrying amount with the recoverable amount of the assets or the cash-generating unit ("CGU") and writes down the carrying amount to the recoverable amount. If the recoverable amount of an asset other than goodwill has increased as a result of the increase in its estimated service potential, the Company reverses the impairment loss to the extent that the carrying amount after the reversal would not exceed the amount (net of amortization or depreciation) that would otherwise result had no impairment loss been recognized in prior periods.

The Company assesses the goodwill and intangible assets that have indefinite lives or that are not yet available for use periodically and on an annual basis and recognizes an impairment loss on the carrying value in excess of the recoverable amount. The loss is first recorded against the goodwill allocated to the CGU, with any remaining loss allocated to other assets on a pro rata basis proportionate to their carrying amounts. The write-down of goodwill is not reversed in subsequent periods under any circumstances.

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**ASUSTeK COMPUTER INC.****Notes to Financial Statements**

## (5) Financial instruments

In accordance with R.O.C. SFAS No. 34 “Financial Instruments: Recognition and Measurement” and the “Criteria Governing the Preparation of Financial Reports by Securities Issuers”, financial assets are classified as financial assets at fair value through profit or loss, financial assets carried at cost, or available-for-sale financial assets, as appropriate. Financial liabilities are classified either as financial liabilities at fair value through profit or loss, or as financial liabilities at cost.

The Company accounts for purchases and sales of financial assets on the trade date, or the date when the Company commits to purchase or sell the asset. At initial recognition, financial assets are recognized at fair value plus, in the case of investments that are not reported at fair value through profit or loss, directly attributable transaction costs.

## A. Financial assets measured at fair value through profit or loss

These financial assets are subsequently measured at fair value with changes in fair value recognized in profit and loss. Stocks of listed companies, convertible bonds and closed-end funds are measured at closing prices on the balance sheet date. Open-end funds are measured at the unit price of the net assets on the balance sheet date.

## B. Financial assets carried at cost

Equity investments without reliable market prices, including emerging and other unlisted stocks, are measured at cost. If objective evidence of impairment exists, the Company recognizes impairment loss, which is not reversed in subsequent periods.

## 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 not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets, or loans and receivables. These assets are then measured at fair value. The gain or loss arising from change in fair value, excluding impairment loss and exchange gain or loss from the translation of monetary financial assets denominated in foreign currencies, is recognized in a separate component of stockholders’ equity until such investment is reclassified or disposed of, upon which the cumulative gains or losses previously charged to stockholders’ equity are transferred to current profit or loss.

Subsequent to initial recognition, the Company measures all financial liabilities at amortized cost except for financial liabilities at fair value through profit or loss, which are measured at fair value.

## (6) Allowance for doubtful accounts

Allowance for doubtful accounts is recognized on the basis of the estimated collectability of accounts receivable and other receivables.

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**ASUSTeK COMPUTER INC.****Notes to Financial Statements****(7) Inventories**

The costs of inventories consist of those necessary expenditures incurred in bringing each item of inventory to its usable condition and location. Cost is calculated on a weighted-average basis.

Inventories are valued at the lower of cost or net realizable value. Net realizable value by item is determined based on the estimated selling price in the ordinary course of business, less estimated costs of completion and costs to sell.

**(8) Long-term equity investments**

Long-term investments are accounted for under the equity method when the percentage of ownership held by the Company and its subsidiaries exceeds 20% or if the Company and its subsidiaries own less than 20% of the investee's common stock but have significant influence on the investee's operations. If an investee company accounted for under the equity method issues new shares and the Company does not purchase new shares proportionately, then the investment percentage, and therefore the equity in net assets of the investee, will be changed. The effect of such change is adjusted against the additional paid-in capital resulting from long-term equity investments or retained earnings.

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

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

When the equity of long-term equity investment under the equity method including unrealized gain on financial instruments, foreign currency translation adjustments, net loss not recognized as pension cost, and unrealized losses on cash flow hedges is changed, the changes in percentage of ownership are reflected in those related accounts and long-term equity investment under the equity method.

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**ASUSTeK COMPUTER INC.****Notes to Financial Statements**

Unrealized inter-company profits or losses resulting from transactions between the Company and its subsidiaries and investees accounted for under the equity method are deferred until realized.

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

(9) Property, plant and equipment, leased assets, idle assets, and depreciation

Property, plant and equipment are stated at cost. Cost associated with significant additions, improvements, and replacements to property, plant and equipment are capitalized. Expenditures for regular repairs and maintenance are charged against operating income.

Depreciation of property, plant and equipment is provided over the estimated useful lives of the assets by using the straight-line method. If the property, plant and equipment have reached the end of their estimated useful lives but are still in use, the Company will estimate their remaining useful lives and residual value, and depreciate the residual value using the same method. Property, plant and equipment leased to other parties under operating leases are classified as leased assets. The related depreciation is accounted for as a reduction of rental income. The useful lives of fixed assets, leased assets and idle assets are as follows:

A. Buildings and equipment: 3 to 50 years.

B. Machinery and equipment: 3 to 8 years.

C. Other equipment: 2 to 15 years.

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

(10) Intangible assets and deferred expenses

Intangible assets represent computer software, which is amortized using the straight-line method over 3 years.

Deferred expenses represent office decorations, which are amortized using the straight-line method over 2 to 5 years.

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**ASUSTeK COMPUTER INC.****Notes to Financial Statements**

## (11) Convertible bonds payable

According to R.O.C. SFAS No. 36 "Financial Instruments: Disclosure and Presentation" and Interpretation (95) 078 by the Accounting Research and Development Foundation (ARDF), convertible bonds with a put option issued by the Group before December 31, 2005, are accounted for in accordance with SFAS No. 21. The derivative instrument embedded in a non-derivative host debt instrument is not separated from the equity component of the instrument. Costs incurred for the issuance of redeemable convertible bonds are deferred and amortized during the period between the issuance date and the last redeemable date.

