

ACER INCORPORATED AND SUBSIDIARIES
Consolidated Financial Statements
December 31, 2009 and 2010
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Acer Incorporated:

We have audited the accompanying consolidated balance sheets of Acer Incorporated (the "Company") and subsidiaries as of December 31, 2010 and 2009, 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 financial statements based on our audits.

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

In our opinion, the 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, 2010 and 2009, and the results of their consolidated operations and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

The consolidated financial statements as of and for the year ended December 31, 2010, 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(27) to the consolidated financial statements.

Taipei, Taiwan (the Republic of China)
March 11, 2011

Note to Readers

The accompanying consolidated financial statements are intended only 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, 2009 and 2010

(Expressed in thousands of New Taiwan dollars and US dollars)

Assets	2009 NT\$	2010 NT\$	2010 US\$	Liabilities and Stockholders' Equity	2009 NT\$	2010 NT\$	2010 US\$
Current assets:				Current liabilities:			
Cash and cash equivalents (note 4(1))	53,616,067	68,456,386	2,350,030	Short-term borrowings (note 4(16))	548,059	1,651,630	56,699
Notes and accounts receivable, net of allowance for doubtful accounts of NT\$1,681,844 and NT\$1,159,472 as of December 31, 2009 and 2010, respectively (note 4(2))	111,858,366	101,730,888	3,492,306	Current portion of long-term debt (note 4(18))	-	6,100,000	209,406
Notes and accounts receivables from related parties (note 5)	600,306	719,024	24,683	Notes and accounts payable	95,831,720	84,234,625	2,891,680
Other receivables from related parties (note 5)	21,507	46,914	1,611	Notes and accounts payable to related parties (note 5)	10,232,364	7,766,098	266,602
Other receivables (note 4(3))	9,263,152	7,860,935	269,857	Financial liabilities at fair value through profit or loss – current (notes 4(5) and (25))	162,539	298,998	10,264
Financial assets at fair value through profit or loss – current (notes 4(5) and (25))	157,659	38,895	1,335	Other payables to related parties (note 5)	92,187	537,267	18,444
Available-for-sale financial assets – current (notes 4(4) and (25))	223,437	225,710	7,748	Hedging purpose derivative financial liabilities – current (notes 4(6) and (25))	196,714	759,866	26,085
Hedging purpose derivative financial assets – current (notes 4(6) and (25))	1,275,157	88,372	3,034	Royalties payable	16,337,817	10,501,921	360,519
Inventories (note 4(7))	51,184,953	41,240,053	1,415,724	Accrued expenses and other current liabilities	55,764,403	50,129,779	1,720,899
Prepayments and other current assets	1,694,058	1,845,878	63,367	Deferred income tax liabilities – current 4(20))	680,714	578,740	19,867
Non-current assets held for sale (note 4(8))	-	1,827,855	62,748	Total current liabilities	<u>179,846,517</u>	<u>162,558,924</u>	<u>5,580,465</u>
Deferred income tax assets – current (note 4(20))	2,213,215	1,655,718	56,839	Long-term liabilities:			
Restricted deposits (note 6)	-	24,197	831	Bonds payable (notes 4(17) and, (25))	-	13,103,887	449,842
Total current assets	<u>232,107,877</u>	<u>225,760,825</u>	<u>7,750,113</u>	Financial liabilities at fair value through profit or loss – noncurrent (notes 4(17) and (25))	-	1,338,524	45,950
Long-term investments:				Long-term debt, excluding current portion (notes 4(18) and (25))	12,371,856	6,221,933	213,592
Investments accounted for using equity method (note 4(10))	3,314,950	2,235,701	76,749	Other liabilities (note 4(19))	384,706	330,662	11,351
Available-for-sale financial assets – noncurrent (notes 4(11) and (25))	3,306,742	2,274,902	78,095	Deferred income tax liabilities – noncurrent (note 4(20))	5,543,947	2,836,226	97,364
Financial assets carried at cost – noncurrent (notes 4(9) and (25))	2,251,058	1,722,677	59,138	Total long-term liabilities	<u>18,300,509</u>	<u>23,831,232</u>	<u>818,099</u>
Total long-term investments	<u>8,872,750</u>	<u>6,233,280</u>	<u>213,982</u>	Total liabilities	<u>198,147,026</u>	<u>186,390,156</u>	<u>6,398,564</u>
Property, plant and equipment (note 4(12)):				Stockholders' equity and minority interest:			
Land	2,509,029	1,927,170	66,158	Common stock (notes 4(21) and (22))	26,882,283	27,001,793	926,941
Buildings and improvements	5,386,921	4,629,090	158,911	Common stock subscribed	-	21,656	743
Computer equipment and machinery	3,059,222	3,102,280	106,498	Capital surplus (notes 4(10) and (21))	38,494,118	39,578,915	1,358,699
Other equipment	3,219,265	3,152,324	108,216	Retained earnings (note 4(21)):			
Construction in progress and advance payments for purchases of property and equipment	83,680	50,993	1,751	Legal reserve	9,960,796	11,096,134	380,918
	14,258,117	12,861,857	441,534	Special reserve	1,991,615	-	-
Less: accumulated depreciation	(4,904,235)	(5,040,515)	(173,035)	Unappropriated earnings	16,622,600	24,233,146	831,897
accumulated impairment	(677,709)	(881,568)	(30,263)	Other equity components:			
Net property, plant and equipment	<u>8,676,173</u>	<u>6,939,774</u>	<u>238,236</u>	Foreign currency translation adjustment	959,621	(5,095,919)	(174,937)
				Minimum pension liability adjustment	(7,908)	(23,957)	(822)
Intangible assets (note 4(14))				Unrealized gain on financial instruments (notes 4(4), (6) and (11))	1,014,317	460,600	15,812
Trademark	7,862,465	10,043,300	344,775	Treasury stock (note 4(21))	(3,522,598)	(3,522,598)	(120,927)
Goodwill	21,977,454	20,477,471	702,968	Total stockholders' equity	<u>92,394,844</u>	<u>93,749,770</u>	<u>3,218,324</u>
Other intangible assets	5,604,149	5,872,164	201,585	Minority interest	482,818	358,604	12,310
Total intangible assets	<u>35,444,068</u>	<u>36,392,935</u>	<u>1,249,328</u>	Total stockholders' equity and minority interest	<u>92,877,662</u>	<u>94,108,374</u>	<u>3,230,634</u>
Other financial assets (notes 4(15), (25) and 6)	789,711	1,038,501	35,651	Commitments and contingencies (note 7)			
Property not used in operation (note 4(13))	2,971,542	2,355,522	80,862				
Deferred charges and other assets (notes 4(19) and (20))	2,162,567	1,777,693	61,026				
Total assets	<u>291,024,688</u>	<u>280,498,530</u>	<u>9,629,198</u>	Total liabilities and stockholders' equity	<u>291,024,688</u>	<u>280,498,530</u>	<u>9,629,198</u>

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2009 and 2010

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

	2009	2010	
	NT\$	NT\$	US\$
Net sales (note 5)	573,982,544	629,058,973	21,594,884
Cost of sales (notes 4(7) and 5)	<u>(515,654,684)</u>	<u>(564,577,705)</u>	<u>(19,381,315)</u>
Gross profit	<u>58,327,860</u>	<u>64,481,268</u>	<u>2,213,569</u>
Operating expenses (notes 4(14), (19), (21), (22), 5 and 10):			
Selling	(35,729,296)	(38,982,174)	(1,338,214)
Administrative	(6,372,585)	(6,084,942)	(208,889)
Research and development	<u>(886,513)</u>	<u>(1,210,239)</u>	<u>(41,546)</u>
Total operating expenses	<u>(42,988,394)</u>	<u>(46,277,355)</u>	<u>(1,588,649)</u>
Operating income	<u>15,339,466</u>	<u>18,203,913</u>	<u>624,920</u>
Non-operating income and gains:			
Interest income	361,656	308,036	10,574
Investment gain recognized using equity method, net (note 4(10))	400,098	375,948	12,906
Other investment income	-	30,085	1,033
Gain on disposal of property and equipment, net	-	82,974	2,848
Gain on disposal of investments, net (notes 4(4), (9), (10), (11))	79,162	2,376,407	81,579
Foreign currency exchange gain and valuation gain on financial instruments, net (notes 4(5), (6) and (25))	473,648	-	-
Other income	<u>404,473</u>	<u>1,147,947</u>	<u>39,408</u>
	<u>1,719,037</u>	<u>4,321,397</u>	<u>148,348</u>
Non-operating expenses and loss:			
Interest expense (note 4(17))	(622,080)	(1,032,786)	(35,455)
Other investment loss (note 4(9))	(231,934)	-	-
Loss on disposal of property and equipment, net (note 4(12))	(103,055)	-	-
Restructuring cost (note 4(23))	(164,595)	-	-
Foreign currency exchange loss and valuation loss on financial instruments, net (notes 4(5), (6), (17) and (25))	-	(1,311,734)	(45,030)
Impairment loss of non-financial assets, net of reversal gain (notes 4(12) and (13))	(395,109)	(378,178)	(12,982)
Other loss	<u>(558,747)</u>	<u>(473,225)</u>	<u>(16,245)</u>
	<u>(2,075,520)</u>	<u>(3,195,923)</u>	<u>(109,712)</u>
Income before income taxes	14,982,983	19,329,387	663,556
Income tax expense (note 4(20))	<u>(3,630,123)</u>	<u>(4,211,247)</u>	<u>(144,567)</u>
Consolidated net income	<u>11,352,860</u>	<u>15,118,140</u>	<u>518,989</u>
Net income attributable to:			
Shareholders of the Company	11,353,374	15,117,997	518,984
Minority interest	<u>(514)</u>	<u>143</u>	<u>5</u>
	<u>11,352,860</u>	<u>15,118,140</u>	<u>518,989</u>
Earnings per common share (in New Taiwan dollars) (note 4(24)):	NT\$	NT\$	US\$
Basic earnings per common share—retroactively adjusted	<u>4.31</u>	<u>5.71</u>	<u>0.20</u>
Diluted earnings per common share—retroactively adjusted	<u>4.25</u>	<u>5.57</u>	<u>0.19</u>

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2009 and 2010
(Expressed in thousands of New Taiwan dollars and US dollars)

	<u>Retained earnings</u>						Foreign currency translation adjustment	Minimum Pension liability adjustment	Unrealized gain (loss) on financial Instruments	Treasury stock	Total stockholders' equity	Minority interest	Total stockholders' equity and minority interest
	Common stock NT\$	Common stock subscribed NT\$	Capital surplus NT\$	Legal reserve NT\$	Special reserve NT\$	Unappropriated earnings NT\$							
Balance at January 1, 2009	26,428,560	-	37,129,952	8,786,583	-	13,985,318	1,241,058	(283)	(1,729,631)	(3,522,598)	82,318,959	558,656	82,877,615
Issuance of stock under option plans	27,087	-	76,503	-	-	-	-	-	-	-	103,590	-	103,590
Cash dividends distributed to subsidiaries	-	-	70,510	-	-	-	-	-	-	-	70,510	-	70,510
Stock-based compensation cost	-	-	298,592	-	-	-	-	-	-	-	298,592	-	298,592
2009 net income	-	-	-	-	-	11,353,374	-	-	-	-	11,353,374	(514)	11,352,860
Appropriation approved by the stockholders (note 1):													
Legal reserve	-	-	-	1,174,213	-	(1,174,213)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	1,991,615	(1,991,615)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(5,285,966)	-	-	-	-	(5,285,966)	-	(5,285,966)
Stock dividends to shareholders	264,298	-	-	-	-	(264,298)	-	-	-	-	-	-	-
Employees' bonuses in stock	162,338	-	737,662	-	-	-	-	-	-	-	900,000	-	900,000
Unrealized valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	1,817,027	-	1,817,027	-	1,817,027
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	-	-	-	353,174	-	353,174	-	353,174
Minimum pension liability adjustment	-	-	-	-	-	-	-	(7,625)	-	-	(7,625)	-	(7,625)
Foreign currency translation adjustment	-	-	-	-	-	-	(281,437)	-	-	-	(281,437)	-	(281,437)
Decrease in minority interest	-	-	-	-	-	-	-	-	-	-	-	(75,324)	(75,324)
Adjustments from investments accounted for using equity method	-	-	180,899	-	-	-	-	-	573,747	-	754,646	-	754,646
Balance at December 31, 2009	26,882,283	-	38,494,118	9,960,796	1,991,615	16,622,600	959,621	(7,908)	1,014,317	(3,522,598)	92,394,844	482,818	92,877,662
Issuance of stock under option plans	66,134	21,656	118,022	-	-	-	-	-	-	-	205,812	-	205,812
Cash dividends distributed to subsidiaries	-	-	118,419	-	-	-	-	-	-	-	118,419	-	118,419
Stock-based compensation cost	-	-	458,736	-	-	-	-	-	-	-	458,736	-	458,736
2010 net income	-	-	-	-	-	15,117,997	-	-	-	-	15,117,997	143	15,118,140
Conversion right from issuance of convertible bonds	-	-	295,494	-	-	-	-	-	-	-	295,494	-	295,494
Appropriation approved by the stockholders (note 2):													
Legal reserve	-	-	-	1,135,338	-	(1,135,338)	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(1,991,615)	1,991,615	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(8,336,835)	-	-	-	-	(8,336,835)	-	(8,336,835)
Stock dividends to shareholders	26,893	-	-	-	-	(26,893)	-	-	-	-	-	-	-
Employees' bonuses in stock	26,483	-	173,517	-	-	-	-	-	-	-	200,000	-	200,000
Unrealized valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(179,096)	-	(179,096)	-	(179,096)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	-	-	-	30,507	-	30,507	-	30,507
Minimum pension liability adjustment	-	-	-	-	-	-	-	(16,049)	-	-	(16,049)	-	(16,049)
Foreign currency translation adjustment	-	-	-	-	-	-	(6,055,540)	-	-	-	(6,055,540)	-	(6,055,540)
Decrease in minority interest	-	-	-	-	-	-	-	-	-	-	-	(124,357)	(124,357)
Adjustments from investments accounted for using equity method	-	-	(79,391)	-	-	-	-	-	(405,128)	-	(484,519)	-	(484,519)
Balance at December 31, 2010	27,001,793	21,656	39,578,915	11,096,134	-	24,233,146	(5,095,919)	(23,957)	460,600	(3,522,598)	93,749,770	358,604	94,108,374
Balance at December 31, 2010 (in US\$)	926,941	743	1,358,699	380,918	-	831,897	(174,937)	(822)	15,812	(120,927)	3,218,324	12,310	3,230,634

Note 1: Directors' and supervisors' remuneration of \$122,096 and employee bonuses of \$1,000,000 for 2009 have been deducted in the 2009 net income.

Note 2: Directors' and supervisors' remuneration of \$89,469 and employee bonuses of \$1,500,000 for 2010 have been deducted in the 2010 net income.

