Empowering People

Empowering People

Acer Incorporated

2005 Annual Report Translation

Growing Global

Our Success Continues

Published date: April 30, 2006
www.acer.com

DISCLAIMER

THIS IS A TRANSLATION OF 2005 ANNUAL REPORT (THE “ANNUAL REPORT”) OF ACER INCORPORATED (THE “COMPANY”). THE TRANSLATION IS INTENDED FOR REFERENCE ONLY AND NOTHING ELSE, THE COMPANY HEREBY DISCLAIMED ANY AND ALL LIABILITIES WHATSOEVER FOR THE TRANSLATION. THE CHINESE TEXT OF THE ANNUAL REPORT SHALL GOVERN ANY AND ALL MATTERS RELATED TO THE INTERPRETATION OF THE SUBJECT MATTER STATED HEREIN.

1. Name, Title and Contact Way of Company's Spokesperson:

Principal	Howard Chan	CFO	886-2-2696-3131	Haward_Chan@acer.com.tw
Deputy	Thomas Shin	Head of Division	886-2-2696-3131	Thomas_Shin@acer.com.tw
	Steven Wang	Director	886-2-2509-2368	Steven_Wang@acer.com.tw

2. Address and Telephone Number of Company's Headquarter, Branches and Factor

Office	Address	Tel
Acer Inc. Registered Address	7F, No.137, Sec.2, Chien Kuo N. Road, Taipei, Taiwan, R.O.C.	886-2-2509-2368
Acer Inc. (Hsichih Office)	8F, 88, Sec.1, Hsin Tai Wu Road, Hsichih, Taipei Hsien, Taiwan, R.O.C.	886-2-2696-1234
Acer Inc. (Hsinchu Branch)	3-4F, 139 Min Tsu Road, Hsinchu, Taiwan, R.O.C.	886-3-533-9141
Acer Inc. (Taichung Branch)	3F, No.371, Sec.1, Wen-Hsin Road, Taichung, Taiwan, R.O.C.	886-4-2250-3355
Acer Inc. (Tainan Branch)	5F, No.283, Sec.2, Fu-Chien Road, Tainan, Taiwan, R.O.C.	886-6-295-0380
Acer Inc. (Kaohsiung Branch)	4F-2, 38, Shin Guang Road, Kaohsiung, Taiwan, R.O.C.	886-7-338-8386
Acer Inc. (Shipping & Warehouse Management Center)	1F, 138, Nan-Gong Road, Lu Chu Tsuan, Lu Chu, Taoyuan Hsiang, Taiwan, R.O.C.	886-3-322-2421

3. The Address and Contact way of Acer Shareholders Services Office

Address : 7F, No.137, Sec.2, Chien Kuo N. Road, Taipei, Taiwan, R.O.C.
Tel : 886-2-2509-2368
e-mail : stockaffairs@acer.com.tw

4. The Address and Contact way of Auditing CPA in the Most Recent Year

Name : Sonia Chang and Winston Yu at KPMT
Address : 6F, No.156, Sec.3, Min-Sheng East Road, Taipei, 105, Taiwan, R.O.C.
Tel : 886-2-2715-9999
e-mail : www.kpmg.com.tw

5. The market location for GDRs and the Web Page, via which you may inquire the relevant information, is: www.Londonstockexchange.com

6. Acer Website: www.acer.com.tw

INDEX

1. Business Report

1.1 2005 Operating Report

1.1.1 Operating result

Unit: Thousand NT$

Year / Item	Most recent 5-Year Financial Information				
Item	2001	2002	2003	2004	2005
Operating Revenue	30,370,675	42,137,284	81,717,814	129,108,697	204,958,099
Gross Profit	-1,055,392	2,192,633	4,282,869	5,659,766	8,332,419
Income from Continuing Operations	493,893	8,596,464	7,313,809	7,011,661	8,477,502
Income (Loss) from Discontinued Operations	539701	51460	-	-	-
Net Income	1,033,594	8,647,924	7,313,809	7,011,661	8,477,502
EPS (NT)	0.08	3.44	3.13	3.14	3.83

1.1.2 2005 The Execution of Budget

Unit: Thousand NT$

Item	Financial Forecast of Year 2005			
	Actual	Budget	Difference	Hit Ratio
Revenue	204,958,099	165,001,509	39,956,590	124.22%
Gross Margin	8,332,419	7,079,792	1,252,627	117.69%
Operating Income	5,836,512	4,809,220	1,027,292	121.36%
Profit Before Tax	9,650,156	7,850,361	1,799,795	122.93%
Profit After Tax	8,477,502	7,200,361	1,277,141	117.74%

1.1.3 Financial Income and Earning Abilities

Unit: Thousand NT$

Item		2005
Financial Income	Operating Revenue	204,958,099
	Gross Profit	8,332,419
	Income After Tax	8,477,502
Earning Abilities	Return on Assets (%)	7.55
	Return on Equity (%)	13.41
	Operating income to pay-in capital (%)	25.89
	PBT to paid-in capital (%)	42.8
	Net Income Ratio (%)	4.14
	EPS (NT)	3.83

1.2 Business Report to Shareholders

In 2005, Acer has successfully implemented the Channel Business Model across our worldwide operations. The sustainability of this indirect, channel-oriented model was confirmed with the 2005 financial achievements. The consolidated revenue was NT$318.09B (US$9.69B), representing 41.4% year-on-year growth and exceeding the full year target by 12.2%; profit after tax (PAT) was NT$8.48B (US$258.18M); earning per share (EPS) was NT$3.83 – also exceeding the original target; and operating income reached NT$7.65B (US$232.95M) to represent 100.9% year-on-year growth.

Continuing to expand our presence across the globe, in 2005 Acer was the world's No. 4 ranking vendor for total PCs and notebooks, and by Q4 2005 Acer notebooks had unseated Toshiba from the No. 3 position. In EMEA (Europe, Middle East and Africa), Acer notebooks retained its No. 1 ranking, and achieved the leading position across 13 countries in the region. In the U.S. Acer has demonstrated significant progress, and with China as one of our key-growth markets, we have also successfully implemented the Channel Business Model into this market.

The foundation of Acer's success is a simple, highly effective and sustainable operational structure. Our collaboration with first-class IT suppliers and channel partners has resulted in a winning formula that benefits all parties involved. With complete market intelligence, Acer has the capability to adapt to the IT market's changing environment with accuracy, through global logistics, product development and brand marketing.

Looking forward, Acer strives for rapid growth while maintaining a low operating expense, and to further enhance the supplier- and channel partnership. Acer's goal is to become a top-three player in the worldwide PC market in 2007, to achieve this we must have a substantial presence in each of the major regional markets in addition to gaining a better balance of revenue contribution from the various product lines. Thus, Acer has defined the U.S., China, and desktop PCs as the key-growth markets and product line.

Exemplifying Acer's innovative caring brand personality, Acer shall persist in researching and developing **Empowering Technology** that enables our customers to benefit from technology via a highly-intuitive user interface. Acer shall drive for significant growth across all product lines for better balance of product portfolio. Specifically, we wish to become a world top-three vendor for notebooks in 2006, double the desktop PC shipment, and achieve considerable growth for LCD monitors and TVs.

In 2006, Acer will continue to dispose of non-core investments, and focus on the development of our IT products. Acer's Board of Directors has approved of the following financial targets for 2006: NT$400B (US$12.42B) in consolidated revenue, NT$13.3B (US$413.48M) in profit before tax (PBT), NT$10B (US$311.12M) in PAT, NT$10.8B (US$334.75M) in operating income to account for over 40% year-on-year growth, and EPS of NT$4.3.

Year 2006 marks a momentous occasion for Acer; it is the thirtieth year since the company's founding. Upon achieving the 2006 annual financial targets, we will set another record high for Acer and create a new milestone in our 30-year history. On behalf of all Acer employees, I wish to thank all our shareholders for your unrelenting support and guidance. Together, Acer shall continue to make significant strides in the world's PC markets.

J.T. Wang

Chairman and CEO

2. Company In General

2.1 Brief Account of the Company

2.1.1 Founded: August 1st, 1976

1976 – 1986: Commercialized microprocessor technology
1987 – 1995: Created a brand name and globalized
1996 – 2000: Fresh technology for everyone, everywhere
2001 – beyond: Transformed from manufacturing to services

1976

- Acer was founded under the name Multitech, focusing on trade and product design

1978

- Acer established the Microprocessor Training Centre, training 3,000 engineers for Taiwan's information industry

1979

- Acer designed Taiwan's first mass-produced computer for export

1981

- Acer manufacturing operations were established in the Hsinchu Science-based Industrial Park, Taiwan
- MicroProfessor-I debuted as Acer's first branded product

1982

- MicroProfessor-II was unveiled as Taiwan's first 8-bit home computer

1983

- Acer was the first company to promote 16-bit PC products in Taiwan

1984

- Acer Peripherals, Inc. (now BenQ Corp.) and Multiventure Investments, Inc. were established

1985

- AcerLand, Taiwan's first and largest franchised computer retail chain was founded

1986

- Acer beat IBM with 32-bit PCs

1987

- The Acer name was created

1988

- Acer Inc. launched IPO

1989

- TI-Acer DRAM joint venture with Texas Instruments was formed
- Acer initiated the Aspire Park project, based on the idea of providing housing for Acer employees

1991

- Acer introduced ChipUp™ technology — the world's first 386-to-486 single-chip CPU upgrade solution

1992

- Acer created the world's first 386SX-33 chipset
- Stan Shih introduced the Smiling Curve concept
- Acer initiated its first corporate re-engineering

1993

- Acer developed a 64-bit performance-enhanced I/O and CPU architecture to link MIPS RISC CPUs with Microsoft® Windows® NT

1994

- Acer introduced the world's first dual Intel® Pentium® PC

1995

- The popular Aspire multimedia PC brought Acer closer to the consumer electronics market

1996

- Acer announced its commitment to providing fresh technology to be enjoyed by everyone, everywhere

1997

- Official groundbreaking ceremony was held for Aspire Park, Acer's multifunction high-tech intelligence park

1998

- Acer was the official IT Sponsor of the 13th Asian Games in Bangkok, introducing the world's first PC-based management system for a major international sporting event

1999

- Aspire Academy was set up in Aspire Park to help managers of Asian firms and MNCs with offices in Asia to improve their organizational and leadership effectiveness

2000

- As part of Acer’s latest re-engineering, Acer split off its OEM business unit to create Wistron Corp., an independent design and IT manufacturing company

2001

- Acer adopted a new corporate identity to reflect the company's commitment to enhancing people's lives through technology
- Acer revealed a new generation of e-business: MegaMicro e-Enabling Services

2002

- The new Acer Aspire was launched, bringing fresh standards to the global home-PC arena
- The Product Value Labs were inaugurated to enhance Acer's customer-centric focus, and integrated technologies that add value to customers' lives
- Launch of TravelMate C100 Convertible Tablet PC, the first convertible Tablet PC available in the worldwide market

2003

- The next-generation Empowering Technology platform was launched, integrating hardware, software and service to provide end-to-end technologies that are dependable and easy-to-use

2004

- Acer launched a new Folio design for notebooks, featuring pure functional simplicity, smooth curves and subtle elegance
- BusinessWeek selected Stan Shih as one of the "25 Stars of Asia"
- Acer Founder Stan Shih retired from the Group

2005

- J.T. Wang assumed the position of Chairman and Chief Executive Officer, while Gianfranco Lanci stepped into the role of President of Acer Inc.
- Launch of Ferrari 4000, the first carbon-fiber notebook available in the worldwide market
- A series of Empowering Technology products were unveiled
- Acer became the worldwide No. 4 vendor for Total PCs and notebooks

- Acer became the No. 1 brand in EMEA and Western Europe in terms of sales volume
- Acer became the world No. 3 brand for notebooks in Q4 2005

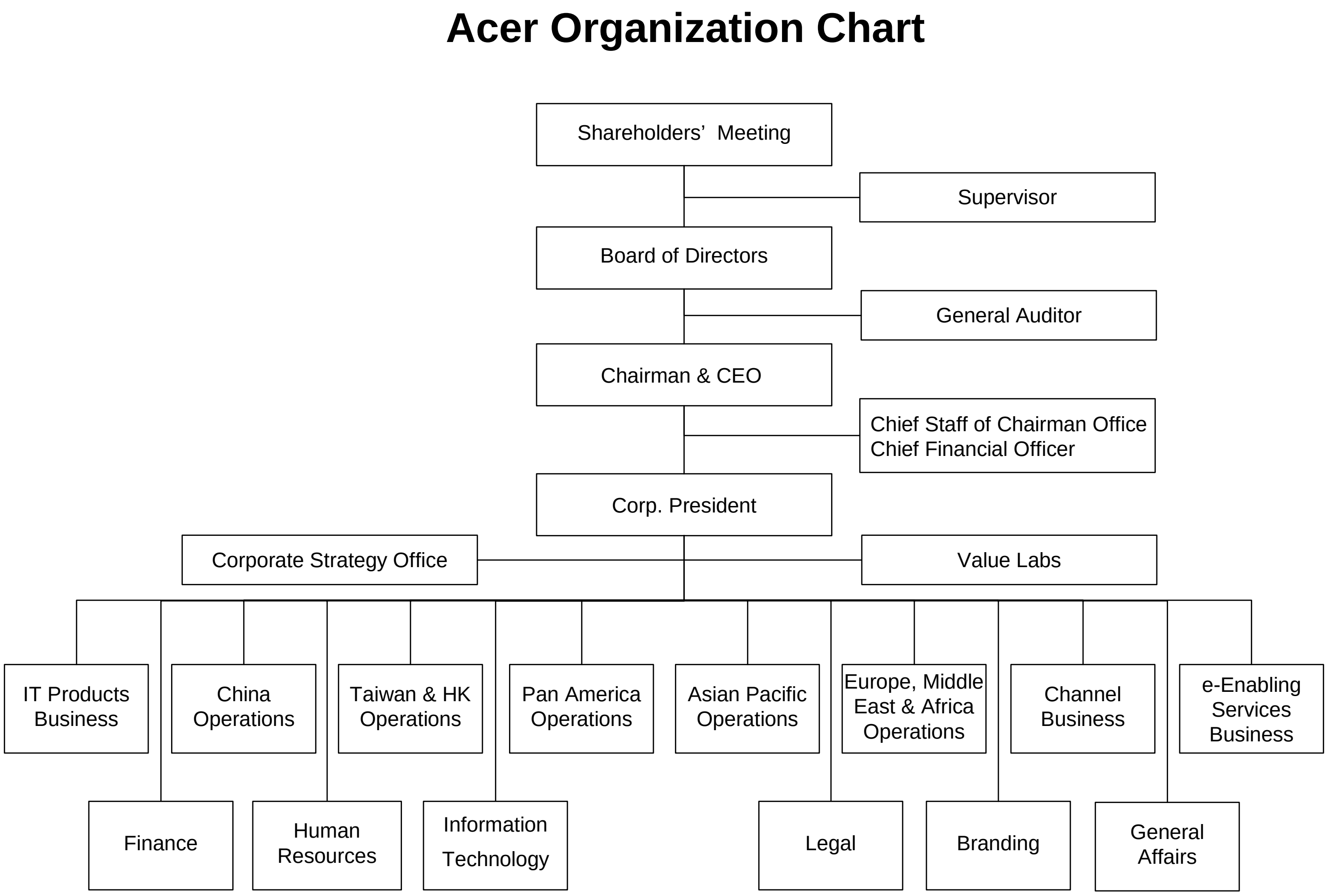
2006

- Acer was the first-to-market with a full line of Intel® Centrino® Duo mobile technology notebooks
- Acer was voted Reader's Digest gold-medal Computer SuperBrand in Asia for the eighth consecutive year
- Acer celebrates its 30th anniversary

2.2 The Organization of the Company

2.2.1 Organization Chart and Division Function

(1) Organization Chart



(2) Division Functions

Division	Main Functions
Chief Staff Of Chairman Office	Responsible for monitoring the implementation of special projects assigned by the Chairman.
Chief Financial Officer	Responsible for Acer's financial management and investments.
General Auditor	Responsible for planning, execution, evaluation and improvement of Acer's internal operations.
Corporate Strategy Office	Consolidate, manage, design and implement of global key initiatives.
IT Products Business	Responsible for IT products with Acer's brand name, including product strategy, production and marketing management, product assurance, and product services, etc.
Value Labs	Responsible for development of innovative, customer-oriented products and services with high market value, and setting up profitable business models.
e-Enabling Services Business	Responsible for development, marketing, sales and after sale services of e-Enabling products and services.
Channel Business	Channel marketing, management and services for all products where Acer has the distribution rights.
China Operations	Sales and market Acer's brand name IT products and services in China.
Taiwan & Hong Kong Operations	Sales and market Acer's brand name IT products and services in Taiwan and Hong Kong.
Pan America Operations	Sales and market Acer's brand name IT products and services in pan America.
Europe, Middle East & Africa Operations	Sales and market Acer's brand name IT products and services in the Europe, Middle East and Africa.
Asian Pacific Operations	Sales and market Acer's brand name IT products and services in the Asia Pacific region.
Human Resources Unit	Responsible for human resource development and management, including human resource planning, recruitment, training, administration, career development, compensation and welfare, employee relationship, and so forth.
Finance Unit	Responsible for financial planning, investment management, cash flow control, credit control, setting and monitoring budgets, cost control and accounting issues.
Branding Div.	Responsible for promoting Acer's brand name products via advertisements devising & producing, and web side development & planning, etc.
Information Technology Unit	Responsible for planning and integrating all vital internal information such as Sales, Accounting, Inventories and Assets via internet and/or intranet.
Legal Unit	Draft and review contracts; provide legal consulting services and manage Acer's IP-related rights, including without limitation the patent, trademark, licensing and copyrights.
General Affairs Div.	Responsible for general issues related to public administration, public safety and public services.

2.2.2 Information of Board of Directors, Supervisors and Key Managers

(1)Board of Directors and Supervisors (Mar. 31, 2006)

Title	Name	Date of Election	Term	Shares Held When Elected		Shares Held by Current Shareholding		Shares Held by Spouse & Minors		Education	Main Curriculum Vitae	Whose Spouse or Kinship within 2 Degrees holds a position as the Key Managers, Directors or Supervisors		
				Number	Percentage	Number	Percentage	Number	Percentage			Title	Name	Relation-ship
Chairman	J.T. Wang	06/14/2005	3	5,212,666	0.25	7,525,424	0.33	194,629	-	Bachelor	Chairman of HiTRUST.COM Inc. Chairman of Lottery Technology Services Corp. Director of E-life Mall Corp. Director of TWP Corporation Chairman of Acer Cyber Center Services Inc. Director of DCS Computer System Co., Ltd. Director of Minly Tech. Corp. Director of Weblink International Inc.	-	-	-
Director	Stan Shih	06/14/2005	3	43,794,001	2.09	46,421,641	2.06	8,824,214	0.39	Master	Director of Dragon Investment Co., Ltd. Director of BenQ Corp. Director of Wistron Corp. Director of Acer Investment Inc. Director of TSMC Co, LTD. Director of Cross Century Investment Director of Acer SoftCapital Director of Acer Worldwide Inc.	Supervisor	Carolyn Yeh	Wife
Director	Gianfranco Lanci	06/14/2005	3	-	-	216,000	-	-	-	Bachelor	-	-	-	-
Director	Jim Wong	06/14/2005	3	1,712,318	0.08	2,595,056	0.12	-	-	Master	-	-	-	-
Director	Pier Carlo Falotti	06/14/2005	3	-	-	-	-	-	-	Bachelor	-	-	-	-

Title	Name	Date of Election	Term	Shares Held When Elected		Shares Held by Current Shareholding		Shares Held by Spouse & Minors		Education	Main Curriculum Vitae	Whose Spouse or Kinship within 2 Degrees holds a position as the Key Managers, Directors or Supervisors		
				Number	Percentage	Number	Percentage	Number	Percentage			Title	Name	Relation-ship
Director	Philip Pen (The representative of Smart Capital Corp.)	06/14/2005	3	10,000	-	10,600	-	-	-	Master	Chairman of Cross Century Investment Director of Multiventure Investment Inc. Supervisor of Acer Laboratories Inc. Supervisor of Aspire Incubation Venture Capital Supervisor of BenQ Corp Supervisor of Wistron Corp. Supervisor of Apacer Technology Inc. Director of Id SoftCapital Inc. Supervisor of Dragon Investment Co., Ltd. Chairman of Acer Capital Corp.	-	-	-
Director	Yen-Liang Yin (The representative of Hung Rouan Investment Corp.)	06/14/2005	3	60,204,788	2.88	63,817,074	2.83	-	-	PhD	Chairman of Anshin card Services	Director	Stan Shih	Husband

Title	Name	Date of Election	Term	Shares Held When Elected		Shares Held by Current Shareholding		Shares Held by Spouse & Minors		Education	Main Curriculum Vitae	Whose Spouse or Kinship within 2 Degrees holds a position as the Key Managers, Directors or Supervisors		
				Number	Percentage	Number	Percentage	Number	Percentage			Title	Name	Relation-ship
Supervisor	George Huang	06/14/2005	3	7,560,437	0.36	5,894,062	0.26	2,324,396	0.10	Bachelor	Chairman of Mondex Taiwan Inc. Director of Apacer Technology Inc. Director of Lottery Technology Services Corp. Chairman of EB-Easy Director of SYNQ Technology Inc. Chairman of CTS Digi-Tech Co.,Ltd Vice-Chairman of Taiwan Fixed Network Co., Ltd. Supervisor of TFN Investment Co.,Ltd Vice-Chairman of Taiwan Hong Yuan Investment Co.,Ltd	-	-	-
Supervisor	Carolyn Yeh	06/14/2005	3	8,324,731	0.41	8,824,214	0.39	46,421,641	2.06	Bachelor	Director of Aspire Incubation Venture Capital Director of Cross Century Investment Director of Acer Investment Inc. Chairman of Id SoftCapital Inc. Supervisor of Acer Capital Corp.	Director	Stan Shih	Hasband

Major Institutional Shareholders (Mar. 31, 2006)

Name	Name of Major Shareholders
Hung Rouan Investment Corp.	Carolyn Yeh、Shih Hsuen Rong 、Stan Fundation、Shih Hsuen Huei, Shih Hsuen Lin、Shih Fang Cheng
Smart Capital Corp.	Philip Pen

(2)Key Managers (Mar. 31, 2006)

