ACER INCORPORATED AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2008 and 2009

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Acer Incorporated:

We have audited the accompanying consolidated balance sheets of Acer Incorporated (the "Company") and subsidiaries as of December 31, 2008 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Acer Incorporated and subsidiaries as of December 31, 2008 and 2009, and the results of their consolidated operations and their consolidated cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

As discussed in note 3 to the consolidated financial statements, effective on January 1, 2008, Acer Incorporated and subsidiaries recognized, measured and disclosed employee bonuses and directors' and supervisors' remunerations according to Interpretation (2007) 052 issued by the Accounting Research and Development Foundation of the Republic of China. 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$0.59, respectively.

The consolidated financial statements as of and for the year ended December 31, 2009, 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.

KPMG

Taipei, Taiwan (the Republic of China)
March 19, 2010

Note to Readers

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

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2008 and 2009

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

Assets	2008 NT$	2009 NT$	2009 US$
Current assets:			
Cash and cash equivalents (note 4(1))	22,141,725	53,616,067	1,673,933
Notes and accounts receivable, net of allowance for doubtful accounts of NT$1,681,844 and NT$2,356,672 as of December 31, 2009 and 2008, respectively (note 4(2))	107,826,311	111,858,366	3,492,300
Notes and accounts receivable from related parties (note 5)	841,465	600,306	18,742
Other receivable from related parties (note 5)	45,173	21,507	671
Other receivables (note 4(3))	8,807,454	9,263,152	289,202
Financial assets at fair value through profit or loss－current (notes 4(4) and 4(24))	354,751	157,659	4,922
Available-for-sale financial assets－current (notes 4(6) and 4(24))	591,444	223,437	6,976
Hedging purpose derivative financial assets－current (notes 4(6) and 4(24))	1,022,782	1,275,157	39,811
Inventories (note 4(7))	40,028,195	51,184,953	1,598,032
Prepayments and other current assets	1,525,555	1,694,058	52,890
Deferred income tax assets－current (note 4(18))	2,282,943	2,213,215	69,098
Restricted deposits (note 6)	922,794	-	-
Total current assets	186,390,592	232,107,877	7,246,577
Long-term investments:			
Investments accounted for using equity method (note 4(9))	2,928,790	3,314,950	103,495
Available-for-sale financial assets－noncurrent (notes 4(10) and 4(24))	1,160,487	3,306,742	103,239
Financial assets carried at cost (notes 4(8) and 4(24))	2,684,270	2,251,058	70,280
Total long-term investments	6,773,547	8,872,750	277,014
Property, plant and equipment (notes 4(11) and 6):			
Land	2,678,408	2,509,029	78,334
Buildings and improvements	5,294,056	5,386,921	168,184
Computer equipment and machinery	3,348,086	3,059,222	95,511
Transportation equipment	120,069	110,866	3,461
Office equipment	1,128,167	977,582	30,521
Leasehold improvements	816,904	959,257	29,948
Other equipment	1,136,428	1,171,560	36,577
Construction in progress and advance payments for purchases of property and equipment	30,692	83,680	2,612
	14,552,810	14,258,117	445,148
Less: accumulated depreciation	(4,922,662)	(4,904,235)	(153,114)
accumulated impairment	(293,927)	(677,709)	(21,158)
Net property, plant and equipment	9,336,221	8,676,173	270,876
Intangible assets (note 4(13))	34,746,765	35,444,068	1,106,590
Property not used in operation (note 4(12))	2,996,721	2,971,542	92,774
Other financial assets (notes 4(14), 4(24) and 6)	868,760	789,711	24,655
Deferred charges and other assets (notes 4(17) and 4(18))	2,329,619	2,162,567	67,517
Total assets	243,442,225	291,024,688	9,086,003

Liabilities and Stockholders' Equity	2008 NT$	2009 NT$	2009 US$
Current liabilities:			
Short-term borrowings (notes 4(15) and 6)	1,086, 851	548,059	17,111
Current portion of long-term debt (notes 4(16) and 6)	8,250,000	-	-
Notes and accounts payable	64,365,616	95,831,720	2,991,936
Notes and accounts payables to related parties (note 5)	7,750,220	10,232,364	319,462
Financial liabilities at fair value through profit or loss－current (notes 4(5) and 4(24))	1,011,739	162,539	5,075
Other payables to related parties (note 5)	189,964	92,187	2,878
Hedging purpose derivative financial liabilities－current (notes 4(6) and 4(24))	872,038	196,714	6,142
Royalties payable	13,228,769	16,337,817	510,079
Accrued expenses and other current liabilities	51,903,351	55,764,403	1,741,005
Deferred income tax liabilities－current (note 4(18))	656,610	680,714	21,252
Total current liabilities	149,315,158	179,846,517	5,614,940
Long-term liabilities:			
Long-term debt, excluding current portion (notes 4(16), 4(24) and 6)	4,134,920	12,371,856	386,258
Other liabilities (note 4(17))	840,433	384,706	12,011
Deferred income tax liabilities－noncurrent (note 4(18))	6,274,099	5,543,947	173,086
Total long-term liabilities	11,249,452	18,300,509	571,355
Total liabilities	160,564,610	198,147,026	6,186,295
Stockholders' equity and minority interest:			
Common stock (notes 4(19) and 4(20))	26,428,560	26,882,283	839,285
Capital surplus (notes 4(9) and 4(19))	37,129,952	38,494,118	1,201,814
Retained earnings			
Legal reserve	8,786,583	9,960,796	310,983
Special reserve	-	1,991,615	62,180
Unappropriated earnings (note 3)	13,985,318	16,622,600	518,970
Other equity components			
Foreign currency translation adjustment	1,241,058	959,621	29,960
Minimum pension liability adjustment	(283)	(7,908)	(247)
Unrealized gain (loss) on available-for-sale financial assets (note 4(10))	(1,456,066)	1,001,919	31,280
Hedging reserve (Note 4(6))	(273,565)	12,398	387
Treasury stock (note 4(19))	(3,522,598)	(3,522,598)	(109,978)
Total stockholders' equity	82,318,959	92,394,844	2,884,634
Minority interest	558,656	482,818	15,074
Total stockholders' equity and minority interest	82,877,615	92,877,662	2,899,708
Commitments and contingencies (note 7)			
Total liabilities and stockholders' equity	243,442,225	291,024,688	9,086,003

