

ACER INCORPORATED AND SUBSIDIARIES
Consolidated Financial Statements
December 31, 2006 and 2007
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Acer Incorporated:

We have audited the consolidated balance sheets of Acer Incorporated (the "Company") and subsidiaries as of December 31, 2006 and 2007, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China and with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants". Those standards and regulations 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, 2006 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and accounting principles generally accepted in the Republic of China.

Effective January 1, 2006, the Company and subsidiaries adopted Republic of China Statement of Financial Accounting Standards (SFAS) No. 34 “Financial Instruments: Recognition and Measurement”, SFAS No. 36 “Financial Instruments: Disclosure and Presentation”, the amended SFAS No. 1 “Conceptual Framework for Financial Accounting and Preparation of Financial Statements”, and the amended SFAS No. 5 “Long-term Investments under Equity Method”. The effects of those accounting changes are discussed in note 3 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended December 31, 2007, 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(x) to the consolidated financial statements.

KPMG
Taipei, Taiwan (the Republic of China)
March 14, 2008

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, 2006 and 2007

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

Assets	2006 NT\$	2007 NT\$	US\$	Liabilities and Stockholders' Equity	2006 NT\$	2007 NT\$	US\$
Current assets:				Current liabilities:			
Cash and cash equivalents (note 4(1))	44,685,211	37,945,339	1,169,889	Short-term borrowings (notes 4(14) and 6)	7,629,178	5,372,109	165,627
Notes and accounts receivable, net of allowance for doubtful accounts of NT\$677,092 and NT\$898,972 as of December 31, 2006 and 2007, respectively (notes 4(2) and 6)	69,621,856	101,898,281	3,141,615	Current installments of long-term debt (notes 4(15) and 6)	28,377	17,366	535
Notes and accounts receivable from related parties (note 5)	940,950	448,481	13,827	Notes and accounts payable	65,591,958	76,259,412	2,351,146
Other receivable from related parties (note 5)	89,937	59,403	1,831	Notes and accounts payable to related parties (note 5)	824,288	4,583,615	141,317
Other receivables (note 10)	3,740,455	7,375,569	227,395	Financial liabilities at fair value through profit or loss (notes 4(4) and 4(21))	1,202,186	1,395,142	43,013
Financial assets at fair value through profit or loss—current (notes 4(4) and 4(21))	99,965	19,982	616	Other payables to related parties (note 5)	573,586	609,717	18,798
Available-for-sale financial assets—current (notes 4(3) and 4(21))	13,805,760	2,852,061	87,932	Hedging derivative financial liabilities—current (notes 4(5) and 4(21))	321,016	66,786	2,059
Hedging derivative financial assets—current (notes 4(5) and 4(21))	66,541	235,198	7,251	Royalties payable	8,562,475	11,670,600	359,815
Inventories, net (notes 4(6) and 6)	25,941,852	33,815,697	1,042,568	Accrued expenses and other current liabilities (notes 4(11) and 4(17))	25,237,396	42,867,827	1,321,654
Prepayments and other current assets (note 4(7))	1,073,120	2,828,601	87,208	Total current liabilities	<u>109,970,460</u>	<u>142,842,574</u>	<u>4,403,964</u>
Deferred income tax assets (note 4(17))	972,714	1,914,006	59,011	Long-term liabilities:			
Restricted assets (notes 6 and 10)	229,300	2,233,583	68,864	Long-term debt, excluding current installments (notes 4(15) and 6)	168,627	16,790,876	517,678
Total current assets	<u>161,267,661</u>	<u>191,626,201</u>	<u>5,908,007</u>	Other liabilities (note 4(16))	545,320	1,121,524	34,578
Long-term investments				Deferred income tax liabilities—noncurrent (note 4(17))	2,260,108	5,119,374	157,835
Equity method investments (note 4(9))	6,613,462	4,689,684	144,587	Total long-term liabilities	<u>2,974,055</u>	<u>23,031,774</u>	<u>710,091</u>
Financial assets carried at cost (notes 4(8) and 4(21))	4,837,842	3,142,121	96,875	Total liabilities	<u>112,944,515</u>	<u>165,874,348</u>	<u>5,114,055</u>
Available-for-sale financial assets—noncurrent (notes 4(10) and 4(21))	2,384,234	3,370,847	103,926	Stockholders' equity and minority interest (notes 3 and 4(18)):			
Total long-term investments	<u>13,835,538</u>	<u>11,202,652</u>	<u>345,388</u>	Common stock	23,370,637	24,054,904	741,634
Property, plant and equipment (note 6):				Capital surplus	29,947,020	29,898,983	921,812
Land	1,478,486	1,560,568	48,114	Retained earnings:			
Buildings and improvements	3,842,966	3,627,214	111,830	Legal reserve	6,468,865	7,490,689	230,945
Computer equipment and machinery	2,609,649	4,367,924	134,667	Special reserve	283,921	-	-
Transportation equipment	134,293	114,923	3,543	Unappropriated earnings	11,531,479	13,551,024	417,790
Office equipment	946,829	985,679	30,389	Other stockholders' equity components:			
Leasehold improvements	397,339	487,647	15,035	Foreign currency translation adjustment	1,335,500	2,733,899	84,289
Other equipment	686,227	723,029	22,292	Minimum pension liability adjustment	-	(173,364)	(5,345)
Prepayments for purchases of equipment	12,390	490,749	15,130	Unrealized gain on available-for-sale financial assets	4,374,388	2,508,663	77,344
	10,108,179	12,357,733	381,000	Hedging reserve	(12,780)	15,836	488
Less: accumulated depreciation	(3,660,678)	(3,446,629)	(106,263)	Treasury stock	(3,270,920)	(3,270,920)	(100,845)
accumulated impairment	(257,000)	(274,663)	(8,468)	Total stockholders' equity	<u>74,028,110</u>	<u>76,809,714</u>	<u>2,368,112</u>
Net property, plant and equipment	<u>6,190,501</u>	<u>8,636,441</u>	<u>266,269</u>	Minority interest	<u>1,527,673</u>	<u>599,280</u>	<u>18,476</u>
Intangible assets (notes 4(12) and 10)	396,682	25,926,493	799,337	Total stockholders' equity and minority interest	<u>75,555,783</u>	<u>77,408,994</u>	<u>2,386,588</u>
Property not used in operations (notes 4(11) and 6)	4,896,809	3,806,103	117,346	Commitments and contingent liabilities (notes 4(4), 4(5) and 7)			
Other financial assets (notes 4(13), 4(21) and 6)	1,294,344	961,393	29,641				
Deferred charges and other assets (note 4(17))	618,763	1,124,059	34,655				
Total assets	<u>188,500,298</u>	<u>243,283,342</u>	<u>7,500,643</u>	Total liabilities and stockholders' equity	<u>188,500,298</u>	<u>243,283,342</u>	<u>7,500,643</u>

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2006 and 2007

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

	2006	2007	
	NT\$	NT\$	US\$
Revenues (note 5)	350,816,353	462,066,080	14,245,910
Cost of revenues (note 5)	<u>(312,645,040)</u>	<u>(414,647,770)</u>	<u>(12,783,961)</u>
Gross profit	<u>38,171,313</u>	<u>47,418,310</u>	<u>1,461,949</u>
Operating expenses (notes 5 and 10):			
Selling	(27,598,463)	(32,727,126)	(1,009,007)
General and administrative	(2,725,575)	(4,156,402)	(128,146)
Research and development	<u>(384,829)</u>	<u>(349,659)</u>	<u>(10,780)</u>
	<u>(30,708,867)</u>	<u>(37,233,187)</u>	<u>(1,147,933)</u>
Operating income	<u>7,462,446</u>	<u>10,185,123</u>	<u>314,016</u>
Non-operating income and gains:			
Interest income	944,415	1,343,523	41,422
Investment gain recognized by equity method, net (note 4(9))	427,803	695,660	21,448
Gain on disposal of property and equipment, net	97,047	121,418	3,743
Gain on disposal of investments, net (notes 4(3), 4(8), 4(9) and 4(10))	5,619,810	4,045,981	124,741
Other income (note 10)	<u>2,177,045</u>	<u>493,089</u>	<u>15,203</u>
	<u>9,266,120</u>	<u>6,699,671</u>	<u>206,557</u>
Non-operating expenses and losses:			
Interest expense	(427,250)	(759,907)	(23,428)
Other investment loss (note 4(8))	(545,868)	-	-
Foreign currency exchange loss and loss on valuation of financial instruments, net (note 4(4))	(657,619)	(455,385)	(14,040)
Asset impairment loss (note 4(11))	(995,000)	-	-
Other losses	<u>(554,522)</u>	<u>(560,865)</u>	<u>(17,292)</u>
	<u>(3,180,259)</u>	<u>(1,776,157)</u>	<u>(54,760)</u>
Income from continuing operations before income taxes	13,548,307	15,108,637	465,813
Income tax expense (note 4(17))	<u>(3,387,917)</u>	<u>(2,665,578)</u>	<u>(82,182)</u>
Income from continuing operations	10,160,390	12,443,059	383,631
Income from discontinued operations (net of income taxes of NT\$61,069 and NT\$23,120 in 2006 and 2007, respectively) (note 4(19))	180,650	517,866	15,966
Consolidated net income	<u>10,341,040</u>	<u>12,960,925</u>	<u>399,597</u>
Attributable to:			
Shareholders of the parent company	10,218,242	12,958,933	399,535
Minority shareholders	<u>122,798</u>	<u>1,992</u>	<u>62</u>
	<u>10,341,040</u>	<u>12,960,925</u>	<u>399,597</u>

	Before income taxes	After income taxes	Before income taxes	After income taxes
	NT\$	NT\$	NT\$	US\$
Earnings per common share (in dollars) (note 4(20)):				
Basic earnings per common share — retroactively adjusted	<u>4.98</u>	<u>4.32</u>	<u>5.74</u>	<u>0.18</u>
			<u>5.48</u>	<u>0.17</u>

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2006 and 2007
(Expressed in thousands of New Taiwan dollars and US dollars)

	<u>Retained earnings</u>					Foreign currency translation adjustment	Unrealized loss on long-term equity investments	Minimum pension liability adjustment	Unrealized gain on available-for-sale financial assets	Hedging reserve	Treasury stock	Minority interest	Total stockholders' equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings								
Balance at January 1, 2006	22,545,187	30,552,133	5,621,115	2,017,819	8,484,278	(226,806)	(454)	-	-	66,062	(3,270,920)	1,461,037	67,249,451
Effect of adoption of Statement of Financial Accounting Standards No. 34 "Financial Instruments: Recognition and Measurement" starting from January 1, 2006 (note 3)	-	-	-	-	-	-	-	-	4,503,791	-	-	-	4,503,791
2006 net income	-	-	-	-	10,218,242	-	-	-	-	-	-	122,798	10,341,040
Foreign currency translation adjustment	-	-	-	-	-	1,562,306	-	-	-	-	-	-	1,562,306
Change in fair values of financial instruments	-	-	-	-	-	-	-	-	-	(78,842)	-	-	(78,842)
Appropriation approved by the stockholders (note 4(18)):													
Legal reserve	-	-	847,750	-	(847,750)	-	-	-	-	-	-	-	-
Stock dividends and employees' bonuses in stock	825,450	-	-	-	(825,450)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	(1,733,898)	1,733,898	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(6,763,556)	-	-	-	-	-	-	-	(6,763,556)
Directors' and supervisors' remuneration	-	-	-	-	(93,637)	-	-	-	-	-	-	-	(93,637)
Employees' bonuses in cash	-	-	-	-	(374,546)	-	-	-	-	-	-	-	(374,546)
Change in unrealized loss on long-term equity investments	-	-	-	-	-	-	454	-	-	-	-	-	454
Cash dividends distributed to subsidiaries	-	93,240	-	-	-	-	-	-	-	-	-	-	93,240
Decrease in capital surplus resulting from long-term equity investments accounted for by the equity method (note 4(9))	-	(698,353)	-	-	-	-	-	-	-	-	-	-	(698,353)
Change in unrealized gain on available-for sale financial assets	-	-	-	-	-	-	-	-	(129,403)	-	-	-	(129,403)
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	(56,162)	(56,162)
Balance at December 31, 2006	23,370,637	29,947,020	6,468,865	283,921	11,531,479	1,335,500	-	-	4,374,388	(12,780)	(3,270,920)	1,527,673	75,555,783
2007 net income	-	-	-	-	12,958,933	-	-	-	-	-	-	1,992	12,960,925
Foreign currency translation adjustment	-	-	-	-	-	1,398,399	-	-	-	-	-	-	1,398,399
Change in fair values of financial instruments	-	-	-	-	-	-	-	-	-	28,616	-	-	28,616
Appropriation approved by the stockholders (note 4(18)):													
Legal reserve	-	-	1,021,824	-	(1,021,824)	-	-	-	-	-	-	-	-
Stock dividends and employees' bonuses in stock	684,267	-	-	-	(684,267)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	(283,921)	283,921	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(8,997,695)	-	-	-	-	-	-	-	(8,997,695)
Directors' and supervisors' remuneration	-	-	-	-	(94,804)	-	-	-	-	-	-	-	(94,804)
Employees' bonuses in cash	-	-	-	-	(424,719)	-	-	-	-	-	-	-	(424,719)
Decrease in capital surplus resulting from long-term equity investments accounted for by the equity method (note 4(9))	-	(169,810)	-	-	-	-	-	-	-	-	-	-	(169,810)
Cash dividends distributed to subsidiaries	-	121,773	-	-	-	-	-	-	-	-	-	-	121,773
Change in unrealized gain on available-for sale financial assets	-	-	-	-	-	-	-	-	(1,865,725)	-	-	-	(1,865,725)
Minimum pension liability adjustment	-	-	-	-	-	-	-	(173,364)	-	-	-	-	(173,364)
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	(930,385)	(930,385)
Balance at December 31, 2007	<u>24,054,904</u>	<u>29,898,983</u>	<u>7,490,689</u>	<u>-</u>	<u>13,551,024</u>	<u>2,733,899</u>	<u>-</u>	<u>(173,364)</u>	<u>2,508,663</u>	<u>15,836</u>	<u>(3,270,920)</u>	<u>599,280</u>	<u>77,408,994</u>
Balance at December 31, 2007 (in US\$)	<u>741,634</u>	<u>921,812</u>	<u>230,945</u>	<u>-</u>	<u>417,790</u>	<u>84,289</u>	<u>-</u>	<u>(5,345)</u>	<u>77,344</u>	<u>488</u>	<u>(100,845)</u>	<u>18,476</u>	<u>2,386,588</u>