Title	Name	Date of Assuming Office	Shares Held Directly		Shares Held by Spouse & Minor		Degree	Main Curriculum Vitae	Other President or VP who is the Spouse or Kinship Within 2 Degrees		
			Number	Percentage	Number	Percentage			Title	Name	Relationship
President	Gianfranco Lanci	01/01/2005	216,000	-	-	-	Bachelor	-	-	-	-
President	T.Y Lay	11/01/2001	2,011,714	0.09	15,264	-	Bachelor	-	-	-	-
President	Scott Lin	11/01/2001	848,906	0.04	7,149	-	Bachelor	Chairman of Minly Technology Corp. Director of DCS Computer System Co, LTD.	-	-	-
President	Ben Wan	05/16/2002	12,170	-	-	-	Master	Director of Acer Cyber Center Services Inc. ARC Consultants Ltd. Chairman of TWP Corp.	-	-	-
President	Jim Wong	11/01/2001	2,595,056	0.12	-	-	Master	-	-	-	-
President	James Chiang	01/01/2002	1,706,535	0.08	32,801	-	Bachelor	Chairman of Weblink International Inc. Director of TWP Corp. Director of Lottery Technology Services Corp. Chairman of Sertek Inc. Supervisor of E-life Mall Corp. Chairman of DCS Computer System Co., Ltd. Director of Minly Technology Corp.	-	-	-
President	Patrick Lin	11/01/2001	-	-	-	-	Bachelor	-	-	-	-
President	Steve Lin	11/01/2001	1,235,377	0.05	-	-	Bachelor	-	-	-	-
Vice President	Peter Shieh	11/01/2001	618,313	0.03	73,786	-	Bachelor	-	-	-	-
Vice President	Winston Fong	09/01/2002	112,293	-	12,284	-	Master	-	-	-	-
Vice President	Angelina Hwang	09/01/2001	190,449	0.01	8,462	-	Bachelor	-	-	-	-
Vice President	Peter Wu	11/01/2001	-	-	-	-	Bachelor	Director of Ebeasy Supervisor of Mondex Taiwan Inc.	-	-	-
Vice President	Jackson Lin	16/02/2004	303,927	0.01	2,143	-	Bachelor	-	-	-	-
Vice President	Dennis Chiang	11/04/2002	33,517	-	-	-	Master	-	-	-	-
Vice President	Howard Chan	01/19/2000	575,636	0.03	20,200	-	Master		-	-	-
Vice President	Calvin Chang	11/01/2001	32,679	-	2,076	-	Bachelor	-	-	-	-
Vice President	Jafa Lin	07/01/1996	130,922	0.01	-	-	Bachelor	-	-	-	-
A.V.P.	Grace Lung	05/01/2004	12,509	-	-	-	Bachelor	Supervisor of Aspire Service & Development Inc. Supervisor of Acer Property Development Inc.	-	-	-

2.3 Capital and Shares (April 24, 2006)

2.3.1 Sources of the Capital

Unit: Share/Thousand NT$

Date	Price of Issuance	Authorized Common stock		Paid-in Common stock		Notes
		Shares	Value	Shares	Value	Source of the capital
August, 2005	Share/ NT$10	2,800,000,000	28,000,000	2,254,518,705	22,545,187	

Unit: Shares

Shares Category	Authorized capital			Notes
	Issued shares	Non-issued	Total	
Common shares	2,254,518,705	545,481,295	2,800,000,000	

2.3.2 Shareholding Structure (April 24, 2006)

Category/Number	Government Institution	Financial Institution	Other Institution	Individual	QFII and Foreign Investors	Total
No. Of Shareholders	3	5	457	322,443	782	323,690
Number	81,056,843	4,508,628	231,787,665	971,953,814	965,211,755	2,254,518,705
Percentage	3.595%	0.200%	10.281%	43.111%	42.813%	100.00%

2.3.3 The Distribution of Shareholdings (April 24, 2006)

Category	No. of Shareholders	Number	Percentage
1～999	171,593	64,657,176	2.868%
1,000～5,000	117,195	255,838,502	11.348%
5,001～10,000	20,053	142,441,282	6.318%
10,001～15,000	6,198	75,750,784	3.360%
15,001～20,000	2,664	46,861,487	2.079%
20,001～30,000	2,495	61,271,329	2.718%
30,001～50,000	1,533	59,235,493	2.627%
50,001～100,000	972	67,524,668	2.995%
100,001～200,000	406	57,615,641	2.556%
200,001～400,000	196	56,033,192,	2.485%
400,001～600,000	84	40,931,775	1.816%
600,001～800,000	58	39,475,637	1.751%
800,001～1,000,000	35	31,353,589	1.391%
1,000,001 and above	208	1,255,528,150	55.689%
Total	323,690	2,254,518,705	100.000%

2.3.4 The List of Major Shareholders

Name \ Shares	Number	Percentage
JPMorgan Chase Bank, N.A.,Taipei Branch in Custoday for EuroPacific Growth Fund	112,721,000	4.99%
Hong Rong Investment Corp.	63,817,074	2.83%
Acer Incorporated Global Depositary Receipt	61,934,089	2.75%
Stan Shih	46,421,641	2.06%
National Financial Stabilization Fund	42,848,856	1.90%
Management Board of Public Service Pension Fund	38,206,907	1.69%
JPMorgan Chase Bank, N.A.,Taipei Branch in Custoday for Capital World Growth and Income Fund Inc.	34,482,000	1.53%
The Labor Retirement Fund Supervisory Committee	33,177,048	1.47%
SinoPac Bank Trust Department Account	24,500,000	1.09%
Prudential Assurance Company Ltd.	22,770,000	1.01%

2.3.5 Market Price Per Share, Net Value, Earning & Dividend For Latest Two Years

Item \ Period			2004	2005	Until Mar. 31st, 2006
Market Price Per Share	Highest		47.54	85.5	85
	Lowest		31.75	43.18	58.7
	Average		40.51	61.05	72.42
Net Value Per Share	Before Distribution		29.53	29.71	32.73
	After Distribution		25.17	**Un-appropriated**	**Un-appropriated**
Earning Per Share	Weighted Average Share Numbers		2,231,197 thousand shares	2,213,516 thousand shares	2,214,571 thousand shares
	Earning Per Share	Current	3.38	3.83	1.82
		Adjusted	3.14	**Un-appropriated**	**Un-appropriated**
Dividend Per Share	Cash Dividend (NT$)		2.3	3	Un-appropriated
	Stock Dividend	Retained Earning (%)	0.12	0.2	
		Capital Surplus (%)	0.48	-	
	Accumulated unpaid dividends		-	-	-
Return on Investment Analysis	P/E Ratio		14.51	15.94	-
	P/D Ratio		21.33	20.35	-
	Cash Dividend Yield		4.69%	4.91%	-

2.3.6 Dividend Distribution Plan that is Proposed to be Resolved in This General Shareholders' Meeting

Since the Company, a technology and capital-intensive enterprise, is in its growing phases, in order to devise a long-term capital policy, and thereby maintain continuous development and steady growth, this Company hereby adopts the remainder appropriation method as its dividend policy. This dividend policy was approved by Shareholders' Meeting on May 23, 2000.

The proposed dividend distribution plan, resolved the Company's Board of Directors, will be submitted to Shareholders' Meeting on June 15, 2006 for approval:

The Company proposed to appropriate NT$ 6,763,556,115 from retained earnings for shareholders' dividend and bonus as cash dividend. The cash dividend will be distributed to shareholders listed in the Company's shareholders' list on the ex-right day based on their holdings at NT$ 3 per share.

Another NT$ 450,903,740 from retained earnings will be distributed to shareholders through issuance of shares. The stock dividend will be distributed to shareholders listed in the shareholders' list with their respective holdings at the ratio of 60 shares for every one thousand shares held.

2.3.7 An Analysis on Impact of the Proposed Stock Dividends Appropriation in Terms of Operating Results, Earnings Per Share and Rate of Return of Shareholders' Investment

<table>
<tr><th colspan="3">Year
Description</th><th>Estimates for 2006</th></tr>
<tr><td colspan="3">Paid-in capital at the beginning of the term (Expressed in Thousand NT$)</td><td>22,545,187</td></tr>
<tr><td rowspan="3">Stocks, dividend allocated in the year</td><td colspan="2">Cash dividend per share (Expressed in Thousand NT$)</td><td>3</td></tr>
<tr><td colspan="2">Stock allocated per share upon capital increase with earning</td><td>0.02</td></tr>
<tr><td colspan="2">Stock allocated per share upon capital increase with capital reserve</td><td>0</td></tr>
<tr><td rowspan="7">Change in business performance</td><td colspan="2">Operating profit (Expressed in Thousand NT$)</td><td>8,303,527</td></tr>
<tr><td colspan="2">Increase (decrease) of operating profit compared with preceding year</td><td>42.27%</td></tr>
<tr><td colspan="2">Net profit after tax (Expressed in Thousand NT$)</td><td>10,018,364</td></tr>
<tr><td colspan="2">Increase (decrease) of net profit after tax compared with preceding year</td><td>18.18%</td></tr>
<tr><td colspan="2">Earning per share (EPS) (NT$)</td><td>4.3</td></tr>
<tr><td colspan="2">Increase (decrease) of EPS compared with preceding year</td><td>12.27%</td></tr>
<tr><td colspan="2">Annual average return rate of investment (on grounds of annual EPS)</td><td>7.04%</td></tr>
<tr><td rowspan="6">Presumed EPS and EPS ratio</td><td rowspan="2">If earnings converted to capital increase being totally allocated as cash dividend</td><td>Presumed EPS</td><td>4.44</td></tr>
<tr><td>Presumed annual average return rate of investment</td><td>7.28%</td></tr>
<tr><td rowspan="2">If capital reserve was not converted to capital increase</td><td>Presumed EPS</td><td>4.30</td></tr>
<tr><td>Presumed annual average return rate of investment</td><td>7.04%</td></tr>
<tr><td rowspan="2">If capital and earning converted to capital being allocated in cash dividend</td><td>Presumed EPS</td><td>4.44</td></tr>
<tr><td>Presumed annual average return rate of investment</td><td>7.28%</td></tr>
</table>

1.If earning converted to capital increase being totally allocated as cash dividend, the presumed EPS
= [Net profit after tax – Interest expense to be borne for presumed cash dividend* H X (1 – Tax rate)] / [Total number of shares allocated at end of the year – Number of shares allocated out of earning**]
The interest expense to be borne for presumed cash dividend = Amount of profit converted for capital increase H General loan interest rate of 1-year term*
Number of shares allocated out of earning: The total number of shares increased stock dividend allocated in the preceding year.

2.Annual average EPS ratio: Annual average stock price/EPS as shown through the annual financial statements.

2.3.8 Bonuses to Employees and Remunerations to Directors, Supervisors

1. Where this Company has earnings at the end of the business operational year, after paying all relevant taxes, making up losses of previous year, setting aside a legal reserve of ten percent (10%) and a special reserve as required by laws or competent authorities, the balance of the earnings shall be distributed as follows:
   (1)Five to ten percent (5 to 10%) as bonuses to employees;
   (2)One percent (1%) as remuneration of directors and supervisors; and
   (3)The remainder may be allocated to shareholders as bonuses.
2. The Board of Directors proposed a dividend distribution plan of year 2005 as follows:
   A. NT$374,546,020 as cash bonuses to employees, NT$374,546,020 as stock bonuses to employees, NT$93,636,505 as remuneration to directors and supervisors.
   B. 37,454,602 shares to be distributed as employees' stock bonuses account for 45.37% of earnings converted to capital increase, 1.69% of shares circulated in stock market.
   C. The estimated EPS is NT$3.45, after taking consideration of the bonuses or remuneration distributed to employees and directors and supervisors respectively.
3. The Bonuses to Employees and Remunerations to Directors, Supervisors in 2004:

	2004			
	Dividend Distribution approved by the Shareholders' Meeting	Dividend Distribution proposed by the BOD	Different value	Different reason
(1) The dividend distribution： 1. Cash bonuses to employees	NT$88,872,422	NT$88,872,422	-	-
2. Stock Bonuses to employees (1) Number of Shares (2) Value (3) The rate of the circulation of shares in stock market on the ex-right day	(1) 35,548,966 shares (2) NT$355,489,660 (3) 1.73%	(1) 35,548,966 shares (2) NT$355,489,660 (3) 1.73%	- - -	- - -
3. Remunerations to directors, supervisors	NT$55,545,260	NT$55,545,260	-	-
(2)The information of Earning Per Share ：				
1. Earning Per Share	NT$3.38	NT$3.38	-	-
2. Set Earning Per Share	NT$3.20	NT$3.20	-	-

2.4 The Secured Corporate Bonds in Taiwan

Category of corporate bonds		The first secured corporate bonds in Taiwan	The Second secured corporate bonds in Taiwan
Date of issuance		January 21, 2000	December 21, 2000 ~ December 27, 2000
Par value		NT$1,000,000	NT$1,000,000
Location of issuance and transaction		Taiwan Over-The-Counter Securities Exchange	Taiwan Over-The-Counter Securities Exchange
Issuing price		At 100% par value.	At 100% par value.
Total amount		NT$3,000,000,000	NT$3,000,000,000
Interest Rate Per Annum		5.76%	5.26%
Period		5 Years. Maturity Date: Jan 20, 2005	5 Years. Maturity Date: Dec. 11-26, 2005
Consignee		TC Bank, Trust Dept.	TC Bank, Trust Dept.
Underwriter		Chien Hung Securities Co., Ltd.	Fubon Securities Co., Ltd.
Verifying Attorney-at-Law		Huang Tai-feng Office, Attorneys-at-Law	Huang Tai-feng Office, Attorneys-at-Law
Verifying CPA		Peat, Marwick, Mitchell & Co.,	Peat, Marwick, Mitchell & Co.,
Method of repayment		Interests are calculated and paid according to the terms listed in bonds once per year. Repayment is once and for all upon maturity date.	Interests are calculated and paid according to the terms listed in bonds once per year. Repayment is once and for all upon maturity date.
Un-expiated principal		NT$3,000,000,000	NT$3,000,000,000
Terms of redemption or repayment ahead of schedule		None	None
Restrictive terms		None	None
Credit rating organization, date, results of corporate bond rating		None	None
Auxiliary right of conversion	Amount of converted common shares, GDRs or valuable securities	None	None
Auxiliary right of conversion	Regulations for issuance and conversion	None	None
Any impact on the value of the stocks and shareholder's equity from the issuance or conversion		None	None
Depository organization consigned for the objects of conversion		None	None

2.5 Special Shares:

Not Applicable

2.6 GDR Issuance

Date: March 31, 2006

Description \ Date of issuance			November 1,1995	July 23, 1997
Date of issuance			November 1,1995	July 23, 1997
Location of issuance and transaction			London	London
Total amount of issuance			US$220,830,000	US$160,600,000
Unit price of issuance			US$32.475	US$40.15
Total number of units issued			6,800,000units	4,000,000units
Sources of valuable securities demonstrated			Capital increased in cash	Capital increased in cash
Number of valuable securities demonstrated			Each unit stands for Acer's 5 common shares	Each unit stands for Acer's 5 common shares
Rights and obligations of GDR holders			Same as Acer's common shareholders	Same as Acer's common shareholders
Consignee			None	None
Depository organization			Citicorp	Citicorp
Custodian organization			Citibank Taipei Branch	Citibank Taipei Branch
Balance not retrieved			13,391,113 units of Global Deposit Receipt as representing 66,955,608 shares of common stocks	
Method to allocate fees incurred during the period of issuance and existence			The expenses incurred by issuance being taken to offset premium reserve. Expenses incurred during existence being taken as expenses of the current term.	The expenses incurred by issuance being taken to offset premium reserve. Expenses incurred during existence being taken as expenses of the current term.
Any key issue for the depository and custodian agreements			None	None
Market Price Per Share	2005	Highest	US$12.8	
		Lowest	US$7.1604	
		Average	US$9.0842	
	Until Mar. 31th, 2006	Highest	US$13.00	
		Lowest	US$9.00	

2.7 Employee Stock Options:

Not Applicable

2.8 Mergers, Acquisitions, and Issuance of New Shares Due to Acquisition of Shares of Other Companies:

None

3. Business Description

3.1 Business Contents

3.1.1 Business Scope

1. To engage in general import and export trade (except for other government-permitted business)
2. To distribute, enter bids for, make offers for merchandise of domestic and overseas manufacturers (except for futures)
3. To research and develop, design, assemble, process, manufacture, inspect, test, sell, lease or rent, provide maintenance services, integrate, and technical support, or to commission others to assemble, process, or manufacture, mechanical products, electrical appliances and products, instruments, and electronic products.
4. To manage distribution centers, bonded warehouses, and other storage facilities.
5. To design and produce advertisements, or act as an agent for others, or accept commissions to do the same.
6. To plan and design computer information management systems.
7. To research and develop, design, assemble, process, manufacture, inspect, test, buy and sell, lease or rent, provide maintenance services --or commission others to process --electrical components for the aerospace industry, electronic control equipment, monitors which are earthquake-proof, moisture-proof, and resistant to electromagnetic interference, surveillance equipment, liquid crystal display monitors, alarm equipment, radar controllers, video compact disc players, video compact disc recorders, and hi-fi stereo equipment.
8. To manufacture information storage and data processing equipment.
9. To manufacture wire communication machinery & equipment.
10. To manufacture wireless communication machinery & equipment.
11. To manufacture electronic parts and components.
12. To manufacture electrical appliances.
13. To provide information software services.
14. To manufacture products for export.
15. To conduct international trade.
16. To provide intermediary services.
17. To manufacture general instruments.
18. To manufacture optical instruments.
19. To manufacture telecommunications control equipment.
20. To import telecommunications control equipment.
21. To manufacture office machinery & equipment.
22. To install electrical equipment.
23. To install machinery.
24. To install computer equipment.
25. To provide telecommunications engineering.
26. To install telecommunications control equipment.
27. To install instruments and meters.
28. To inspect and provide maintenance services for electrical equipment.
29. Other industry and commerce services (test and research & development of mechanical merchandises, electrical appliances, instruments, electrical products, telecommunications equipment and office equipment).
30. To engage in leasing and renting industry.
31. To engage in the wholesale purchase and sale of machinery.

32. To engage in the wholesale purchase and sale of electric appliances.
33. To engage in the wholesale purchase and sale of miniature instruments.
34. To engage in the wholesale purchase and sale of office machinery and equipment.
35. To engage in the wholesale purchase and sale of telecommunications equipment.
36. To engage in the wholesale purchase and sale of electronic materials.
37. To engage in the retail of electric appliances.
38. To engage in the retail of office machinery and equipment.
39. To engage in the retail of subtle instruments.
40. To engage in the retail of telecommunications equipment.
41. To engage in the retail of mechanical tools.
42. To engage in the retail of electronic materials.
43. To design products.
44. To provide general advertising services.
45. To provide storage facilities.
46. To provide information management services.
47. To provide electronic information services.
48. To engage in the retail of information software.
49. To engage in the wholesale purchase and sale of information software.
50. To manufacture aircraft and its components.
51. To engage in the wholesale purchase and sale of aircraft and its components.
52. To engage in the retail of aircraft and its components.
53. To rent or lease factory buildings.
54. To rent or lease storage facilities.
55. To rent or lease office buildings.
56. To develop, sell, and rent or lease industrial factory buildings.
57. Computer System Plan, Develop and sell Business.
58. Server Plan, Develop and sell Business.
59. CRT/LCD Monitor Plan, Develop and sell Business.
60. Peripherals、DVD、Projector Plan, Develop and sell Business.
61. Electronic IT Product & Service provider.
62. IA & personal multimedia Plan, Develop and sell Business
63. LCD TV Plan, Develop and sell Business.
64. DSC Plan, Develop and sell Business.
65. Digital Home Application Plan, Develop and sell Business.

(2) Percentage of Operating Revenues

Unit: Thousand NT$

Description	Year 2004		Year 2005	
	Revenues	Percentage	Revenues	Percentage
Desktop PC	101,152,365	78.34	151,952,212	74.14
Computer Peripherals and Others	27,956,331	21.66	53,005,887	25.86
Total	129,108,697	100.00	204,958,099	100.00

(3) Current Product (Service) Items

Company's major business is to engage in the distribution of IT products, software, and provide repair services.

Product line	Product/Service coverage	Goal
Information Technology Product	Computer System (Desk-tops、Notebooks、Handhelds、Tablets)、Servers & Storage、CRT Monitors、LCD Monitors、Peripherals、DVD Players、Projectors、IA & Personal Multimedia、LCD TV、DSC、Digital Home	Provide open architecture consulting services; network planning, set up and integration.
Software and Repair Service	System software integration, provider of e-enabling services for corporations, data centers, SmartCards and smart terminal related services, e-service solutions, and e-ticketing services.	IT services, hardware and software consulting; computer installation, repair and maintenance, expansion; distribution of IT products.

(4) New Products Development Plans (service):

The Company belongs to high technology company, it does not only distribute high-tech products but also conducting researches and developments. The new products development plans for year 2006 are listed below:

A. Develop audio-video multimedia with TV function for Desktop computers and digital home PC for living room;

B. Develop Acer Empowering Technology in order to simplify the user's interface;

C. Develop new small form factor commercial Desktop computers to satisfy the commercial user's requirement to save the space and minimize TCO;

D. Integrated wireless antenna Notebook computers;

E. Develop an Interactive platform LCD TV to cater to application of future digital Home product diversification;

F. Develop high-effect SME network storage system;

G. Develop mobile handheld device.

3.1.2 Research Development Status

Expenditures on Research and Development in the Most Recent Two Years until March 31, 2006

Year	R&D Expenditures (Thousand NT$)	As Out of the Total Revenue (%)
2004	335,609	0.26
2005	162,906	0.08
2006 (Until March 31)	26,795	0.05

Note: The expenditures include the expenditures incurred by Product Value Lab (NT$ 280,646,000 in year 2004, and NT$ 113,355,000 in year 2005, and NT$ 0 in first quarter of year 2006)

(1) Major Project Result until April 30, 2006:

Product Category	Technology or Product or Service
Desktop Computers	Develop Acer eAcoustic, eSettings, ePerformance, eDataSecurity, eLock, eRecovery management
Desktop Computers	Develop Viiv-compliant digital home PC: Aspire E650
Desktop Computers	Develop digital home PC for living room : Aspire L200, L250
Notebook Computers	Develop on-click Acer Video Conference solution featuring integrated Acer OrbiCam and optional Acer Bluetooth VoIP phone. Acer OrbiCam offers 225-degree ergonomic rotation for convenient visual captures on both sides of notebook screens, VisageON face tracking technology always centers objects of the image, and enhanced PrimaLite technology presents wider visual capture with natural skin tones. Acer Bluetooth® VoIP phone, also the first VoIP interface optimized with Bluetooth 2.0+EDR technology designed in compact PCMCIA size. Mobile users simply accept Video Conference invitation from popular IM (Instant Messenger) utilities with a single click without undergoing complex setups and specially featured echo cancellation and noise suppression lets mobile users enjoy the clearest audio communication in handheld or hands-free mode up to three meters.
Notebook Computers	First to market multimedia notebooks with world-standard digital (DVB-T)/analog hybrid TV-tuner design empowers end-users to watch live TV anytime, anywhere. Supporting intuitive Acer Arcade multimedia portal — freeing users to watch TV, listening to MP3 songs, playing DVD movies, browsing photos, ripping music or editing videos. A truly sensational media center to offer mobile users ultimate multimedia enjoyment.