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2008 and 2009

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

	2008 NT$	2009 NT$	US$
Revenues (note 5)	546,274,115	573,982,544	17,920,154
Cost of revenues (notes 4(7) and 5)	(488,988,455)	(515,654,684)	(16,099,116)
Gross profit	57,285,660	58,327,860	1,821,038
Operating expenses (notes 4(13), 4(17), 4(20), 5 and 10)			
Selling	(35,764,261)	(35,729,296)	(1,115,495)
Administrative	(6,899,059)	(6,372,585)	(198,957)
Research and development	(550,038)	(886,513)	(27,677)
Total operating expenses	(43,213,358)	(42,988,394)	(1,342,129)
Operating income	14,072,302	15,339,466	478,909
Non-operating income and gains:			
Interest income	1,207,826	361,656	11,291
Investment gain recognized using equity method, net (note 4(9))	404,184	400,098	12,491
Gain on disposal of property and equipment, net (note 4(11))	515,272	-	-
Gain on disposal of investments, net (notes 4(4), 4(8), 4(9) and 4(10))	2,709,524	79,162	2,472
Foreign currency exchange gain and valuation gain on financial instruments, net (notes 4(5) and 4(6))	-	473,648	14,788
Other income (note 4(9))	516,232	404,473	12,628
	5,353,038	1,719,037	53,670
Non-operating expenses and losses:			
Interest expense	(1,305,746)	(622,080)	(19,422)
Other investment loss (note 4(8))	(416,404)	(231,934)	(7,241)
Loss on disposal of property and equipment, net (note 4(11))	-	(103,055)	(3,217)
Restructuring cost (note 4(21))	(1,582,408)	(164,595)	(5,139)
Foreign currency exchange loss and valuation loss on financial instruments, net (notes 4(5) and 4(6))	(866,315)	-	-
Impairment of non-financial assets (notes 4(11) and 4(12))	(221,931)	(395,109)	(12,336)
Other loss	(225,809)	(558,747)	(17,444)
	(4,618,613)	(2,075,520)	(64,799)
Income from continuing operations before income taxes	14,806,727	14,982,983	467,780
Income tax expense (note 4(18))	(3,169,446)	(3,630,123)	(113,335)
Income from continuing operations	11,637,281	11,352,860	354,445
Income from discontinued operations (net of income taxes of NT$0) (note 4(22))	99,843	-	-
Consolidated net income	**11,737,124**	**11,352,860**	**354,445**
Net income attributable to:			
Shareholders of parent company	11,742,135	11,353,374	354,445
Minority shareholders	(5,011)	(514)	(16)
	11,737,124	**11,352,860**	**354,445**

Earnings per common share (in New Taiwan dollars) (note 4(23)):	**NT$**	**NT$**	**US$**
Basic earnings per common share－retroactively adjusted	**4.67**	**4.31**	**0.13**
Diluted earnings per common share	**4.60**	**4.26**	**0.13**

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2008 and 2009
(Expressed in thousands of New Taiwan dollars and US dollars)

			Retained earnings									
	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, 2008	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 loss on qualifying cash flow hedge	-	-	-	-	-	-	-	-	(289,401)			(289,401)
Appropriation approved by the stockholders (note 4(19)):								-				
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 in cash	-	-	-	-	(544,728)	-	-	-	-	-	-	(544,728)
Cash dividends distributed to subsidiaries	-	114,832	-	-	-	-	-	-	-	-	-	114,832
Decrease in capital surplus resulting from long-term investments accounted for using the equity method (note 4(9))	-	(78,255)	-	-	-	-	-	-	-	-	-	(78,255)
Unrealized valuation 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(19))	1,681,589	7,155,678	-	-	-	-	-	-	-	-	-	8,837,267
Issuance of stock from exercising stock options (note 4(19))	1,244	858	-	-	-	-	-	-	-	-	-	2,102
Stock-based compensation cost (note 4(20))	-	37,856	-	-	-	-	-	-	-	-	-	37,856
Treasury stock held by subsidiaries	-	-	-	-	-	-	-	-	-	(251,678)	-	(251,678)
Decrease 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
2009 net income	-	-	-	-	11,353,374	-	-	-	-	-	(514)	11,352,860
Foreign currency translation adjustment	-	-	-	-	-	(281,437)	-	-	-	-	-	(281,437)
Unrealized gain on qualifying cash flow hedge	-	-	-	-	-	-	-	-	285,963	-	-	285,963
Appropriation approved by the stockholders (note 4(19)):												
Legal reserve	-	-	1,174,213	-	(1,174,213)	-	-	-	-	-	-	-
Special reserve	-	-	-	1,991,615	(1,991,615)	-	-	-	-	-	-	-
Stock dividends to shareholders	264,298	-	-	-	(264,298)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(5,285,966)	-	-	-	-	-	-	(5,285,966)
Employees' bonuses in stock	162,338	737,662	-	-	-	-	-	-	-	-	-	900,000
Cash dividends distributed to subsidiaries	-	70,510	-	-	-	-	-	-	-	-	-	70,510
Increase in capital surplus resulting from long-term investments accounted for using the equity method (note 4(9))	-	180,899	-	-	-	-	-	-	-	-	-	180,899
Unrealized valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	2,457,985	-	-	-	2,457,985
Minimum pension liability adjustment	-	-	-	-	-	-	(7,625)	-	-	-	-	(7,625)
Issuance of stock from exercising stock options (note 4(19))	27,087	76,503	-	-	-	-	-	-	-	-	-	103,590
Stock-based compensation cost (note 4(20))	-	298,592	-	-	-	-	-	-	-	-	-	298,592
Decrease in minority interest	-	-	-	-	-	-	-	-	-	-	(75,324)	(75,324)
Balance at December 31, 2009	26,882,283	38,494,118	9,960,796	1,991,615	16,622,600	959,621	(7,908)	1,001,919	12,398	(3,522,598)	482,818	92,877,662
Balance at December 31, 2009 (in US$)	839,285	1,201,814	310,983	62,180	518,970	29,960	(247)	31,280	387	(109,978)	15,074	2,899,708

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2009
(Expressed in thousands of New Taiwan dollars and US dollars)

	2008	2009	
	NT$	NT$	US$
Cash flows from operating activities:			
Consolidated net income	11,737,124	11,352,860	354,445
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	955,880	846,303	26,422
Amortization	1,245,561	1,860,284	58,079
Loss (gain) on disposal of property and equipment, net	(515,272)	103,055	3,217
Gain on liquidation of investments	-	(4,236)	(132)
Gain on disposal of investments, net	(2,709,524)	(79,162)	(2,471)
Net investment gain on equity method investments, net of cash dividends received	(146,392)	(320,773)	(10,015)
Other investment loss	416,404	231,934	7,241
Gain on disposal of intangible assets	-	(46,037)	(1,437)
Impairment of non-financial assets	221,931	395,109	12,336
Restructuring cost	1,582,408	164,595	5,139
Stock-based compensation cost	37,856	298,592	9,322
Deferred income tax expense (benefit)	786,086	(951,327)	(29,701)
Changes in operating assets and liabilities:			
Notes and accounts receivable	452,252	(4,032,056)	(125,884)
Receivables from related parties	(327,579)	241,158	7,529
Inventories	(4,882,424)	(11,173,624)	(348,849)
Other financial assets, prepayments and other current assets	(2,070,311)	(720,480)	(22,494)
Noncurrent receivable (under other financial assets－noncurrent)	186,604	69,926	2,183
Notes and accounts payable	(16,097,164)	31,466,106	982,395
Payables to related parties	2,447,835	2,384,367	74,442
Royalties payable, accrued expenses and other current liabilities	1,831,291	6,563,601	204,920
Other liabilities	(319,014)	(458,091)	(14,302)
Cash provided by (used in) operating activities	(5,166,448)	38,192,104	1,192,385
Cash flows from investing activities:			
Proceeds from disposal of available-for-sale financial assets－current	2,891,868	480,068	14,988
Proceeds from disposal of long-term investments	3,449,388	562,612	17,565
Increase in long-term investments	(171,717)	(259,905)	(8,114)
Proceeds from capital return and liquidation of investees	462,551	231,897	7,240
Proceeds from disposal of property, plant and equipment and property not used in operation	2,068,099	75,067	2,343
Additions to property, plant and equipments and property not used in operation	(597,526)	(771,575)	(24,089)
Increase in intangible assets and other assets	(435,746)	(3,077,879)	(96,094)
Proceeds from disposal of intangible assets	-	25,000	781
Decrease (increase) in advances to related parties	(14,230)	23,666	739
Decrease in restricted deposits	1,813,448	922,794	28,810
Acquisition of subsidiaries, net of cash acquired	(719,026)	-	-
Cash provided by (used in) investing activities	8,747,109	(1,788,255)	(55,831)
Cash flows from financing activities:			
Decrease in short-term borrowings	(4,285,258)	(538,792)	(16,821)
Repayment of long-term debt	(4,423,321)	(10,702)	(334)
Distribution of cash dividends	(8,544,934)	(5,215,456)	(162,830)
Distribution of employees' bonus (2007 earnings)	(544,728)	-	-
Distribution of directors' and supervisors' remuneration (2007 earnings)	(116,630)	-	-
Proceeds from exercise of employee stock option	2,102	103,590	3,234
Decrease in minority interests	(42,354)	(63,768)	(1,991)
Cash used in financing activities	(17,955,123)	(5,725,128)	(178,742)
Net increase (decrease) in cash and cash equivalents	(14,374,462)	30,678,721	957,812
Effects of exchange rate changes	(1,429,152)	795,621	24,840
Cash and cash equivalents at beginning of year	37,945,339	22,141,725	691,281
Cash and cash equivalents at end of year	**22,141,725**	**53,616,067**	**1,673,933**

