

ASUSTeK COMPUTER INC. AND SUBSIDIARIES
Consolidated 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 consolidated balance sheet of ASUSTek Computer Inc. and subsidiaries as of March 31, 2010, and the related consolidated statements of income and cash flows for the three-month period then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report on these consolidated financial statements based on our review. The accompanying consolidated balance sheet of ASUSTek Computer Inc. and subsidiaries as of March 31, 2009 and the related consolidated 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 consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Some consolidated subsidiaries and long-term equity investments accounted for under the equity method were accounted for based on the financial statements prepared by those investee companies. As of March 31, 2010, the total assets of these subsidiaries amounted to NT\$246,585,500,000 (including long-term equity investment accounted for under equity method), constituting 65.95% of the consolidated amount, and total liabilities amounted to NT\$70,079,669,000, constituting 40.91% of the consolidated amount, and net income amounted to NT\$3,056,229,000 (including investment income), constituting 51.33% of the consolidated amount, for the three-month period then ended March 31, 2010.

Based on our reviews, we are not aware of any modifications that should be made, in any material respects, to the consolidated financial statements referred to in the first paragraph in order for them to be in conformity with Regulation 0960064020 issued by the Financial Supervisory Commission, Executive Yuan, R.O.C., the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, 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.

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. AND SUBSIDIARIES

Consolidated 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	%
Current assets:					Current liabilities:				
Cash and cash equivalents (note 3(1))	\$ 73,851,525	19.8	64,855,414	20.4	Short-term debt and short-term notes and bills payable (note 3(12))	\$ 9,497,912	2.5	7,684,863	2.4
Financial assets measured at fair value through profit or loss – current (note 3(2))	22,939,408	6.1	20,677,267	6.5	Notes and accounts payable (note 4)	100,887,254	27.0	61,636,403	19.4
Available-for-sale financial assets – current (note 3(2))	1,445,512	0.4	677,993	0.2	Income tax payable	4,199,035	1.1	6,149,788	1.9
Financial assets held to maturity – current (note 3(2))	16,425	-	-	-	Accrued expenses and other current liabilities	34,353,693	9.2	25,488,443	8.0
Derivative financial assets for hedging (note 3(3))	139,496	-	-	-	Financial liabilities measured at fair value through profit or loss – current (notes 3(2) and 3(14))	316,354	0.1	465,330	0.1
Financial assets carried at cost – current (note 3(2))	41,162	-	-	-	Derivative financial liabilities for hedging (note 3(3))	20,243	-	-	-
Notes and accounts receivable, net (notes 3(4), 4 and 5)	78,429,044	21.0	63,954,992	20.1	Receipts in advance	4,352,969	1.2	5,960,115	1.9
Other receivables	5,264,659	1.4	3,567,077	1.1	Bonds payable – current (note 3(14))	3,630,845	0.9	4,955,228	1.6
Inventories, net (notes 3(5) and 5)	95,571,132	25.6	65,810,954	20.7	Current portion of long-term loans payable (note 3(13))	706,864	0.2	1,681,329	0.5
Prepaid and other current assets (notes 3(10) and 5)	4,861,755	1.2	3,608,264	1.1		<u>157,965,169</u>	<u>42.2</u>	<u>114,021,499</u>	<u>35.8</u>
Non-current assets held for sale (note 3(9))	-	-	183,180	0.1	Long-term and other liabilities:				
Deferred income tax assets – current	2,564,888	0.7	2,976,768	0.9	Long-term debt (note 3(13))	9,439,996	2.5	9,758,427	3.1
	<u>285,125,006</u>	<u>76.2</u>	<u>226,311,909</u>	<u>71.1</u>	Bonds payable (note 3(14))	1,350,622	0.4	-	-
Investments:					Deferred income tax liabilities and others	2,539,920	0.7	2,506,832	0.8
Long-term investments under equity method (notes 3(6) and 4)	2,242,272	0.6	3,177,407	1.0		<u>13,330,538</u>	<u>3.6</u>	<u>12,265,259</u>	<u>3.9</u>
Available-for-sale financial assets – non-current (note 3(2))	7,291,452	2.0	4,831,368	1.5	Total liabilities	<u>171,295,707</u>	<u>45.8</u>	<u>126,286,758</u>	<u>39.7</u>
Financial assets held to maturity – non-current (note 3(2))	-	-	16,425	-	Stockholders' equity:				
Financial assets carried at cost – non-current (note 3(2))	2,573,831	0.6	1,926,234	0.6	Common stock (note 3(15))	42,467,775	11.4	42,460,513	13.4
Investment – land use right (note 3(11))	430,255	0.1	458,159	0.2	Additional paid-in capital: (note 3(15))				
	<u>12,537,810</u>	<u>3.3</u>	<u>10,409,593</u>	<u>3.3</u>	Paid-in capital in excess of par value	28,274,481	7.6	27,861,248	8.8
Property, plant and equipment (notes 3(8), 4 and 5):					Others	1,984,815	0.5	1,958,694	0.6
Land	4,323,908	1.2	4,691,339	1.5		<u>30,259,296</u>	<u>8.1</u>	<u>29,819,942</u>	<u>9.4</u>
Buildings	28,985,717	7.7	27,072,288	8.5	Retained earnings: (note 3(15))				
Machinery and equipment	48,550,354	13.0	51,686,499	16.2	Legal reserve	18,910,213	5.0	17,264,557	5.4
Instruments and equipment	3,623,778	1.0	3,351,900	1.1	Unappropriated retained earnings	82,553,700	22.1	76,111,228	23.9
Other equipment	11,065,900	3.0	11,010,042	3.5		<u>101,463,913</u>	<u>27.1</u>	<u>93,375,785</u>	<u>29.3</u>
	96,549,657	25.9	97,812,068	30.8	Equity adjustment:				
Less: accumulated depreciation	(35,467,276)	(9.5)	(32,153,265)	(10.1)	Cumulative translation adjustments	990,313	0.3	6,380,723	2.0
Less: accumulated impairment	(326,368)	-	(604,560)	(0.2)	Net loss not recognized as pension cost	(3,202)	-	(1,115)	-
Prepayments for purchase of equipment	2,512,586	0.6	5,415,659	1.7	Unrealized gains (losses) on financial assets	1,832,199	0.5	(1,254,809)	(0.4)
	<u>63,268,599</u>	<u>17.0</u>	<u>70,469,902</u>	<u>22.2</u>	Treasury stock (note 3(15))	-	-	(873,459)	(0.3)
Intangible assets:						<u>2,819,310</u>	<u>0.8</u>	<u>4,251,340</u>	<u>1.3</u>
Computer software and others	667,560	0.2	796,080	0.3	Minority interest	25,574,255	6.8	21,946,684	6.9
Goodwill	962,566	0.2	893,443	0.3	Total stockholders' equity	<u>202,584,549</u>	<u>54.2</u>	<u>191,854,264</u>	<u>60.3</u>
Land use rights (notes 5 and 6)	2,589,207	0.7	2,714,060	0.8					
	<u>4,219,333</u>	<u>1.1</u>	<u>4,403,583</u>	<u>1.4</u>					
Other assets:									
Leased assets, net (note 3(8))	928,392	0.2	855,816	0.3					
Idle assets (notes 3(8) and 5)	972,947	0.3	511,503	-					
Deferred expenses	3,253,194	0.9	3,758,532	1.2					
Other assets (notes 3(10), 5 and 6)	3,574,975	1.0	1,420,184	0.5					
	8,729,508	2.4	6,546,035	2.0					
	<u>8,729,508</u>	<u>2.4</u>	<u>6,546,035</u>	<u>2.0</u>					
Total assets	\$ <u>373,880,256</u>	<u>100.0</u>	<u>318,141,022</u>	<u>100.0</u>	Total liabilities and stockholders' equity	\$ <u>373,880,256</u>	<u>100.0</u>	<u>318,141,022</u>	<u>100.0</u>

See accompanying notes to financial statements.

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

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

	2010		2009	
	Amount	%	Amount	%
Net sales (note 4)	\$ 159,986,907	100.0	116,059,676	100.0
Cost of sales (notes 3(5) and 4)	<u>140,747,274</u>	<u>88.0</u>	<u>106,841,930</u>	<u>92.1</u>
Gross profit	<u>19,239,633</u>	<u>12.0</u>	<u>9,217,746</u>	<u>7.9</u>
Operating expenses:				
Selling	5,959,528	3.7	4,406,431	3.8
General and administrative	2,858,791	1.8	2,679,470	2.3
Research and development	<u>3,745,382</u>	<u>2.3</u>	<u>3,124,252</u>	<u>2.7</u>
	<u>12,563,701</u>	<u>7.8</u>	<u>10,210,153</u>	<u>8.8</u>
Operating income (loss)	<u>6,675,932</u>	<u>4.2</u>	<u>(992,407)</u>	<u>(0.9)</u>
Non-operating income and gains:				
Interest income	70,434	-	104,118	0.1
Investment income under the equity method, net (note 3(6))	62,981	-	84,263	0.1
Gain on disposal of investments (note 4)	255,480	0.2	58,899	0.1
Foreign currency exchange gain, net	-	-	778,354	0.7
Gain on valuation of financial assets, net (note 3(2))	681,680	0.4	711,013	0.6
Gain on valuation of financial liabilities, net (notes 3(2) and 3(14))	-	-	282,397	0.2
Others (note 3(9))	<u>921,268</u>	<u>0.6</u>	<u>741,952</u>	<u>0.6</u>
	<u>1,991,843</u>	<u>1.2</u>	<u>2,760,996</u>	<u>2.4</u>
Non-operating expenses and losses:				
Interest expense (note 3(14))	76,577	0.1	147,521	0.1
Loss on valuation of financial liabilities, net (notes 3(2) and 3(14))	25,818	-	-	-
Foreign currency exchange loss, net	516,792	0.3	-	-
Impairment loss (notes 3(2), 3(8) and 3(10))	7,369	-	105,652	0.1
Others	<u>167,490</u>	<u>0.1</u>	<u>210,313</u>	<u>0.2</u>
	<u>794,046</u>	<u>0.5</u>	<u>463,486</u>	<u>0.4</u>
Net income before income tax expense	7,873,729	4.9	1,305,103	1.1
Income tax expense	1,919,339	1.2	337,155	0.3
Consolidated net income	<u>\$ 5,954,390</u>	<u>3.7</u>	<u>967,948</u>	<u>0.8</u>
Distributed to:				
Parent company's shareholders	\$ 4,938,542	3.1	453,561	0.4
Minority interest	<u>1,015,848</u>	<u>0.6</u>	<u>514,387</u>	<u>0.4</u>
	<u>\$ 5,954,390</u>	<u>3.7</u>	<u>967,948</u>	<u>0.8</u>
	Before	After	Before	After
	income tax	income tax	income tax	income tax
Earnings (loss) per share (note 3(16))				
Basic earnings per share (in dollars)	<u>\$1.33</u>	<u>1.16</u>	<u>0.02</u>	<u>0.11</u>
Diluted earnings (loss) per share (in dollars)	<u>\$ 1.31</u>	<u>1.15</u>	<u>(0.01)</u>	<u>0.08</u>

See accompanying notes to financial statements.