Product Category	Technology or Product or Service
Software of Acer eNet Management for Intelligent Network Setting	Acer eNet Management auto-detects and connects to the access point (AP) with the strongest signal or via the support of plug and connect to LAN to offer mobile users absolute connectivity. With smart profile management, users can easily establish the most appropriate network environment in various locations and be recognized with re-visits for guaranteed interoperability. Integrated user interface also frees users from complex network setup.
eDataSecurity Management	Acer eDataSecurity Management utilizing the most advanced AES cryptography technology is a handy file encryption utility that protects files from being accessed by unauthorized persons, using passwords and advanced encryption algorithms. It is conveniently integrated with Windows® Explorer as a shell extension for quick and easy data encryption/decryption and also supports on-the-fly file encryption for MSN® Messenger and Microsoft® Outlook®.
ePower Management Program	Acer ePower Management program is to provide a straightforward interface for mobile users to manage power control over their notebook computers. Intellectually designed for extended battery life, it automatically adjusts power state accordingly by option of pre-configured power usage profiles, or to users' own customized power management profiles.
Embedded GPS Handheld Devices	GPS has become the mainstream of Handheld device, which also drives the development of related industry like RF signal, panel, mechanical designs, materials, navigation software and MAP data. This project is intent to integrate above technologies with intuitive user interface and provides a reliable GPS Handheld device to end users.
eNet Management V2 Program	Acer eNet Management incorporated Cisco Compatible Extensions (CCX) ensures a secured wireless commercial network.
LCD TVs	Develop 26", 32" and 37" LCD TVs with vivid color and scene depth.
LCD TVs	Develop LCD TV equipped with Empowering Technology User Interface
LCD TVs	Provide Digital Home Application and Solution by integrating Media Gate technology
Digital Office	Universal Integrated Manageability Solution, Remote PnP device Lock technology, Dynamic Acoustic Scenario Management, e-Protection security utility.
Notebook/Desktop Computers / PDA Cross System Real Time Mail Automation System	Real time will inform users of what important mail you would like to receive and through PDA/Notebook/Desktop users have.

(2) Future Plans:

Direction	Plan Description
Commercial Desktop: Manageable Computers	The Company plan to continue to develop better Desktop to satisfy different user's requirement with better performance and network manageability in different environment. To help the MIS to manage the computers anytime and anywhere, and reduce the TCO of commercial customers.
Consumer Desktop: Digital Home PC	While the booming of LCD TV and digital consumer electronic products, content and service (BluRay and HD DVD, 3G, DV…), The Company will position the consumer desktop as media hub in the living room with fabulous computing power for data management and authoring, big storage for multimedia files, and connected with other electronic devices with competitive cost.
The Next Generation of Ultra-Portable Mobile Device – (Origami)	Research has indicated many users are not offered with a device enabling them to be productive or entertained during many "blank out" session of the day. The project is to develop an ultra-portable mobile device that gives a longer battery life for use of the day than conventional notebooks and enhanced interfaces to fit usability, in order to let users utilize their time well, such as managing personal information, entertainment or internet browsing.
Integrated Wireless Antenna	Integrate wireless antennas with optimized reception and transmission performance to support 802.11n, a, b, g. and 3G
Mobile Data: Smart and Real Time Email Receiving Devices	A real time messaging receiver provides important and necessary mail to users becomes the main stream. This smart handheld device which equipped with multiple Network k access capability is allowed to collect important mails or meeting invitations from no matter his office mail server or personal mail serve. The flexibility of check mail on demand through specific Network make "Mail on the Go" comes true.
ePower Management 2^{nd} Generation	The enhanced Acer ePower Management efficiently monitors users' working state demanding over the system resources and intelligently allocates power consumption for extended battery life.
Notebook Computers	Research and develop 3G data wireless communication solution in notebook computers.
Interactive TV	In order to meet diversified Digital Home Application, integrate Media Gateway function to provide Interactive TV platform by using SOC technology.
Digital image processing and color tuning technologies for LCD TV	This project aims at integrating display and IT technologies for improve the image quality and colorfulness and for unifying the color representations of all Acer LCDTV using

Direction	Plan Description
	different panels. For IT products, the media gateway or digital media adaptor can be easily integrated.
Advanced Compact Form Factor PC	Because of globalization and increasing use of network, the home/SOHO and SMB become more and more digitized. In this project, we devise a new compact form factor PC platform suitable for home/living-room and SOHO/SMB, maximizing capability in the most compact space, in order to further facilitate media sharing and management, device connectivity, and consumer user experiences.
Cross-platform Integrated Manageability solution 2nd & 3rd Generation	Extend wireless device fully coverage and implement full CCX security industry requirement for PC wireless vendors to enhance function, performance and range of wireless device/portal and security.

3.2 Market and Continuous Growth

3.2.1 Market Analysis

(1) Research of the company's main products (and services), and sales in regions where the products are available.

Unit: Thousands NT$

Year / Regions	**2004**		**2005**	
	Sales revenues	**Percentage**	**Sales revenues**	**Percentage**
Export	116,940,325	90,58	183,952,125	89.75
Import	12,168,372	9.42	21,005,974	10.25
Total	129,108,697	100.00	204,958,099	100.00

Note: The above figures do not include the revenues generated from the suspended departments.

(2) Major Competitors

A. The major competitors may be categorized as follows:

a. Taiwan: Lemel, ASUS, Lenovo, HPQ, FIC, Twinhead, BenQ …etc.

b. Global: HPQ, Dell, Fujitsu Siemens, NEC, Toshiba, Sony, Apple, Lenovo, ASUS ... etc.

(3) Market Share

Global Top10 Brand PC marketing share:

Brand company	Y2004	Y2005
Dell	16.4%	16.8%
HPQ	14.6%	14.6%
Lenovo	7.0%	6.9%
Acer	3.4%	4.6%
Fujitsu Siemens	3.8%	3.8%
Toshiba	3.1%	3.3%
NEC	2.6%	2.8%
Apple	1.9%	2.2%
Gateway	2.1%	2.0%
Sony	1.6%	1.5%
Total(Top 10)	56.3%	58.6%
Total(Others)	43.7%	41.4%

Original source：Gartner

(4) Target forecast

Unit: Thousands NT$

Taiwan Region	**2006 Sales Revenue**	**Percentage (%)**
Desktop PC	240,057,765	74.77
Peripherals and Others	80,992,721	25.23
Total	321,050,468	100.00

(5) Competitiveness

The Company has completely transformed to a brand selling of the IT products and a professional electronic service company and actively adjusts the organization and supply chains. In year 2006, the Company will not only keep the PC business growing but also focus on the simplification of the organization following the successful models implemented in the EMEA. The successful models include simplified process, target focus, individual abilities and creativities boost…etc. When implementing such models, the Company will continue to grow and generate more profits. The Company will continuously to adopt the “3-One, 3-Multiple” strategy, enhance “One-Company, One-Brand, One-Team” policy and to implement “Multiple-Suppliers, Multiple-Products, Multiple-Channels” business models in order to setup the ”self- furnish, good- recycling, endless” mechanism of Acer brand. Furthermore, the Company receives a prominent result in brand management through outsourcing to increase Acer brand competition. The Company has fulfilled its commitment by adopting the principles such as “Advertisement is only part of the brand not the core of brand. Brand means the entirely commitment in all aspects, from product quality, customer services, channels to advertisements. The essential of the brand is to let end- consumers to experience the whole process." The Company believes that "Asian companies are more competitive, in certain ways, than US companies to develop brand business. Due to the small size of local markets, Asian companies need to expand businesses outside of their home countries; hence, they are more adept and sensitive to the changes of the foreign markets and cultures. US companies, on the other hand, are comparatively region-minded and lack of such "local touch" because of the size of US markets" and will continue to become a world leader in the non-direct sale business of IT products.

(6) Long Term Advantages, Disadvantages and Solutions of Company

A. Advantages

a. Continuously adopt the "3-One, 3-Multiple" strategy, enhance "One-company, One-brand, One-Team" policy and "Multiple-Suppliers, Multiple-Products, Multiple-Channels" business models, with the global competitive experiences, possess empowering technology, speed, quality controls and have flexible supply chain management, risk management, win-win strategy, and implement corporate governance.
b. Fully leverage Chinese culture advantages, implement the workable "New Channel Business Model" in Chinese market, also enhance the efficiency of inventory and expense management, brand advertisement, and offer the competitive prices of digital life services.
c. The worldwide PC market expects a 10.7% growth.
d. Fully leverage Taiwan advantages in research, design and innovation to ensure the competitiveness of raw material resources and product prices.
e. Invest IT management and security. Due to the improvement of world economy and investment environments, enterprises will invest more and more on IT related areas.
f. Continuously invest the projects conducted by Product Value Lab. Product Value Lab has gained a prominent achievement in "Empowering Technology" and other products and services innovation.
g. The more popularity and low cost of broadband and wireless helps the long distance IT service. Company will make use of this opportunity to achieve the IT service business.
h. The introduction of LCD TV will generate another growth of IA business industry.

B. Disadvantages

1. The political issues and uncertainty between Taiwan and China are still not settled and clear.

   Solution: The Company hopes the political issues such as "Ant-Secession Law" can be settled soon, and economy will be taken into consideration during cross-strait relationship talks. Company also hopes the Taiwan economy and consumers' demand can be resumed through the "2006 Taipei International Spring CE Show" and the increase of investment of major public infrastructures by Taiwan government.

2.The IT industry has reached saturation level and profits are diminishing, there is tough competition between local and foreign brands.

Solution: Implement the workable "New Channel Business Model" in the markets in the US and China, also enhance the efficiency of inventory and expense management, enhance the quality of H/W & S/W repair services, continuously promote the customer care-engineering, innovate and develop in customer value oriented way, coordinate with top global enterprises, actively develop the different high-tech IT products to strengthen competitiveness.

3. According to the More Rule, consumers have no desires to purchase new PC products because the speed of phasing out is too fast to catch up with.

Solution: The keys to sell H/W are to provide consumers S/W and total solution. To enhance "Empowering Technology" created by Product Value Lab and provide "easy" and "reliable" products, and integrate H/W, S/W and services will be able to meet consumers' need (one-stop service) and insert the new elements to PC and IT industry.

3.2.2 Key Accounts in the Past Two Years

(1) Key Buyers (Expressed in Thousand NTD)

Unit: Thousand NT$

ITEM	Year 2004				Year 2005			
	from	amount	Percentage of total net sales (%)	Relationship with AI	from	amount	Percentage of total net sales (%)	Relationship with AI
1	ACG	24,665,950	19.10	(NOTE1)	AEG	102,469,778	49.96	(NOTE1)
2	AIT	13,592,101	10.53	(NOTE1)	AAC	32,468,666	15.63	(NOTE1)

NOTE1: Subsidiary of the Company.
Central billing to AEG for Europe region since 2005.
AAC (PA region) increased retailer model since 2005. Sales percentage increased from 7.36% In 2004 to 15.89% in 2005.

Remark: central billing to AEG for Europe region since 2005

(2) Key Suppliers (Expressed in Thousand NTD).

Unit: Thousand NT$

	Year 2003				Year 2004			
	From	amount	Percentage of total net sales (%)	Relationship with AI	from	amount	Percentage of total net sales (%)	Relationship with AI
1	Supplier a	41,628,921	23	none	Supplier A	88,356,319	30	none
2	Supplier b	28,517,597	16	none	Supplier B	34,793,087	12	none
3	Supplier c	25,128,324	14	(NOTE1)	Supplier C	30,055,207	10	none
	Supplier d	22,209,570	12	none	Supplier D	28,080,221	10	(NOTE1)

NOTE1：Investee of the Company

3.2.3 Production Value in the Most Recent Two Years:

Not Applicable

3.2.4 The Sales Value in the Most Recent Two Years:

Unit: Thousand NT$

Year / Major production	2004		2005	
	Domestic Sales	Foreign Sales	Domestic Sales	Foreign Sales
Computer	3,673,499	97,478,867	7,260,682	147,747,132
Peripherals & Others	8,494,873	19,461,458	13,745,292	36,204,993
Total	12,168,372	116,940,325	21,005,974	183,952,125

3.3 Employee Statistics for Most Recent Two Years and up to 2006.03.31

Year		2004.12.31	2005.12.31	2006.03.31
H / C	Research & Development	188	161	176
	Engineering	627	667	699
	Marcom & Sales	445	415	398
	Business Assistant	266	250	250
	Administration & Supporting	253	207	201
	Total	1779	1700	1724
Average Age		34.57	34.77	34.83
Average Seniority		6.25	6.41	6.38
Education (Ratio)	Ph. D.	0.84%	0.82%	0.75%
	Master	19.11%	21.77%	23.03%
	College	72.12%	70.82%	69.84%
	Senior High School	7.70%	6.47%	6.26%
	Below Senior High School	0.22%	0.12%	0.12%

3.4 Environmental Protection Measures

1. The Company's total amount of losses (including compensation) and disposals arising out of pollution of environment, the future solutions (including improvement measures) and predicted expenditures (including the potential losses, disposals, compensation incurred due to no-action, reasons and facts must be provided if not able to predict the expenditures): None
2. IT Products Business Group of the Company had received ISO 9001:2000 certified by BVQI in November of 2002 and received ISO 14001:1996 certified by BVQI in February of 2003. We follow the new product development procedures and adopt green design to increase our competitiveness. The Company had carried out the task of three-year renewing the certification of ISO9001:2000 and ISO14001:2004 from January 2005, and received ISO14001:2004 certification at the end of November, 2005.
3. In order to reduce the hazardous substances and meet the requirements set forth in the RoHS Directive of the EU, we released the green product requirements to supplier in November of 2004 and timely audit and educate the suppliers afterwards. The Company has requested suppliers to improve the products quality in order to have all products to meet the requirements set forth in RoHS Directive on July 1^{st}, 2006.
4. In order to reduce the impact to the environment and provide a recycling system for end-of-life products, the Company had started to implement a global recycling program, and executed recycling program in compliance with local competent laws and regulations.
5. In order to receive updated worldwide environmental protection information, the Company and IER have continued coordinating closely and planning an environmental strategy for promoting the Company's management system. The plans include environmental communication, environmental trainings and writing a sustainable environmental report.

4. Financial Standing

4.1 Most Recent 5-Year Concise Financial Information

4.1.1 Most Recent 5-Year Balance Sheet

Date: March 31, 2006
Unit: Thousand NT$

Item \ Period		Most recent 5-Year Financial Information					Current year as of Mar. 31, 2006
		2001	2002	2003	2004	2005	
Current assets		30,899,918	26,737,022	31,012,523	46,306,417	76,408,727	84,860,156
Fund and Long-term equity investments		40,925,298	51,231,148	51,681,937	43,692,146	42,445,814	44,544,949
Net property, plant and equipment		8,531,747	6,163,250	5,809,884	4,664,043	4,108,829	4,185,777
Intangible assets		278228	687,080	536,898	465,632	319,106	306,517
Other assets		5,810,320	4,918,658	5,344,123	4,908,476	5,098,248	5,212,709
Current Liabilities	Before Distribution	21,185,161	15,756,891	22,872,968	38,067,574	60,416,979	63,931,678
	After Distribution	23,043,886	19,582,548	27,980,042	43,026,737	Un-appropriated	Un-appropriated
Long-term liabilities		6,000,000	7,494,311	6,678,481	-	-	-
Other liabilities		18,587	98,424	1,825,688	1,292,117	2,175,331	2,693,814
Common stock		43,261,121	20,195,081	20,736,998	20,933,677	22,545,187	22,545,187
Capital surplus		10608411	36,884,792	33,347,630	30,541,968	30552133	30,764,700
Retained Earnings	Before Distribution	11,047,053	17,386,385	15,372,713	13,211,567	16,123,212	20,144,362
	After Distribution	9,095,305	11,206,010	9,325,631	7,645,710	Un-appropriated	Un-appropriated
Translation adjustments and other equity adjustment		892,317	621,972	281,271	-598,909	-161,198	2,301,287
Treasury Stock		-6,567,139	-8,700,698	-6,730,384	-3,411,280	-3,270,920	-3,270,920
Total assets		86445511	89,737,158	94,385,365	100,036,714	128,380,724	139,110,108
Total Liabilities	Before Distribution	27,203,748	23,349,626	31,377,137	39,359,691	62,592,310	66,625,492
	After Distribution	29062473	27,175,283	36,484,211	44,318,854	Un-appropriated	Un-appropriated
Stockholders' Equity	Before Distribution	59,241,763	66,387,532	63,008,228	60,677,023	65,788,414	72,484,616
	After Distribution	57,383,038	62,561,875	57,901,154	55,717,860	Un-appropriated	Un-appropriated

4.1.2 Most Recent 5-Year Concise Income Statement

Date: March 31, 2006
Unit: Thousand NT$

	Most recent 5-Year Financial Information(Note)					Current year as of Mar. 31, 2006
	2001	2002	2003	2004	2005	
Operating revenue	30,370,675	42,137,284	81,717,814	129,108,697	204,958,099	54,802,455
Gross profit	-1,055,392	2,192,663	4,282,869	5,659,766	8,332,419	2,286,771
Operating income	-2,046,513	789,581	2,053,998	3,211,168	5,836,512	1,602,323
Interest Income	262,160	80,861	8,678	17,650	134,370	50,599
Interest Expense	360,491	520,349	442,827	367,350	186,459	15,178
Income before income taxes	493,893	8,884,178	7,761,157	7,759,418	9,650,156	4,611,018
Income after income taxes	380,804	8,596,464	7,313,809	7,011,661	8,477,502	4,021,150
EPS	0.08	3.44	3.13	3.14	3.83	1.82
Capitalization Interest expense	1,040	-	-	-	-	-

Note：The information here disclose the income from contiuning operations for comparision.

4.1.3 CPAs and Their Opinions for Most Recent 5-Year：

Year	Name of CPA	Auditor’s Opinion
2001	James Wu、Albert Lou	Unreserved
2001（AI）	James Wu、Sonia Chang	Unreserved
2002	James Wu、Sonia Chang	Unreserved
2003	James Wu、Sonia Chang	Unreserved
2004	Sonia Chang、Winston Yu	Unreserved
2005	Sonia Chang、Winston Yu	Unreserved

4.2 Most Recent 5-Year Financial Analysis

Item			Most recent 5-Year Financial Information 2001 NT$	2002 NT$	2003 NT$	2004 NT$	2005 NT$	Current year as of Mar. 31, 2006
Financial Ratio (%)	Total liabilities to total assets		31.47	26.02	33.24	39.35	48.76	47.89
	Long-term debts to fixed assets		764.91	1,200.35	1,230.87	1,328.66	1,654.09	1,796.04
Ability to payoff debt	Current ratio(％)		145.86	169.68	135.59	121.64	126.47	132.74
	Quick Ratio(％)		123.56	155.14	128.37	113.97	113.79	124.08
	Interest protection		3	18	19	22	53	305
Ability to operate	A/R turnover (times)		3.58	3.27	5.07	5.3	4.94	3.91
	A/R turnover days		102	112	72	69	74	93
	Inventory turnover (times)		14.83	20.73	49.43	55.19	37.62	32.07
	Inventory turnover days		25	18	7	7	10	11
	Fixed assets turnover (times)		7.96	7.99	14.07	27.68	49.88	52.37
	Total assets turnover (times)		0.76	0.55	0.87	1.29	1.6	1.58
	Return on assets(％)		1.59	10.26	8.31	7.5	7.55	12.07
Earning ability	Return on equity(％)		1.65	13.77	11.3	11.34	13.41	23.26
	To pay-in capital ％	Operating income	-3.48	4.31	9.9	15.34	25.89	28.43
		PBT	3.16	44.37	37.43	37.07	42.8	81.81
	Net income ratio (％)		1.58	17.56	8.95	5.43	4.14	7.34
	EPS（NTD）		0.08	3.44	3.13	3.14	3.83	1.82
Cash flow (%)	Cash flow ratio		41.37	31.44	14.17	1.79	4.84	(2.74)
	Cash flow adequacy ratio		83.01	86.98	80.9	69.62	80.78	43.22
	Cash reinvestment ratio		10.06	4.16	-	-	Note: not zero	(2.28)
Leverage	Operating leverage		-1.39	1.84	0.76	0.63	0.45	0.59
	Financial leverage		0.7	2.51	1.27	1.13	1.03	1.01

Note 3:

1.Financial Ratio

(1) Total liabilities to Total assets＝Total liabilities ／Total assets

(2) Long-term debts to fixed assets＝（Net equity＋Long term debts）／Net fixed assets

2.Ability to Pay off Debt

(1) Current ratio＝Current Assets／Current liability

(2) Quick ratio＝（Current assets－Inventory－Prepaid expenses）／Current liability

(3) Interest protection＝Net income before income tax and interest expense／Interest expense

3.Ability to Operate

(1) Account receivable (including account receivable and notes receivable from operation) turnover＝Net sales／the Average of account receivable (including account receivable and notes receivable from operation) balance

(2) A/R turnover day＝365／account receivable turnover

(3) Inventory turnover＝Cost of Goods Sold／the average of inventory

(4) Account payable (including account payable and notes payable from operation)turnover＝Cost of goods sold／the average of account payable（including account payable and notes payable from operation）balance

(5) Inventory turnover day＝365／Inventory turnover

(6) Fixed assets turnover＝Net sales／Net Fixed Assets

(7) Total assets turnover＝Net sales／Total assets

4.Earning Ability

(1) Return on assets＝〔PAT＋Interest expense×(１－interest rate)〕／the average of total assets

(2) Return on equity＝PAT／the average of net equity

(3) Net income ratio＝PAT／Net sates

(4) EPS ＝（PAT－ Dividend from prefer stock）／weighted average outstanding shares

5.Cash Flow

(1) Cash flow ratio＝Cash flow from operating activities／Current liability

(2) Cash flow adequacy ratio＝Most recent 5-year Cash flow from operating activities／Most recent 5-year (Capital expenditure＋the increase of inventory＋cash dividend)

(3) Cash investment ratio＝（Cash flow from operating activities－cash dividend） ／(Gross fixed assets＋long-term investment＋other assets＋working capital)

6. Leverage

(1) Operating leverage＝(Nest revenue－variable cost of goods sold and operating expense)／operating income

(2) Financial leverage＝Operating income／(Operating income－interest expenses)

4.3 Audit Report of Supervisor

To: The 2006 General Shareholders Meeting

The Board of Directors of the Company has prepared the 2005 financial report, including balance sheet, statement of income, statements of changes in stockholders' equity, and statement of cash flows, and Sonia Chang and Winston Yu at KPMG has been retained by the Board of Directors of the Company to issue an audit report. The undersigned supervisors have reviewed the aforesaid documents, which made by The Board of Directors and the audit report in compliance with Article 218 of the Company Law, and did not find any incompliance. In accordance with Article 219 of the Company Law, it is hereby submitted for your review and perusal.