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2009
(Expressed in thousands of New Taiwan dollars and US dollars)

	2008	2009	
	NT$	NT$	US$
Supplemental disclosures of cash flow information			
Interest paid	1,275,330	444,067	13,864
Income taxes paid	1,977,802	3,196,014	99,782
Supplemental disclosures of non-cash investing and financing activities:			
Change in unrealized valuation gain (loss) on available-for-sale financial assets	3,964,729	2,457,985	76,740
Current portion of long-term debt	8,250,000	-	-
Supplemental disclosures of partial cash inflow from investing activities:			
Proceeds from disposal of intangible assets	-	75,000	2,342
Less: other receivables	-	(50,000)	(1,561)
Cash received	-	25,000	781

Cash acquired from acquisition of subsidiaries.:	**Parkard Bell B.V.**
Cash consideration	3,172,080
Non-cash assets acquired	(10,560,058)
Liabilities assumed	10,704,787
Goodwill	(1,774,172)
Cash acquired from acquisition	1,542,637
	E-Ten Information Systems Co., Ltd.
Issuance of shares for acquisitions	8,837,267
Non-cash assets acquired	(7,288,921)
Liabilities assumed	1,263,892
Goodwill	(1,901,821)
Cash acquired from acquisition	910,417

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, 2008 and 2009
(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 Company completed the acquisition of 100% ownership of Gateway, Inc. (including eMachines brand), a personal computer company in the U.S., through its indirectly wholly owned subsidiary on October 15, 2007. The Company also acquired the 100% ownership of Packard Bell B.V., a personal computer company in Europe, through its indirectly wholly owned subsidiary on March 14, 2008 and June 30, 2008. Post the acquisitions of Gateway and Packard Bell, the Company has defined a clear path for its multi-brand strategy. Additionally, as of September 1, 2008, the Company then entered the market for smart phones following the acquisition of E-Ten Information Systems Co., Ltd.

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, 2008 and 2009, the number of employees of the Consolidated Companies was 6,727 and 6,624, respectively. The Consolidated Companies are summarized below according to their primary business activity.

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

	Investor	Percentage of Ownership At December 31, 2008	2009
(a) Acer Incorporated			
(b) Acer Greater China (B.V.I.) Corp. (“AGC”, British Virgin Islands) and 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

(Continued)