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

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

	2010	2009
Cash flows from operating activities:		
Net income	\$ 5,954,390	967,948
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,063,017	3,399,826
Loss on impairment	7,369	105,652
Loss (gain) on valuation of financial liabilities	14,173	(288,175)
Amortization of discount on bonds	26,584	56,505
Investment income under the equity method, net	(62,981)	(84,263)
Decrease (increase) in financial assets measured at fair value through profit or loss – current	(1,282,213)	(6,713,835)
Increase (decrease) in financial liabilities measured at fair value through profit or loss – current	20,151	(664,563)
Decrease (increase) in notes and accounts receivable	9,056,734	26,040,030
Decrease (increase) in inventories	(7,833,940)	31,869,466
Decrease (increase) in other receivables	858,360	5,048,311
Changes in deferred income tax assets and liabilities, net	448,189	(165,229)
Decrease (increase) in prepaid and other current assets	(623,830)	662,202
Increase (decrease) in notes and accounts payable	2,252,642	(23,285,805)
Increase (decrease) in income tax payable	248,170	610,018
Increase (decrease) in accrued expenses, receipts in advance and other current liabilities	(2,330,922)	(5,926,639)
Others	<u>(69,434)</u>	<u>95,826</u>
Net cash provided by operating activities	<u>9,746,459</u>	<u>31,727,275</u>
Cash flows from investing activities:		
Acquisition of investments	(74,109)	(661,744)
Proceeds from disposal of investments (including liquidation and capital decrease)	477,767	743,921
Acquisition of property, plant and equipment	(2,615,332)	(1,522,887)
Proceeds from disposal of property, plant and equipment	1,301,468	60,237
Additions to deferred expenses and intangible assets	(399,277)	(732,644)
Decrease (increase) in refundable deposits	176,640	237,687
Others	<u>896,058</u>	<u>(158,660)</u>
Net cash used in investing activities	<u>(236,785)</u>	<u>(2,034,090)</u>
Cash flows from financing activities:		
Decrease in short-term loans	(3,005,121)	(6,888,981)
Issuance of bonds payable	1,497,401	-
Redemption of bonds payable	-	(7,650,882)
Increase in long-term loans	-	135,640
Redemption of long-term loans	(163,580)	(787,937)
Redemption of treasury stock	-	(873,459)
Changes in minority interest	9,973	(11,032)
Others	<u>(35,601)</u>	<u>80,368</u>
Net cash used in financing activities	<u>(1,696,928)</u>	<u>(15,996,283)</u>
Effect of exchange rate changes	<u>(210,563)</u>	<u>1,206,197</u>
Effect of change in ownership of subsidiaries and change in cash due to change in ownership of subsidiaries	<u>(3,860)</u>	<u>233,848</u>
Net increase in cash and cash equivalents	7,598,323	15,136,947
Cash and cash equivalents at beginning of period	<u>66,253,202</u>	<u>49,718,467</u>
Cash and cash equivalents at end of period	<u>\$ <u>73,851,525</u></u>	<u>\$ <u>64,855,414</u></u>
Supplementary disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ <u>111,265</u>	<u>109,881</u>
Income tax	\$ <u>1,233,316</u>	<u>133,166</u>
Investing and financing activities not affecting cash flows:		
Reclassification of portion of long-term loan – payable within one year	\$ <u>706,864</u>	<u>1,681,329</u>
Reclassification of bonds payable – payable within one year	\$ <u>3,630,845</u>	<u>4,955,228</u>

See accompanying notes to financial statements.

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2010 and 2009

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

1. Summary of Significant Accounting Policies

The consolidated financial statements are prepared in accordance with Regulation 0960064020 issued by Financial Supervisory Commission Executive Yuan, R.O.C., the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles and practices generally accepted in the Republic of China. The Company may elect not to disclose organization and operations, income tax-related information, pension plan-related information, operating cost/expenses related to personnel, depreciation and amortization according to the Financial Supervisory Commission, Executive Yuan, R.O.C. The significant accounting policies and measurement basis adopted in preparing the accompanying financial statements are summarized as follows:

(1) Basis of consolidation

When the Group holds more than 50% of the voting rights of investees (including the exercisable and convertible potential voting rights owned by the Group except when there is any evidence indicating that the Group has no controlling power from their percentage of ownership) or when any one of the criteria listed below is met, the Group is considered to have control over the investees. The Group not only accounts for such investments under the equity method but also consolidates them into the Group's consolidated financial statements quarterly.

- A. Has ability to acquire more than half of investee's voting rights with agreement of other investors.
- B. Has ability to control the financial, operating and human resources functions of investee according to regulations or agreements.
- C. Has authority to appoint more than half of the members of the board of directors (or its equivalent) to control the board (or its equivalent).
- D. Has authority to secure more than half of the voting rights of the board (or its equivalent) to control the board (or its equivalent).
- E. Has other circumstances that prove the controlling power.

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ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

As of March 31, 2010 and 2009, the Company and subsidiaries (the Group) included in the consolidated financial statements and the Company's direct and indirect percentage of ownership were as follows:

Name of subsidiary	Nature of business	Percentage of ownership	
		2010/3/31	2009/3/31
ASUS COMPUTER INTERNATIONAL	Sales and repair service center in North America	100%	100%
ASUS TECHNOLOGY INCORPORATION	Trading electronic appliances, communication appliances, data software, electronic material and office equipment	100%	100%
AXUS Microsystems Inc.	Designing, manufacturing, processing and selling storage products	85%	85%
Shinewave International Inc.	Software R&D	51%	51%
ASUS HOLLAND B.V.	Sales and repair service center in Europe	100%	100%
ASUS INTERNATIONAL LIMITED	Investing activities	100%	100%
ASUSTEK HOLDINGS LIMITED	Investing activities	100%	100%
ASUSCHANNEL CORPORATION	Investing and trading activities	100%	100%
eCareme Technologies, Inc	Network service	77%	77%
International United Technology Co., Ltd. (Taiwan) (IUT (Taiwan))	Database service, wired communication, manufacturing mechanical equipment, and manufacturing, selling and developing ink-jet printing technology	56.73%	56.73%
ASMEDIA TECHNOLOGY INC.	Designing products and data software, information processing and supply	60.49%	91.24%
Askey Computer Corp. (Askey)	Designing, manufacturing and selling modems, peripheral equipment, transportable equipment and related spare parts	100%	100%
PEGATRON Corporation (PEGATRON)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	100%	100%

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ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

Name of subsidiary	Nature of business	Percentage of ownership	
		2010/3/31	2009/3/31
Hua-Cheng Venture Capital Corp.	Venture capital investing activities	100%	100%
Hua-Min Investment Co., Ltd.	Investing activities	100%	100%
AGAiT Technology Corporation	Designing and selling computer peripherals	100%	-
Enertronix, Inc.	Wireless and wired communication equipment	100%	100%
AzureWave Technologies, Inc. (AzureWave)	Manufacturing office machinery, electronic parts, and computer peripherals, and selling precision equipment and digital cameras	56.16%	58.09%
Pegatron International Investment Co., Ltd.	Investing activities	100%	-
eMES (SUZHOU) CO., LTD.	Computer security systems, messenger management systems, and automation systems R&D; providing related technology and after-sales service	51%	51%
GREAT EXTEND INVESTMENT CORP.	Providing management consulting service	60.49%	91.24%
Askey International Corp.	Manufacturing and selling communication products	100%	100%
Dynalink International Corp.	Investment in overseas companies	100%	100%
Magic International Co., Ltd.	Investment in overseas companies	100%	100%
Askey (Vietnam) Company Limited	Manufacturing and selling communication products	100%	100%
Double Tech Ltd.	Merchandise trading	100%	100%
Big Profit Limited	Merchandise trading	100%	100%
Famous Star Investments Limited	Investment in overseas companies	100%	100%
Magicom International Corp.	Investment in overseas companies	100%	100%
ASKEY TECHNOLOGY (SHANGHAI) LTD.	Developing and selling communication products	100%	100%
Openbase Limited	Merchandise trading	100%	100%
Goodsmart International Ltd.	Merchandise trading	100%	100%
Leading Profit Co., Ltd.	Merchandise trading	100%	100%
UNI Leader International Ltd.	Merchandise trading	100%	100%

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ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