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2010
(Expressed in thousands of New Taiwan dollars and US dollars)

	2009	2010	
	NT\$	NT\$	US\$
Cash flows from operating activities:			
Consolidated net income	11,352,860	15,118,140	518,989
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	846,303	704,486	24,184
Amortization	1,860,284	1,891,118	64,920
Stock-based compensation cost	298,592	458,736	15,748
Unrealized exchange gain on bonds payable	-	(1,239,955)	(42,566)
Amortization of bond discount and transaction costs	-	171,597	5,891
Investment gain recognized using equity method, net	(463,810)	(414,351)	(14,224)
Cash dividends received from equity method investments	143,037	280,117	9,616
Loss (gain) on disposal of property and equipment, net	103,055	(82,974)	(2,849)
Gain on disposal of investments, net	(79,162)	(2,376,407)	(81,579)
Valuation loss (gain) on financial assets and liabilities	(1,293,844)	1,899,825	65,219
Impairment loss of non-financial assets, net of reversal gain	395,109	378,178	12,982
Deferred income tax expense (benefit)	(951,327)	826,484	28,372
Other investment loss (gain), net	227,698	(30,085)	(1,033)
Gain on disposal of intangible assets	(46,037)	-	-
Restructuring cost	164,595	-	-
Changes in operating assets and liabilities:			
Notes and accounts receivable	(4,032,056)	10,127,478	347,665
Receivables from related parties	241,158	(118,718)	(4,076)
Inventories	(11,173,624)	9,882,344	339,250
Other receivable, prepayments and other current assets	(951,160)	1,007,844	34,598
Non-current receivable (under other financial assets – non-current)	69,926	(64,506)	(2,214)
Notes and accounts payable	31,466,106	(11,597,095)	(398,115)
Payables to related parties	2,384,367	(2,021,186)	(69,385)
Royalties payable, accrued expenses and other current liabilities	8,088,125	(11,509,119)	(395,095)
Other liabilities	(458,091)	(54,044)	(1,855)
Cash provided by operating activities	<u>38,192,104</u>	<u>13,237,907</u>	<u>454,443</u>
Cash flows from investing activities:			
Proceeds from disposal of investments	1,042,680	4,069,972	139,718
Acquisition of long-term investments	(259,905)	(149,289)	(5,125)
Proceeds from capital return or liquidation of investees	231,897	480,100	16,481
Additions to property, plant and equipment and property not used in operation	(771,575)	(1,113,394)	(38,222)
Proceeds from disposal of property and equipment and property not used in operation	75,067	527,724	18,116
Decrease (increase) in advances to related parties	23,666	(25,407)	(872)
Decrease (increase) in restricted deposits	922,794	(24,197)	(831)
Additions to intangible assets	(2,785,947)	(6,211,750)	(213,242)
Proceeds from disposal of intangible assets	25,000	-	-
Increase in refundable deposits, deferred charges, and other assets	(291,932)	(186,000)	(6,385)
Cash used in by investing activities	<u>(1,788,255)</u>	<u>(2,632,241)</u>	<u>(90,362)</u>
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	(538,792)	1,103,571	37,884
Issuance of convertible bonds	-	15,865,788	544,655
Repayment of long-term debt	(10,702)	(49,923)	(1,714)
Distribution of cash dividends	(5,215,456)	(8,218,416)	(282,129)
Proceeds from exercise of employee stock option	103,590	205,812	7,065
Decrease in minority interests	(63,768)	(81,273)	(2,790)
Cash provided by (used in) financing activities	<u>(5,725,128)</u>	<u>8,825,559</u>	<u>302,971</u>
Effects of exchange rate changes	<u>795,621</u>	<u>(4,590,906)</u>	<u>(157,601)</u>
Net increase in cash and cash equivalents	31,474,342	14,840,319	509,451
Cash and cash equivalents at beginning of period	<u>22,141,725</u>	<u>53,616,067</u>	<u>1,840,579</u>
Cash and cash equivalents at end of period	<u>53,616,067</u>	<u>68,456,386</u>	<u>2,350,030</u>
Supplemental disclosures of cash flow information:			
Interest paid	<u>444,067</u>	<u>839,977</u>	<u>28,835</u>
Income taxes paid	<u>3,196,014</u>	<u>5,794,408</u>	<u>198,915</u>
Supplementary disclosures of non-cash investing and financing activities:			
Change in unrealized valuation gain (loss) on financial instruments	<u>2,743,948</u>	<u>(553,717)</u>	<u>(19,008)</u>
Current portion of long-term debt	<u>-</u>	<u>6,100,000</u>	<u>209,406</u>
Additions to property and equipment included in other current liabilities	<u>-</u>	<u>99,670</u>	<u>3,422</u>
Decrease in valuation allowance of deferred income tax assets against goodwill	<u>-</u>	<u>1,770,123</u>	<u>60,766</u>

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of and for the years ended December 31, 2009 and 2010
(amounts expressed in thousands of New Taiwan dollars and US dollars,
except for earnings 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 merged with Acer Incorporated (“AI”) on March 27, 2002, with the Company as the surviving entity from the merger but renaming itself as Acer Incorporated. After the merger, the principal activities of the Company focus on globally marketing its brand-name IT products, and promoting E-commerce solutions to clients.

The Company completed the acquisition of 100% equity ownership of Gateway, Inc. (including eMachines brand), a personal computer company in the U.S., through its indirectly wholly owned subsidiary on October 15, 2007. The Company also acquired the 100% equity ownership of Packard Bell B.V., a personal computer company in Europe, through its indirectly wholly owned subsidiary on March 14, 2008 and June 30, 2008. Following the acquisitions of Gateway and Packard Bell, the Company has defined a clear path for its multi-brand strategy. Additionally, on September 1, 2008, the Company entered the smart phone market following the acquisition of E-Ten Information Systems Co., Ltd. In October 2010, in order to expand into the market in China, the Company acquired the PC business, management team and employees, regional sales and marketing channels of Founder Technology Group Corporation, through its indirectly wholly owned subsidiary.

The reporting entities of the consolidated financial statements include the Company and its subsidiaries (hereinafter referred to collectively as the “Consolidated Companies”). On December 31, 2009 and 2010, the number of employees of the Consolidated Companies was 7,757 and 6,624, respectively. The Consolidated Companies are summarized below according to their primary business activity.

(1) Sale of “Acer”, “Gateway”, “eMachines”, “Packard Bell” and “Founder” brand-name information technology products:

<u>Investor</u>	Percentage of Ownership	
	2009	2010
(a) Acer Incorporated		
(b) Acer Greater China (B.V.I.) Corp. (“AGC”, British Virgin Islands) and subsidiaries	The Company	100.00
• Acer Market Services Limited (“AMS”, Hong Kong)	AGC	100.00
• Acer Computer (Far East) Limited (“AFE”, Hong Kong)	AGC	100.00
• Acer Information (Zhong Shan) Co., Ltd. (“AIZS”, China)	AMS	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	<u>Investor</u>	<u>Percentage of Ownership</u>	
		<u>2009</u>	<u>2010</u>
• Beijing Acer Information Co., Ltd. (“BJAI”, China)	AMS	100.00	100.00
• Acer Computer (Shanghai) Ltd. (“ACCN”, China)	AMS	100.00	100.00
• Acer (Chongqing) Ltd. (“ACQ”, China)	AMS	-	100.00
(c) Acer European Holding B.V. (“AEH”, Netherlands Antilles) and 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 CIS Incorporated (“ACR”, British Virgin Islands)	AEH	100.00	100.00
• Acer BSEC Inc. (“AUA”, British Virgin Islands)	AEH	100.00	100.00
• Acer Computer (M.E.) Limited (“AME”, British Virgin Islands)	AEH	100.00	100.00
• Acer Africa (Proprietary) Limited (“AAF”, South Africa)	AEH	100.00	100.00
• Acer Computer France S.A.S.U. (“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 Austria GmbH (“ACV”, Austria)	AHN	100.00	100.00
• Acer Europe Services S.R.L. (“AES”, Italy)	AHN	100.00	100.00
• Acer Europe SA (“AEG”, Switzerland)	AHN	100.00	100.00
• Acer Czech Republic S.R.O. (“ACZ”, Czech Republic)	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 Slovakia s.r.o. (“ASK”, Slovakia)	AHN	100.00	100.00
• Acer International Services GmbH (“AIS”, Switzerland)	AHN	100.00	100.00
• Asplex Sp. z.o.o. (“APX”, Poland)	AHN	100.00	100.00
• Acer Marketing Services LLC (“ARU”, Russia)	AHN	100.00	100.00
• Acer Hellas Limited Liability Company of Marketing and Sales Services (“AGR”, Greece)	AHN	-	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

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	<u>Investor</u>	<u>Percentage of Ownership</u>	
		<u>2009</u>	<u>2010</u>
• Acer Denmark A/S (“ACD”, Denmark)	ACH	100.00	100.00
• PB Holding Company S.A.R.L. (“PBLU”, Luxembourg)	AHN	100.00	100.00
• Packard Bell B.V. (“PBHO”, the Netherlands)	PBLU	100.00	100.00
• Packard Bell Finance B.V. (“PBFN”, the Netherlands)	PBHO	100.00	100.00
• Packard Bell Netherland B.V. (“PBNL”, the Netherlands)	PBHO	100.00	100.00
• Packard Bell Services s.a.r.l (“PBSV”, France)	PBHO	100.00	100.00
• Packard Bell Angers s.a.r.l (“PBAN”, France)	PBHO	100.00	100.00
• Packard Bell France s.a.s (“PBFN”, France)	PBHO	100.00	100.00
• Packard Bell (UK) Ltd. (“PBUK”, the United Kingdom)	PBHO	100.00	100.00
• Packard Bell Scotland Ltd. (“PBSC”, the United Kingdom)	PBHO	100.00	-
• Packard Bell Iberica s.l (“PBES”, Spain)	AIB	100.00	100.00
• Infonove s.r.l a Socio Unico in Liquidazione (formerly Packard Bell Italia s.r.l) (“PBIT”, Italy)	PBHO	100.00	100.00
• Packard Bell Deutschland GmbH (“PBDE”, Germany)	PBHO	100.00	100.00
• Packard Bell Belgium BVBA (“PBBE”, Belgium)	PBHO	100.00	100.00
• Packard Bell Norden AS (“PBNO”, Norway)	PBHO	100.00	100.00
• Packard Bell Schweiz GmbH (“PBCH”, Switzerland)	PBHO	100.00	100.00
• NEC Computers South Africa (Pty) Ltd. (“PBZA”, South Africa)	PBHO	50.81	50.81
(d) Boardwalk Capital Holding Limited (“Boardwalk”, British Virgin Islands) and subsidiaries	The Company	100.00	100.00
• Acer Computer Mexico, S.A. de C.V. (“AMEX”, Mexico)	Boardwalk	99.92	99.92
• Acer Latin America, Inc. (“ALA”, U.S.A.)	Boardwalk	100.00	100.00
• Acer American Holding Corp. (“AAH”, USA)	Boardwalk	100.00	100.00
• AGP Tecnologia em Informatica do Brasil Ltda. (“ATB”, Brazil)	Boardwalk	100.00	100.00
• Aurion Tecnologia, S.A. de C.V. (“Aurion”, Mexico)	AMEX	99.92	99.92
• Gateway, Inc. (“GWI”, U.S.A.)	AAH	100.00	100.00
• Acer America Corporation. (“AAC”, U.S.A.)	GWI	99.92	99.92
• Acer Service Corporation (“ASC”, U.S.A.)	GWI	100.00	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	<u>Investor</u>	<u>Percentage of Ownership</u>	
		<u>2009</u>	<u>2010</u>
		<u>at December 31,</u>	
• Gateway US Retail, Inc. (“GRA”, U.S.A.)	GWI	100.00	100.00
• Gateway Diect, Inc. (“GDA”, U.S.A.)	GWI	100.00	100.00
• Gateway Manufacturing LLC (“GMA”, U.S.A.)	GWI	100.00	100.00
• Gateway International Holdings, Inc. (“GIH”, U.S.A.)	GWI	100.00	100.00
• Gateway de Mexico S. de R.L. de C.V. (“GMX”, Mexico)	GWI	100.00	100.00
• Gateway Hong Kong Ltd. (“GHK”, Hong Kong)	GWI	100.00	100.00
• Gateway Asia, Inc. (“GAI”, U.S.A.)	GWI	100.00	100.00
• Gateway KK (“GJP”, Japan)	GRA	100.00	100.00
• Gateway Ltd. (“GUK”, the United Kingdom)	GRA	100.00	100.00
• eMachines Internet Group (“EMA”, U.S.A.)	GRA	100.00	100.00
• Gateway Europe B.V. (“GEBV”, U.S.A.)	GRA	100.00	100.00
• Gateway Computers Ireland Ltd. (“GCI”, the United Kingdom)	GRA	100.00	100.00
• Gateway International Computers Limited (“GIC”, the United Kingdom)	GIH	100.00	100.00
• Gateway Canada Corporation (“GCA”, Canada)	GIC	100.00	100.00
• Servicio Profesionales de Aceso S. de R.L. (“GSMX”, Mexico)	EMA	100.00	100.00
(e) Acer Holding International, Incorporated (“AHI”, British Virgin Islands) and subsidiaries	The Company	100.00	100.00
• Acer Computer Co., Ltd. (“ATH”, Thailand)	AHI	100.00	100.00
• Acer Japan Corp. (“AJC”, Japan)	AHI	100.00	100.00
• Acer Computer Australia Pty. Limited (“ACA”, Australia)	AHI	100.00	100.00
• Acer Sales and Service Sdn Bhd (“ASSB”, Malaysia)	AHI	100.00	100.00
• Acer Asia Pacific Sdn Bhd (“AAPH, Malaysia”)	AHI	100.00	100.00
• Acer Computer (Singapore) Pte. Ltd. (“ACS”, Singapore)	AHI	100.00	100.00
• Acer Computer New Zealand Ltd. (“ACNZ”, 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
• Highpoint Australia Pty. Ltd. (“HPA”, Australia)	ACA	100.00	100.00
• Highpoint Service Network Sdn Bhd (“HSN”,	ASSB	100.00	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	<u>Investor</u>	<u>Percentage of Ownership</u>	
		<u>2009</u>	<u>2010</u>
Malaysia)			
• Logistron Service Pte Ltd. (LGS, Singapore)	ACS	100.00	100.00
(f) Acer Computer International Ltd. (“ACI”, Singapore)	The Company	100.00	100.00
(g) Acer Sales & Distribution Ltd. (“ASD”, Hong Kong)	The Company	100.00	100.00
(2) Sale and distribution of computer products and electronic communication products:			
(a) Weblink International Inc. (“WII”, Taiwan)	The Company	99.79	99.79
(b) Weblink (H.K.) International Ltd. (“WHI”, Hong Kong)	WII	99.79	99.79
(c) Servex (Malaysia) Sdn Bhd (“SMA”, Malaysia)	ASSB	100.00	100.00
(d) Megabuy Sdn Bhd (“MGB”, Malaysia)	ASSB	100.00	100.00
(e) Servex International (Thailand) Co., Ltd. (“STH”, Thailand)	ATH	100.00	-
(3) Investing, holding and financial companies:			
(a) Multiventure Investment Inc. (“MVI”, Taiwan)	ADSC	100.00	100.00
(b) Acer Digital Service Co. (“ADSC”, Taiwan)	The Company	100.00	100.00
(c) Acer Worldwide Incorporated (“AWI”, British Virgin Islands)	The Company	100.00	100.00
(d) Cross Century Investment Limited (“CCI”, Taiwan)	The Company	100.00	100.00
(e) Acer SoftCapital Incorporated (“ASCBVI”, British Virgin Islands)	The Company	100.00	100.00
(f) Acer Capital Corporation (“ACT”, Taiwan)	The Company	100.00	100.00
(g) Aspire Incubation Venture Capital (“AIVC”, Taiwan)	The Company	100.00	100.00
(h) Acer Digital Services (B.V.I.) Holding Corp. (“ADSBH”, British Virgin Islands)	The Company	100.00	100.00
(i) Acer Digital Services (Cayman Islands) Corp. (“ADSCC”, Cayman Islands)	ADSBH	100.00	100.00
(j) Nicholas Insurance Company Ltd. (“NIC”, Bermuda)	GWI	100.00	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	<u>Investor</u>	<u>Percentage of Ownership</u>	
		<u>at December 31,</u>	
		<u>2009</u>	<u>2010</u>
(k) ASC Cayman, Limited (“ASCCAM”, Cayman Islands)	ASCBVI	100.00	100.00
(l) Acer Technology Venture Asia Pacific Ltd. (“ATVAP”, Cayman Islands)	ASCBVI	100.00	100.00
(m) AGP Insurance (Guernsey) Limited. (“AGU”, British Guernsey Island)	AEH	100.00	100.00
(n) Acer EMEA Holdings B.V. (AHB, the Netherlands)	The Company	100.00	100.00
(o) Eten International Holdings Ltd. (“EIH”, British Virgin Islands)	ETEN	100.00	-
(4) Research, design, and sale of smart handheld products:			
(a) Eten Information System Co., Ltd. (“ETEN”, Taiwan)	The Company	100.00	100.00
(b) Eten China Information System Co., Ltd. (“CETEN”, China)	EIH	100.00	-
(c) AGP Technology AG (“AGP”, Switzerland)	AHN	100.00	-
(d) Acer Information Technology R&D (Shanghai) Co., Ltd. (“ARD”, China)	AGC	100.00	100.00
(5) Property development:			
(a) Acer Property Development Inc. (“APDI”, Taiwan)	ADSC	100.00	100.00
(b) Aspire Service & Development Inc. (“ASDI”, Taiwan)	ADSC	100.00	100.00
(6) Electronic data supply or processing service, data storage and processing:			
(a) Acer Cyber Center Services Ltd. (“ACCSI”, Taiwan)	The Company	100.00	100.00
(b) Lottery Technology Service Corp. (“LTS”, Taiwan)	The Company	100.00	100.00
(c) Minly Corp. (“MINLY”, Taiwan)	The Company	100.00	100.00
(7) Software research, development, design, trading and consultation:			
(a) TWP International Inc. (“TWP BVI”, British Virgin Islands)	ACCSI	100.00	100.00
(b) Acer Third Wave Software (Beijing) Co., Ltd. (“TWPBJ”, China)	TWPBVI	100.00	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)**

In 2009, the subsidiaries namely PBSC, AGP, STH, EIH and CETEN were liquidated or dissolved, and were excluded from consolidation since the Company ceased control thereof. Additionally, the Company established new subsidiaries namely ACCQ and AGR in 2010.