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended December 31, 2006 and 2007
(Expressed in thousands of New Taiwan dollars and US dollars)

	2006	2007	
	NT\$	NT\$	US\$
Cash flows from operating activities:			
Consolidated net income	10,341,040	12,960,925	399,597
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	841,138	591,189	18,227
Amortization	250,870	551,280	16,996
Gain on disposal of property and equipment, net	(97,011)	(121,418)	(3,743)
Other expenses reclassified from fixed assets	-	4,369	135
Gain on disposal of investments and discontinued operations, net	(5,619,929)	(4,476,991)	(138,030)
Net investment gain on long-term equity investments accounted for by equity method, net of cash dividends received	1,564,267	(875,415)	(26,991)
Other investment loss	545,868	-	-
Asset impairment loss	995,000	-	-
Gain on disposal of businesses and operations (note 10)	(1,504,945)	-	-
Allowance for doubtful advances to related parties	385,043	-	-
Deferred income tax	733,685	(61,297)	(1,890)
Changes in operating assets and liabilities, net of effects from acquisition of Gateway, Inc.:			
Notes and accounts receivable	(5,845,423)	(20,253,180)	(624,424)
Receivables from related parties	5,077,680	(335,002)	(10,328)
Inventories	3,421,113	(6,921,700)	(213,402)
Other financial assets, prepayments and other current assets	258,683	(1,055,734)	(32,549)
Noncurrent receivable	6,454	224,925	6,935
Notes and accounts payable	820,928	(1,826,219)	(56,304)
Payables to related parties	(7,281,227)	3,409,436	105,116
Royalties payable, accrued expenses and other current liabilities	8,122,849	12,015,179	370,439
Other liabilities	218,810	(391,122)	(12,059)
Net cash provided by (used in) operating activities	<u>13,234,893</u>	<u>(6,560,775)</u>	<u>(202,275)</u>
Cash flows from investing activities:			
Decrease (increase) in available-for-sale financial assets — current, net	(1,439,537)	12,332,596	380,226
Proceeds from disposal of long-term investments	6,028,639	7,018,429	216,385
Proceeds from disposal of discontinued operations	-	868,222	26,768
Purchase of long-term investments	(44,366)	(217,140)	(6,695)
Proceeds from long-term investments returned	294,501	495,253	15,269
Proceeds from disposal of businesses and operations	1,379,364	-	-
Proceeds from disposal of property, plant and equipment, and property not used in operations	1,339,539	1,220,389	37,626
Acquisition of property, plant and equipment	(1,205,199)	(534,626)	(16,483)
Increase in intangible assets and other assets	(57,429)	(1,427,547)	(44,013)
Decrease in advances to related parties	249,522	14,771	455
Increase in restricted assets	(480,837)	(1,958,585)	(60,385)
Acquisition of business, net of cash acquired	-	(15,070,542)	(464,638)
Net cash provided by investing activities	<u>6,064,197</u>	<u>2,741,220</u>	<u>84,515</u>
Cash flows from financing activities:			
Decrease in short-term borrowings	4,228,561	(968,414)	(29,857)
Proceeds from long-term debt	8,143	6,760,438	208,430
Payment of cash dividends, employees' bonus, and directors' and supervisors' remuneration	(7,138,499)	(9,395,445)	(289,670)
Change in minority interests	-	(296,018)	(9,126)
Net cash used in financing activities	<u>(2,901,795)</u>	<u>(3,899,439)</u>	<u>(120,223)</u>
Net increase (decrease) in cash and cash equivalents	16,397,295	(7,718,994)	(237,983)
Effects of exchange rate changes	(194,737)	979,122	30,187
Cash and cash equivalents at beginning of year	<u>28,482,653</u>	<u>44,685,211</u>	<u>1,377,685</u>
Cash and cash equivalents at end of year	<u>44,685,211</u>	<u>37,945,339</u>	<u>1,169,889</u>
Supplemental disclosures of cash flow information			
Interest paid	<u>545,690</u>	<u>1,052,609</u>	<u>32,453</u>
Income taxes paid	<u>2,247,298</u>	<u>1,395,005</u>	<u>43,009</u>
Supplementary schedules of non-cash investing and financing activities:			
Change in foreign currency translation adjustment	<u>1,562,306</u>	<u>1,398,399</u>	<u>43,114</u>
Cash acquired from acquisition of Gateway, Inc.:			
Cash consideration		23,507,016	724,742
Liabilities assumed		37,173,295	1,146,086
Less: Non-cash assets acquired		(35,589,573)	(1,097,258)
Less: Goodwill		<u>(16,654,264)</u>	<u>(513,466)</u>
		<u>8,436,474</u>	<u>260,104</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, 2006 and 2007

(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 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 reporting entities of the consolidated financial statements include the Company and its subsidiaries (hereinafter referred to collectively as the “Consolidated Companies”). On December 31, 2006 and 2007, the number of employees of the Consolidated Companies was 5,964 and 6,271, respectively. The Consolidated Companies are summarized below according to their primary business activity.

(a) Sale and maintenance of “Acer” and “Gateway” brand-name information technology products:

	<u>Investor</u>	<u>Percentage of Ownership by the Company at December 31,</u>	
		<u>2006</u>	<u>2007</u>
(1) Acer Incorporated			
(2) Acer Greater China (B.V.I.) Corp. (“AGC”, British Virgin Islands) and its subsidiaries	The Company	100.00	100.00
• Acer Market Services Limited (“AMS”, Hong Kong)	AGC	100.00	100.00
• Acer Computer (Far East) Limited (“AFE”, Hong Kong)	AGC	100.00	100.00
• Acer Information (Zhong Shan) Co., Ltd. (“AIZS”, China)	AMS	100.00	100.00
• Beijing Acer Information Co., Ltd. (“BJAI”, China)	AMS	100.00	100.00
• Acer Computer (Shanghai) Ltd. (“ACCN”, China)	AMS	100.00	100.00

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	<u>Investor</u>	<u>Percentage of Ownership by the Company at December 31,</u>	
		<u>2006</u>	<u>2007</u>
(3) Acer European Holding N.V. (“AEH”, Netherlands Antilles) and its subsidiaries	The Company	100.00	100.00
• Acer Europe B.V. (“AHN”, the Netherlands)	AEH	100.00	100.00
• Acer Computer B.V. (“ACH”, the Netherlands)	AEH	100.00	100.00
• Acer Computer France S.A.R.L. (“ACF”, France)	AHN	100.00	100.00
• Acer U.K. Limited (“AUK”, the United Kingdom)	AHN	100.00	100.00
• Acer Italy S.R.L. (“AIT”, Italy)	AHN	100.00	100.00
• Acer Computer GmbH (“ACG”, Germany)	AHN	100.00	100.00
• Acer Austria GmbH (“ACV”, Austria)	AHN	100.00	100.00
• Acer Europe Services S.R.L. (“AES”, Italy)	AHN	100.00	100.00
• Acer Europe AG (“AEG”, Switzerland)	AHN	100.00	100.00
• Acer Czech Republic S.R.O. (“ACZ”, Czech 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
• Acer Computer Norway AS (“ACN”, Norway)	ACH	100.00	100.00
• Acer Computer Finland Oy (“AFN”, Finland)	ACH	100.00	100.00
• Acer Computer Sweden AB (“ACW”, Sweden)	ACH	100.00	100.00
• Acer Denmark A/S (“ACD”, Denmark)	ACH	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	-
• 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
(4) Boardwalk Capital Holding Limited (“Boardwalk”, British Virgin Islands) and its subsidiaries	The Company	100.00	100.00
• Acer America Corporation (“AAC”, U.S.A.)	Boardwalk	100.00	100.00
• Acer Service Corporation (“ASC”, U.S.A.)	Boardwalk	100.00	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	<u>Investor</u>	Percentage of Ownership by the Company	
		at December 31,	
		2006	2007
• Acer Computer Mexico, S.A. de C.V. (“AMEX”, Mexico)	Boardwalk	99.89	99.89
• Acer Latin America, Inc. (“ALA”, U.S.A.)	Boardwalk	99.89	99.89
• Acer American Holding Corp. (“AAH”, USA)	Boardwalk	-	100.00
• Gateway, Inc. (“GWI”, U.S.A.)	AAH	-	100.00
• Gateway US Retail, Inc. (“GRA”, U.S.A.)	GWI	-	100.00
• Gateway Direct, Inc. (“GDA”, U.S.A.)	GWI	-	100.00
• Gateway Manufacturing LLC (“GMA”, U.S.A.)	GWI	-	100.00
• Gateway KK (“GJP”, Japan)	GWI	-	100.00
• Gateway de Mexico S. de R.L. de C.V. (“GMX”, Mexico)	GWI	-	100.00
• Gateway Ltd. (“GUK”, the United Kingdom)	GWI	-	100.00
• Gateway France SAS (“GFR”, France)	GWI	-	100.00
• Gateway International Computers Limited (“GIC”, the United Kingdom)	GIH	-	100.00
• Gateway International Holdings, Inc. (“GIH”, U.S.A.)	GWI	-	100.00
• Gateway Canada Corporation (“GCA”, Canada)	GWI	-	100.00
• Servicio Profesionales de Acceso S. de (“GSMX”, Mexico)	GWI	-	100.00
• Gateway Europe B.V. (“GEBV”, the Netherlands)	GWI	-	100.00
• Gateway Computers Ireland Ltd. (“GCI”, Ireland)	GWI	-	100.00
• Gateway Hong Kong Ltd. (“GHK”, Hong Kong)	GWI	-	100.00
• eMachines Internet Group (“EMA”, U.S.A.)	GWI	-	100.00
• Gateway Bermuda LP (“GBM”, Bermuda)	GWI	-	100.00
(5) Acer Holding International, Incorporated (“AHI”, British Virgin Islands) and its subsidiaries	The Company	100.00	100.00
• Acer Computer Co., Ltd. (“ATH”, Thailand)	AHI	100.00	100.00
• Acer Japan 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 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

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	<u>Investor</u>	Percentage of Ownership by the Company at December 31,	
		2006	2007
• Acer Vietnam Co., Ltd. (“AVN”, Vietnam)	AHI	100.00	100.00
• Acer Philippines, Inc. (“APHI”, Philippines)	AHI	100.00	100.00
• Acer Asia Pacific Sdn Bhd (“AAPH, Malaysia”)	AHI	-	100.00
(6) Acer Computer International Ltd. (“ACI”, Singapore)	The Company	100.00	100.00
(7) Acer Sales & Distribution Ltd. (“ASD”, Hong Kong)	The Company	100.00	100.00
(b) Sale and distribution of computer products, electronic communication products, and integrated circuits:			
(1) Weblink International Inc. (“WII”, Taiwan)	The Company	99.79	99.79
(2) Sertek Incorporated (“SNX”, Taiwan)	The Company	100.00	-
(3) Digital Computer System Co., Ltd. (“DCS”, Taiwan)	The Company	100.00	-
(4) Weblink (H.K.) International Ltd. (“WHI”, Hong Kong)	WII	99.79	99.79
(5) Weblink Shanghai International Limited (“WSHI”, China)	WII	99.79	99.79
(6) Sertek Limited (“STKL, Hong Kong)	SNX	100.00	-
(7) Sertek (Shanghai) Limited (“STKS”, China)	SNX	100.00	-
(8) Servex (Malaysia) Sdn Bhd (“SMA”, Malaysia) and its subsidiaries	ASSSB	100.00	100.00
(9) Servex International (Thailand) Co., Ltd. (“STH”, Thailand)	ATH	100.00	100.00
(10) Logistron Services Ptd Ltd. (LGS, Singapore) and its subsidiaries	ACS	100.00	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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