Supervisor: George Huang

Supervisor: Carolyn Yeh

Dated: April 28, 2006

4.4 Financial Statements Consolidated With Subsidiaries Audited by CPA of the Recent Year

Audit Report of Independent Certified Public Accountants

The Board of Directors
Acer Incorporated:

We have audited the consolidated balance sheets of Acer Incorporated (the "Company") and subsidiaries as of December 31, 2004 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Acer Incorporated and subsidiaries as of December 31, 2004 and 2005, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

As stated in note 2(l) to the consolidated financial statements, the Company and subsidiaries adopted Statement of Financial Accounting Standards No. 35 "Accounting for Assets Impairment" starting from January 1, 2005. The effect of this accounting change is discussed in note 3.

The accompanying consolidated financial statements as of and for the year ended December 31, 2005, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation, and in our opinion, the consolidated financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(t) of the notes to the consolidated financial statements.

Taipei, Taiwan (the Republic of China)
March 15, 2006, except for note 9(b),
as to which the date is
March 28, 2006.

Note to Reader

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

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2004 and 2005
(in thousands of New Taiwan dollars and US dollars)

Assets	2004 NT$	2005 NT$	2005 US$
Current assets:			
Cash and cash equivalents (note 4(1))	15,686,705	28,482,653	867,448
Short-term investments (notes 4(2)(17) and 6)	16,157,618	6,160,138	187,609
Notes and accounts receivable, net of allowance for doubtful accounts of NT$820,383 and NT$855,489 as of December 31, 2004 and 2005, respectively (notes 4(3) and 6)	33,939,116	63,861,995	1,944,937
Notes and accounts receivables from related parties (note 5)	1,351,451	6,040,397	183,962
Other receivables from related parties (note 5)	1,072,139	724,502	22,065
Other financial assets (notes 4(4)(17))	1,852,351	3,179,466	96,832
Inventories (notes 4(5) and 6)	13,363,463	29,055,723	884,901
Prepaid expenses and other current assets	935,163	647,089	19,707
Deferred income tax assets－current (note 4(14))	599,970	1,051,878	32,035
Pledged time deposits (note 6)	71,931	18,426	561
Total current assets	85,029,907	139,222,267	4,240,057
Long-term equity investments (notes 4(6)(17) and 6)			
Accounted for using equity method	15,869,274	13,299,186	405,031
Accounted for using cost method or lower-of-cost-or-market-value method	4,775,325	4,306,787	131,165
Total long-term equity investments	20,644,599	17,605,973	536,196
Property and equipment (notes 4(7) and 6)			
Land	4,868,749	2,510,171	76,448
Buildings and improvements	6,983,541	6,687,113	203,658
Machinery and computer equipment	3,789,980	3,444,609	104,907
Furniture and fixtures	760,408	767,100	23,362
Leasehold improvement	403,331	334,426	10,185
Leased equipment	189,719	128,826	3,923
Other equipment	758,220	806,378	24,558
Construction in progress and advance payments for purchases of property and equipment	35,466	142,396	4,337
	17,789,414	14,821,019	451,378
Less: accumulated depreciation	(4,342,434)	(4,600,862)	(140,121)
accumulated asset impairment	-	(752,000)	(22,902)
Net property, plant and equipment	13,446,980	9,468,157	288,355
Intangible assets (note 4(8))	784,296	501,878	15,285
Property not used in operation (notes 4(7) and 6)	3,469,674	3,478,937	105,952
Other financial assets (note 4(9))	659,627	988,033	30,091
Deferred income tax－non-current (note 4(14))	179,064	71,720	2,184
Deferred expenses and other assets (note 4(13))	247,142	224,684	6,843
Total assets	124,461,289	171,561,649	5,224,963

Liabilities and Stockholders' Equity	2004 NT$	2005 NT$	2005 US$
Current liabilities:			
Short-term borrowings (notes 4(10) and 6)	5,182,060	3,400,617	103,567
Current installments of long-term debt (notes 4(11) and 6)	67,395	42,238	1,287
Current installments of bonds payable (note 4(12))	6,000,000	-	-
Notes and accounts payable	23,592,932	64,779,336	1,972,875
Notes and accounts payables to related parties (note 5)	3,126,267	8,598,247	261,862
Other payables to related parties (note 5)	227,541	73,366	2,234
Royalties payable	2,363,365	4,677,416	142,452
Accrued expenses and other current liabilities (note 4(17))	19,339,199	20,567,088	626,377
Total current liabilities	59,898,759	102,138,308	3,110,654
Long-term liabilities:			
Long-term debt, excluding current installments (notes 4(11) and 6)	257,007	146,623	4,465
Other liabilities (note 4(13))	1,509,671	326,510	9,944
Deferred income tax liabilities－non-current (note 4(14))	578,133	1,700,757	51,797
Total long-term liabilities	2,344,811	2,173,890	66,206
Total liabilities	62,243,570	104,312,198	3,176,860
Stockholders' equity and minority interest (notes 4(15)(17))			
Common stock	20,933,677	22,545,187	686,621
Capital surplus	30,541,968	30,552,133	930,475
Retained earnings			
Legal reserve	4,919,949	5,621,115	171,193
Special reserve	1,261,851	2,017,819	61,453
Unappropriated earnings	7,029,767	8,484,278	258,391
Other stockholders' equity components			
Unrealized loss on long-term equity investments	(214,814)	(454)	(14)
Foreign currency translation adjustment	132,516	(226,806)	(6,907)
Hedging reserve	(516,611)	66,062	2,012
Treasury stock	(3,411,280)	(3,270,920)	(99,617)
Total stockholders' equity	60,677,023	65,788,414	2,003,607
Minority interest	1,540,696	1,461,037	44,496
Total stockholders' equity and minority interest	62,217,719	67,249,451	2,048,103
Commitments and contingencies (note 7)			
Total liabilities and stockholders' equity	124,461,289	171,561,649	5,224,963

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2004 and 2005

(in thousands of New Taiwan dollars and US dollars, except per share data)

	2004	2005	
	NT$	NT$	US$
Revenues (note 5)	225,014,007	318,087,679	9,687,458
Cost of revenues (note 5)	(197,794,704)	(283,966,218)	(8,648,278)
Gross profit	27,219,303	34,121,461	1,039,180
Operating expenses (note 10)			
Selling	(20,579,110)	(23,168,521)	(705,604)
Administrative	(2,389,309)	(2,866,287)	(87,294)
Research and development	(444,227)	(437,692)	(13,330)
Total operating expenses	(23,412,646)	(26,472,500)	(806,228)
Operating income	3,806,657	7,648,961	232,952
Non-operating income and gains:			
Interest income	225,671	402,634	12,262
Investment gain recognized by equity method (note 4(6))	147,402	-	-
Gain on disposal of property and equipment	-	46,605	1,419
Gain on disposal of investments, net (notes 4(2)(6))	5,432,389	5,634,709	171,607
Other income	937,271	1,092,426	33,270
	6,742,733	7,176,374	218,558
Non-operating expenses and loss:			
Interest expense	(596,007)	(385,293)	(11,734)
Investment loss recognized by equity method (note 4(6))	-	(42,179)	(1,285)
Other investment loss (notes 4(2)(6))	(628,587)	(2,294,293)	(69,873)
Loss on disposal of property and equipment (notes 4(2)(6))	(47,643)	-	-
Foreign currency exchange loss, net	(339,135)	(69,393)	(2,113)
Asset impairment loss (notes 3 and 4(7))	-	(805,000)	(24,517)
Other loss	(297,418)	(576,645)	(17,562)
	(1,908,790)	(4,172,803)	(127,084)
Income before income taxes	8,640,600	10,652,532	324,426
Income tax expense (note 4(14))	(1,549,177)	(2,187,044)	(66,607)
Consolidated net income	**7,091,423**	**8,465,488**	**257,819**
Net income attributable to:			
Shareholders of parent company	7,011,661	8,477,502	258,185
Minority shareholders	79,762	(12,014)	(366)
	7,091,423	**8,465,488**	**257,819**
Earnings per common share (note 4(16)):			
Basic earnings per common share	**3.14**	**3.83**	**0.12**
Diluted earnings per common share	**3.14**	**3.83**	**0.12**

ACER INCORPORATED
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2004 and 2005
(in thousands of New Taiwan dollars)

	Common stock	Convertible bonds being converted to common stock	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Special reserve	Retained earnings: Unappropriated earnings	Unrealized loss on long-term equity investments	Foreign currency translation adjustment	Hedging reserve	Treasury stock	Minority interest	Total stockholders' equity
Balance at January 1, 2004	$ 20,650,877	86,121	33,347,630	4,188,567	1,671,291	9,512,855	(186,122)	491,763	(24,370)	(6,730,384)	1,478,983	64,487,211
2004 net income	-	-	-	-	-	7,011,661	-	-	-	-	79,762	7,091,423
Foreign currency translation adjustment	-	-	-	-	-	-	-	(359,247)	-	-	-	(359,247)
Appropriation approved by the stockholders (note 4(15):												
Reverse of special reserve	-	-	-	-	(409,440)	409,440	-	-	-	-	-	-
Legal reserve	-	-	-	731,382	-	(731,382)	-	-	-	-	-	-
Stock dividends and employees' bonuses in stock	940,008	-	-	-	-	(940,008)	-	-	-	-	-	-
Capital surplus transferred to common stock	492,529	-	(492,529)	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(4,925,285)	-	-	-	-	-	(4,925,285)
Directors' and supervisors' remuneration	-	-	-	-	-	(69,919)	-	-	-	-	-	(69,919)
Employees' bonuses in cash	-	-	-	-	-	(111,870)	-	-	-	-	-	(111,870)
Change in unrealized loss on long-term equity investment	-	-	-	-	-	-	(28,692)	-	-	-	-	(28,692)
Cash dividends distributed to subsidiaries	-	-	71,783	-	-	-	-	-	-	-	-	71,783
Decrease in capital surplus resulting from long-term equity investments accounted for by the equity method (note 4(6))	-	-	(597,980)	-	-	-	-	-	-	-	-	(597,980)
Convertible bonds converted into common stock	255,787	(86,121)	515,357	-	-	-	-	-	-	-	-	685,023
Change in hedging reserve (note 4(17))	-	-	-	-	-	-	-	-	(492,241)	-	-	(492,241)
Common stock repurchased by the Company (note 4(15))	-	-	-	-	-	-	-	-	-	(3,849,015)	-	(3,849,015)
Disposal of the Company's common stock held by subsidiaries	-	-	-	-	-	(2,872)	-	-	-	2,202	-	(670)
Reissuance of treasury stock	-	-	-	-	-	(803)	-	-	-	336,050	-	335,247
Cancellation of treasury stock (note 4(15))	(1,405,524)	-	(2,302,293)	-	-	(3,122,050)	-	-	-	6,829,867	-	-
Change in minority interest	-	-	-	-	-	-	-	-	-	-	(18,049)	(18,049)
Balance at December 31, 2004	$ 20,933,677	-	30,541,968	4,919,949	1,261,851	7,029,767	(214,814)	132,516	(516,611)	(3,411,280)	1,540,696	62,217,719
2005 net income	-	-	-	-	-	8,477,502	-	-	-	-	(12,014)	8,465,488
Foreign currency translation adjustment	-	-	-	-	-	-	-	(359,322)	-	-	-	(359,322)
Change in hedging reserve (note 4(17))	-	-	-	-	-	-	-	-	582,673	-	-	582,673
Appropriation approved by the stockholders (note 4(15)):	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	701,166	-	(701,166)	-	-	-	-	-	-
Stock dividends and employees' bonuses in stock	606,694	-	-	-	-	(606,694)	-	-	-	-	-	-
Special reserve	-	-	-	-	755,968	(755,968)	-	-	-	-	-	-
Capital surplus transferred to common stock	1,004,816	-	(1,004,816)	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(4,814,746)	-	-	-	-	-	(4,814,746)
Directors' and supervisors' remuneration	-	-	-	-	-	(55,545)	-	-	-	-	-	(55,545)
Employees' bonuses in cash	-	-	-	-	-	(88,872)	-	-	-	-	-	(88,872)
Change in unrealized loss on long-term equity investments	-	-	-	-	-	-	214,360	-	-	-	-	214,360
Cash dividends distributed to subsidiaries	-	-	68,318	-	-	-	-	-	-	-	-	68,318
Increase in capital surplus resulting from long-term equity investments accounted for by the equity method (note 4(6))	-	-	985,448	-	-	-	-	-	-	-	-	985,448
Reissuance of treasury stock	-	-	(38,785)	-	-	-	-	-	-	140,360	-	101,575
Change in minority interest	-	-	-	-	-	-	-	-	-	-	(67,645)	(67,645)
Balance at December 31, 2005	$ 22,545,187	-	30,552,133	5,621,115	2,017,819	8,484,278	(454)	(226,806)	66,062	(3,270,920)	1,461,037	67,249,451

ACER INCORPORATED
Consolidated Statements of Cash Flows
For the years ended December 31, 2004 and 2005
(in thousands of New Taiwan dollars and US dollars)

	2004	2005	
	NT$	NT$	US$
Cash flows from operating activities:			
Consolidated net income	7,091,423	8,465,488	257,819
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	1,077,790	976,348	29,735
Amortization	664,167	519,946	15,835
Loss on disposal of assets, net	47,643	(46,605)	(1,419)
Gain on disposal of investments, net	(5,432,389)	(5,634,709)	(171,607)
Net investment gain on long-term equity investments accounted for by equity method, net of cash dividends received	421,127	246,985	7,522
Other investment loss	628,587	2,294,293	69,873
Asset impairment loss	184,178	805,000	24,517
Provision for redemption of convertible bonds	6,542	-	-
Deferred income tax expense	820,057	1,222,533	37,233
Changes in operating assets and liabilities:			
Notes and accounts receivable	(8,374,939)	(29,922,879)	(911,310)
Receivables from related parties	(200,131)	(4,353,425)	(132,585)
Inventories	(4,187,754)	(15,722,725)	(478,840)
Other financial assets, prepaid expenses and other current assets	16,065	(1,039,041)	(31,644)
Long-term accounts receivable	(120,436)	(366,555)	(11,164)
Notes and accounts payable	4,011,172	41,186,404	1,254,345
Payables to related parties	(1,283,317)	5,317,805	161,955
Royalties payable, accrued expenses and other current liabilities	7,087,227	3,536,327	107,700
Other liabilities	(417,560)	(360,105)	(10,967)
Cash provided by operating activities	2,039,452	7,125,085	216,998
Cash flow from investing activities:			
Decrease in short-term investments	2,834,536	11,958,174	364,190
Proceeds from sales of long-term investments	6,707,723	5,269,601	160,487
Increase in long-term investments	(1,561,520)	(304,205)	(9,265)
Return of capital from investees	1,008,128	294,835	8,979
Proceeds from disposal of property and equipment	18,637	3,248,469	98,933
Additions to property and equipment	(472,734)	(505,397)	(15,392)
Increase in intangible assets	(117,703)	(126,186)	(3,843)
Decrease in loans and advances to related parties	22,897	12,116	369
Increase in refundable deposits, deferred expenses and other assets	25,867	16,064	489
Cash provided by investing activities	8,465,831	19,863,471	604,947
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	112,356	(1,781,443)	(54,254)
Reissuance of treasury stock	335,247	-	-
Redemption of bonds payable	-	(6,000,000)	(182,732)
Payment of long-term debt	(412,069)	(135,541)	(4,128)
Payment of cash dividends, employee's bonus and directors' and supervisors' remuneration	(5,035,291)	(4,959,163)	(151,033)
Repurchase of common stock	(3,849,015)	90,288	2,750
Increase (decrease) in deposits received	36,154	(823,056)	(25,066)
Cash used in financing activities	(8,812,618)	(13,608,915)	(414,463)
Net increase in cash and cash equivalents	1,692,665	13,379,641	407,482
Effects of exchange rate changes	(132,003)	(583,693)	(17,777)
Cash and cash equivalents at beginning of period	14,126,043	15,686,705	477,743
Cash and cash equivalents at end of period	15,686,705	28,482,653	867,448
Supplemental disclosures of cash flow information			
Interest paid	602,059	556,946	16,962
Income taxes paid	743,379	928,813	28,287
Supplementary schedules of non-cash investing and financing activities:			
Convertible bonds converted to common stock	685,023	-	-
Change in foreign currency translation adjustment	(359,247)	(359,322)	(10,943)

ACER INCORPORATED AND SUBSIDIARIES
Notes to Consolidated Financial Statements
As of and for the years ended December 31, 2004 and 2005
(amounts expressed in thousands of New Taiwan dollars and US dollars, except for per share information and unless otherwise noted)

1. Reporting Entities of the Consolidated Financial Statements and Their Business Scopes

Acer Sertek Inc. (the "Company") was incorporated on August 1, 1976, as a company limited by shares under the laws of the Republic of China ("ROC"). The Company is engaged in the marketing and sale of IT products and professional electronic services.

For the purpose of integrating resources, expanding business scale, and building up efficiency and competitiveness, the Company merged with Acer Incorporated ("AI") on March 27, 2002 and renamed Acer Incorporated in January 7, 2002. After the merger, the principal activities of the Company are those related to the sale and marketing of "Acer" brand-name IT products in foreign and domestic markets. Moreover, to promote E-commerce services, the Company provides E-commerce solutions to clients.

The reporting entities of the consolidated financial statements included the Company and its subsidiaries (hereinafter jointly referred to as the "Consolidated Companies"). For the purpose of preparing the consolidated financial statements, an entity is deemed a subsidiary if the Company is able to exercise control over its operations and financial policies. On December 31, 2004 and 2005, the number of employees of the Consolidated Conpanies was 6,560 and 6,554, respectively. The Consolidated Companies are summarized below according to their primary business activity.

(a) Sale and maintenance of "Acer" brand-name information technology products:

	Investor	Percentage of Ownership by the Company at December 31, 2004	2005
(1) Acer Incorporated			
(2) Acer Greater China (B.V.I.) Corp. ("AGC", British Virgin Islands) and its subsidiaries	The Company	100.00	100.00
• Acer Market Services Limited ("AMS", Hong Kong)	AGC	100.00	100.00
• Acer Computer (Far East) Ltd. ("AFE", Hong Kong)	AGC	100.00	100.00
• Acer Information Products (Zhong Shan) Inc. ("AIZS", China)	AMS	100.00	100.00
• Beijing Acer Information Co., Ltd. ("BJAI", China)	AMS	100.00	100.00

	Investor	Percentage of Ownership by the Company at December 31, 2004	2005
(3) Acer European Holding N.V. ("AEH", Netherlands Antilles) and its subsidiaries	The Company	100.00	100.00
• Acer Europe B.V. ("AHN", the Netherlands)	AEH	100.00	100.00
• Acer Computer B.V. ("ACH", the Netherlands)	AEH	100.00	100.00
• Acer Computer France S.A.R.L. ("ACF", France)	AHN	100.00	100.00
• Acer U.K. Limited ("AUK", the United Kingdom)	AHN	100.00	100.00
• Acer Italy S.R.L. ("AIT", Italy)	AHN	100.00	100.00
• Acer Computer GmbH ("ACG", Germany)	AHN	100.00	100.00
• Acer Computer HandelsgmbH ("ACV", Austria)	AHN	100.00	100.00
• Acer Europe Services S.R.L. ("AES", Italy)	AHN	100.00	100.00
• Acer Europe AG ("AEG", Switzerland)	AHN	100.00	100.00
• Acer Czech Republic S.R.O. ("ACZ", Czech)	AHN	100.00	100.00
• Esplex Limited ("AEX", the United Kingdom)	AHN	100.00	100.00
• Acer Computer Iberica, S.A. ("AIB", Spain)	AHN	100.00	100.00
• Acer Computer (Switzerland) AG ("ASZ", Switzerland)	AHN	100.00	100.00
• Acer Computer Norway AS ("ACN", Norway)	ACH	100.00	100.00
• Acer Computer Finland Oy ("AFN", Finland)	ACH	100.00	100.00
• Acer Computer Sweden AB ("ACW", Sweden)	ACH	100.00	100.00
• Acer Scandinavia A/S ("ACD", Denmark)	ACH	100.00	100.00
• Acer CIS Incorporated ("ACR", Russia)	AEH	100.00	100.00
• Acer Computer (M.E.) Ltd. ("AME", United Arab Emirates) and its subsidiaries	AEH	100.00	100.00
• Acer Africa Pty Ltd. ("AAF", South Africa)	AEH	100.00	100.00
(4) Boardwalk Capital Holding Limited ("ACLAH", British Virgin Islands) and its subsidiaries	The Company	100.00	100.00
• Acer America Corporation ("AAC", U.S.A.)	ACLAH	100.00	100.00
• Acer Computec Mexico, S.A. de C.V. ("AMEX", Mexico)	ACLAH	99.88	99.88
• Acer Latin America, Inc. ("ALA", U.S.A.)	ACLAH	100.00	100.00

	Investor	Percentage of Ownership by the Company at December 31, 2004	2005
(5) Acer Holding International, Incorporated ("AHI", British Virgin Islands) and its subsidiaries	The Company	100.00	100.00
• Acer Computer Co., Ltd. ("ATH", Thailand)	AHI	100.00	100.00
• Acer Japan Corporation ("AJC", Japan)	AHI	99.89	99.89
• Acer Computer Australia Pty Ltd. ("ACA", Australia)	AHI	100.00	100.00
• Acer Sales and Service Sdn. Bhd. ("ASSSB", Malaysia)	AHI	100.00	100.00
• Acer Computer (Singapore) Pte. Ltd. ("ACS", Singapore)	AHI	100.00	100.00
• Acer Computer New Zealand Ltd. ("ANZ", New Zealand)	AHI	100.00	100.00
• PT Acer Indonesia ("AIN", Indonesia)	AHI	100.00	100.00
• Acer India Private Limited ("AIL", India)	AHI	100.00	100.00
• Acer Vietnam Co., Ltd. ("AVN", Vietnam)	AHI	100.00	100.00
• Acer Philippines, Inc. ("APHI", Philippines)	AHI	100.00	100.00
(6) Acer Computer International Ltd. ("ACI", Singapore)	The Company	100.00	100.00
(7) Acer Sales & Distribution Ltd. ("ASD", Hong Kong)	The Company	100.00	100.00

(b) Sales and distribution of computer products, electronic communication products, and integrated circuits:

(1) Weblink International Inc. ("WII", Taiwan)	The Company	99.79	99.79
(2) Sertek Incorporated ("SNX", Taiwan)	The Company	100.00	100.00
(3) Digital Computer System Co., Ltd. ("DCS", Taiwan)	The Company	100.00	100.00
(4) Weblink (H.K.) International Ltd. ("WHI", Hong Kong)	WII	99.79	99.79
(5) Weblink Shanghai International Limited ("WSHI", China)	WII	99.79	99.79
(6) Acer Sertek Hong Kong Ltd. ("ASI HK", Hong Kong)	SNX	100.00	100.00
(7) Sertek (Shanghai) Limited ("STKS"), China)	SNX	100.00	100.00
(8) Servex (Malaysia) Sdn Bhd ("SMA", Malaysia) and its subsidiaries	ASSSB	100.00	100.00
(9) Servex International (Thailand) Co., Ltd. ("STH", Thailand)	ATH	100.00	100.00
(10) Logistron Services Ptd Ltd. (LGS, Singapore) and its subsidiaries	ACS	100.00	100.00

(c) Research, design, manufacture and sale of memory modules and consumer electronic products:

	Investor	Percentage of Ownership by the Company at December 31, 2004	2005
(1) Apacer Technology Inc. ("AMT", Taiwan)	The Company	54.33	54.33
(2) Apacer Electronic (Shanghai) Co., Ltd. ("AMC", China)	AMT	54.33	54.33
(3) Apacer Memory America Inc. ("AMA", U.S.A)	AMT	54.33	54.33
(4) Apacer Technology B.V. ("AMH", the Netherlands)	AMT	54.33	54.33
(5) Apacer Technology Japan Corp. ("ATJ", Japan)	AMT	54.33	54.33
(6) AQR Technology Inc. ("AQR", Taiwan)	AMT	54.33	54.33
(7) Kingdom Corporation Limited ("AMK", Hong Kong)	AMT	54.33	54.33
(8) Animeta System, Inc. ("YTI", Taiwan)	AMT	54.33	54.33

(d) Investing and holding companies:

(1) Multiventure Investment Inc. ("MVI", Taiwan)	The Company	100.00	100.00
(2) Acer Digital Service Co. ("ADSC", Taiwan)	The Company	100.00	100.00
(3) Acer Worldwide Inc. ("AWI", British Virgin Islands)	The Company	100.00	100.00
(4) Cross Century Investment Limited ("CCI", Taiwan)	The Company	100.00	100.00
(5) Acer SoftCapital Incorporated. ("ASCBVI", British Virgin Islands)	The Company	100.00	100.00
(6) Acer Venture Associates ("AVA", Cayman Islands)	ASCBVI	100.00	100.00
(7) Acer Capital Limited ("ACBVI", British Virgin Islands)	ASCBVI	100.00	100.00
(8) Acer Technology Venture Asia Pacific Ltd. ("ATVAP", Cayman Islands)	ASCBVI	100.00	100.00
(9) ASC Cayman, Limited ("ASCCAM", Cayman Islands)	ASCBVI	100.00	100.00
(10) Acer Capital Corporation ("ACT", Taiwan)	The Company	100.00	100.00
(11) Acer Technology Partners Fund ("ATPF", Australia)	The Company	100.00	100.00
(12) Aspire Incubation Venture Capital ("AIVC", Taiwan)	The Company	100.00	100.00
(13) Acer Digital Services (B.V.I.) Holding Corp. ("ADSBH", British Virgin Islands)	The Company	100.00	100.00
(14) Acer Digital Services (Cayman Islands) Corp. ("ADSCC", Cayman Islands)	ADSBH	100.00	100.00

(e) Property development:

	Investor	Percentage of Ownership by the Company at December 31, 2004	2005
(1) Acer Property Development Inc. (“APDI”, Taiwan)	ADSC	100.00	100.00
(2) Aspire Service & Development Inc. (“ASDI”, Taiwan)	ADSC	100.00	100.00

(f) Internet, e-commerce, electronic data supply or processing service, data storage and processing:

	Investor	2004	2005
(1) EB EASY Business Services Limited (“AGES”, Hong Kong)	ADSCC	85.00	85.00
(2) EB EASY (TWN) Corp. (“AGEST”, Taiwan)	AGES	85.00	85.00
(3) Acer Cyber Center Services Ltd. (“ACCSI”, Taiwan)	The Company	100.00	100.00
(4) Lottery Technology Service Corp. (“LTS”, Taiwan)	The Company	56.00	56.00
(5) Minly Corp. (“MINLY”, Taiwan)	The Company	100.00	100.00
(6) Taiwan ETC Service Corporation Limited (“TESC”, Taiwan)	The Company	60.00	60.00

(g) Software research, development, design, trading and consultation:

	Investor	2004	2005
(1) Maxmars Data Corp. (“MDC”, Taiwan)	ADSC	56.60	56.60
(2) Zhongshan Maxmars Software Corp. (“ZMS”, China)	MDC	56.60	56.60
(3) TWP Corporation (“TWP”, Taiwan)	The Company	100.00	100.00
(4) BRAVO Information Technology Co., Ltd. (“BIT”, Taiwan)	TWP	100.00	100.00
(5) TWP International Inc. (“TWP BVI”, British Virgin Islands)	TWP	100.00	100.00
(6) TWP (Far East) Limited (“TWPHK”, Hong Kong)	TWPBVI	100.00	100.00
(7) Acer Third Wave Software (Beijing) Co., Ltd. (“TWPBJ”, China)	TWPBVI	100.00	100.00
(8) Third Wave Publishing Software (Zhuhai) Ltd. (“TWPZH”, China)	TWPBVI	100.00	100.00
(9) TWP Game Zone (Beijing) Ltd. (“TWPGZ”, China)	TWPBVI	100.00	100.00

2. Summary of Significant Accounting Policies

(a) Principles for preparation and presentation of consolidated financial statements

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the ROC. These consolidated financial statements are not intended to present the consolidated financial position of the Consolidated Companies and the related consolidated results of operations and consolidated cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the ROC.

The consolidated financial statements include the accounts of the Company and subsidiaries in which the Company is able to exercise control over the subsidiary's operations and financial policies. The operating activity of the subsidiary is included in the consolidated statement of income from the date of acquisition. All significant inter-company transactions among the Consolidated Companies are eliminated in consolidation.

The excess of the net purchase price over the fair value of net assets of the acquired subsidiary is accounted for as goodwill (classified under "intangible assets" in the accompanying consolidated balance sheet) and amortized over 5 years using the straight-line method.

(b) Foreign currency transactions and translations

The Consolidated Companies record transactions in their respective local currencies. Foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates of that date. The resulting unrealized exchange gains or losses are reflected in the accompanying consolidated statements of income.

In preparation of the consolidated financial statements, all foreign subsidiaries translate their foreign currency financial statements into the Company's reporting currency (New Taiwan dollars). If the foreign currency is not the functional currency of the subsidiary, the translation requires a remeasurement of the financial statements into the functional currency prior to the translation into the Company's reporting currency. Any remeasuring differences are accounted for as exchange gains or losses in the accompanying consolidated statements of income.

Translation adjustments resulting from the translation of foreign currency financial statements into the Company's reporting currency, and from the translation of the Company's foreign currency loans of a long-term investment nature to its subsidiaries are accounted for as translation adjustment, a separate component of stockholders' equity. The foreign currency assets and liabilities are translated into New Taiwan dollars using year-end exchange rates except for stockholder's equity, which is translated using historical exchange rates. The foreign currency income statements are translated using the average exchange rates used during the year.

(c) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand, cash in banks, negotiable time deposits, and cash equivalents. Cash equivalents represent highly liquid debt instruments, such as commercial paper and repurchased government bonds with original maturities of three months or less. Cash equivalents also include other highly liquid investments, which do not have a significant level of market risk related to potential interest rate changes.

(d) Short-term investments

Short-term investments are accounted for at acquisition cost and are stated at the lower of cost or market value. Related valuation losses are recorded as non-operating losses. The market value used for publicly listed stocks and domestic convertible bonds is the average closing price of the last month of the period. The market value of open-end mutual funds is based on the net asset value of the mutual funds at the balance sheet date.

(e) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the collectibility, aging and quality analysis of notes and accounts receivable.

(f) Inventories; land held for sale and development

Inventories are stated at the lower of cost or market value. For Acer brand name information technology business, costs of inventory are determined using the weighted-average method. For channel business, costs of inventory are determined using the first-in, first-out method. Market value represents net realizable value or replacement cost.

For property development business, land held for the purpose of development and future sale are stated at the lower of weighted-average cost or market value. The market value of land is determined by independent appraisers.

(g) Long-term equity investments

Long-term equity investments in which the Consolidated Companies own less than 20% of the investee's voting shares and are not able to exercise significant influence over the investee's operations and financial policies are accounted for by the cost if the investee is not publicly traded, otherwise, by the lower-of-cost-or-market method if the investee is publicly traded. If there is evidence indicating that a decline in the value of an investment is other than temporary, then the carrying amount of the investment is reduced to reflect its net realizable value. The related loss is recognized in the accompanying consolidated statements of income.

Long-term equity investments in which the Consolidated Companies, directly or indirectly, own 20% or more of the investee's voting shares, or less than 20% of the investee's voting shares but are able to exercise significant influence over the investee's operations and financial policies, are accounted for by the equity method. The differences between the acquisition cost and the net equity of the investee as of the acquisition date are deferred and amortized over five years using the straight-line method, and the amortization is recorded as investment income (loss) in the accompanying consolidated statements of income.

Unrealized gains and losses resulted from the transactions between the Consolidated Companies and investees accounted for under the equity method are deferred. The gains and losses resulting from depreciated or amortized assets are recognized over their estimated useful lives. Gains and losses from other assets are recognized when realized.

(h) Leases

In accordance with the nature of the leasing agreement, accounting for capital lease or operating lease is used.

For capital leases, where the Consolidated Companies act as the lessor, the Consolidated Companies account for all costs of leased assets and their related imputed interest as lease receivables and recognizes interest income thereon over the lease terms.

For capital leases where the consolidated companies act as the lessee, the lower of the present value of rental payables (minus the fulfilled contract costs born by lessor) and bargain purchase price (or net residual value guaranteed by lessee), or market value of the assets is recorded as leased assets. If the lease contains a clause that requires transferring ownership of the property to the lessee at the end of the lease term, or a bargain purchase option, the leased assets are depreciated over the useful life of the lease. Otherwise, the leased assets are depreciated over the lease term.

(i) Property and equipment, property leased to others, and property not used in operations

Property and equipment are stated at cost. Interest expense related to the purchase and construction of property and equipment is capitalized and included in the cost of the related asset. Significant additions, improvements and replacements are capitalized. Maintenance and repair costs are expensed in the period incurred. Gains and losses on the disposal of property and equipment are recorded in the non-operating section in the accompanying consolidated statements of income.

Property leased to others is classified as other assets. Property not in use is classified to other assets and stated at the lower of book value or net realizable value.

Depreciation is provided for property and equipment and property leased to others over the estimated useful life of assets using the straight-line method. If fully depreciated assets continue to be used, the residual value of the assets is depreciated over the remaining useful life. The estimated useful lives of the respective classes of assets are as follows:

1. Buildings and improvements: 20~50 years
2. Machinery and computer equipment: 3~10 years
3. Furniture and fixtures: 3~5 years
4. Other equipment: 3~10 years
5. Leasehold improvement: 3~10 years
6. Leased equipment: 3~10 years

(j) Intangible assets

Intangible assets are stated at cost and primarily consist of goodwill and computer software obtained for internal use. Goodwill is amortized using the straight-line method over five years, and software costs are amortized over three years. Other intangible assets are amortized using the straight-line method over their useful lives. Starting from 2005, goodwill is also subject to impairment test at each balance sheet date.

(k) Deferred expenses

Deferred expenses are stated at cost and primarily consist of additions and improvements to office buildings. These costs are amortized using the straight-line method over their estimated useful lives.

(l) Asset impairment

Effective January 1, 2005, the Consolidated Companies adopted ROC Statement of Financial Accounting Standards No. 35 ("SFAS 35") "Accounting for Asset Impairment". In accordance with SFAS 35, the Consolidated Companies assess at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Consolidated Companies estimate the recoverable amount of the asset. The Consolidated Companies recognize impairment loss for an asset whose carrying value is higher than the recoverable amount. An impairment loss recognized in prior periods is reversed for assets other than goodwill if there is indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Consolidated Companies perform an impairment test on the cash-generating unit to which goodwill is allocated on an annual basis and recognize an impairment loss on the excess of carrying value over the recoverable amount.

(m) Revenue recognition

Revenue from sales of products is recognized at the time products are delivered and the significant risks and rewards of ownership are transferred to customers. Revenue generated from service is recognized using the percentage of completion method. Revenue generated from property development is recognized when the development and construction have been completed and the property title has been transferred to the customer.

(n) Selling and administrative expenses

The Company's selling and administrative ("S&A") expenses include direct expenses incurred for the business unit within the Company, and expenses incurred on behalf of investee companies.

To reflect the operating income of the Consolidated Companies, S&A expenses are divided into two parts. The first part, representing the direct expenses for the Consolidated Companies, is included as administrative expenses in the accompanying consolidated statements of income. The second part, representing expenses incurred on behalf of investee companies of the Acer Group, is presented as a reduction of net investment income (loss) in the consolidated statements of income.

(o) Retirement plan

(1) Defined benefit retirement plans

The Company and its domestic subsidiaries established individual noncontributory defined benefit retirement plans (the "Plans") and retirement fund administration committees. The Plans provide for lump-sum retirement benefits to retiring employees based on length of service, age, and certain other factors. In accordance with the requirements of the ROC Labor Standards Law, the funding of retirement plans by the Company and its domestic subsidiaries are based on a percentage of employees' total salaries.

Under the defined benefit retirement plan, the Consolidated Companies recognize a minimum pension liability equal to the amount by which the actuarial present value of the accumulated benefit obligation exceeds the fair value of the retirement plan's assets. The Consolidated Companies also recognize the net periodic pension cost using actuarial techniques.

(2) Defined contribution retirement plans

Starting from July 1, 2005, in accordance with the enforcement rules of the newly enacted Labor Pension Act (the "New Act"), the Company and its domestic subsidiaries made monthly contribution to an individual labor pension fund account of the following categories of employees in the amount equal to 6% of the employee's monthly salaries:

(i) employees who originally adopted the Plans and opted to be subject to the pension mechanism under the New Act; or

(ii) employees who commenced working after the enforcement date of the New Act.

Certain of the Company's foreign subsidiaries adopt defined contribution retirement plans. These plans are funded in accordance with the regulations of their respective countries. Contributions to defined contribution retirement plans are expensed as incurred.

(p) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax is determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the asset will not realized, a valuation allowance is recognized accordingly.

Classification of the deferred income tax assets or liabilities as current or noncurrent is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the asset's or liability's expected realization date.

Income tax is reduced by investment tax credits in the year which the credit arises.

According to the ROC Income Tax Law, the Company's undistributed earnings, if any, earned after December 31, 1997, are subject to an additional 10% retained earnings tax. The surtax is accounted for as income tax expense upon the stockholders' resolution on distribution of earnings in the following year.

(q) Treasury stock

The Consolidated Companies account for the their purchase of the Company's outstanding stock as "treasury stock" and include the treasury stock as a component of stockholders' equity in the accompanying consolidated balance sheet. Upon disposal of the treasury stock, the excess of the sale proceeds over cost is accounted for as capital surplus－treasury stock. If the sale proceeds are less than cost, the deficiency is accounted for as a reduction of the remaining balance of capital surplus－treasury stock. If the remaining balance of capital surplus－treasury stock is insufficient to cover the deficiency, the remainder is recorded as a reduction of retained earnings. The cost of treasury stock is computed using the weighted-average method. Cash dividends paid by the Company to its consolidated subsidiaries that hold the treasury stock are also accounted for as capital surplus－treasury stock.

If treasury stock is retired, the weighted-average cost of the retired treasury stock is written off to offset the par value and the capital surplus, if any, of the stock retired. If the weighted-average cost written off exceeds the sum of both the par value and the capital surplus, the difference is accounted for as a reduction of capital surplus－treasury stock, or a reduction of retained earnings for any deficiency where capital surplus－treasury stock is insufficient to cover the difference. If the weighted-average cost written off is less than the sum of both the par value and capital surplus, if any, of the stock retired, the difference is accounted for as an increase in capital surplus－treasury stock.

(r) Financial derivatives

(1) Foreign currency exchange forward contracts

Foreign currency exchange forward contracts committed to hedge foreign currency receivables and payables are translated into the entity's functional currency using year-end exchange rates. The translation difference is recorded as an exchange gain or loss in the accompanying consolidated statements of income. The difference between the forward and spot rate on the date the contract is entered into is amortized as an exchange gain or loss over the term of the contract.

Forward contracts that hedge the foreign currency exposures of anticipated sale and purchase transactions are valued by their fair value at the balance sheet date and are recorded in the balance sheet as other financial assets or other liabilities. Changes in fair values are classified as "hedging reserve", a separate component of shareholders' equity. Such valuation gains or losses are transferred to income or loss in the period when the related transaction incurs.

(2) Foreign currency options

Foreign currency options are conducted for non-trading purposes. The consolidated Companies do not record assets or liabilities when committing to foreign currency options. The foreign currency options are measured at fair value on the balance sheet date and are recognized as assets or liabilities. Changes in the fair value of options are included in the income statements if such options are used to hedge the foreign currency risk exposure of the existing foreign currency assets or liabilities. On the other hand, if the options are used to hedge the foreign currency risk exposure of the anticipated cash flows, the changes are recognized in "hedging reserve".

(s) Earnings per common share

Net income per common share ("EPS") is based on net income divided by the weighted-average number of common shares outstanding and those common shares with dilution potential. The increase in the number of outstanding shares through distribution of stock dividends from retained earnings or capital surplus is included in the outstanding shares retroactively.

Convertible bonds are common stock equivalents. If the common stock equivalents have a diluted effect, diluted EPS is disclosed in addition to basic EPS. In calculating diluted EPS, it is assumed all common stock equivalents are outstanding during the year. Therefore, net income and outstanding shares are adjusted for the effect of common stock equivalents.

(t) Translation of New Taiwan dollars into United States dollar amounts

The consolidated financial statements are stated in New Taiwan dollars. Translations of the 2005 New Taiwan dollar amount financial statement into US dollar amounts, using the spot rate of the Bank of Taiwan on December 31, 2005, of NT$32.835 to US$1, is included solely for the convenience of the readers. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into US dollars at this or any other rate of exchange.

3. Changes in Accounting Policies

The Consolidated Companies adopted ROC SFAS 35 "Accounting for Asset Impairment" in 2005. After performing an impairment test, the Consolidated Companies recognized an impairment loss amounting to $805,000 related to property and equipment and property not used in operation. The change in accounting policy decreases net income of 2005 by $805,000 and basic earnings per common share by $0.36.

4. Significant Account Disclosures

(1) Cash and Cash Equivalents

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Cash on hand	142,501	2,741,698	83,499
Cash in banks	13,931,443	19,229,592	585,643
Time deposits	1,607,884	6,278,692	191,220
Investments in short-term commercial paper and repurchased government bonds	4,877	232,671	7,086
	15,686,705	28,482,653	867,448

(2) Short-term Investments

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Equity securities	6,143,802	2,932,957	89,324
Mutual funds	9,924,298	3,227,473	98,294
Bonds	104,429	-	-
Allowance for decline of short-term investment	(14,911)	(292)	(9)
	16,157,618	6,160,138	187,609

In 2005, the Consolidated Companies recognized a decline in value of part of its equity securities amounting to NT$1,470,051 as the fair value of such equity securities has been continually decreased to some extent and for some periods. The losses were recorded as “other investment losses” in the accompanying statements of income.

In 2004 and 2005, the Consolidated Companies disposed of portions of short-term investments and recognized a gain on disposal of investments of NT$3.35 billion and NT$3.43 billion, respectively, in the accompanying consolidated statements of income.

(3) Notes and Account Receivables

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Notes and accounts receivables	34,759,499	64,717,484	1,970,991
Allowance for doubtful accounts	(820,383)	(855,489)	(26,054)
	33,939,116	63,861,995	1,944,937

In 2004 and 2005, the Consolidated Companies sold raw material to Taiwan ODMs or their foreign subsidiaries and purchased back the finished goods after being manufactured by them. To advoid overstatement of revenues, sales of raw material to OEMs amounting to NT$53,875,498 and NT$103,324,407, respectively, for the years ended December 31, 2004 and 2005, were excluded from the consolidated revenues. However, the outstanding receivables and payables resulting from the above-mentioned transactions can not be offset due to lacking of legally enforceable right. As of December 31, 2004 and 2005, the related accounts receivables and payables amounted to NT$7,328,797 and NT$16,171,226, respectively.

As of December 31, 2005, the factored accounts receivable which conformed to the derecognition criteria were as follows:

Buyer		Factored amount	Factoring credit limit	Advance amount	Interest Rate	Collateral	Important derecognition clause	Derecognized amount
China Trust Commercial Bank	$	538,422	1,500,000	538,422	1.53%~2.28%	-	without recourse	538,422
HSBC (Dubai)		582,336	985,050	582,336	LIBOR+75bps	-	〃	582,336
Ifitalia Factor S.P.A.		5,526,212	8,431,800	5,526,212	0.20%	-	〃	5,526,212
	$	6,646,970	10,916,850	6,646,970				6,646,970

(4) Other financial assets-current

	December 31, 2004 NT$	December 31, 2005 NT$	US$
Other receivables	1,837,109	2,402,446	73,167
Fair value of financial assets at fair value through the P&L	-	750,922	22,870
Other	15,242	26,098	795
	1,852,351	3,179,466	96,832

(5) Inventories

	December 31, 2004 NT$	December 31, 2005 NT$	US$
Raw materials	2,457,514	5,320,857	162,048
Work in process	115,570	58,405	1,779
Finished goods	7,564,855	11,255,880	342,801
Spare parts	1,488,898	2,313,856	70,469
Inventories in transit	2,687,265	12,017,220	365,988
Land and buildings held for sale	109,180	-	-
Construction in process	532	42,515	1,295
Provision for loss on obsolescence and price decline	(1,060,351)	(1,953,010)	(59,479)
	13,363,463	29,055,723	884,901

As of December 31, 2004 and 2005, insurance coverage for inventories (excluding inventories in transit) amounted to NT$12,194,172 and NT$19,581,540, respectively.