2. Summary of Significant Accounting Policies**(1) Accounting principles and consolidation policy**

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the Republic of China. These consolidated financial statements are not intended to present the financial position and the related results of operations and cash flows of the Consolidated Companies based on 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 statements of income from the date that control commences until the date that control ceases. All significant inter-company balances and transactions are eliminated in consolidation.

(2) Use of estimates

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting periods. Economic conditions and events could cause actual results to differ significantly from such estimates.

(3) Foreign currency transactions and translations

The Company's reporting currency is the New Taiwan dollar. The Consolidated Companies record transactions in their respective local currencies of the primary economic environment in which these entities operate. Non-derivative 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 into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities denominated in foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are reported at the rate that was in effect when the fair values were determined. Subsequent adjustments to carrying values of such non-monetary assets and liabilities, including the effects of changes in exchange rates, are reported in profit or loss for the period, except that any movement in fair value of a non-monetary item is recognized directly in equity, any foreign exchange component of that adjustment is also recognized directly in equity.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)**

In preparing the consolidated financial statements, the foreign subsidiaries' financial statements are initially remeasured into the functional currency and the remeasuring differences are accounted for as exchange gains or losses in the accompanying statements of income. Translation adjustments resulting from the translation of foreign currency financial statements into the Company's reporting currency and a monetary item that forms part of the Company's net investment in a foreign operation are accounted for as cumulative translation adjustment, a separate component of stockholders' equity.

(4) Classification of current and non-current assets and liabilities

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

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

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, miscellaneous petty cash, and other highly liquid investments which do not have a significant level of market or credit risk from potential interest rate changes.

(6) Allowance for doubtful accounts

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

(7) Inventories

Effective January 1, 2009, the Consolidated Companies adopted the revised Republic of China Statement of Financial Accounting Standards (SFAS) No. 10 "Accounting for Inventories". The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Inventories are measured individually at the lower of cost and net realizable value. Cost of inventory is determined using the weighted-average method. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less all estimated costs of completion and selling expenses at the balance sheet date.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)**

(8) Financial instruments

The Consolidated Companies adopted trade date accounting for financial instrument transactions. At initial recognition, financial instruments are accounted for at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument. Subsequent to initial recognition, financial instruments are classified into the following categories in accordance with the purpose of holding or issuing of such financial instruments:

(a) Financial assets/liabilities at fair value through profit or loss

An instrument is classified as financial asset/liability reported at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Derivatives that do not meet the criteria for hedge accounting are classified as financial assets or liabilities at fair value through profit or loss. Financial instruments reported at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(b) Hedging derivative financial assets / liabilities

Hedging derivative financial assets / liabilities represent derivatives that are intended to hedge the risk of changes in exchange rates resulting from operating activity transactions denominated in foreign currencies and conform to the criteria for hedge accounting.

(c) Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognized as a separate line item of stockholders' equity. When an investment is derecognized, the cumulative unrealized gain or loss recognized in equity is transferred to profit or loss. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized in profit or loss. If, in a subsequent period, events or changes in circumstances indicate that the amount of impairment loss decreases, reversal of a previously recognized impairment loss for equity securities is charged to equity; while for debt securities, the reversal is allowed through profit or loss provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

(d) Financial assets carried at cost

Equity investments whose fair value cannot be reliably measured are carried at original cost. If there is objective evidence which indicates that an equity investment is impaired, a loss is recognized.

(e) Financial liabilities measured at amortized cost

Financial liabilities not measured at fair value through profit or loss and not designated as hedging instruments are measured at amortized cost.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)**

(9) Derivative financial instruments and hedging activities

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The designated hedging instruments that conform to the criteria for hedge accounting are accounted for as follows:

(a) Fair value hedges

Changes in the fair value of a hedging instrument designated as a fair value hedge are recognized in profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss thereon recognized in profit or loss.

(b) Cash flow hedges

Changes in the fair value of a hedging instrument designated as a cash flow hedge are recognized directly in equity. If a hedge of a forecasted transaction subsequently results in the recognition of an asset or a liability, then the amount recognized in equity is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

(10) Non-current assets held for sale

Non-current assets and groups of assets and liabilities which comprise disposal groups are classified as held for sale when the assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups), and their sale within one year is highly probable. Non-current assets or disposal groups classified as held for sale are measured at the lower of their book value or fair value less costs to sell, and ceased to be depreciated or amortized. Non-current assets or disposal groups classified as held for sale are presented separately on the consolidated balance sheets. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are continued to be recognized until the related assets are disposed.

An impairment loss is recognized for any initial or subsequent write-down of the assets (or disposal groups) to fair value less costs to sell in the consolidated statements of income. A gain from any subsequent increase in fair value less costs to sell of an asset (or a disposal group) is recognized, but not in excess of the cumulative impairment loss that has been recognized.

(11) Equity method investments

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 operating and financial policies, are accounted for using the equity method.

Effective January 1, 2006, under the amended ROC SFAS No. 5, "Long-term Investments under Equity Method," the difference between acquisition cost and carrying amount of net equity of the investee as of the acquisition date is allocated proportionately based on the excess of fair value over the carrying value of noncurrent assets on the investee's books. Allocated amounts are amortized based on the method used for the related assets. Any unallocated difference is treated as investor-level goodwill. If the

(Continued)

ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)**

allocation reduces non-current assets to zero value, the remaining excess over acquisition cost is recognized as an extraordinary gain. Prior to January 1, 2006, investor-level goodwill was amortized over five years on a straight-line basis. Commencing January 1, 2006, as required by the amended ROC SFAS No. 5, investor-level goodwill is no longer amortized but tested for impairment.

Upon the sale of equity-method investment, the difference between the selling price and carrying amount of the investment at the date of sale is recognized as a disposal gain or loss. In proportion to the percentage disposed of, capital surplus and other equity adjustment items arising from the long-term investment are debited against disposal gain or loss.

If an investee company issues new shares and the Company does not acquire new shares in proportion to its original ownership percentage, the Company's equity in the investee's net assets will be changed. The change in the equity interest is adjusted through the capital surplus and long-term investment accounts. If the Company's capital surplus is insufficient to offset the adjustment to long-term investment, the difference is charged as a reduction of retained earnings.

Unrealized inter-company profits and losses resulting from transactions between the Consolidated Companies and investees accounted for under the equity method are deferred to the extent of the Company's ownership. The profits and losses resulting from transactions relating to depreciable or amortizable assets are recognized over the estimated useful lives of such assets. Profits and losses arising from transactions relating to other assets are recognized when realized.

(12) Capital leases

For capital leases, where the Consolidated Companies act as the lessor, all periodic rental payments plus bargain purchase price or estimated residual value are accounted for as lease payment receivables. The present value of all lease payment receivables, discounted at the implicit interest rate, is recorded as revenue. The difference between the lease payment receivables and the revenue is the unearned interest revenue, which is recognized over the lease term using the effective interest method.

(13) Property, plant and equipment, property leased to others, and property not in use

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

Commencing from November 20, 2008, the Company capitalizes retirement or recovery obligation for property and equipment in accordance with Interpretation (2008) 340 issued by the Accounting Research and Development Foundation. A component which is significant in relation to the total cost of the property and equipment and for which a different depreciation method or rate is appropriate is depreciated separately.

Depreciation is provided for property, plant and equipment, property leased to others, and property not used in operation over the estimated useful life using the straight-line method. The range of the estimated useful lives of the respective classes of assets is as follows: buildings and improvements -

(Continued)

ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)**

30 to 50 years; computer equipment and machinery - 3 to 10 years; and other equipment - 3 to 20 years.

The estimated useful lives, depreciation method and residual value are evaluated at the end of each year and any changes thereof are accounted for as changes in accounting estimates.

Property leased to others and property not used in operation is classified to other assets and continue to be depreciated and are subject to an impairment test.

(14) Intangible assets

Goodwill is recognized when the purchase price exceeds the fair value of identifiable net assets acquired in a business combination. In accordance with the SFAS No. 25 "Accounting for Business Combinations", goodwill is not amortized but is tested for impairment annually.

Other intangible assets, including patents, trademarks and trade names, customer relationships, developed technology, sales and marketing channels and purchased software, are initially stated at cost. Intangible assets with finite useful lives are amortized over the following estimated useful life using the straight-line method from the date that the asset is available for use: patents - 4 to 16 years; acquired software - 1 to 3 years; customer relationships - 7 to 10 years; developed technology - 10 years; channel resource - 8.8 years; and trademarks and trade names - 7 to 20 years.

The Gateway, Packard Bell and Eten trademarks and trade names are intangible assets with indefinite useful lives. Such intangible assets are not amortized, but are tested for impairment annually. The useful life of an intangible asset not subject to amortization is reviewed annually at each fiscal year-end to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. Any change in the useful life assessment from indefinite to finite is accounted for as a change in accounting estimate.

(15) Non-financial asset impairment

The Consolidated Companies assess at each balance sheet date whether there is any indication that an asset (an individual asset or cash-generating unit associated with the asset, other than goodwill) may have been impaired. If any such indication exists, the Consolidated Companies estimate the recoverable amount of the assets. An impairment loss is recognized for an asset whose carrying amount is higher than the recoverable amount. If there is any evidence that the accumulated impairment loss of an asset other than goodwill no longer exists or has decreased, the amount previously recognized as impairment is reversed and the carrying amount of the asset is increased to the recoverable amount. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized in prior periods.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)**

Goodwill, assets that have an indefinite useful life and intangible assets not yet available for use are tested annually for impairment. An impairment loss is recognized for the excess of the asset's carrying amount over its recoverable amount. A subsequent reversal of the impairment loss is prohibited.

(16) Deferred charges

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

(17) Convertible bonds

Convertible bonds issued by the Company contain both a financial liability and an equity component. The equity component grants an option to the bondholder to convert a fixed number of bonds into a fixed number of the Company's common shares. On initial recognition, the carrying amount of the liability component is measured at the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component is then determined by deducting the fair value of the financial liability from the proceeds of the issuance of convertible bonds. Transaction costs directly attributable to the issuance of the bonds are allocated to the liability and equity components in proportion to the allocation of the proceeds.

The difference between the initial carrying amount of the liability component and the redeemable amount that is payable on maturity is amortized and charged to interest expense using the effective interest rate method over the life of the bond. The embedded financial instruments (redemption options) are accounted for as financial liabilities at fair value through profit and loss and measured at fair value. The equity component of the convertible bonds is recognized in capital surplus upon initial recognition and is not subject to valuation in subsequent periods.

(18) Treasury stock

Common stock repurchased by the Company that is treated as treasury stock is accounted for at acquisition cost. Upon disposal of the treasury stock, the sale proceeds in excess of cost are 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.

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 premium, if any, of the stock retired on a pro rata basis. If the weighted-average cost written off exceeds the sum of 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 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.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)**

The Company's common stock held by its subsidiaries is accounted for as treasury stock. Cash dividends paid by the Company to its consolidated subsidiaries that hold the treasury stock are accounted for as capital surplus—treasury stock.

(19) 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 when the service is provided and the amount becomes billable.

(20) Employee bonuses and directors' and supervisors' remuneration

Effective January 1, 2008, employee bonuses and remuneration to directors and supervisors which are appropriated from earnings are estimated and charged to operating expense according to Interpretation (2007) 052 issued by the Accounting Research and Development Foundation. Differences between the amounts of these bonuses and remuneration approved by the shareholders in the subsequent year and those recognized in the year when such earnings are incurred and services are rendered, if any, are accounted for as changes in accounting estimates and charged to profit or loss in the period during which stockholders' approval is obtained.

(21) Share-based payment transactions

The Consolidated Companies adopted SFAS No. 39 "Accounting for Share-based Payment" for share-based payment arrangements granted on or after January 1, 2008.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at grant date is expensed over the vesting period, with a corresponding increase in equity. The vesting period is the period during which all the specified vesting conditions of the share-based payment arrangement are to be satisfied. Vesting conditions include service conditions and performance conditions (including market conditions). When estimating the fair value of an equity-settled share-based award, only the effect of market conditions is taken into account.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognized at its current fair value determined at each balance sheet date and at the date of settlement, with any changes in the fair value recognized in profit or loss of the period.

Fair value of share-based award is measured using the Black-Scholes option-pricing model or the binomial option pricing-model, taking into account management's best estimate of the exercise price, expected term, underlying share price, expected volatility, expected dividends, and risk-free interest rate.

(22) Administrative expenses

The administrative expenses include direct expenses incurred for the business unit within the Consolidated Companies and expenses incurred for managing the investee companies. To properly present the operating income of the Consolidated Companies, administrative expenses are categorized as direct expenses incurred for the Consolidated Companies, which are included as administrative expenses in the accompanying consolidated statements of income and expenses incurred for managing

(Continued)

ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)**

the investee companies, which are presented as a reduction of net investment income (loss) in the consolidated statements of income.

(23) Retirement plans**(a) Defined benefit retirement plans**

Pursuant to the ROC Labor Standards Law, the Company and subsidiaries located in the Republic of China established noncontributory defined benefit employee retirement plans (the "Plans") and retirement fund administration committees. These Plans provide for lump-sum retirement benefits to retiring employees based on length of service, age, and certain other factors. The funding of these retirement plans by the Company and subsidiaries located in the Republic of China is based on certain percentage of employees' total salaries. The funds are deposited with Bank of Taiwan or other banks.

For the defined benefit retirement plan, the Consolidated Companies recognize a minimum pension liability equal to the excess of the actuarial present value of the accumulated benefit obligation over the fair value of the retirement plan's assets. The Consolidated Companies also recognize the net periodic pension cost based on an actuarial calculation.

(b) Defined contribution retirement plans

Starting from July 1, 2005, pursuant to the ROC Labor Pension Act (the "New System"), employees who elected to participate in the New System or commenced working after July 1, 2005, are subject to a defined contribution plan under the New System. For the defined contribution plan, the Company and subsidiaries located in the Republic of China contribute monthly an amount equal to 6% of each employee's monthly salary to the employee's individual pension fund account at the ROC Bureau of Labor Insurance.

Most of the Company's foreign subsidiaries adopt defined contribution retirement plans. These plans are funded in accordance with the regulations of their respective country of establishment.

Contributions for the defined contribution retirement plans are expensed as incurred.

(24) 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 be realized, a valuation allowance is recognized accordingly. When a change in the tax rate is enacted, the Consolidated Companies recalculate the deferred tax assets and liabilities using the new tax rate in the year of change and any resulting variances are recognized as income tax expense or benefit of continuing operations accordingly.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)**

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.

If a valuation allowance is recognized at the acquisition date for deferred tax assets acquired through business combination accounted for using the purchase method of accounting, the income tax benefit recognized as a result of the elimination of valuation allowance subsequent to the acquisition is to be applied first to reduce goodwill related to the acquisition. The remaining tax benefit, if any, is applied to reduce income tax expense attributable to continuing operations.

The investment tax credits granted for purchases of equipment, research and development expenses, and employee training expenses are recognized using the flow-through method.

According to the ROC Income Tax Act, undistributed earnings, if any, earned after June 30, 1997, are subject to an additional 10% retained earnings tax. The surtax is charged to income tax expense in the following year when the stockholders decide not to distribute the earnings.