Name of subsidiary	Nature of business	Percentage of ownership	
		2010/3/31	2009/3/31
ASKEY TECHNOLOGY (JIANGSU) LTD. (ASKEY JIANGSU)	Manufacturing and selling communication products	100%	100%
ASON TECHNOLOGY (SUZHOU) LTD.	Manufacturing and selling communication products	100%	100%
ASHINE TECHNOLOGY (SUZHOU) LTD.	Manufacturing and selling communication products	100%	100%
WUJIANG WILL STAR INVESTMENTS LIMITED (WUJIANG WILL STAR)	Developing, constructing and selling real estate projects	100%	100%
International United Technology Co., Ltd.	International trading	56.73%	56.73%
MOBOSTAR TECHNOLOGY LIMITED	Investing and trading activities	100%	100%
AGAiTech Holding Ltd.	Investing and trading activities	100%	-
AGAiT TECHNOLOGY (H.K.) CORPORATION LIMITED	Investing and trading activities	100%	-
AGAiT TECHNOLOGY (SHENZHEN) LIMITED	Investing and trading activities	100%	-
Enertronix International Limited	Investing and trading activities	100%	100%
ENERTRONIX HOLDING LIMITED	Investing and trading activities	100%	100%
Huizhou Enertronix Co., Ltd.	Manufacturing and selling new electronic parts	100%	100%
Shandong Enertronix Co., Ltd.	Manufacturing and selling electronic parts	100%	100%
SOUTH TEC ASIA LIMITED	Investing and trading activities	100%	100%
CENTRAL TEC ASIA LIMITED	Investing and trading activities	100%	100%
ASUS Computer (Shanghai) CO., LTD.	Repairing computers, electronic components and related products, and providing after-sales service	100%	100%
DEEP DELIGHT LIMITED	Investing and trading activities	100%	100%

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ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

Name of subsidiary	Nature of business	Percentage of ownership	
		2010/3/31	2009/3/31
CHANNEL PILOT LIMITED	Investing and trading activities	100%	100%
UNIMAX HOLDINGS LIMITED	Investing and trading activities	100%	100%
ASUS COMPUTER CORPORATION	Investing and trading activities	100%	100%
ASUS TECHNOLOGY PTE. LIMITED (ASTP)	Trading of IT products	100%	100%
Asus Middle East FZCO	Sales and repair service center in Middle East	100%	100%
ASUS EGYPT L.L.C.	Sales and service center in Egypt	100%	-
ASUS COMPUTER GmbH	Sales and repair service center in Germany	100%	100%
ASUS COMPUTER Benelux B.V.	Sales and service center in Netherlands	100%	100%
ASUS FRANCE SARL	Sales and service center in France	100%	100%
ASUSTEK (UK) LIMITED	Sales and service center in UK	100%	100%
ASUS TECHNOLOGY (HONG KONG) LIMITED	Sales and repair service center in Hong Kong	100%	100%
ASUS KOREA CO., LTD.	Sales and repair service center in Korea	100%	100%
ASUSTEK COMPUTER (SINGAPORE) PTE, LTD.	Sales and repair service center in Singapore	100%	100%
ASUS Polska Sp. z o.o.	Sales and service center in Polska	100%	100%
ASUS Technology Private Limited	Sales and repair service center in India	100%	100%
ASUS Technology Holland B.V.	Investing and trading activities	100%	100%
ASUS Technology (Vietnam) Co., Ltd.	Repair service center in Vietnam	100%	100%
ASUSTEK Italy S.R.L.	Sales and service center in Italy	100%	100%
ASUS IBERICA S.L.	Sales and service center in Spain	100%	100%
ASUS Technology (Suzhou) Co., Ltd.	Researching and developing LCDs, computers, main boards and the peripherals of related multimedia and network communication products, and providing after-sales service	100%	100%
ASUS Japan Incorporation	Sales and repair service center in Japan	100%	100%

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

Name of subsidiary	Nature of business	Percentage of ownership	
		2010/3/31	2009/3/31
ASUS COMPUTER Czech Republic s.r.o.	Sales and service center in Czech Republic	100%	100%
ASUSTEK COMPUTER (SHANGHAI) CO., LTD.	Selling notebooks, main boards, medium-sized computers, high-class personal computers, servers, and computer peripherals; importing/exporting, wholesaling and integrating mobile communication equipment; and providing technology consulting and after-sales services	100%	100%
ASUS Czech Service s.r.o	CPN Service 、HUB and other service region in Europe	99.59%	-
ASUS Hungary Services Limited Liability Company	Sales and repair service center in Hungary	100%	100%
ASUS PORTUGAL, SOCIEDADE UNIPessoal LDA.	Sales and service center in Portugal	100%	100%
ASUS Switzerland GmbH	Sales and service center in Switzerland	100%	100%
UNIMAX ELECTRONICS INCORPORATION	Manufacturing and selling electronic appliances and telecommunication products	100%	100%
UNIHAN Corporation (UNIHAN)	Designing, manufacturing, maintaining and selling computer peripherals and audio-video products	100%	100%
ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100%	100%
ASUS INVESTMENT CO., LTD.	Investing activities	100%	100%
ASUSTEK INVESTMENT CO., LTD.	Investing activities	100%	100%
ADVANSUS CORP. (ADVANSUS)	Manufacturing computer peripherals	50% (Note 2)	50% (Note 2)
Pegatron Holding Ltd.	Investing activities	100%	100%
PEGATRON USA, INC.	Sales and repair service center in North America	100%	100%

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

Name of subsidiary	Nature of business	Percentage of ownership	
		2010/3/31	2009/3/31
ASUS HOLLAND HOLDING B.V.	Investing activities	100%	100%
AMA PRECISION INC.	Designing and developing computer parts	100%	100%
Ability Enterprise Co., Ltd. (Ability Enterprise)	Selling computer peripherals, office automation equipment, and digital cameras; retailing/wholesaling of food products; and leasing	12.63%	12.99%
Unihan Holding Ltd.	Investing activities	100%	100%
STARLINK ELECTRONICS CORPORATION	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100%	100%
KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, wholesaling and retailing electronic components, and providing business management consultant service	39%	39%
ASROCK Incorporation (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and wholesaling of computer equipment and electronic components	58.65%	58.88%
Lumens Digital Optics Inc.	Researching, manufacturing and selling computer data projectors and related peripherals	56.52%	57.46%
PEGAVISION CORPORATION	Manufacturing medical equipment	49.88%	-
ASUSPOWER CORPORATION	Investing and trading activities	100%	100%
PEGATRON TECHNOLOGY SERVICE INC.	Sales and repair service center in North America	100%	100%
PEGA INTERNATIONAL LIMITED	Design service and sales	100%	100%
PEGATRON JAPAN INC.	Sales and repair service center in Japan	100%	100%
PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100%	100%

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

Name of subsidiary	Nature of business	Percentage of ownership	
		2010/3/31	2009/3/31
ASFLY TRAVEL SERVICE LIMITED	Travel agency	100%	100%
HUA-YUAN INVESTMENT LIMITED	Investing activities	100%	100%
PEGATRON Czech s.r.o.	Installing, repairing and selling electronic products	100%	100%
AMA Technology Corporation	Trading of computer peripherals	100%	100%
AMA Holdings Limited	Investing activities	100%	100%
METAL TRADINGS LTD.	Trading activities	100%	100%
EXTECH LTD.	Trading of electronic parts	90.51%	90.49%
Toptek Precision Industry (Suzhou) Co., Ltd.	Manufacturing and selling new electronic parts and premium hardware	100%	100%
FENGSHUO TRADING (TONGZHOU) CO., LTD.	Trading activities	100%	100%
GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	90.51%	100%
KINSUS INVESTMENT CO., LTD.	Investing activities	39%	-
KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	39%	39%
KINSUS HOLDING (SAMOA) LIMITED	Investing activities	39%	39%
KINSUS HOLDING (CAYMAN) LIMITED	Investing activities	39%	39%
KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	39%	39%
ASIAROCK TECHNOLOGY LIMITED	Manufacturing and selling database storage and processing equipment	58.65%	58.88%
Leader Insight Holdings Ltd.	Investing activities	58.65%	58.88%
ASROCK EUROPE B.V.	Database service and trading of electronic components	58.65%	58.88%
CalRock Holdings, LLC.	Office building leasing	58.65%	58.88%
Firstplace International Ltd.	Investing activities	58.65%	58.88%
Asrock America, Inc.	Database service and trading of electronic components	58.65%	58.88%

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

Name of subsidiary	Nature of business	Percentage of ownership	
		2010/3/31	2009/3/31
Lumens Integration Inc.	Selling computer communication products and peripherals	56.52%	57.46%
Lumens Digit Image Inc.	Investing activities	56.52%	57.46%
Lumens Europe BVBA	Selling computer communication products and peripherals	56.52%	57.46%
Jie Xin Inc.	Manufacturing and wholesaling electronic parts	53.13%	54.01%
Lumens (Suzhou) Digital Image Inc.	Researching, manufacturing and selling projectors, projection screens and related products, and after-sales service	56.52%	57.46%
BOARDTEK HOLDINGS LTD. (CAYMAN)	Investing and trading activities	100%	-
BOARDTEK HOLDINGS LIMITED	Investing and trading activities	100%	100%
MAGNIFICENT BRIGHTNESS LIMITED	Investing and trading activities	100%	100%
PROTEK GLOBAL HOLDINGS LTD.	Investing and trading activities	100%	100%
NORTH TEC ASIA LIMITED	Investing and trading activities	100%	100%
ASLINK PRECISION CO., LTD.	Investing and trading activities	100%	100%
DIGITEK GLOBAL HOLDINGS LIMITED	Investing and trading activities	100%	100%
COTEK HOLDINGS LIMITED	Investing and trading activities	100%	100%
TOP QUARK LIMITED	Investing and financial holding activities	100%	-
POWTEK HOLDINGS LIMITED	Investing and trading activities	100%	100%
BOARDTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and related products, and after-sales service	100%	100%
BOARDTEK (H.K.) TRADING LIMITED	Trading activities	100%	100%