	<u>Investor</u>	Percentage of Ownership by the Company at December 31,	
		2006	2007
(1) Apacer Technology Inc. (“AMT”, Taiwan)	The Company	53.95	Note 4(9)
(2) Apacer Electronic (Shanghai) Co., Ltd. (“AMC”, China)	AMT	53.95	Note 4(9)
(3) Apacer Memory America Inc. (“AMA”, U.S.A)	AMT	53.95	Note 4(9)
(4) Apacer Technology B.V. (“AMH”, the Netherlands)	AMT	53.95	Note 4(9)
(5) Apacer Technology Japan Corp. (“ATJ”, Japan)	AMT	53.95	Note 4(9)
(6) AQR Technology Inc. (“AQR”, Taiwan)	AMT	53.95	Note 4(9)
(7) Kingdom Corporation Limited (“AMK”, Hong Kong)	AMT	53.95	Note 4(9)

- (d) Investing and holding companies:

(1) Multiventure Investment Inc. (“MVI”, Taiwan)	The Company	100.00	100.00
(2) Acer Digital Service Co. (“ADSC”, Taiwan)	The Company	100.00	100.00
(3) Acer Worldwide Incorporated (“AWI”, British Virgin Islands)	The Company	100.00	100.00
(4) Cross Century Investment Limited (“CCI”, Taiwan)	The Company	100.00	100.00
(5) Acer SoftCapital Incorporated (“ASCBVI”, British Virgin Islands)	The Company	100.00	100.00
(6) Acer Venture Associates (“AVA”, Cayman Islands)	ASCBVI	100.00	100.00
(7) Acer Capital Limited (“ACBVI”, British Virgin Islands)	ASCBVI	100.00	100.00
(8) ASC Cayman, Limited (“ASCCAM”, Cayman Islands)	ASCBVI	100.00	100.00
(9) Acer Capital Corporation (“ACT”, Taiwan)	The Company	100.00	100.00
(10) Aspire Incubation Venture Capital (“AIVC”, Taiwan)	The Company	100.00	100.00
(11) Acer Digital Services (B.V.I.) Holding Corp. (“ADSBH”, British Virgin Islands)	The Company	100.00	100.00
(12) Acer Digital Services (Cayman Islands) Corp. (“ADSCC”, Cayman Islands)	ADSBH	100.00	100.00
(13) Nicholas Insurance Company Ltd. (“NIC”, Bermuda)	GWI	-	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(e) Property development:

	<u>Investor</u>	Percentage of Ownership by the Company at December 31,	
		2006	2007
(1) Acer Property Development Inc. ("APDI", Taiwan)	ADSC	100.00	100.00
(2) Aspire Service & Development Inc. ("ASDI", Taiwan)	ADSC	100.00	100.00

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

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

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

(1) TWP Corporation ("TWP", Taiwan)	The Company	100.00	100.00
(2) BRAVO Information Technology Co., Ltd. ("BIT", Taiwan)	TWP	100.00	-
(3) Acer TWP Innovation Information Co. Ltd. (ATIM, Taiwan)	TWP	100.00	-
(4) TWP International Inc. ("TWP BVI", British Virgin Islands)	TWP	100.00	100.00
(5) Acer Third Wave Software (Beijing) Co., Ltd. ("TWPBJ", China)	TWPBVI	100.00	100.00

In July and September 2007, the Company sold all its ownership interest in SNX and DCS, respectively. As a result, SNX and DCS are excluded from the consolidated financial statements from the dates of sale.

In October 2007, the Company reduced its investment in AMT to an ownership interest of less than 50% and no longer held a controlling interest in AMT. AMT is excluded from the consolidated financial statements from the date of sale, and the remaining 34.40% ownership interest in AMT has been accounted for using the equity method.

The Company completed the acquisition of 100% of the shares of Gateway, Inc. on October 15, 2007 (refer to note 4(12)). Gateway, Inc. is included in the consolidated financial statements from the date of the acquisition.

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ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)****2. Summary of Significant Accounting Policies****(a) Accounting principles and consolidation policy**

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the Republic of China (ROC GAAP). 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 of acquisition, and is excluded from the consolidated statements of income when the Company loses its power to control the subsidiary. All significant inter-company balances and transactions are eliminated in consolidation.

(b) 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.

(c) Foreign currency transactions and translations

The Company's reporting currency is the New Taiwan dollar. The Consolidated Companies record transaction in their respective local currencies. 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 if 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 preparation of the consolidated financial statements, a remeasurement of the foreign subsidiaries' financial statements into the functional currency is performed first, 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 translation adjustment, a separate component of stockholders' equity.

(d) Classification of current and noncurrent 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 shall be 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 shall be classified as non-current.

(e) 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.

(f) Allowance for doubtful accounts

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

(g) Inventories; land held for sale and development

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

(Continued)

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

The Consolidated Companies adopted transaction date accounting for financial instrument transactions. Upon initial recognition, financial instruments are evaluated at fair value. Except for trading-purpose financial instruments, acquisition cost or issuance cost is added to the originally recognized amount. 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:

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

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 at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(2) Hedging derivative financial assets / liabilities

Hedging derivative financial assets / liabilities represent derivatives that are to hedge the risk of changes in exchange rates resulting from operating activities denominated in foreign currency and meet the criteria for hedge accounting.

(3) Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, and any changes are recognized directly in equity. The fair value of publicly traded stocks is the closing 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. When an investment is derecognized, the cumulative unrealized gain or loss in equity account 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 is recognized.

(4) Financial assets carried at cost

Equity investments which cannot be evaluated at fair value are carried at original cost. If there is objective evidence which indicates that an equity investment carried at cost has been impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

(Continued)

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

(i) 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. If the designated hedging instruments meet the criteria for hedge accounting, they are accounted for as follows:

(1) 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 being recognized in profit or loss.

(2) 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.

(j) Noncurrent assets held for sale and discontinued operation

Noncurrent assets and groups of assets and liabilities which comprise disposal groups are classified as “held for sale” when all of the following criteria are met: a decision has been made to sell, 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. Noncurrent 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. Noncurrent assets or disposal groups classified as held for sale are not depreciated, amortized or depleted. Total assets and total liabilities are each shown separately and excluded from the individual line items of the consolidated balance sheets. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognized.

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) shall be recognized, but not in excess of the cumulative impairment loss that has been recognized and the amount that is allowed to be recovered in accordance with SFAS No. 35 “Impairment of Assets”.

The presentation of an operation as a discontinued operation is limited to a component of an entity that either has been disposed of or is classified as held for sale. A component of an entity comprises operations and cash flows that can be distinguished clearly, both operationally and for financial reporting purposes, from the rest of the entity. A component that previously was held for use will have been one or more cash-generating units.

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ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)****(k) 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. Prior to January 1, 2006, differences between the acquisition cost and net equity of the investee that could not be attributed to any reason were amortized over five years as investment income or losses.

The Consolidated Companies adopted amended SFAS No. 5 "Long-term Investments under Equity Method" commencing from January 1, 2006. The investment cost in excess of identifiable net assets is recorded as investor-level goodwill. Investor-level goodwill is no longer amortized but tested for impairment. Differences between investment cost and net equity of the investee in the previous investments that cannot be attributed to any reason and were originally amortized over five years are no longer amortized starting from January 1, 2006.

When an equity-method investment is disposed of, the difference between the selling price and the book value of the equity-method investment is recognized as disposal gain or loss in the accompanying consolidated statements of income. If there are capital surplus and separate components of shareholders' equity resulting from such equity investments, they are charged as a reduction to disposal gain/loss based on the disposal ratio of investments.

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 shall be used to adjust 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 to retained earnings.

Unrealized gains 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 gains and losses resulting from depreciable or amortizable assets are recognized over the estimated useful lives of such assets. Gains and losses from other assets are recognized when realized.

(l) Capital leases

For capital leases, where the Consolidated Companies act as the lessor, the Consolidated Companies account for all installment rental receivables plus bargain purchase price or guaranteed residual value and their related imputed interest as lease receivables and recognize interest income thereon over the lease terms.

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

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

(Continued)

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

equipment are recorded in the non-operating section in the accompanying consolidated statements of income.

Land held for the purpose of development and future sale are recorded under “property not used in operations” and are stated at the lower of cost or market value. The market value of land is determined by independent appraisers.

Property leased to others and property not in use are classified to other assets and continue to be depreciated and tested for impairment.

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

1. Buildings and improvements: 20~50 years
2. Computer equipment and machinery: 3~5 years
3. Transportation equipment: 3~5 years
4. Office and other equipment: 3~10 years
5. Leasehold improvement: 1~10 years

(n) Intangible assets

Goodwill arising from a business combination was previously amortized using the straight-line method over five years. Effective January 1, 2006, and in accordance with the amended SFAS No. 1 “Conceptual Framework for Financial Accounting and Preparation of Financial Statements”, goodwill is no longer amortized but is tested for impairment annually.

Other intangible assets are stated at cost. Intangible assets with a finite useful life are amortized using the straight-line method over the expected useful lives. The estimated useful lives are as follows:

1. Patents: 10~16 years
2. Purchased software: 3~7 years
3. Customer relationships: 10 years
4. Trademarks and trade names: 20 years

The Gateway trademark and trade name are an intangible asset with an indefinite useful life and shall not be amortized, but it is subject to annual impairment test. The useful life of an intangible asset that is not being amortized shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in accounting estimate.

Effective January 1, 2007, the Consolidated Companies adopted SFAS No. 37 “Intangible Assets”. At initial adoption, the Consolidated Companies reassessed the useful lives and amortization methods of the recognized intangible assets. No change has been made.

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ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)****(o) Non-financial asset impairment**

The Consolidated Companies assess at each balance sheet date whether there is any indication that long-lived assets and certain identifiable intangible assets may have been impaired. If any such indication exists, the Consolidated Companies estimate the recoverable amount of the assets. The Consolidated Companies recognize impairment loss for an asset whose carrying value is higher than the recoverable amount. An impairment loss recognized in prior periods is reversed if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Consolidated Companies test for impairment of goodwill and intangible assets that have indefinite lives or that are not available for use on an annual basis, and recognize an impairment loss on the carrying value in excess of the recoverable amount. Reversal of impairment loss on goodwill is not allowed.

(p) Deferred charges

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

(q) Treasury stock

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

The Company's common stock held by its subsidiaries is accounted for as the Company's 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.

(Continued)

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

(r) 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 currently.

(s) Administrative expenses

The Company's administrative expenses include direct expenses incurred for the business unit within the Company and expenses incurred for managing the investee companies. To reflect the operating income of the Consolidated Companies, administrative expenses are divided into two parts. The first part, representing the direct expenses incurred for the Consolidated Companies, is included as administrative expenses in the accompanying consolidated statements of income. The second part, representing expenses incurred for managing the investee companies, is presented as a reduction of net investment income (loss) in the consolidated statements of income.

(t) Retirement plan

(1) Defined benefit retirement plans

The Company and its domestic subsidiaries established individual noncontributory defined benefit retirement plans (the "Plans") and retirement fund administration committees. The Plans provide for lump-sum retirement benefits to retiring employees based on length of service, age, and certain other factors. In accordance with the requirements of the ROC Labor Standards Law, the funding of retirement plans by the Company and its domestic subsidiaries is based on a percentage of employees' total salaries. The funds are deposited with the Central Trust of China (merged with Bank of Taiwan in July 2007) or other bank.

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

(2) 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 its domestic subsidiaries contribute monthly an amount equal to 6% of each employee's monthly salary to an individual labor pension fund account.

(Continued)

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

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

(u) Income taxes

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

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

The investment tax credits granted for purchases of equipment, research and development expenses, and training expenses are recognized in the current period.

According to the ROC Income Tax Act, undistributed earnings, if any, earned after December 31, 1997, are subject to an additional 10% retained earnings tax. The surtax is accounted for as income tax expense in the following year when the stockholders decide not to distribute the earnings.

(v) Earnings per common share

Basic earnings per common share are based on net income divided by the weighted-average number of outstanding common shares. The increase in the number of outstanding shares through distribution of stock dividends from retained earnings or capital surplus is included in the outstanding shares retroactively.

(w) Business combination

Business combinations are accounted for in accordance with SFAS No. 25 "Business Combinations". 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 is recognized as goodwill.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(x) Convenience translation into U.S. dollars

The consolidated financial statements are stated in New Taiwan dollars. Translation of the 2007 New Taiwan dollar amounts into U.S. dollar amounts, using the spot rate on December 31, 2007, of NT\$32.435 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.

3. Accounting Changes

The Consolidated Companies adopted ROC SFAS No. 34 "Financial Instruments: Recognition and Measurement", SFAS No. 36 "Financial Instruments: Disclosure and Presentation", the amended SFAS No. 1 "Conceptual Framework for Financial Accounting and Preparation of Financial Statements", and the amended SFAS No. 5 "Long-term Investments under Equity Method" starting from January 1, 2006. As a result of the aforementioned accounting changes, net income increased by NT\$344,812 and basic earnings per common share increased by NT\$0.15 due to the ceasing of amortization of goodwill and the differences between investment cost and net equity in the previous investments that cannot be attributed to any reason. In addition, available-for-sale financial assets were measured at fair value and reclassified; therefore, an unrealized gain of NT\$4,503,791 on available-for-sale financial assets was recognized in stockholders' equity as of January 1, 2006, and there was no impact on net income and earnings per common share in 2006.