Bonds issued after January 1, 2006, are accounted for in accordance with R.O.C. SFAS No. 36 and Interpretations (95) 290, (97) 331 and (98) 046 by the ARDF as follows:

- A. The issuance costs are allocated to the related liability and equity components in proportion of the initially recognized amounts.
- B. Convertible bonds bearing a clause on conversion price adjustment based on stock market price do not include the equity component. For the liability components, the fair value of the conversion right and call/put option is determined first, then the book value of main debt component is determined based on the net amount of the issuance price after deducting the fair value of the call/put option and conversion right with a clause on price adjustment.
- C. Convertible bonds are subsequently measured at amortized cost. Derivatives with call/put options and conversion rights with a clause on price adjustment are recognized as "financial liabilities at fair value through profit or loss" and are subsequently measured at fair value. Movements in the fair value of the derivatives are recognized as "gain/ (loss) on valuation of financial liabilities".
- D. If the bondholder exercises the right to convert the bonds ahead of the maturity date of the bonds, the book value of the liability component is adjusted to the value on the conversion date, which serves as the basis for the recording of the issuance of common stock so that no conversion gain and loss is recognized thereon.
- E. If the bondholder is eligible to exercise the put option within one year, the bonds payable are reclassified as current liability. When the put option expires, those bonds payable are reclassified as long-term liability if the liability meets the definition of long-term liability.

## (12) Retirement plan

The Company makes monthly contributions to the pension fund at 2% of the total monthly salaries and wages as required by the Labor Standards Law. The fund is administrated by the Employees Retirement Fund Committee. This pension fund is considered absolutely separate from the Company after contribution; therefore, it is not included in the accompanying financial statements.

(Continued)

**ASUSTeK COMPUTER INC.****Notes to Financial Statements**

Effective from 1995, the Company adopts R.O.C. SFAS No. 18 "Accounting for Pensions". The funding status of the pension plan as of December 31, 1995, was measured on an actuarial basis. Because the accrued pension liability is equal to the funding status of the pension plan, no unrecognized transitional net assets or net obligations shall be amortized in the future. In accordance with R.O.C. SFAS No. 18, net pension cost was recognized from January 1, 1996. In addition, except for a few foreign employees, the Company had settled its financial obligations to its employees' under the pension plan accounted for base on SFAS No. 18 as of December 31, 2007.

The new Labor Pension Act became effective on July 1, 2005, and prescribes a defined contribution pension plan for all new employees and for any employees employed before that date who opted to adopt it. Under this defined contribution pension plan, the Company contributes monthly at the rate of no less than 6% of salaries and wages to employees' individual pension fund accounts with the Bureau of Labor Insurance, and this contribution is recorded as pension expenses in the accompanying statements of income.

(13) Revenue recognition

The Company recognizes revenue when the revenue earning process has been significantly completed, which means the revenue has been realized or is readily realizable and earned. Cost is recognized when the related revenue is accrued; expenses are recognized as current expenses when incurred.

(14) Employees' bonuses and directors' and supervisors' remuneration and share-based payment

Appropriation of earnings after January 1, 2008, for employees' bonuses and directors' remuneration according to the R.O.C. Company Act and each entity's article of incorporation accounts, is accounted for under Interpretation (96) 052 issued by the ARDF. Accordingly, the Company and domestic subsidiaries estimate the amount of directors' and supervisors' remuneration according to the Interpretation and recognize it as expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss. The Group adopts R.O.C. SFAS No. 39 to account for the transfer of equity instruments from shareholders and the Group to the Group's employees.

(15) Income taxes

Income tax is calculated on the basis of accounting income. The differences between the tax bases and the book values of assets and liabilities are recorded as deferred tax using the enacted tax rates for the periods in which the deferred tax is expected to be reversed. The tax effects from taxable temporary differences are recognized as deferred tax liabilities, while the deductible temporary differences, and investment tax credits are accounted for as deferred tax assets, which are assessed an allowance for deferred tax assets based on further realization.

(Continued)

**ASUSTeK COMPUTER INC.****Notes to Financial Statements**

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

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

Current income tax is the higher of current income tax payable or the Alternative Minimum Tax ("AMT") calculated by applying the Income Basic Tax Act ("IBTA"). The Company has taken into consideration the impact of the AMT in the determination of its current income tax expense and its future impact when estimating the realizable value of the deferred tax assets.

**(16) Treasury stock**

The Company adopts R.O.C. SFAS No. 30 "Accounting for Treasury Stocks" to account for treasury stock transactions and recognizes the treasury stock at purchase cost. A gain on the sale of treasury stock is credited to additional paid-in capital – treasury stock. Losses are charged to additional paid-in capital, but only to the extent of available net gains from previous sales or retirements of the same class of stock; otherwise, losses are charged to retained earnings. The cost of treasury stock is computed using the weighted-average method.

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

**(17) Earnings per share**

Earnings per share of common stock are computed based on the weighted-average number of common shares outstanding during the period. Earnings per share for prior period are retroactively adjusted to reflect the effects of new shares issued from the capitalization of additional paid-in capital or retained earnings.

The convertible bonds and employee stock bonuses which have not yet been approved for distribution in the stockholders' meeting are potential common shares. Only basic earnings per share is disclosed if they are not dilutive. Otherwise, both basic and diluted earnings per share are disclosed. For the purpose of calculating diluted earnings per share, the potential common shares are deemed to have been converted into common stock at the beginning of the period, and the effect on net income of the additional common shares outstanding is considered accordingly.

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

## 3. Changes in Accounting Policy and Their Influence

Effective from January 1, 2009, the Company measured its inventories initially and subsequently in accordance with R.O.C. SFAS No. 10 "Inventories". Accordingly, net income decreased by \$1,603,490 and basic earnings per share decreased by NTD 0.38 for the three-month period March 31, 2009.

## 4. Details of Significant Accounts

## (1) Cash and cash equivalents

	<u>2010/3/31</u>	<u>2009/3/31</u>
Petty cash and cash on hand	\$ 264	264
Checking accounts and demand deposits	36,573	86,737
Time deposits	<u>14,672,777</u>	<u>20,462,224</u>
	<b>\$ <u>14,709,614</u></b>	<b><u>20,549,225</u></b>

## (2) Financial instruments

The financial instruments held by the Company as of March 31, 2010 and 2009 were as follows:

	<u>2010/3/31</u>	<u>2009/3/31</u>
Financial assets measured at fair value through profit or loss:		
Open-end funds	\$ 13,902,076	11,598,671
Stocks of listed companies	35,712	-
Forward foreign currency exchange contracts	13,575	-
Currency option contracts	<u>-</u>	<u>4,951</u>
	<b>\$ <u>13,951,363</u></b>	<b><u>11,603,622</u></b>
Financial liabilities measured at fair value through profit or loss:		
Current:		
Call/put options and conversion right – convertible bonds	<b>\$ <u>284,681</u></b>	<b><u>252,944</u></b>
Available-for-sale financial assets:		
Current:		
GIGABYTE TECHNOLOGY CO., LTD.	\$ -	88,320
D-Link Corporation	<u>397,433</u>	<u>264,694</u>
	<b>\$ <u>397,433</u></b>	<b><u>353,014</u></b>