(6) Long-term Equity Investments

	December 31, 2004		2004
	Percentage of ownership %	Book value NT$	Investment income (loss) NT$
Equity method:			
Wistron Corporation	42.07	6,546,120	(347,816)
BenQ Corporation	9.83	4,848,218	1,112,676
IP Fund One, L.P. (“ALI”)	24.19	2,107,336	(20,631)
ALI Corporation	-	-	(146,402)
e-Life Mall Corp. (“eLIFE”)	27.93	657,702	(51,229)

	December 31, 2004		2004
	Percentage of ownership %	Book value NT$	Investment income (loss) NT$
Aegis Semiconductor Technology Inc. ("Aegis")	44.03	378,704	(38,207)
HiTRUST.Com Inc.	31.56	876,194	76,620
Hontang Venture Capital Co., Ltd.	24.48	122,454	(14,038)
Fund 21 Limited	-	-	(50,537)
Tornado. Com	29.51	28,640	(13,497)
ECOM Software Inc.	33.93	42,171	8,899
Acer eCard Service Inc.	19.42	18,725	(14,018)
Yuan Chin Management Consulting Co., Ltd. ("YCMC")	31.58	17,074	1,275
The Eslite Bookstore	17.78	510,980	(131,735)
Bluechip Infortech Pty Ltd.	41.19	64,969	10,290
Kbest Technology Inc.	44.63	47,898	(17,406)
Hyperemia Tech. Co., Ltd	30.22	8,095	(3,829)
Spring House Technology Entertainment Inc.	28.65	9,994	(2,788)
Other		(330,472)	16,409
Deferred credits		(85,528)	59,998
		15,869,274	434,034
Less: Allocation of corporate expense			(286,632)
			147,402
Cost or lower-of-cost-or-market method:			
Gravel Advance Technology Ltd.	4.00	23,000	-
National Securities Corp	9.24	50,000	-
Prosperity Venture Capital Corp	9.76	80,000	-
Sheng-Hua Venture Capital Corp	10.00	200,000	-
Legend Technology	10.13	80,000	-
Taiwan Fixed Network Co., Ltd. ("TFNC")	3.25	2,100,000	-
W.I. Harper International Corp.	7.00	50,400	-
Granal Tech C.G. Systems Inc.	18.94	63,011	(12,581)
China Development Technology Co., Ltd. ("CDIB")	7.04	30,000	-
Yam Digital Technology Co., Ltd.	5.00	33,000	(33,000)
Megic Corp.	1.49	36,200	-
RDC Semiconductor Co., Ltd. ("RDC")	15.94	101,753	-
InCOMM Technologies Co., Ltd.	10.00	20,850	(20,850)
Interserv International Inc. ("Interserv")	10.59	67,491	-
Shanghai Kingstar Media Co., Ltd.	12.97	29,246	(30,535)
IP Fund Two Co.	19.84	110,000	-
Dragon Investment Fund I Co., Ltd ("DIF")	19.94	323,000	-

	December 31, 2004		2004
	Percentage of ownership %	Book value NT$	Investment income (loss) NT$
World Venture Inc.	19.35	300,000	-
DYNA Fund	8.87	22,533	(9,917)
DYNA Fund Ⅱ	3.18	42,566	-
E2 Open LLC	6.91	54,161	(360,000)
IP Fund III	20.00	76,818	-
GE Fund	4.97	44,788	-
Harmonix Music System	3.72	32,260	-
Octasoft Corporation	6.62	15,956	(16,662)
Origin Partners	4.07	41,706	-
Routefree	7.91	191,502	-
Silicon Storage Technology Inc.	0.54	343,172	-
Sino Century VC	15.00	47,876	-
iD5 Fund LTP	19.40	121,285	-
Ven Global Capital International Fund	11.30	46,931	-
Yesmobile Technology Holding	5.09	38,300	-
Other	-	162,759	(145,042)
		4,980,564	(628,587)
Less: Allowance for devaluation of long-term investments		(205,239)	-
Total		4,775,325	(628,587)

	December 31, 2005		2005
	Percentage of ownership %	Book value NT$	Investment income (loss) NT$
Equity method:			
Wistron Corporation (“Wistron”)	23.40	6,075,929	1,188,970
BenQ Corporation (“BenQ”)	7.18	3,319,771	(543,595)
IP Fund One, L.P.	33.67	1,797,327	(252,864)
e-LIFE MALL Corp. (“eLIFE”)	22.41	642,026	(11,057)
Aegis Semiconductor Technology Inc.	43.03	267,832	(145,240)
HiTRUST.Com Inc.	31.56	960,838	107,003
Hontang Venture Capital Co., Ltd.	24.48	109,186	(21,682)
Tornado. Com	29.51	-	(28,595)
ECOM Software Inc.	33.93	35,826	407
Acer eCard Service Inc.	19.42	-	(18,725)
Hyperemia Tech. Co., Ltd	30.22	8,009	(86)
Spring House Technology Entertainment Inc.	28.65	11,274	1,280
The Eslite Bookstore	17.78	382,727	(113,553)
Bluechip Infotech Pty Ltd.	43.41	60,187	(3,303)

	December 31, 2005 Percentage of ownership %	Book value NT$	2005 Investment income (loss) NT$
Kbest Technology Inc.	40.01	(1,572)	(49,470)
Other		(313,296)	715
Deferred credits		(56,878)	61,613
		13,299,186	171,818
Less: Allocation of corporate expense			(213,997)
			(42,179)
Cost or lower-of-cost-or-market method:			
Gravel Advance Technology Ltd.	4.00	-	(23,000)
National Securities Corp	9.24	12,188	(37,813)
Prosperity Venture Capital Corp	9.76	72,000	(8,000)
Sheng-Hua Venture Capital Corp	10.00	200,000	-
Legend Technology	10.13	56,000	-
Taiwan Fixed Network Co., Ltd. (“TFNC”)	3.25	2,100,000	-
W.I. Harper International Corp.	7.00	29,400	(21,000)
Granal Tech C.G. Systems Inc. (“Granal Tech”)	8.08	26,276	-
China Development Technology Co., Ltd. (“CDIB”)	7.04	30,000	-
Yam Digital Technology Co., Ltd.	5.00	-	(33,000)
Megic Corp.	1.49	36,200	-
RDC Semiconductor Co., Ltd. (“RDC”)	9.05	67,220	-
InCOMM Technologies Co., Ltd.	10.00	20,850	-
Interserv International Inc. (“Interserv”)	9.77	30,110	(32,607)
Shanghai Kingstar Media Co., Ltd.	12.97	30,087	-
Asia Chen Tung Co., Ltd.	19.84	108,000	-
Soung Kon Tech Co., Ltd.	19.94	323,000	-
World Venture, Inc.	19.35	300,000	-
iD Reengineering Inc.	19.99	119,940	-
DYNA Fund	8.87	-	(22,736)
DYNA Fund II	3.18	29,058	(22,500)
E2 Open LLC	6.91	-	(54,648)
IP Fund III	20.00	197,568	-
GE Fund	4.97	46,076	-
Harmonix Music System	3.72	32,260	-
Origin Partners	4.07	-	(51,730)
Routefree	7.91	197,010	-
Silicon Storage Technology Inc.	0.54	61,509	(285,930)
Sino Century VC	15.00	-	(48,306)
iD5 Fund LTP	19.40	113,314	(36,070)
Ven Global Capital International Fund	11.30	-	(47,353)
Yesmobile Technology Holding	5.09	-	(38,645)
Other		68,721	(60,904)
Total		4,306,787	(824,242)

Deferred credits of long-term equity investments represent the unamortized balance of deferred gains and losses derived from the transfer of equity investment ownership within the affiliated companies.

In 2004, there were additional investments of NT$176,247 in Aegis, NT$323,000 in DIF, NT$110,000 in IP Fund Two Co., NT$230,778 in IP Fund One L.P. and NT$121,285 in iD5 Fund LTP. In 2005, there were additional investments of NT$119,940 in iD Reengineering Inc., NT$118,541 in IP Fund III L.P., and NT$45,835 in iD5 Fund LTP.

In 2004, the Consolidated Companies sold portions of their investments in BenQ, ALI, eLIFE and AMT and an aggregate gain of NT$2.05 billion was recognized from these sales. In 2005, the Consolidated Companies sold portions of their investments in BenQ, Wistron, RDC, Granal Tech and Interserv and an aggregate gain of NT$2.2 billion was recognized from these sales.

Partial values of long-term investments using the cost or lower-of-cost-or-market method were impaired. The impaired amounts amounting to NT$628,587 and NT$824,242 for the years ended December 31, 2004 and 2005, respectively, were recorded as "other investment losses" in the accompanying statements of income.

The Company decreased its capital surplus by NT$597,980 in 2004 and increased its capital surplus by NT$985,448 in 2005, respectively, for the following reasons: GDRs issued by its investees not subscribed by the Company in the proportion to its respective ownership percentage, stock dividends distributed to employees as bonuses, investees' convertible bonds converted to common stock, additional common stock issued to investees' employees due to the execution of employee stock options; and sale of stock of investee companies.

In 2004, CDIB, TFNC, InveStar, and YCMC decreased capital and refunded NT$30,000, NT$900,000, NT$71,858 and NT$5,175, respectively, to the Consolidated Companies. In 2005, AVBVI, IP Fund One, Legend Technology and other investees decreased capital and refunded NT$126,935, NT$117,907, NT$24,000 and NT$25,993, respectively, to the Consolidated Companies.

AMBIT's stockholders in a meeting on December 24, 2003, resolved to merge with Hon Hai Corporation at the ratio of 1 share of AMBIT in exchange for 0.672 share of Hon Hai Corporation. The effective date of the merger was April 1, 2004. After the merger, the Company acquired 30,310,341 common shares of Hon Hai Corporation and reclassified the investments to short-term investments.

(7) Property and Equipment, and Property Not Used in Operations

(a) As of December 31, 2004 and 2005, the insurance coverage for depreciable property and equipment, and property not used in operation, was NT$13,071,116 and NT$11,962,599, respectively.

(b) In 2005, the economic performance of the Consolidated Companies' Value lab., Aspire Learning Copmlex and Acer e-Enabling Data Center located in Aspire Industry Park was not as well as expected, and it became apparent that the respective buildings may have been impaired. As such, the Company estimated these buildings' recoverable amount and recognized an impairment loss on the excess of carrying value over the recoverable amount amounting to $752,000. The Company determined the recoverable amount on the basis of value in use calculations using a discount rate of 7.28%.

(c) As of December 31, 2004 and 2005, property not used in operation was as follows:

	December 31, 2004	**December 31, 2005**	
	NT$	**NT$**	**US$**
Damaged office premises	457,558	457,558	13,935
Land held for sale and development	2,623,082	3,067,141	93,410
Other idle assets	401,500	22,443	684
Less: Accumulated depreciation	-	(53,000)	(1,614)
Accumulated asset impairment	(12,466)	(15,205)	(463)
	3,469,674	**3,478,937**	**105,952**

On May, 2001, a portion of the Company's office premises suffered fire damage. Since the building had not yet been repaired, the Company reclassified NT$180,592 of the damaged building at the carrying amount and NT$276,966 of the related land as "property not used in operation". As of December 31, 2005, management of the Company estimated that approximately NT$116,308 of losses will not be indemnified by the insurance company. The amount was recognized as "other current liabilities" in the accompanying consolidated balance sheet. In 2005, the Company recognized an impairment loss on the excess of carrying value over the recoverable amount amounting to $53,000.

For certain land acquired, the registered ownership has not been transferred to the land acquirer, APDI, a subsidiary of the Company. To protect APDI's interests, APDI has obtained signed contracts from the titleholders assigning all rights and obligations related to the land to APDI. Additionally, the title deeds are held by APDI, and APDI has put liens on the land.

(8) Intangible Assets

	December 31, 2004	December 31, 2005	
	NT$	**NT$**	**US$**
Goodwill	547,332	306,616	9,338
Deferred software costs	229,302	194,747	5,931
Other	7,662	515	16
	784,296	**501,878**	**15,285**

(9) Other financial assets-noncurrent

	December 31, 2004	December 31, 2005	
	NT$	**NT$**	**US$**
Refundable deposits	539,191	501,042	15,260
Long-term accounts receivables	120,436	486,991	14,831
	659,627	**988,033**	**30,091**

(10) Short-term Borrowings

	December 31, 2004	December 31, 2005	
	NT$	**NT$**	**US$**
Bank overdrafts	91,137	-	-
Commercial paper and bank acceptances, net of prepaid interest	1,193,663	199,975	6,090
Bank loans	3,897,260	3,200,642	97,477
	5,182,060	**3,400,617**	**103,567**

In 2004 and 2005, the average interest rates on the above short-term borrowings were approximately 2%~3%. Unused credit facilities as of December 31, 2004 and 2005, amounted to NT$28,067,940 and NT$25,483,399, respectively. Refer to note 6 for a description of pledged assets related to the afore-mentioned borrowings.

(11) Long-term Debt

	December 31, 2004	December 31, 2005	
	NT$	**NT$**	**US$**
Bank loans	324,402	188,861	5,752
Less: current installments	(67,395)	(42,238)	(1,287)
	257,007	**146,623**	**4,465**

The interest rates on the above long-term borrowings ranged from 3.10% to 6.10% in 2004 and from 3% to 7% in 2005. Refer to note 6 for a description of pledged assets related to these loans.

(12) Bonds Payable

	December 31, 2004 NT$
First secured domestic bonds	3,000,000
Second secured domestic bonds	3,000,000
	6,000,000
Less: current installments	(6,000,000)
	-

(a) Five-year 5.76% first secured domestic bonds with face value of NT$3,000,000 were issued on January 21, 2000. The maturity date is five years subsequent to the issuance date. Interest is paid annually, and principal is paid in whole at maturity. The bonds are secured by common shares of BenQ and TSMC owned by the Company.
As of January 20, 2005, the Company redeemed the bonds at maturity.

(b) Five-year 5.26% second secured domestic bonds with face value of NT$3,000,000 were issued on December 12, 2000. The maturity date is five years subsequent to the issuance date. Interest is paid annually, and principal is paid in whole at maturity. The bonds are secured by common shares of BenQ and TSMC owned by the Company.
As of December 21, 2005, the Company redeemed the bonds at maturity.

(13) Retirement Plans

The following table sets forth the benefit obligation and net retirement plan liabilities related to the Consolidated Companies' defined benefit retirement plans as of December 31, 2004 and 2005:

	2004	
	Plan assets in excess of accumulated benefit obligation NT$	Accumulated benefit obligation in excess of plan assets NT$
Benefit obligation:		
Vested benefit obligation	(102,185)	(8,500)
Nonvested benefit obligation	(405,206)	(58,781)
Accumulated benefit obligation	(507,391)	(67,281)
Projected compensation increases	(242,290)	(27,307)
Projected benefit obligation	(749,681)	(94,588)
Plan assets at fair value	564,098	37,445
Funded status	(185,583)	(57,143)
Unrecognized net loss	124,298	14,041
Unrecognized transition (assets) obligation	(5,382)	15,611
Additional minimum liability	-	(112)
Net retirement plan liabilities	**(66,667)**	**(27,603)**

	2005			
	Plan assets in excess of accumulated benefit obligation		**Accumulated benefit obligation in excess of plan assets**	
	NT$	**US$**	**NT$**	**US$**
Benefit obligation:				
Vested benefit obligation	(14,675)	(447)	(47,819)	(1,456)
Nonvested benefit obligation	(53,439)	(1,628)	(408,680)	(12,446)
Accumulated benefit obligation	(68,114)	(2,075)	(456,499)	(13,902)
Projected compensation increases	(36,243)	(1,104)	(269,609)	(8,211)
Projected benefit obligation	(104,357)	(3,179)	(726,108)	(22,113)
Plan assets at fair value	116,743	3,555	412,630	12,567
Funded status	12,386	376	(313,478)	(9,546)
Unrecognized net loss	13,559	413	199,439	6,074
Unrecognized transition (assets) obligation	(731)	(22)	10,419	317
Net retirement plan assets (liabilities)	**25,214**	**767**	**(103,620)**	**(3,155)**

Net retirement plan assets are included in "deferred expenses and other assets". Net retirement plan liabilities are included in "other liabilities" in the accompanying consolidated balance sheets.

The components of the net periodic pension cost for 2004 and 2005 were as follows:

	2004	**2005**	
	NT$	**NT$**	**US$**
Service cost	59,947	54,309	1,654
Interest cost	25,726	29,974	913
Actual return on plan assets	(8,687)	(7,769)	(237)
Amortization and deferral	(13,578)	(10,667)	(325)
Curtailment gain	-	(15,498)	(472)
Net periodic pension cost	**63,408**	**50,349**	**1,533**

Significant actuarial assumptions used in the above calculations were as follows:

	2004	**2005**
Discount rate	3.50%	3.50%
Rate of increase in future compensation	3.00%	3.00%
Expected rate of return on plan assets	3.50%	3.50%

In 2004 and 2005, pension cost was NT$285,298 and NT$320,231 under defined contribution retirement plans, respectively.

(14) Income Taxes

(a) Each consolidated entity should file its own separate income tax return.

(b) The components of income tax expense for the years ended December 31, 2004 and 2005, are summarized as follows:

	2004	**2005**	
	NT$	**NT$**	**US$**
Current income tax expense	729,120	964,511	29,374
Deferred income tax expense	820,057	1,222,533	37,233
Income tax expense	**1,549,177**	**2,187,044**	**66,607**

(c) The differences between the expected income tax expense based on the pre-tax income at the Company's statutory income tax rate (25%) and the actual income tax expense reported in the accompanying consolidated statements of income are summarized as follows:

	2004	2005	
	NT$	NT$	US$
Expected income tax expense calculated using the statutory tax rate	2,160,150	2,663,133	81,107
Different tax rates applied to the Company's subsidiaries	633,921	330,029	10,051
Tax-exempt investment income	(253,924)	(483,488)	(14,725)
Investment tax credits	540,184	(145,170)	(4,421)
Gain on disposal of marketable securities not subject to income tax	(1,611,090)	(1,340,876)	(40,837)
(Gain) loss on disposal of land not subject to income tax	(40,758)	62,786	1,912
Prior year adjustments	153,107	(289,337)	(8,812)
Valuation allowance for deferred tax assets	(88,317)	1,441,695	43,907
Tax-exempt income from operational headquarters	(838,590)	(837,877)	(25,518)
Dividend income of overseas investees	592,900	-	-
10% income surtax on undistributed earnings	27,413	350,145	10,664
Net operating loss carryforwards that cannot be used	307,223	(27,701)	(844)
Other	(33,042)	463,705	14,123
Income tax expense	**1,549,177**	**2,187,044**	**66,607**

(d) The deferred income tax assets (liabilities) as of December 31, 2004 and 2005, were as follows:

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Current:			
Deferred income tax assets—current	768,613	1,553,529	47,313
Valuation allowance	(168,643)	(501,651)	(15,278)
Net deferred income tax assets	599,970	1,051,878	32,035
Deferred income tax liabilities	(15,489)	(459,962)	(14,008)
Non-current:			
Deferred income tax asset	5,590,593	6,591,936	200,759
Valuation allowance	(5,411,529)	(6,520,216)	(198,575)
Net deferred income tax assets	179,064	71,720	2,184
Deferred income tax assets	870,909	449,401	13,687
Deferred income tax liabilities	(1,449,042)	(2,150,158)	(65,484)
Net deferred income tax liabilities	(578,133)	(1,700,757)	(51,797)
Total deferred income tax assets	**7,230,115**	**8,594,866**	**261,759**
Total deferred income tax liabilities	**(1,464,531)**	**(2,610,120)**	**(79,492)**
Total valuation allowance	**(5,580,172)**	**(7,021,867)**	**(213,853)**

(e) The components of deferred income tax assets (liabilities) as of December 31, 2004 and 2005, were as follows:

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Deferred income tax assets:			
Investment loss recognized by the equity method	2,414,671	3,492,996	106,380
Net operating loss carryforwards	3,081,156	2,755,395	83,916
Investment tax credits	910,351	633,306	19,288
Accrued advertising expense	36,189	213,277	6,495
Accrued sale discounts	220,669	104,361	3,178
Accrued non-recurring engineering cost	71,641	-	-
Accrued cost of sales	46,954	156,024	4,752
Warranty provisions	75,767	188,349	5,736
Assets impairment loss	-	165,925	5,053
Other	372,717	885,233	26,961
	7,230,115	8,594,866	261,759
Deferred income tax liabilities:			
Investment income recognized by the equity method	1,425,227	2,130,945	64,899
Other	39,304	479,175	14,593
	1,464,531	2,610,120	79,492

(f) The domestic Consolidated Companies receive investment tax credits for investment in certain high-tech industries, for the purchase of automatic machinery and equipment, for research and development expenditures, and for employee training. The investment tax credits can be used to offset the current year's income tax liability (a maximum of 50% of the liability related to high-tech investment and a maximum of 50% related to the combined cost of machinery and equipment purchases, research and development expenditures and employee training). Generally, any unused tax credits can be carried forward for the next four years.

As of December 31, 2005, unused investment tax credits available to the Consolidated Companies were as follows:

Expiration date	NT$	US$
December 31, 2006	171,289	5,217
December 31, 2007	79,436	2,419
December 31, 2008	364,788	11,110
December 31, 2009	17,793	542
	633,306	19,288

(g) The tax effects of net operating loss carryforwards available to the Consolidated Companies as of December 31, 2005, were as follows:

Expiration date	NT$	US$
December 31, 2006	115,341	3,513
December 31, 2007	507,681	15,462
December 31, 2008	154,460	4,704
December 31, 2009	279,693	8,518
December 31, 2010	136,002	4,142
Thereafter	1,562,218	47,577
	2,755,395	83,916

(h) Imputation credit account ("ICA") and creditable ratio

Beginning in 1998, an integrated income tax system was implemented. Under the tax system, the income tax paid at the corporate level can be offset with the ROC resident stockholders' individual income tax liability. The Company was required to establish an

ICA to maintain a record of the corporate income taxes paid and imputation credit that can be allocated to each resident stockholder. The credit available to the ROC resident stockholders is calculated by multiplying the dividend with the creditable ratio. The creditable ratio is calculated by dividing the balance of the ICA by earnings retained since January 1, 1998.

The non-resident stockholders are not eligible for the imputation credit. However, the 10% income surtax paid on any unappropriated earnings for the years following December 31, 1997, can be offset with the dividend withholding tax for non-resident stockholders upon distribution of such earnings to such stockholders. As of December 31, 2004 and 2005, the information related to the integrated tax system was as follows:

Unappropriated earnings:

	December 31, 2004	**December 31, 2005**	
	NT$	**NT$**	**US$**
Before January 1, 1998	18,106	6,776	206
From January 1, 1998	7,011,661	8,477,502	258,185
	7,029,767	8,484,278	258,391
Balance of ICA	79,800	104,732	3,190

The Company's estimated creditable ratio for 2005 earnings distribution to domestic stockholders is approximately 1.23% ; and the actual creditable ratio for 2004 earnings distribution to domestic stockholders is 1.79% .

(i) The ROC income tax authorities have examined and assessed the income tax returns of the Company for all fiscal years through 2001, and have examined and assessed the income tax returns of Acer Sertek Inc. for all fiscal years through December 31, 2002. for the fiscal year 2001 and 2002 of Acer Sertek Inc., the Company is filing a appeal toward the tax authorities for some adjustment made by the tax authorities..