4. Significant Account Disclosures

(1) Cash and cash equivalents

	December 31, 2006	December 31, 2007	
	NT\$	NT\$	US\$
Cash on hand	593,543	55,207	1,702
Bank deposits	13,793,434	14,908,552	459,644
Time deposits	30,048,234	22,981,580	708,543
Investments in redeemable government bonds	250,000	-	-
	<u>44,685,211</u>	<u>37,945,339</u>	<u>1,169,889</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(2) Notes and accounts receivable

The Consolidated Companies entered into factoring contracts with several banks to sell certain of their accounts receivable without recourse. As of December 31, 2006 and 2007, details of the contracts were as follows:

Buyer	Factored amount	Factoring credit limit	December 31, 2006		
			Advance amount (Derecognized amount)	Interest rate	Collateral
China Trust Bank	\$ 373,126	1,800,000	373,126		-
Taishin Bank	2,375,314	5,923,620	2,137,782		Promissory note
Taishin Bank	118,520	945,284	105,889		"
La Caixa Bank	2,529,983	2,430,828	2,066,119		-
HSBC Bank	1,200,649	2,444,700	1,200,649		-
Standard Chartered Bank	368,227	977,880	368,227		-
Emirates Bank	141,075	162,980	141,075		-
ABN AMRO Bank	1,727,016	4,302,000	1,727,016		-
Ifitalia Factor S.P.A.	<u>7,359,395</u>	<u>11,379,716</u>	<u>4,273,802</u>		-
	\$ <u>16,193,305</u>	<u>30,367,008</u>	<u>12,393,685</u>	<u>1.53%~6.02%</u>	

Buyer	Factored amount	Factoring credit limit	December 31, 2007		
			Advance amount (Derecognized amount)	Interest rate	Collateral
ABN AMRO Bank	\$ 72,068	72,068	72,068		-
La Caixa Bank	4,415,967	6,577,855	4,415,967		-
Ifitalia Factor S.P.A.	4,598,145	12,183,229	-		-
Standard Chartered Bank	596,346	1,777,960	596,346		-
China Trust Bank	254,498	1,800,000	254,498		-
Taipei Fubon Bank	<u>823,824</u>	<u>1,000,000</u>	<u>823,824</u>		-
	\$ <u>10,760,848</u>	<u>23,411,112</u>	<u>6,162,703</u>	<u>1.62%~6.00%</u>	

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

	December 31, 2006		December 31, 2007	
	NT\$		NT\$	US\$
Publicly traded equity securities	5,301,377		662,096	20,413
Mutual funds	8,504,383		2,112,196	65,121
Others	-		77,769	2,398
	<u>13,805,760</u>		<u>2,852,061</u>	<u>87,932</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

In 2006 and 2007, the Consolidated Companies disposed of portions of these investments and recognized gains on disposal thereof of NT\$2,601,934 and NT\$2,057,447, respectively. The gains were recorded as “gain on disposal of investments” in the accompanying consolidated statements of income.

(4) Financial assets and liabilities at fair value through profit or loss

As of December 31, 2006 and 2007, derivative financial instruments that did not meet the criteria for hedge accounting (classified as financial assets and liabilities at fair value through profit or loss) were as follows:

(a) Foreign currency options:

(i) Long options:

	December 31, 2006		Maturity date
	Notional amount (in thousands)	Fair value (in thousands)	
USD CALL/EUR PUT	USD 50,854	NT\$ <u>3,059</u>	01/31/2007~02/28/2007

	December 31, 2007		Maturity date
	Notional amount (in thousands)	Fair value (in thousands)	
EUR CALL/GBP PUT	EUR 3,487	NT\$ <u>4,983</u>	02/27/2008

(ii) Short options

	December 31, 2006		Maturity date
	Notional amount (in thousands)	Fair value (in thousands)	
EUR CALL/USD PUT	USD 50,854	NT\$ <u>(44,620)</u>	01/31/2007~02/28/2007

	December 31, 2007		Maturity date
	Notional amount (in thousands)	Fair value (in thousands)	
GBP CALL/EUR PUT	EUR 3,835	NT\$ <u>(593)</u>	02/27/2008

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) Foreign currency forward contracts:

		December 31, 2006		
		Notional amount (in thousands)	Fair value (in thousands)	Settlement date
Financial assets:				
	<u>Buy</u>	<u>Sell</u>		
USD / JPY	USD	6,000	NT\$ 4,728	2007/01/12 ~ 2007/03/16
USD / THB	USD	25,000	15,735	2007/01/15 ~ 2007/02/27
USD / SGD	USD	4,000	24	2007/01/31
USD / CAD	USD	64,884	72,094	2007/01/12 ~ 2007/02/27
RMB / USD	USD	3,000	49	2007/02/15
EUR / DKK	EUR	24,363	211	2007/01/15 ~ 2007/02/15
EUR / NOK	EUR	9,000	2,127	2007/01/15 ~ 2007/03/15
EUR / SEK	EUR	5,000	802	2007/02/15 ~ 2007/03/15
USD / ZAR	USD	6,000	1,136	2007/01/02
			NT\$ <u>96,906</u>	
Financial liabilities:				
	<u>Buy</u>	<u>Sell</u>		
USD / NTD	USD	1,000	(22)	2007/01/08
USD / PHP	USD	1,100	(662)	2007/01/30
USD / THB	USD	9,000	(2,125)	2007/01/12 ~ 2007/02/27
USD / MYR	USD	22,060	(10,900)	2007/01/12 ~ 2007/02/15
USD / INR	USD	19,000	(8,102)	2007/01/31 ~ 2007/03/31
USD / MXN	USD	24,000	(5,038)	2007/01/16 ~ 2007/04/30
RMB / USD	USD	15,000	(2,466)	2007/01/12 ~ 2007/02/15
USD / EUR	USD	751,276	(1,095,553)	2007/01/16 ~ 2007/02/27
EUR / DKK	EUR	4,000	(35)	2007/01/15
EUR / NOK	EUR	12,000	(5,405)	2007/01/15 ~ 2007/02/15
EUR / SEK	EUR	21,672	(9,268)	2007/01/15 ~ 2007/02/15
USD / ZAR	USD	18,000	(17,990)	2007/01/16 ~ 2007/02/27
			NT\$ <u>(1,157,566)</u>	

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

							December 31, 2007		
		Notional amount (in thousands)		Fair value (in thousands)		Settlement date			
Foreign currency forward contracts:									
Financial assets:									
	<u>Buy</u>	<u>Sell</u>							
	USD / ZAR	USD	17,222	NT\$	11,085	2008/01/02 ~ 2008/02/29			
	USD / SGD	USD	2,000		133	2008/01/31			
	USD / EUR	EUR	18,000		708	2008/01/16			
	USD / INR	USD	5,000		106	2008/01/31 ~ 2008/05/30			
	USD / JPY	USD	16,500		1,273	2008/01/15 ~ 2008/05/16			
	USD / RMB	USD	5,000		108	2008/02/29			
	USD / THB	USD	18,000		<u>1,586</u>	2008/01/15 ~ 2008/02/15			
				NT\$	<u><u>14,999</u></u>				
Financial liabilities:									
	<u>Buy</u>	<u>Sell</u>							
	USD / ZAR	USD	7,000		(4,460)	2008/01/02 ~ 2008/02/15			
	USD / RMB	USD	10,000		(1,991)	2008/01/30 ~ 2008/03/31			
	USD / MYR	USD	21,865		(6,642)	2008/01/15 ~ 2008/03/17			
	USD / SGD	USD	13,000		(2,682)	2008/01/16 ~ 2008/03/31			
	USD / INR	USD	45,536		(22,051)	2008/01/16 ~ 2008/05/30			
	USD / NTD	USD	24,000		(2,180)	2008/01/09 ~ 2008/01/31			
	USD / EUR	EUR	645,000		<u>(1,354,543)</u>	2008/01/31 ~ 2008/02/29			
				NT\$	<u><u>(1,394,549)</u></u>				

The fair values of the derivative financial instruments described above were accounted for under the following accounts:

	December 31, 2006		December 31, 2007	
	NT\$		NT\$	US\$
Financial assets at fair value through profit or loss – current:				
Foreign currency forward contracts	96,906		14,999	462
Foreign currency options	<u>3,059</u>		<u>4,983</u>	<u>154</u>
	<u><u>99,965</u></u>		<u><u>19,982</u></u>	<u><u>616</u></u>
Financial liabilities at fair value through profit or loss – current:				
Foreign currency forward contracts	(1,157,566)		(1,394,549)	(42,995)
Foreign currency options	<u>(44,620)</u>		<u>(593)</u>	<u>(18)</u>
	<u><u>(1,202,186)</u></u>		<u><u>(1,395,142)</u></u>	<u><u>(43,013)</u></u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

As of December 31, 2006 and 2007, unrealized loss resulting from the changes in fair value of these derivative contracts amounted to NT\$1,787,081 and NT\$272,939, respectively.

(5) Hedging derivative financial assets and liabilities

The Consolidated Companies entered into foreign currency forward contracts and foreign currency options to hedge their exposure to changes in cash flows associated with foreign currency exchange risk resulting from anticipated transactions denominated in foreign currencies.

(a) Fair value hedge

As of December 31, 2006 and 2007, details of hedged items designated as fair value hedges and their respective hedging derivative financial instruments were as follows:

December 31, 2006						
<u>Hedged item</u>	<u>Hedging instruments</u>	<u>Notional amount</u>	<u>(in thousands)</u>	<u>Fair value of hedging instruments</u>	<u>Settlement date</u>	
Accounts receivable/ payable denominated in foreign currencies	Foreign currency forward contracts:					
	-financial assets					
		<u>Buy</u> <u>Sell</u>				
		EUR / GBP	EUR	108,000	NT\$ 11,516	2007/01/31 ~ 2007/03/30
		USD / AUD	USD	11,835	1,208	2007/03/30 ~ 2007/04/30
					<u>NT\$ 12,724</u>	
	-financial liabilities					
		<u>Buy</u> <u>Sell</u>				
		USD / EUR	EUR	153,392	NT\$ (206,676)	2007/01/16 ~ 2007/03/15
		EUR / GBP	EUR	39,000	(3,975)	2007/01/31 ~ 2007/03/30
	USD / AUD	USD	53,783	(36,884)	2007/01/18 ~ 2007/04/17	
	USD / NZD	USD	3,700	(7,374)	2007/01/18 ~ 2007/03/16	
				<u>NT\$ (254,909)</u>		

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

December 31, 2007				
<u>Hedged item</u>	<u>Hedging instruments</u>	<u>Notional amount</u>	<u>Fair value of hedging instruments</u>	<u>Settlement date</u>
		(in thousands)		
Accounts receivable/ payable denominated in foreign currencies	Foreign currency forward contracts: -financial assets			
	<u>Buy</u> <u>Sell</u>			
	EUR / NOK	EUR 9,000	NT\$ 7,450	2008/01/15
	EUR / SEK	EUR 8,500	8,813	2008/01/15
	EUR / GBP	EUR 146,410	131,615	2008/01/31 ~ 2008/04/16
	USD / EUR	EUR 13,566	6,268	2008/02/29
	USD / AUD	USD 29,897	42,826	2008/01/16 ~ 2008/02/28
	USD / NZD	USD 2,000	98	2008/01/30
	AUD / NZD	AUD 632	328	2008/02/05
			NT\$ <u>197,398</u>	
	Financial liabilities			
	<u>Buy</u> <u>Sell</u>			
	USD / EUR	EUR 11,388	NT\$ (21,804)	2008/01/01 ~ 2008/02/29
	USD / AUD	USD 9,790	(22,773)	2008/01/11 ~ 2008/01/31
	USD / NZD	USD 1,430	(245)	2008/02/29
	AUD / NZD	AUD 1,751	-	2008/01/07
			NT\$ <u>(44,822)</u>	

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) Cash flow hedging

As of December 31, 2006 and 2007, details of hedged item designated as cash flow hedge and their respective hedging derivative financial instruments as follows:

<u>December 31, 2006</u>					
<u>Hedged item</u>	<u>Hedging instruments</u>	<u>Notional Amount</u>	<u>Fair value of hedging instruments</u>	<u>Expected period of cash flow</u>	<u>Expected period of recognition in earnings</u>
		(in thousands)			
Accounts receivable/ payable denominated in foreign currencies	Foreign currency forward contracts: -financial assets <u>Buy</u> <u>Sell</u> USD / EUR	EUR 205,225	NT\$ <u>52,868</u>	2007/03~05	2007/03~05
	-financial liabilities <u>Buy</u> <u>Sell</u> USD / NZD USD / EUR	USD 800 EUR 131,069	NT\$ (1,434) <u>(64,204)</u> NT\$ <u>(65,638)</u>	2007/02 2007/03~05	2007/02 2007/03~05
	Foreign currency options: (1) Long Options: <u>Buy</u> <u>Sell</u> EUR / GBP	EUR 3,000	NT\$ <u>949</u>	2007/02	2007/02
	(2) Short Options: <u>Buy</u> <u>Sell</u> GBP / EUR	EUR 3,000	NT\$ <u>(469)</u>	2007/02	2007/02