(25) Earnings per common share ("EPS")

Basic EPS are computed by dividing net income by the weighted-average number of common shares outstanding during the year. The Company's employee stock options, convertible bonds and employee stock bonuses to be issued after January 1, 2010 are potential common stock. In computing diluted EPS, net income and the weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common stock, assuming dilutive shares equivalents had been issued. The weighted-average outstanding shares are retroactively adjusted for the effects of stock dividends transferred from retained earnings and capital surplus to common stock and for those stock dividends issued for the period between the balance sheet date and the release date of financial statements.

(26) Business combination

Business combinations are accounted for in accordance with SFAS No. 25 "Business Combinations". Under SFAS No. 25, acquisition costs represent the amount of cash or cash equivalents paid and the fair value of the other purchase consideration given, plus any costs directly attributable to the acquisition. The excess of acquisition cost over the fair value of the net identifiable tangible and intangible assets acquired is recognized as goodwill.

(27) Convenience translation into U.S. dollars

The consolidated financial statements are stated in New Taiwan dollars. Translation of the 2010 New Taiwan dollar amounts into U.S. dollar amounts, using the spot rate of Bank of Taiwan on December 31, 2010, of NT\$29.13 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 U.S. dollars at this or any other rate of exchange.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

3. Accounting Changes

Effective January 1, 2009, the Consolidated Companies adopted the revised SFAS No. 10, "Accounting for Inventories." The adoption of this new accounting principle did not have significant effect on the Company's consolidated financial statements as of and for the year ended December 31, 2009.

4. Significant Account Disclosures

(1) Cash and cash equivalents

	December 31, 2009 NT\$	December 31, 2010 NT\$	US\$
Cash on hand	8,217	18,805	646
Bank deposits	34,278,393	48,641,345	1,669,802
Time deposits	<u>19,329,457</u>	<u>19,796,236</u>	<u>679,582</u>
	<u>53,616,067</u>	<u>68,456,386</u>	<u>2,350,030</u>

(2) Notes and accounts receivable

The Consolidated Companies entered into factoring contracts with several banks to sell part of accounts receivable without recourse. As of December 31, 2009 and 2010, details of these contracts were as follows:

Underwriting bank	Factoring credit limit NT\$	Amount sold NT\$	December 31, 2009		
			Amount advanced (derecognized) NT\$	Interest rate	Collateral
Ifitalia Factor S.p.A.	11,219,842	6,877,785	2,091,300		Nil
ABN AMRO Bank	7,881,189	3,480,028	3,227,242		Nil
China Trust Bank	1,750,000	218,706	218,706		note 7(4)
Taipei Fubon Bank	968,500	442,145	442,145		note 7(4)
La Caixa Bank	3,724,657	3,200,041	3,200,041		Nil
Emirates Bank International	<u>960,900</u>	<u>-</u>	<u>-</u>		Nil
	<u>26,505,088</u>	<u>14,218,705</u>	<u>9,179,434</u>	0.83%~5%	
Underwriting bank	Factoring credit limit NT\$	Amount sold NT\$	December 31, 2010		
			Amount advanced (derecognized) NT\$	Interest rate	Collateral
Ifitalia Factor S.p.A.	10,650,633	3,615,597	3,461,056		Nil
China Trust Bank	1,000,000	227,217	227,217		note 7(4)
Taipei Fubon Bank	600,000	398,989	398,989		note 7(4)
La Caixa Bank	5,698,038	5,569,479	5,049,844		Nil
Taishin Bank	<u>22,261,932</u>	<u>8,184,158</u>	<u>8,168,602</u>		Nil
	<u>40,210,603</u>	<u>17,995,440</u>	<u>17,305,708</u>	0.84%~5%	

(3) Other receivable

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	December 31, 2009	December 31, 2010	
	NT\$	NT\$	US\$
Refundable income tax and VAT	1,690,263	2,465,753	84,647
Receivables of reimbursement of advertisement expense	917,452	1,553,181	53,319
Receivables of patent royalty allocated to others	1,164,992	422,769	14,513
Other receivables	<u>5,490,445</u>	<u>3,419,232</u>	<u>117,378</u>
	<u>9,263,152</u>	<u>7,860,935</u>	<u>269,857</u>

(4) Available-for-sale financial assets – current

	December 31, 2009	December 31, 2010	
	NT\$	NT\$	US\$
Publicly traded equity securities	<u>223,437</u>	<u>225,710</u>	<u>7,748</u>

In 2009 and 2010, the Consolidated Companies disposed of portions of these investments and recognized gains on disposal thereof of NT\$24,022 and NT\$16,545, respectively. These gains were recorded as “gain on disposal of investments” in the accompanying consolidated statements of income.

As of December 31, 2009 and 2010, the unrealized gain resulting from re-measuring available-for-sale financial assets to fair value amounted to NT\$92,843 and NT\$96,717, respectively, which was recognized as a separate component of stockholders’ equity.

(5) Financial assets and liabilities at fair value through profit or loss – current

	December 31, 2009	December 31, 2010	
	NT\$	NT\$	US\$
Financial assets at fair value through profit or loss – current:			
Foreign currency forward contracts	139,515	30,381	1,043
Foreign currency options	<u>18,144</u>	<u>8,514</u>	<u>292</u>
	<u>157,659</u>	<u>38,895</u>	<u>1,335</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	December 31, 2009	December 31, 2010	
	NT\$	NT\$	US\$
Financial liability at fair value through profit or loss— current:			
Foreign currency forward contracts	(157,848)	(289,276)	(9,931)
Foreign currency options	<u>(4,691)</u>	<u>(9,722)</u>	<u>(333)</u>
	<u>(162,539)</u>	<u>(298,998)</u>	<u>(10,264)</u>

For the years ended December 31, 2009 and 2010, unrealized gains (losses) resulting from the changes in fair value of these derivative contracts amounted to NT\$652,108 and NT\$(255,223), respectively.

The Consolidated Companies entered into derivative contracts to manage foreign currency exchange risk arising from operating activities. As of December 31, 2009 and 2010, the derivative financial instruments that did not conform to the criteria for hedge accounting and were classified as financial assets and liabilities at fair value through profit or loss consisted of the following:

(a) Foreign currency forward contracts

		December 31, 2009	
<u>Buy</u>	<u>Sell</u>	<u>Contract amount</u> <u>(in thousands)</u>	<u>Maturity period</u>
USD	/ SGD	USD 12,600	2010/01~2010/03
USD	/ MXN	USD 96,100	2010/01~2010/03
USD	/ EUR	EUR 47,000	2010/02
USD	/ INR	USD 55,992	2010/01~2010/03
USD	/ MYR	USD 15,400	2010/01~2010/03
USD	/ THB	USD 20,670	2010/01~2010/02
USD	/ JPY	USD 68,300	2010/01~2010/04
USD	/ RUB	USD 124,000	2010/01~2010/04
USD	/ PHP	USD 100	2010/01
USD	/ ZAR	USD 21,500	2010/01~2010/03
USD	/ NTD	USD 5,000	2010/01~2010/02
EUR	/ NOK	EUR 17,403	2010/01~2010/04
EUR	/ SEK	EUR 48,400	2010/01~2010/04
EUR	/ PLN	EUR 23,000	2010/01
RUB	/ USD	USD 36,689	2010/01
MXN	/ USD	USD 2,900	2010/01

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

		December 31, 2010	
<u>Buy</u>	<u>Sell</u>	<u>Contract amount (in thousands)</u>	<u>Maturity period</u>
USD	/ SGD	USD 15,000	2011/01~2011/03
USD	/ MYR	USD 26,300	2011/01~2011/02
USD	/ THB	USD 29,200	2011/01~2011/02
USD	/ INR	USD 67,417	2011/01~2011/03
USD	/ JPY	USD 68,000	2011/01~2011/04
USD	/ MXN	USD 81,500	2011/01~2011/04
USD	/ RUB	USD 258,821	2011/01~2011/04
USD	/ ZAR	USD 36,000	2011/01~2011/04
USD	/ EUR	EUR 45,685	2011/01~2011/02
AUD	/ USD	USD 21	2011/01
RUB	/ USD	USD 38,546	2011/01

(b) Options contracts

(i) Long position

		December 31, 2009	
		<u>Contract amount (in thousands)</u>	<u>Maturity period</u>
USD Call/EUR Put		USD 22,500	2010/01~2010/02
USD Call/RUB Put		USD 5,000	2010/02

		December 31, 2010	
		<u>Contract amount (in thousands)</u>	<u>Maturity period</u>
EUR Call/GBP Put		EUR 23,325	2011/01

(ii) Short position

		December 31, 2009	
		<u>Contract amount (in thousands)</u>	<u>Maturity period</u>
EUR Call/USD Put		USD 22,500	2010/01~2010/02
RUB Call/USD Put		USD 7,500	2010/02

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	December 31, 2010		
	Contract amount	Maturity period	
	(in thousands)		
GBP Call/EUR Put	EUR 28,528	2011/01	

(6) Hedging purpose derivative financial assets and liabilities

	December 31, 2009		December 31, 2010	
	NT\$		NT\$	US\$
Hedging purpose derivative financial assets – current:				
Foreign currency forward contracts	<u>1,275,157</u>		<u>88,372</u>	<u>3,034</u>
Hedging purpose derivative financial liabilities – current:				
Foreign currency forward contracts	<u>(196,714)</u>		<u>(759,866)</u>	<u>(26,085)</u>

The Consolidated Companies entered into derivative contracts to hedge foreign currency exchange risk associated with a recognized asset or liability or with a highly probable forecast transaction. As of December 31, 2009 and 2010, hedged items designated as fair value hedges and fair value of their respective hedging derivative financial instruments were as follows:

Hedged Items	Hedging instruments	Fair value of hedging instruments	
		December 31, 2009 NT\$	December 31, 2010 NT\$
Accounts receivable/ payable denominated in foreign currencies	Foreign currency forward contracts	<u>1,066,045</u>	<u>(638,082)</u>

For the years ended December 31, 2009 and 2010, the unrealized gains (losses) resulting from the changes in fair value of hedging instruments amounted to NT\$641,736 and NT\$(1,704,127), respectively.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

As of December 31, 2009 and 2010, hedged items designated as cash flow hedges and the fair value of their respective hedging derivative financial instruments were as follows:

December 31, 2009				
Hedged items	Hedging instruments	Fair value of hedging instruments NT\$	Expected period of cash flow	Expected period of recognition in earnings
Accounts receivable/payable denominated in foreign currencies	Foreign currency forward contracts	<u>12,398</u>	Jan.~ Mar 2010	Jan.~ Mar 2010

December 31, 2010				
Hedged items	Hedging instruments	Fair value of hedging instruments NT\$	Expected period of cash flow	Expected period of recognition in earnings
Accounts receivable/payable denominated in foreign currencies	Foreign currency forward contracts	<u>(33,412)</u>	Jan.~ May 2011	Jan.~ May 2011

As of December 31, 2009 and 2010, unrealized gains (losses) on derivative financial instruments effective as cash flow hedges, amounted to NT\$12,398 and NT\$(33,412), respectively, which were accounted for as “unrealized gain (loss) on financial instruments”, a separate component of stockholder’s equity.

The details of outstanding hedging derivative financial instruments described above as of December 31, 2009 and 2010 were as follows:

(a) Foreign currency forward contracts

December 31, 2009				
Buy	Sell	Contract amount (in thousands)		Maturity period
USD	/ AUD	USD	51,000	2010/01~2010/02
USD	/ CAD	USD	58,265	2010/01~2010/02
USD	/ EUR	EUR	870,918	2010/01~2010/03
EUR	/ GBP	EUR	237,105	2010/01~2010/03
USD	/ NZD	USD	3,900	2010/01~2010/03
AUD	/ NZD	AUD	2,150	2010/01~2010/02
USD	/ CNY	USD	160,000	2010/01~2010/04
USD	/ NTD	USD	25,000	2010/01

December 31, 2010

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

<u>Buy</u>	<u>Sell</u>	<u>Contract amount</u> (in thousands)		<u>Maturity period</u>
AUD	/ NZD	AUD	4,750	2011/01~2011/05
EUR	/ GBP	EUR	93,133	2011/01~2011/04
EUR	/ NOK	EUR	5,000	2011/01
EUR	/ SEK	EUR	26,646	2011/01
EUR	/ CHF	EUR	11,193	2011/01~2011/02
EUR	/ PLN	EUR	34,832	2011/01~2011/04
USD	/ CAD	USD	133,858	2011/01~2011/03
USD	/ AUD	USD	121,000	2011/01~2011/05
USD	/ NZD	USD	5,250	2011/01~2011/05
USD	/ NTD	USD	21,000	2011/01
USD	/ EUR	EUR	1,024,805	2011/01~2011/03
USD	/ CNY	USD	5,000	2011/01
NOK	/ EUR	EUR	1,023	2011/01

(7) Inventories

(a) Inventories (net of provision for obsolescence and slow-moving inventories) as of December 31, 2009 and 2010, were as follows:

	December 31, 2009		December 31, 2010	
	NT\$		NT\$	US\$
Raw materials	18,489,941	16,422,852	563,778	
Work in process	45,089	17,353	595	
Finished goods and merchandise	15,471,217	12,150,905	417,127	
Spare parts	2,477,522	1,759,398	60,398	
Inventories in transit	14,701,184	10,889,545	373,826	
	<u>51,184,953</u>	<u>41,240,053</u>	<u>1,415,724</u>	

(b) The details of inventory write downs for the years ended December 31, 2009 and 2010 were as follows:

	December 31, 2009		December 31, 2010	
	NT\$		NT\$	US\$
Write-down of inventories to net realizable value	3,278,468	5,305,618	182,136	
Net loss on physical inventory	83,177	20,500	704	
Scrap loss	45,329	698,201	23,968	
	<u>3,406,974</u>	<u>6,024,319</u>	<u>206,808</u>	

(8) Non-current assets held for sale

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

In December 2010, the Company's board of directors resolved to sell ETEN's office building located in Taipei. As of December 31, 2010, the carrying value of this building was NT\$1,827,855. The Company is expecting to complete the sale thereof in 2011.

(9) Financial assets carried at cost — non-current

	December 31, 2009	December 31, 2010	
	NT\$	NT\$	US\$
Investment in non-publicly traded equity securities:			
Prosperity Venture Capital Corp.	21,000	-	-
Sheng-Hua Venture Capital Corp.	11,900	-	-
Legend Technology	11,235	8,435	290
W.I. Harper International Corp.	14,359	14,359	493
InCOMM Technologies Co., Ltd.	2,360	2,360	81
IP Fund II	32,400	16,592	570
Dragon Investment Co. Ltd.	217,000	217,000	7,449
World Venture, Inc.	262,000	262,000	8,994
iD Reengineering Inc.	174,900	174,900	6,004
DYNA Fund II	23,166	-	-
IP Fund III	128,696	117,044	4,018
iD5 Fund L.P.	72,956	62,681	2,152
IP Cathay One, L.P.	258,558	235,148	8,072
IP Fund One L.P.	736,379	394,218	13,533
ID5 Annex I Fund	-	22,308	766
Apacer Technology Inc.	45,340	-	-
New Century Infocomm Tech Co., Ltd.	131,340	-	-
Trimode Technology Inc.	11,038	11,038	379
FuHu Inc.	-	111,895	3,841
Others	96,431	72,699	2,496
	<u>2,251,058</u>	<u>1,722,677</u>	<u>59,138</u>

In 2010, the Consolidated Companies increased its equity investments in ID5 Annex I Fund by NT\$24,529. In 2009, IP Cathay One, L.P., IP Fund One, L.P., Legend Technology, W.I. Harper International, and Sheng-Hua Venture capital and other investees returned capital of NT\$170,716 to the Consolidated Companies. In 2010, IP Fund One, L.P., iD5 Fund, L.P., Prosperity Venture Capital Corp., Sheng-Hua Venture Capital Corp., IP Fund II and other investees distributed or returned capital for an aggregate amount of NT\$433,470 to the Consolidated Companies.

In 2010, the Consolidated Companies sold their investments in New Century Infocomm Tech Co., Ltd. and the common shares of iRobot distributed by iD5 Fund L.P., which resulted in an aggregate disposal gain of NT\$238,687.

