ACER INCORPORATED AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2007 and 2008

(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, 2007 and 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, 2007 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

As stated in note 3 to the consolidated financial statements, effective on January 1, 2008, the Company and its subsidiaries recognized, measured and disclosed share-based payment transactions, employee bonuses, and directors' and supervisors' emoluments according to Republic of China Statement of Financial Accounting Standards (SFAS) No. 39 "Accounting for Share-based Payment" and Interpretation (96) 052 issued by the Accounting Research and Development Foundation. The changes in accounting principle decreased the consolidated net income and basic earnings per share for the year ended December 31, 2008, by NT$1,483,776 thousand and NT$0.60, respectively.

The consolidated financial statements as of and for the year ended December 31, 2008, 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(26) to the consolidated financial statements.

Taipei, Taiwan (the Republic of China)
March 27, 2009

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2007 and 2008

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

Assets	2007 NT$	2008 NT$	2008 US$
Current assets:			
Cash and cash equivalents (note 4(1))	37,945,339	22,141,725	674,682
Notes and accounts receivable, net of allowance for doubtful accounts of NT$2,356,672 and NT$898,972 as of December 31, 2008 and 2007, respectively (notes 4(2) and 6)	101,898,281	107,826,311	3,285,584
Notes and accounts receivable from related parties (note 5)	448,481	841,465	25,640
Other receivable from related parties (note 5)	59,403	45,173	1,376
Other receivables (note 4(3))	7,375,569	8,807,454	268,373
Financial assets at fair value through profit or loss－current (notes 4(5) and 4(25))	19,982	354,751	10,810
Available-for-sale financial assets－current (notes 4(4) and 4(25))	2,852,061	591,444	18,022
Hedging-purpose derivative financial assets－current (notes 4(6) and 4(25))	235,198	1,022,782	31,165
Inventories (notes 4(7) and 6)	33,815,697	40,028,195	1,219,702
Prepayments and other current assets (note 4(8))	2,828,601	1,525,555	46,485
Deferred income tax assets－current (note 4(19))	1,914,006	2,282,943	69,564
Restricted assets (note 6)	2,233,583	922,794	28,119
Total current assets	191,626,201	186,390,592	5,679,522
Funds and investments:			
Long-term equity investments under equity method (note 4(10))	4,689,684	2,928,790	89,243
Available-for-sale financial assets－noncurrent (notes 4(11) and 4(25))	3,370,847	1,160,487	35,361
Financial assets carried at cost－noncurrent (notes 4(9) and 4(25))	3,142,121	2,684,270	81,793
Total funds and investments	11,202,652	6,773,547	206,397
Property, plant and equipment (notes 4(12) and 6):			
Land	1,560,568	2,678,408	81,614
Buildings and improvements	3,627,214	5,294,056	161,316
Computer equipment and machinery	4,367,924	3,348,086	102,020
Transportation equipment	114,923	120,069	3,659
Office equipment	985,679	1,128,167	34,376
Leasehold improvements	487,647	816,904	24,892
Other equipment	723,029	1,136,428	34,628
Construction in progress and advance payments for purchases of property and equipment	490,749	30,692	935
	12,357,733	14,552,810	443,440
Less: accumulated depreciation	(3,446,629)	(4,922,662)	(149,999)
accumulated impairment	(274,663)	(293,927)	(8,956)
Net property, plant and equipment	8,636,441	9,336,221	284,485
Intangible assets (note 4(14))	25,926,493	34,746,765	1,058,772
Property not in use (note 4(13))	3,806,103	2,996,721	91,313
Other financial assets (notes 4(15), 4(25) and 6)	961,393	868,760	26,472
Deferred charges and other assets (notes 4(18) and 4(19))	1,124,059	2,329,619	70,986
Total assets	243,283,342	243,442,225	7,417,947

Liabilities and Stockholders' Equity	2007 NT$	2008 NT$	2008 US$
Current liabilities:			
Short-term borrowings (notes 4(16) and 6)	5,372,109	1,086, 851	33,117
Current installments of long-term debt (notes 4(17) and 6)	17,366	8,250,000	251,386
Notes and accounts payable	76,259,412	64,365,616	1,961,290
Notes and accounts payable to related parties (note 5)	4,583,615	7,750,220	236,158
Financial liabilities at fair value through profit or loss (notes 4(5) and 4(25))	1,395,142	1,011,739	30,829
Other payables to related parties (note 5)	609,717	189,964	5,788
Hedging-purpose derivative financial liabilities－current (notes 4(6) and 4(25))	66,786	872,038	26,572
Royalties payable	11,670,600	13,228,769	403,095
Accrued expenses and other current liabilities (note 4(19))	42,867,827	52,559,961	1,601,559
Total current liabilities	142,842,574	149,315,158	4,549,794
Long-term liabilities:			
Long-term debt, excluding current installments (notes 4(17), 4(25) and 6)	16,790,876	4,134,920	125,995
Other liabilities (note 4(18))	1,121,524	840,433	25,609
Deferred income tax liabilities－noncurrent (note 4(19))	5,119,374	6,274,099	191,178
Total long-term liabilities	23,031,774	11,249,452	342,782
Total liabilities	165,874,348	160,564,610	4,892,576
Stockholders' equity and minority interest (notes 3, 4(10), 4(20) and 4(21)):			
Common stock	24,054,904	26,428,560	805,307
Capital surplus	29,898,983	37,129,952	1,131,390
Retained earnings			
Legal reserve	7,490,689	8,786,583	267,737
Unappropriated earnings	13,551,024	13,985,318	426,148
Other stockholders' equity components			
Foreign currency translation adjustment	2,733,899	1,241,058	37,816
Minimum pension liability adjustment	(173,364)	(283)	(9)
Unrealized gain (loss) on available-for-sale financial assets	2,508,663	(1,456,066)	(44,368)
Hedging reserve	15,836	(273,565)	(8,336)
Treasury stock	(3,270,920)	(3,522,598)	(107,337)
Total stockholders' equity	76,809,714	82,318,959	2,508,348
Minority interest	599,280	558,656	17,023
Total stockholders' equity and minority interest	77,408,994	82,877,615	2,525,371
Commitments and contingencies (note 7)			
Total liabilities and stockholders' equity	243,283,342	243,442,225	7,417,947

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2007 and 2008

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

	2007 NT$	2008 NT$	2008 US$
Revenues (note 5)	462,066,080	546,274,115	16,645,564
Cost of revenues (note 5)	(414,647,770)	(488,988,455)	(14,900,008)
Gross profit	47,418,310	57,285,660	1,745,556
Operating expenses (notes 4(14), 4(18), 4(21), 5, and 10)			
Selling	(32,727,126)	(35,764,261)	(1,089,776)
Administrative	(4,156,402)	(6,899,059)	(210,222)
Research and development	(349,659)	(550,038)	(16,760)
Total operating expenses	(37,233,187)	(43,213,358)	(1,316,758)
Operating income	10,185,123	14,072,302	428,798
Non-operating income and gains:			
Interest income	1,343,523	1,207,826	36,804
Investment gain recognized by equity method (note 4(10))	695,660	404,184	12,316
Gain on disposal of property and equipment (note 4(12))	121,418	515,272	15,701
Gain on disposal of investments, net (notes 4(4), 4(9), 4(10) and 4(11))	4,045,981	2,709,524	82,562
Other income	493,089	516,232	15,730
	6,699,671	5,353,038	163,113
Non-operating expenses and loss:			
Interest expense	(759,907)	(1,305,746)	(39,787)
Other investment loss (notes 4(9) and 4(10))	-	(416,404)	(12,688)
Restructuring cost (note 4(22))	-	(1,582,408)	(48,218)
Foreign currency exchange loss and loss on evaluation of financial instruments, net (notes 4(5) and 4(6))	(455,385)	(866,315)	(26,398)
Asset impairment loss (note 4(13))	-	(221,931)	(6,762)
Other loss	(560,865)	(225,809)	(6,881)
	(1,776,157)	(4,618,613)	(140,734)
Income from continuing operations before income taxes	15,108,637	14,806,727	451,177
Income tax expense (note 4(19))	(2,665,578)	(3,169,446)	(96,576)
Income from continuing operations	12,443,059	11,637,281	354,601
Income from discontinued operations (net of income taxes of NT$0 and NT$23,120 in 2008 and 2007, respectively) (note 4(23))	517,866	99,843	3,042
Consolidated net income	12,960,925	11,737,124	357,643
Net income attributable to:			
Shareholders of parent company	12,958,933	11,742,135	357,796
Minority shareholders	1,992	(5,011)	(153)
	12,960,925	11,737,124	357,643
Earnings per common share (in dollars) (note 4(24)):			
Basic earnings per common share－retroactively adjusted	5.33	4.72	0.14
Diluted earnings per common share		4.65	0.14

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2007 and 2008
(Expressed in thousands of New Taiwan dollars and US dollars)

			Retained earning									
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Foreign currency translation adjustment	Minimum pension liability adjustment	Unrealized gain (loss) on available-for-sale financial assets	Hedging reserve	Treasury stock	Minority interest	Total stockholders' equity
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$
Balance at January 1, 2007	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
Unrealized gain (loss) on qualifying cash flow hedge	-	-	-	-	-	-	-	-	28,616	-	-	28,616
Appropriation approved by the stockholders (note 4(20)):												
Legal reserve	-	-	1,021,824	-	(1,021,824)	-	-	-	-	-	-	-
Stock dividends and employee 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)
Employee 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(10))	-	(169,810)	-	-	-	-	-	-	-	-	-	(169,810)
Cash dividends distributed to subsidiaries	-	121,773	-	-	-	-	-	-	-	-	-	121,773
Unrealized loss 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	24,054,904	29,898,983	7,490,689	-	13,551,024	2,733,899	(173,364)	2,508,663	15,836	(3,270,920)	599,280	77,408,994
2008 net income	-	-	-	-	11,742,135	-	-	-	-	-	(5,011)	11,737,124
Foreign currency translation adjustment	-	-	-	-	-	(1,492,841)	-	-	-	-	-	(1,492,841)
Unrealized gain (loss) on qualifying cash flow hedge	-	-	-	-	-	-	-	-	(289,401)	-	-	(289,401)
Appropriation approved by the stockholders (note 4(20)):												
Legal reserve	-	-	1,295,894	-	(1,295,894)	-	-	-	-	-	-	-
Stock dividends and employees' bonuses in stock	690,823	-	-	-	(690,823)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(8,659,766)	-	-	-	-	-	-	(8,659,766)
Directors' and supervisors' remuneration	-	-	-	-	(116,630)	-	-	-	-	-	-	(116,630)
Employees' bonuses	-	-	-	-	(544,728)	-	-	-	-	-	-	(544,728)
Cash dividends distributed to subsidiaries	-	114,832	-	-	-	-	-	-	-	-	-	114,832
Decrease in capital surplus resulting from long-term equity investments accounted for by the equity method (note 4(10))	-	(78,255)	-	-	-	-	-	-	-	-	-	(78,255)
Unrealized loss on available-for sale financial assets	-	-	-	-	-	-	-	(3,964,729)	-	-	-	(3,964,729)
Minimum pension liability adjustment	-	-	-	-	-	-	173,081	-	-	-	-	173,081
Issuance of shares for acquisitions (note 4(20))	1,681,589	7,155,678	-	-	-	-	-	-	-	-	-	8,837,267
Issuance of shares for the exercise of stock options (note 4(20))	1,244	858	-	-	-	-	-	-	-	-	-	2,102
Share-based payment transactions (note 4(21))	-	37,856	-	-	-	-	-	-	-	-	-	37,856
Treasury stock held by subsidiaries	-	-	-	-	-	-	-	-	-	(251,678)	-	(251,678)
Change in minority interest	-	-	-	-	-	-	-	-	-	-	(35,613)	(35,613)
Balance at December 31, 2008	26,428,560	37,129,952	8,786,583	-	13,985,318	1,241,058	(283)	(1,456,066)	(273,565)	(3,522,598)	558,656	82,877,615
Balance at December 31, 2008 (in US$)	805,307	1,131,390	267,737	-	426,148	37,816	(9)	(44,368)	(8,336)	(107,337)	17,023	2,525,371