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

		December 31, 2007				Expected period of recognition in earnings
<u>Hedge item</u>	<u>Hedging instruments</u>	<u>Notional amount</u>	<u>Fair value of hedging instruments</u>	<u>Expected period of cash flow</u>		
		(in thousands)				
Accounts receivable / payable denominated in foreign currencies	Foreign currency forward contracts: -financial assets					
	<u>Buy</u> <u>Sell</u>					
	EUR / GBP	EUR 24,167	NT\$ 16,582	2008/01~04	2008/01~04	
	USD / EUR	EUR 30,000	9,288	2008/03	2008/03	
	USD / AUD	USD 6,606	8,241	2008/02	2008/02	
	USD / NZD	USD 1,940	331	2008/03	2008/03	
	AUD / NZD	AUD 1,148	596	2008/02	2008/02	
	USD / CAD	USD 4,094	2,762	2008/02	2008/02	
			NT\$ <u>37,800</u>			
	-financial liabilities					
	<u>Buy</u> <u>Sell</u>					
	USD / EUR	EUR 22,712	NT\$ (9,426)	2008/01~02	2008/01~02	
	USD / AUD	USD 3,975	(12,440)	2008/02	2008/02	
	USD / NZD	USD 570	(98)	2008/02	2008/02	
			NT\$ <u>(21,964)</u>			

The fair values of derivative financial instruments described above were accounted for under the following accounts:

	December 31, 2006	December 31, 2007	
	NT\$	NT\$	US\$
Hedging derivative financial assets – current:			
Foreign currency forward contracts	65,592	235,198	7,251
Foreign currency options	949	-	-
	<u>66,541</u>	<u>235,198</u>	<u>7,251</u>
Hedging derivative financial liabilities - current			
Foreign currency forward contracts	(320,547)	(66,786)	(2,059)
Foreign currency options	(469)	-	-
	<u>(321,016)</u>	<u>(66,786)</u>	<u>(2,059)</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(6) Inventories

	December 31, 2006	December 31, 2007	
	NT\$	NT\$	US\$
Raw materials	6,288,997	12,452,588	383,924
Work in process	51,494	27,322	842
Finished goods	9,889,920	13,809,255	425,752
Spare parts	2,821,408	3,982,372	122,780
Inventories in transit	9,074,810	7,630,204	235,246
Less: provision for obsolescence	<u>(2,184,777)</u>	<u>(4,086,044)</u>	<u>(125,976)</u>
	<u>25,941,852</u>	<u>33,815,697</u>	<u>1,042,568</u>

(7) Noncurrent assets held for sale

In December 2007, the Company's subsidiary ACI planned to sell its office building located in Singapore. As ACI expects to complete the sale by March 2008, the office building, recorded at NT\$764,718, has been reclassified as noncurrent asset held for sale under "prepayments and other current assets" in the accompanying consolidated balance sheets.

(8) Financial assets carried at cost – noncurrent

	December 31, 2006	December 31, 2007	
	NT\$	NT\$	US\$
Privately held stock:			
National Securities Corp.	12,188	12,188	376
Prosperity Venture Capital Corp.	72,000	28,000	863
Sheng-Hua Venture Capital Corp.	50,000	30,000	925
Legend Technology	39,200	27,205	839
Taiwan Fixed Network Co., Ltd. ("TFNC")	1,743,000	-	-
W.I. Harper International Corp.	26,250	20,650	637
Megic Corp.	647	647	20
InCOMM Technologies Co., Ltd.	7,080	2,360	73
IP Fund II	32,400	32,400	999
Dragon Investment Co. Ltd.	323,000	323,000	9,958
World Venture, Inc.	300,000	300,000	9,249
iD Reengineering Inc.	119,940	199,900	6,163
HiTRUST. COM Inc.	-	90,818	2,800
DYNA Fund II	20,982	23,459	723
IP Fund III	196,130	195,161	6,017
GE Fund	45,741	-	-
iD5 Fund LTP	86,833	73,879	2,278

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	December 31, 2006	December 31, 2007	
	NT\$	NT\$	US\$
IP Cathay One, L.P.	65,192	194,610	6,000
IP Fund One L.P.	1,632,438	1,274,713	39,301
MPC Corporation	-	231,100	7,125
Other	<u>64,821</u>	<u>82,031</u>	<u>2,529</u>
	<u>4,837,842</u>	<u>3,142,121</u>	<u>96,875</u>

In 2006, the Consolidated Companies sold portions of their investments in Harmonix Music System, CDIB and other investees, and an aggregate gain of NT\$183,306 was recognized from these sales. In 2007, the Consolidated Companies increased their investments in IP Cathay L.P. and other investees for a total of NT\$217,139. Additionally, the Consolidated Companies sold portions of their investments in TFNC, Incomm Technologies and other investees, and an aggregate gain of NT\$44,593 was recognized from these sales. In 2006, IP Fund II, Sheng-Hua Venture Capital and other investees returned capital of NT\$75,600, NT\$150,000, and NT\$19,950, respectively, to the Consolidated Companies. In 2007, IP Fund One, GE Fund, Prosperity Venture Capital and other investees returned capital of NT\$348,641, NT\$45,515, NT\$44,000 and NT\$57,097, respectively, to the Consolidated Companies.

The Consolidated Companies recognized an impairment loss on certain financial assets carried at cost. The impaired amount of NT\$545,868 for the year ended December 31, 2006, was recorded as "other investment losses" in the accompanying consolidated statements of income.

(9) Equity-method investments

	December 31, 2006		2006
	Percentage of ownership %	Book value NT\$	Investment income (loss) NT\$
Wistron Corporation	14.85	4,388,572	923,204
Qisda Corporation (formerly known as BenQ Corporation)	-	-	(480,304)
e-Life Mall Corp.	21.96	660,038	107,137
Aegis Semiconductor Technology Inc.	44.03	107,461	(102,597)
HiTRUST.COM Inc.	46.42	919,598	(13,289)
Hontang Venture Capital Co., Ltd.	24.48	62,250	663
ECOM Software Inc.	33.93	43,498	7,673
Hyperemia Tech. Co., Ltd	30.22	10,949	2,940
The Eslite Bookstore	17.77	401,691	35,903
Bluechip Infotech Pty Ltd.	43.41	68,688	4,445
Other		(34,591)	(8,303)
Deferred credits		<u>(14,692)</u>	<u>55,217</u>
		<u>6,613,462</u>	<u>532,689</u>
Less: Allocation of corporate expense			<u>(104,886)</u>
			<u>427,803</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	December 31, 2007		2007
	Percentage of	Book value	Investment
	ownership	NT\$	income (loss)
	%		NT\$
Wistron Corporation	9.13	2,987,685	668,653
e-Life Mall Corp.	21.82	682,475	116,160
The Eslite Bookstore	18.62	395,411	34,465
Apacer Technology Inc.	34.40	313,410	(141,642)
Aegis Semiconductor Technology Inc.	44.03	165,235	-
ECOM Software Inc.	33.93	50,830	10,798
Bluechip Infotech Pty Ltd.	33.41	77,811	11,698
HiTRUST.COM Inc. ("HiTRUST.COM")	-	-	122,012
Other		24,843	(22,892)
Deferred credits		<u>(8,016)</u>	<u>27,009</u>
		<u>4,689,684</u>	826,261
Less: Allocation of corporate expense			<u>(130,601)</u>
			<u>695,660</u>

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

Commencing from June 30, 2006, the Consolidated Companies had no significant influence over Qisda Corporation's (formerly known as BenQ) operating and financial policies, and as a result, the equity investments in Qisda were reclassified as "available-for-sale financial assets – noncurrent".

Commencing from December 31, 2007, the Consolidated Companies decreased their ownership interest in HiTRUST.COM and thus had no significant influence over HiTRUST.COM's operating and financial policies. Consequently, the equity investments in HiTRUST.COM were reclassified as "financial assets carried at cost – noncurrent".

In 2006, the Consolidated Companies sold portions of their investments in Wistron, BenQ and other investees, and an aggregate gain of NT\$2,736,565 was recognized from these sales. In 2007, the Consolidated Companies sold portions of their investments in Wistron, Apacer, HiTRUST.COM, and other investees, and an aggregate gain of NT\$1,834,450 was recognized from these sales.

In 2006, Hontang Venture Capital returned capital of NT\$48,951 to the Consolidated Companies.

The Company's capital surplus was reduced by NT\$698,363 and NT\$169,810 in 2006 and 2007, respectively, as a result of recognizing changes in investees' equity accounts or disposal of equity-method investments.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(10) Available-for-sale financial assets – noncurrent

	December 31, 2006	December 31, 2007	
	NT\$	NT\$	US\$
Qisda Corporation (formerly known as BenQ)	2,273,775	2,655,514	81,872
Silicon Storage Technology Inc.	74,092	10,571	326
Yosun Industrial Corp.	-	704,762	21,728
International Semiconductor Technology Ltd. (IST)	36,367	-	-
	<u>2,384,234</u>	<u>3,370,847</u>	<u>103,926</u>

The Company sold all its ownership interest in a subsidiary, Sertek Inc., on July 1, 2007. The price included cash consideration and stock consideration amounting to 27,000,000 shares of Yosun Industrial Corp.

In 2006, the Consolidated Companies sold portions of their investments in RDC and other investees, and an aggregate gain of NT\$98,124 was recognized from these sales. In 2007, the Consolidated Companies sold portions of their investments in Qisda, Silicon and IST, and an aggregate gain of NT\$109,491 was recognized from these sales.

(11) Property not used in operations

	December 31, 2006	December 31, 2007	
	NT\$	NT\$	US\$
Leased assets – land	818,630	818,630	25,239
Leased assets – buildings	2,892,886	2,855,547	88,039
Damaged office premises	457,558	457,558	14,107
Property held for sale and development	2,814,503	1,761,173	54,299
Less: Accumulated depreciation	(543,769)	(543,805)	(16,766)
Accumulated asset impairment	(1,543,000)	(1,543,000)	(47,572)
	<u>4,896,808</u>	<u>3,806,103</u>	<u>117,346</u>

In 2006, the Company decided to gradually dispose of real estate property and business managed by the Construction Business Unit, and as a result, the related property amounting to NT\$3,288,806 was reclassified from “property, plant and equipment” to “property not used in operations” in the accompanying balance sheets. In 2006, the Consolidated Companies recognized an impairment loss of NT\$995,000 on property not used in operations, being the carrying value in excess of the estimated fair value.

Damaged office premises are office premises that suffered fire damage. As of December 31, 2006 and 2007, the Consolidated Companies estimated the building repair cost at approximately NT\$116,308 and NT\$161,308, respectively, which will not be indemnified by the insurance company. A provision for building repair cost was accrued and recognized as “other current liabilities” in the accompanying consolidated balance sheets.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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

(12) Intangible assets

	Goodwill	Software System	Patents	Trademarks	Customer Relationships	Others	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Balance at January 1, 2006	306,616	194,747	515	-	-	-	501,878
Additions	-	69,896	-	-	-	3,408	73,304
Disposal	-	-	(480)	-	-	-	(480)
Translation adjustment	8,282	5,802	177	-	-	-	14,261
Amortization	(63,091)	(121,670)	(41)	-	-	-	(184,802)
Impairment loss	<u>(7,479)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,479)</u>
Balance at December 31, 2006	244,328	148,775	171	-	-	3,408	396,682
Additions	-	74,114	415,701	-	-	4,054	493,869
Acquisitions	16,654,264	-	1,116,481	5,504,220	1,551,042	570,729	25,396,736
Disposal	-	(2)	(120)	-	-	(3,408)	(3,530)
Translation adjustment	(7,876)	2,062	553	73	494	1,294	(3,400)
Amortization	<u>-</u>	<u>(142,446)</u>	<u>(59,074)</u>	<u>(6,054)</u>	<u>(40,457)</u>	<u>(105,833)</u>	<u>(353,864)</u>
Balance at December 31, 2007	<u>16,890,716</u>	<u>82,503</u>	<u>1,473,712</u>	<u>5,498,239</u>	<u>1,511,079</u>	<u>470,244</u>	<u>25,926,493</u>

For the years ended December 31, 2006 and 2007, amortization of intangible assets amounted to NT\$184,802 and NT\$353,864, respectively, and was recognized under operating expenses.

On October 15, 2007, the Company completed the acquisition of 100% ownership of Gateway, Inc., a personal computer company in the U.S., through its indirectly wholly owned subsidiary AAH at a price of US\$1.90 (dollars) per share. The total purchase price amounted to US\$711,420 thousand.

The acquisition was accounted for in accordance with ROC SFAS No. 25 "Business Combinations". The Consolidated Companies recognized goodwill which represents the excess of the purchase price and direct transaction cost of US\$13,293 thousand over the fair value of the net identifiable tangible and intangible assets.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The following represents the allocation of the purchase price to the acquired net assets of Gateway, Inc.:

	NT\$	NT\$
Purchase Price:		23,507,016
The identifiable assets acquired and liabilities assumed:		
Current assets	32,139,646	
Investments carried at cost	277,057	
Property, plant, and equipment	2,808,517	
Intangible assets — trademarks and trade names	5,504,220	
Intangible assets — customer relationships	1,551,042	
Intangible assets — others	1,687,210	
Other assets	58,355	
Current liabilities	(24,576,616)	
Long-term liabilities	(9,673,377)	
Other liabilities	<u>(2,923,302)</u>	<u>6,852,752</u>
Goodwill		<u>16,654,264</u>

The Gateway trademark and trade name have an indefinite life, and accordingly, are not subject to amortization. The eMachine trademark and trade name are being amortized using the straight-line method over 20 years, the estimated period in which the economic benefits will be consumed. Customer relationships are being amortized using the straight-line method over the estimated useful life of 10 years.