Commencing from December 29, 2010, the investments in Apacer Technology Inc. were reclassified as "available-for-sale financial assets – noncurrent" when Apacer's common shares were publicly listed on the Taiwan Stock Exchange.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

For the year ended December 31, 2009, the Consolidated Companies recognized impairment losses of NT\$231,934 on the investments in New Century Infocomm Tech Co., Ltd. and other investees.

(10) Long-term equity investments accounted for using equity method

	December 31, 2009		2009
	Percentage of ownership %	Carrying amount NT\$	Investment income (loss) NT\$
Wistron Corporation (“Wistron”)	4.40	2,334,164	424,441
E-Life Mall Corp. (“e-Life”)	14.27	434,174	55,976
Aegis Semiconductor Technology Inc.	44.04	165,235	-
ECOM Software Inc.	33.93	36,310	3,791
Bluechip Infotech Pty Ltd.	33.41	72,303	4,605
FuHu Inc. (“FuHu”)	25.00	172,982	(26,740)
Olidata S.p.A (“Olidata”)	29.90	116,579	-
Others		<u>(16,797)</u>	<u>1,737</u>
		<u>3,314,950</u>	463,810
Less: Allocation of corporate expenses			<u>(63,712)</u>
			<u>400,098</u>

	December 31, 2010			2010	
	Percentage of ownership %	Carrying amount		Investment income (loss)	
		NT\$	US\$	NT\$	US\$
Wistron Corporation	2.60	1,485,662	51,001	489,525	16,805
E-Life Mall Corp.	12.84	355,648	12,209	59,248	2,034
Aegis Semiconductor Technology Inc.	44.04	165,235	5,672	-	-
ECOM Software Inc.	33.93	39,002	1,339	5,000	172
Bluechip Infotech Pty Ltd.	33.41	79,310	2,723	7,875	270
FuHu Inc.	18.63	-	-	(49,754)	(1,708)
Fizzle Investment Limited	20.00	124,760	4,283	-	-
Olidata S.p.A	29.90	-	-	(100,271)	(3,442)
Others	-	<u>(13,916)</u>	<u>(478)</u>	<u>2,728</u>	<u>93</u>
		<u>2,235,701</u>	<u>76,749</u>	414,351	14,224
Less: Allocation of corporate expenses				<u>(38,403)</u>	<u>(1,318)</u>
				<u>375,948</u>	<u>12,906</u>

In 2009, the Consolidated Companies invested in Olidata and increased investment in FuHu for an aggregate amount of NT\$244,702. In 2010, the Consolidated Companies invested NT\$124,760 in Fizzle Investment Limited.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Commencing on December 17, 2010, the Consolidated Companies lost the ability to exercise significant influence over FuHu's operating and financial policies. Therefore, the investments in FuHu were reclassified as "financial assets carried at cost — non-current".

In 2009, Taiyi DAB Taipei Rodio liquidated and returned capital of NT\$17,277 to the Consolidated Companies. In 2010, E-Life returned capital of NT\$46,630 to the Consolidated Companies.

In 2009, the Consolidated Companies sold all of their investments in The Eslite Bookstore and recognized an aggregate loss thereon of NT\$5,455. In 2010, the Consolidated Company sold portion of their investment in Wistron and E-Life, and recognized an aggregate gain thereon of NT\$1,153,788.

The Consolidated Companies' capital surplus was increased (reduced) by NT\$180,899 and NT\$(79,391) in 2009 and 2010, respectively, as the Consolidated Companies did not make additional investments proportionally to the issuance of new shares by the investee companies or the Consolidated Companies recognized changes in investees' equity accounts in proportion to their ownership percentage or the Consolidated Companies disposed the ownership of investees.

(11) Available-for-sale financial assets — non-current

	December 31, 2009	December 31, 2010	
	NT\$	NT\$	US\$
Investment in publicly traded equity securities:			
Qisda Corporation	1,606,215	1,594,199	54,727
Silicon Storage Technology Inc. ("Silicon Storage")	8,938	-	-
Yosun Industrial Corp. ("Yosun")	844,416	-	-
WPG Holdings Limited ("WPG")	-	242,954	8,340
RoyalTek Co., Ltd. ("RoyalTek")	539,319	64,700	2,221
Quanta Computer Inc. ("Quanta")	307,854	223,390	7,669
Apacer Technology Inc.	-	149,659	5,138
	<u>3,306,742</u>	<u>2,274,902</u>	<u>78,095</u>

In 2009, the Consolidated Companies sold portion of their investments in Yosun and recognized a gain thereon of NT\$57,894. In 2010, the Consolidated Companies sold portion of their investments in RoyalTek and Quanta and all their investments in Yosun and Silicon Storage, and realized an aggregate disposal gain thereon of NT\$827,400.

Additionally, WPG acquired Yosun on November 15, 2010. As a result, the common shares of Yosun were exchanged for common shares of WPG and a disposal gain of NT\$139,987 was recognized thereon.

As of December 31, 2009 and 2010, the unrealized gains from re-measuring available-for-sale financial assets to fair value amounted to NT\$909,076 and NT\$397,295, respectively, which were recognized as a separate component of stockholders' equity.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(12) Property, plant and equipment

The Company's subsidiary, Gateway Inc., disposed of computer equipment and machinery in 2009, and recognized disposal loss thereon of NT\$102,532. The loss was recorded under "loss on disposal of property and equipment, net" in the accompanying consolidated statements of income. Additionally, in 2009, the Consolidated Companies recognized an impairment loss of NT\$395,109 for the buildings and improvements of E-Ten and Gateway Inc., as the recoverable amount was less than the carrying amount of such assets.

(13) Property not used in operation

	December 31, 2009	December 31, 2010	
	NT\$	NT\$	US\$
Leased assets — land	807,538	807,538	27,722
Leased assets — buildings	2,827,810	2,827,700	97,072
Damaged office premises	463,181	-	-
Property held for sale and development	1,415,014	1,167,052	40,063
Less: Accumulated depreciation	(595,606)	(599,549)	(20,582)
Accumulated impairment	(1,946,395)	(1,847,219)	(63,413)
	<u>2,971,542</u>	<u>2,355,522</u>	<u>80,862</u>

Damaged office premises are office premises damaged by fire and an impairment provision was fully provided as of December 31, 2009. The office premises were repaired and ready for use by the end of 2010. Therefore, the Consolidated Companies performed an impairment evaluation and reclassified the damaged office premises to property, plant and equipment based on fair value as of December 31, 2010, and recognized a reversal gain of NT\$183,998 in 2010.

The Consolidated Companies recognized an impairment loss of NT\$562,176 on the property held for sale and development in 2010. The Consolidated Companies used the estimated fair value as the recoverable amount.

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

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(14) Intangible assets

	Goodwill	Trademarks and trade names	Patents	Customer Relationships	Channel Resources	Others	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Balance at January 1, 2009	22,574,040	8,067,556	692,838	1,517,349	-	1,894,982	34,746,765
Additions	-	-	369,000	-	-	2,536,507	2,905,507
Adjustments made subsequent to business acquisition	(138,067)	-	-	-	-	-	(138,067)
Disposals	(9,624)	-	(39,275)	-	-	(9,759)	(58,658)
Reclassification	-	-	-	-	-	16,867	16,867
Effect of exchange rate changes	(448,895)	(161,298)	(3,073)	(28,110)	-	(6,842)	(648,218)
Amortization	-	(43,793)	(217,701)	(178,933)	-	(939,701)	(1,380,128)
Balance at December 31, 2009	21,977,454	7,862,465	801,789	1,310,306	-	3,492,054	35,444,068
Additions	-	-	272	-	-	264,162	264,434
Acquisitions from business combination	2,143,875	2,386,473	-	-	1,342,391	74,577	5,947,316
Disposals	(1,770,123)	-	-	-	-	(5,892)	(1,776,015)
Reclassification	-	-	351,500	-	-	21,389	372,889
Effect of exchange rate changes	(1,873,735)	(95,741)	(6,752)	(95,530)	(81,953)	(255,057)	(2,408,768)
Amortization	-	(109,897)	(272,594)	(172,263)	(36,156)	(860,079)	(1,450,989)
Balance at December 31, 2010	<u>20,477,471</u>	<u>10,043,300</u>	<u>874,215</u>	<u>1,042,513</u>	<u>1,224,282</u>	<u>2,731,154</u>	<u>36,392,935</u>

- (a) On December 6, 2007, the Consolidated Companies entered into a Basic Term Agreement with the International Olympic Committee regarding participation in the Olympic Partners Program (the “Top Programme”). Pursuant to such agreement, the Consolidated Companies have agreed to pay a certain amount of money in cash, merchandise and service to obtain marketing rights and become one of the partners in the “Top Programme” for the period from January 1, 2009 to December 31, 2012. Such expenditure on sponsorship was capitalized as “Intangible Assets” in the accompanying consolidated financial statements, and amortized using the straight-line method during the aforementioned four-year period.
- (b) Purchase of Founder Technology Group Corp.’s PC business in China and the related assets

The Company, together with its subsidiaries Acer Greater China (B.V.I.) Corp., Acer Computer (Shanghai) Ltd. and Acer (Chongqing) Ltd. (collectively as “Acer”) formally contracted with Founder Group, Founder Technology Group Corp., and their subsidiaries (collectively as “Founder”) to purchase for NT\$5,946,316 the PC business and the related assets, and transfer the related employees of Founder Technology Group Corp. in China, which include the following:

- 1) Seven-year exclusive license in Founder PC business and products related trademarks owned by Founder Group;
- 2) Founder PC business and IT systems, trade names, copyrights, and domain names of Founder’s products;
- 3) Intangible assets such as customer lists and distribution channel resources of Founder Technology Group’s PC business;
- 4) Intangible assets such as customer lists and distribution channel resources of Founder Group and its non-related partners; and
- 5) Product warranties.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The purchase of Founder's PC business in China was accounted for in accordance with ROC SFAS No. 25 "Accounting for Business Combination", under which, the excess of the purchase price and direct transaction costs over the fair value of net identifiable assets was recognized as goodwill.

The following represents the allocation of the purchase price to the assets acquired and goodwill at the date of purchase:

	NT\$	NT\$
Purchase cost		5,947,316
The identifiable assets purchased:		
Intangible assets – Trademark	2,386,473	
Intangible assets – Channel resources	1,342,391	
Other intangible assets	<u>74,577</u>	<u>3,803,441</u>
Goodwill		<u><u>2,143,875</u></u>

Pro forma information

The following unaudited pro forma financial information of 2009 and 2010 presents the combined results of operations as if the purchase of Founder's PC business and related assets had occurred as of the beginning of each of the fiscal years presented:

	<u>2009</u>	<u>2010</u>
	NT\$	NT\$
Revenue	605,540,935	648,713,091
Income from continuing operations before income tax	14,226,101	19,032,363
Income from continuing operations after income tax	10,582,693	14,800,672
Basic earnings per common share (in New Taiwan dollars)	4.02	5.59

(c) Adjustment to goodwill

In 2009, the Consolidated Companies made adjustments to decrease deferred charges by NT\$33,768 and to decrease current liabilities by NT\$174,307 resulted from the acquisition of Packard Bell B.V., which also decreased goodwill by NT\$140,539. Additionally, the Consolidated Companies made adjustments to increase the fair value of outstanding employee stock options assumed through the acquisition of ETEN in 2009, which increased goodwill by NT\$2,472.

In 2010, the Consolidated Companies utilized the net operating loss carryforwards (NOLs) acquired from the acquisition of Gateway Inc., and consequently eliminated the valuation allowance of deferred tax assets related to NOLs recognized on the acquisition date against goodwill by NT\$1,770,123.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(d) Impairment test

For the purpose of impairment testing, goodwill and trademarks and trade names with indefinite useful lives are allocated to the Consolidated Companies' cash-generating units (CGUs) that are expected to benefit from the synergies of the business combination. The carrying amounts of significant goodwill and trademarks and trade names with indefinite useful lives and the respective CGUs to which they are allocated as of December 31, 2009 and 2010, were as follows:

	December 31, 2009						
	<u>ITRO-EMEA</u>	<u>ITRO-PA</u>	<u>ITRO-AAP</u>	<u>ITRO-China</u>	<u>ITRO-TWN</u>	<u>E-Ten</u>	<u>SHBG</u>
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Goodwill	12,061,458	4,698,297	2,511,387	137,919	646,380	221,424	1,682,869
Trademarks & trade names	3,328,857	2,308,646	1,149,623	45,180	62,867	450,900	-

	December 31, 2010						
	<u>ITRO-EMEA</u>	<u>ITRO-PA</u>	<u>ITRO-AAP</u>	<u>ITRO-China</u>	<u>ITRO-TWN</u>	<u>E-Ten</u>	<u>SHBG</u>
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Goodwill	9,956,021	3,855,027	2,062,580	2,121,561	560,268	221,424	1,682,869
Trademarks & trade names	3,341,867	2,331,711	1,161,109	45,632	63,495	450,900	-

Each CGU to which the goodwill is allocated represents the lowest level within the Consolidated Companies at which the goodwill is monitored for internal management purposes. Based on the results of impairment tests conducted by the Company's management, there was no evidence of impairment of goodwill and trademarks and trade names as of December 31, 2009 and 2010. The recoverable amount of a CGU was determined based on the value in use, and the related key assumptions were as follows:

- (i) The cash flow projections based on historical operating performance, future financial budgets approved by management covering a 5-year period.
- (ii) Discounted rates used to determine the value in use for each of the CGUs were as follows:

	<u>ITRO-EMEA</u>	<u>ITRO-PA</u>	<u>ITRO-AAP</u>	<u>ITRO-China</u>	<u>ITRO-TWN</u>	<u>E-Ten</u>	<u>SHBG</u>
2009	12.9%	10.9%	16.9%	20.4%	15.7%	19.7%	16.0%
2010	15.2%	12.1%	19.1%	21.2%	17.6%	21.2%	17.6%

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(15) Other financial assets—non-current

	December 31, 2009	December 31, 2010	
	NT\$	NT\$	US\$
Refundable deposits	771,957	956,241	32,827
Non-current receivables	<u>17,754</u>	<u>82,260</u>	<u>2,824</u>
	<u>789,711</u>	<u>1,038,501</u>	<u>35,651</u>

(16) Short-term borrowings

	December 31, 2009	December 31, 2010	
	NT\$	NT\$	US\$
Bank loans	<u>548,059</u>	<u>1,651,630</u>	<u>56,699</u>

For the years ended December 31, 2009 and 2010, the interest rate on the above bank loans ranged from 0.9% to 1.95% and from 0.69% to 15.5%, respectively. As of December 31, 2009 and 2010, the unused credit facilities were NT\$29,125,833 and NT\$39,584,674, respectively.