	Investor	Percentage of Ownership at December 31, 2008	2009
• Beijing Acer Information Co., Ltd. ("BJAI", China)	AMS	100.00	100.00
• Acer Computer (Shanghai) Ltd. ("ACCN", China)	AMS	100.00	100.00
(c) Acer European Holding B.V. ("AEH", Netherlands Antilles) and subsidiaries	The Company	100.00	100.00
• Acer Europe B.V. ("AHN", the Netherlands)	AEH	100.00	100.00
• Acer Computer B.V. ("ACH", the Netherlands)	AEH	100.00	100.00
• Acer CIS Incorporated ("ACR", British Virgin Islands)	AEH	100.00	100.00
• Acer BSEC Inc. ("AUA", British Virgin Islands)	AEH	100.00	100.00
• Acer Computer (M.E.) Limited ("AME", British Virgin Islands)	AEH	100.00	100.00
• Acer Africa (Proprietary) Limited ("AAF", South Africa)	AEH	100.00	100.00
• Acer Computer France S.A.S.U. ("ACF", France)	AHN	100.00	100.00
• Acer U.K. Limited ("AUK", the United Kingdom)	AHN	100.00	100.00
• Acer Italy S.R.L. ("AIT", Italy)	AHN	100.00	100.00
• Acer Computer GmbH ("ACG", Germany)	AHN	100.00	100.00
• Acer Austria GmbH ("ACV", Austria)	AHN	100.00	100.00
• Acer Europe Services S.R.L. ("AES", Italy)	AHN	100.00	100.00
• Acer Europe 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
• Asplex Sp. z.o.o. ("APX", Poland)	AHN	-	100.00
• Acer Marketing Services LLC ("ARU", Russia)	AHN	-	100.00
• Acer Computer Norway AS ("ACN", Norway)	ACH	100.00	100.00
• Acer Computer Finland Oy ("AFN", Finland)	ACH	100.00	100.00
• Acer Computer Sweden AB ("ACW", Sweden)	ACH	100.00	100.00
• Acer Denmark A/S ("ACD", Denmark)	ACH	100.00	100.00
• PB Holding Company S.A.R.L. ("PBLU",	AHN	100.00	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	Investor	Percentage of Ownership at December 31, 2008	2009
Luxembourg)			
• Packard Bell B.V. ("PBHO", the Netherlands)	PBLU	100.00	100.00
• Packard Bell Finance B.V. ("PBFN", the Netherlands)	PBHO	100.00	100.00
• Packard Bell Netherland B.V. ("PBNL", the Netherlands)	PBHO	100.00	100.00
• Packard Bell Services s.a.r.l ("PBSV", France)	PBHO	100.00	100.00
• Packard Bell Angers s.a.r.l ("PBAN", France)	PBHO	100.00	100.00
• Packard Bell France s.a.s ("PBFR", France)	PBHO	100.00	100.00
• Packard Bell (UK) Ltd.("PBUK", the United Kingdom)	PBHO	100.00	100.00
• Packard Bell Scotland Ltd. ("PBSC", the United Kingdom)	PBHO	100.00	100.00
• Packard Bell Iberica s.l ("PBES", Spain)	AIB	100.00	100.00
• Packard Bell Italia s.r.l ("PBIT", Italy)	PBHO	100.00	100.00
• Packard Bell Deutschland GmbH ("PBDE", Germany)	PBHO	100.00	100.00
• Packard Bell Belgium BVBA ("PBBE", Belgium)	PBHO	100.00	100.00
• Packard Bell Sverige AB ("PBSE", Sweden)	PBHO	100.00	-
• Packard Bell Norden AS ("PBNO", Norway)	PBHO	100.00	100.00
• Packard Bell Schweiz GmbH ("PBCH", Switzerland)	PBHO	100.00	100.00
• ZDS Europe s.a.r.l ("PBFE", France)	PBHO	100.00	-
• NEC Computers South Africa (Pty) Ltd. ("PBZA", South Africa)	PBHO	50.81	50.81
• Packard Bell Electronic Technical Services (Shanghai) Co., Ltd. ("PBCN", China)	PBHO	100.00	-
(d) Boardwalk Capital Holding Limited ("Boardwalk", British Virgin Islands) and subsidiaries	The Company	100.00	100.00
• Acer Computer Mexico, S.A. de C.V. ("AMEX", Mexico)	Boardwalk	99.92	99.92
• Acer Latin America, Inc. ("ALA", U.S.A.)	Boardwalk	100.00	100.00
• Acer American Holding Corp. ("AAH", USA)	Boardwalk	100.00	100.00
• AGP Tecnologia em Informatica do Brasil Ltda. ("ATB", Brazil)	Boardwalk	-	100.00
• Aurion Tecnologia, S.A. de C.V. ("Aurion", Mexico)	AMEX	99.92	99.92
• Gateway, Inc. ("GWI", U.S.A.)	AAH	100.00	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	Investor	Percentage of Ownership at December 31, 2008	2009
• Acer America Corporation. (“AAC”, U.S.A.)	GWI	99.92	99.92
• Acer Service Corporation (“ASC”, U.S.A.)	GWI	100.00	100.00
• Gateway US Retail, Inc. (“GRA”, U.S.A.)	GWI	100.00	100.00
• Gateway Diect, Inc. (“GDA”, U.S.A.)	GWI	100.00	100.00
• Gateway Manufacturing LLC (“GMA”, U.S.A.)	GWI	100.00	100.00
• Gateway International Holdings, Inc. (“GIH”, U.S.A.)	GWI	100.00	100.00
• Gateway de Mexico S. de R.L. de C.V. (“GMX”, Mexico)	GWI	100.00	100.00
• Gateway Hong Kong Ltd. (“GHK”, Hong Kong)	GWI	100.00	100.00
• Gateway Bermuda LP (“GBM”, Bermuda)	GWI	100.00	-
• Gateway Asia, Inc. (“GAI”, U.S.A.)	GWI	100.00	100.00
• Gateway KK (“GJP”, Japan)	GRA	100.00	100.00
• Gateway Ltd. (“GUK”, the United Kingdom)	GRA	100.00	100.00
• Gateway France SAS (“GFR”, France)	GRA	100.00	-
• eMachines Internet Group (“EMA”, U.S.A.)	GRA	100.00	100.00
• Gateway Europe B.V. (“GEBV”, U.S.A.)	GRA	100.00	100.00
• Gateway Computers Ireland Ltd. (“GCI”, the United Kingdom)	GRA	100.00	100.00
• Gateway International Computers Limited (“GIC”, the United Kingdom)	GIH	100.00	100.00
• Gateway Canada Corporation (“GCA”, Canada)	GIC	100.00	100.00
• Servicio Profesionales de Aceso S. de R.L. (“GSMX”, Mexico)	EMA	100.00	100.00
(e) Acer Holding International, Incorporated (“AHI”, British Virgin Islands) and subsidiaries	The Company	100.00	100.00
• Acer Computer Co., Ltd. (“ATH”, Thailand)	AHI	100.00	100.00
• Acer Japan Corp. (“AJC”, Japan)	AHI	100.00	100.00
• Acer Computer Australia Pty. Limited (“ACA”, Australia)	AHI	100.00	100.00
• Acer Sales and Service Sdn Bhd (“ASSB”, Malaysia)	AHI	100.00	100.00
• Acer Asia Pacific Sdn Bhd (“AAPH, Malaysia”)	AHI	100.00	100.00
• Acer Computer (Singapore) Pte. Ltd. (“ACS”, Singapore)	AHI	100.00	100.00
• Acer Computer New Zealand Ltd. (“ACNZ”, New Zealand)	AHI	100.00	100.00
• PT Acer Indonesia (“AIN”, Indonesia)	AHI	100.00	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	Investor	Percentage of Ownership at December 31, 2008	2009
• 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 Finance Australia Pty. Ltd. ("AFA", Australia)	ACA	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
• Logistron Service Pte Ltd. (LGS, Singapore)	ACS	100.00	100.00
(f) Acer Computer International Ltd. ("ACI", Singapore)	The Company	100.00	100.00
(g) Acer Sales & Distribution Ltd. ("ASD", Hong Kong)	The Company	100.00	100.00
(2) Sale and distribution of computer products and electronic communication products:			
(a) Weblink International Inc. ("WII", Taiwan)	The Company	99.79	99.79
(b) Weblink (H.K.) International Ltd. ("WHI", Hong Kong)	WII	99.79	99.79
(c) Weblink Shanghai International Limited ("WSHI", China)	WHI	99.79	-
(d) Servex (Malaysia) Sdn Bhd ("SMA", Malaysia)	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)	ADSC	100.00	100.00
(b) Acer Digital Service Co. ("ADSC", Taiwan)	The Company	100.00	100.00
(c) Acer Worldwide Incorporated ("AWI", British Virgin Islands)	The Company	100.00	100.00
(d) Cross Century Investment Limited ("CCI", Taiwan)	The Company	100.00	100.00
(e) Acer SoftCapital Incorporated ("ASCBVI", British Virgin Islands)	The Company	100.00	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	Investor	Percentage of Ownership at December 31, 2008	2009
(f) Acer Capital Corporation ("ACT", Taiwan)	The Company	100.00	100.00
(g) Aspire Incubation Venture Capital ("AIVC", Taiwan)	The Company	100.00	100.00
(h) Acer Digital Services (B.V.I.) Holding Corp. ("ADSBH", British Virgin Islands)	The Company	100.00	100.00
(i) Acer Digital Services (Cayman Islands) Corp. ("ADSCC", Cayman Islands)	ADSBH	100.00	100.00
(j) Nicholas Insurance Company Ltd. ("NIC", Bermuda)	GWI	100.00	100.00
(k) Acer Capital Australia Pty Ltd. ("ACAP", Australia)	ACBVI	100.00	-
(l) Acer Capital Limited ("ACBVI", British Virgin Islands)	ASCBVI	100.00	-
(m) ASC Cayman, Limited ("ASCCAM", Cayman Islands)	ASCBVI	100.00	100.00
(n) Acer Technology Venture Asia Pacific Ltd. ("ATVAP", Cayman Islands)	ASCBVI	100.00	100.00
(o) Eten International Holdings Ltd. ("EIH", British Virgin Islands)	ETEN	100.00	100.00
(p) AGP Insurance (Guernsey) Limited. ("AGU", British Guernsey Island)	AHN	-	100.00
(q) Acer EMEA Holdings B.V. (AHB, the Netherlands)	The Company	-	100.00

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

	Investor	2008	2009
(a) E-ten Information System Co., Ltd. ("ETEN", Taiwan)	The Company	100.00	100.00
(b) Eten China Information System Co., Ltd. ("CETEN", China)	EIH	100.00	100.00
(c) AGP Technology AG ("AGP", Switzerland)	AHN	100.00	100.00
(d) Acer Information Technology R&D (Shanghai) Co., Ltd. ("ARD", China)	AGC	-	100.00

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(5) Property development:

	Investor	Percentage of Ownership at December 31, 2008	2009
(a) Acer Property Development Inc. ("APDI", Taiwan)	ADSC	100.00	100.00
(b) Aspire Service & Development Inc. ("ASDI", Taiwan)	ADSC	100.00	100.00

(6) Electronic data supply or processing service, data storage and processing:

	Investor	2008	2009
(a) EB Easy Business Services Limited ("AGES", Hong Kong)	ADSCC	85.00	-
(b) Acer Cyber Center Services Ltd. ("ACCSI", Taiwan)	The Company	100.00	100.00
(c) Lottery Technology Service Corp. ("LTS", Taiwan)	The Company	100.00	100.00
(d) Minly Corp. ("MINLY", Taiwan)	The Company	100.00	100.00

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

	Investor	2008	2009
(a) TWP International Inc. ("TWP BVI", British Virgin Islands)	ACCSI	100.00	100.00
(b) Acer Third Wave Software (Beijing) Co., Ltd. ("TWPBJ", China)	TWPBVI	100.00	100.00

In 2009, the subsidiaries namely PBSE, PBFE, PBCN, GBM, GFR, AFA, WSHI, ACBVI, ACAP, and AGES were liquidated and were excluded from consolidation since the Company ceased control thereof. Additionally, the Company established new subsidiaries namely APX, ARU, ATB, AGU, ARD, and AHB in 2009.