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

Name of subsidiary	Nature of business	Percentage of ownership	
		2010/3/31	2009/3/31
MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing maintenance service	100%	100%
Protek (ShangHai) Limited	R&D, manufacturing and assembling satellite communication systems equipments, satellite navigator receiving equipments and key parts, mobile phones, medium and large-sized computers, portable micro calculator, printing equipments and electronic components; wholesaling of the products mentioned above, and repairing and design of related products.	100%	100%
COTEK ELECTRONICS (SUZHOU) CO., LTD.	R&D, manufacturing and selling new electronic components, providing mold technology, and providing after-sales service	100%	100%
RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100%	-
Powtek (Shanghai) Co., Ltd.	Selling main boards, computer peripherals, notebooks, servers and software, and providing after-sales service	100%	100%
ASLINK (H.K.) PRECISION CO., LIMITED	Investing and trading activities	100%	100%
ASAP INTERNATIONAL CO., LIMITED	Investing activities	59.17%	51%

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

Name of subsidiary	Nature of business	Percentage of ownership	
		2010/3/31	2009/3/31
ASAP TECHNOLOGY (JIANGXI) CO., LIMITED	Manufacturing and selling data transit wire and cable	59.17%	51%
CASETEK HOLDINGS LIMITED	Investing and trading activities	100%	100%
CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100%	100%
SLITEK HOLDINGS LIMITED	Investing and trading activities	100%	100%
KAEDAR HOLDINGS LIMITED	Investing and trading activities	100%	100%
KAEDAR TRADING LTD. CORE-TEK (SHANGHAI) LIMITED	Investing and trading activities Researching and producing notebook parts, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment, and providing after-sales service	100%	100%
APLUS PRECISION (Cayman) LIMITED	Investing and trading activities	51%	-
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling module of stainless steel computer cases	100%	100%
UNITED NEW LIMITED	Investing and trading activities	51%	51%
AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.	Manufacturing and selling electronic parts, camera parts and accessories	51%	51%
EZWAVE TECHNOLOGIES, INC.	Selling computer peripherals	56.16%	58.09%
AzureLighting Technologies, Inc.	Manufacturing and selling of LED lights	56.16%	-
Azwave Holding (Samoa) Inc.	Investing activities	56.16%	58.09%
Eminent Star Company Limited	Investing activities	56.16%	58.09%
AzureWave Technologies (Shanghai) Inc.	Manufacturing of electronic parts	56.16%	58.09%
Azurelighting Technologies Inc.	Manufacturing and selling of LED, inside and outside lightings	56.16%	-

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

Name of subsidiary	Nature of business	Percentage of ownership	
		2010/3/31	2009/3/31
Jade Technologies Limited	Investing activities	56.16%	58.09%
Hannex International Limited	Investing activities	56.16%	58.09%
Azurewave Technology (Shenzhen) Co., Ltd.	Designing, researching, and selling computer products	56.16%	58.09%
Scientek Nanjing Co., Ltd.	Designing, researching, and selling computer products	56.16%	58.09%
ABILITY ENTERPRISE (BVI) CO., LTD.	Investing activities	12.63%	12.99%
ACTION PIONEER INTERNATIONAL LTD.	Trading activities	12.63%	12.99%
VIEWQUEST TECHNOLOGIES INTERNATIONAL INC.	Selling computer peripherals, digital cameras and electronic components	12.63%	12.99%
VIEWQUEST TECHNOLOGIES (BVI) INC.	Manufacturing and selling computer peripherals, digital cameras and electronic components	12.63%	12.99%
ASSOCIATION INTERNATIONAL LTD.	Investing activities	12.63%	12.99%
Ability International Investment Co.,Ltd.	Investing activities	12.63%	12.99%
NOENA CORPORATION	Trading of computer and optics products	10.10%	-
Ability Technology (Dongguan) Co., Ltd.	Manufacturing and selling digital cameras	12.63%	12.99%
STRATEGY Technology Co., Ltd.	Investing and trading activities	(Note 1)	100%
GREENASUS RECYCLING CO., LTD.	Selling recycled resources and repairing electrical appliances and products	(Note 1)	100%
Azurewave (Cayman) Holding Inc.	Investing and trading activities	(Note 1)	60.49%
ASUS New Zealand Limited	Sales and repair service center in New Zealand	(Note 1)	100%
STRONG CHOICE GROUP LIMITED	Investing and trading activities	(Note 1)	100%
WEST TEC ASIA LIMITED	Investing and trading activities	(Note 1)	100%
NORTH TEC ASIA (SHANGHAI) LIMITED	Manufacturing, developing and selling mobile phones, computers, routers, DTV and electronic components, and	(Note 1)	100%

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

<u>Name of subsidiary</u>	<u>Nature of business</u>	<u>Percentage of ownership</u>	
		<u>2010/3/31</u>	<u>2009/3/31</u>
LINKTEK PRECISION (SUZHOU) CO., LIMITED	providing after-sales service Manufacturing and selling earphone parts	(Note 1)	100%
AMA CORPORATION	Investing activities	(Note 1)	100%

Note 1: The Group had no control or lost control over these entities.

Note 2: The Group only consolidates the proportion of the joint venture owned by itself to the consolidated financial statements.

All significant inter-company transactions have been eliminated.

(2) Use of estimates

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

(3) 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.

(4) 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 of that date, with related exchange gains and losses included in the statements of income.

(Continued)

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

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 translation adjustment in stockholders' equity.

(5) Impairment of assets

The Group assesses all applicable assets subject to R.O.C. Statement of Financial Accounting Standards ('SFAS') No. 35 for indication of impairment on the balance sheet date. If any indication of impairment exists, the Group 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 Group 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 Group 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. AND SUBSIDIARIES**Notes to Financial Statements****(6) 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 held to maturity, financial assets carried at cost, derivative financial assets for hedging, or available-for-sale financial assets, as appropriate. Financial liabilities are classified as financial liabilities at fair value through profit or loss, financial assets carried at cost, or derivative financial liabilities for hedging.

The Group accounts for purchases and sales of financial assets on the trade date, or the date when the Group 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 instruments are measured at fair value with changes in fair value recognized in profit and loss. The purchasing or issuing these instruments is intended mainly to sell or repurchase them in a short term. The fair value of these financial instruments is determined either by public quotes or assessment by valuation techniques. Additionally, the derivatives held by the Group are classified under this category unless they are appointed as effective hedging instruments.

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 Group 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 the current profit or loss.

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES**Notes to Financial Statements****D. Financial assets held to maturity**

Debt securities for which the Company has a positive intention and ability to hold to maturity are classified as financial assets held to maturity and are carried at amortized cost under the effective interest method. If objective evidence of impairment exists, the Group recognizes impairment loss. If, in a subsequent period, the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversible amount may not exceed the amortized cost that would have been determined if no impairment loss had been recognized.

E. Derivative financial assets and liabilities for hedging

The Group recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item when hedging relationships meet the criteria for hedge accounting which is accounted for as follows:

- (a) Fair value hedge: Changes in the fair value of a hedging instrument designated as a fair value hedge are recognized in current profit or loss. The hedged item also is stated at fair value in respect of the risk being hedged, with any gain or loss being recognized in current profit or loss.
- (b) Cash flow hedge: Changes in the fair value of a hedging instrument designated as a cash flow hedge are recognized directly in equity. If a hedge of a forecasted transaction subsequently results in the recognition of an asset or a liability, then the amount recognized in equity is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For hedges other than those covered by the preceding statement, the associated cumulative gain or loss is removed from equity and recognized in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

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

(7) Allowance for doubtful accounts

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

(8) 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.

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

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.

(9) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts are recoverable through a sale transaction within one year rather than through continuing use. Non-current assets held for sale (disposal group) are measured at the lower of carrying amount or fair value less costs to sell.

(10) Long-term equity investments (including interests in joint ventures)

Long-term investments are accounted for under the equity method when the percentage of ownership exceeds 20% or if the Group owns less than 20% of the investee's common stock but has significant influence on the investee's operations. The Group has control over a joint venture investment and accounts the investment under equity method. The Group prepares consolidated financial statements using the proportionate consolidation method on balance sheet date. 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 or retained earnings and long-term equity investments.

The difference between the cost of the investment and the amount of underlying equity in net assets of an investee attributed to depreciable, depletable, or amortizable assets is amortized over the estimated remaining economic years. The difference attributable 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 attributable 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. AND SUBSIDIARIES**Notes to Financial Statements**

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

(11) Investment – land use right

Investment – land use right is stated at cost, and amortized by using the average method over the contract period. If evidence of impairment exists the recovery from impairment is difficult, impairment loss is recognized.

(12) 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 buildings improvements: 3 to 60 years.

B. Machinery and equipment: 2 to 10 years.

C. Instruments and equipment: 1 to 8 years.

D. Other equipment: 1 to 20 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.

(13) Intangible assets and deferred expense

Intangible assets represent trademarks, technological know-how, computer software and land use rights, which are amortized using the straight-line method over their estimated economic lives. Also, intangible assets are evaluated periodically for impairment in accordance with the R.O.C. SFAS No. 35. Deferred expense represents office decoration tooling, which is amortized using the straight-line method over 9 months to 10 years.

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

(14) Accrued product warranty liability

When the sales of the products attached with a warranty clause are recognized, warranty liabilities are accrued and current expenses are recorded according to historical return rates and repair costs, failure rates and warranty periods.

(15) 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 (and equity 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.

(Continued)

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

F. The convertible bonds with no clause on conversion price adjustment includes the equity component-conversion right (recorded as additional paid-in capital-conversion right). The liability components included main debt and call/put option. The fair value of the liability component is determined first; then the initial book value of the equity component is determined based on the net amount of the issuance price after deducting the fair value of the liability component.

(16) Retirement plan

The Company and domestic subsidiaries make 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.