(17) Bonds Payable

	December 31, 2009	December 31, 2010	
	NT\$	NT\$	US\$
Convertible Bonds Payable	<u>-</u>	<u>13,103,887</u>	<u>449,842</u>

On August 10, 2010, the Company issued US\$300,000 of zero coupon overseas convertible bonds due 2015 (the “2015 Bond”) and US\$200,000 of zero coupon overseas convertible bonds due 2017 (the “2017 Bond”) at the Singapore Exchange Securities Trading Limited, for the purpose of purchasing merchandise in line with business growth. The significant terms and conditions of convertible bonds are as follows:

(a) The 2015 Bonds

- i. Par value US\$300,000
- ii. Issue date August 10, 2010
- iii. Maturity date August 10, 2015
- iv. Coupon rate 0%
- v. Conversion

Bondholders may convert bonds into the Company’s common shares at any time starting the 41th day from the issue date until 10 days prior to the maturity date. The conversion price will initially be NT\$110.76 per common share, with a fixed exchange rate of NT\$31.83 = US\$ 1.00, subject to adjustment by the formula provided in the issue terms if the Company’s outstanding common shares are increased.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

- vi. Redemption at the option of the bondholders
- A. Bondholders shall have the right, at such holder's option, to require the Company to redeem, in whole or in part, the 2015 Bonds held by such holder at a redemption price of 101.297% of their principal amount in US dollars on August 10, 2013.
 - B. In the event that the Company's common shares are officially delisted from the Taiwan Securities Exchange, each bondholder shall have the right, at such holder's option, to require the Company to redeem the 2015 Bonds, in whole or in part, at 2015 Early Redemption Amount. The 2015 Early Redemption Amount represents an amount equal to 100% of the principal amount of the 2015 Bonds plus a gross yield of 0.43% per annum (calculated on a semi-annual basis) at the relevant date.
 - C. If a change of control (as defined in the issue terms) occurs, each bondholder shall have the right, at such holder's option, to require the Company to redeem the 2015 Bonds, in whole or in part, at 2015 Early Redemption Amount.
- vii. Redemption at the option of the Company
- The Company shall redeem the 2015 Bonds, in whole or in part, at the 2015 Early Redemption Amount, in the following cases:
- A. At any time on or after August 10, 2013 and prior to the maturity date, the closing price (translated into US dollars at the prevailing rate) of its common shares on the Taiwan Stock Exchange is at least 130% of the 2015 Early Redemption Amount for 20 consecutive trading days.
 - B. If more than 90% of 2015 Bond has been redeemed, repurchased and cancelled, or converted;
 - C. The change in the tax regulations of ROC causes the Company become obliged to pay additional amounts in respect of taxes or expenses.
- viii. Redemption at maturity
- Unless previously redeemed, repurchased and cancelled, or converted, the Company shall redeem the 2015 Bonds at a redemption price of their principal amount plus a gross yield of 0.43% per annum (calculated on a semi-annual basis) on August 10, 2015.
- (b) The 2017 Bonds
- i. Par value US\$200,000
 - ii. Issue date August 10, 2010
 - iii. Maturity date August 10, 2017
 - iv. Coupon rate 0%
 - v. Conversion
- Bondholders may convert bonds into the Company's common shares at any time starting the 41th day from the issue date until 10 days prior to the maturity date. The conversion price will initially be NT\$113.96 per common share, with a fixed exchange rate of NT\$31.83 = US\$ 1.00, subject to adjustment by the formula provided in the issue terms if the Company's outstanding common shares are increased
- vi. Redemption at the option of the bondholders
- A. Bondholders shall have the right, at such holder's option, to require the Company to redeem, in whole or in part, the 2017 Bonds held by such holder at a redemption price of 113.227% of their principal amount in US dollars on August 10, 2015.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

- B. In the event that the Company's common shares are officially delisted from the Taiwan Securities Exchange, each bondholder shall have the right, at such holder's option, to require the Company to redeem the 2017 Bonds, in whole or in part, at 2017 Early Redemption Amount. The 2017 Early Redemption Amount represents an amount equal to 100% of the principal amount of the 2017 Bonds plus a gross yield of 2.5% per annum (calculated on a semi-annual basis) at the relevant date.
- C. If a change of control (as defined in the issue terms) occurs, each bondholder shall have the right, at such holder's option, to require the Company to redeem the 2017 Bonds, in whole or in part, at 2017 Early Redemption Amount.
- vii. Redemption at the option of the Company
The Company shall redeem the 2017 Bonds, in whole or in part, at the 2017 Early Redemption Amount, in the following cases:
- A. At any time on or after August 10, 2013 and prior to the maturity date, the closing price (translated into US dollars at the prevailing rate) of its common shares on the Taiwan Stock Exchange is at least 130% of the 2017 Early Redemption Amount for 20 consecutive trading days.
- B. If more than 90% of 2017 Bond has been redeemed, repurchased and cancelled, or converted;
- C. The change in the tax regulations of ROC causes the Company become obliged to pay additional amounts in respect of taxes or expenses.
- viii. Redemption Amount at Maturity
Unless previously redeemed, repurchased and cancelled, or converted, the Company shall redeem the 2017 Bonds at a redemption price of their principal amount plus a gross yield of 2.5% per annum (calculated on a semi-annual basis) on August 10, 2017.

As of December 31, 2010, the liability and equity components of the aforementioned convertible bonds were as follows:

		NT\$
Proceeds of issuance	\$	15,950,000
Transaction cost		<u>(84,212)</u>
Net proceeds of issuance		15,865,788
Amortization of bonds payable discount and transaction cost (recognized as interest expense)		171,597
Unrealized exchange gain on bonds payable		(1,239,955)
Evaluation gain on redemption options of the convertible bonds		(59,525)
Recognized as capital surplus — conversion right		(295,494)
Recognized as financial liabilities at fair value through profit and loss (redemption options of the convertible bonds)		<u>(1,338,524)</u>
Carrying amount of bonds payable (straight bond value)	\$	<u><u>13,103,887</u></u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(18) Long-term debts

	December 31, 2009	December 31, 2010	
	NT\$	NT\$	US\$
Citibank syndicated loan	12,200,000	12,200,000	418,812
Other bank loans	171,856	121,933	4,186
Less: current installments	-	(6,100,000)	(209,406)
	<u>12,371,856</u>	<u>6,221,933</u>	<u>213,592</u>

The Company entered into a syndicated loan agreement with Citibank, the managing bank of the syndicated loan, on October 11, 2007, and the terms of this loan agreement were as follows:

Type of Loan	Creditor	Credit Line	Term	December 31,	December 31,
				2009	2010
				NT\$	NT\$
Unsecured loan	Citibank and other banks	Term tranche of NT\$16.5 billion; five-year limit during which revolving credits disallowed	The original loan amounted to NT\$16.5 billion; an advance repayment of NT\$4.3 billion was made in the first quarter of 2008. The loan is repayable in 4 semi-annual installments starting from April 2011.	12,200,000	12,200,000
		Revolving tranche of NT\$3.3 billion; three-year limit	One-time repayment in full in October 2010. The Company did not use this credit facility.	-	-
Less: current installment				-	(6,100,000)
				<u>12,200,000</u>	<u>6,100,000</u>

The above syndicated loan bore interest at an average rate of 1.67% in 2009 and 1.55% in 2010. According to the loan agreement, the Company is required to maintain certain financial ratios calculated based on annual and semi-annual audited consolidated financial statements. If the Company fails to meet any of the financial ratios, the managing bank will request the Company in writing to take action to improve within agreed days. No assertion of breach of contract will be tenable if the financial ratios are met within agreed days. As of December 31, 2009 and 2010, the Company was in compliance with all such financial covenants.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(19) Retirement plans

The following table sets forth the actuarial information related to the Consolidated Companies' defined benefit retirement plans:

(a) Reconciliation of funded status of the retirement plans to prepaid pension cost (accrued pension liabilities):

	2009			
	Plan assets in excess of accumulated benefit obligation NT\$	Accumulated benefit obligation in excess of plan assets NT\$		
Benefit obligation:				
Vested benefit obligation	(180,819)	(22,077)		
Non-vested benefit obligation	<u>(392,082)</u>	<u>(38,627)</u>		
Accumulated benefit obligation	(572,901)	(60,704)		
Projected compensation increases	<u>(389,885)</u>	<u>(44,955)</u>		
Projected benefit obligation	(962,786)	(105,659)		
Plan assets at fair value	<u>724,116</u>	<u>21,861</u>		
Funded status	(238,670)	(83,798)		
Unrecognized pension loss	433,063	45,370		
Unrecognized transition obligation	15,891	3,316		
Minimum pension liability adjustment	<u>-</u>	<u>(3,731)</u>		
Prepaid pension cost (accrued pension liabilities)	<u>210,284</u>	<u>(38,843)</u>		
			2010	
	Plan assets in excess of accumulated benefit obligation NT\$	US\$	Accumulated benefit obligation in excess of plan assets NT\$	US\$
Benefit obligation:				
Vested benefit obligation	(156,087)	(5,358)	(15,463)	(531)
Non-vested benefit obligation	<u>(551,322)</u>	<u>(18,926)</u>	<u>(48,745)</u>	<u>(1,673)</u>
Accumulated benefit obligation	(707,409)	(24,284)	(64,208)	(2,204)
Projected compensation increases	<u>(843,628)</u>	<u>(28,961)</u>	<u>(50,197)</u>	<u>(1,723)</u>
Projected benefit obligation	(1,551,037)	(53,245)	(114,405)	(3,927)
Plan assets at fair value	<u>860,013</u>	<u>29,523</u>	<u>23,268</u>	<u>799</u>
Funded status	(691,024)	(23,722)	(91,137)	(3,128)
Unrecognized pension loss	978,940	33,606	62,732	2,154
Unrecognized transition obligation	20,672	709	2,947	101
Minimum pension liability adjustment	<u>-</u>	<u>-</u>	<u>(15,482)</u>	<u>(532)</u>
Prepaid pension cost (accrued pension liabilities)	<u>308,588</u>	<u>10,593</u>	<u>(40,940)</u>	<u>(1,405)</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Accrued pension liabilities are included in “other liabilities” in the accompanying consolidated balance sheets. Prepaid pension cost is included in “deferred charges and other assets” in the accompanying consolidated balance sheets.

(b) The components of the net periodic pension cost were as follows:

	2009	2010	
	NT\$	NT\$	US\$
Service cost	51,634	44,870	1,540
Interest cost	26,954	26,801	920
Actual return on plan assets	(6,087)	(9,856)	(338)
Amortization and deferral	7,222	7,134	245
Effect of pension plan curtailments	<u>52,502</u>	<u>-</u>	<u>-</u>
Net periodic pension cost	<u>132,225</u>	<u>68,949</u>	<u>2,367</u>

(c) The principal actuarial assumptions used were as follows:

	2009	2010
Discount rate	2.25%	1.75%
Rate of increase in future compensation	3.00%	3.00%~5.00%
Expected rate of return on plan assets	2.25%	1.75%

In 2009 and 2010, pension cost under the defined contribution retirement plans amounted to NT\$331,469 and NT\$439,411, respectively.

(20) Income taxes

(a) Income tax returns of the Consolidated Companies are filed individually by each entity and not on a combined basis. The components of income tax expense from continuing operations were as follows:

	2009	2010	
	NT\$	NT\$	US\$
Current income tax expense	4,581,450	5,154,886	176,961
Deferred income tax benefit	<u>(951,327)</u>	<u>(943,639)</u>	<u>(32,394)</u>
	<u>3,630,123</u>	<u>4,211,247</u>	<u>144,567</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

- (b) The 2010 statutory corporate income tax rate for profit-seeking enterprises was reduced from 25% to 20% according to the amended ROC Income Tax Act announced issued on May 27, 2009, and was further reduced from 20% to 17%, according to the amended ROC Income Tax Act announced on June 15, 2010. Therefore, the statutory income tax rates applicable to the Company and its domestic subsidiaries which are subject to the ROC Income Tax Act for the years ended December 31, 2009 and 2010 were 25% and 17%, respectively. In addition, an alternative minimum tax (“AMT”) in accordance with the Income Basic Tax Act is calculated. Other foreign subsidiaries calculated income tax in accordance with tax laws and regulations of the countries and jurisdictions where the respective subsidiaries were incorporated.

The income tax calculated on the pre-tax income at the Company’s statutory income tax rate was reconciled with the income tax expense reported in the accompanying consolidated statements of income as follows.

	2009	2010	
	NT\$	NT\$	US\$
Expected income tax	3,745,746	3,285,996	112,805
Effect of different tax rates applied to the Company’s subsidiaries	1,032,938	2,517,974	86,439
Tax-exempt investment income from domestic investees and unremitted earnings of certain foreign subsidiaries	(1,038,244)	(1,065,017)	(36,561)
Prior-year adjustments	523,617	200,692	6,890
Loss (gain) on disposal of marketable securities not subject to income tax	124,873	(421,454)	(14,468)
Investment tax credits	198,804	(7,534)	(259)
Change in valuation allowance	(350,794)	(985,262)	(33,823)
Tax-exempt investment income from operational headquarters	(1,604,989)	-	-
Surtax on unappropriated retained earnings	17,646	384,593	13,203
Impairment loss of land	-	69,997	2,403
Deferred tax assets resulting from spin off adjustment (see note 5(2) (c))	(72,449)	-	-
Alternative minimum tax	1,417	61,344	2,105
Effect of change in income tax rate	438,368	260,478	8,942
Others	613,190	(90,560)	(3,109)
Income tax expense	<u>3,630,123</u>	<u>4,211,247</u>	<u>144,567</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(c) The components of deferred income tax assets (liabilities) as of December 31, 2009 and 2010, were as follows:

	2009	December 31,	
	NT\$	2010	US\$
		NT\$	
Deferred income tax assets – current:			
Inventory provisions	1,058,032	909,065	31,207
Unrealized loss (gain) on valuation of financial instruments	(279,622)	77,521	2,661
Accrued advertising expense	87,747	10,679	367
Unrealized cost of sales	902,570	445,770	15,303
Warranty provision	778,287	910,516	31,257
Allowance for doubtful accounts	118,924	81,667	2,804
Accrued non-recurring engineering cost	58,825	53,277	1,829
Accrued sales allowance	149,501	244,756	8,402
Unused net operating loss carryforwards	143,674	32,024	1,099
Unused investment tax credits	64,027	-	-
Unrealized foreign exchange (gains) losses	299,738	(429,652)	(14,750)
Others	<u>402,678</u>	<u>496,048</u>	<u>17,029</u>
	3,784,381	2,831,671	97,208
Valuation allowance	<u>(1,571,166)</u>	<u>(1,175,953)</u>	<u>(40,369)</u>
	<u>2,213,215</u>	<u>1,655,718</u>	<u>56,839</u>
		December 31,	
	2009	2010	
	NT\$	NT\$	US\$
Deferred income tax liabilities – current:			
Inventory provisions	(84,598)	(86,247)	(2,961)
Allowance for doubtful accounts	(559,274)	(436,658)	(14,990)
Unrealized exchange gains	(15,078)	(2,393)	(82)
Others	<u>(21,764)</u>	<u>(53,442)</u>	<u>(1,834)</u>
	<u>(680,714)</u>	<u>(578,740)</u>	<u>(19,867)</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	December 31,		
	2009	2010	
	NT\$	NT\$	US\$
Deferred income tax assets – non-current:			
Unrealized investment loss under the equity method	66,861	67,251	2,309
Difference in depreciation for tax and financial purposes	16,462	478,326	16,420
Unused investment tax credits	-	61,876	2,124
Unused net operating loss carryforwards	410,104	7,450,395	255,764
Difference in amortization of intangible assets for tax and financial purposes	-	511,712	17,566
Unrealized investment loss	-	200,993	6,900
Litigation provisions	-	54,738	1,879
Others	<u>101,897</u>	<u>155,117</u>	<u>5,325</u>
	595,324	8,980,408	308,287
Valuation allowance	<u>(387,735)</u>	<u>(8,815,824)</u>	<u>(302,637)</u>
	<u>207,589</u>	<u>164,584</u>	<u>5,650</u>

	December 31,		
	2009	2010	
	NT\$	NT\$	US\$
Deferred income tax liabilities – non-current:			
Difference in amortization of intangible assets for tax and financial purposes	(3,507,908)	-	-
Unrealized investment loss under the equity method	740,138	526,069	18,059
Unrealized foreign investment gain under the equity method	(3,607,977)	(4,062,822)	(139,472)
Unused net operating loss carryforwards	13,313,903	-	-
Difference in depreciation for tax and financial purposes	811,822	-	-
Accumulated asset impairment loss	245,347	198,443	6,812
Litigation provisions	87,619	-	-
Unrealized investment loss	239,877	-	-
Foreign currency translation adjustment	(237,330)	1,028,224	35,298
Other	<u>257,884</u>	<u>12,951</u>	<u>445</u>
	8,343,375	(2,297,135)	(78,858)
Valuation allowance	<u>(13,887,322)</u>	<u>(539,091)</u>	<u>(18,506)</u>
	<u>(5,543,947)</u>	<u>(2,836,226)</u>	<u>(97,364)</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

- (d) According to the Statute for Industrial Innovation, the domestic Consolidated Companies may apply for investment tax credits from research and development expenditures, which are deductible from income tax payable only in the year when these expenditures are incurred. The amount of the tax credit is limited to 30% of the income tax payable for that year. Additionally, according to the Statute for Upgrading Industries, which has been repealed on December 31, 2009, the domestic Consolidated Companies were granted investment tax credits for the purchase of automatic machinery and equipment, for research and development expenditures, and for employee training expenditures. These tax credits may be applied over a period of five years. The amount of the credit that may be applied in any year is limited to 50% of the income tax payable for that year, except for the final year when such tax credit expires.