(15) Stockholders' Equity

(a) Common stock

As of December 31, 2004 and 2005, the Company's authorized common stock consisted of 2,800,000,000 shares, of which 2,093,367,679 shares and 2,254,518,705 shares, respectively, were issued and outstanding. The par value of the Company's common stock is NT$10 per share.

The Company's shareholders resolved to appropriate NT$2.5 per share from retained earnings as of December 31, 2003, as cash dividends in the meeting on June 17, 2004. Such cash dividends amounted to NT$4,925,285. The shareholders also resolved to appropriate NT$940,008 from retained earnings and NT$492,529 from capital surplus for a total of 143,254,000 new shares as stock dividends and employee bonuses. The stock issuance was authorized by and registered with the governmental authorities.

The Company's shareholders resolved to appropriate NT$2.3 per share from retained earnings as of December 31, 2004, as cash dividends in the meeting on June 14, 2005. Such cash dividends amounted to NT$4,814,746. The shareholders also resolved to appropriate NT$606,694 from retained earnings and NT$1,004,816 from capital surplus for a total of 161,151,000 new shares as stock dividends and employee bonus. The stock issuance was authorized by and registered with the governmental authorities.

(b) Treasury stock

As of March 27, 2002, AI had repurchased its own stock amounting to NT$3,212,739, representing 152,000,000 shares, for implementing its employee stock option plan in accordance with SFC regulations. This treasury stock was converted into 60,800,000 shares of the Company's common stock issued for the merger. According to SFC regulations, treasury stock for the purpose of the employee stock option plan should be transferred to qualified employees within three years from the date of repurchase. The Company should reregister those treasury shares not transferred within the regulated period, as they are deemed unissued shares. In August 2004, the Company retired 41,179,000 shares of treasury stock not transferred with in the regulated period, amounting to NT$2,028,966. The related legal registration process has been completed.

In 2004, in order to protect the shareholders' interest, the Company purchased and retired treasury stock in accordance with the Securities Exchange Law, Article 28-2, as follows (expressed in thousands of shares and New Taiwan dollars):

	2004	
	Number of shares	**Amounts NT$**
Beginning balance	19,373	951,886
Addition	80,000	3,849,015
Retired	(99,373)	(4,800,901)
Ending balance	-	-

According to the Securities Exchange Law, treasury stock shall not be pledged for debts. Until the treasury stock is reissued, it does not possess any shareholder rights. Furthermore, total shares of treasury stock shall not exceed 10% of the Company's common shares issued. Moreover, the total amount of treasury stock cannot exceed the sum of retained earnings, capital surplus derived from paid-in capital in excess of par value, and any other realized capital surplus. As of December 31, 2004 and 2005, the Company did not hold any treasury stock.

In 1997, AWI purchased GDRs issued by AI for the implementation of its overseas employee stock option plan. Further, AWI and CCI also purchased common stock of AI. This stock was converted into the Company's common shares in a ratio of 2.5 shares of AI's common stock to l share of the Company's common stock on March 27, 2002. Additionally, TWP's treasury shares and CCI's investments in TWP were converted into the Company's shares after the acquisition of TWP's minority shares through share swap. The subsidiary-owned common stock and GDRs of the Company as of December 31, 2004 and 2005, are summarized below (expressed in thousands of shares and New Taiwan dollars):

	December 31, 2004			**December 31, 2005**		
	Number of Shares	**Book Value NT$**	**Market Price NT$**	**Number of Shares**	**Book Value NT$**	**Market Price NT$**
Common stock	15,543	798,662	804,815	16,476	798,663	1,315,408
GDR	4,680	2,612,618	1,187,556	4,695	2,472,257	1,832,790
		3,411,280	**1,992,371**		**3,270,920**	**3,148,198**

(c) Capital surplus

	December 31, 2004	**December 31, 2005**	
	NT$	**NT$**	**US$**
Share premium:			
Paid-in capital in excess of par value	1,359,310	856,901	26,097
Surplus from merger	22,781,719	22,781,719	693,824
Premium on capital stock resulting from conversion of convertible bonds	5,054,994	4,552,585	138,650
Forfeited interest resulting from conversion of convertible bonds	1,006,210	1,006,210	30,645
Surplus related to the transaction of treasury stock by subsidiary companies	71,781	101,316	3,086

	December 31, 2004 NT$	December 31, 2005 NT$	US$
Other:			
Surplus from long-term equity investments accounted for by the equity method	267,954	1,253,402	38,173
	30,541,968	30,552,133	930,475

According to the ROC Company Law, with the exception of capital surplus originating from long-term equity investments accounted for by the equity method, any realized capital surplus could be transferred to common stock as stock dividends after deducting accumulated deficit, if any. Realized capital surplus includes share premium and donations from shareholders. Distribution of stock dividends from realized capital surplus is subject to certain restrictions imposed by the SFB.

(d) Legal reserve, unappropriated earnings, and dividend policy

The Company's articles of incorporation stipulate that at least 10% annual net income after deducting accumulated deficit, if any, must be retained as legal reserve until such retention equals the amount of authorized common stock. In addition, a special reserve should be set up in accordance with SFB regulations. The remaining balance of annual net income, if any, can be distributed as follows:

- 5% to 10% as employee bonuses; employees may include subsidiaries' employees that meet certain criteria set by the board of directors;
- 1% as remuneration for directors and supervisors; and
- the remainder, after retaining a certain portion for business considerations, as dividends and bonuses for stockholders.

Since the Company operates in an industry experiencing rapid change and development, distribution of earnings shall be made in view of the year's earnings, the overall economic environment, the related laws and decrees, and the Company's long-term development and steady financial position. The Company has adopted a steady dividend policy, in which a cash dividend comprises at least 10% of the total dividend distributed.

According to the ROC Company Law, the legal reserve can be used to offset an accumulated deficit and may be distributed in the following manner: (i) when it reaches an amount equal to one-half of the paid-in capital, it can be transferred to common stock at the amount of one-half of legal reserve; and (ii) when it reaches an amount exceeding one-half of the authorized common stock, dividends and bonuses can be distributed from the excess portion of the legal reserve.

Beginning in 2000, pursuant to SFB regulations, an amount equal to the total amount of any deduction items of shareholders' equity shall be provided from the net income of the current year as a special reserve that cannot be distributed as dividend or bonus. Accordingly, such special reserve shall be adjusted to reflect the changes in the deduction items. Any reversal of the special reserve can be added back to unappropriated earnings for distribution of dividends or bonus. As of December 31, 2004 and 2005, the Company retained a special reserve of NT$1,261,851 and NT$2,017,819, respectively, to cover the deficiency of treasury stock cost below market value and other deduction items of stockholder equity.

The appropriation of 2003 and 2004 earnings was approved at the shareholders' meetings on June 17, 2004, and June 14, 2005, as follows:

	2003 NT$	2004 NT$
Dividend per share		
Cash	2.5	2.3
Stock	0.5	0.6
	3.0	2.9
Employee bonus−stock (par value)	447,479	355,490
Employee bonus−cash	111,870	88,872
Directors' and supervisors' remuneration	69,919	55,545
	629,268	499,907

The appropriation of earnings are not different from the resolutions made by the Company's directors.

Assuming the above employee bonus and directors' and supervisors' remuneration are paid in cash and expensed in the year when the earnings are recognized, the earnings per share, not computed retroactively, for 2003 and 2004 would be reduced from NT$3.61 and NT$3.38 to NT$3.37 and NT$3.20, respectively. Stock dividends distributed to employees represent 2.28% and 1.73% of the outstanding common shares as of December 31, 2003 and 2004, respectively.

Appropriation of 2005 employee bonus and directors' and supervisors' remuneration is subject to the Company's directors' and shareholders' resolutions. After the resolutions, related information can be obtained from the public information website.

(16) Earnings Per Common Share ("EPS")

	2004 NT$	2005 NT$
Basic EPS:		
Net income	7,011,661	8,477,502
Weighted-average number of shares outstanding during the year (thousand shares)	2,231,197	2,213,516
Basic EPS	3.14	3.83
Diluted EPS:		
Net income	7,011,661	8,477,502
Effect of common stock with dilution potential:		
Convertible bonds	4,907	-
Net income plus the effect of common stock with dilution potential	7,016,568	8,477,502
Weighted-average number of shares outstanding during the year (thousand shares)	2,231,197	2,213,516
Effect of common stock with dilution potential:		
Convertible bonds (thousand shares)	5,626	-
Weighted-average number of shares outstanding for calculating diluted EPS (thousand shares)	2,236,823	2,213,516
Diluted EPS	3.14	3.83

(17) Financial Instruments

The Consolidated Companies use foreign exchange forward contracts and foreign currency options to hedge the risks of foreign currency assets and liabilities or foreign currency cash flows resulting from anticipated transactions. The purpose of the strategy is to hedge the majority of the market risk.

(a) As of December 31, 2004 and 2005, the Consolidated Companies had the following option contracts outstanding:

(i) Call options:

	December 31, 2004		
	Notional amount (in thousands)		Contract period
USD CALL/EUR PUT	EUR	76,124	09/29/2004~03/29/2005
EUR CALL/GBP PUT	EUR	20,000	10/27/2004~01/26/2005
USD CALL/AUD PUT	AUD	80,500	09/15/2004~05/15/2005
USD CALL/EUR PUT	USD	93,150	10/18/2004~03/31/2005

	December 31, 2005		
	Notional amount (in thousands)		Contract period
USD CALL/EUR PUT	EUR	33,586	10/25/2005~02/28/2006
USD CALL/AUD PUT	AUD	115,750	07/04/2005~04/26/2006
EUR CALL/GBP PUT	EUR	12,500	10/31/2005~02/15/2006

(ii) Put options

	December 31, 2004		
	Notional amount (in thousands)		Contract period
EUR CALL/USD PUT	USD	93,000	09/29/2004~03/31/2005
EUR CALL/USD PUT	EUR	76,000	09/29/2004~03/31/2005
GBP CALL/EUR PUT	EUR	31,000	10/27/2004~01/26/2005

	December 31, 2005		
	Notional amount (in thousands)		Contract period
EUR CALL/USD PUT	EUR	35,644	10/25/2005~02/28/2006
GBP CALL/EUR PUT	EUR	12,500	10/31/2005~02/15/2006
AUD CALL/USD PUT	AUD	115,750	07/04/2005~04/26/2006

The Consolidated Companies enter into currency option contracts in order to create an economic hedge for their existing foreign currency exposures and anticipated cash flows. The market risk related to the changes in exchange rates is not considered significant.

(b) As of December 31, 2004 and 2005, the Consolidated Companies had the following forward contracts outstanding:

	December 31, 2004		
	Notional amount (in thousands)		Contract period
USD CALL/AUD PUT	AUD	66,500	08/09/2004~03/15/2005
EUR CALL/CHF PUT	EUR	11,000	11/26/2004~03/24/2005
EUR CALL/DKK PUT	EUR	5,000	11/25/2004~02/15/2005
EUR CALL/DKK PUT	DKK	42,500	11/25/2004~02/15/2005
USD CALL/EUR PUT	EUR	430,500	09/29/2004~04/29/2005
USD CALL/EUR PUT	USD	95,600	09/29/2004~04/29/2005
EUR CALL/GBP PUT	EUR	36,500	11/25/2004~02/15/2005
USD CALL/GBP PUT	USD	3,000	12/14/2004~01/14/2005
EUR CALL/NOK PUT	EUR	4,500	11/25/2004~02/15/2005
EUR CALL/NOK PUT	NOK	43,500	11/25/2004~02/15/2005
EUR CALL/SEK PUT	EUR	16,000	10/27/2004~02/15/2005
USD CALL/SGD PUT	USD	3,000	11/29/2004~02/24/2005

	December 31, 2004		
	Notional amount (in thousands)		Contract period
USD CALL/THB PUT	USD	6,000	11/08/2004~02/25/2005
NTD CALL/USD PUT	USD	3,000	12/20/2004~01/03/2005

	December 31, 2005		
	Notional amount (in thousands)		Contract period
EUR CALL/CHF PUT	EUR	31,000	09/27/2005~05/22/2006
EUR CALL/GBP PUT	EUR	74,500	10/24/2005~03/31/2006
USD CALL/EUR PUT	USD	202,000	10/27/2005~04/13/2006
USD CALL/EUR PUT	EUR	815,000	09/02/2005~04/28/2006
USD CALL/MYR PUT	USD	9,238	11/22/2005~04/07/2006
USD CALL/INR PUT	USD	22,414	11/07/2005~03/31/2006
USD CALL/CAD PUT	USD	77,500	09/20/2005~05/29/2005
USD CALL/THB PUT	USD	34,000	10/20/2005~01/17/2006
AUD CALL/NZD PUT	NZD	8,000	11/25/2005~02/23/2006
USD CALL/JPY PUT	USD	5,000	10/27/2005~04/04/2006

Since the foreign exchange forward contracts were entered into to hedge the existing foreign currency assets and liabilities and anticipated cash flows, and the exchange rates of the forward contracts were fixed, no significant liquidity and cash flow risks are expected.

The Consolidated Companies enter into forward contract transactions only with reputable, creditworthy international financial institutions. The Consolidated Companies usually enter into forward contracts with several different financial institutions in order to minimize financial risk. The Consolidated Companies believe that the risk that the financial institutions will default on these contracts is relatively low. Furthermore, market risk due to foreign currency exchange rate fluctuation will be offset by the gains from the hedged assets or liabilities.

(c) The fair values of the derivative financial instruments were as follows:

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Foreign currency options	(490,904)	90,336	2,751
Foreign exchange forward contracts	(1,135,805)	660,586	20,119
	(1,626,709)	**750,922**	**22,870**

As of December 31, 2004 and 2005, the above-mentioned foreign exchange forward contracts and options had fair values amounting to NT$(516,611) and NT$66,062, respectively, were to hedge the exchange risk of anticipated foreign currency transactions, and were booked as "hedging reserve", a component of stockholders' equity, in the accompanying balance sheets. The remainders, amounting to NT$(1,110,098) and NT$684,860 for 2004 and 2005, respectively, were charged to profit and loss accounts.

The fair value of derivative financial instruments represents the estimated amount that the Consolidated Companies would receive or pay to terminate the contracts at the balance sheet date, generally including unrealized gain or loss on unsettled agreements. The fair values are based on quotations received from financial institutions.

(d) Fair value of non-derivative financial instruments

The carrying amounts of the non-derivative financial instruments reflected in the consolidated balance sheets, including cash and cash equivalents, pledged time deposits, notes and accounts receivable/payable, receivables from and payables to related parties, other financial assets-current, short-term borrowings, current installments of long-term debt and royalties payable approximate their fair values because of the short-term nature of these instruments.

The estimated fair values and carrying amounts of all other financial instruments as of December 31, 2004 and 2005, are summarized as follows:

	2004		2005	
	Carrying amount NT$	**Fair value NT$**	**Carrying amount NT$**	**Fair value NT$**
Financial assets:				
Short-term investments	16,157,618	20,559,287	6,160,138	10,546,378
Long-term equity investments				
- fair value available	11,893,157	13,956,192	10,232,075	18,989,721
- fair value not available	8,751,442	See below	7,373,898	See below
Refundable deposits	539,191	539,191	501,042	501,042
Financial liabilities:				
Bonds payable	6,000,000	6,027,391	-	-
Long-term debt	257,007	257,007	146,623	146,623
Pension liabilities	94,270	94,270	103,620	103,620

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

(i) Short-term investments
Publicly quoted market prices are used as fair value.

(ii) Long-term equity investments
The fair values of long-term equity investments are based on quoted market prices. Management believes that it is not practicable to estimate the fair value of long-term equity investments that do not have readily available market information.

(iii) Refundable deposits (recorded as other financial assets)
Refundable deposits are for the operating needs of consolidating entities. Since the collecting periods were undeterminable, fair market value cannot be estimated. Therefore, book values are used as fair market values.

(iv) Bonds payable
The fair values are based on quoted market prices.

(v) Long-term debt
The majority of the long-term debt is interest floating debt in which the carrying value approximates the market value.

(vi) Retirement liabilities (recorded as other liabilities):
The fair values of retirement liabilities are based on the actuarial calculation, which used December 31, 2004 and 2005, as the measurement dates.

5. Transactions with Related Parties

(a) The names and relationship of the related parties with which the Company had significant transactions are shown below:

Name	**Relationship**
BenQ Corporation ("BenQ")	Investee of the Company, accounted for by equity method
Wistron Corporation ("Wistron")	Investee of the Company, accounted for by equity method
e-LIFE MALL Corp. ("eLIFE")	Investee of the Company, accounted for by equity method
Bluechip Infotech Pty Ltd. ("SAL")	Investee of the Company, accounted for by equity method
Wistron InfoComm (Philippines) Corporation ("WPH")	Subsidiary of Wistron

Name	Relationship
Cowin Worldwide Corporation (“COWIN”)	Subsidiary of Wistron
Wistron InfoComm (Kunshan) Co., Ltd. (“WKS”)	Subsidiary of Wistron
Wistron InfoComm Manufacturing (Kunshan) Co., Ltd. (“WEKS”)	Subsidiary of Wistron
BenQ Asia Pacific Corp. (“BQP”)	Subsidiary of BenQ
AU Optronics Corp. (“AU”)	Investee of BenQ, accounted for by equity method
iD5 Fund LTP (iD5)	Affiliate
iD Softcapital Inc.	Its chairman is one of the Company’ supervisors

(b) Significant transactions with related parties as of and for the years ended December 31, 2004 and 2005, are summarized below:

(1) Net sales and related notes and accounts receivable

1. Net sales to:

	2004	2005	
	NT$	NT$	US$
SAL	710,312	795,527	24,228
eLIFE	718,333	788,251	24,006
COWIN	369,493	347,623	10,587
WEKS	-	246,288	7,501
WKS	302,593	227,902	6,941
WPH	1,900,923	124,424	3,789
Wistron	148,568	33,853	1,031
Other	444,788	396,799	12,085
	4,595,010	2,960,667	90,168

Trading terms with related parties are not significantly different from the terms with third-party customers.

2. In 2005, the Consolidated Company sold a parcel of land located in Aspire Industry Park to AU for 2.8 billion. The gain on disposal amounted to 480 million.

3. Notes and accounts receivable from:

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
WEKS	-	5,442,639	165,757
eLIFE	154,648	134,121	4,085
COWIN	85,216	97,055	2,956
SAL	109,902	87,083	2,652
WKS	92,742	63,061	1,921
WPH	763,585	37,028	1,128
Other	145,358	179,410	5,463
	1,351,451	6,040,397	183,962

(2) Purchases and related notes and accounts payable

1. Purchases from:

	2004	2005	
	NT$	NT$	US$
Wistron	10,430,314	28,353,695	863,520
AU	6,804,498	8,999,415	274,080
BQP	1,586,734	709,066	21,595
SAL	352,115	301,865	9,193

	2004	2005	
	NT$	NT$	US$
Other	550,966	154,336	4,700
	19,724,627	38,518,377	1,173,088

Trading terms with related parties are not significantly different from the terms with third-party suppliers.

In 2004 and 2005, the Consolidated Companies sold raw material to Wistoron or its foreign subsidiaries and purchased back the finished goods after being manufactured by them. To advoid overstatement of revenues, sales of raw material to Wistron or its foreign subsidiaries amounting to NT$14,899,418 and NT$21,382,152, respectively, for the years ended December 31, 2004 and 2005, were excluded form the consolidated revenues. However, the outstanding receivables and payables resulting from the above-mentioned transactions can not be offset due to lacking of legally enforceable right. As of December 31, 2004 and 2005, the related accounts receivables and payables amounted to NT$0 and NT$5,254,206, respectively.

2. Note and accounts payable to:

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Wistron	1,941,866	6,339,952	193,085
AU	505,949	1,969,790	59,991
BQP	131,487	145,565	4,433
SAL	66,280	51,109	1,557
Other	480,685	91,831	2,796
	3,126,267	8,598,247	261,862

(3) Management service fees

In 2005, the Company paid iD softcapital Inc. management service fees amounting to NT$75,738.

(4) Transfer and spin-off of assets

On February 28, 2002, AI spun off its design, manufacturing and services business from its Acer brand business and transferred related operating assets and liabilities to Wistron. The receivables resulting from the assets spun off or sold to Wistron amounted to NT$1,023,388 and NT$687,867 as of December 31, 2004 and 2005, respectively.

(5) Loans to related parties

The Consolidated Companies made a loan to related parties in 2004 as follows:

	Highest balances during the period			Balance as of
	Amount	Month	Interest Rate	December 31, 2004
	NT$			NT$
iD5	31,917	12	3%	31,917

The loan had been repaid in 2005 and there were no other such loans in 2005.

(6) Advances to/from related parties

The Consolidated Companies paid certain expenses on behalf of related parties. Additionally, related parties paid certain expenses and accounts payable on behalf of the Consolidated Companies. As of December 31, 2004 and 2005, the Consolidated Companies had aggregate receivables from related parties of NT$16,834 and NT$36,635, respectively, and payables to related parties of NT$227,541 and NT$73,366, respectively, resulting from these transactions.

(7) Receivables from and payables to related parties referred to above are summarized below:

	December 31, 2004	December 31, 2005	
	NT$	NT$	US$
Receivables:			
Notes and accounts receivable	1,351,451	6,040,397	183,962
Loans to related parties	31,917	-	-
Other receivables	16,834	36,635	1,116
Receivables resulting from assets spun off	1,023,388	687,867	20,949
	2,423,590	6,764,899	206,027
Payables:			
Notes and accounts payable	3,126,267	8,598,247	261,862
Other payables	227,541	73,366	2,234
	3,353,808	8,671,613	264,096

6. Pledged Assets

Assets pledged for various purposes are summarized as follows:

Pledged assets	Pledged to secure	Book value of pledged assets at December 31, 2004	2005	
		NT$	NT$	US$
Cash in bank and time deposits	Deposits for contract bidding projects fulfillment	211,482	158,466	4,826
Accounts receivable	Stand-by letters of credit	302,664	394,921	12,027
Inventory	Stand-by letters of credit	206,934	517,859	15,772
Short-term and long-term equity investments	Bonds payable and long-term debt	6,612,573	604,265	18,403
Property and equipment, and property not used in operation	Long-term and short-term debt	2,765,272	2,210,692	67,327
Total		10,098,925	3,886,203	118,355

As of December 31, 2004 and 2005, a portion of the above pledged time deposits amounting to NT$139,551 and NT$140,040, respectively, were classified as “other financial assets” in the accompanying consolidated balance sheets. The remaining balance was classified as “pledged time deposits”.