In March and June of 2008, the Company completed its acquisition of 100% equity ownership of PB Holding Company S.A.R.L and its subsidiaries. In September 2008, the Company completed its acquisition of 100% equity ownership of E-ten Information System Co., Ltd. and its subsidiaries. The results of operations of these acquired entities were included in the consolidated financial statements as of the date of each acquisition. Additionally, the Company established new subsidiaries namely AGP and AAPH in 2008.

(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 local currencies of the primary economic environment in which these entities operate. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities denominated in foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are reported at the rate that was in effect when the fair values were determined. Subsequent adjustments to carrying values of such non-monetary assets and liabilities, including the effects of changes in exchange rates, are reported in profit or loss for the period, except that 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 preparing the consolidated financial statements, the foreign subsidiaries' financial statements are initially remeasured into the functional currency and the remeasuring differences are accounted for as exchange gains or losses in the accompanying statements of income. Translation adjustments resulting from the translation of foreign currency financial statements into the Company's reporting currency and a monetary item that forms part of the Company's net investment in a foreign operation are accounted for as cumulative translation adjustment, a separate component of stockholders' equity.

(Continued)

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

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

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

(5) Cash and cash equivalents

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

(6) Allowance for doubtful accounts

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

(7) Inventories

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

Prior to January 1, 2009, inventories for the Acer brand information technology business group were stated at the lower of weighted-average cost or market value. Market value represents net realizable value. Any write-down was made based on the aggregate amount of inventories.

(Continued)

(8) Financial instruments

The Consolidated Companies adopted transaction-date accounting for financial instrument transactions. At 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.

(b) Hedging derivative financial assets / liabilities

Hedging derivative financial assets / liabilities represent derivatives that are intended to hedge the risk of changes in exchange rates resulting from operating 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 prohibited.

(Continued)

(9) Derivative financial instruments and hedging activities

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

(a) Fair value hedges

Changes in the fair value of a hedging instrument designated as a fair value hedge are recognized in profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss 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 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, and ceased to be depreciated or amortized. Noncurrent assets or disposal groups classified as held for sale are 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 are continued 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) is 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.

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(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.

Effective January 1, 2006, the Consolidated Companies adopted amended SFAS No. 5 "Accounting for Long-term Investments under Equity Method", under which, 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.

If an investee company issues new shares and the Company does not acquire new shares in proportion to its original ownership percentage, the Company's equity in the investee's net assets will be changed. The change in the equity interest is 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, which is recognized over the lease term using the effective interest method.

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

Property, plant and equipment are stated at acquisition cost. Interest expense related to the purchase and construction of property, plant and equipment is capitalized and included in the cost of the related asset. Significant renewals, improvements and replacements are capitalized. Maintenance and repair

(Continued)

costs are charged to expense as incurred. Gains and losses on the disposal of property, plant and equipment are recorded in the non-operating section in the accompanying consolidated statements of income.

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

Depreciation is provided for property, plant and equipment, property leased to others, and property not used in operation over the estimated useful life using the straight-line method. The estimated useful lives of the respective classes of assets are as follows: buildings and improvements--30 to 50 years; computer equipment and machinery--3 to 5 years; transportation equipment--3 to 5 years; office and other equipment--3 to 10 years; and leasehold improvement--1 to 10 years.

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

(14) Intangible assets

Goodwill is recognized when the Purchase price exceeds the fair value of identifiable net assets acquired in a business combination. In accordance with the SFAS No. 25 “Accounting for Business Combinations”, goodwill is 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 initially stated at cost. Intangible assets with finite useful lives are amortized over the following estimated useful life using the straight-line method from the date that the asset is available for use: patents: 4 to 16 years; acquired software: 1 to 3 years; customer relationships: 7 to 10 years; developed technology: 10 years; and trademarks and trade names: 20 years.

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

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(15) Non-financial asset impairment

The Consolidated Companies assess at each balance sheet date whether there is any indication that and asset may have been impaired. If any such indication exists, the Consolidated Companies estimate the recoverable amount of the assets. An impairment loss is recognized for an asset whose carrying amount is higher than the recoverable amount. If there is any evidence that the impairment loss no longer exists or has decreased, the amount previously recognized as impairment is reversed and the carrying amount of the asset is increased to the recoverable amount. The increase in the carrying amount shall not exceed the depreciated or amortized balance of the assets had no impairment loss been recognized in prior periods.

Goodwill and assets that have an indefinite useful life are tested annually for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. A subsequent reversal of the impairment loss is prohibited.

(16) Deferred charges

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

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

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.

(Continued)

(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 (2007) 052 issued by the Accounting Research and Development Foundation. According to this Interpretation, the Company estimates the amount of employee bonuses and directors' and supervisors' remuneration 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.

(20) Share-based payment transactions

Effective January 1, 2008, the Consolidated Companies 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, with a corresponding increase in equity. The vesting period is the period during which all the specified vesting conditions of the share-based payment arrangement are to be satisfied. Vesting conditions include service conditions and performance conditions (including market conditions). When estimating the fair value of an equity-settled share-based award, only the effect of market conditions is taken into account.

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

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

(Continued)

(22) Retirement plans

(a) Defined benefit retirement plans

Pursuant to the ROC Labor Standards Law, the Company and subsidiaries located in the Republic of China established 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. The funding of retirement plans by the Company and subsidiaries located in the Republic of China is based on a percentage of employees’ total salaries. The funds are deposited with Bank of Taiwan or other banks.

For the defined benefit retirement plan, the Consolidated Companies recognize a minimum pension liability equal to the 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.

(b) Defined contribution retirement plans

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

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

Contributions 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 be realized, a valuation allowance is recognized accordingly. When the income tax rate changes due to income tax law revision, the Company recalculates the deferred tax assets and liabilities using the new tax rate and any resulting variances are recognized as income tax expense or benefit of continuing operating segment.

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

(Continued)

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 using the flow-through method.

According to the ROC Income Tax Act, undistributed earnings, if any, earned after June 30, 1997, are subject to an additional 10% retained earnings tax. The surtax is 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 EPS are computed by dividing net income by the weighted-average number of common shares outstanding during the year. The Company's employee stock options and employee stock bonuses to be issued after January 1, 2010 are potential common stock. In computing diluted EPS, net income and the weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common stock, assuming dilutive shares equivalents had been issued. The weighted average outstanding shares are retroactively adjusted for the effects of stock dividends transferred from retained earnings and capital surplus to common stock, and employee stock bonuses issued prior to January 1, 2009. Effective January 1, 2009, EPS are not retroactively adjusted for employee stock bonuses.

(25) Convenience translation into U.S. dollars

The consolidated financial statements are stated in New Taiwan dollars. Translation of the 2009 New Taiwan dollar amounts into U.S. dollar amounts, using the spot rate of Bloomberg on December 31, 2009, of NT$32.03 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 January 1, 2009, the Consolidated Companies adopted the newly revised SFAS No. 10, "Accounting for Inventories." The adoption of this new accounting principle did not have significant effect on the Company's consolidated financial statements as of and for the year ended December 31, 2009.