According to ROC SFAS No. 18 "Accounting for Pensions", the Company and domestic subsidiaries have their pension plan actuarially valued at year-end and recognizes the net periodic pension costs, including service cost, net unrecognized transaction assets, prior service cost, and gains or losses on pension over the average remaining service period of the employees. If the minimum pension liability exceeds the total of unamortized prior service cost and unamortized unrecognized transaction net benefit liabilities, the net loss not recognized as pension cost is recognized and classified as a reduction of stockholders' equity. 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 and domestic subsidiaries contribute 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.

The overseas subsidiaries which adopt a defined contribution pension plan contribute periodically on the basis of each local labor law, and such contribution is recorded as current expense.

(17) Revenue recognition

The Group 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.

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES**Notes to Financial Statements****(18) 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 in accordance with 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.

(19) 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 liability, while the deductible temporary differences, loss carryforward and tax credits are accounted for as deferred tax assets, which are assessed an allowance for deferred tax assets based on future realization.

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

Investment tax credits are accounted for using the flow-through method. Therefore, deferred income tax credits generated from purchases of machinery and equipment and production technology, development and research expenses, and human resource training expenses are recognized in the year in which the credit arises.

The 10% additional income tax on unappropriated earnings of the Company and domestic subsidiaries 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 and domestic subsidiaries have taken into consideration the impact of the AMT in the determination of their current income tax expense and its future impact when estimating the realizable value of the deferred tax assets.

The income tax for each consolidated entity is reported on an individual basis with the relevant country and is not reported on a consolidated basis. The consolidated income tax expense is the total of income tax expenses for all consolidated entities.

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES**Notes to Financial Statements****(20) Treasury stock**

The Company adopts R.O.C. SFAS No. 30 "Accounting for Treasury Stocks" to account for treasury stock transaction 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.

(21) Earnings per share

Earnings per share of common stock is computed based on the weighted-average number of common shares outstanding during the period. Earnings per share for prior period is 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.

2. Changes in Accounting Policy and Their Influence

- (1) Effective from January 1, 2009, the initial recognition and subsequent measurement of inventories are made in accordance with R.O.C. SFAS No. 10 "Inventories". Accordingly, net income decreased by \$1,668,275 and basic earnings per share decreased by 0.39 dollars for the three-month period ended March 31, 2009.

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

3. 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	\$ 60,424	40,923
Checking accounts and demand deposits	29,490,356	14,552,824
Time deposits	44,285,746	50,111,738
Cash equivalents	<u>14,999</u>	<u>149,929</u>
	<u>\$ 73,851,525</u>	<u>64,855,414</u>

(2) Financial instruments (excluding derivative financial instruments for hedging)

The financial instruments held by the Group 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—current:		
Open-end funds	\$ 21,366,635	19,744,944
Corporate bonds	491,281	576,557
Forward foreign currency exchange contracts	181,910	1,293
Stocks of listed companies	245,851	39,833
Currency swap contracts	3,886	8,643
Re-purchase bonds	619,636	-
Depositary receipts	18,008	16,532
Financial bonds	-	284,514
Currency option contracts	<u>12,201</u>	<u>4,951</u>
	<u>\$ 22,939,408</u>	<u>20,677,267</u>
Financial liabilities measured at fair value through profit or loss:		
Current:		
Currency option contracts	\$ 17,320	-
Currency swap contracts	753	790
Forward foreign currency exchange contracts	2,802	213,471
Call/put options and conversion right – convertible bonds	<u>295,479</u>	<u>251,069</u>
	<u>\$ 316,354</u>	<u>465,330</u>
Available-for-sale financial assets:		
Current:		
Stocks of listed companies	<u>\$ 1,455,512</u>	<u>677,993</u>
Non-current:		
Stocks of listed companies	<u>\$ 7,291,452</u>	<u>4,831,368</u>

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

	<u>2010/3/31</u>	<u>2009/3/31</u>
Financial assets carried at cost:		
Current:		
Stocks of unlisted companies	\$ <u>41,162</u>	<u>-</u>
Non-current:		
Stocks of unlisted companies	\$ 2,329,678	1,621,044
Beneficiary certificates	<u>244,153</u>	<u>305,190</u>
	\$ <u>2,573,831</u>	<u>1,926,234</u>
Financial assets held to maturity:		
Current:		
Principal guaranteed notes	\$ <u>16,425</u>	<u>-</u>
Non-current:		
Principal guaranteed notes	\$ <u>-</u>	<u>16,425</u>

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>Contract Period</u>	<u>Nominal Amount</u>	<u>Contract Period</u>
Derivative financial assets:				
Call options (buy NTD/sell USD)			USD	10,000 2009.02~2009.05
Put options (buy NTD/sell USD)			USD	10,000 2009.02~2009.05
Put options (buy USD/sell NTD)			USD	10,000 2009.02~2009.05
EUR forward foreign currency exchange contracts sold (EUR/USD)	EUR 203,500	2010.02~2010.05		
USD forward foreign currency exchange contracts sold (USD/NTD)	USD 93,000	2010.01~2010.05	USD	8,000 2009.03~2009.04
EUR forward foreign currency exchange contracts sold (EUR/NTD)			EUR	1,368 2009.03~2009.04
NOK forward foreign currency exchange contracts sold (NOK/USD)	NOK 11,838	2010.02~2010.04		
DKK forward foreign currency exchange contracts sold (DKK/USD)	DKK 12,729	2010.02~2010.05		
JPY forward foreign currency exchange contracts sold (JPY/USD)	JPY 534,512	2010.02~2010.04		
USD forward foreign currency exchange contracts sold (USD/RMB)	USD 30,000	2010.03~2010.09		
EUR currency swap contracts (EUR/USD)	EUR 24,000	2010.03~2010.05	USD	26,010 2009.03~2009.04

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

	<u>2010/3/31</u>		<u>2009/3/31</u>	
	<u>Nominal Amount</u>	<u>Contract Period</u>	<u>Nominal Amount</u>	<u>Contract Period</u>
USD currency swap contracts (USD/NTD)	USD	83,640 2010.03~2010.04		
Derivative financial liabilities:				
USD forward foreign currency exchange contracts sold (USD/RMB)			USD	50,300 2009.01~2009.04
GBP forward foreign currency exchange contracts sold (GBP/USD)	GBP	9,000 2010.03~2010.05	GBP	15,400 2009.02~2009.05
AUD forward foreign currency exchange contracts sold (AUD/USD)	AUD	15,000 2010.03~2010.04	AUD	44,000 2009.02~2009.05
JPY forward foreign currency exchange contracts sold (JPY/USD)			JPY	2,956,920 2009.03~2009.06
EUR forward foreign currency exchange contracts sold (EUR/USD)			EUR	379,000 2009.03~2009.05
SEK forward foreign currency exchange contracts sold (SEK/USD)	SEK	42,301 2010.02~2010.05	SEK	89,425 2009.03~2009.05
CHF forward foreign currency exchange contracts sold (CHF/USD)	CHF	4,250 2010.03~2010.05	CHF	3,315 2009.02~2009.04
NOK forward foreign currency exchange contracts sold (NOK/USD)			NOK	22,738 2009.03~2009.04
DKK forward foreign currency exchange contracts sold (DKK/USD)			DKK	19,000 2009.02~2009.04
USD forward foreign currency exchange contracts sold (USD/NTD)	USD	10,000 2010.03~2010.04		
NTD forward foreign currency exchange contracts bought(NTD/JPY)	NTD	113,894 2010.03~2010.04		
Currency option contracts(EUR/USD)	EUR	65,000 2010.03~2010.05		
Currency swap contracts(USD/NTD)	USD	41,550 2010.03~2010.04	USD	21,690 2009.03~2009.04

The gains resulting from changes in fair value of derivative instruments amounted to \$682,205 and \$687,345 for the three month periods ended March 31, 2010 and 2009, respectively.

B. Available-for-sale financial assets:

The Group assessed and compared the book value and collectable amount of available-for-sale financial assets and recorded impairment loss thereon of \$0 and \$61,662 for the three-month periods ended March 31, 2010 and 2009, respectively.

For the three-month periods ended March 31, 2010 and 2009, the unrealized gains (losses) on available-for-sale financial assets amounted to \$(451,874) and \$313,719, respectively, and were recorded as a separate component of stockholders' equity.

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

C. Financial assets carried at cost:

The Group assessed and compared the book value and collectable amount of financial assets carried at cost – non-current and recorded impairment loss thereon of \$40,159 and \$38,788 for the three-month periods ended March 31, 2010 and 2009, respectively.

(3) Derivative financial assets and liabilities used for hedging purpose

	<u>2010/3/31</u>	<u>2009/3/31</u>
Financial assets for hedging – current:		
Forward foreign currency exchange contracts	\$ <u>139,496</u>	<u>-</u>
Financial liabilities for hedging – current:		
Forward foreign currency exchange contracts	\$ <u>20,243</u>	<u>-</u>

The Group had expected the risk of changes in the foreign currency cash flow from forecasted transactions and foreign currency accounts payable due to changes in market rate and fair value for the three-month period ended March 31, 2010. As the risk was evaluated to be significant, the Group had entered into forward foreign currency exchange contracts for hedging.