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

	<u>2010/3/31</u>	<u>2009/3/31</u>
Non-current:		
Advantech Co., Ltd.	\$ 5,160,194	3,566,902
Others	<u>69,797</u>	<u>160,369</u>
	<b>\$ <u>5,229,991</u></b>	<b><u>3,727,271</u></b>
Financial assets carried at cost:		
Current:		
Edison Opto Corporation	\$ 40,000	-
GREENASUS RECYCLING CO., LTD. (GREENASUS)	790	-
Asureware (Cayman) Holding Inc. (Asureware Cayman)	372	-
	<b>\$ <u>41,162</u></b>	<b><u>-</u></b>
Non-current:		
AmTrust Capital I Corp	\$ 62,859	62,859
ASUSCOM Network Inc.	-	16,350
Nuvoton Technology Corporation	45,000	-
Others	<u>135,000</u>	<u>1</u>
	<b>\$ <u>242,859</u></b>	<b><u>79,210</u></b>

## A. Derivative financial instruments:

The forward foreign currency exchange contracts were intended mainly to hedge foreign currency risk from operating activities. As of March 31, 2010 and 2009, the Company did not meet the criteria for hedge accounting so that these derivatives were recognized as financial instruments held for trading as follows (foreign currencies are expressed in thousands):

	<u>2010/3/31</u>		<u>2009/3/31</u>	
	<u>Nominal Amount</u>	<u>Period</u>	<u>Nominal Amount</u>	<u>Period</u>
Derivative financial liabilities:				
USD forward foreign currency exchange contracts sold	<b>USD <u>93,000</u></b>	2010.1.26~ 2010.5.6		
Call options (buy NTD/sell USD)			<b>USD <u>10,000</u></b>	2009.2.24~ 2009.5.25
Put options (buy NTD/sell USD)			<b>USD <u>10,000</u></b>	2009.2.24 2009.5.25
Put options (buy USD/sell NTD)			<b>USD <u>10,000</u></b>	2009.2.24 2009.5.25

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

The gain resulting from changes in fair value of forward foreign currency exchange contracts and option contracts amounted to \$7,477 and \$37,474 for the three-month periods ended March 31, 2010 and 2009, respectively.

## B. Available-for-sale financial assets:

For the three-month periods ended March 31, 2010 and 2009, the unrealized gains (losses) on available-for-sale financial assets amounted to \$(285,112) and \$61,242, respectively, and were recorded as a separate component of stockholders' equity.

## C. Financial assets carried at cost:

ASUSCOM Network Inc. completed its liquidation in year 2009. GREENASUS and Azureware Cayman began their liquidation procedures in December and October 2009, respectively. The Company has stopped applying the equity method in accordance with related regulations.

## (3) Notes and accounts receivable – non-related parties

	<u>2010/3/31</u>	<u>2009/3/31</u>
Notes receivable	\$ -	764
Accounts receivable	1,792,315	566,154
	<u>1,792,315</u>	<u>566,918</u>
Less: allowance for doubtful accounts	(97,084)	(29,590)
	<u>\$ 1,695,231</u>	<u>537,328</u>

## (4) Inventories

	<u>2010/3/31</u>	<u>2009/3/31</u>
Finished goods	\$ 354,239	853,650
Merchandise inventory	11,215,257	13,179,984
Work in process	1,375,818	856,470
Raw materials	6,606,225	1,931,720
Inventories in transit	324,598	161,746
Less: allowance for inventory valuation loss and obsolescence	(2,207,546)	(3,508,575)
	<u>\$ 17,668,591</u>	<u>13,474,995</u>

The inventory valuation resulted in a gain of \$180,508 and a loss of \$710,721 for the three-month periods ended March 31, 2010 and 2009, respectively. Such gain or loss was either deducted from or added to cost of sales during those periods.

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

## (5) Long-term equity investments

<u>Investee Company</u>	<u>2010/3/31</u>		<u>2009/3/31</u>	
	<u>Interest Owned</u>	<u>Amount</u>	<u>Interest Owned</u>	<u>Amount</u>
PEGATRON	100%	\$ 92,801,746	100%	92,552,291
ASUS INTERNATIONAL LIMITED	100%	9,262,755	100%	15,058,851
Askey Computer Corp. (Askey)	100%	8,771,831	100%	9,599,230
ASUSTEK HOLDINGS LIMITED	100%	1,661,050	100%	1,905,462
Hua-Cheng Venture Capital Corp.	100%	1,045,197	100%	556,206
Others		2,064,176		1,099,670
		<u>\$ 115,606,755</u>		<u>120,771,710</u>

- A. The investment income which was recognized under the equity method amounted to \$3,942,146 and \$413,230 for the three-month periods ended March 31, 2010 and 2009, respectively. The investment income of \$2,040,381 and investment loss of \$1,397,572, respectively, and the long-term equity investments amounting to \$108,172,281 and \$101,245,586, respectively, were determined based on the financial statements prepared by the investee companies.
- B. The Company received cash dividends for the three-month periods ended March 31, 2010 and 2009 amounting to \$4,000,594 and \$0, respectively, stated as a deduction from long-term equity investment, the Company had not collected the dividends and recognized as other receivables.
- C. The unrealized gains (losses) on financial assets resulting from long-term equity investments were \$(166,762) and \$252,477 for the three-month periods ended March 31, 2010 and 2009, respectively.
- D. Long-term investment credit amounting to \$722,469 and \$183,055 was included in deferred credits on March 31, 2010 and 2009, respectively.

## (6) Property, plant and equipment, leased assets, and idle assets

- A. The Company entered into agreements to lease a portion of its office space and plant facilities. Under these agreements, the rental is payable monthly. As of March 31, 2010 and 2009, the leased assets consisted of the following:

	<u>2010/3/31</u>	<u>2009/3/31</u>
Land, buildings and others	\$ 118,964	75,331
Less: accumulated depreciation	<u>(20,466)</u>	<u>(33,871)</u>
	<u>\$ 98,498</u>	<u>41,460</u>

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

B. Idle assets consisted of the following:

	<u>2010/3/31</u>	<u>2009/3/31</u>
Other equipment	\$ 1,331,086	-
Less: accumulated depreciation	(1,028,773)	-
accumulated impairment	<u>(302,313)</u>	<u>-</u>
	<u>\$ -</u>	<u>-</u>

There is no indication of cash flow in future years for idle assets which are currently not used for operations; therefore, the Company recognized the net fair value as the recoverable amount. After evaluating and comparing the carrying value of idle assets and the recoverable amount, the Company recognized loss on impairment of \$696 for the three-month period ended March 31, 2010.