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2008
(Expressed in thousands of New Taiwan dollars and US dollars)

	2007	2008	
	NT$	NT$	US$
Cash flows from operating activities:			
Consolidated net income	12,960,925	11,737,124	357,643
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	591,189	955,880	29,127
Amortization	551,280	1,245,561	37,954
Gain on disposal of property and equipment, net	(121,418)	(515,272)	(15,701)
Other expenses reclassified from property and equipment	4,369	-	-
Gain on disposal of investments, net	(4,476,991)	(2,709,524)	(82,562)
Net investment gain on long-term equity investments accounted for by equity method, net of cash dividends received	(875,415)	(146,392)	(4,461)
Other investment loss	-	416,404	12,688
Asset impairment loss	-	221,931	6,762
Restructuring cost	-	1,582,408	48,218
Stock-based compensation cost	-	37,856	1,153
Deferred income tax expense (benefit)	(61,297)	786,086	23,953
Changes in operating assets and liabilities:			
Notes and accounts receivable	(20,253,180)	452,252	13,781
Receivables from related parties	(335,002)	(327,579)	(9,981)
Inventories	(6,921,700)	(4,882,424)	(148,773)
Other financial assets, prepayments and other current assets	(1,055,734)	(2,070,311)	(63,084)
Noncurrent receivable	224,925	186,604	5,686
Notes and accounts payable	(1,826,219)	(16,097,164)	(490,498)
Payables to related parties	3,409,436	2,447,835	74,588
Royalties payable, accrued expenses and other current liabilities	12,015,179	1,831,291	55,801
Other liabilities	(391,122)	(319,014)	(9,721)
Cash used in operating activities	(6,560,775)	(5,166,448)	(157,427)
Cash flow from investing activities:			
Change in available-for-sale financial assets－current, net	12,332,596	2,891,868	88,118
Proceeds from sale of long-term equity investments and available for-sale financial assets	7,018,429	3,449,388	105,107
Proceeds from sale of discontinued operations	868,222	-	-
Increase in long-term investments	(217,140)	(171,717)	(5,232)
Return of capital from investees	495,253	462,551	14,094
Proceeds from disposal of property and equipment and property not used in operations	1,220,389	2,068,099	63,017
Additions to property and equipment	(534,626)	(597,526)	(18,207)
Increase in intangible assets and other assets	(1,427,547)	(435,746)	(13,278)
Decrease (increase) in advances to related parties	14,771	(14,230)	(434)
Decrease (increase) in restricted assets	(1,958,585)	1,813,448	55,258
Acquisition of business, net of cash acquired	(15,070,542)	(719,026)	(21,909)
Cash provided by investing activities	2,741,220	8,747,109	266,534
Cash flows from financing activities:			
Decrease in short-term borrowings	(968,414)	(4,285,258)	(130,576)
Increase in long-term debt	16,500,000	-	-
Payment of long-term debt	(9,739,562)	(4,423,321)	(134,783)
Payment of cash dividends, employee bonuses, and directors' and supervisors' remuneration	(9,395,445)	(9,206,292)	(280,526)
Exercise of employee stock options	-	2,101	64
Change in minority interests	(296,018)	(42,353)	(1,291)
Cash used in financing activities	(3,899,439)	(17,955,123)	(547,112)
Net decrease in cash and cash equivalents	(7,718,994)	(14,374,462)	(438,005)
Effects of exchange rate changes	979,122	(1,429,152)	(43,548)
Cash and cash equivalents at beginning of year	44,685,211	37,945,339	1,156,235
Cash and cash equivalents at end of year	37,945,339	22,141,725	674,682
Supplemental disclosures of cash flow information			
Interest paid	1,052,609	1,275,330	38,861
Income taxes paid	1,395,005	1,977,802	60,266
Cash acquired from acquisition of subsidiaries:	**Gateway Inc.**	**Parkard Bell BV**	**Parkard Bell BV**
Cash consideration	23,507,016	3,172,080	96,657
Non-cash assets acquired	(35,589,573)	(10,560,058)	(321,776)
Liabilities assumed	37,173,295	10,704,787	326,186
Goodwill	(16,654,264)	(1,774,172)	(54,061)
Cash acquired from acquisition	8,436,474	1,542,637	47,006
		E-Ten Information Systems Co., Ltd.	**E-Ten Information Systems Co., Ltd.**
Issuance of shares for acquisition		8,837,267	269,281
Non-cash assets acquired		(7,288,921)	(222,101)
Liabilities assumed		1,263,892	38,512
Goodwill		(1,901,821)	(57,951)
Cash acquired from acquisition		910,417	27,741

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, 2007 and 2008
(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, 2007 and 2008, the number of employees of the Consolidated Companies was 6,271 and 6,727, respectively. The Consolidated Companies are summarized below according to their primary business activity.

(1) Sale of "Acer", "Gateway", "eMachine", and "Packard Bell" brand-name information technology products:

	Investor	Percentage of Ownership by the Company at December 31, 2007	2008
(a) Acer Incorporated			
(b) 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

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	Investor	Percentage of Ownership by the Company at December 31, 2007	2008
(c) 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
• AGP Technology AG ("AGP", Switzerland)	AHN	-	100.00
• PB Holding Company S.A.R.L. ("PBLU", Luxembourg)	AHN	-	100.00
• Packard Bell B.V ("PBHO", the Netherlands)	PBLU	-	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	Investor	Percentage of Ownership by the Company at December 31, 2007	2008
• Packard Bell Finance B.V ("PBFN", the Netherlands)	PBHO	-	100.00
• Packard Bell Netherland B.V ("PBNL", the Netherlands)	PBHO	-	100.00
• Packard Bell Services s.a.r.l ("PBSV", France)	PBHO	-	100.00
• Packard Bell Angers s.a.r.l ("PBAN", France)	PBHO	-	100.00
• Packard Bell France s.a.s ("PBFR", France)	PBHO	-	100.00
• Packard Bell (UK) Ltd.("PBUK", the United Kingdom)	PBHO	-	100.00
• Packard Bell Scotland Ltd. ("PBSC", the United Kingdom)	PBHO	-	100.00
• Packard Bell Iberica s.l ("PBES", Spain)	PBHO	-	100.00
• Packard Bell Italia s.r.l ("PBIT", Italy)	PBHO	-	100.00
• Packard Bell Deutschland GmbH ("PBDE", Germany)	PBHO	-	100.00
• Packard Bell Belgium BVBA ("PBBE", Belgium)	PBHO	-	100.00
• Packard Bell Sverige AB ("PBSE", Sweden)	PBHO	-	100.00
• Packard Bell Norden AS ("PBNO", Norway)	PBHO	-	100.00
• Packard Bell Schweiz GmbH ("PBCH", Switzerland)	PBHO	-	100.00
• ZDS Europe s.a.r.l ("PBFE", France)	PBHO	-	100.00
• NEC Computers South Africa (Pty) Ltd. ("PBZA", South Africa)	PBHO	-	100.00
• Packard Bell Electronic Technical Services (Shanghai) Co., Ltd. ("PBCN", China)	PBHO	-	100.00
(d) Boardwalk Capital Holding Limited ("Boardwalk", British Virgin Islands) and its subsidiaries	The Company	100.00	100.00
• Acer Service Corporation ("ASC", U.S.A.)	Boardwalk	100.00	100.00
• Acer Computer Mexico, S.A. de C.V. ("AMEX", Mexico)	Boardwalk	99.89	99.92
• Acer Latin America, Inc. ("ALA", U.S.A.)	Boardwalk	99.89	99.92
• Acer American Holding Corp. ("AAH", USA)	Boardwalk	100.00	100.00
• Aurion Technologie, S.A. de C.V. ("Aurion", Mexico)	AMEX	100.00	100.00
• Gateway, Inc. ("GWI", U.S.A.)	AAH	100.00	100.00
• Acer America Corporation. ("AAC", U.S.A.)	GWI	100.00	100.00
• Gateway US Retail, Inc. ("GRA", U.S.A.)	GWI	100.00	100.00
• Gateway Direct, Inc. ("GDA", U.S.A.)	GWI	100.00	100.00

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	Investor	Percentage of Ownership by the Company at December 31, 2007	2008
• Gateway Manufacturing LLC ("GMA", U.S.A.)	GWI	100.00	100.00
• Gateway KK ("GJP", Japan)	GRA	100.00	100.00
• Gateway de Mexico S. de R.L. de C.V. ("GMX", Mexico)	GWI	100.00	100.00
• Gateway Ltd. ("GUK", the United Kingdom)	GRA	100.00	100.00
• Gateway France SAS ("GFR", France)	GRA	100.00	100.00
• Gateway International Holdings, Inc. ("GIH", U.SA.)	GWI	100.00	100.00
• Gateway International Computers Limited ("GIC", the United Kingdom)	GIH	100.00	100.00
• Gateway Canada Corporation ("GCA", Canada)	GIC	100.00	100.00
• eMachines Internet Group ("EMA", U.S.A.)	GRA	100.00	100.00
• Servicio Profesionales de Aceso S. de C.V. ("GSMX", Mexico)	EMA	100.00	100.00
• Gateway Europe B.V. ("GEBV", U.S.A.)	GRA	100.00	100.00
• Gateway Computers Ireland Ltd. ("GCI", the)	GRA	100.00	100.00
• Gateway Hong Kong Ltd. ("GHK", Hong Kong)	GWI	100.00	100.00
• Gateway Bermuda LP ("GBM", Bermuda)	GWI	100.00	100.00
• Gateway Asia, inc. ("GAI", U.S.A.)	GWI	100.00	100.00
(e) 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
• 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	100.00
• Acer Finance Australia Pty. Ltd. ("AFA", Australia)	ACA	100.00	100.00
• Highpoint Australia Pty. Ltd. ("HPA", Australia)	ACA	100.00	100.00
• Highpoint Service Network Sdn. Bhd. ("HSN", Malaysia)	ASSB	100.00	100.00