Effective January 1, 2008, the Consolidated Companies recognized and measured employee bonuses, and directors' and supervisors' remuneration according to Interpretation (2007) 052 issued by the Accounting Research and Development Foundation. The adoption of this interpretation, which resulted in recognition of employee bonus and directors' and supervisors' remuneration of NT$1,586,563, decreased consolidated net income after tax and basic earnings per share by NT$1,483,776 and NT$0.59, respectively, for the year ended December 31, 2008.

Effective January 1, 2008, the Consolidated Companies adopted SFAS No. 39, "Accounting for Share-based Payment," which requires the Consolidated companies to record share-based payment transactions in the financial statements at fair value. The adoption of this new accounting principle did not

(Continued)

have significant effect on the Company's consolidated financial statements as of and for the year ended December 31, 2008.

4. Significant Account Disclosures

(1) Cash and cash equivalents

	December 31, 2008 NT$	December 31, 2009 NT$	December 31, 2009 US$
Cash on hand	878,683	8,217	257
Bank deposits	13,690,489	34,278,393	1,070,196
Time deposits	7,572,553	19,329,457	603,480
	22,141,725	53,616,067	1,673,933

(2) Notes and accounts receivable

The Consolidated Companies entered into factoring contracts with several banks to sell part of accounts receivable without recourse. As of December 31, 2008 and 2009, details of these contracts were as follows:

December 31, 2008

Buyer	Factored amount NT$	Factoring credit limit NT$	Advance (derecognized) amount NT$	Interest rate	Collateral
IFITALIA	10,018,176	11,226,373	2,866,914		Nil
ABN AMRO Bank	2,292,296	7,314,804	2,292,296		Nil
Standard Chartered Bank	2,213,795	6,563,600	2,213,795		Nil
Emirates Bank International	415,867	1,082,994	415,867		Nil
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)
	15,736,545	**29,152,771**	**8,494,560**	**1.51%~5.9%**	

December 31, 2009

Buyer	Factored amount NT$	Factoring credit limit NT$	Advance (derecognized) amount NT$	Interest rate	Collateral
IFITALIA	6,877,785	11,219,842	2,091,300		Nil
ABN AMRO Bank	3,480,028	7,881,189	3,227,242		Nil
China Trust Bank	218,706	1,750,000	218,706		note 7(4)
Taipei Fubon Bank	442,145	968,500	442,145		note 7(4)
La Caixa Bank	3,200,041	3,724,657	3,200,041		Nil
Emirates Bank International	-	960,900	-		Nil
	14,218,705	**26,505,088**	**9,179,434**	**0.83%~5%**	

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(3) Other receivable

	December 31, 2008 NT$	December 31, 2009 NT$	December 31, 2009 US$
Income tax and sales tax	2,001,212	1,690,263	52,771
Receivables of patent royalty allocated to others	2,061,655	1,164,992	36,372
Other receivable	4,744,587	6,407,897	200,059
	8,807,454	9,263,152	289,202

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

	December 31, 2008 NT$	December 31, 2009 NT$	December 31, 2009 US$
Publicly traded equity securities	145,147	223,437	6,976
Money market funds and others	446,297	-	-
	591,444	223,437	6,976

In 2008 and 2009, the Consolidated Companies disposed of portions of these investments and recognized gains on disposal thereof of NT$1,187,156 and NT$24,022, 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－current

	December 31, 2008 NT$	December 31, 2009 NT$	December 31, 2009 US$
Financial assets at fair value through profit or loss－current:			
Foreign currency forward contracts	339,817	139,515	4,356
Foreign exchange swaps	7,113	-	-
Cross currency swaps	7,821	-	-
Foreign currency options	-	18,144	566
	354,751	157,659	4,922

	December 31, 2008 NT$	December 31, 2009 NT$	December 31, 2009 US$
Financial liability at fair value through profit or loss－current:			
Foreign currency forward contracts	(1,011,739)	(157,848)	(4,928)
Foreign currency options	-	(4,691)	(147)
	(1,011,739)	(162,539)	(5,075)

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

For the years ended December 31, 2008 and 2009, unrealized gins (losses) resulting from the changes in fair value of these derivative contracts amounted to NT$718,172 and NT$652,108, respectively.

The Consolidated Companies entered into derivative contracts to manage foreign currency exchange risk resulting from operating activities. As of December 31, 2008 and 2009, the derivative financial instruments that did not conform to the criteria for hedge accounting and were classified as financial assets and liabilities at fair value through profit or loss consisted of the following:

(a) Foreign currency forward contracts

Buy		Sell	December 31,2008 Contract amount (in thousand)		Maturity date
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	2009/01/05~2009/03/30
USD	/	EUR	EUR	720,000	2009/01/15~2009/02/27
USD	/	INR	USD	61,600	2009/01/06~2009/05/29
USD	/	MYR	USD	19,138	2009/01/14~2009/02/17
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

Buy		Sell	December 31,2009 Contract amount (in thousand)		Maturity date
USD	/	SGD	USD	12,600	2010/01/19~2010/03/15
USD	/	MXN	USD	96,100	2010/01/15~2010/03/26
USD	/	EUR	EUR	47,000	2010/02/26
USD	/	INR	USD	55,992	2010/01/15~2010/03/31
USD	/	MYR	USD	15,400	2010/01/19~2010/03/31
USD	/	THB	USD	20,670	2010/01/15~2010/02/19
USD	/	JPY	USD	68,300	2010/01/15~2010/04/15
USD	/	RUB	USD	124,000	2010/01/15~2010/04/15
USD	/	PHP	USD	100	2010/01/08
USD	/	ZAR	USD	21,500	2010/01/15~2010/03/31
USD	/	NTD	USD	5,000	2010/01/11~2010/02/10
EUR	/	NOK	EUR	17,403	2010/01/15~2010/04/15
EUR	/	SEK	EUR	48,400	2010/01/15~2010/04/15
EUR	/	PLN	EUR	23,000	2010/01/15
RUB	/	USD	USD	36,689	2010/01/15
MXN	/	USD	USD	2,900	2010/01/29

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) Foreign exchange swaps

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

(c) Cross currency swaps

December 31, 2008			
Contract amount (in thousands)	**Maturity Date**	**Interest**	**Interest due date**
Swap-in SGD35,000/ Swap-out USD 24,221	2009/01/23	Pay fixed rate in USD of 0.66% Receive fixed rate in SGD of 1.00%	Principal and interest are paid in full when due

(d) Foreign currency options

(i) Long position

	December 31, 2009		
	Contract amount (in thousands)		**Maturity date**
USD Call/EUR Put	USD	22,500	2010/01/27~2010/02/12
USD Call/RUB Put	USD	5,000	2010/02/24

(ii) Short position

	December 31, 2009		
	Contract amount (in thousands)		**Maturity date**
EUR Call/USD Put	USD	22,500	2010/01/27~2010/02/12
RUB Call/USD Put	USD	7,500	2010/02/24

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(6) Hedging purpose derivative financial assets and liabilities

	December 31, 2008	December 31, 2009	
	NT$	NT$	US$
Hedging purpose derivative financial assets – current:			
Foreign currency forward contracts	962,268	1,275,157	39,811
Foreign currency options	60,514	-	-
	1,022,782	1,275,157	39,811
Hedging purpose derivative financial liabilities – current			
Foreign currency forward contracts	(848,726)	(196,714)	(6,142)
Foreign exchange swaps	(14)	-	-
Foreign currency options	(23,298)	-	-
	(872,038)	(196,714)	(6,142)

The Consolidated Companies entered into derivative contracts to hedge foreign currency exchange risk associated with a recognized asset or liability or with a highly probable forecast transaction.