C. Property, plant and equipment, leased assets, and idle assets are not pledged as collateral.

## (7) Bonds payable

A. The Company issued the first Euro unsecured convertible bonds (ECB 1) on the Luxembourg Stock Exchange on January 15, 2004, with a zero-coupon rate, a duration of five years, and a face value of US\$320,000,000. The details of ECB 1 are as follows:

	<u>2009/12/31</u>
Aggregate principal amount (USD 320,000,000)	\$ 10,822,400
Converted amount (USD 273,711,000)	(9,256,906)
Redeemed amount (USD 46,289,000)	<u>(1,565,494)</u>
Corporate bonds payable – net	<u>\$ -</u>

B. The Company issued redeemable domestic unsecured convertible bonds with a zero-coupon rate and a face value of \$12,000,000 on November 7, 2006. In accordance with SFAS No. 36, the Company separated the embedded derivative debt and non-derivative debt components as follows:

The main debt component at issuance	\$ 10,653,600
The embedded derivative debt at issuance	<u>1,346,400</u>
The total amount of the convertible bonds at issuance	<u>\$ 12,000,000</u>

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

The main issuance terms of the domestic unsecured convertible bonds are as follows:

- (a) Duration of issuance: 5 years (from November 7, 2006, to November 7, 2011.)
- (b) Conversion period: Each bondholder has the right to convert all or from time to time any portion of its convertible bonds into common shares during the conversion period (up to 31 days after the original issued date to 10 days before the maturity date).
- (c) Conversion price and adjustment: The conversion price is NT105.4 dollars per common share initially. The conversion price will be adjusted upon the occurrence of an increase in the number of common shares. The Company adjusted the conversion price to NT74.8 dollars on August 24, 2009. Furthermore, the conversion price was reset to NT68.7 dollars on October 1, 2009, in accordance with certain conversion terms.
- (d) Call option: The Company could redeem the convertible bonds at par value at any time during the period from December 8, 2006, to September 28, 2011, under the following conditions: the closing price of the common shares on each of 30 consecutive trading days reaches or exceeds 50% of the conversion price, or the outstanding balance of the bonds is less than 10% of the original issuance.
- (e) Put option: Each bondholder has the right to put the convertible bonds at par value after the 3rd and 4th year.

The information on the above bonds payable is as follows:

	<u>2010/3/31</u>	<u>2009/3/31</u>
Aggregate principal amount	\$ 12,000,000	12,000,000
Accumulated converted amount	(7,000)	(7,000)
Accumulated redeemed amount	(8,187,100)	(6,690,200)
Discount on bonds payable	<u>(137,171)</u>	<u>(310,574)</u>
	3,668,729	4,992,226
Less: Convertible bonds payable –redeemable within one year	<u>(3,668,729)</u>	<u>(4,992,226)</u>
Corporate bonds payable – net	\$ <u><u>-</u></u>	<u><u>-</u></u>
Debt-component embedded derivative:		
– call/put option and conversion price reset option	\$ 13,320	88,027
– conversion rights	<u>271,361</u>	<u>164,917</u>
	<u>\$ <u><u>284,681</u></u></u>	<u><u>252,944</u></u>

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

	<u>2010/1/1~3/31</u>	<u>2009/1/1~3/31</u>
Gain/(loss) on valuation of financial liabilities	\$ <u>1,142</u>	<u>288,175</u>
Interest expense	\$ <u>21,433</u>	<u>56,569</u>

The Company reclassified the convertible bonds and the related financial liabilities as current liabilities since the fourth quarter of 2008, because the bondholders could opt to request the Company to redeem the convertible bonds on November 7, 2010 and 2009.

## (8) Stockholders' equity

## A. Capital stock

On June 16, 2009, the stockholders resolved to increase capital by 26,851,000 shares by capitalizing the retained earnings and employees' bonuses of \$268,512. The record date of this capital increase was set as August 24, 2009. The registration procedures related to the issuance of shares were completed.

As of March 31, 2010 and 2009, the authorized capital of the Company was \$47,500,000 (\$500,000 was reserved for employee stock options with \$10 par value per share). Total issued shares were 4,246,777 thousands and 4,246,051 thousand shares, respectively.

The Company issued Global Depositary Receipts (GDRs), and the GDRs are now listed on the London Stock Exchange. The GDRs (originally 21,000,000 units issued and changed to 4,200,000 units from January 2, 2008) represent 21,000,000 shares of the Company's common stock.

## B. Treasury stock

Movements of treasury stock were as follows:

	<u>2009/1/1~2009/3/31</u>	
	<u>Shares (in thousands)</u>	<u>Amount</u>
Beginning of the period	\$ -	-
Addition	<u>26,125</u>	<u>873,459</u>
Ending of the period	\$ <u>26,125</u>	<u>873,549</u>

(Continued)

**ASUSTeK COMPUTER INC.****Notes to Financial Statements**

Pursuant to the Securities and Exchange Act, the total shares of treasury stock shall not exceed 10% of the number of shares issued, and the total purchase cost shall not exceed the sum of the retained earnings, additional paid-in capital-premiums, and realized additional paid-in capital. For shares bought back with the intent of maintaining the Company's credibility and stockholders' rights, the registration procedure must be completed within six months from the date of buyback. Treasury stock held by the Company cannot be pledged and does not have the right to receive dividends or vote until it is disposed of.

**C. Additional paid-in capital**

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

As of March 31, 2010 and 2009, due to the non-proportional investment in investee's increase in capital, additional paid-in capital amounting to \$1,984,815 and \$1,958,694, respectively, was recognized, in accordance with SFAS. As this additional paid-in capital is not regulated by the R.O.C. Company Act, Article 241, the transfer thereof to retained earnings is prohibited.