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	Investor	Percentage of Ownership by the Company at December 31, 2007	2008
• Logistron Service Pte Ltd. (LGS, Singapore) and its subsidiaries	ACS	100.00	100.00
(f) Acer Computer International Ltd. ("ACI", Singapore)	The Company	100.00	100.00
(g) Acer Sales & Distribution Ltd. ("ASD", Hong Kong)	The Company	100.00	100.00

(2) Sale and distribution of computer products and electronic communication products:

	Investor	Percentage of Ownership by the Company at December 31, 2007	2008
(a) Weblink International Inc. ("WII", Taiwan)	The Company	99.79	99.79
(b) Weblink (H.K.) International Ltd. ("WHI", Hong Kong)	WII	99.79	99.79
(c) Weblink Shanghai International Limited ("WSHI", China)	WII	99.79	99.79
(d) Servex (Malaysia) Sdn Bhd ("SMA", Malaysia) and its subsidiaries	ASSB	100.00	100.00
(e) Servex International (Thailand) Co., Ltd. ("STH", Thailand)	ATH	100.00	100.00
(f) Megabuy Sdn. Bhd. ("MGB", Malaysia)	ASSB	100.00	100.00

(3) Investing and holding companies:

(a) Multiventure Investment Inc. ("MVI", Taiwan)	The Company	100.00	100.00
(b) Acer Digital Service Co. ("ADSC", Taiwan)	The Company	100.00	100.00
(c) Acer Worldwide Incorporated ("AWI", British Virgin Islands)	The Company	100.00	100.00
(d) Cross Century Investment Limited ("CCI", Taiwan)	The Company	100.00	100.00
(e) Acer SoftCapital Incorporated ("ASCBVI", British Virgin Islands)	The Company	100.00	100.00
(f) Acer Venture Associates ("AVA", Cayman Islands)	ASCBVI	100.00	-
(g) Acer Capital Limited ("ACBVI", British Virgin Islands)	ASCBVI	100.00	100.00
(h) ASC Cayman, Limited ("ASCCAM", Cayman Islands)	ASCBVI	100.00	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	Investor	Percentage of Ownership by the Company at December 31, 2007	2008
(i) Acer Capital Corporation ("ACT", Taiwan)	The Company	100.00	100.00
(j) Aspire Incubation Venture Capital ("AIVC", Taiwan)	The Company	100.00	100.00
(k) Acer Digital Services (B.V.I.) Holding Corp. ("ADSBH", British Virgin Islands)	The Company	100.00	100.00
(l) Acer Digital Services (Cayman Islands) Corp. ("ADSCC", Cayman Islands)	ADSBH	100.00	100.00
(m) Nicholas Insurance Company Ltd. ("NIC", Bermuda)	GWI	100.00	100.00
(n) Acer Capital Australia Oty Ltd. ("ACAP", Australia)	ACBVI	100.00	100.00
(o) Acer Technology Venture Asia Pacific Ltd. ("ATVAP", British Virgin Islands)	ASCBVI	100.00	100.00
(p) Eten Investment Co., Ltd. ("ETO", Taiwan)	ETEN	-	100.00
(q) Protek Investment Co., Ltd.("PTO", Taiwan)	ETEN	-	100.00
(r) Toptek Investment Co., Ltd. ("DTO", Taiwan)	ETEN	-	100.00
(s) Eten International Holdings Ltd. ("EIH", British Virgin Islands)	DTO	-	100.00

(4) Research, design, and sale of smart handheld products:

	Investor	2007	2008
(a) E-ten Information System Co., Ltd. ("ETEN", Taiwan)	The Company	-	100.00
(b) Eten China Information System Co., Ltd. ("CETEN", China)	EIH	-	100.00

(5) Property development:

	Investor	2007	2008
(a) Acer Property Development Inc. ("APDI", Taiwan)	ADSC	100.00	100.00
(b) Aspire Service & Development Inc. ("ASDI", Taiwan)	ADSC	100.00	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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

	Investor	Percentage of Ownership by the Company at December 31, 2007	2008
(a) EB Easy Business Services Limited (“AGES”, Hong Kong)	ADSCC	85.00	85.00
(b) EB Easy (TWN) Corp. (“AGEST”, Taiwan)	AGES	85.00	Note 4(10)
(c) Acer Cyber Center Services Ltd. (“ACCSI”, Taiwan)	The Company	100.00	100.00
(d) Lottery Technology Service Corp. (“LTS”, Taiwan)	The Company	100.00	100.00
(e) Minly Corp. (“MINLY”, Taiwan)	The Company	100.00	100.00

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

(a) TWP Corporation (“TWP”, Taiwan)	The Company	100.00	-
(b) Acer TWP Innovation Information Co. Ltd. (ATIM, Taiwan)	TWP	100.00	-
(c) TWP International Inc. (“TWP BVI”, British Virgin Islands)	ACCSI	100.00	100.00
(d) Acer Third Wave Software (Beijing) Co., Ltd. (“TWPBJ”, China)	TWPBVI	100.00	100.00

The Company completed the acquisition of 100% of the shares of Gateway, Inc. on October 15, 2007 (refer to note 4(14)). Gateway, Inc. and its subsidiaries are included in the consolidated financial statements from the date of the acquisition.

In July and September 2007, the Company sold all its ownership interest in Sertek Incorporated (“SNX”) and Digital Computer System Co. (“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.

In March and June of 2008, the Company completed its acquisition of 100% of the shares of PB Holding Company S.A.R.L and its subsidiaries. In September 2008, the Company also completed its acquisition of 100% of the shares of E-ten Information System Co., Ltd. and its subsidiaries. The Company has included the results of operations of the acquired business in the consolidated financial statements as of the date of each acquisition. Additionally, the Company established new subsidiaries AGP and AAPH. In November 2008, ACCSI merged with TWP and its subsidiaries.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies

(1) Accounting principles and consolidation policy

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

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

(2) Use of estimates

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

(3) Foreign currency transactions and translations

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

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

(Continued)

in a foreign operation are accounted for as translation adjustment, a separate component of stockholders' equity.

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

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

(5) Cash and cash equivalents

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

(6) Allowance for doubtful accounts

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

(7) Inventories

Inventories for the Acer brand information technology business group are stated at the lower of cost or market value. Market value represents net realizable 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.

(8) Financial instruments

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

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

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

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(b) 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.

(c) Available-for-sale financial assets

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

(d) Financial assets carried at cost

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

(9) Derivative financial instruments and hedging activities

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. If the designated hedging instruments meet the criteria for hedge accounting, they are accounted for as follows:

(a) Fair value hedges

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

(b) Cash flow hedges

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

(10) 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.

A discontinued operation is 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.

(11) Equity method investments

Long-term equity investments in which the Consolidated Companies, directly or indirectly, own 20% or more of the investee’s voting shares, or less than 20% of the investee’s voting shares but are able to exercise significant influence over the investee’s operating and financial policies, are accounted for using the equity method. 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 fair values 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.

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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 of 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.

(12) Capital leases

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

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

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

Commencing from November 20, 2008, the Company capitalized retirement or recovery obligation for newly acquired property and equipment in accordance with Interpretation (97) 340 issued by the Accounting Research and Development Foundation. A component which is significant in relation to the total cost of the property and equipment and for which a different depreciation method or rate is appropriate should be depreciated separately. The Company evaluates the estimated useful lives, depreciation method and residual value at the end of each year. Changes in the estimated useful lives, depreciation method and residual value are accounted for as changes in accounting estimates.

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

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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

(14) Intangible assets

Goodwill arising from a business combination was previously amortized using the straight-line method over five years. In accordance with the amended SFAS No. 25 “Business Combinations”, goodwill is no longer amortized but is tested for impairment annually.

Other intangible assets, including patents, trademarks and trade names, customer relationships, developed technology and purchased software, are stated at cost. Intangible assets with finite useful lives 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: 7~10 years
4. Developed technology: 10 years
5. Trademarks and trade names: 20 years

The Gateway, Packard Bell and Eten trademarks and trade names are intangible assets with indefinite useful lives. They are not amortized, but are assessed for impairment on a yearly basis. The useful life of an intangible asset not subject to amortization shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. Any change in the useful life assessment from indefinite to finite 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.

(15) 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.

Goodwill and assets that have an indefinite useful life or are not yet available for use are not subject to amortization and are tested annually for impairment. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(16) Deferred charges

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

(17) Treasury stock

Common 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 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.

(18) 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.

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

Employee bonuses and directors' and supervisors' remuneration appropriated after January 1, 2008, are accounted for according to Interpretation (96) 052 issued by the Accounting Research and Development Foundation. The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes it as operating expense. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized in profit or loss.

(Continued)

(20) Share-based payment transactions

Effective January 1, 2008, the Company adopted SFAS No. 39 "Accounting for Share-based Payment" for its share-based payments granted on or after January 1, 2008.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, and the corresponding increase in equity is recognized. The vesting period is the period during which all the specified vesting conditions of the share-based payment arrangement are to be satisfied. The vesting conditions include service conditions and performance conditions (including market conditions). When estimating the fair value of the transactions, vesting conditions, other than market conditions, shall not be taken into account.

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

Fair value is measured by the use of the Black-Scholes or the binomial option pricing model, based on management's best estimate of the exercise price, expected term, underlying share price, expected volatility, expected dividends, risk-free interest rate, and any other inputs to the model.

(21) 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.

(22) Retirement plan

(a) 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 Bank of Taiwan or other banks.

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.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) Defined contribution retirement plans

Starting from July 1, 2005, pursuant to the ROC Labor Pension Act (the “New System”), employees who elected to participate in the New System or commenced working after July 1, 2005, are subject to a defined contribution plan under the New System. For the defined contribution plan, the Company and its domestic subsidiaries contribute monthly an amount equal to 6% of each employee’s monthly salary to an individual labor pension fund account.

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.

(23) 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.

(24) 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 non-compensated distribution of shares (distribution of stock dividends from retained earnings or capital surplus or employee bonus) is included in the outstanding shares retroactively.

Additionally, as the Company can choose to distribute employee bonuses by issuing stock shares, the computation of diluted earnings per share is based on the assumption that all employee bonuses are distributed in stock shares as of the balance sheet date.

(Continued)

(25) 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.

(26) Convenience translation into U.S. dollars

The consolidated financial statements are stated in New Taiwan dollars. Translation of the 2008 New Taiwan dollar amounts into U.S. dollar amounts, using the spot rate on December 31, 2008, of NT$32.818 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

Effective on January 1, 2008, the Consolidated Company recognized and measured share-based payment transactions, employee bonuses, and directors' and supervisors' remuneration according to Statement of Financial Accounting Standards (SFAS) No. 39 "Accounting for Share-based Payment" and Interpretation (96) 052 issued by the Accounting Research and Development Foundation. As a result, the Consolidated Company recognized employee bonus and directors' and supervisors' remuneration expenses of NT$1,586,563. The aforementioned changes in accounting principle resulted in the decrease in consolidated net income after tax and basic earnings per share for the year ended December 31, 2008, of NT$1,483,776 thousand and NT$0.60, respectively. Additionally, in accordance with Interpretation (97) 169 issued by the Accounting Research and Development Foundation, if the stock dividends to employees as bonuses are potentially dilutive, they should be accounted for in diluted earnings per common share.