A. As of March 31, 2010, the fair value of the derivative financial assets for cash flow hedge was as follows:

<u>Hedged item</u>	<u>Hedging instrument</u>	<u>Fair value of designated instrument for hedging</u>	<u>Period for which the hedge is designated</u>	<u>Expected period for related gains or losses to be recognized</u>
Forecasted transactions	Forward foreign currency exchange contracts	\$ <u>124,872</u>	2010.04~2010.06	2010.04~2010.06

B. As of March 31, 2010, the fair value of the derivative financial liabilities for fair value hedge was as follows:

<u>Hedged item</u>	<u>Hedging instrument</u>	<u>Fair value of designated instrument for hedging</u>
Foreign currency accounts payable	Forward foreign currency exchange contracts	\$ <u>(5,619)</u>

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

C. As of March 31, 2010, the unexpired financial instrument contracts were as follows (foreign currencies are expressed in thousands):

	<u>2010/3/31</u>	
	<u>Nominal Amount</u>	<u>Contract Period</u>
Derivative financial assets for hedging:		
CHF forward foreign currency exchange contracts sold (CHF/USD)	CHF 6,000	2010.01~2010.06
NOK forward foreign currency exchange contracts sold (NOK/USD)	NOK 3,000	2010.03~2010.06
EUR forward foreign currency exchange contracts sold (EUR/USD)	EUR 100,000	2010.03~2010.05
SEK forward foreign currency exchange contracts sold (SEK/USD)	SEK 24,000	2010.02~2010.06
JPY forward foreign currency exchange contracts sold (JPY/USD)	JPY 2,497,000	2010.01~2010.06
Derivative financial liabilities for hedging:		
AUD forward foreign currency exchange contracts sold (AUD/USD)	AUD 42,000	2010.02~2010.06
USD forward foreign currency exchange contracts sold (USD/NTD)	USD 8,708	2010.09~2010.10

(4) Notes and accounts receivable

A. The Group's notes and accounts receivable were as follows:

	<u>2010/3/31</u>	<u>2009/3/31</u>
Notes receivable	\$ 2,604,441	1,890,645
Accounts receivable	<u>76,711,679</u>	<u>63,039,371</u>
	79,316,120	64,930,016
Less: allowance for doubtful accounts	<u>(887,076)</u>	<u>(975,024)</u>
	<u>\$ 78,429,044</u>	<u>63,954,992</u>

B. As of March 31, 2010 and 2009, KINSUS had sold accounts receivable as follows:

<u>Purchaser</u>	<u>Write-off of accounts receivable</u>		<u>Receipt in advance</u>		<u>Collateral</u>	<u>Limits for sales of accounts receivable</u>
	<u>2010/03/31</u>	<u>2009/03/31</u>	<u>2010/03/31</u>	<u>2009/03/31</u>		<u>receivable</u>
Mega International Commercial Bank	\$ <u>496,974</u>	<u>193,482</u>	<u>255,188</u>	<u>-</u>	None	Note

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

Note: As of March 31, 2010 and 2009, the limits for sales of accounts receivable were USD 30,000,000.

(5) Inventories

	<u>2010/3/31</u>	<u>2009/3/31</u>
Finished goods	\$ 17,176,653	15,140,344
Merchandise inventory	32,538,004	26,311,754
Work in process	9,589,501	7,897,042
Raw materials	38,209,184	20,485,777
Inventories in transit	5,489,687	4,769,526
Less: allowance for inventory valuation loss and obsolescence	<u>(7,431,897)</u>	<u>(8,793,489)</u>
	\$ <u>95,571,132</u>	<u>65,810,954</u>

Inventories recognized as expenses amounted to \$922,261 and \$1,569,132, of which \$783,717 and \$1,456,013 were a addition to the cost of sales due to a write-down of inventory cost to its net realizable value, for the three-months periods ended March 31, 2010 and 2009, respectively.

(6) Long-term equity investments

Investee Company	<u>2010/3/31</u>		<u>2009/3/31</u>	
	<u>Interest Owned</u>	<u>Amount</u>	<u>Interest Owned</u>	<u>Amount</u>
YORKEY OPTICAL INTERNATIONAL (CAYMAN) LTD.		Note	20.69%	1,256,361
INDEED HOLDINGS LIMITED	49.00%	\$ 750,446	49.00%	670,012
AVY Precision Technology Inc.	20.39%	820,408	23.55%	689,254
WILSON HOLDINGS LIMITED	49.00%	163,048	49.00%	162,842
EVER PINE INTERNATIONAL LTD. (BVI)	34.65%	127,763	34.65%	123,440
Others		<u>380,607</u>		<u>275,498</u>
		\$ <u>2,242,272</u>		<u>3,177,407</u>

Note : The Group had lost control over YORKEY OPTICAL INTERNATIONAL (CAYMAN) Ltd. in the forth quarter of 2009 and its investment thereon was reclassified as available-for-sale financial asset – current.

The investment income under the equity method for the three-month periods ended March 31, 2010 and 2009, amounted to \$22,981 and \$84,263, respectively. The long-term equity investments amounting to \$2,242,272 and \$2,546,614, respectively, and the investment income of \$62,981 and \$54,493, respectively, were determined based on the investee companies' financial statements prepared by investees.

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ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

(7) Interests in joint ventures

PEGATRON has a joint venture investment in ADVANSUS whose common stock amounting to \$360,000 as of March 31, 2010 and 2009. PEGATRON holds 50% interest of ADVANSUS, which was consolidated in proportion to the Group. Assets, liabilities, revenues and expenses of PEGATRON's interest were as follows:

	<u>2010/3/31</u>	<u>2009/3/31</u>
Current assets	\$ 567,028	495,264
Non-current assets	17,440	73,223
Current liabilities	352,185	371,858
Other liabilities	-	345
	<u>2010/1/1~2010/3/31</u>	<u>2009/1/1~2009/3/31</u>
Revenues	\$ 457,664	359,758
Expenses	445,780	352,704

(8) Property, plant and equipment, leased assets, and idle assets

A. Leased assets consisted of the following:

	<u>2010/3/31</u>	<u>2009/3/31</u>
Land, buildings and equipments	\$ 1,126,996	956,676
Less: accumulated depreciation	(138,809)	(100,860)
accumulated impairment	(69,061)	-
Add: fair value adjustment for identifiable assets	9,266	-
	<u>\$ 928,392</u>	<u>855,816</u>

B. Idle assets consisted of the following:

	<u>2010/3/31</u>	<u>2009/3/31</u>
Lands, buildings and equipment	\$ 1,135,546	1,142,923
Machinery and others	3,303,812	-
Less: accumulated depreciation	(2,150,248)	(437,037)
accumulated impairment	(1,316,163)	(194,383)
	<u>\$ 972,947</u>	<u>511,503</u>

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

There is no indication of cash flow in future years for idle assets which are currently not used in operation; therefore, the Group recognized the net fair value as the recoverable amount for these assets. After evaluating and comparing the carrying value of idle assets and the expected recoverable amount, the Group recognized impairment loss thereon of \$2 and \$7,985 for the three-month periods ended March 31, 2010 and 2009, respectively.

- C. After evaluating and comparing the carrying value of property, plant, and equipment and the expected recoverable amount, the Group recognized gain on recovery of impairment of assets amounting to \$33,327 and impairment loss of assets amounting to \$13,187 for the three-month periods ended March 31, 2010 and 2009, respectively.
- D. Please refer to Note 5 for details of property, plant and equipment, leased assets, and idle assets pledged as collateral.

(9) Non-current assets held for sale

<u>Items</u>	<u>2009/3/31</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	\$ 110,115	-	110,115
Buildings	<u>58,983</u>	<u>18,064</u>	<u>40,919</u>
	\$ <u>169,098</u>	<u>18,064</u>	151,034
Add: Fair value adjustment for identifiable assets			32,146
			\$ <u>183,180</u>

- A. There is no indication of cash flow in future years for non-current asset held for sales which are currently not used for operation; therefore, the Group recognized the net fair value as the recoverable amount.
- B. Ability Enterprise entered into a real estate purchase/sell contract in March 2009, to sell for \$360,000 the above non-current asset held for sale. The gain realized from such sale amounted to \$178,573, after deducting the carrying value and related expenses. The payment had been collected in 2009.

(10) Intangible assets, deferred expenses and other assets

- A. Deferred expenses represents office decoration and toolings, the Group recognized impairment loss of \$539 as of March 31, 2010.
- B. 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 balance as other assets — others depending on the level of their liquidity.

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

C. Due to the restriction imposed by local government, KINSUS purchased farmland in the name of KINSUS's chairman instead of KINSUS. Before KINSUS may take over the title to the farmland as well as completing the registration procedures, the land is temporarily recorded as other assets. As of March 31, 2010 and 2009, the book value of the farmland was \$30,784.

(11) Investment – land use right

In 2006, WUJING WILL STAR entered into a contract with Wujiang City Government, to obtain two land use rights for RMB 143,825,000. As of March 31, 2010, WUJING WILL STAR has paid RMB 92,360,000 for one of the land use rights and recognized it as investment – land use right.

(12) Short-term loans and short-term notes bills payable

	<u>2010/3/31</u>	<u>2009/3/31</u>
Unsecured loans	\$ 8,419,369	7,336,628
Secured loans	1,028,607	348,235
Short-term notes and bills payable	49,936	-
	<u>\$ 9,497,912</u>	<u>7,684,863</u>
Range of interest rates	<u>0.46%~5.04%</u>	<u>0.85%~4.37%</u>

The Group provided its assets as collateral for short-term loans. Please refer to note 5 for details.