**D. Limitation on distribution of retained earnings**

According to the Company's articles of incorporation, annual net income after making up prior years' losses, if any, should be distributed as follows: 10% as legal reserve, an appropriate amount as special reserve according to relevant regulation or as required by the government, 10% of capital stock as capital interest, no less than 1% as employees' bonuses, and no more than 1% as directors' and supervisors' bonuses. When the employees' bonuses are distributed in stock, the recipients must include the employees of subsidiaries. After the distribution of earnings, the remained earnings, if any, may be appropriated according to a resolution adopted in a stockholders' meeting.

The Company is facing a rapidly changing industrial environment, with the life cycle of the industry in the growth phase. In light of the long-term financial plan of the Company and the demand for cash by the stockholders, the Company should distribute cash dividends of no less than 10% of the aggregate of all dividends.

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## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

- E. Based on the resolutions approved by the stockholders during their annual stockholders' meetings on April 22, 2010, and June 16, 2009, the employees' bonuses and directors' and supervisors' remuneration were appropriated from the distributable retained earnings of 2009 and 2008 as follows:

	<u>2009</u>	<u>2008</u>
Employees' bonuses – cash	\$ 698,438	250,837
Employees' bonuses – stock	-	700,000
Directors' and supervisors' remuneration	<u>69,844</u>	<u>52,824</u>
	<u>\$ 768,282</u>	<u>1,003,661</u>

There was no difference between the amount of earnings actually distributed for 2009 and 2008 and that accrued in the 2009 and 2008 financial statements, and the earnings distribution for 2009 and 2008 was recorded as expense in respective years.

- F. According to the Company Act and the Company's articles of incorporation, the employees' bonuses and directors' and supervisors' remuneration were estimated and accrued in the 2010 and 2009 interim financial statements based on a fixed amount approved by the management. The recognized employees' bonuses amounted to \$169,150 and \$0, and directors' and supervisors' remuneration amounted to \$33,830 and \$0 for the three-month periods ended March 31, 2010 and 2009, respectively. The number of shares distributable as stock dividend is determined based on the closing price of the day before the shareholders' meeting date and considering the ex-rights and ex-dividends effects. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized in profit or loss in the year of actual distribution.

## (9) Income taxes

- A. The Company was certified to meet the definition of "Business Operation Headquarters" as defined by the "Statute for Upgrading Industries," Article 70-1. According to this statute, the Company can obtain an income tax exemption on dividends declared by the board of directors of an investee. The Company has obtained the exemption certificates for 2009.
- B. The Company is subject to income tax at a statutory rate of 20% and 25% in 2010 and 2009, respectively. The Company is also subject to the "Income Basic Tax Act" to calculate income tax. The components of income tax expense of the Company for the three-month periods ended March 31, 2010 and 2009, were as follows:

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

	<u>2010/1/1~3/31</u>	<u>2009/1/1~3/31</u>
Current income tax expense	\$ 556,783	190,244
Investment tax credits	<u>-</u>	<u>(95,122)</u>
	<u>556,783</u>	<u>95,122</u>
Deferred income tax expense (benefit):		
Decrease (increase) in unrealized sales profit on inter-affiliate accounts	(90,690)	(114,055)
Decrease (increase) in inventory valuation loss	36,102	(177,680)
Increase (decrease) in investment income under equity method	356,509	(53,452)
Others	<u>(158,297)</u>	<u>(131,521)</u>
	<u>143,624</u>	<u>(476,708)</u>
Income tax expense	<u>\$ <b>700,407</b></u>	<u><b>(381,586)</b></u>

- C. The income tax computed on pre-tax financial income at the statutory rate was reconciled with the income tax expense for the three-month periods ended March 31, 2010 and 2009, as follows:

	<u>2010/1/1~3/31</u>	<u>2009/1/1~3/31</u>
Income tax calculated on pre-tax financial income	\$ 1,127,790	17,984
Investment tax credits	-	(95,122)
Estimated tax effect of tax exemption on investment income, net	(425,045)	(225,779)
Others	<u>(2,338)</u>	<u>(78,669)</u>
Income tax expense	<u>\$ <b>700,407</b></u>	<u><b>(381,586)</b></u>

- D. The components of deferred income tax assets (liabilities) as of March 31, 2010 and 2009, were as follows:

	<u>2010/3/31</u>	<u>2009/3/31</u>
Deferred income tax assets:		
Unrealized sales profit	\$ 331,621	188,639
Inventory provisions	441,509	877,144
Unrealized accrued expense	248,189	489,374
Others	<u>453,392</u>	<u>143,723</u>
	<u>1,474,711</u>	<u>1,698,880</u>

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

	<u>2010/3/31</u>	<u>2009/3/31</u>
Deferred income tax liabilities:		
Investment income recognized under the equity method (overseas)	(1,514,267)	(1,986,036)
Others	<u>(236,755)</u>	<u>-</u>
	<u>(1,751,022)</u>	<u>(1,986,036)</u>
	<u>\$ (276,311)</u>	<u>(287,156)</u>
	<u>2010/3/31</u>	<u>2009/3/31</u>
Net deferred income tax assets – current	\$ 1,454,065	1,694,716
Net deferred income tax liabilities – non-current	<u>(1,730,376)</u>	<u>(1,981,872)</u>
	<u>\$ (276,311)</u>	<u>(287,156)</u>

E. The R.O.C. tax authorities have examined the Company's income tax returns through 2007 except for the year 2006. The tax authorities assessed further the Company for additional income tax of \$716,266 for the years 1996 and 1998. The Company disagreed with the assessment and filed formal tax appeals. These additional income tax assessments were recognized in the accompanying statements of income.

F. Imputation credit account and creditable ratio

	<u>2010/3/31</u>	<u>2009/3/31</u>
Unappropriated retained earnings for 1997 and prior years	\$ 2,858,766	3,298,939
Unappropriated retained earnings for 1998 and thereafter	79,694,934	<u>72,812,289</u>
	<u>\$ 82,553,700</u>	<u>76,111,228</u>
ICA balance	<u>\$ 13,832,209</u>	<u>11,130,263</u>
	<u>2009</u>	<u>2008</u>
Creditable ratio for earnings distribution	<u>20.40%</u> (expected)	<u>18.12%</u> (actual)

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

## (10) Earnings per share

Earnings per share for the three-month periods ended March 31, 2010 and 2009, were computed as follows. (All earnings per share amounts are expressed in dollars, and all shares are in thousand shares.)