4. Significant Account Disclosures

(1) Cash and cash equivalents

	December 31, 2007	December 31, 2008	
	NT$	NT$	US$
Cash on hand	55,207	878,683	26,774
Bank deposits	14,908,552	13,690,489	417,164
Time deposits	22,981,580	7,572,553	230,744
	37,945,339	**22,141,725**	**674,682**

(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, 2007 and 2008, details of the contracts were as follows:

	December 31, 2007				
Buyer	**Factored amount**	**Factoring credit limit**	**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		note 7(4)
Taipei Fubon Bank	823,824	1,000,000	823,824		note 7(4)
	$ 10,760,848	**23,411,112**	**6,162,703**	**1.62%~6.00%**	

	December 31, 2008				
Buyer	**Factored amount**	**Factoring credit limit**	**Advance amount (Derecognized amount)**	**Interest rate**	**Collateral**
IFITALIA	$ 10,018,176	11,226,373	2,866,914		-
ABN AMRO Bank	4,208,716	7,314,804	2,292,296		-
Standard Chartered Bank	2,213,795	6,563,600	2,213,795		-
Emirates Bank International	415,867	1,082,994	415,867		-
China Trust Bank	281,695	1,965,000	190,972		note 7(4)
Taipei Fubon Bank	514,716	1,000,000	514,716		note 7(4)
	$ 17,652,965	**29,152,771**	**8,494,560**	**1.51%~5.9%**	

(3) Other receivable

	December 31, 2007	December 31, 2008	
	NT$	**NT$**	**US$**
Refundable income tax and VAT receivable	2,780,212	2,001,212	60,979
Other receivable	4,595,357	6,806,242	207,394
	7,375,569	**8,807,454**	**268,373**

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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

	December 31, 2007 NT$	December 31, 2008 NT$	December 31, 2008 US$
Mutual funds	662,096	-	-
Publicly traded equity securities	2,112,196	145,147	4,423
Others	77,769	446,297	13,599
	2,852,061	591,444	18,022

In 2007 and 2008, the Consolidated Companies disposed of portions of these investments and recognized gains on disposal thereof of NT$2,057,447 and NT$1,187,156, respectively. The gains were recorded as "gain on disposal of investments" in the accompanying consolidated statements of income.

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

	December 31, 2007 NT$	December 31, 2008 NT$	December 31, 2008 US$
Financial assets at fair value through profit or loss－current:			
Foreign currency forward contracts	14,999	339,817	10,355
Foreign currency options	4,983	-	-
Cross currency swaps	-	7,821	238
Foreign exchange swaps	-	7,113	217
	19,982	354,751	10,810

	December 31, 2007 NT$	December 31, 2008 NT$	December 31, 2008 US$
Financial liability at fair value through profit or loss－current:			
Foreign currency forward contracts	(1,394,549)	(1,011,739)	(30,829)
Foreign currency options	(593)	-	-
	(1,395,142)	(1,011,739)	(30,829)

As of December 31, 2007 and 2008, unrealized loss resulting from the changes in fair value of these derivative contracts amounted to NT$(272,939) and NT$718,172, respectively.

As of December 31, 2007 and 2008, the Consolidated Companies entered into foreign currency forward contracts and foreign currency options to hedge their exposure to the foreign currency exchange rate risk generated by operating activities. The 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:

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(a) Foreign currency options:

(i) Long options:

	December 31, 2007		
	Notional amount (in thousands)		Maturity date
EUR CALL/GBP PUT	EUR	3,487	2008/02/27

(ii) Short options

	December 31, 2007		
	Notional amount (in thousands)		Maturity date
GBP CALL/EUR PUT	EUR	3,835	2008/02/27

(b) Foreign currency forward contracts:

			December 31, 2007		
			Notional amount (in thousands)		Settlement date
Buy		**Sell**			
USD	/	ZAR	USD	24,222	2008/01/02~2008/02/29
USD	/	SGD	USD	15,000	2008/01/16~2008/03/31
USD	/	EUR	EUR	663,000	2008/01/16~2008/02/29
USD	/	INR	USD	50,536	2008/01/16~2008/05/30
USD	/	JPY	USD	16,500	2008/01/15~2008/05/16
USD	/	RMB	USD	15,000	2008/01/30~2008/03/31
USD	/	THB	USD	18,000	2008/01/15~2008/02/15
USD	/	MYR	USD	21,865	2008/01/15~2008/03/17
USD	/	NTD	USD	24,000	2008/01/09~2008/01/31

			December 31,2008		
			Notional amount (in thousand)		Settlement date
Buy		**Sell**			
USD	/	SGD	USD	7,000	2009/01/14~2009/02/26
USD	/	CAD	USD	47,806	2009/01/28~2009/02/26
EUR	/	CHF	EUR	19,000	2008/01/05~2009/03/30
USD	/	EUR	EUR	720,000	2009/01/15~2009/02/21
USD	/	INR	USD	61,600	2009/01/06~2009/05/29
USD	/	MYR	USD	19,138	2009/01/14~2009/02/17

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Buy		Sell	Notional amount (in thousand)		Settlement date
			December 31,2008		
USD	/	PHP	USD	500	2009/01/15
USD	/	THB	USD	28,700	2009/01/14~2009/05/29
USD	/	RMB	USD	70,000	2009/02/02~2009/03/30
USD	/	JPY	USD	5,000	2009/01/14
USD	/	NTD	USD	5,000	2009/01/09~2009/01/22

(c) Cross currency swaps:

Notional amount (in thousands)	Settlement Date	Interest	Interest due date
	December 31, 2008		
Swap-in SGD35,000/ Swap-out USD 24,221	2009/01/23	Pay USD fixed rate: 0.66% Collect SGD fixed rate: 1.00%	Principal and interest paid in full when due

(d) Foreign exchange swaps:

	December 31, 2008 Notional amount (in thousands)	Settlement date
Swap-in USD / Swap-out NTD	USD 160,000 / NTD 5,243,200	2009/01/15

(6) Hedging derivative financial assets and liabilities

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

	December 31, 2007 NT$	December 31, 2008 NT$	December 31, 2008 US$
Hedging derivative financial assets – current:			
Foreign currency forward contracts	235,198	962,268	29,321
Foreign currency options	-	60,514	1,844
	235,198	1,022,782	31,165
Hedging derivative financial liabilities – current			
Foreign currency forward contracts	(66,786)	(848,740)	(25,862)
Foreign currency options	-	(23,298)	(710)
	(66,786)	(872,038)	(26,572)

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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.

As of December 31, 2007 and 2008, hedged items designated as fair value hedges and their respective hedging derivative financial instruments were as follows:

Hedged Items	Hedging instruments	Fair value of hedging instruments December 31, 2007	December 31, 2008
Accounts receivable/ payable denominated in foreign currencies	Foreign currency forward contracts and foreign currency options	152,576	424,309

On December 31, 2007 and 2008, the Consolidated Company recognized the realized remeasurement gain from the derivative financial assets and liabilities designated as fair value hedges in the amount of NTD394,271 thousand and NTD271,733 thousand, respectively.

As of December 31, 2007 and 2008, hedged items designated as cash flow hedges and their respective hedging derivative financial instruments were as follows:

December 31, 2007

Hedged items	Hedging instruments	Fair value of hedging instruments	Expected period of cash flow	Expected period of recognition in earnings
Accounts payable denominated in foreign currencies	Foreign currency forward contracts	15,836	2008/01~04	2008/01~04

December 31, 2008

Hedged items	Hedging instruments	Fair value of hedging instruments	Expected period of cash flow	Expected period of recognition in earnings
Accounts payable denominated in foreign currencies	Foreign currency forward contracts and foreign currency options	(273,565)	2009/01~05	2009/01~05

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

As of December 31, 2007 and 2008, details of financial instruments described above that were outstanding were as follows:

(a) Foreign currency options

(i) Long position

	December 31, 2008		
	Notional amount (in thousands)		Maturity date
USD CALL/AUD PUT	USD	6,445	2009/01/28~2009/02/25
EUR CALL/GBP PUT	EUR	43,257	2009/01/30~2009/03/31
USD CALL/EUR PUT	USD	6,000	2009/01/30
NZD CALL/USD PUT	USD	1,000	2009/01/28~2009/02/25
EUR CALL/NOK PUT	EUR	4,200	2009/01/15
EUR CALL/SEK PUT	EUR	3,900	2009/01/15

(ii) Short position

	December 31, 2008		
	Notional amount (in thousands)		Maturity date
AUD CALL/USD PUT	USD	6,445	2009/01/28~2009/02/25
GBP CALL/EUR PUT	EUR	55,984	2009/01/30~2009/03/31
EUR CALL/USD PUT	USD	6,000	2009/01/30
USD CALL/NZD PUT	USD	1,000	2009/01/28~2009/02/25
NOK CALL/EUR PUT	EUR	4,200	2009/01/15
SEK CALL/EUR PUT	EUR	5,850	2009/01/15

(b) Foreign currency forward contracts

			December 31, 2007		
Buy		**Sell**	Notional amount (in thousands)		Settlement date
EUR	/	NOK	EUR	9,000	2008/01/15
EUR	/	SEK	EUR	8,500	2008/01/15
EUR	/	GBP	EUR	170,577	2008/01/31~2008/04/16
USD	/	EUR	USD	77,666	2008/01/01~2008/03/31
USD	/	AUD	USD	50,268	2008/01/11~2008/02/28
USD	/	NZD	USD	5,940	2008/01/31~2008/03/31
AUD	/	NZD	AUD	3,531	2008/01/07~2008/02/05
USD	/	CAD	USD	4,094	2008/02/19~2008/02/28

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Buy		Sell		Notional amount (in thousands) December 31, 2008	Settlement date
USD	/	AUD	USD	68,190	2009/01/30~2009/05/29
AUD	/	USD	USD	11,867	2009/01/30~2009/04/30
USD	/	CAD	USD	39,095	2009/02/26~2009/04/30
EUR	/	DKK	EUR	94	2009/01/15
USD	/	EUR	EUR	252,798	2009/01/30~2009/03/16
EUR	/	GBP	EUR	165,369	2009/01/15~2009/02/27
EUR	/	NOK	EUR	14,311	2009/01/13~2009/02/27
USD	/	NZD	USD	4,500	2009/01/30~2009/05/29
EUR	/	SEK	EUR	19,612	2009/01/13~2009/02/27
USD	/	JPY	USD	70,000	2009/01/15~2009/05/29
USD	/	ZAR	USD	17,300	2009/01/15~2009/03/31
USD	/	MXN	USD	90,000	2009/01/09~2009/04/17