The following unaudited pro forma consolidated results of operations assume that the acquisition of Gateway, Inc. was completed as of January 1 for each of the fiscal years shown below.

	2006 NT\$	2007 NT\$	US\$
Revenues	451,202,888	531,041,545	16,372,485
Consolidated net income from continuing operations before income tax	16,229,757	16,023,724	494,026
Consolidated net income from continuing operations after income tax	13,635,814	13,086,851	403,479
Basic earnings per common share (in dollars)	5.77	5.54	0.17

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(13) Other financial assets—noncurrent

	December 31, 2006 NT\$	December 31, 2007 NT\$	US\$
Refundable deposits	813,807	687,109	21,185
Noncurrent receivables	<u>480,537</u>	<u>274,284</u>	<u>8,456</u>
	<u>1,294,344</u>	<u>961,393</u>	<u>29,641</u>

(14) Short-term borrowings

	December 31, 2006 NT\$	December 31, 2007 NT\$	US\$
Commercial paper	100,000	-	-
Bank loans	<u>7,529,178</u>	<u>5,372,109</u>	<u>165,627</u>
	<u>7,629,178</u>	<u>5,372,109</u>	<u>165,627</u>

Refer to note 6 for a description of pledged assets related to these borrowings.

(15) Long-term debt

	December 31, 2006 NT\$	December 31, 2007 NT\$	US\$
Citibank syndicated loan	-	16,500,000	508,710
Other bank loans	197,004	308,242	9,503
Less: current installments	<u>(28,377)</u>	<u>(17,366)</u>	<u>(535)</u>
	<u>168,627</u>	<u>16,790,876</u>	<u>517,678</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 were as follows:

Type of Loan	Creditor	Credit Line	Term	NT\$
Unsecured loan	Citibank and other banks	(1) Term tranche of NT\$16.5 billion; three-year limit during which revolving credits disallowed.	(1) From October 11, 2007, through October 11, 2010. Repayable in 4 semi-annual installments starting from April, 2009.	16,500,000
		(2) Revolving tranche of NT\$3.3 billion; three-year limit.	(2) One-time repayment in full in October 2010.	-
				<u>16,500,000</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The interest rate of the above-mentioned syndicated loan was 3.02% in 2007. According to the loan agreement, the Company is required to maintain certain financial ratios based on annual and semi-annual audited financial statements. If the Company fails to meet any of the financial ratios, the managing bank will request in writing that the Company take action to improve within 30 days. No breach of contract will be tenable if the financial ratios are met within 30 days. The Company complied with the aforementioned debt covenants in 2007.

Refer to note 6 for a description of pledged assets related to these loans.

(16) Retirement plans

The following table sets forth the benefit obligation and accrued pension liabilities related to the Consolidated Companies' defined benefit retirement plans:

	2006	
	Plan assets in excess of accumulated benefit obligation NT\$	Accumulated benefit obligation in excess of plan assets NT\$
Benefit obligation:		
Vested benefit obligation	-	(94,729)
Nonvested benefit obligation	<u>(4,836)</u>	<u>(492,658)</u>
Accumulated benefit obligation	(4,836)	(587,387)
Projected compensation increases	<u>(1,392)</u>	<u>(345,779)</u>
Projected benefit obligation	(6,228)	(933,166)
Plan assets at fair value	<u>7,878</u>	<u>428,072</u>
Funded status	1,650	(505,094)
Unrecognized pension loss	(2,380)	345,091
Unrecognized prior service cost	-	613
Unrecognized transition (assets) obligation	-	(3,748)
Minimum pension liability adjustment	<u>-</u>	<u>(3,408)</u>
Accrued pension liabilities	<u>(730)</u>	<u>(166,546)</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	2007		2007	
	Plan assets in excess of accumulated benefit obligation		Accumulated benefit obligation in excess of plan assets	
	NT\$	US\$	NT\$	US\$
Benefit obligation:				
Vested benefit obligation	-	-	(108,087)	(3,332)
Nonvested benefit obligation	-	-	(491,318)	(15,148)
Accumulated benefit obligation	-	-	(599,405)	(18,480)
Projected compensation increases	-	-	(559,351)	(17,245)
Projected benefit obligation	-	-	(1,158,756)	(35,725)
Plan assets at fair value	-	-	507,358	15,642
Funded status	-	-	(651,398)	(20,083)
Unrecognized pension loss	-	-	730,346	22,517
Unrecognized prior service cost	-	-	558	17
Unrecognized transition (assets) obligation	-	-	1,829	56
Minimum pension liability adjustment	-	-	(172,784)	(5,326)
Accrued pension liabilities	-	-	(91,449)	(2,819)

Accrued pension liabilities are included in "other liabilities" in the accompanying consolidated balance sheets.

The components of the net periodic pension cost for 2006 and 2007 were as follows:

	2006	2007	
	NT\$	NT\$	US\$
Service cost	34,779	32,894	1,014
Interest cost	30,799	20,671	637
Actual return on plan assets	(11,650)	(12,147)	(374)
Amortization and deferral	1,173	17,133	528
Curtailed loss	102,747	-	-
Net periodic pension cost	<u>157,848</u>	<u>58,551</u>	<u>1,805</u>

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

	2006	2007
Discount rate	2.75%	2.75%
Rate of increase in future compensation	3.00%	3.00%-5.00%
Expected rate of return on plan assets	2.75%	2.75%

In 2006 and 2007, pension cost under the defined contribution retirement plans amounted to NT\$215,208 and NT\$202,278, respectively.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(17) Income taxes

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

(b) The components of income tax expense from continuing operations for the years ended December 31, 2006 and 2007, were as follows:

	2006		2007
	NT\$	NT\$	US\$
Current income tax expense	2,654,232	2,726,875	84,072
Deferred income tax (benefit) expense	<u>733,685</u>	<u>(61,297)</u>	<u>(1,890)</u>
	<u>3,387,917</u>	<u>2,665,578</u>	<u>82,182</u>

(c) The income tax calculated on the pre-tax income from continuing operations at the Company's statutory income tax rate (25%) was reconciled with the income tax expense of continuing operations reported in the accompanying consolidated statements of income as follows:

	2006		2007
	NT\$	NT\$	US\$
Expected income tax expense	3,387,077	3,777,159	116,453
Effect of different tax rates applied to the Company's subsidiaries	1,631,667	1,786,743	55,087
Tax-exempt investment income from domestic investees	(865,980)	(592,587)	(18,270)
Prior year adjustments	(98,688)	(53,756)	(1,657)
Gain on disposal of marketable securities not subject to income tax	(1,438,910)	(1,226,553)	(37,816)
Investment tax credits	1,002,197	30,696	946
Change in valuation allowance	(333,013)	(699,088)	(21,554)
Unutilized net operating loss carryforwards	375,500	-	-
Tax-exempt investment income resulting from operational headquarters	(746,247)	(1,132,967)	(34,930)
Gain on disposal of land not subject to income tax	78,750	(29,476)	(909)
Alternative minimum tax	219,061	404,858	12,483
Others	<u>176,503</u>	<u>400,549</u>	<u>12,349</u>
Income tax expense	<u>3,387,917</u>	<u>2,665,578</u>	<u>82,182</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(d) The deferred income tax assets (liabilities) as of December 31, 2006 and 2007, were as follows:

	December 31, 2006	December 31, 2007	
	NT\$	NT\$	US\$
Current:			
Deferred income tax assets	1,977,846	4,624,566	142,579
Valuation allowance	<u>(1,005,132)</u>	<u>(2,710,560)</u>	<u>(83,568)</u>
Net deferred income tax assets	<u>972,714</u>	<u>1,914,006</u>	<u>59,011</u>
Deferred income tax liabilities (included in “accrued expenses and other current liabilities” in the accompanying consolidated balance sheets)	<u>(566,319)</u>	<u>(709,697)</u>	<u>(21,881)</u>
Non-current:			
Deferred income tax asset	4,589,737	16,652,016	513,397
Valuation allowance	<u>(4,506,829)</u>	<u>(16,586,178)</u>	<u>(511,367)</u>
Net deferred income tax assets – noncurrent (included in “deferred charges and other assets” in the accompanying consolidated balance sheets)	<u>82,908</u>	<u>65,838</u>	<u>2,030</u>
Deferred income tax assets	359,808	1,567,019	48,313
Deferred income tax liabilities	<u>(2,619,916)</u>	<u>(6,686,393)</u>	<u>(206,147)</u>
Net deferred income tax liabilities	<u>(2,260,108)</u>	<u>(5,119,374)</u>	<u>(157,835)</u>
Total deferred income tax assets	<u>6,927,391</u>	<u>22,843,601</u>	<u>704,289</u>
Total deferred income tax liabilities	<u>(3,186,235)</u>	<u>(7,396,090)</u>	<u>(228,028)</u>
Total valuation allowance	<u>(5,511,961)</u>	<u>(19,296,738)</u>	<u>(594,935)</u>

(e) The components of deferred income tax assets (liabilities) as of December 31, 2006 and 2007, were as follows:

	December 31, 2006	December 31, 2007	
	NT\$	NT\$	US\$
Deferred income tax assets:			
Investment loss recognized by the equity method	939,187	109,017	3,361
Allowance for doubtful accounts	113,136	226,718	6,990
Net operating loss carryforwards	3,163,338	14,879,372	458,744
Investment tax credits	747,783	702,539	21,660
Accrued advertising expense	222,240	319,702	9,857
Accrued non-recurring engineering cost	117,298	102,485	3,160
Accrued cost of sales	74,179	78,029	2,406
Accrued restructuring cost	18,669	184,435	5,685
Accrued royalty	-	707,627	21,817
Accrued purchase discounts	11,346	631,360	19,465
Inventory provisions	218,591	631,109	19,459
Warranty provisions	285,244	867,643	26,750
Provision for asset impairment loss	397,742	332,569	10,253
Loss on valuation of financial instruments	395,487	622,140	19,181
Unrealized exchange gains	<u>(267,062)</u>	<u>(201,717)</u>	<u>(6,219)</u>
Difference in depreciation for tax and financial purposes	<u>(968)</u>	<u>954,883</u>	<u>29,440</u>
Other	<u>491,181</u>	<u>1,695,690</u>	<u>52,280</u>
	<u>6,927,391</u>	<u>22,843,601</u>	<u>704,289</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	December 31, 2006	December 31, 2007	
	NT\$	NT\$	US\$
Deferred income tax liabilities:			
Investment income recognized by the equity method	2,627,738	2,777,678	85,638
Difference in intangible assets for tax and financial purposes	-	3,596,148	110,872
Other	<u>558,497</u>	<u>1,022,264</u>	<u>31,518</u>
	<u>3,186,235</u>	<u>7,396,090</u>	<u>228,028</u>

- (f) The domestic Consolidated Companies were granted investment tax credits for investment in certain high-tech industries, for the purchase of automatic machinery and equipment, for research and development expenditures, and for employee training expenditures. These 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, but there is no limitation on the amount of investment tax credit that may be applied in the final year.

As of December 31, 2007, unused investment tax credits available to the Consolidated Companies were as follows:

Expiration date	NT\$	US\$
December 31, 2008	305,379	9,415
December 31, 2009	328,231	10,120
December 31, 2010	52,152	1,608
December 31, 2011	<u>16,777</u>	<u>517</u>
	<u>702,539</u>	<u>21,660</u>

- (g) The tax effects of net operating loss carryforwards available to the Consolidated Companies as of December 31, 2007, were as follows:

Expiration date	NT\$	US\$
December 31, 2008	140,697	4,338
December 31, 2009	191,983	5,919
December 31, 2010	1,283,365	39,567
December 31, 2011	1,436,319	44,283
Thereafter	<u>11,827,008</u>	<u>364,637</u>
	<u>14,879,372</u>	<u>458,744</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(h) 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) to maintain a record of the 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 as the balance of the ICA divided by earnings retained by the Company since January 1, 1998.

Information related to the ICA is summarized below:

	December 31, 2006 NT\$	December 31, 2007 NT\$	US\$
Unappropriated earnings:			
Earned before January 1, 1998	6,776	6,776	208
Earned after January 1, 1998	<u>11,524,703</u>	<u>13,544,248</u>	<u>417,581</u>
	<u>11,531,479</u>	<u>13,551,024</u>	<u>417,789</u>
Balance of ICA	<u><u>127,253</u></u>	<u><u>165,036</u></u>	<u><u>5,088</u></u>

The Company's estimated creditable ratio for the 2007 earnings distribution to ROC resident stockholders is approximately 3.38%; and the actual creditable ratio for the 2006 earnings distribution to ROC resident stockholders was 5.77%.