	<u>2010/1/1~3/31</u>		<u>2009/1/1~3/31</u>	
	<u>Before income tax</u>	<u>After income tax</u>	<u>Before income tax</u>	<u>After income tax</u>
<b>Basic earnings per share:</b>				
Net income	\$ <u>5,638,949</u>	<u>4,938,542</u>	<u>71,975</u>	<u>453,561</u>
Weighted-average number of shares outstanding	<u>4,246,777</u>	<u>4,246,777</u>	<u>4,243,636</u>	<u>4,243,636</u>
Earnings per share	\$ <u>1.33</u>	<u>1.16</u>	<u>0.02</u>	<u>0.11</u>
<b>Diluted earnings per share:</b>				
Net income	\$ 5,638,949	4,938,542	71,975	453,561
Effects of dilutive potential common stock:				
Convertible bonds payable	<u>20,291</u>	<u>20,291</u>	<u>(113,843)</u>	<u>(113,843)</u>
Net income (loss) for calculating diluted earnings per share	\$ <u>5,659,240</u>	<u>4,958,833</u>	<u>(41,868)</u>	<u>339,718</u>
Weighted-average number of shares outstanding	<u>4,246,777</u>	<u>4,246,777</u>	<u>4,243,636</u>	<u>4,243,636</u>
Effects of dilutive potential common stock:				
Convertible bonds payable	55,399	55,399	115,336	115,336
Employees' bonuses that could be declared in the form of stock bonus and have not been approved by the stockholders' meeting	15,689	15,689	26,671	26,671
Weighted-average shares for calculating diluted earnings per share	<u>4,317,865</u>	<u>4,317,865</u>	<u>4,385,643</u>	<u>4,385,643</u>
Diluted earnings (loss) per share	\$ <u>1.31</u>	<u>1.15</u>	<u>(0.01)</u>	<u>0.08</u>

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

## (11) Related information about financial instruments

## A. Fair value of financial instruments

As of March 31, 2010 and 2009, the details of fair value of financial assets and financial liabilities, except for those close to the maturity date and therefore measured at book value, were as follows:

	<u>2010/3/31</u>		<u>2009/3/31</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
<b>Financial assets:</b>				
Financial assets measured at fair value through profit or loss – current	\$ 13,951,363	13,951,363	11,603,622	11,603,622
Available-for-sale financial assets – current	397,433	397,433	353,014	353,014
Financial assets carried at cost – current	41,162	-	-	-
Available-for-sale financial assets – non-current	5,229,991	5,229,991	3,727,271	3,727,271
Financial assets carried at cost – non-current	242,859	-	79,210	-
<b>Financial liabilities:</b>				
Financial liabilities measured at fair value through profit or loss – current	284,681	284,681	252,944	252,944
Bonds payable – current	3,668,729	3,678,783	4,992,226	5,018,570

## B. The following methods and assumptions were used in estimating fair values:

- (a) The book value of short-term financial instruments is assessed to be the fair value due to the short-term maturity periods of these instruments. Such method is applied to cash and cash equivalents, notes and accounts receivable (payable), other current financial assets, accrued expenses and other payables.
- (b) Financial assets (or liabilities) measured at fair value through profit or loss and available-for-sale financial assets: If public quote of financial assets and liabilities is available, then the quoted price is adopted as the fair value. If market value is not available, an assessment method that refers to quoted prices is used. The assumptions used are the same as those used by financial market traders when quoting their prices.

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

- (c) Financial assets carried at cost: Those are investments in companies whose shares are not publicly listed and have no available market prices.
- (d) The fair value of convertible bonds payable is not available, and a valuation technique is used. The assumptions used in the said valuation are the same as those used by financial market traders when quoting their prices. However, the fair value is not expected to equal future cash outflow.
- C. The fair value of financial assets and financial liabilities evaluated by the Company using public quotes or an assessment method was as follows:

	<u>2010/3/31</u>		<u>2009/3/31</u>	
	<u>Public</u>	<u>Assessment</u>	<u>Public</u>	<u>Assessment</u>
	<u>quote value</u>	<u>value</u>	<u>quote value</u>	<u>value</u>
<b>Financial assets:</b>				
Financial assets measured at fair value through profit or loss – current	\$ 13,937,788	13,375	11,598,671	4,951
Available-for-sale financial assets – current	397,433	-	353,014	-
Available-for-sale financial assets – non-current	5,229,991	-	3,727,271	-
<b>Financial liabilities:</b>				
Financial liabilities measured at fair value through profit or loss – current	-	284,681	-	252,944
Bonds payable – current	-	3,678,783	-	5,018,570

The gains resulting from the valuation of financial instruments using a valuation technique amounted to \$8,619 and \$325,649 for the three-month periods ended March 31, 2010 and 2009, respectively.

(Continued)

**ASUSTeK COMPUTER INC.****Notes to Financial Statements****D. Information about financial risk****(a) Market risk**

- (i) The main currency for purchases and sales of the Company is the US dollar. The Company uses the principle of natural hedge to mitigate the risk and utilizes spot or forward contracts to hedge foreign currency risk. The forward contracts' duration corresponds to the Company's foreign currency assets' and liabilities' due date and future cash flows. The exchange gains and losses resulting from foreign currency assets and liabilities will be offset by the exchanges gains and losses resulting from the forward contracts. Thus, the market risk of foreign currency exchange rate changes does not have material impact on the Company.
- (ii) The open-end funds and stocks of listed companies held by the Company are classified as financial assets measured at fair value through profit or loss and available-for-sale financial assets. As these assets are measured at fair value, the Company has risk exposure related to changes in fair value in an equity securities market.

**(b) Credit risk**

- (i) Credit risk means the potential loss of the Company if the counterpart involved in that transaction defaults. Since the Company's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, management believes that there is no significant credit risk from these transactions.
- (ii) The primary potential credit risk is from financial instruments like cash, bank deposits, equity securities under non-equity method, and accounts receivable. The Company deposits cash in different financial institutions. Equity securities under non-equity method were funds and listed stock issued by companies with good credit ratings. The Company manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk of cash and equity securities. The customers of the Company have good credit and profit records. The Company is able to evaluate the financial condition of these customers in order to reduce credit risk of accounts receivable.

**(c) Liquidity risk**

- (i) The Company's objective is to maintain a balance of funding continuity and flexibility through the use of financial instruments such as cash and cash in bank, and bonds payable.