(c) Foreign exchange swap

	December 31, 2008 Notional amount (in thousands)					Settlement date
Swap-in SEK/Swap-out EUR	**SEK**	17,000	/	**EUR**	1,554	2009/01/15

(7) Inventories

	December 31, 2007 NT$	December 31, 2008 NT$	December 31, 2008 US$
Raw materials	12,452,588	14,528,727	442,706
Work in process	27,322	49,437	1,506
Finished goods	13,809,255	16,907,906	515,202
Spare parts	3,982,372	4,544,547	138,477
Inventories in transit	7,630,204	9,233,802	281,364
Less: provision for inventory obsolescence and net realizable value	(4,086,044)	(5,236,224)	(159,553)
	33,815,697	40,028,195	1,219,702

(8) Noncurrent assets held for sale

In December 2007, the Company's subsidiary ACI planned to sell its office building located in Singapore. As a result, the office building, recorded at NT$764,718, was reclassified to noncurrent asset held for sale under "prepayments and other current assets" in the accompanying consolidated balance sheet as of December 31, 2007. In March 2008, the sale of the office building was completed.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(9) Financial assets carried at cost－noncurrent

	December 31, 2007	December 31, 2008	
	NT$	NT$	US$
Privately held stock:			
National Securities Corp.	12,188	-	-
Prosperity Venture Capital Corp.	28,000	21,000	640
Sheng-Hua Venture Capital Corp.	30,000	20,000	609
Legend Technology	27,205	15,235	464
W.I. Harper International Corp.	20,650	15,050	459
Megic Corp.	647	-	-
InCOMM Technologies Co., Ltd.	2,360	2,360	72
IP Fund II	32,400	32,400	987
Dragon Investment Co. Ltd.	323,000	217,000	6,612
World Venture, Inc.	300,000	262,000	7,983
iD Reengineering Inc.	199,900	174,900	5,329
HiTRUST. COM Inc.	90,818	-	-
DYNA Fund II	23,459	23,736	723
IP Fund III	195,161	131,862	4,018
iD5 Fund LTP	73,879	74,751	2,278
IP Cathay One, L.P.	194,610	295,362	9,000
IP Fund One L.P.	1,274,713	907,431	27,650
MPC Corporation	231,100	-	-
New Century Infocomm Tech Co., Ltd.	-	341,663	10,411
Apacer Technology Inc.	-	45,340	1,382
Other	82,031	104,180	3,176
	3,142,121	2,684,270	81,793

In 2007 and 2008, the Consolidated Companies increased their investments in IP Cathay L.P. and other investees in the amount of NT$217,140 and NT$97,876, respectively. The Consolidated Companies also increased their investments in New Century Infocomm Tech and other investees in the amount of NT$359,759 through the acquisition of E-Ten Information System Co., Ltd. in 2008. Additionally, in 2007, the Consolidated Companies sold portions of their investments in TFNC, InCOMM Technologies and other investees, resulting in an aggregate gain on disposal of investment of NT$44,593. In 2008, the Consolidated Companies sold portions of their investments in Apacer Technology Inc. and other investees, realizing an aggregate disposal gain of NT$80,462.

The Consolidated Companies recognized impairment losses on Dragon Investment Co. Ltd., iD Reengineering Inc., MPC Corp. and other financial assets carried at cost. The impaired amount of NT$409,141 for the year ended December 31, 2008, was recorded as “other investment losses” in the accompanying consolidated statements of income.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(10) Equity-method investments

	December 31, 2007 Percentage of ownership %	Book value NT$	2007 Investment income (loss) NT$
Wistron Corporation ("Wistron")	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. ("Apacer")	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		(8,016)	27,009
		4,689,684	826,261
Less: Allocation of corporate expense			(130,601)
			695,660

	December 31, 2008 Percentage of ownership %	Book value NT$	2008 Investment income (loss) NT$
Wistron Corporation	4.92	1,814,166	471,792
E-Life Mall Corp.	14.27	442,291	70,763
The Eslite Bookstore	18.62	304,361	(72,508)
Apacer Technology Inc.	-	-	(18,962)
Aegis Semiconductor Technology Inc.	44.03	165,235	-
ECOM Software Inc.	33.93	36,771	4,565
Bluechip Infotech Pty Ltd.	33.41	57,361	1,125
FuHu, Inc.	9.00	72,518	(987)
Other	-	36,087	1,994
Deferred credits		-	12,896
		2,928,790	470,678
Less: Allocation of corporate expense			(66,494)
			404,184

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.

In 2008, the Consolidated Companies acquired investment in FuHu, Inc. in the amount of NT$73,841.

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

In October 2007, the Company reduced its investment in Apacer to an ownership interest of less than 50% and no longer held a controlling interest in Apacer. Consequently, Apacer was excluded from the consolidated financial statements, and the investments in Apacer were accounted for using the equity method. The Consolidated Companies continuously decreased their ownership in Apacer in 2008, and thus had no significant influence over Apacer's operating and financial policies. Commencing on August 1, 2008, the investments in Apacer were reclassified as "financial assets carried at cost－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 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 2008, the Company sold portions of their investment in Wistron, and recognized a disposal gain of NT$1,441,906.

In 2008, the Consolidated Companies recognized liquidation loss of NT$7,262 on EB EASY (TWN) Corp. The loss was recorded under "other investment loss" in the accompanying consolidated income statements.

The Company's capital surplus was reduced by NT$169,810 and NT$78,255 in 2007 and 2008, respectively, as a result of recognizing changes in investees' equity accounts or disposal of equity-method investments.

(11) Available-for-sale financial assets－noncurrent

	December 31, 2007	**December 31, 2008**	
	NT$	**NT$**	**US$**
Qisda Corporation ("Qisda")	2,655,514	520,718	15,867
Silicon Storage Technology Inc. ("Silicon")	10,571	8,192	249
Yosun Industrial Corp.	704,762	386,660	11,782
RoyalTek Co., Ltd.	-	93,390	2,846
Quanta Computer Inc.	-	151,527	4,617
	3,370,847	1,160,487	35,361

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. Through the acquisition of E-Ten Information System Co., Ltd. in September 2008, the Consolidated Companies increased their investment in RoyalTek Co., Ltd. and Quanta Computer Inc.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

In 2007, the Consolidated Companies sold portions of their investments in Qisda, Silicon and other investees, and an aggregate gain of NT$109,491 was recognized from these sales. In 2008, no disposal activities occurred.

(12) Property, plant and equipment

The Company's subsidiary ACI sold the office building located in Singapore in March 2008, with a disposal gain of NT$788,944. Additionally, the Company's subsidiary Gateway disposed of computer equipment and machinery in 2008 with a loss of NT$269,057. The gain and loss were netted and recorded under "gain on disposal of property and equipment, net" in the accompanying consolidated income statements.

(13) Property not in use

	December 31, 2007	December 31, 2008	
	NT$	NT$	US$
Leased assets－land	818,630	807,538	24,607
Leased assets－buildings	2,855,547	2,827,810	86,166
Damaged office premises	457,558	457,558	13,942
Property held for sale and development	1,761,173	1,391,260	42,393
Others	-	29,019	884
Less: Accumulated depreciation	(543,805)	(570,088)	(17,371)
Accumulated asset impairment	(1,543,000)	(1,946,376)	(59,308)
	3,806,103	**2,996,721**	**91,313**

Damaged office premises are office premises that suffered fire damage. As of December 31, 2008 the Consolidated Companies concluded that the possibility for the damaged office premises to be fully repaired was remote; hence, the repair cost accrual of NT$161,308, recorded in "other current liabilities" in the accompanying consolidated balance sheet as of December 31, 2007, was reclassified as accumulated asset impairment, and an additional impairment loss of NT$221,931 was recognized.

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.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(14) Intangible assets

	Goodwill	Patents	Trademarks	Customer Relationships	Others	Total
	NT$	NT$	NT$	NT$	NT$	NT$
Balance at January 1, 2007	244,328	171	-	-	152,183	396,682
Additions	-	415,701	-	-	78,168	493,869
Acquisitions	16,654,264	1,116,481	5,504,220	1,551,042	570,729	25,396,736
Disposal	-	(120)	-	-	(3,410)	(3,530)
Translation adjustment	(7,876)	553	73	494	3,356	(3,400)
Amortization	-	(59,074)	(6,054)	(40,457)	(248,279)	(353,864)
Balance at December 31, 2007	16,890,716	1,473,712	5,498,239	1,511,079	552,747	25,926,493
Additions	-	89,177	-	-	80,147	169,324
Acquisitions	5,520,031	-	2,634,244	151,100	1,871,300	10,176,675
Disposal	(32,532)	-	-	-	(4,339)	(36,871)
Reclassification	-	(727,381)	-	-	(453,200)	(1,180,581)
Translation adjustment	195,825	(20,326)	(32,122)	11,722	(14,327)	140,772
Amortization	-	(122,344)	(32,805)	(156,552)	(137,346)	(449,047)
Balance at December 31, 2008	**22,574,040**	**692,838**	**8,067,556**	**1,517,349**	**1,894,982**	**34,746,765**

(a) Acquisitions

(i) Gateway, Inc.

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 Acer American Holding, at a price of US$1.90 (dollars) per share. The total purchase price amounted to US$711,420 thousand, which was inclusive of direct transaction costs. Gateway Inc. then became the Company's indirectly wholly owned subsidiary.

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 costs over the fair value of the net identifiable tangible and intangible assets.

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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

	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	(2,923,302)	6,852,752
Goodwill		**16,654,264**

As of December 31, 2008, the Company identified adjustments which subsequently met the recognition criteria after the initial recognition and during the purchase price allocation period. The adjustments included a decrease in property, plant and equipment of NT$77,564 or an increase in current liabilities of NT$1,766,474, resulting in an increase in goodwill of NT$1,844,038.

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.

(ii) Packard Bell B.V.

In March and June of 2008, the Company completed the acquisition of 100% ownership of Packard Bell B.V., a personal computer company in Europe, through its indirectly wholly owned subsidiary Acer Europe B.V., at a total purchase price of Euro 66,117 thousand, which was inclusive of direct transaction costs.

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 costs over the fair value of the net identifiable tangible and intangible assets.

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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

	NT$	NT$
Purchase Price:		3,172,080
The identifiable assets acquired and liabilities assumed:		
Current assets	9,587,790	
Property, plant, and equipment	351,162	
Intangible assets – Packard Bell trademark	2,163,744	
Current liabilities	(10,665,179)	
Other liabilities	(39,608)	1,397,908
Goodwill		**1,774,172**

The Packard Bell trademark has an indefinite life and, accordingly, is not subject to amortization.

(iii) E-Ten Information Systems Co., Ltd

As of September 1, 2008, the Company completed acquisition of 100% ownership of E-Ten Information Systems Co., Ltd (E-TEN), a handheld device company in Taiwan. The Company offered to exchange one share of its stock for every 1.07 shares of outstanding E-Ten stock, and issued a total of 168,158,878 common shares. E-Ten has become the Company's directly wholly owned subsidiary.