As of December 31, 2008 and 2009, hedged items designated as fair value hedges and fair value of their respective hedging derivative financial instruments were as follows:

Hedged Items	Hedging instruments	Fair value of hedging instruments December 31, 2008 NT$	Fair value of hedging instruments December 31, 2009 NT$
Accounts receivable/ payable denominated in foreign currencies	Foreign currency forward contracts	386,420	1,066,045
	Foreign exchange swaps	(14)	-
	Foreign currency options	37,903	-
		424,309	1,066,045

For the years ended December 31, 2008 and 2009, the unrealized gains (losses) resulting from the changes in fair value of hedging instruments amounted to NT$271,733 and NT$641,736, respectively.

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

As of December 31, 2008 and 2009, hedged items designated as cash flow hedges and fair value of their respective hedging derivative financial instruments were as follows:

December 31, 2008

Hedged items	Hedging instruments	Fair value of hedging instruments NT$	Expected period of cash flow	Expected period of recognition in earnings
Accounts receivable/payable denominated in foreign currencies	Foreign currency forward contracts	(272,878)	Jan .~ May 2009	Jan .~ May 2009
	Foreign currency options	(687)	Feb. 2009	Feb. 2009
		(273,565)		

December 31, 2009

Hedged items	Hedging instruments	Fair value of hedging instruments NT$	Expected period of cash flow	Expected period of recognition in earnings
Accounts receivable/payable denominated in foreign currencies	Foreign currency forward contracts	12,398	Jan .~ May 2010	Jan .~ May 2010

As of December 31, 2008 and 2009, unrealized gains (losses) on derivative financial instruments effective as cash flow hedges, amounted to NT$(273,565) and NT$12,398, respectively, which were recognized in "hedging reserve", a separate component of stockholder's equity.

Details of hedging derivative financial instruments described above that were outstanding as of December 31, 2008 and 2009 were as follows:

(a) Foreign currency forward contracts

Buy		Sell	Contract amount (in thousands)		Maturity date
			December 31, 2008		
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	2009/01/30~2009/03/31
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

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Buy		Sell	Contract amount (in thousands) December 31, 2009		Maturity date
USD	/	AUD	USD	51,000	2010/01/29~2010/02/26
USD	/	CAD	USD	58,265	2010/01/29~2010/02/25
USD	/	EUR	EUR	870,918	2010/01/15~2010/03/16
EUR	/	GBP	EUR	237,105	2010/01/15~2010/03/31
USD	/	NZD	USD	3,900	2010/01/29~2010/03/31
AUD	/	NZD	AUD	2,150	2010/01/29~2010/02/26
USD	/	RMB	USD	160,000	2010/01/18~2010/04/29
USD	/	NTD	USD	25,000	2010/01/19

(b) Foreign currency options

(i) Long position

	December 31, 2008 Contract 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 Contract 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

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(c) Foreign exchange swap

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

(7) Inventories

(a) Inventories (net of provision for obsolescence and slow-moving inventories) as of December 31, 2008 and 2009, were as follows:

	December 31, 2008	December 31, 2009	
	NT$	NT$	US$
Raw materials	14,528,727	18,489,941	577,269
Work in process	49,437	45,089	1,408
Finished goods and merchandise	14,122,367	15,471,217	483,023
Spare parts	2,093,862	2,477,522	77,350
Inventories in transit	9,233,802	14,701,184	458,982
	40,028,195	**51,184,953**	**1,598,032**

(b) The details of inventories write downs for the years ended December 31, 2008 and 2009 were as follows:

	December 31, 2008	December 31, 2009	
	NT$	NT$	US$
Write-down of inventories to net realizable value	2,417,294	1,080,715	22,896
Net loss on physical inventory	67,278	83,177	2,597
Scrap loss	33,946	45,329	1,415
	2,518,518	**1,209,221**	**26,908**

(8) Financial assets carried at cost－noncurrent

	December 31, 2008	December 31, 2009	
	NT$	NT$	US$
Investment in non-publicly listed stock:			
Prosperity Venture Capital Corp.	21,000	21,000	656
Sheng-Hua Venture Capital Corp.	20,000	11,900	372
Legend Technology	15,235	11,235	351
W.I. Harper International Corp.	15,050	14,359	448
InCOMM Technologies Co., Ltd.	2,360	2,360	74
IP Fund II	32,400	32,400	1,012
Dragon Investment Co. Ltd.	217,000	217,000	6,775
World Venture, Inc.	262,000	262,000	8,180
iD Reengineering Inc.	174,900	174,900	5,461
DYNA Fund II	23,736	23,166	723
IP Fund III	131,862	128,696	4,018
iD5 Fund LTP	74,751	72,956	2,278
IP Cathay One, L.P.	295,362	258,558	8,072
IP Fund One L.P.	907,431	736,379	22,990
Apacer Technology Inc.	45,340	45,340	1,415
New Century Infocomm Tech Co., Ltd.	341,663	131,340	4,100
Trimode Technology Inc.	12,264	11,038	345
Others	91,916	96,431	3,010
	2,684,270	2,251,058	70,280

In 2008, the Consolidated Companies increased its equity investments in IP Cathay One, L.P. and other investees by the amount of NT$97,876. The Consolidated Companies also invested NT$359,759 in New Century Infocomm Tech Co., Ltd., Trimode Technology Inc., and other investees through the acquisition of E-Ten in 2008. In 2009, IP Cathay One, L.P., IP Fund One, L.P., Legend Technology, W.I. Harper International, and Sheng-Hwa Venture capital and other investees returned capital of NT$170,716 to the Consolidated Companies. In 2008, IP Fund One, L.P., Legend Technology and W.I. Harper International Corp. returned capital of NT$462,552 to the Consolidated Companies.

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.

For the year ended December 31, 2009, the Consolidated Companies recognized impairment losses on the investments in New Century Infocomm Tech Co., Ltd. and other investees in the amount of $231,934. For the year ended December 31, 2008, the Consolidated Companies recognized impairment losses on the investments in Dragon Investment Co. Ltd., iD Reengineering Inc., and MPC Corp. and other investees in the amount of $409,141. The aforementioned impairment losses were recorded under “other investment loss” in the accompanying consolidated statements of income.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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

	December 31, 2008 Percentage of ownership %	December 31, 2008 Carrying amount 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

	December 31, 2009 Percentage of ownership %	December 31, 2009 Carrying amount NT$	2009 Investment income (loss) NT$
Wistron Corporation	4.40	2,334,164	424,441
E-Life Mall Corp.	14.27	434,174	55,976
Aegis Semiconductor Technology Inc.	44.03	165,235	-
ECOM Software Inc.	33.93	36,310	3,791
Bluechip Infotech Pty Ltd.	33.41	72,303	4,605
FuHu Inc.	25.00	172,982	(26,740)
Olidata S.p.A	29.90	116,579	-
Others	-	(16,797)	1,737
		3,314,950	463,810
Less: Allocation of corporate expense			(63,712)
			400,098

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. Such deferred gains and losses are realized upon disposal of the equity-method investments to non-consolidated entities.

In 2008, the Consolidated Companies invested NT$73,841 in FuHu Inc. In 2009, the Consolidated Companies invested in Olidata S.p.A. and increased investment in FuHu Inc. for an aggregate amount of NT$244,702.

Commencing on August 1, 2008, the Consolidated Companies lost the ability to exercise significant influence over Apacer's operating and financial policies. Therefore, the investments in Apacer were reclassified as "financial assets carried at cost－noncurrent".

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In 2008, the Company sold portions of its investment in Wistron and recognized a gain thereon of NT$1,441,906. In 2009, the Consolidated Companies sold all of their investments in The Eslite Bookstore and recognized an aggregate loss thereon of NT$5,455.