(Continued)

**ASUSTeK COMPUTER INC.****Notes to Financial Statements**

- (ii) The open-end funds and stocks of listed companies held by the Company have public quoted prices and could be sold at the approximate market price. As to the forward exchange contracts, there are no significant financing risks due to expected sufficient capital. Management believes that the cash flow risk is not significant because contracted foreign currency exchange rates are fixed.
- (iii) Equity investments recorded as financial assets carried at cost do not have reliable market prices and are expected to have liquidity risk.

**5. Related-party Transactions**

- (1) Names and relationships of the related parties

<u>Related Party</u>	<u>Relationship with the Company</u>
ASUS TECHNOLOGY INCORPORATION (ASUS TECHNOLOGY)	Investee evaluated under the equity method
PEGATRON	Investee evaluated under the equity method
Azurewave Technologies, Inc. (Azurewave Technologies)	Investee evaluated under the equity method
Askey	Investee evaluated under the equity method
Shinewave International Inc.	Investee evaluated under the equity method
Enertronix, Inc.	Investee evaluated under the equity method
Asint Technology Corporation (Asint)	Investee evaluated under the equity method
ASMEDIA TECHNOLOGY INC.	Investee evaluated under the equity method
AGAiT Technology Corporation	Investee evaluated under the equity method
Excelliance MOS Corporation	Investee evaluated under the equity method
ASUS COMPUTER INTERNATIONAL	Investee evaluated under the equity method
ASUS HOLLAND B.V.	Investee evaluated under the equity method
ASUS TECHNOLOGY PTE. LIMITED (ASTP)	Investee evaluated under the equity method
ASUS COMPUTER GmbH	Investee evaluated under the equity method
ASUS IBERICA S.L.	Investee evaluated under the equity method
ASUSTEK Italy S.R.L.	Investee evaluated under the equity method
ASUSTEK COMPUTER (SINGAPORE) PTE, Ltd.	Investee evaluated under the equity method
ASUS Technology (Suzhou) Co., Ltd.	Investee evaluated under the equity method
UNIMAX ELECTRONICS INCORPORATION	Investee evaluated under the equity method
ASUS Computer (Shanghai) Co., Ltd.	Investee evaluated under the equity method
ASHINE TECHNOLOGY (SUZHOU) LTD.	Investee evaluated under the equity method
Double Tech Ltd.	Investee evaluated under the equity method
ADVANSUS CORP.	Investee evaluated under the equity method
UNIHAN	Investee evaluated under the equity method
AMA PRECISION INC.	Investee evaluated under the equity method
CASETEK COMPUTER (SUZHOU) CO., LTD.	Investee evaluated under the equity method
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Investee evaluated under the equity method

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

<u>Related Party</u>	<u>Relationship with the Company</u>
CORE-TEK (SHANGHAI) LIMITED	Investee evaluated under the equity method
AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Investee evaluated under the equity method
PEGATRON TECHNOLOGY SERVICE INC.	Investee evaluated under the equity method
PEGATRON JAPAN INC.	Investee evaluated under the equity method
ASFLY TRAVEL SERVICE LIMITED	Investee evaluated under the equity method
PEGATRON Mexico, S.A. DE C.V.	Investee evaluated under the equity method
ASUSPOWER CORPORATION	Investee evaluated under the equity method
BOARDTEK COMPUTER (SUZHOU) CO., LTD. (BOARDTEK COMPUTER)	Investee evaluated under the equity method
MAINTEK COMPUTER (SUZHOU) CO., LTD.	Investee evaluated under the equity method
Protek (ShangHai) Limited	Investee evaluated under the equity method
NORTH TEC ASIA (SHANGHAI) LIMITED	Investee evaluated under the equity method
Powtek (Shanghai) Co., Ltd.	Investee evaluated under the equity method
DIGITEK GLOBAL HOLDINGS LIMITED	Investee evaluated under the equity method
BOARDTEK (H.K.) TRADING LIMITED	Investee evaluated under the equity method
PEGATRON Czech s.r.o.	Investee evaluated under the equity method
ASLINK PRECISION CO., LTD.	Investee evaluated under the equity method
ASLINK (H.K.) PRECISION CO., LIMITED (ASLINK H.K.)	Investee evaluated under the equity method
ASAP INTERNATIONAL CO., LIMITED	Investee evaluated under the equity method
ASIA ROCK TECHNOLOGY LIMITED	Investee evaluated under the equity method
STRATEGY Technology Co., Ltd.	Investee evaluated under the equity method
Toptek Precision Industry (SuZhou) Co., Ltd.	Investee evaluated under the equity method
GHING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	Investee evaluated under the equity method
SHANGHAI INDEED TECHNOLOGY CO., LTD.	Investee evaluated under the equity method
Others (related parties with non-significant transactions)	Related parties under the definition of R.O.C. SFAS No.6

## (2) Summary of significant transactions with related parties

## A. Sales

	<u>2010/1/1~3/31</u>		<u>2009/1/1~3/31</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
ASTP	\$ 70,837,472	95	35,151,239	87
ASUS TECHNOLOGY	2,959,028	4	2,572,535	6
Others	(27,695)	-	370,232	1
	<u>\$ 73,768,805</u>	<u>99</u>	<u>38,094,006</u>	<u>94</u>

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

- (a) The sales prices of related-party transactions were decided on the basis of the economic environment and market competition in each sales area. The terms of the transactions are O/A 90 days or open account 30 to 90 days. The terms of the above transactions are not different from those with third parties.
- (b) The unrealized gain resulting from the above transactions as of March 31, 2010 and 2009, was \$1,658,105 and \$754,557, respectively, which would be recognized as deferred credits.

## B. Purchases (and purchases on behalf)

	<u>2010/1/1~3/31</u>		<u>2009/1/1~3/31</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
PEGATRON	\$ 54,954,500	52	33,161,616	68
Asint	1,541,377	1	183,726	-
Others	<u>1,033,205</u>	<u>1</u>	<u>652,256</u>	<u>2</u>
	<u>\$ 57,529,082</u>	<u>54</u>	<u>33,997,598</u>	<u>70</u>

Purchase terms are open account 30 to 90 days or 7 to 90 days from receipt of goods for related parties and were similar to those for third-party customers.