(13) Long-term loans

<u>Bank</u>	<u>Usage and redemption duration</u>	<u>2010/3/31</u>	<u>2009/3/31</u>
Taiwan Business Bank	2006.10.15~2009.07.15, payable in quarterly installments, commencing one year after the day next to the project completion date.	\$ -	10,000
Taipei Fubon Bank - syndicated loan	2006.11.01~2009.11.01, USD 5,000,000 payable on May 1, 2009, and the remaining amount on maturity date.	-	1,119,030
Mega International Commercial Bank	2004.3.31~2009.07.30, payable in 20 installments, commencing the closest 15 th of January, April, July or October of the date of borrowing.	-	15,500

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

<u>Bank</u>	<u>Usage and redemption duration</u>	<u>2010/3/31</u>	<u>2009/3/31</u>
Mega International Commercial Bank	2009.12.16~2016.12.15, payable in 20 quarterly installments, commencing the date of borrowing with an extension of two years.	345,966	-
Mega International Commercial Bank	2004.12.31~2012.01.31, payable in 20 quarterly installments, commencing the date of borrowing with an extension of two years.	56,602	231,226
Mega International Commercial Bank	2008.04.07~2011.04.07, payable in 3 semi-annual installments, commencing two years after the initial date of borrowing, with the remaining balance payable in full in the last installment.	954,000	1,017,300
The Shanghai Commercial & Savings Bank, Ltd.	2006.12.08~2013.10.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing.	19,837	27,708
The Shanghai Commercial & Savings Bank, Ltd.	2006.12.08 ~2013.10.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing.	-	26,877
Industrial and Commercial Bank of China Limited	2007.11.23~2011.11.22, demand loan payable in lump sum on maturity date	366,061	992,115
ABN AMRO – syndicated loan	2008.10.30~2011.10.30, \$1.5 billion is payable in 3 semi-annual installments from the eighteenth month, commencing on April 30, 2010, and the remaining amount is payable on maturity date.	7,200,000	8,000,000

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

<u>Bank</u>	<u>Usage and redemption duration</u>	<u>2010/3/31</u>	<u>2009/3/31</u>
Industrial and Commercial Bank of China Limited	2009.10.09~2011.10.08, interest is payable quarterly, and principal amount is payable in lump sum on maturity date.	139,754	-
The Shanghai Commercial & Savings Bank, Ltd.	2009.06.08~2012.10.30, payable in lump sum on maturity date	715,500	-
The Shanghai Commercial & Savings Bank, Ltd.	2009.06.23~2014.06.23, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing.	95,220	-
The Shanghai Commercial & Savings Bank, Ltd.	2009.07.23~2014.07.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing.	23,805	-
The Shanghai Commercial & Savings Bank, Ltd.	2009.11.23~2014.10.15, interest is payable monthly and principal is payable in quarterly installments from the thirteenth month, commencing the date of borrowing.	230,115	-
		<u>10,146,860</u>	<u>11,439,756</u>
Less: Current portion		<u>(706,864)</u>	<u>(1,681,329)</u>
		<u>\$ 9,439,996</u>	<u>9,758,427</u>
Range of interest rates		<u>0.79%~5.18%</u>	<u>1.00%~5.8175%</u>

- A. Askey which was the guarantor for Askey (Jiaugsu), had committed that total percentage of the direct and indirect ownership of Askey by the Company, PEGATRON and UNIHAN should exceed 67% and the direct and indirect ownership in Askey (Jiangsu) by Askey should be 100%. Askey is required to pledge with the bank every year accounts receivable of no less than USD 30,000,000 as a guarantor. In addition, Askey committed to maintain certain debit ratio, interest coverage ratio, and tangible net assets. These financial covenants are subject to review every six-month based on the consolidated semi-annual and annual financial statements, and anytime the bank considers necessary.

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

- B. Askey was the guarantor for the loan payable by Leading Profit Co., Ltd. Therefore, Askey has covenanted that the total percentage of the direct and indirect ownership of Askey by the Company and its related companies should exceed 67% of Askey's ownership.
- C. According to the loan agreements, PEGATRON must comply with the following financial covenants until its entire loan is fully paid. The calculations of the following financial ratios should be based on audited annual consolidated financial statements and reviewed semi-annual consolidated financial statements of PEGATRON that are approved by management of the bank.
- (i) Current ratio (current assets/current liabilities): should be no less than 100%.
 - (ii) Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.
 - (iii) Interest coverage ratio (EBITDA/interest expenses): should be no less than 400%.
 - (iv) Tangible net assets (stockholders equity (including minority shareholders) – intangible assets): should not be less than \$90,000,000.
- D. PEGATRON has provided promissory note as collateral for the unsecured loans.
- E. Please refer to Note 5 for details regarding the assets pledged as collateral.

(14) 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>2010/3/31</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>-</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><u>12,000,000</u></u>

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

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 Group 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	(8,226,400)	(6,729,500)
Discount on bonds payable	<u>(135,755)</u>	<u>(308,272)</u>
	3,630,845	4,955,228
Less: Convertible bonds payable –redeemable within one year	<u>(3,630,845)</u>	<u>(4,955,228)</u>
Corporate bonds payable – net	\$ <u>-</u>	<u>-</u>
Debt-component embedded derivative:		
— call/put option and conversion price reset option	\$ 13,183	87,374
— conversion rights	<u>268,559</u>	<u>163,695</u>
	<u>\$ 281,742</u>	<u>251,069</u>

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

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.

C. Ability Enterprise

(a) The main issuance terms of the first domestic unsecured convertible bonds are as follows:

- (i) Ability Enterprise issued its first domestic convertible bonds with a face value of \$1,500,000 and a zero-coupon rate. The par value is \$100 per share, the issuance price is 100.2% of its par value and the duration is 5 years from February 6, 2010 to February 6, 2015. The convertible bond is redeemable at its par value at maturity date. This convertible was listed on Gre Tai Securities Market on February 8, 2010.
- (ii) Each bondholder has the right to convert its convertible bonds into common shares during the conversion period (from March 7, 2010 to January 27, 2015) except for the limiting transaction period required by law. The converted common shares have the same rights and obligation as the original issued ones.
- (iii) The conversion price is determined based on model of the conversion terms and the conversion price will be adjusted upon the occurrence of situation which applies antidilution clause. The conversion price is NT60 dollars per share initially. The conversion price on March 31, 2010 is NT60 dollars.
- (iv) Each bondholder has the right to put the convertible bonds at par value plus interest refund at 0.3% annual rate (compound interest method) after the 3rd year.
- (v) Within the period between one month after the issuance date (March 7, 2010) and 40 days before the last convertible date (December 28, 2014), if the closing price of Ability Enterprise' common shares on the TSE for a period of 30 consecutive trading days has been at least 30% of the conversion price in effect on each such trading day, or in the event that at least 90% of the principal amount of the bonds originally outstanding has been redeemed, repurchased or converted, Ability Enterprise may redeem all bonds at face value.
- (vi) According to the conversion terms, all convertible bonds that Ability Enterprise collects (including purchase from the secondary market), redeems or converts should be retired without resale or reissuance.

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

- (b) In accordance with SFAS No. 36, Ability Enterprise separated the equity component and debt components, and recorded the net equity component as additional paid-in capital – conversion right. In addition, according to SFAS No. 34, the embedded call/put option which has no close connection to the economic characteristics and risk of the main debt component is separated and recorded as financial assets (liabilities) measured at fair value through profit or loss. The effective interest rate of the main debt component is 2.122% to 2.263%.

The other related information on the above bonds payable is as follows:

	<u>2010/3/31</u>
Aggregate principal amount	\$ 1,500,000
Discount on bonds payable	(149,378)
Corporate bonds payable – net	<u>\$ 1,350,622</u>
Debt-component embedded derivative— call/put option	<u>\$ 13,737</u>
Additional paid-in capital-conversion rights	<u>\$ 153,508</u>
	<u>2010/1/1~3/31</u>
Gain/(loss) on valuation of financial liabilities	<u>\$ (15,315)</u>
Interest expense	<u>\$ 5,151</u>

(15) 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.

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

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><u>26,125</u></u>	<u><u>\$ 873,459</u></u>

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.

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

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.

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 were 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 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.

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ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

(16) 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>
Basic earnings per share:				
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><u>1.33</u></u>	<u><u>1.16</u></u>	<u><u>0.02</u></u>	<u><u>0.11</u></u>
Diluted earnings per share:				
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><u>1.31</u></u>	<u><u>1.15</u></u>	<u><u>(0.01)</u></u>	<u><u>0.08</u></u>

(17) 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:

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ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

	<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>
Financial assets:				
Financial assets measured at fair value through profit or loss – current	\$ 22,939,408	22,939,408	20,677,267	20,677,267
Available-for-sale financial assets – current	1,445,512	1,445,512	677,993	677,993
Financial assets held to maturity – current	16,425	-	-	-
Derivative financial assets for hedging – current	139,496	139,496	-	-
Financial assets carried at cost – current	41,162	-	-	-
Available-for-sale financial assets – non-current	7,291,452	7,291,452	4,831,368	4,831,368
Financial assets held to maturity – non-current	-	-	16,425	-
Financial assets carried at cost – non-current	2,573,831	-	1,926,234	-
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss – current	316,354	316,354	465,330	465,330
Derivative financial liabilities for hedging – current	20,243	20,243	-	-
Bonds payable – current	3,630,845	3,640,796	4,955,228	4,981,376
Long-term loans (including current portion)	10,146,860	10,146,860	11,439,756	11,439,756
Bonds payable	1,350,622	1,350,622	-	-

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. AND SUBSIDIARIES

Notes to Financial Statements

- (c) Financial assets carried at cost and financial assets held to maturity: Those are investments in companies whose shares are not publicly listed and beneficiary certificates, and have no available market prices.
- (d) The fair value of derivative financial assets and liabilities for hedging is determined using a valuation technique. The estimates and assumptions used in such valuation are similar to those used by market participants when deciding a price for financial assets or liabilities. That information is available to the Group.
- (e) 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.
- (f) The fair value of long-term loans was estimated by the discounted value of expected cash flow. The discount rate used was based on the interest rate of long-term loans with similar conditions. Based on the results of the evaluation, the fair value is close to book value.
- C. The fair value of financial assets and financial liabilities evaluated by the Group using public quotes or an assessment method was as follows:

	<u>2010/3/31</u>		<u>2009/3/31</u>	
	<u>Public quote value</u>	<u>Assessment value</u>	<u>Public quote value</u>	<u>Assessment value</u>
Financial assets:				
Financial assets measured at fair value through profit or loss – current	\$ 22,741,411	197,997	20,662,380	14,887
Available-for-sale financial assets – current	1,445,512	-	677,993	-
Derivative financial assets for hedging – current	-	139,496	-	-
Available-for-sale financial assets – non-current	7,291,452	-	4,831,368	-
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss – current	-	316,354	-	465,330
Derivative financial liabilities for hedging – current	-	20,243	-	-
Bonds payable – current	-	3,640,796	-	4,981,376
Long-term loans (including current portion)	-	10,146,860	-	11,439,756
Bonds payable	-	1,350,622	-	-

(Continued)

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

The gains (loss) resulting from the valuation of financial instruments using a valuation technique amounted to \$668,032 and \$975,520 for the three month periods ended March 31, 2010 and 2009, respectively.