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 costs over the fair value of the net identifiable tangible and intangible assets.

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

	NT$	NT$
Purchase Price:		8,837,267
Fair value of common shares issued	8,700,751	
Fair value of outstanding employee stock options assumed	136,516	
The identifiable assets acquired and liabilities assumed:		
Current assets	2,574,588	
Equity method investment	789,753	
Property, plant, and equipment	1,856,836	
Intangible assets – ETEN trademark	450,900	
Intangible assets – customer relationship	151,100	
Intangible assets – developed technology	1,802,500	
Intangible assets – others	88,400	
Other assets	485,261	
Current liabilities	(1,263,892)	6,935,446
Goodwill		**1,901,821**

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The ETEN trademark for the stock trading PDA product has an indefinite life and, accordingly, is not subject to amortization. The customer relationship is subject to amortization using the straight-line method over 7 years. The developed technology is subject to amortization using the straight-line method over 10 years, the estimated period in which the economic benefits will be consumed.

(b) Pro forma information

The following unaudited pro forma financial information presents the combined results of operations as if the acquisitions of Gateway Inc., Packard Bell B.V., and E-Ten Information Systems Co., Ltd. had occurred as of the beginning of each of the fiscal years presented:

	2007	2008	
	NT$	NT$	US$
Revenue	574,749,174	550,172,239	16,764,344
Net income from continuing operations before income tax	17,498,019	14,676,395	447,206
Net income from continuing operations after income tax	14,343,978	11,521,166	351,062
Basic earnings per common share (in dollars)	5.72	4.44	0.14

(c) Impairment test

For the purpose of impairment testing, goodwill and trademarks and trade names with indefinite useful lives are allocated to the Consolidated Companies' cash-generating units (CGUs). The carrying amounts of significant goodwill and trademarks and trade names with indefinite useful lives as of December 31, 2007 and 2008, are presented as follows:

	December 31, 2007		
	Acer Pan-America business group	Packard Bell brand business group	E-Ten Information System group
Goodwill	$ 16,654,264	-	166,604
Trademarks & trade names	4,930,120	-	-

	December 31, 2008		
	Acer Pan-America business group	Packard Bell brand business group	E-Ten Information System group
Goodwill	$ 18,768,929	1,699,593	1,901,821
Trademarks & trade names	4,988,336	2,067,836	450,900

(Continued)

Each CGU to which the goodwill is allocated represents the lowest level within the Consolidated Companies at which the goodwill is monitored for internal management purposes. Based on the results of impairment tests conducted by the Company's management, there was no evidence of impairment of goodwill and trademarks and trade names as of December 31, 2007 and 2008. The recoverable amount of a CGU is determined based on the value in use, and the related key assumptions are as follows:

Acer Pan-America business group

(i) The assessment used cash flow projections based on historical operating performance, future financial budgets approved by management covering a 5-year period, and a stable growth rate of 3% for the future earnings potential of the CGU beyond five years. This expected growth rate is determined by the assumptions concerning the overall economic environment and introduction of new products.

(ii) Future cash flows are discounted at the rate of 13.7 percent.

Packard Bell brand business group

(i) The assessment used cash flow projections based on historical operating performance, future financial budgets approved by management covering a 5-year period, and a stable growth rate of 2% for the future earnings potential of the CGU beyond five years. This expected growth rate is determined by the assumptions concerning the overall economic environment and introduction of new products.

(ii) Future cash flows are discounted at the rate of 11.8 percent.

E-Ten Information System group

(i) The assessment used cash flow projections based on historical operating performance, future financial budgets approved by management covering a 5-year period, and a stable growth rate of 3% for the future earnings potential of the CGU beyond five years. This expected growth rate is determined by the assumptions concerning overall the economic environment and introduction of new products.

(ii) Future cash flows are discounted at the rate of 18.7 percent.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(15) Other financial assets－noncurrent

	December 31, 2007	December 31, 2008	
	NT$	NT$	US$
Refundable deposits	687,109	781,080	23,800
Noncurrent receivables	274,284	87,680	2,672
	961,393	868,760	26,472

(16) Short-term borrowings

	December 31, 2007	December 31, 2008	
	NT$	NT$	US$
Bank loans	5,372,109	1,086,851	33,117

The Consolidated Companies provided some assets as collateral according to the bank loan contracts. Refer to note 6 for a description of pledged assets related to these borrowings.

(17) Long-term debt

	December 31, 2007	December 31, 2008	
	NT$	NT$	US$
Citibank syndicated loan	16,500,000	12,200,000	371,747
Other bank loans	308,242	184,920	5,634
Less: current installments	(17,366)	(8,250,000)	(251,386)
	16,790,876	4,134,920	125,995

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	December 31, 2007 NT$	December 31, 2008 NT$
Unsecured loan	Citibank and other banks	(1) Term tranche of NT$16.5 billion; three-year limit during which revolving credits disallowed	(1) Repayable in 4 semi-annual installments starting from April 2009. An advance repayment of $4,300,000 was made in the first quarter of 2008.	16,500,000	12,200,000
		(2) Revolving tranche of NT$3.3 billion; three-year limit	(2) One-time repayment in full in October 2010.	-	-
Less: current installment				-	(8,250,000)
				16,500,000	3,950,000

(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 and 3.06% in 2008. 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 assertion of breach of contract will be tenable if the financial ratios are met within 30 days. Based on the 2008 financial statements, the Company has complied with the aforementioned debt covenants.

(18) Retirement plans

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

	2007	
	Plan assets in excess of accumulated benefit obligation NT$	**Accumulated benefit obligation in excess of plan assets NT$**
Benefit obligation:		
Vested benefit obligation	-	(108,087)
Nonvested benefit obligation	-	(491,318)
Accumulated benefit obligation	-	(599,405)
Projected compensation increases	-	(559,351)
Projected benefit obligation	-	(1,158,756)
Plan assets at fair value	-	507,358
Funded status	-	(651,398)
Unrecognized pension loss	-	730,346
Unrecognized prior service cost	-	558
Unrecognized transition (assets) obligation	-	1,829
Minimum pension liability adjustment	-	(172,784)
Accrued pension liabilities	-	**(91,449)**

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	2008			
	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	(124,967)	(3,808)	(33,041)	(1,007)
Nonvested benefit obligation	(469,607)	(14,309)	(100,237)	(3,054)
Accumulated benefit obligation	(594,574)	(18,117)	(133,278)	(4,061)
Projected compensation increases	(335,873)	(10,235)	(52,666)	(1,605)
Projected benefit obligation	(930,447)	(28,351)	(185,944)	(5,666)
Plan assets at fair value	643,793	19,617	59,610	1,816
Funded status	(286,654)	(8,734)	(126,334)	(3,850)
Unrecognized pension loss	459,393	13,998	39,982	1,218
Unrecognized prior service cost	-	-	6,596	201
Unrecognized transition (assets) obligation	(2,187)	(67)	25,426	775
Minimum pension liability adjustment	-	-	659	21
Prepaid pension cost (Accrued pension liabilities)	170,552	5,197	(53,671)	(1,635)

Accrued pension liabilities are included in "other liabilities" in the accompanying consolidated balance sheets. Prepaid pension cost is included in "other assets" in the accompanying consolidated balance sheets.

The components of the net periodic pension cost for 2007 and 2008 were as follows:

	2007	2008	
	NT$	NT$	US$
Service cost	32,894	49,808	1,518
Interest cost	20,671	34,453	1,050
Actual return on plan assets	(12,147)	(18,586)	(566)
Amortization and deferral	17,133	31,937	973
Net periodic pension cost	58,551	97,612	2,975

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

	2007	2008
Discount rate	2.75%	2.50%
Rate of increase in future compensation	3.00%-3.50%	3.00%
Expected rate of return on plan assets	2.75%	2.50%

In 2007 and 2008, pension cost under the defined contribution retirement plans amounted to NT$202,278 and NT$367,627, respectively.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(19) 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, 2007 and 2008, were as follows:

	2007	2008	
	NT$	NT$	US$
Current income tax expense	2,726,875	2,383,360	72,623
Deferred income tax (benefit) expense	(61,297)	786,086	23,953
	2,665,578	3,169,446	96,576

(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:

	2007	2008	
	NT$	NT$	US$
Expected income tax expense	3,777,159	3,701,682	112,794
Effect of different tax rates applied to the Company's subsidiaries	1,786,743	720,278	21,948
Tax-exempt investment income from domestic investees	(592,587)	(154,526)	(4,709)
Prior-year adjustments	(53,756)	(458,487)	(13,971)
Gain on disposal of marketable securities not subject to income tax	(1,226,553)	(697,934)	(21,267)
Investment tax credits	30,696	295,939	9,018
Change in valuation allowance	(699,088)	225,493	6,871
Tax-exempt investment income resulting from operational headquarters	(1,132,967)	(1,386,033)	(42,234)
Surtax on unappropniated retained earrings	-	165,109	5,031
Gain on disposal of land not subject to income tax	(29,476)	-	-
Alternative minimum tax	404,858	44,430	1,354
Others	400,549	713,495	21,741
Income tax expense	2,665,578	3,169,446	96,576

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(d) The components of deferred income tax assets (liabilities) as of December 31, 2007 and 2008, were as follows:

	December 31, 2007 NT$	December 31, 2008 NT$	December 31, 2008 US$
Deferred income tax assets – current:			
Accrued purchase discounts	631,360	1,093,887	33,332
Inventory provisions	394,505	620,737	18,915
Loss on valuation of financial instruments	338,995	156,932	4,782
Accrued advertising expense	293,552	181,323	5,525
Warranty provision	267,102	894,085	27,244
Allowance for doubtful accounts	169,001	397,292	12,106
Accrued restructuring cost	149,637	-	-
Accrued non-recurring engineering cost	102,485	111,826	3,407
Deferred revenue	40,742	34,904	1,064
Accrued royalty	707,937	82,975	2,528
Unrealized exchange gains	(201,717)	(386,944)	(11,791)
Net operating loss carryforwards	-	77,977	2,376
Others	571,195	553,783	16,874
	3,464,794	3,818,777	116,362
Valuation allowance	(1,550,788)	(1,535,834)	(46,798)
	1,914,006	**2,282,943**	**69,564**

	December 31, 2007 NT$	December 31, 2008 NT$	December 31, 2008 US$
Deferred income tax liabilities – current:			
Inventory provisions	(88,624)	(125,802)	(3,833)
Allowance for doubtful accounts	(473,449)	(462,980)	(14,108)
Others	(147,624)	(67,828)	(2,067)
	(709,697)	**(656,610)**	**(20,008)**

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	December 31, 2007 NT$	December 31, 2008 NT$	December 31, 2008 US$
Deferred income tax assets – non-current:			
Difference in depreciation for tax and financial purposes	12,042	20,638	629
Net operating loss carryforwards	624,286	773,919	23,582
Provision for asset impairment loss	293,190	-	-
Investment tax credits	686,658	-	-
Other	64,944	161,884	4,933
	1,681,120	956,441	29,144
Valuation allowance	(1,615,282)	(826,526)	(25,185)
	65,838	**129,915**	**3,959**

	December 31, 2007 NT$	December 31, 2008 NT$	December 31, 2008 US$
Deferred income tax liabilities – non-current:			
Difference in intangible assets for tax and financial purposes	(3,101,316)	(2,705,258)	(82,432)
Investment income recognized by the equity method	(2,697,304)	(3,804,043)	(115,913)
Net operating loss carryforwards	14,028,055	14,326,766	436,552
Difference in depreciation for tax and financial purposes	939,410	1,026,013	31,263
Provision for asset impairment loss	293,190	313,148	9,542
Investment tax credits	-	418,227	12,744
Software development cost	-	731,804	22,299
Unrealized investment loss	241,569	244,421	7,448
Other	147,919	463,409	14,121
	9,851,523	11,014,487	335,624
Valuation allowance	(14,970,897)	(17,288,586)	(526,802)
	(5,119,374)	**(6,274,099)**	**(191,178)**

(e) 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.