As of December 31, 2010, investment tax credits available to the Consolidated Companies were as follows:

Expiration date	NT\$	US\$
December 31, 2012	49,412	1,696
December 31, 2013	<u>12,464</u>	<u>428</u>
	<u>61,876</u>	<u>2,124</u>

- (e) The tax effects of net operating loss carryforwards available to the Consolidated Companies as of December 31, 2010, were as follows:

Expiration date	NT\$	US\$
December 31, 2011	21,296	731
December 31, 2012	20,805	714
December 31, 2013	151,978	5,217
December 31, 2014	99,713	3,423
Thereafter	<u>7,188,627</u>	<u>246,778</u>
	<u>7,482,419</u>	<u>256,863</u>

- (f) Information about the integrated income tax system

Beginning in 1998, an integrated income tax system was implemented in the Republic of China. Under the new tax system, the income tax paid at the corporate level can be used to offset Republic of China resident stockholders' individual income tax. The Company is required to establish an imputation credit account (ICA) so that a record shall be maintained for corporate income taxes paid and imputation credit that can be allocated to each stockholder. The credit available to Republic of China resident stockholders is calculated by multiplying the dividend by the creditable ratio. The creditable ratio is calculated based on the balance of the ICA divided by earnings retained by the Company since January 1, 1998.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Information related to the ICA was as follows:

	December 31, 2009	December 31, 2010	
	NT\$	NT\$	US\$
Unappropriated earnings:			
Earned before January 1, 1998	6,776	6,776	233
Earned commencing from			
January 1, 1998	<u>16,615,824</u>	<u>24,226,370</u>	<u>831,664</u>
	<u>16,622,600</u>	<u>24,233,146</u>	<u>831,897</u>
Balance of ICA	<u>611,323</u>	<u>2,214,361</u>	<u>76,016</u>

The estimated creditable ratio for the 2010 earnings distribution to ROC resident stockholders is approximately 8.64%; and the actual creditable ratio for the 2009 earnings distribution was 12.40%.

The imputation credit allocated to stockholders is based on the ICA balance as of the date of earnings distribution. The estimated creditable ratio for 2010 may differ when the actual distribution of imputation credit is made.

- (g) The ROC income tax authorities have completed the examination of income tax returns of the Company for all fiscal years through 2008.

(21) Stockholders' equity

(a) Common stock

As of December 31, 2009 and 2010, the Company's authorized shares of common stock consisted of 3,500,000,000 shares, of which 2,688,228,278 shares and 2,700,179,258 shares, respectively, were issued and outstanding. The par value of the Company's common stock is NT\$10 per share.

As of December 31, 2009 and 2010, the Company had issued 18,284 thousand units and 10,323 thousand units, respectively, of global depository receipts (GDRs). The GDRs were listed on the London Stock Exchange, and each GDR represents five shares of common stock.

In 2009 and 2010, the Company issued 2,709 thousand and 6,613 thousand common shares, respectively, upon the exercise of employee stock options.

The Company's shareholders in the meeting on June 19, 2009, resolved to distribute stock dividends of NT\$264,298 to shareholders. Additionally, the shareholders approved the distribution of bonuses to employees in stock of NT\$900,000 with an issuance of 16,234 thousand new shares. The stock issuance was authorized by and registered with the governmental authorities.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The Company's shareholders in the meeting on June 18, 2010, resolved to distribute stock dividends of NT\$26,893 to stockholders. Additionally, the shareholders approved the distribution of bonuses to employees in stock of NT\$200,000 with an issuance of 2,648 thousand new shares. The stock issuance was authorized by and registered with the governmental authorities.

(b) Treasury stock

As of December 31, 2009 and 2010, details of the GDRs (for the implementation of an overseas employee stock option plan) held by AWI and the common stock held by the Company's subsidiaries namely CCI and E-Ten were as follows (expressed in thousands of shares and New Taiwan dollars):

	December 31, 2009			December 31, 2010		
	Number of Shares	Book Value NT\$	Market Price NT\$	Number of Shares	Book Value NT\$	Market Price NT\$
Common stock	21,787	1,050,341	2,095,930	21,809	1,050,341	1,964,990
GDRs	4,982	<u>2,472,257</u>	<u>2,393,831</u>	4,987	<u>2,472,257</u>	<u>2,266,441</u>
		<u>3,522,598</u>	<u>4,489,761</u>		<u>3,522,598</u>	<u>4,231,431</u>

Movements of the Company's treasury stock were as follows (expressed in thousands of shares or units):

2009				
Description	Beginning Balance	Additions	Disposal	Ending Balance
Common Stock	21,571	216	-	21,787
GDRs	4,933	49	-	4,982
2010				
Description	Beginning Balance	Additions	Disposal	Ending Balance
Common Stock	21,787	22	-	21,809
GDRs	4,982	5	-	4,987

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(c) Capital surplus

	December 31, 2009	December 31, 2010	
	NT\$	NT\$	US\$
Share premium:			
Paid-in capital in excess of par value	1,784,258	2,262,989	77,686
Surplus from merger	29,800,881	29,800,881	1,023,030
Premium on common stock issued from conversion of convertible bonds	4,552,585	4,552,585	156,285
Forfeited interest from conversion of convertible bonds	1,006,210	1,006,210	34,542
Surplus related to treasury stock transactions by subsidiary companies	501,671	620,089	21,287
Others:			
Employee stock options	360,630	632,175	21,702
Conversion right of convertible bonds	-	295,494	10,144
Surplus from equity-method investments	487,883	408,492	14,023
	<u>38,494,118</u>	<u>39,578,915</u>	<u>1,358,699</u>

According to the ROC Company Act, 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 governmental authorities.

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

The Company's articles of incorporation stipulate that at least 10% of 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 in accordance with applicable laws and regulations shall be set aside. The remaining balance of annual net income, if any, can be distributed as follows:

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

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

According to the ROC Company Act, 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.

Pursuant to regulations promulgated by the Financial Supervisory Commission, and effective from the distribution of earnings for fiscal year 1999 onwards, a special reserve equivalent to the total amount of items that are accounted for as deductions to the stockholders' equity shall be set aside from current earnings, and not distributed. This special reserve shall be made available for appropriation to the extent of reversal of deductions to stockholders' equity in subsequent periods. As of December 31, 2009 and 2010, the Company appropriated a special reserve of NT\$1,991,615 and NT\$0, respectively, that is equal to the sum of excess of the book value over the market price of the treasury stock and other deduction items of shareholder's equity.

The appropriation of 2008 and 2009 earnings was approved by the shareholders at meetings on June 18, 2009, and June 18, 2010, respectively. The resolved appropriations of employee bonus and remuneration to directors and supervisors and dividends per share were as follows:

	2008	2009
	NT\$	NT\$
Dividends per share		
Cash dividends	\$ 2.00	3.10
Stock Dividends	<u>0.10</u>	<u>0.01</u>
	<u>\$ 2.10</u>	<u>3.11</u>
Employee bonus – stock	\$ 900,000	200,000
Employee bonus – cash	600,000	800,000
Remuneration to directors and supervisors	<u>85,763</u>	<u>122,096</u>
	<u>\$ 1,585,763</u>	<u>1,122,096</u>

The above appropriations of employee bonus and remuneration to directors and supervisors were consistent with the resolutions approved by the Company's directors and same amounts have been charged against earnings of 2008 and 2009, respectively. The related information is available at the Market Observation Post System website.

The Company accrued employee bonus of NT\$1,500,000 and directors' and supervisors' remuneration of NT\$89,469 for the year ended December 31, 2010 based on the total amount of bonus expected to be distributed to employees and the Company's article of incorporation, under which, remuneration for directors and supervisors is distributed at 1% of the remainder of annual net income. If the actual amounts subsequently resolved by the stockholders differ from the estimated amounts, the differences are treated as a change in accounting estimate and are recorded as income or expense in the year of stockholders' resolution. If bonus to employees is resolved to be distributed in stock, the number of shares is determined by dividing the amount of stock bonus by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholder's meeting.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Distribution of 2010 earnings has not been proposed yet by the board of directors and is still subject to approval by the stockholders. After the resolutions, related information can be obtained from the public information website.

(22) Stock-based compensation plans

Information on the employee stock option plans (“ESOPs”) granted in 2009 and 2010 was as follows:

	2009	2010
Grant date	2009/10/30	2010/10/29
Granted shares (in thousands)	14,000	4,000
Contractual life (in years)	3	3
Vesting period	2 years of service subsequent to grant date	2 years of service subsequent to grant date
Qualified employees	(note 1)	(note 1)

Note 1: The options are granted to eligible employees of the Company and its subsidiaries, in which the Company directly or indirectly, owns 50% or more of the subsidiary’s voting shares.

The Consolidated Companies utilized the Black-Scholes pricing model to value the stock options granted, and the fair value of the option and main inputs to the valuation models were as follows:

	2009	2010
Exercise price (NT\$)	42.90	48.90
Expected remaining contractual life (in years)	3	3
Fair market value for underlying securities – Acer common shares (NT\$)	78.00	88.90
Fair value of options granted (NT\$)	40.356	44.657
Expected volatility	40.74%	34.97%
Expected dividend yield	note 2	note 2
Risk-free interest rate	1.03%	1.22%

Note 2: According to the employee stock option plan, option prices are adjusted to take into account dividends paid on the underlying security. As a result, the expected dividend yield is excluded from the calculation.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Movements in number of ESOPs outstanding:

	2009			
	The Company's ESOPs		ETEN's ESOPs	
	Number of options (in thousands)	Weighted- average exercise price (NT\$)	Number of options (in thousands)	Weighted- average exercise price (NT\$)
Outstanding, beginning of year	14,000	25.28	9,093	41.90
Granted	14,000	42.90	-	-
Forfeited	-	-	(890)	-
Exercised	-	-	(3,083)	38.12
Outstanding, end of year	<u>28,000</u>	33.62	<u>5,120</u>	41.52
Exercisable, end of year	<u>-</u>		<u>1,541</u>	37.89
	2010			
	The Company's ESOPs		ETEN's ESOPs	
	Number of options (in thousands)	Weighted- average exercise price (NT\$)	Number of options (in thousands)	Weighted- average exercise price (NT\$)
Outstanding, beginning of year	28,000	33.62	5,120	41.52
Granted	4,000	48.90	-	-
Forfeited	(2)	-	(400)	-
Exercised	(5,364)	23.34	(1,737)	37.89
Outstanding, end of year	<u>26,634</u>	36.51	<u>2,983</u>	41.30
Exercisable, end of year	<u>8,634</u>	23.34	<u>1,437</u>	41.30

Note 3: The Company assumed ETEN's ESOPs through the acquisition of ETEN on September 1, 2008.

In 2009 and 2010, the Consolidated Companies recognized the compensation costs from the ESOPs of NT\$298,592 and NT\$458,736, respectively, which were accounted for under operating expenses.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

As of December 31, 2010, information of outstanding ESOPs was as follows:

Year of grant	Number outstanding (in thousands)	Weighted- average remaining contractual life (in years)	Weighted- average exercise price (NT\$)	Number exercisable (in thousands)
2008	8,634	0.83	23.34	8,634
2008	2,983	2.67	41.30	1,437
2009	14,000	1.83	41.09	-
2010	<u>4,000</u>	2.83	48.90	<u>-</u>
	<u><u>29,617</u></u>			<u><u>10,071</u></u>

(23) Restructuring charges

In 2009, due to the acquisition of Gateway Inc. and Packard Bell B.V., the Consolidated Companies recognized restructuring charges of NT\$164,595, which were accounted for under “restructuring cost” of non-operating expenses and loss in the accompanying statements of income. These restructuring charges were associated with severance payments to employees and integration of the information technology system.

(24) Earnings per common share (“EPS”)

	<u>2009</u>		
	<u>Amount</u> <u>(in thousands)</u> NT\$	<u>Weighted- average number of outstanding shares of common stock</u> <u>(in thousands)</u>	<u>EPS (in dollars)</u> NT\$
Basic EPS – after retroactive adjustments			
Net income attributable to common shareholders of parent company	11,353,374	2,635,011	<u>4.31</u>
Diluted EPS			
Effect of dilutive potential common shares:			
Employee bonus	-	23,175	
Employee stock option plan	<u>-</u>	<u>10,953</u>	
Net income attributable to common shareholders of parent company	<u><u>11,353,374</u></u>	<u><u>2,669,139</u></u>	<u><u>4.25</u></u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	2010				
	Amount (in thousands)		Weighted-average number of outstanding shares of common stock (in thousands)	EPS (in dollars)	
	NT\$	US\$		NT\$	US\$
Basic EPS — after retroactive adjustments					
Net income attributable to common shareholders of parent company	15,117,997	518,984	2,647,466	<u>5.71</u>	<u>0.20</u>
Diluted EPS					
Effect of dilutive potential common shares:					
Employee bonus	-	-	23,328		
Employee stock option plan	-	-	17,153		
Convertible bonds	<u>171,597</u>	<u>5,891</u>	<u>56,052</u>		
Net income attributable to common shareholders of parent company	<u>15,289,594</u>	<u>524,875</u>	<u>2,743,999</u>	<u>5.57</u>	<u>0.19</u>

(25) Disclosure of financial instruments

(a) Fair values of financial instruments

The book value of short-term financial instruments is considered to be the fair value because of the short-term maturity of these instruments. Such method is applied to cash and cash equivalents, notes and accounts receivable (including receivables from related parties), other receivables (including receivables from related parties), restricted deposits, short-term borrowings, current portion of long-term debt, notes and accounts payables (including payables to related parties), other payables to related parties and royalties payable.

The estimated fair values and carrying amounts of all other financial assets and liabilities as of December 31, 2009 and 2010 were as follows:

	2009			2010		
	Carrying amount NT\$	Public quoted price NT\$	Valuation amount NT\$	Carrying amount NT\$	Public quoted price NT\$	Valuation amount NT\$
Non-derivative financial instruments						
Financial assets:						
Available-for-sale financial assets — current	223,437	223,437	-	225,710	225,710	-
Available-for-sale financial assets — noncurrent	3,306,742	3,306,742	-	2,274,902	2,274,902	-
Financial assets carried at cost — noncurrent	2,251,058	-	see below (b)	1,722,677	-	see below (b)
Refundable deposits (classified as “other financial assets”)	771,957	-	771,957	956,241	-	956,241
Noncurrent receivables (classified as “other financial assets”)	17,754	-	17,754	82,260	-	82,260
Financial liabilities:						
Bonds payable	-	-	-	13,103,887	-	13,668,171
Long-term debt	12,371,856	-	12,371,856	6,221,933	-	6,221,933
Derivative financial instruments						
Financial assets:						
Foreign currency forward contracts	1,414,672	-	1,414,672	118,753	-	118,753
Foreign currency options	18,144	-	18,144	8,514	-	8,514
Financial liabilities:						
Foreign currency forward contracts	354,562	-	354,562	1,049,142	-	1,049,142
Foreign currency options	4,691	-	4,691	9,722	-	9,722
Redemption option of convertible bonds	-	-	-	1,338,524	-	1,338,524

(Continued)

ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)**

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

(i) Available-for-sale financial assets

The fair value of publicly traded stocks is based on the closing quotation price at the balance sheet date. The fair value of open-end mutual funds is based on the net asset value of the mutual funds at balance sheet date.

(ii) Financial assets carried at cost

Financial assets carried at cost represent investments in privately held stock. It is not practicable to estimate the fair value of privately held stock as it is not traded in an active public market.

(iii) Refundable deposits

The fair values of refundable deposits with no fixed maturities are based on carrying amounts.

(iv) Non-current receivables

The fair values of non-current receivables are their present value discounted at the market interest rate.

(v) Derivative financial instruments

The fair value of derivative financial instruments is based on quoted market prices, if available, in active markets. If market price is unavailable, fair value is determined using a valuation technique, with estimates and assumptions consistent with those used by market participants and are readily available to the Consolidated Companies.

The fair value of foreign currency forward and option contracts is computed individually based on the maturity date, the spot rate, and the swap points provided by Bloomberg quotes.