## C. Cost, processing, engineering service expense and testing expenses:

	<u>Items</u>	<u>2010/1/1~3/31</u>	<u>2009/1/1~3/31</u>
PEGATRON	Engineering service expenses, processing expenses, testing, freight and other costs	\$ 621,664	92,582
DIGITEK GLOBAL HOLDINGS LIMITED	Processing expenses	-	16,100
Others		<u>2,839</u>	<u>3,380</u>
		<u>\$ 624,503</u>	<u>112,062</u>

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

D. Notes and accounts receivable, notes and accounts payable, other receivables and other current liabilities:

	<u>2010/3/31</u>		<u>2009/3/31</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Notes and accounts receivable:				
ASTP	\$ 52,103,128	95	24,087,443	86
ASUS TECHNOLOGY	1,199,964	2	3,188,815	11
Others	63,544	-	169,493	1
	<u>\$ 53,366,636</u>	<u>97</u>	<u>27,445,751</u>	<u>98</u>
Notes and accounts payable:				
PEGATRON	\$ 8,874,433	20	6,432,232	39
Others	1,870,567	5	557,941	3
	<u>\$ 10,745,000</u>	<u>25</u>	<u>6,990,173</u>	<u>42</u>

Other receivables from affiliated companies (non-financing):

PEGATRON	\$ 29,180	7	100,599	12
Double Tech Ltd.	-	-	145,681	17
Others	2,587	2	3,967	-
	<u>\$ 31,767</u>	<u>9</u>	<u>250,247</u>	<u>29</u>

Accrued expense, other current liabilities  
and receipt in advance:

PEGATRON	\$ 718,576	7	396,097	5
ASTP	22,402	-	105,765	1
Others	141,652	2	128,873	2
	<u>\$ 882,630</u>	<u>9</u>	<u>630,735</u>	<u>8</u>

The Company reclassified accounts receivable from related parties which were overdue for three months to other receivable – related parties amounting to \$7,096 and \$149,804 as of March 31, 2010 and 2009, respectively.

(Continued)

## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

## E. Guarantees

	<u>2010/3/31</u>	<u>2009/3/31</u>
PEGATRON	\$ <u>9,540,000</u>	<u>10,173,000</u>

## 6. Pledged Assets

<u>Assets</u>	<u>Items</u>	<u>2010/3/31</u>	<u>2009/3/31</u>
Guaranteed deposits – pledged time deposit	Guarantee for import duty	\$ 81,979	87,825

## 7. Commitments and Contingencies

As of March 31, 2010, the details of commitments and contingencies were as follows:

(1) See note 5 for guarantees made to related parties.

(2) Lawsuit for infringement of intellectual property rights

- A. In January 2007, a Japanese company filed a lawsuit against the Company and its US subsidiary for infringement of intellectual property rights. In May and September 2007, another plaintiff, a US company, also filed a lawsuit against the Company and its US subsidiary for patent infringement and violation of trade secrets. These lawsuits are currently under investigation in a Utah court in the US. The outcome of these lawsuits is not certain. The Company continuously evaluates the possible loss, and a provision has been estimated and recognized in the books.
- B. In September 2008, a US patentee filed a lawsuit against the Company's US subsidiary alleging that the subsidiary was engaged in patent infringement. The Company had estimated and recognized the possible expenses for this litigation. In 2010, the patentee is expected to withdraw its lawsuit as the parties have reached a settlement.
- C. Several patentees filed lawsuits or investigations for patent infringement against the Company. These lawsuits or investigations are currently under investigation in a Delaware court, in an East Texas court, and by the United States International Trade Commission. The outcome of the lawsuits is not certain. The Company continuously evaluates the possible loss, and a provision has been estimated and recognized in the books.

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## ASUSTeK COMPUTER INC.

## Notes to Financial Statements

- (3) To ensure the supply of raw materials, the Company has entered into an agreement with a supplier for a guaranteed quantity of materials at a discount to market price. The Company prepaid \$3,217,000, of which \$804,250 was recognized as prepaid assets-current and the balance as other assets – others depending on the level of their liquidity.
- (4) To ensure the supply of raw materials, the Company has entered into an agreement with a supplier for a guaranteed quantity of materials at agreed price. On April 22, 2010, the Company prepaid \$2,385,000 according to the agreement.
- (5) The Company entered into operating lease contracts for its offices and parking spaces. Future lease payments under those leases are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 68,551
2012	66,613
2013	20,991

**8. Significant Disaster Loss: None.****9. Subsequent Events:**

Based on a resolution of the stockholders' meetings held on April 22, 2010, the earnings distribution for fiscal year 2009 has been approved. Please refer to note 4(8) for the related information about the distribution of employees' bonuses and directors' and supervisors' remuneration; the other related information can be accessed from the Market Observation Post System.

**10. Others**

- (1) Personnel expenses, depreciation and amortization for the three-month periods ended March 31, 2010 and 2009, were as follows:

	<u>2010/1/1~3/31</u>			<u>2009/1/1~3/31</u>		
	<u>Cost of sales</u>	<u>Operating expenses</u>	<u>Total</u>	<u>Cost of sales</u>	<u>Operating expenses</u>	<u>Total</u>
Personnel expenses						
Salaries	-	1,593,242	1,593,242	-	790,115	790,115
Labor and health insurance	-	46,464	46,464	-	51,993	51,993
Pension	-	30,857	30,857	-	34,487	34,487
Other	-	37,602	37,602	-	20,480	20,480
Depreciation	131,689	54,977	186,666	152,486	58,847	211,333
Amortization	-	79,541	79,541	-	49,698	49,698

(Continued)

**ASUSTEK COMPUTER INC.****Notes to Financial Statements**

## (2) Reclassification

Certain accounts in the financial statements as of and for three-month period ended March 31, 2009, have been reclassified to conform to the 2010 financial statements presentation. Such reclassification had no significant impact on the accompanying financial statements.

- (3) The Company held its extraordinary shareholders' meeting on February 9, 2010, and passed a resolution for the spin-off of its ODM business. Such resolution requires the Company to spin off the ODM assets and business (the Company's 100%-owned long-term equity investment in Pegatron) to the Company's wholly owned existing subsidiary Pegatron International Investment Co., Ltd. Pegatron International Investment Co., Ltd. will issue new shares to the Company and the shareholders of the Company as consideration. The Company will have a capital reduction of \$36,097,609 or a capital reduction of 85%. It is expected that the Company will acquire approximately 25% of the equity in Pegatron International Investment Co., Ltd. and that the shareholders of the Company will in total acquire approximately 75% of the equity in Pegatron International Investment Co., Ltd. The spin-off date is June 1, 2010.