D. Information about financial risk**(a) Market risk**

- (i) The Group is exposed to foreign currency risks arising from purchases or sales denominated in foreign currencies. The Group uses the principle of natural hedge to mitigate the risk and utilize spot or forward contracts to hedge foreign currency risk. The notional amounts of the foreign currency contracts are the same as the amounts of the hedged items. In principle, the Group does not enter into any forward contracts for commitments of uncertain nature. The Group enters into forward currency contracts to hedge the exchange rate risk of assets, liabilities and commitments denominated in foreign currencies. The Group' hedging strategy is to avoid most market price risks. The Group uses the derivatives that have highest negative correlation with the hedged items as hedging instruments and evaluates the hedge effectiveness periodically.
- (ii) The open-end funds & 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 Group 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 Group if the counterpart involved in that transaction defaults. Since the Group'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 Group 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 Group 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. As the customers of the Group have good credit and profit records, the Group is able to evaluate the financial conditions of these customers in order to reduce credit risk of accounts receivable.

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

(c) Liquidity risk

- (i) The Group'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.
- (ii) The open-end funds and stocks of listed companies held by the Company have publicly quoted prices and could be sold at the approximate market price. As to the forward exchange contracts not for hedging, 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.
- (iv) The derivative financial instruments for hedging are intended mainly to hedge the exchange rate risk from future cash flows. The forward contracts' duration corresponds to the Group's foreign currency future cash flows. The Group will settle the foreign currency liabilities at expiration of the contracts. Thus, management believes that the cash flow risk is not significant.

(d) Cash flow risk arising from variation in interest rates

The Group's long-term loans bear floating interest rates. Changes in the prevailing market rate will affect the effective interest rate on long-term loans and cause future cash flows to fluctuate.

4. Related-party Transactions

(1) Names and relationships of the related parties

Related Party	Relationship with the Company
Asint Technology Corporation (Asint Technology)	Investee evaluated under the equity method
Excelliance MOS Corporation	Investee evaluated under the equity method
ASHINE PRECISION CO., LTD. (ASHINE PRECISION)	Investee indirectly evaluated under the equity method
HONG HUA TECHNOLOGY (SUZHOU) CO., LTD.	Investee indirectly evaluated under the equity method
Avy Precision Technology Inc. (Avy Precision)	Investee indirectly evaluated under the equity method
Avy Co., Ltd. (Avy)	Investee indirectly evaluated under the equity method
DongGuan ChengGuang Precision Hardware Co., Ltd. (DongGuan ChengGuang)	Investee indirectly evaluated under the equity method
AVY PRECISION METAL COMPONENTS (SUZHOU)	Investee indirectly evaluated under the equity method
CHING HONG PRECISE MOULD INDUSTRY (SUZHOU) CO., LTD.	Investee indirectly evaluated under the equity method

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ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

<u>Related Party</u>	<u>Relationship with the Company</u>
SHANGHAI INDEED TECHNOLOGY CO., LTD. (SHANGHAI INDEED)	Investee indirectly evaluated under the equity method
AVY High Tech Limited	Investee indirectly evaluated under the equity method
PENTAX VQ CO., LTD. (PENTAX)	Investee indirectly evaluated under the equity method
YORKEY OPTICAL TECHNOLOGY LTD. (SAMOA) (YORKEY OPTICAL)	De facto related party of Ability Enterprise
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>
Summary	\$ <u>2,430</u>	<u>-</u>	<u>156,990</u>	<u>-</u>

The terms of the above related-party transactions are 45 days from receipt of goods or terms agreed by both parties.

B. Purchases

	<u>2010/1/1~3/31</u>		<u>2009/1/1~3/31</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Asint Technology	\$ 1,541,377	1	-	-
SHANGHAI INDEED	661,986	-	480,843	1
Avy Precision	276,669	-	81,834	-
ASHINE PRECISION	129,710	-	96,572	-
Others	126,649	-	121,670	-
	\$ <u>2,736,391</u>	<u>1</u>	<u>780,919</u>	<u>1</u>

Purchase terms are open account 45 to 120 days, 90 days from receipt of goods, or within 1 to 6 months for related parties.

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

C. Notes/accounts receivable (payable)

	<u>2010/3/31</u>		<u>2009/3/31</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Notes and accounts receivable:				
Summary	\$ <u>22,402</u>	<u>-</u>	<u>158,789</u>	<u>-</u>
Notes and accounts payable:				
Asint Technology	\$ 760,697	1	-	-
SHANGHAI INDEED	662,924	1	501,424	1
Avy Precision	283,901	-	106,281	-
ASHINE PRECISION	131,119	-	99,964	-
Others	183,997	-	93,860	-
	\$ <u>2,022,638</u>	<u>2</u>	<u>801,529</u>	<u>-</u>

D. Sale of long-term investment

<u>Related party</u>	<u>Item</u>	<u>2009/1/1~3/31</u>		
		<u>Sales price</u>	<u>Book value</u>	<u>Disposal gain (note)</u>
Avy Precision	Long-term investment under the equity method – ASHINE PRECISION	\$ <u>177,466</u>	<u>143,812</u>	<u>33,654</u>

Note: Disposal gain included realized and unrealized disposal gain amounting to \$26,166 and \$7,488, respectively.

E. Asset transactions

The details of assets purchased from related parties were as follows:

<u>Related party</u>	<u>Item</u>	<u>2009/1/1~3/31</u>
		<u>Sales price</u>
Avy	Long-term investment under the equity method – Avy Precision	\$ 178,067
Others	Molding tools	<u>39,312</u>
		\$ <u>217,379</u>

(Continued)

ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

5. Pledged Assets

As of March 31, 2010 and 2009, the following assets were pledged as collateral:

<u>Assets</u>	<u>Items</u>	<u>Purposes</u>	<u>Book value</u>	
			<u>2010/3/31</u>	<u>2009/3/31</u>
Other assets or other current assets	Time deposits and inventories	Customs duty guarantee, bank loans, rent deposits, credit contracts, issued letter of credit, travel agency guarantee, lawsuit collateral, etc.	\$ 267,858	455,588
Notes receivable	Notes receivable	Bank loans	80,439	-
Other assets	Refundable deposits	Customs deposits for importing processing booklet, etc.	343,576	60,215
Property, plant and equipment	Buildings	Bank loans	2,323,357	482,223
Property, plant and equipment	Machinery and equipment	Bank loans	920,236	276,695
Intangible assets	Land use rights	Bank loans	650,309	87,178
Idle assets	Machinery and equipment (Note)	Bank loans	-	-
			<u>\$ 4,585,775</u>	<u>1,361,899</u>

Note: As of March 31, 2009, the unadjusted book value of idle assets amounted to \$89. After recognizing the impairment losses, the net book value was reduced to zero as of the same dates.

6. Commitments and Contingencies

(1) As of March 31, 2010, the Group's outstanding letters of credit were as follows (foreign currencies are expressed in thousands):

<u>Currency</u>	<u>Amount</u>
USD	\$ 45,272
EUR	359
JPY	2,432,122
NTD	15,000

(2) Guarantee for subsidiaries amounted to \$16,506,175.

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

(3) 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 agreement.

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.

D. AVerMedia Technologies Inc. filed an attachment for damage loss against Lumens Digital Optics Inc. with Taiwan HsinChu District court on January 3, 2005. Lumens Digital Optics Inc. pledged a deposit of \$90,000 as counter-security to the Court for rescinding the attachment. In addition, AVerMedia Technologies Inc., again, filed an attachment for the same reason with the court. HsinChu District court has seized the inventory of Lumens Digital Optics Inc. amounting to \$16,410. This case is currently under investigation and Lumens Digital Optics Inc. believes that there is no material loss on the aforementioned case.

E. One of ASUSPOWER CORPORATION's American customers voluntarily filed for bankruptcy with United States Bankruptcy Court of California District on June 8, 2005. The customer has made payments for goods amounting to US\$1,439,484 to ASUSPOWER CORPORATION 90 days before filing the bankruptcy. Insolvency administrator of the customer filed a lawsuit with California court later on claiming that according to United States Bankruptcy Code § 547, the payments could be returned and requested ASUSPOWER CORPORATION to return the amount paid. ASUSPOWER CORPORATION received a notice from the court in September 2009, and entered a plea. This lawsuit is still under investigation.

(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 a discount to market price. The Company has paid in advance. Please refer to note 3(10) B.

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ASUSTeK COMPUTER INC. AND SUBSIDIARIES

Notes to Financial Statements

- (5) 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.
- (6) The Group 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	\$ 293,090
2012	234,343
2013	145,942
2014	39,189
2015 and after	33,013

- (7) Details of operating lease for significant property used by ASUS COMPUTER INTERNATIONAL are as follows:

<u>Lessor</u>	<u>Leased Asset</u>	<u>Period</u>	<u>Refundable Deposits</u>
Sobrato Interest, LP	The office and warehouse in Fremont, California	2008/6/1~2018/5/31	USD 1,500,000

Rental expenses for each year are as follows:

<u>Year</u>	<u>Amount</u> <u>(in USD thousands)</u>
2011	\$ 1,402
2012	1,451
2013	1,502
2014 and after	7,279

- (8) PEGATRON and its subsidiaries entered into irrevocable construction contracts amounting to \$1,786,522 of which \$443,432 is unpaid.
- (9) WUJIANG WILL STAR entered into a contract with Wujiang City Government in 2006 to obtain land use rights. As of March 31, 2010, the land use right amounting to RMB 51,465,000 were not paid and obtained.

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ASUSTeK COMPUTER INC. AND SUBSIDIARIES**Notes to Financial Statements****7. Significant Disaster Loss: None.****8. 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 3(15) 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.

9. Others

(1) Reclassification

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

- (2) 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.