- (i) The ROC income tax authorities have examined the income tax returns of the Company for all fiscal years through 2005. However, the Company disagreed with the assessment for its 2002, 2003, 2004 and 2005 income tax returns regarding investment tax credits and has filed a request with the tax authorities for a recheck. The recheck of income tax returns was still in process, and the Company has accrued a valuation allowance on deferred tax assets by the amount of investment tax credits.

(18) Stockholders' equity

(a) Common stock

As of December 31, 2006 and 2007, the Company's authorized common stock consisted of 2,800,000,000 shares, of which shares 2,337,063,681 and 2,405,490,426 shares, respectively, were issued and outstanding. The par value of the Company's common stock is NT\$10 per share.

As of December 31, 2007, the Company had issued 10,800,000 units of global depository receipts (GDRs) representing 54,000,000 shares of common stock. The GDRs were listed on the London Stock Exchange, and each GDR represents five shares of common stock.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The Company's shareholders in the meeting on June 15, 2006, passed a resolution to appropriate NT\$3.0 per share from retained earnings as of December 31, 2005, as cash dividends. Such cash dividends amounted to NT\$6,763,556. The shareholders also passed a resolution to appropriate NT\$825,450 from retained earnings for a total of 82,545,000 new shares as stock dividends and employee bonuses. The stock issuance was authorized by and registered with the governmental authorities.

The Company's shareholders in the meeting on June 14, 2007, passed a resolution to appropriate NT\$3.85 per share from retained earnings as of December 31, 2006, as cash dividends. Such cash dividends amounted to NT\$8,997,695. The shareholders also passed a resolution to appropriate NT\$684,267 from retained earnings and issue a total of 68,427,000 new shares as stock dividends and employee bonuses. The stock issuance was authorized by and registered with the governmental authorities.

(b) Treasury stock

As of December 31, 2006 and 2007, the GDRs (for the implementation of its overseas employees' stock option plan) owned by AWI and the common stock owned by the Company's subsidiaries CCI and TWP were as follows (expressed in thousands of shares and New Taiwan dollars):

	December 31, 2006			December 31, 2007		
	Number of Shares	Book Value NT\$	Market Price NT\$	Number of Shares	Book Value NT\$	Market Price NT\$
Common stock	16,805	798,662	1,142,744	17,057	798,662	1,083,128
GDRs	4,788	2,472,258	1,595,170	4,860	2,472,258	1,655,241
		<u>3,270,920</u>	<u>2,737,914</u>		<u>3,270,920</u>	<u>2,738,369</u>

(c) Capital surplus

	December 31, 2006 NT\$	December 31, 2007 NT\$	US\$
Share premium:			
Paid-in capital in excess of par value	856,901	856,901	26,419
Surplus from merger	22,781,719	22,781,719	702,381
Premium on common stock resulting from conversion of convertible bonds	4,552,585	4,552,585	140,360
Forfeited interest resulting from conversion of convertible bonds	1,006,210	1,006,210	31,022
Surplus related to the treasury stock transactions by subsidiary companies	194,556	316,329	9,753
Other:			
Surplus from equity-method investments	555,049	385,239	11,877
	<u>29,947,020</u>	<u>29,898,983</u>	<u>921,812</u>

(Continued)

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

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 should be set up in accordance with SFB regulations. The remaining balance of annual net income, if any, can be distributed as follows:

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

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

According to the ROC Company 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.

Beginning in 2000, pursuant to SFB regulations, an amount equal to the total amount of any deduction items of shareholders' equity shall be provided from the net income of the current year as a special reserve that cannot be distributed as dividend or bonus. Accordingly, such special reserve shall be adjusted to reflect the changes in the deduction items. Any reversal of the special reserve can be added back to unappropriated earnings for distribution of dividends or bonus. As of December 31, 2006, the Company retained a special reserve of NT\$283,921, to cover the amount by which treasury stock cost was below market value and other deduction items of stockholders' equity. Such special reserve was reversed in 2007.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The appropriation of 2005 and 2006 earnings was approved by the shareholders at meetings on June 15, 2006, and June 14, 2007, as follows:

	2005 NT\$	2006 NT\$
Dividend per share		
Cash	3.0	3.85
Stock	<u>0.2</u>	<u>0.15</u>
	<u>3.2</u>	<u>4.00</u>
Employee bonus–stock (par value)	374,546	333,708
Employee bonus–cash	374,546	424,719
Directors' and supervisors' remuneration	<u>93,637</u>	<u>94,803</u>
	<u>842,729</u>	<u>853,230</u>

The appropriation of earnings did not differ from the resolutions approved by the Company's directors.

Assuming the above employee bonus and directors' and supervisors' remuneration are paid in cash and expensed in the year when the earnings are recognized, the earnings per share, not computed retroactively, for 2005 and 2006 would be reduced from NT\$3.83 and NT\$4.45 to NT\$3.45 and NT\$4.08, respectively. Stock dividends distributed to employees represented 1.66% and 1.43% of the outstanding common shares as of December 31, 2005 and 2006, respectively.

Distribution of 2007 earnings has not been proposed by the board of directors and is still subject to approval at the stockholders' meeting. After the resolutions, related information can be obtained from the public information website.

(19) Net income from discontinued operations

On July 1, 2007, the Company disposed of all its ownership interest in a subsidiary, Sertek Inc. The operations of Sertek Inc. are classified as discontinued operations. The relevant income (loss) and cash flow of the discontinued operations were as follows:

	2006 NT\$	2007 NT\$	US\$
Net revenues	18,276,621	9,398,700	289,770
Cost of revenues and operating expenses	(17,927,037)	(9,224,222)	(284,390)
Non-operating income and expenses	<u>(107,865)</u>	<u>(64,502)</u>	<u>(1,989)</u>
Income before income taxes	241,719	109,976	3,391
Income tax expense	<u>(61,069)</u>	<u>(23,120)</u>	<u>(713)</u>
Net income from discontinued operations	180,650	86,856	2,678
Gain from disposal of discontinued operations	-	<u>431,010</u>	<u>13,288</u>
Total net income from discontinued operations	<u>180,650</u>	<u>517,866</u>	<u>15,966</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	2006 NT\$	2007 NT\$	US\$
Discontinued operations cash flows:			
Cash provided by (used in) operating activities	1,282,906	(69,408)	(2,140)
Cash used in investing activities	(4,550)	(645)	(20)
Cash used in financing activities	(1,152,304)	(118,307)	(3,648)

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

	2006 NT\$	2007 NT\$
Basic EPS:		
Net income	<u>10,218,242</u>	<u>12,958,933</u>
Weighted-average number of shares outstanding during the year (thousand shares)	<u>2,364,132</u>	<u>2,364,132</u>
Basic EPS (in dollars)	<u><u>4.32</u></u>	<u><u>5.48</u></u>

(21) 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 nature of these instruments. Such method is applicable to cash and cash equivalents, notes and accounts receivable (including receivables from related parties), other receivables, notes and accounts payables (including payables to related parties), royalties payable, and short-term borrowings.

The estimated fair values and carrying amounts of all other financial assets and liabilities as of December 31, 2006 and 2007, were as follows:

	2006			2007		
	Carrying amount NT\$	Fair value		Carrying amount NT\$	Fair value	
		Public quoted price NT\$	Valuation amount NT\$		Public quoted price NT\$	Valuation amount NT\$
Non-derivative financial instruments						
Financial assets:						
Available-for-sale financial assets — current	13,805,760	13,805,760	-	2,852,061	2,852,061	-
Financial assets carried at cost	4,837,842	see below (b)	see below (b)	3,142,121	see below (b)	see below (b)
Available-for-sale financial assets — noncurrent	2,384,234	2,384,234	-	3,370,847	3,370,847	-
Refundable deposits (classified as "other financial assets")	813,807	-	813,807	687,109	-	687,109
Noncurrent receivables (classified as "other financial assets")	480,537	-	480,537	274,284	-	274,284
Financial liabilities:						
Long-term debt	168,627	-	168,627	16,790,876	-	16,790,876
Derivative financial instruments						
Financial assets:						
Foreign currency forward contracts	162,498	-	162,498	250,197	-	250,197
Foreign currency options	4,008	-	4,008	4,983	-	4,983

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	2006			2007		
	Carrying amount	Fair value		Carrying amount	Fair value	
		Public quoted price	Valuation amount		Public quoted price	Valuation amount
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Financial liabilities:						
Foreign currency forward contracts	1,478,113	-	1,478,113	1,461,335	-	1,461,335
Foreign currency options	45,089	-	45,089	593	-	593

(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 — current and noncurrent

Publicly quoted market prices are used as fair value.

(ii) Financial assets carried at cost

Financial assets carried at cost were privately held stock. The fair value of privately held stock was unable to be determined because it was not traded in the public market.

(iii) Refundable deposits

The estimated fair value of refundable deposits is determined as the discounted present value of expected future cash flows, which is similar to book value.

(iv) Noncurrent receivables

The fair values are their present value discounted at the market interest rate.

(v) Long-term debt

Long-term debt is obtained at floating interest rates which are calculated based on prevailing market rate adjusted by the Company's credit spread. The carrying value of long-term debt approximates the market value.

(vi) Derivative financial instruments

The fair values of the Consolidated Companies' derivative financial instruments are estimated using a valuation method. The assumptions used should be the same as those used by financial market traders when quoting their prices, which are readily available to the Consolidated Companies.

(c) For the years ended December 31, 2006 and 2007, the Consolidated Companies' evaluation loss on financial assets and liabilities using an assessment method amounted to NT\$1,343,916 and NT\$121,332, respectively.

(d) Disclosure of financial risks

(i) Market risk

Mutual funds and publicly traded stocks were recorded by the Consolidated Companies as "available-for-sale financial assets" and were evaluated by fair value. Therefore, the Consolidated Companies were exposed to the risk of price fluctuation in the securities market.

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

The Consolidated Companies engaged in purchase and sale transactions with the functional currency of US dollars and Euros, respectively. Hence, the Consolidated Companies entered into foreign currency forward contracts and foreign currency options to hedge exchange risk resulting from assets and liabilities denominated in foreign currency and cash flows resulting from anticipated transactions in foreign currency. The lengths and amounts of the foreign exchange forward contracts and foreign currency options were in line with the settlement date and anticipated cash outflows of the Consolidated Companies' foreign currency assets and liabilities. The gain or loss from exchange rate fluctuation of hedging derivatives was offset by that from the hedged assets or liabilities. Therefore, the market risk related to the changes in exchange rates was not considered significant.

(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 usually deposit 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 the Consolidated Companies' cash and equity investments is not considered significant. Furthermore, the banks undertaking the derivative transactions are reputable financial institutions; therefore, the Consolidated Companies' exposure related to the potential default by those counter-parties is not considered significant.

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

(iii) Liquidity risk

The Consolidated Companies' capital and operating funds are sufficient to reimburse all obligations. Therefore, the Consolidated Companies do not expect to have liquidity risk.

It is considered a remote likelihood that the derivative financial instruments held by the Consolidated Companies cannot be reasonably valued by the market and liquidated quickly. As a result, the Consolidated Companies expect low exposure to liquidity risk.

The available-for-sale financial assets held by the Consolidated Companies are equity securities and mutual funds, 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.

The purpose of the Consolidated Companies' foreign currency forward contracts and foreign currency options is 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 lengths of the contracts are in line with the payment date and the anticipated cash outflows of the Consolidated Companies' assets and liabilities denominated in

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

foreign currency. As a result, the Consolidated Companies settle their foreign currency assets and liabilities with contract obligations or rights at the maturity date and do not expect to have significant liquidity risk.

(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\$221,804 per annum.