(Continued)

As of December 31, 2008, unused investment tax credits available to the Consolidated Companies were as follows:

Expiration date	NT$	US$
December 31, 2009	291,975	8,897
December 31, 2010	4,834	147
December 31, 2011	64,660	1,970
December 31, 2012	56,758	1,730
	418,227	12,744

(f) The tax effects of net operating loss carryforwards available to the Consolidated Companies as of December 31, 2008, were as follows:

Expiration date	NT$	US$
December 31, 2009	144,655	4,408
December 31, 2010	10,737	327
December 31, 2011	992,846	30,253
December 31, 2012	1,088,663	33,173
Thereafter	12,941,761	394,349
	15,178,662	462,510

(g) 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, 2007	December 31, 2008	
	NT$	NT$	US$
Unappropriated earnings:			
Earned before January 1, 1998	6,776	6,776	207
Earned after January 1, 1998	13,544,248	13,978,542	425,941
	13,551,024	13,985,318	426,148
Balance of ICA	165,036	198,401	6,045

The Company's estimated creditable ratio for the 2008 earnings distribution to ROC resident stockholders is approximately 4.84%; and the actual creditable ratio for the 2007 earnings distribution to ROC resident stockholders was 4.01%.

(h) The ROC income tax authorities have examined the income tax returns of the Company for all fiscal years through 2006. However, the Company disagreed with the assessments of income tax returns from fiscal 2002 to 2006 regarding the adjustments of certain 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.

(20) Stockholders' equity

(a) Common stock

As of December 31, 2007 and 2008, the Company's authorized common stock consisted of 2,800,000,000 shares and 3,500,000,000 shares, respectively, of which 2,405,490,426 shares and 2,642,855,993 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 and 2008, the Company had issued 8,229 thousand units and 8,412 thousand units, respectively, of global depository receipts (GDRs). The GDRs were listed on the London Stock Exchange, and each GDR represents five shares of common stock.

As of September 1, 2008, the Company issued 168,159 thousand common shares for acquiring 100% ownership of E-Ten Information Systems Co., Ltd. The increase in common stock has been approved by and registered with the governmental authorities.

In 2008, the Company issued 1,244 thousand shares upon the exercise of employee stock options.

The Company's shareholders in the meeting on June 14, 2007, resolved to appropriate NT$684,267 from retained earnings as of December 31, 2006, and issue a total of 68,427 thousand 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 13, 2008, resolved to appropriate NT$690,823 from retained earnings as of December 31, 2007, for a total of 69,082 thousand new shares as stock dividends and employee bonuses. The stock issuance was authorized by and registered with the governmental authorities.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) Treasury stock

As of December 31, 2007 and 2008, details of 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 E-Ten were as follows (expressed in thousands of shares and New Taiwan dollars):

	December 31, 2007			December 31, 2008		
	Number of Shares	**Book Value NT$**	**Market Price NT$**	**Number of Shares**	**Book Value NT$**	**Market Price NT$**
Common stock	17,057	798,663	1,083,128	21,571	1,050,341	918,946
GDRs	4,860	2,472,257	1,655,241	4,933	2,472,257	1,100,893
		3,270,920	**2,738,369**		**3,522,598**	**2,019,839**

Upon acquisition of E-Ten Information Systems Co., Ltd. in September 2008, the Company's common shares issued to E-Ten's subsidiaries were accounted for as treasury stock.

(c) Capital surplus

	December 31, 2007 NT$	**December 31, 2008 NT$**	**US$**
Share premium:			
Paid-in capital in excess of par value	856,901	857,759	26,137
Surplus from merger	22,781,719	29,800,881	908,065
Premium on common stock resulting from conversion of convertible bonds	4,552,585	4,552,585	138,722
Forfeited interest resulting from conversion of convertible bonds	1,006,210	1,006,210	30,660
Surplus related to the treasury stock transactions by subsidiary companies	316,329	431,161	13,138
Share-based payment－employee stock options	-	37,856	1,154
Share-based payment－employee stock options assumed from acquisition	-	136,516	4,160
Other:			
Surplus from equity-method investments	385,239	306,984	9,354
	29,898,983	**37,129,952**	**1,131,390**

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.

(Continued)

(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.

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.

In 2008, the Company estimated it would distribute NT$1,500,000 of employee bonuses and NT$85,763 of directors' and supervisors' remuneration. The computation for the employee bonuses distributed in stock shares was based on the closing price of the day prior to the stockholders' meeting, considering the ex-rights and ex-dividend effect. If the actual distribution amount approved by the shareholders differs from the estimated amount, the discrepancy shall be accounted for as a change in accounting estimates and adjusted in the year 2009. Additionally, the Company's subsidiary Weblink International Inc. estimated it would distribute employee bonuses and directors' and supervisors' remuneration in the amount of NT$800.

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The appropriation of 2006 and 2007 earnings was approved by the shareholders at meetings on June 14, 2007, and June 13, 2008, respectively, as follows:

	2006 NT$	2007 NT$
Employee bonus − stock (in par value)	333,708	330,000
Employee bonus − cash	424,719	544,728
Directors' and supervisors' remuneration	94,803	116,630
	853,230	991,358

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

Distribution of 2008 earnings has not been proposed by the board of directors and is still subject to approval by the stockholders. After the resolutions, related information can be obtained from the public information website.

(21) Employee stock option plan

As of December 31, 2008, the Consolidated Companies had the employee stock option plans ("ESOP") described below:

	Stock Options		
	Employee stock option plan 1	**Employee stock option plan 2**	**Employee stock option plan 3**
Grant date	2008/11/31	2008/09/01 (note 1)	2008/09/01 (note 1)
Granted shares (in thousands)	14,000	8,717	1,067
Fair value of options granted ($)	25.124	25.47 ~ 26.11	42.20 ~ 42.58
Contractual life	3 years	4.97 years	2 years
Vesting period	2 years of service subsequent to grant date	1~3 years of service subsequent to grant date	2 years of service subsequent to grant date
Actual exit rates	0	0	0
Expected exit rates	0	0	0

Note 1: The Company assumed the employee stock option plans 2 and 3 through the acquisition of E-Ten Information Systems Co., Ltd. as of September 1, 2008.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The Consolidated Company utilized the Black-Scholes or the binomial option pricing model to value the stock options granted, and the main inputs to the valuation models are described below.

	2008		
	Employee stock option plan 1	**Employee stock option plan 2**	**Employee stock option plan 3**
Exercise price ($)	25.28	44.50	16.90
Expected remaining contractual life (in years)	3	4.26	0.56
Fair market value for underlying securities－Acer shares (NT$)	45.95	59.10	59.10
Expected volatility (%)	45.01%	34.98%	37.35%
Expected dividend yield (%)	note 2	note 2	note 2
Risk-free interest rate (%)	2.50%	2.40%	1.84%

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

Movements in number of stock options outstanding:

	Employee stock option plan 1		**Employee stock option plan 2**		**Employee stock option plan 3**	
	Number of options (in thousands)	**Weighted-average exercise price (NT$)**	**Number of options (in thousands)**	**Weighted-average exercise price (NT$)**	**Number of options (in thousands)**	**Weighted-average exercise price (NT$)**
Outstanding at January 1, 2008	-	-	-	-	-	-
Granted	14,000	25.28	8,717	44.50	1,067	16.90
Forfeited	-	-	(480)	-	(36)	-
Exercised	-	-	-	-	(173)	16.90
Expired	-	-	-	-	-	-
Outstanding at December 31, 2008	14,000	25.28	8,237	44.50	858	16.90
Exercisable at December 31, 2008	-		-		406	16.90

In 2008, the Consolidated Companies recognized the compensation expense related to the employee stock option plans in the amount of NT$37,856 under “salary expense” of operating expenses in the accompanying statement of income.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(22) Restructuring charges

In 2008, due to the acquisition of Gateway Inc. and Packard Bell B.V., the Consolidated Companies recognized a total of NT$15,800,000 of restructuring charges under "restructuring cost" of non-operating expenses and loss in the accompanying statements of income. The restructuring charges were associated with severance payments to employees and integration of the information technology system.

(23) 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 flows of the discontinued operations were as follows:

	2007 NT$
Net revenues	9,398,700
Cost of revenues and operating expenses	(9,224,222)
Non-operating income and expenses	(64,502)
Income before income taxes	109,976
Income tax expense	(23,120)
Net income from discontinued operations	86,856
Gain from disposal of discontinued operations	431,010
Total net income from discontinued operations	**517,866**
Discontinued operations' cash flows:	
Cash provided by (used in) operating activities	(69,408)
Cash used in investing activities	(645)
Cash used in financing activities	(118,307)

According to the sales agreement, if Sertek Inc. was able to achieve the stipulated profit in 2007, the Company would be entitled to a contingent consideration. Accordingly, the Company obtained the contingent consideration in cash amounting to NT$99,843 in 2008.