7. Commitments and Contingencies

(a) Royalties

The Company renewed the Patent Cross License with IBM in October 2003. The license period is 5 years. The license mainly states that both parties have the rights to make use of either party’s global technological patents to manufacture and sell personal computer products. The Company agrees to make fixed payments periodically to IBM, and the Company will not have additional obligation for the use of IBM patents other than the fixed amounts of payments agreed upon.

In June 2004, the Company and Lucent Technologies Inc. extended the Patent Cross License to December 31, 2007. During the aforementioned period, the Company only pays the amounts according to the contract when manufacturing and selling computer products for which Lucent holds related patents. No additional royalties are required. The essence of the license authorizes both parties to use each other’s worldwide computer-related patents for manufacturing and selling personal computer products.

(b) Others

(1) As of December 31, 2004 and 2005, the Company had provided outstanding stand-by letters of credit totaling NT$178,904 and NT$134,160, respectively, for bidding sales contracts and for customs duty contract implementation.

(2) The Consolidated Companies have entered into several operating lease agreements for warehouses, land and buildings. Minimum lease payments are summarized as follows:

	NT$	US$
2006	84,045	2,560
2007	223,421	6,804
2008	133,373	4,062
2009	98,334	2,995
20010 and thereafter	114,716	3,494
	653,889	**19,915**

8. Significant Loss from Casualty: None

9. Subsequent Events

(a) In January 2005, the Company's subsidiary, TWP, sold its online game business of entities located in Taiwan, China, and Hong Kong to GigaMedia Limited and GigaMedia's affiliates. The selling price amounted to approximately NT$1.48 billion.

(b) On March 28, 2005, the Company's subsidiary, AAC, sold its land and buildings to a non-affiliate. The selling price amounted to US$18 million, resulting a gain on disposal of US$2 million.

10. Other

(a) Total personnel, depreciation and amortization expenses incurred for the years ended December 31, 2004 and 2005, are summarized below:

	2004				2005			
	Operating expense	**Deduction of investment income**	**Cost of revenues**	**Total**	**Operating expense**	**Deduction of investment income**	**Cost of revenues**	**Total**
	NT$	**NT$**	**NT$**	**NT$**	**NT$**	**NT$**	**NT$**	**NT$**
Personnel:								
Salaries	6,297,156	74,522	-	6,371,678	6,323,981	32,539	-	6,356,520
Labor and health insurance	236,059	2,335	-	238,394	273,857	477	-	274,334
Pension	347,550	1,156	-	348,706	347,814	22,766	-	370,580
Other	379,705	204	-	379,909	233,785	14	-	233,799
Depreciation	1,015,196	1,619	60,975	1,077,790	925,084	532	50,732	976,348
Amortization	649,977	754	13,436	664,167	516,499	116	3,331	519,946

(b) Reclassifications

Certain amounts in the consolidated financial statements as of and for the year ended December 31, 2004, have been reclassified to conform to the 2005 presentation for comparative purposes. These reclassifications do not significantly impact the presentation of the consolidated financial statements.

11. Segment Information

(a) Industry segment

Industry segment data as of and for the years ended December 31, 2004 and 2005, is summarized below:

2004

	Information technology products NT$	**Distribution channels NT$**	**Property development NT$**	**Other NT$**	**Eliminations NT$**	**Consolidated NT$**
Segment income:						
Customers	203,054,996	26,504,426	328,977	2,552,157	-	232,440,556
Inter-company	823,586	485,447	35,786	6,546	(1,351,365)	-
	203,878,582	26,989,873	364,763	2,558,703	(1,351,365)	232,440,556
Investment income						1,163,400
Gain on disposal of investments						6,146,382
Total income						239,750,338
Segment profit (loss) before income taxes	3,969,241	321,922	(54,404)	(563,889)	(16,054)	3,656,816
Net investment income						147,402
Gain on disposal of investments, net						5,432,389
Interest expense						(596,007)
Consolidated income before income taxes						8,640,600
Segment identifiable assets	88,994,358	7,820,680	4,071,759	7,501,296	(343,410)	108,044,683
Long-term investments						15,869,274
Goodwill						547,332
Total assets						124,461,289
Depreciation and amortization	1,167,009	201,365	3,274	370,309	-	1,741,957
Capital expenditures	437,647	22,523	989	11,575	-	472,734

2005

	Information technology products NT$	**Distribution channels NT$**	**Property development NT$**	**Other NT$**	**Eliminations NT$**	**Consolidated NT$**
Segment income:						
Customers	294,294,290	29,176,746	2,973,019	2,291,644	-	328,735,699
Inter-company	1,385,951	840,864	37,977	11,160	(2,275,952)	-
	295,680,241	30,017,610	3,010,996	2,302,804	(2,275,952)	328,735,699
Investment income						1,373,113
Gain on disposal of investments						5,716,103
Total income						335,824,915
Segment profit (loss) before income taxes	6,530,854	482,551	469,543	(1,165,683)	(871,970)	5,445,295
Net investment income						(42,179)
Gain on disposal of investments, net						5,634,709
Interest expense						(385,293)
Consolidated income before income taxes						10,652,532
Segment identifiable assets	144,344,164	8,608,182	946,635	4,736,056	(679,190)	157,955,847
Long-term investments						13,299,186
Goodwill						306,616
Total assets						171,561,649
Depreciation and amortization	1,103,103	79,371	2,094	311,726	-	1,496,294
Capital expenditures	478,946	18,154	-	8,297	-	505,397

Long-term investments accounted for by the equity method in which the investee has a vertical relationship with the information technology products segment of the Company are listed below:

Investee	Year	Book value of long-term investment	Investment income (loss)
		NT$	NT$
Wistron (Taiwan)	2005	6,075,929	1,188,970
	2004	6,546,120	(347,816)

(b) Geographic information

Information by geographic area as of and the years ended December 31, 2004 and 2005, is as follows:

	2004					
	Taiwan	North America	Europe	Other	Eliminations	Consolidated
	NT$	NT$	NT$	NT$	NT$	NT$
Area income:						
Customers	61,110,095	16,497,233	118,681,411	36,151,817	-	232,440,556
Inter-company	115,281,193	429,026	5,694,500	66,792	(121,471,511)	-
	176,391,288	16,926,259	124,375,911	36,218,609	(121,471,511)	232,440,556
Investment income						1,163,400
Gain on disposal of investments						6,146,382
Total income						239,750,338
Area profit (loss) before income taxes	(42,095)	(212,075)	4,065,360	(362,419)	208,045	3,656,816
Net investment income						147,402
Gain on disposal of investments, net						5,432,389
Interest expense						(596,007)
Consolidated income before income taxes						8,640,600
Area identifiable assets	74,871,985	3,728,291	36,643,147	14,039,482	(21,238,222)	108,044,683
Long-term investments						15,869,274
Goodwill						547,332
Total assets						124,461,289
Depreciation and amortization	1,277,725	41,341	227,708	195,623	(440)	1,741,957
Capital expenditures	158,867	8,762	171,491	133,614	-	472,734

	2005					
	Taiwan NT$	**North America NT$**	**Europe NT$**	**Other NT$**	**Eliminations NT$**	**Consolidated NT$**
Area income:						
Customers	82,646,021	37,202,548	162,313,255	46,573,875	-	328,735,699
Inter-company	176,533,231	259,407	7,562,674	112,452	(184,467,764)	-
	259,179,252	37,461,955	169,875,929	46,686,327	(184,467,764)	328,735,699
Investment income						1,373,113
Gain on disposal of investments						5,716,103
Total income						335,824,915
Area profit (loss) before income taxes	(1,668,089)	14,695	6,426,204	538,403	134,082	5,445,295
Net investment income						(42,179)
Gain on disposal of investments, net						5,634,709
Interest expense						(385,293)
Consolidated income before income taxes						10,652,532
Area identifiable assets	104,803,596	9,530,223	52,935,838	17,108,778	(26,422,588)	157,955,847
Long-term investments						13,299,186
Goodwill						306,616
Total assets						171,561,649
Depreciation and amortization	1,127,382	32,112	172,162	164,638	-	1,496,294
Capital expenditures	212,909	11,605	175,088	105,795	-	505,397

(c) Export sales

Export sales of the Company and its domestic subsidiaries for the years ended December 31, 2004 and 2005, are summarized below:

	2004	2005	
Sales to:	**NT$**	**NT$**	**US$**
North America	1,373,378	3,083,505	93,909
Europe	15,575,912	14,725,204	448,461
Other	3,843,866	3,540,829	107,837
	20,793,156	**21,349,538**	**650,207**

(d) Major customers

There were no individual customers representing greater than 10% of consolidated revenue for the years ended December 31, 2004 and 2005.

4.5 Disclosure the impact in the company's financial status if the company or affiliates have financial difficulties in recent year and cut off by the published date of the annual report:

Not Applicable

4.6 The Achievement of the Financial Prediction in the Most Recent Two Years

4.6.1 Financial Forecast of Year 2004

Unit: Thousand NTD

Item	Financial Forecast of Year 2004	Audit Report of Year 2004	
	Original	Achievement	Hit Rate(%)
Revenue	110,000,000	129,108,907	117%
C.O.G.S	104,221,221	123,448,931	118%
Gross margin	5,778,779	5,659,766	98%
Operating Expense	2,588,370	2,448,598	95%
Operating Income	3,190,409	3,211,168	101%
Non-operating Income	5,571,416	6,448,902	116%
Non-operating Expense	871,825	1,900,652	218%
Profit Before Tax	7,890,000	7,759,418	98%
Profit After Tax	7,340,000	7,011,661	96%

4.6.2 Financial Forecast of Year 2005

Unit: Thousand NTD

Item	Financial Forecast of Year 2005	Audit Report of Year 2005	
	Original	Achievement	Hit Rate(%)
Revenue	165,001,509	204,958,099	124%
C.O.G.S	157,921,717	196,625,680	125%
Gross margin	7,079,792	8,332,419	118%
Operating Expense	4,491,422	2,495,907	56%
Operating Income	1,027,292	5,836,512	568%
Non-operating Income	3,656,790	6,163,532	169%
Non-operating Expense	615,649	2,349,888	382%
Profit Before Tax	7,850,361	9,650,156	123%
Profit After Tax	7,200,361	8,477,502	118%

(1) Achievement Status

Revenue of year 2005 amounted to 204,958,099k which reached 124% of the financial forecast. And Gross margin, operating income and profit before tax of year 2005 amounted to 8,332,419K, 5,836,512K and 9,650,156K respectively which were 118%, 568% and 123% of the whole year financial forecast respectively. The achievement status was good.

5. Risk Management

5.1 Recent Yearly Investment Policy and Main Reasons of Gain or Loss and Plan of Improvement for the Next Year

Unit: thousand NT$

Item \ Description	Amount	Policy	Year 2005 P&L	Main Reason of Gain or Loss	The Plan of Improvement	Investment Plan for Next Year
Acer Digital Service Co.,	3,405,019	Investing and Holding company	382,236	Recognized Disposal gain for Land		
Acer European Holdings N.V.	11,211,703	Sales and Maintenance of "Acer" brand-name information technology products	5,585,849	Growth Stably in Europe		
Acer Holdings International, Incorporated	3,009,641	Sales and Maintenance of "Acer" brand-name information technology products	764,685	Growth Stably in Asia Pacific		
Acer Worldwide Incorporated	3,659,355	Investing and Holding company	1,013	Recognized Dividend Income		
Acer SoftCapital Incorporated	2,379,736	Investing and Holding company	(410,359)	Recognized Investment Loss	Improve Investment Portfolio	
Acer Computer International Ltd.	862,816	Sales and Maintenance of "Acer" brand-name information technology products	2,544	Recognized Rental Income		
Cross Century Investment Limited	3,281,332	Investing and Holding company	(1,374,244)	Recognized Investment Loss	Improve Investment Portfolio	
Acer CyberCenter Services Ltd.	1,818,844	Data storage and processing company	(350,185)	Some Operating assets idle	Enhance E-business operation	
Acer Greater China (B.V.I.) Corp.	1,309,309	Sales and Maintenance of "Acer" brand-name information technology products	90,564	Great China Market gain		
BenQ Corporation	3,158,688	Investing on industry of sales computer and information technology products	(554,271)	Gain on operating activity		
Weblink International Inc	1,191,370	Selling channels of computers and related products	50,689	Gain on operating activity		
Wistron Corporation	4,823,821	Investing on industry of manufacturing computer and information technology products	1,188,970	Gain on operating activity		
Taiwan Fixed Network Co., Ltd.	2,086,000	Investing on communication industry	104,300	Recognized Dividend l Income		

5.2 Items to be Noticed for Risk Management & Evaluation

5.2.1 How does interest rate, exchange rate, or inflation influence Company's profit and loss, and how to manage such risks?

Interest Rate:

US Fed had raised the USD interest rate from 2.5% to 4.25% last year. The influence of such raise on the Company are not great due to neither medium nor long term USD liability, and only temporary gap on the big payment date.

Exchange rate:

The major foreign currency position of the Company is Euro receipt. Euro was trading in a range in year 2005. Under the suitable hedge tools utilization and stop loss strategy, there is no FX loss but small FX gain of whole year 2005. The company will maintain the consistent steady strategy and hedge the foreign exchange position aggressively to reduce the impact to the Company's profit and loss.

Inflation:

For year 2005, the inflation rate in Taiwan remained stable; thus there was not significant impact on the Company's operations and profits.

5.2.2 What is the Company's policy to make high risk or leverage investment, make a loan, make a guarantee or buy derivatives? And what are the reasons of gain or loss and what are the future plans?

The Company does not make any high risk/leverage investment. The short-term idle capital is used to purchase the government bonds and high raking bond funds or corporate bonds. The long-term idle capital is used to invest companies whose business related to our core business.

Generally speaking, aside from the 100% owned subsidiary, the Company will not loan funds or provide corporate guarantee to others. When the company will make a loan or provide guarantee required by business, it has to comply with competent internal procedures. Until Dec. 31, 2005, the aggregate amount the Company had provided corporate guarantees was NT $7,195 million and the utilization by the parties on behalf of which the guarantees was NT $2,588 million. LTSC was the only firm not 100% owned but guaranteed by the Company in proportion to its shareholding percentages in accordance with joint venture agreement. Until Dec. 31, 2005, the amount the Company had provided corporate guarantees and utilized by LTSC was NT $308 million.

Except for hedging purposes, Company will not engage in any derivatives trading. If the Company has to engaging in derivatives trading as necessary for business, it has to comply with related internal procedures.

5.2.3 What are Company's Future Plans and Estimated R&D Expenditures?

Future Plan	Current Status	Expenditures	Estimated Completion Date	Key Success Factor
Develop a multi-media NB computer with TV function	Product test stage	USD$3M (million)	Apr./2006	The maturity of the peripheral industry and the infrastructures of TV industry.
Develop a multi-media Desktop computer with TV function	Product design & test stage	USD$2M	Aug./2006	The maturity of the peripheral industry and the infrastructures of TV industry.
Integrate wireless antenna	Product design stage	USD$2M	Sep./2006	1. Efficiency and performance of built-in the small-size multi-band antennas 2. Lowering interference resulting from system and wireless devices 3. Standardization of high-speed packet download specification and maturity of 3G module development 4. The maturity of 3G telecommunications infrastructure and 3G service
Advanced compact form factor PC	Product design & test stage	USD$500K (thousand)	Aug./2006	Dual-Core CPU, Wireless Network, virtualization, Media Center Edition OS
Empower Power Management 2nd generation	Product design & test stage	USD$650K	Aug./2006	2nd advanced power management program
Develop embedded multiple wireless networks and multiple expansion functionalities Handheld computer	Product design stage	US$2M	Aug./2006	1. Overcome and reduce interferences while multiple wireless networks co-exist. 2. Easy and intuitive "setup" user interface
Natron Project (Origami) – The next generation of Ultra-Portable Mobile Device	Product design stage	US$5M	Dec./2006	1. The worldwide different maturity of the internet infrastructures. 2. The proficiency of user's behavior.
Mobile Data: Smart and Real Time Email Receiving Devices	Product design stage	US$6M	Dec./2006	1. The integrate degree of Internet Protocol. 2. The Completeness of software integrated and test
Develop 3G data wireless communication solution in notebook computers	Product design stage	US$2M	Oct./2006	1. The acceptance level of 3G products in the market. 2. The strategic alliance with the other mobile telecommunication partner.
Develop Interactive TV	Product design & test stage	US$1M	Aug./2006	1. The change of user's behavior and the acceptance level 2. The strategic alliance with TV communication

5.2.4 Will the changes of domestic and international policies or legislation have an impact on the Company's finance or business, and how will the Company react to such changes?

Investment in Mainland China－

Mainland China market still offers many business opportunities, but considerable risks still exists. The Company follows the government's Mainland China policy and complies with competent laws and regulations whenever it invests in Mainland China in order to reduce the risk and protect shareholders' interests. To be in line with the Company's investment strategy, its investment in Mainland China is mainly for working capital rather than purchasing assets.

Corporate Governance－

The corporate scandals happened in past few years all over the world have had serious impact on the financial markets and investors as well. The government has required companies in Taiwan to facilitate the corporate governance in order to protect the shareholders' rights or interests and sound developments in the securities market. The Company has fulfilled related regulations in order to strengthen the powers of directors and protect investor's rights or interests.

5.2.5 What are the financial impact and action plans when the Company faces technology innovation and industry development?

The Company has transformed from a manufacturer to a branding company now. Our main mission is to empower technology. Our products are developed to be in line with the mainstream technology and high added value.

Due to the Company's strategy to outsource manufacturing sector, our competitiveness is improving because the purchasing power increases. The sales and profits also increase due to cooperation with first tier channels.

5.2.6 How corporate image change affects the Company's risk management mechanism? What are the Company's action plans?

The Company had split off its manufacturing division at the end of year 2000 in order to focus on the design and marketing of IT products and services. The potential crises within manufacturing and marketing companies are very different, and the Company's crisis management now focuses on our global supply-chain and logistics. By outsourcing our manufacturing sector to multiple vendors and suppliers, the Company gained greater flexibility in inventory control and lowered risks compared to a single-vendor policy. With the ever-changing global economy, it is essential to be prepared for risks and challenges at all times. The Company's risk management team has a clear sense of crisis management and has taken the precautions when necessary. We have set up a crisis mechanism that will minimize potential damages when running into crises and ensure the Company's sustainable management.

5.2.7 What are the predicted benefits and potential risks to the Company during the mergers?

Not applicable.

5.2.8 What are the predicted benefits and potential risk to the Company when it expands its factories and offices?

Not applicable.

5.2.9 What are the potential risks to the Company during buy and sales?

NONE

5.2.10 How shares transfer made by directors, supervisors or shareholders with 10% or more shareholdings affect the Company?

Not applicable.

5.2.11 What are the impact and potential risks when the Company changes management team?

Not applicable.

5.2.12 Does the Company or its directors, supervisors, general manager, key managers, shareholders with more than 10% shareholding or subsidiaries has any pending lawsuits or disputes which might significantly affect the shareholders' equity or share prices? If there is, what are the facts, claims, filing date, major parties and status upon publishing of this Report?

Not applicable.

5.2.13 Other Risks:

NONE

6. The Enforcement of Corporate Governance/ Discrepancy between the Corporate Governance Principles Implemented by the Company and the Principles, and the Reasons for the Discrepancy

Items	Enforcement Status	Discrepancy between the corporate governance principles implemented by the company and the Principles, and the reason for the discrepancy
A. The ownership structure and shareholders' rights		
a. The handling of the shareholders' proposals and disputes	The Company has designated the Office of Shareholders' Affairs to handle the shareholders' proposals and disputes.	No discrepancy
b. The hold of information on the identities of major shareholders and their ultimate controlling persons	The Company holds information on the identities of major shareholders and their ultimate controlling persons.	No discrepancy
c. The establishment of risk control mechanism and firewalls with affiliates	The Company has established the appropriate risk control mechanism and firewalls according to internal rules such as rules of supervision over subsidiaries, rules governing endorsement and guarantee, and the rules governing acquisitions and dispositions of assets etc.	No discrepancy
B. The composition and duties of Board of Directors		
a. The election of independent directors	None	The composition of Board is taken into considerations of the business needs and operations of the Board.
b. The regular evaluation of independence of CPA	The evaluation of CPA is one of the main duties of Financial Statement and Internal Control Review Committee	No discrepancy
C. The composition and duties of supervisors		
a. The election of independent supervisors	None	The composition of supervisors is taken into considerations of business needs and practice.
b. The communication between supervisors and employees and shareholders	The Company has established an appropriate channel for supervisors to communicate with executives, key managers and shareholders.	No discrepancy
D. The establishment of communication channels with stakeholders	The Company has established the appropriate communication channels with suppliers, buyers, banks, investors and other stakeholders.	No discrepancy

Items	Enforcement Status	Discrepancy between the corporate governance principles implemented by the company and the Principles, and the reason for the discrepancy
E. The disclosure of information a. The utilization of website to disclose the information of finance, operations and corporate governance	The Company has set up a website containing the information regarding the finance and operations. The Company also discloses the enforcement of corporate governance in the shareholders' meeting and other institutional investor meetings.	No discrepancy
b. The others means of disclosing information	The Company has one chief speaker and other two acting speakers and also designated a team to be responsible for gathering and disclosing the information.	No discrepancy
F. The establishment and enforcement of Audit Committee and other Functional Committees	Our Company has set up the Financial Statement and Internal Control Review Committee in the Board.	No discrepancy

G. If the Company has implemented the corporate governance principles according to TSE Corporate Governance Best-Practice Principles, please identify the discrepancy between your principles and their implementation:

- Not applicable

H. The systems, action plans and implementation of the Company's social responsibility (e.g. human rights, employees' rights, environmental protection, community supports and involvements, the relationship with supplies, and interested parties' rights):

- The Company has actively participated community activities or charitable such as:
  1. sponsoring the sport and literature/arts events,
  2. adopting rare insects in order to popularize ecological conservation,
  3. sponsoring Council of Agriculture for Production Resume Scheme in order to assist with using IT products in the remote districts.
  4. organizing Acer Volunteer to take good care of the disadvantaged children.
- The BVQI has awarded the Company with the ISO 14001 registration, further, Acer's Eco organization was adjusted to be responsible for overseeing the Company worldwide Eco strategy, and monitoring the results of the Eco management system. The Company has also set up an exclusive e-mail box (eco@acer.com.tw), environmental web, and published Corporate Environmental Report.
- The Company has set up an exclusive web for new labor pension system in order to offer employees related laws, regulations, and assistance.

I. Other important information that may facilitate to better understand the status of corporate governance：

- The Company has arranged the related training courses for members of the board to participate.
- The Company clearly sets forth in the rules for the proceedings of board meetings that a director shall voluntarily abstain from voting on a proposal involved with his/her own interests.
- The chairman of the Company does not act as the President, and both of them are not spouses or relatives within one degree of kinship.
- The Company has purchased liability insurance for directors and other key employees.