5. Transactions with Related Parties

Name	Relationship with the Company
Wistron Corporation ("Wistron")	Investee of the Company accounted for by equity method
Cowin Worldwide Corporation ("COWIN")	Subsidiary of Wistron
Wistron InfoComm (Philippines) Corporation ("WPH")	Subsidiary of Wistron
Wistron InfoComm Manufacturing (Kunshan) Co., Ltd. ("WEKS")	Subsidiary of Wistron
Wistron InfoComm (Kunshan) Co., Ltd. ("WKS")	Subsidiary of Wistron
Wistron InfoComm Technology (Kunshan) Co., Ltd. ("WIKS")	Subsidiary of Wistron
Bluechip Infotech Pty Ltd. ("SAL")	Investee of the Company accounted for by equity method
e-Life Mall Corp. ("eLIFE")	Investee of the Company accounted for by equity method
Qisda Corporation ("Qisda", formerly known as BenQ Corporation)	Investee of the Company accounted for by equity method (Commencing from June 30, 2006, the Company had no significant influence over Qisda and AU, and as a result, Qisda and AU have been regarded as non-related parties since then.)
AU Optronics Corp. ("AU")	Investee of Qisda, accounted for by equity method (refer to the above statement on Qisda)
iD Softcapital Inc.	Its chairman is one of the Company's supervisors

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(a) Significant transactions with related parties as of and for the years ended December 31, 2006 and 2007, are summarized below:

(1) Net sales, and related notes and accounts receivable

1. Net sales to:

	2006	2007	
	NT\$	NT\$	US\$
SAL	864,017	1,088,886	33,571
eLIFE	701,226	992,647	30,604
COWIN	484,629	153,920	4,745
WKS	186,761	103,663	3,196
WEKS	800,817	358,247	11,045
WIKS	257,763	185,804	5,729
Other (individually less than 5%)	<u>446,140</u>	<u>162,671</u>	<u>5,016</u>
	<u>3,741,353</u>	<u>3,045,838</u>	<u>93,906</u>

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

2. Notes and accounts receivable from:

	December 31, 2006	December 31, 2007	
	NT\$	NT\$	US\$
eLIFE	156,988	190,277	5,866
COWIN	149,738	86,676	2,672
SAL	73,020	82,230	2,535
WPH	64,837	395	12
WEKS	244,308	-	-
WIKS	122,012	-	-
WKS	78,165	-	-
Others (individually less than 5%)	<u>51,882</u>	<u>88,903</u>	<u>2,742</u>
	<u>940,950</u>	<u>448,481</u>	<u>13,827</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(2) Purchases and related notes and accounts payable

1. Purchases from:

	2006 NT\$	2007 NT\$	US\$
Wistron	9,936,483	14,788,985	455,958
AU	4,067,105	-	-
Others	<u>101,491</u>	<u>296,079</u>	<u>9,128</u>
	<u>14,105,079</u>	<u>15,085,064</u>	<u>465,086</u>

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

In 2006 and 2007, the Consolidated Companies sold raw material to Wistron and purchased back the finished goods after manufacture. To avoid overstating the revenues, sales of raw material to Wistron amounting to NT\$36,730,724 and NT\$58,666,096 for the years ended December 31, 2006 and 2007, respectively, were excluded from the consolidated revenues. Having legally enforceable rights, the Consolidated Companies offset the outstanding receivables and payables resulting from the above-mentioned transactions. The offset resulted in a payable balance.

2. Notes and accounts payable to:

	December 31, 2006 NT\$	December 31, 2007 NT\$	US\$
Wistron	787,654	4,510,376	139,059
Others	<u>36,634</u>	<u>73,239</u>	<u>2,258</u>
	<u>824,288</u>	<u>4,583,615</u>	<u>141,317</u>

(3) Spin-off of assets

On February 28, 2002, AI spun off its design, manufacturing and services business from its Acer-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 2002, 2003, and 2004. Wistron disagreed with the assessment and filed a request with the tax authorities for a recheck of its 2002, 2003 and 2004 income tax returns. To be conservative, the Company recognized income tax expense of NT\$875,802 based on total tax impact estimated in 2006 and provided a valuation allowance of NT\$385,043 against the receivables from Wistron as of December 31, 2006 and 2007. The remaining balance of \$490,759 was recorded as other payables to related parties.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(4) Other expenses

In 2006 and 2007, the Consolidated Companies paid iD Soft Capital Inc. management service fees amounting to NT\$78,500 and NT\$69,333, respectively.

(5) Advances to/from related parties

The Consolidated Companies paid certain expenses on behalf of related parties. Additionally, related parties paid certain expenses and accounts payable on behalf of the Consolidated Companies. As of December 31, 2006 and 2007, the Consolidated Companies had aggregate receivables from related parties of NT\$89,937 and NT\$59,403, respectively, and payables to related parties of NT\$573,586 and NT\$609,717, respectively, resulting from these transactions.

6. Pledged Assets

Assets pledged for various purposes were as follows:

Pledged assets	Pledged to secure	Book value of pledged assets at December 31,		
		2006 NT\$	2007 NT\$	US\$
Cash in bank and time deposits	Contract bidding and project fulfillment	389,274	398,459	12,285
Accounts receivable	Stand-by letters of credit	601,548	-	-
Inventories	Stand-by letters of credit	259,043	-	-
Property, plant and equipment, and property not used in operations	Credit lines of bank loans	2,199,370	1,692,140	52,170
		<u>3,449,235</u>	<u>2,090,599</u>	<u>64,455</u>

As of December 31, 2006 and 2007, a portion of the above pledged time deposits amounting to NT\$159,974 and NT\$123,461, respectively, were classified as “other financial assets – noncurrent” in the accompanying consolidated balance sheets. The remaining balance was classified as “restricted assets – current”.

Refer to note 10(b) for a description of restricted assets related to an escrow account deposited for a business acquisition.

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ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)****7. Commitments and Contingencies****(a) Royalties**

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

In June 2004, the Company and Lucent Technologies Inc. renewed the Patent Cross License agreement. The license period is from April 1, 2004, to December 31, 2010. During the aforementioned period, the Company only pays the amounts according to the contract when manufacturing and selling computer products for which Lucent holds related patents. No additional royalties are required. The essence of the license agreement authorizes both parties to use each other's worldwide computer-related patents for manufacturing and selling personal computer products.

- (b) In March, 2007, Hewlett-Packard Development Company (HP) filed a complaint against the Company and the U.S. subsidiary, Acer America Corporation (AAC), in the United States District Court for the Eastern District of Texas and the U.S. International Trade Commission over alleged patent infringements. The Company and AAC also filed a counterclaim against HP for four incidents of infringing Acer's patents on July 19, 2007 (U.S. Eastern time). The Company also filed patent infringement complaints with the U.S. District Court for the Western District of Wisconsin and the International Trade Commission against HP on October 30, 2007 (U.S. time). The Company has hired lawyers from U.S. law firms to represent it in the HP patent lawsuits. Currently, the effect of the lawsuits on the Company's financial statements is yet to be determined, but the lawsuits will not negatively impact the Company's business operations. In addition, in May 2007, AAC brought legal action against three suppliers, Hon Hai Precision Industry, Quanta Computer, Inc., and Wistron Corporation, in the United States District Court for the Eastern District of Texas over the collateral responsibility as stated in the suppliers' contracts.

(c) Others

- (1) As of December 31, 2006 and 2007, the Company had provided outstanding stand-by letters of credit totaling NT\$202,566 and NT\$133,085, respectively, for bidding on sales contracts and for customs duty contract implementation.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

- (2) 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\$
2008	530,435	16,354
2009	367,876	11,342
2010	182,228	5,618
2011	65,218	2,011
2012 and thereafter	<u>124,679</u>	<u>3,844</u>
	<u>1,270,436</u>	<u>39,169</u>

8. Significant Loss from Casualty: None

9. Subsequent Events

The directors of the Company in a meeting held on March 3, 2008, passed a resolution to acquire E-TEN Information Systems Co., Ltd. ("E-TEN") by issuing the Company's shares in exchange for E-TEN shares. After the acquisition, E-TEN will become a wholly owned subsidiary of the Company. The acquisition has also been approved by the directors of E-TEN. Under the terms of the acquisition agreement, Acer Inc. will offer a share exchange with ratio of 1:1.07 for all the outstanding shares of E-TEN. Currently, the acquisition is subject to approval by the shareholders of both companies and by the governmental authorities. The Company expects the acquisition to be completed during the third quarter of 2008.

10. Other

- (a) Total personnel, depreciation and amortization expenses incurred for the years ended December 31, 2006 and 2007, were as follows:

	2006				2007			
	Operating expense	Reduction of investment income	Cost of revenues	Total	Operating expense	Reduction of investment income	Cost of revenues	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Personnel:								
Salaries	6,594,509	12,022	-	6,606,531	7,456,623	-	-	7,456,623
Labor and health insurance	273,934	106	-	274,040	314,286	-	-	314,286
Pension	372,948	108	-	373,056	260,829	-	-	260,829
Other	503,248	-	-	503,248	540,262	-	-	540,262
Depreciation	815,698	240	25,200	841,138	557,376	-	33,813	591,189
Amortization	238,805	44	12,021	250,870	549,545	-	1,735	551,280

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) Acquisition of Packard Bell B.V.

The Company planned to acquire European PC Company Packard Bell B.V. by cash payment through Gateway, Inc. and the Company's subsidiary Acer Europe B.V. As of December 31, 2007, the escrow account deposited for the purpose of the Packard Bell B.V. acquisition amounted to NT\$1,958,585 and was recorded under "restricted assets – current". The acquisition was completed on March 14, 2008.

(c) The Company's subsidiary TWP entered into an agreement with Giga Media to sell its online game businesses and operations to Giga Media Ltd. and Giga Media's affiliates. The selling price amounted to approximately NT\$1.54 billion, resulting in a gain (before income tax) of NT\$1.5 billion, which was classified as "other income" under non-operating income and gains. As of December 31, 2006, the receivables resulting from the disposal of these businesses amounted to NT\$162,700 and were recorded under "other receivables".

The carrying amounts of net assets that were decreased as a result of the above-mentioned transactions were as follows:

	NT\$
Accounts receivable	85,562
Accounts receivable from related parties	21,767
Other current assets	4,271
Property, plant and equipment	11,818
Other assets	2,935
Accounts payable	(818)
Accrued expenses and other current liabilities	(88,417)
	<u>37,118</u>

11. Segment Information

(a) Industry segment

The main business of the Consolidated Companies is to sell "Acer" brand-name desktop PCs, notebook PCs, and other related IT products, which represents a single industry.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) Geographic information

Information by geographic area as of and the years ended December 31, 2006 and 2007, was as follows:

	2006					Consolidated NT\$
	Taiwan NT\$	North America NT\$	Europe NT\$	Asia NT\$	Eliminations NT\$	
Area income:						
Customers	77,991,430	57,488,711	184,892,473	63,887,884	-	384,260,498
Inter-company	<u>214,021,404</u>	<u>240,730</u>	<u>4,973,158</u>	<u>106,486</u>	<u>(219,341,778)</u>	-
	<u>292,012,834</u>	<u>57,729,441</u>	<u>189,865,631</u>	<u>63,994,370</u>	<u>(219,341,778)</u>	384,260,498
Investment income						1,049,743
Gain on disposal of investments						<u>5,660,889</u>
Total income						<u>390,971,130</u>
Area profit (loss) before income taxes	<u>1,765,124</u>	<u>73,789</u>	<u>4,863,002</u>	<u>1,588,700</u>	<u>(1,130)</u>	8,289,485
Net investment income						427,803
Gain on disposal of investments, net						5,619,929
Interest expense						<u>(547,191)</u>
Consolidated income before income taxes						<u>13,790,026</u>
Area identifiable assets	<u>109,840,228</u>	<u>15,352,531</u>	<u>85,595,843</u>	<u>22,695,598</u>	<u>(51,841,692)</u>	181,642,508
Equity method investments						6,613,462
Goodwill						244,328
Total assets						<u>188,500,298</u>
Depreciation and amortization	<u>1,077,609</u>	<u>-</u>	<u>9,089</u>	<u>5,310</u>	<u>-</u>	<u>1,092,008</u>
Capital expenditures	<u>823,146</u>	<u>34,826</u>	<u>203,169</u>	<u>144,058</u>	<u>-</u>	<u>1,205,199</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	2007					Consolidated NT\$
	Taiwan NT\$	North America NT\$	Europe NT\$	Asia NT\$	Eliminations NT\$	
Area income:						
Customers	76,661,514	107,143,739	240,492,931	61,752,116	-	486,050,300
Inter-company	<u>264,932,323</u>	<u>4,101</u>	<u>7,242,154</u>	<u>11,096</u>	<u>(272,189,674)</u>	-
	<u>341,593,837</u>	<u>107,147,840</u>	<u>247,735,085</u>	<u>61,763,212</u>	<u>(272,189,674)</u>	486,050,300
Investment income						87,410
Gain on disposal of investments						<u>4,120,782</u>
Total income						<u>491,042,492</u>
Area profit (loss) before income taxes	<u>264,813,577</u>	<u>926,347</u>	<u>15,381,028</u>	<u>2,298,916</u>	<u>(272,292,965)</u>	11,126,903
Net investment income						695,660
Gain on disposal of investments, net						4,045,981
Interest expense						<u>(759,907)</u>
Consolidated income before income taxes						<u>15,168,637</u>
Area identifiable assets	<u>100,327,411</u>	<u>58,022,952</u>	<u>88,086,758</u>	<u>28,618,423</u>	<u>(53,352,602)</u>	221,702,942
Equity method investments						4,689,684
Goodwill						<u>16,890,716</u>
Total assets						<u>243,283,342</u>
Depreciation and amortization	<u>1,088,239</u>	<u>32,112</u>	<u>11,239</u>	<u>10,879</u>	-	<u>1,142,469</u>
Capital expenditures	<u>665,555</u>	<u>59,128</u>	<u>140,593</u>	<u>185,338</u>	-	<u>1,050,664</u>

(c) Export sales

Export sales of the Company and its domestic subsidiaries for the years ended December 31, 2006 and 2007, were as follows:

Sales to:	2006	2007	
	NT\$	NT\$	US\$
North America	297,386	1,102,022	33,976
Europe	9,541	-	-
Other	<u>2,456,462</u>	<u>970,968</u>	<u>29,936</u>
	<u>2,763,389</u>	<u>2,072,990</u>	<u>63,912</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(d) Major customers

Sales to individual customers comprising over 10% of the Consolidated Companies' revenues are summarized below:

	2006		2007		
	NT\$	Percentage	NT\$	US\$	Percentage
Customer A	<u>47,790,111</u>	<u>13%</u>	<u>30,325,050</u>	<u>934,948</u>	<u>7%</u>