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

	2007		
	Amount NT$	Weighted-average number of outstanding shares of common stock (in thousands)	EPS (in dollars) NT$
Basic EPS－after retroactive adjustments:			
Net income attributable to shareholders of parent company	**12,958,933**	**2,432,594**	**5.33**

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	2008				
	Amount		Weighted-average number of outstanding shares of common stock (in thousands)	EPS (in dollars)	
	NT$	US$		NT$	US$
Basic EPS－after retroactive adjustments:					
Net income attributable to shareholders of parent company	11,742,135	357,796	2,487,238	4.72	0.14
Diluted EPS:					
Effect of dilutive potential common shares:					
Employee bonus	-	-	39,042		
Employee stock option plan	-	-	1,286		
Net income attributable to shareholders of parent company	11,742,135	357,796	2,527,566	4.65	0.14

(25) Disclosure of financial instruments

(a) Fair values of financial instruments

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

The estimated fair values and carrying amounts of all other financial assets and liabilities as of December 31, 2007 and 2008, were as follows:

	2007			2008		
		Fair value			Fair value	
	Carrying amount NT$	Public quoted price NT$	Valuation amount NT$	Carrying amount NT$	Public quoted price NT$	Valuation amount NT$
Non-derivative financial instruments						
Financial assets:						
Available-for-sale financial assets－current	2,852,061	2,852,061	-	591,444	591,444	-
Financial assets carried at cost	3,142,121	-	see below (b)	2,684,270	-	see below (b)
Available-for-sale financial assets－noncurrent	3,370,847	3,370,847		1,160,487	1,160,487	-
Refundable deposits (classified as “other financial assets”)	687,109	-	687,109	781,080	-	781,080
Noncurrent receivables (classified as “other financial assets”)	274,284	-	274,284	87,680	-	87,680
Financial liabilities:						
Long-term debt	16,790,876	-	16,790,876	4,134,920	-	4,134,920
Derivative financial instruments						
Financial assets:						
Foreign currency forward contracts	250,197	-	250,197	1,302,085	-	1,302,085
Foreign currency options	4,983	-	4,983	60,514	-	60,514
Cross currency swap	-	-	-	7,821	-	7,821
Foreign exchange swap	-	-	-	7,113	-	7,113
Financial liabilities:						
Foreign currency forward contracts	1,461,335	-	1,461,335	1,860,479	-	1,860,479
Foreign currency options	593	-	593	23,298	-	23,298

(Continued)

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

(i) Available-for-sale financial assets－current and noncurrent
The fair value of publicly traded stocks is the closing quotation price at the balance sheet date. The fair value of open-end mutual funds is based on the net asset value of the mutual funds at balance sheet date.

(ii) Financial assets carried at cost
Financial assets carried at cost 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 fair values are the book values as the date of expiry was unable to be determined.

(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 the 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, 2007 and 2008, remeasurement loss on financial assets and liabilities using an assessment method amounted to NT$121,332 and NT$989,905, 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.

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.

(Continued)

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

The Consolidated Companies primarily sell and market the 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.

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' derivative financial instruments 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 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$134,718 per annum.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

5. Transactions with Related Parties

(1) Names of related parties and their relationship with the Company

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 (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
iD Softcapital Inc.	Its chairman is one of the Company's supervisors
All directors, supervisors, chief executive officers and executive vice presidents	The Consolidated Companies' main management

(2) Significant transactions with related parties as of and for the years ended December 31, 2007 and 2008, are summarized below:

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

(i) Net sales to:

	2007	**2008**	
	NT$	**NT$**	**US$**
SAL	1,088,886	758,797	23,121
eLIFE	992,647	885,662	26,987
COWIN	153,920	462,430	14,091
WKS	358,247	-	-
WIKS	185,804	-	-
Other (individually less than 5%)	266,334	114,486	3,489
	3,045,838	**2,221,375**	**67,688**

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

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(ii) Notes and accounts receivable from:

	December 31, 2007	December 31, 2008	
	NT$	NT$	US$
eLIFE	190,277	159,182	4,850
COWIN	86,676	329,848	10,051
Wistron	-	248,930	7,585
SAL	82,230	64,529	1,966
Others (individually less than 5%)	89,298	38,976	1,188
	448,481	841,465	25,640

(b) Purchases and related notes and accounts payable

(i) Purchases from:

	2007	2008	
	NT$	NT$	US$
Wistron	14,788,985	25,228,683	768,745
Others	296,079	270	8
	15,085,064	25,228,953	768,753

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

In 2007 and 2008, 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$58,666,096 and NT$88,579,887 for the years ended December 31, 2007 and 2008, 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.

(ii) Notes and accounts payable to:

	December 31, 2007	December 31, 2008	
	NT$	NT$	US$
Wistron	4,510,376	7,681,059	234,050
Others	73,239	69,161	2,108
	4,583,615	7,750,220	236,158

(Continued)

(c) 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, 2007 and 2008. The remaining balance of $490,759 was recorded as income tax expense and other payables to related parties.

In 2008, as a result of the recheck on the 2002 income tax returns filed by Wistron, the tax authorities decided that the deferred tax assets resulting from the spin-off could be utilized. As a result, the Company revaluated the recoverability of the deferred tax assets and accordingly reversed the valuation allowance and other payables to related parties amounting to NT$511,425, and recognized a reduction of current income tax expense by the same amount.

(d) Other expenses

In 2007 and 2008, the Consolidated Companies paid iD Soft Capital Inc. management service fees amounting to NT$69,333 and NT$61,633, respectively.

(e) 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, 2007 and 2008, the Consolidated Companies had aggregate receivables from related parties of NT$59,403 and NT$45,173, respectively, and payables to related parties of NT$609,717 and NT$189,964, respectively, resulting from these transactions.

(3) Main management compensation

As of December 31, 2007 and 2008, the gross compensation of the Consolidated Companies' main management was as follows:

	2007 Amount	2008 Amount	
	NT$	NT$	US$
Salaries	240,100	332,641	10,136
Cash awards and special allowances	69,669	219,578	6,691
Business expense	6,520	1,989	60
Employee bonus	791,127	1,029,765	31,378
	1,107,416	**1,583,973**	**48,265**

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The estimated employee bonus and directors' and supervisors' remuneration discussed in note 4(20) includes the above amounts.

6. Pledged Assets

Assets pledged for various purposes were as follows:

Pledged assets	Pledged to secure	Book value of pledged assets at December 31, 2007 NT$	2008 NT$	US$
Cash in bank and time deposits	Contract bidding and project fulfillment	398,459	109,586	3,339
Property, plant and equipment, and property not in use	Credit lines of bank loans	1,692,140	4,902	149
		2,090,599	114,488	3,488

As of December 31, 2007 and 2008, the above pledged cash in bank and time deposits were classified as "other financial assets" and "restricted assets－current" in the accompanying consolidated balance sheets.

In 2007, the Consolidated Companies intended to acquire Packard Bell B.V., a company in Europe, with cash. As of December 31, 2007, the Consolidated Companies had deposited NT$1,958,585 to an escrow account for the purpose of business acquisition. The escrow deposit was recorded in "restricted assets – current" in the accompanying consolidated balance sheets. The business combination was completed on March 14, 2008.

7. Commitments and Contingencies

(1) Royalties

(a) The Company has entered into a patent cross license agreement with IBM. 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.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) The Company and Lucent Technologies Inc. entered into a Patent Cross License agreement. The license agreement in essence authorizes both parties to use each other's worldwide computer-related patents for manufacturing and selling personal computer products. The Company agrees to make fixed payments periodically to Lucent, and the Company will not have any additional obligation for the use of Lucent patents other than the fixed amounts of payments agreed upon.

(c) On June 6, 2008, the Company entered into a Patent Cross License agreement with Hewlett Packard Development Company (HP). The previous patent infringement was settled out of court, and the Company agreed to make fixed payments periodically to HP. The Company will not have any additional obligation for the use of HP patents other than the fixed amounts of payments agreed upon.

(2) Others

As of December 31, 2007 and 2008, the Company had provided outstanding stand-by letters of credit totaling NT$133,085 and NT$133,304, respectively, for bidding on sales contracts and for customs duty contract implementation.

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

Year	NT$	US$
2009	528,674	16,109
2010	305,084	9,296
2011	126,589	3,857
2012	72,843	2,220
2012 and thereafter	114,930	3,502
	1,148,120	**34,984**

(4) As of December 31, 2007 and 2008, the Company had provided promissory notes amounting to NT$23,429,875 and NT$29,150,262, respectively, as collateral for factored accounts receivable and for obtaining credit facilities from financial institutions.

8. Significant Loss from Casualty: None

9. Subsequent Events: None

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

10. Other

Total personnel, depreciation and amortization expenses incurred for the years ended December 31, 2007 and 2008, were as follows:

	2007			2008		
	Operating expense	**Cost of revenues**	**Total**	**Operating expense**	**Cost of revenues**	**Total**
	NT$	**NT$**	**NT$**	**NT$**	**NT$**	**NT$**
Personnel:						
Salaries	7,456,623	1,471,263	8,927,886	11,184,723	1,549,798	12,734,521
Labor and health insurance	314,286	20,431	334,717	376,773	23,377	400,150
Pension	260,829	56,592	317,421	448,196	17,042	465,238
Other	540,262	1,951	542,213	147,214	1,235	148,449
Depreciation	557,376	33,813	591,189	917,394	38,486	955,880
Amortization	549,545	1,735	551,280	791,510	454,051	1,245,561

11. Segment Information

(1) 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.

(2) Geographic information

Information by geographic area as of and the years ended December 31, 2007 and 2008, was as follows:

	2007					
	Taiwan NT$	**North America NT$**	**Europe NT$**	**Asia NT$**	**Eliminations NT$**	**Consolidated NT$**
Area income:						
Customers	60,651,079	106,413,405	236,237,471	61,256,183	-	464,558,138
Inter-company	264,931,647	4,101	7,242,154	11,096	(272,188,998)	-
	325,582,726	106,417,506	243,479,625	61,267,279	(272,188,998)	464,558,138
Area profit (loss) before income taxes	264,812,614	926,347	15,381,028	2,194,840	(272,187,926)	11,126,903
Net investment income						695,660
Gain on disposal of investments, net						4,045,981
Interest expense						(759,907)
Consolidated income before income taxes						15,108,637
Area identifiable assets	100,327,411	58,022,952	88,086,758	28,618,423	(53,352,602)	221,702,942
Equity method investments						4,689,684
Goodwill						16,890,716
Total assets						243,283,342

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

2007

	Taiwan NT$	North America NT$	Europe NT$	Asia NT$	Eliminations NT$	Consolidated NT$
Depreciation and amortization	1,088,239	32,112	11,239	10,879	-	1,142,469
Capital expenditures	665,555	59,128	140,593	185,338	-	1,050,664

2008

	Taiwan NT$	North America NT$	Europe NT$	Asia NT$	Eliminations NT$	Consolidated NT$
Area income:						
Customers	25,879,015	152,469,649	279,790,219	90,925,741	-	549,064,624
Inter-company	341,107,152	3,203	6,057,224	13,642	(347,181,221)	-
	366,986,167	152,472,852	285,847,443	90,939,383	(347,181,221)	549,064,624
Area profit (loss) before income taxes	342,361,748	(1,044,322)	15,501,048	3,361,512	(347,181,221)	12,998,765
Net investment income						404,184
Gain on disposal of investments, net						2,709,524
Interest expense						(1,305,746)
Consolidated income before income taxes						14,806,727
Area identifiable assets	111,929,202	47,044,049	95,789,881	25,518,735	(62,342,472)	217,939,395
Equity method investments						2,928,790
Goodwill						22,574,040
Total assets						243,442,225
Depreciation and amortization	685,120	1,090,051	290,210	136,060	-	2,201,441
Capital expenditures	171,677	220,011	154,207	205,397	-	751,292

(3) Export sales

Export sales of the Company and its domestic subsidiaries do not exceed 10% of the consolidated revenues, hence no disclosure is required.

(4) Major customers:

No individual customers accounted for more than 10% of the consolidated revenues in 2007 and 2008.