(vi) Long-term debt and bonds payable

The carrying value of long-term debt with floating interest rates approximates the market value. The fair value of fixed-rate long-term debt is estimated based on the present value of future discounted cash flows based on the prevailing market interest rates for similar debt instruments of comparable maturities and credit standing of the borrower. The Consolidated Companies used a discount rate of 2.11% to 5.09%.

(c) For the years ended December 31, 2009 and 2010, gain (loss) on valuation financial assets and liabilities using a valuation technique amounted to NT\$1,293,844 and NT\$(1,899,825), respectively.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)**

(d) Disclosure of financial risks

(i) Market risk

Open-end mutual funds and publicly traded stocks held by the Consolidated Companies classified as “available-for-sale financial assets” are valued at fair value. Therefore, the Consolidated Companies were exposed to the risk of price fluctuation in the securities market.

The Consolidated Companies are engaged in purchase and sale transactions which are principally denominated in US dollars and Euros. The Consolidated Companies entered into foreign currency forward contracts and other derivative instrument contracts to manage the market exchange rate fluctuations of foreign-currency assets and liabilities. The length and amounts of aforementioned derivative transactions were in line with the settlement date of the Consolidated Companies’ recorded foreign currency assets and liabilities and future cash flows. Gains or losses from these hedging derivatives are expected to substantially offset those from the hedged assets or liabilities.

(ii) Credit risk

The Consolidated Companies’ credit risk is mainly from potential breach of contract by the counter-party associated with cash, equity investment, and derivative transactions. In order to control its exposure to the credit risk of each financial institution, the Consolidated Companies maintain cash with various financial institutions and hold equity investments in the form of mutual funds and stocks issued by companies with high credit quality. As a result, the concentration of credit risks related to cash and equity investments is not significant. Furthermore, the banks undertaking the derivative transactions are reputable financial institutions; therefore, the exposure related to the potential default by those counter-parties is not considered significant.

The Consolidated Companies primarily sell and market the multi-branded IT products to a large number of customers in different geographic areas. As a result, management believes that there is no significant concentrations of credit risk, and in order to lower the credit risk, management of the Consolidated Companies continuously evaluate the credit quality of their customers.

(iii) Liquidity risk

The Consolidated Companies’ capital and operating funds are sufficient to fulfill their contract payment obligations. Therefore, management believes that there is no significant liquidity risk.

The available-for-sale financial assets held by the Consolidated Companies are equity securities which are publicly traded and can be liquidated quickly at a price close to the fair market value. In contrast, the financial assets carried at cost are not publicly traded and are exposed to liquidity risk.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Derivative financial instruments are intended to hedge the exchange rate risk resulting from assets and liabilities denominated in foreign currency and cash flows resulting from anticipated transactions in foreign currency. The length of the contracts are in line with the payment date of the Consolidated Companies' assets and liabilities denominated in foreign currency and the anticipated cash flows. At the maturity date of the derivative contract, the Consolidated Companies will settle these contracts using the foreign currencies arising from the hedged assets and liabilities denominated in foreign currency, and therefore, the liquidity risk is not significant.

(iv) Cash flow risk related to the fluctuation of interest rates

The Consolidated Companies' short-term borrowings and long-term debt carried floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rates and thereby influences the Consolidated Companies' future cash flow. If the market interest rate increases by 1%, cash outflows in respect of these interest payments would increase by approximately NT\$139,736 per annum.

5. Transactions with Related Parties

(1) Names and relationships of related parties with the Consolidated Companies

Name	Relationship with the Company
Wistron Corporation ("Wistron")	Investee of the Company accounted for by equity method
Cowin Worldwide Corporation ("COWIN")	Subsidiary of Wistron
Bluechip Infotech Pty Ltd. ("SAL")	Investee of the Company accounted for by equity method
E-Life Mall Corp. ("E-Life")	Investee of the Company accounted for by equity method
iDSoftCapital Inc.	Its chairman is one of the Company's supervisors
Directors, supervisors, chief executive officers and vice presidents	The Consolidated Companies' executive officers

(2) Significant transactions with related parties as of and for the years ended December 31, 2009 and 2010 were as follows:

(a) Net sales and related notes and accounts receivable

(i) Net sales to:

	2009	2010	
	NT\$	NT\$	US\$
SAL	768,379	904,917	31,065
E-Life	690,738	680,814	23,371
Other (individually less than 5%)	<u>77,605</u>	<u>97,149</u>	<u>3,335</u>
	<u>1,536,722</u>	<u>1,682,880</u>	<u>57,771</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The sales prices and payment terms to related parties were not significantly different from those of sales to non-related parties.

(ii) Notes and accounts receivable from:

	December 31, 2009		December 31, 2010	
	NT\$		NT\$	US\$
COWIN	315,929		411,850	14,138
SAL	116,156		104,956	3,603
E-Life	109,090		137,077	4,706
Others (individually less than 5%)	<u>59,131</u>		<u>65,141</u>	<u>2,236</u>
	<u>600,306</u>		<u>719,024</u>	<u>24,683</u>

(b) Purchases and related notes and accounts payable

(i) Purchases from:

	2009		2010	
	NT\$		NT\$	US\$
Wistron	32,351,566		19,993,042	686,339
Others	<u>214</u>		<u>109,302</u>	<u>3,752</u>
	<u>32,351,780</u>		<u>20,102,344</u>	<u>690,091</u>

The trading terms with related parties are not comparable to the trading terms with third parties as the specifications of products are different.

The Consolidated Companies sold raw material to Wistron and its subsidiaries and purchased back the finished goods after being manufactured. To avoid double-counting, the revenues from sales of raw materials to Wistron and its subsidiaries amounting to NT\$142,542,535 and NT\$122,256,130 for the years ended December 31, 2009 and 2010, respectively, were excluded from the consolidated revenues and cost of goods sold. Having enforceable rights, the Consolidated Companies offset the outstanding receivables and payables resulting from the above-mentioned transactions. The offset resulted in a net payable balance.

(ii) Notes and accounts payable to:

	December 31, 2009		December 31, 2010	
	NT\$		NT\$	US\$
Wistron	10,172,553		7,733,546	265,484
Others	<u>59,811</u>		<u>32,552</u>	<u>1,118</u>
	<u>10,232,364</u>		<u>7,766,098</u>	<u>266,602</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(c) Spin-off of assets

On February 28, 2002, the Company spun off its design, manufacturing and services business from its brand business and transferred the related operating assets and liabilities to Wistron. The Company agreed with Wistron that Wistron is obligated to pay for the deferred income tax assets being transferred only when they are actually utilized. In 2006, the ROC income tax authorities examined and rejected Wistron's claim of investment credits transferred from the spin-off in the income tax returns for the years from 2002 to 2004. Wistron disagreed with the assessment and filed a request with the tax authorities for a reexamination of the aforementioned income tax returns. The Company recognized income tax expense of NT\$875,802 based on the tax exposure estimated in 2006 and provided a valuation allowance against the receivables from Wistron.

In 2008 and 2009, the tax authorities subsequently concluded that Wistron could utilize portions of the aforementioned deferred tax assets resulting from the spin-off. As a result, the valuation allowance was reversed to current income tax benefit in the amount of NT\$72,449 for the year ended December 31, 2009.

(d) Management service fee

The Consolidated Companies paid iDSoftCapital Inc. management service fees amounting to NT\$49,333 and NT\$31,542 for the years ended December 31, 2009 and 2010, respectively.

(e) Advances to/from related parties

The Consolidated Companies paid certain expenses on behalf of related parties. Additionally, related parties paid non-recurring engineering and other operating expenses, and accounts payable on behalf of the Consolidated Companies. As of December 31, 2009 and 2010, the Consolidated Companies had aggregate receivables from related parties of NT\$21,507 and NT\$46,914, respectively, and payables to related parties of NT\$92,187 and NT\$537,267, respectively, resulting from these transactions.

(3) Compensation to executive officers

For the years ended December 31, 2009 and 2010, compensation paid to the Consolidated Companies' executive officers including directors, supervisors, president and vice-presidents was as follows:

	2009	2010	
	Amount	Amount	
	NT\$	NT\$	US\$
Salaries	339,997	279,974	9,611
Cash awards and special allowances	175,655	356,201	12,228
Business service charges	1,080	1,080	37
Employee bonuses	<u>443,855</u>	<u>690,920</u>	<u>23,719</u>
	<u>960,587</u>	<u>1,328,175</u>	<u>45,595</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The aforementioned compensation included the accruals for employee bonus and remuneration to directors and supervisors as discussed in note 4(21).

6. Pledged Assets

Pledged assets	Pledged to secure	Carrying amount at December 31,		
		2009 NT\$	2010 NT\$	US\$
Cash in bank and time deposits	Contract bidding, project fulfillment, security for letter of credit, and others	<u>61,939</u>	<u>61,937</u>	<u>2,126</u>

As of December 31, 2009 and 2010, the above pledged cash in bank and time deposits were classified as “restricted deposits” and “other financial assets” in the accompanying consolidated balance sheets.

7. Commitments and Contingencies

(1) Royalties

- (a) The Consolidated Companies have entered into a patent cross license agreement with International Business Machines Corporation (“IBM”). According to the agreement, the Consolidated Companies made fixed payments periodically to IBM.
 - (b) The Consolidated Companies and Lucent Technologies Inc. (“Lucent”) entered into a Patent Cross License agreement. This license agreement in essence authorizes both parties to use each other’s worldwide computer-related patents for manufacturing and selling personal computer products. The Consolidated Companies agree to make fixed payments periodically to Lucent, and the Consolidated Companies will not have any additional obligation for the use of Lucent patents other than the agreed upon fixed amounts of payments.
 - (c) On June 6, 2008, the Consolidated Companies entered into a Patent Cross License agreement with Hewlett Packard Development Company (“HP”). The previous patent infringement was settled out of court, and the Consolidated Companies agreed to make fixed amounts of payments periodically to HP. The Consolidated Companies will not have any additional obligation for the use of HP patents other than the agreed upon fixed amounts of payments.
 - (d) The Consolidated Companies have entered into software and royalty license agreements with Microsoft, MPEG-LA and other companies. The Consolidated Companies have fulfilled their obligations according to the contracts.
- (2) As of December 31, 2009 and 2010, the Company’s outstanding stand-by letters of credit totaling NT\$269,987 and NT\$195,563, respectively, for purposes of bids and contracts.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

- (3) The Consolidated Companies have entered into several operating lease agreements for warehouses, land and office buildings. Future minimum lease payments were as follows:

Year	NT\$	US\$
2011	457,182	15,694
2012	324,196	11,129
2013	264,341	9,075
2014	170,519	5,854
2015 and thereafter	<u>516,388</u>	<u>17,727</u>
	<u>1,732,626</u>	<u>59,479</u>

- (4) As of December 31, 2009 and 2010, the Company had provided promissory notes amounting to NT\$28,552,820 and NT\$39,931,666, respectively, as collaterals for factored accounts receivable and for obtaining credit facilities from financial institutions.

8. Significant Loss from Casualty: None

9. Subsequent Events: None

10. Others

- (1) Labor cost, depreciation and amortization categorized by function

	2009			2010		
	Operating expense	Cost of sales	Total	Operating expense	Cost of sales	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Labor cost:						
Salaries	10,691,422	2,203,906	12,895,328	13,133,144	2,073,441	15,206,585
Insurance	1,103,299	202,810	1,306,109	1,191,827	165,214	1,357,041
Pension	438,401	25,293	463,694	483,702	24,658	508,360
Other	927,649	104,031	1,031,680	755,314	134,868	890,182
Depreciation	797,215	49,088	846,303	648,953	55,533	704,486
Amortization	1,847,624	12,660	1,860,284	1,609,831	281,287	1,891,118

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(2) The significant financial assets and liabilities denominated in foreign currencies were as follows:

	2009.12.31			2010.12.31		
	Foreign Currency (in thousands)	Exchange Rate	New Taiwan dollars (in thousands)	Foreign Currency (in thousands)	Exchange Rate	New Taiwan dollars (in thousands)
Financial assets						
Monetary assets						
USD	\$ 2,165,436	32.03	69,358,915	2,552,262	29.13	74,347,392
EUR	1,557,832	45.87	71,457,754	1,833,495	38.9876	71,483,570
RMB	983,054	4.69	4,610,523	3,014,289	4.41	13,293,014
Non-monetary assets						
USD	83,450	32.03	2,672,904	33,658	29.13	980,458
Financial liabilities						
Monetary liabilities						
USD	2,967,829	32.03	95,059,563	3,817,104	29.13	111,192,240
EUR	394,341	45.87	18,088,422	403,863	38.9876	15,745,649
RMB	337,244	4.69	1,581,674	810,156	4.41	3,572,788

11. Segment Information

(1) Industry segment

The main business of the Consolidated Companies is to sell brand-name computers and other related IT products, which represents a single reportable operating segment.

(2) Geographic information

	2009					Consolidated NT\$
	Taiwan NT\$	North America NT\$	Europe NT\$	Asia NT\$	Eliminations NT\$	
Area income:						
Customers	32,460,389	149,934,829	287,063,526	106,047,556	-	575,506,300
Inter-company	404,809,061	187,495	6,404,956	7,297	(411,408,809)	-
	<u>437,269,450</u>	<u>150,122,324</u>	<u>293,468,482</u>	<u>106,054,853</u>	<u>(411,408,809)</u>	<u>575,506,300</u>
Area profit (loss) before income taxes						
	<u>415,341,104</u>	<u>(3,051,275)</u>	<u>10,755,265</u>	<u>3,489,518</u>	<u>(411,408,809)</u>	15,125,803
Net investment income by the equity method						
						400,098
Gain on disposal of investments, net						
						79,162
Interest expense						
						(622,080)
Consolidated income before income taxes						
	<u>154,584,475</u>	<u>68,774,280</u>	<u>106,947,852</u>	<u>32,809,119</u>	<u>(97,383,442)</u>	<u>14,982,983</u>
Area identifiable assets						
Equity method investments						3,314,950
Goodwill						21,977,454
Total assets						<u>291,024,688</u>
Depreciation and amortization						
	<u>1,064,578</u>	<u>667,269</u>	<u>847,796</u>	<u>126,944</u>	-	<u>2,706,587</u>
Capital expenditures						
	<u>413,968</u>	<u>30,381</u>	<u>243,081</u>	<u>84,145</u>	-	<u>771,575</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	2010					Consolidated NT\$
	Taiwan NT\$	North America NT\$	Europe NT\$	Asia NT\$	Eliminations NT\$	
Area income:						
Customers	41,343,033	151,314,401	296,425,417	142,619,456	-	631,702,307
Inter-company	<u>433,752,764</u>	<u>9,028</u>	<u>8,994,859</u>	<u>83,553</u>	<u>(442,840,204)</u>	<u>-</u>
	<u>475,095,797</u>	<u>151,323,429</u>	<u>305,420,276</u>	<u>142,703,009</u>	<u>(442,840,204)</u>	<u>631,702,307</u>
Area profit (loss) before income taxes	<u>446,907,391</u>	<u>(2,853,206)</u>	<u>12,897,125</u>	<u>3,498,712</u>	<u>(442,840,204)</u>	17,609,818
Net investment income by the equity method						375,948
Gain on disposal of investments, net						2,376,407
Interest expense						<u>(1,032,786)</u>
Consolidated income before income taxes						<u>19,329,387</u>
Area identifiable assets	<u>146,909,644</u>	<u>47,590,583</u>	<u>85,557,881</u>	<u>42,071,003</u>	<u>(64,343,753)</u>	257,785,358
Equity method investments						2,235,701
Goodwill						<u>20,477,471</u>
Total assets						<u>280,498,530</u>
Depreciation and amortization	<u>1,109,796</u>	<u>469,272</u>	<u>754,494</u>	<u>262,042</u>	<u>-</u>	<u>2,595,604</u>
Capital expenditures	<u>692,911</u>	<u>41,684</u>	<u>316,665</u>	<u>62,134</u>	<u>-</u>	<u>1,113,394</u>

(3) Export sales

Export sales of the domestic operating segments do not exceed 10% of the consolidated revenues, hence no disclosure is required.

(4) Major customers:

No sales to individual customers accounting for more than 10% of the consolidated revenues in 2009 and 2010.