The Consolidated Companies recognized an investment loss of NT$7,263 in 2008 and an investment gain of NT$4,236 in 2009 due to liquidation of EB EASY (TWN) Corp. and Hungtung Venture Capital, respectively. The loss was recorded under “other loss” and the gain was recorded under “other gain” in the accompanying consolidated statements of income.

The Consolidated Companies’ capital surplus was increased (reduced) by NT$(78,255) and NT$180,899 in 2008 and 2009, respectively, as the Consolidated Companies did not make additional investments proportionally to the issuance of new shares by the investee companies or the Consolidated Companies recognized changes in investees’ equity accounts in proportion to its ownership percentage.

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

	December 31, 2008	December 31, 2009	
	NT$	NT$	US$
Investment in publicly listed stock:			
Qisda Corporation (“Qisda”)	520,718	1,606,215	50,147
Silicon Storage Technology Inc. (“Silicon”)	8,192	8,938	279
Yosun Industrial Corp.	386,660	844,416	261363
RoyalTek Co., Ltd.	93,390	539,319	16,838
Quanta Computer Inc.	151,527	307,854	9,612
	1,160,487	3,306,742	103,239

In September 2008, the Consolidated Companies invested in RoyalTek Co., Ltd. and Quanta Computer Inc. through the acquisition of E-Ten.

In 2009, the Consolidated Companies sold portions of their investments in Yosun Industrial and recognized a gain thereon of NT$57,894. In 2008, no disposal activities occurred.

As of December 31, 2008 and 2009, the unrealized gain (losses) resulting from re-measuring available-for-sale financial assets to fair value amounted to NT$(1,456,066) and NT$1,001,919, respectively, which were recognized as a separate component of stockholders’ equity.

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(11) Property, plant and equipment

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

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

(12) Property not used in operation

	December 31, 2008	December 31, 2009	
	NT$	NT$	US$
Leased assets－land	807,538	807,538	25,212
Leased assets－buildings	2,827,810	2,827,810	88,286
Damaged office premises	457,558	463,181	14,461
Property held for sale and development	1,391,260	1,415,014	44,178
Others	29,019	-	-
Less: Accumulated depreciation	(570,088)	(595,606)	(18,595)
Accumulated impairment	(1,946,376)	(1,946,395)	(60,768)
	2,996,721	**2,971,542**	**92,774**

Damaged office premises are office premises damaged by fire. 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 accrual for repair cost of NT$161,308, recorded under "other current liabilities", was reclassified as accumulated asset impairment, and an additional impairment loss of NT$221,931 was recognized in 2008.

For certain land acquired, the ownership registration 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)

(13) Intangible assets

	Goodwill	Patents	Trademarks and trade names	Customer Relationships	Others	Total
	NT$	NT$	NT$	NT$	NT$	NT$
Balance at January 1, 2008	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 from business combination	5,520,031	-	2,634,244	151,100	1,871,300	10,176,675
Disposals	(32,532)	-	-	-	(4,339)	(36,871)
Reclassification	-	(727,381)	-	-	(453,200)	(1,180,581)
Effect of exchange rate changes	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
Additions	-	369,000	-	-	2,536,507	2,905,507
Adjustments made subsequent to business acquisition	(138,067)	-	-	-	-	(138,067)
Disposals	(9,624)	(39,275)	-	-	(9,759)	(58,658)
Reclassification	-	-	-	-	16,867	16,867
Effect of exchange rate changes	(448,895)	(3,073)	(161,298)	(28,110)	(6,842)	(648,218)
Amortization	-	(217,701)	(43,793)	(178,933)	(939,701)	(1,380,128)
Balance at December 31, 2009	21,977,454	801,789	7,862,465	1,310,306	3,492,054	35,444,068

(a) Acquisitions

(i) Gateway, Inc.

On October 15, 2007, the Company completed the acquisition of 100% equity 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, which was inclusive of direct transaction costs.

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

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 of Gateway and eMachines	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**

Within one year from the acquisition date (the "allocation period"), the Company identified adjustments, after the initial recognition, to certain property and equipment and pre-acquisition contingent liabilities. These adjustments decreased property, plant and equipment by NT$77,564 and increased current liabilities by NT$1,766,474, which also increased goodwill by NT$1,844,038.

The Gateway trademark has an indefinite useful life and, accordingly, is not subject to amortization. The eMachines trademark is being amortized using the straight-line method over 20 years, the estimated period of its economic benefits. 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% equity 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, which was inclusive of direct transaction costs.

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

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 useful life and, accordingly, is not subject to amortization.

Within the allocation period, the Company made adjustments to decrease deferred charges by NT$33,768 and to decrease current liabilities by NT$174,307, which also decreased goodwill by NT$140,539.

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

On September 1, 2008, the Company completed its acquisition of 100% equity ownership of 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 then became the Company’s direct wholly owned subsidiary.

The acquisition was accounted for in accordance with ROC SFAS No. 25 “Accounting for Business Combinations”, under which, the excess of the purchase price and direct transaction costs over the fair value of the net identifiable assets was recognized as goodwill.

(Continued)

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:		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	
Long-term 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**

The ETEN trademark for the stock trading PDA product has an indefinite useful 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 of its economic benefits.

Within the allocation period, the Company made adjustments to increase the fair value of outstanding employee stock options assumed through the acquisition, which also increased goodwill by NT$2,472.

(b) Pro forma information

The following unaudited pro forma financial information of 2008 presents the combined results of operations as if the acquisitions of Gateway Inc., Packard Bell B.V., and E-Ten had occurred as of the beginning of 2008:

	NT$
Revenue	550,172,239
Net income from continuing operations before income tax	14,676,395
Net income from continuing operations after income tax	11,521,166
Basic earnings per common share (in dollars)	4.43

(Continued)

(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) that are expected to benefit from the synergies of the business combination. The carrying amounts of significant goodwill and trademarks and trade names with indefinite useful lives and the respective CGUs to which they are allocated as of December 31, 2008 and 2009, were as follows:

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

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

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. In 2009, the Company reorganized cash-generating units to which goodwill and trademark and trade names with indefinite useful lives were allocated, as a result, the Company reallocated the aforementioned intangible assets to the related cash-generating units. 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, 2008 and 2009. The recoverable amount of a CGU is determined based on the value in use, and the related key assumptions were as follows:

Year 2008:

(i) The assessment used cash flow projections based on historical operating performance, future financial budgets approved by management covering a 5-year period.

(Continued)

(ii) Discounted rates used to determine the value in use by each CGUs were as follows:

Acer Pan-America business group	Packard Bell brand business group	E-Ten Information System group
13.7%	11.8%	18.7%

Year 2009:

(i) The assessment used cash flow projections based on historical operating performance, future financial budgets approved by management covering a 5-year period.

(ii) Discounted rates used to determine the value in use by each CGUs were as follows:

ITRO-EMEA	ITRO-PA	ITRO-AAP	ITRO-China	ITRO-TWN	E-Ten	SHBG
12.9%	10.9%	16.9%	20.4%	15.7%	19.7%	16.0%

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

(14) Other financial assets－noncurrent

	December 31, 2008	December 31, 2009	
	NT$	NT$	US$
Refundable deposits	781,080	771,957	24,101
Noncurrent receivables	87,680	17,754	554
	868,760	789,711	24,655

(15) Short-term borrowings

	December 31, 2008	December 31, 2009	
	NT$	NT$	US$
Bank loans	1,086,851	548,059	17,111

The Consolidated Companies pledged certain assets as collateral for these loans according to the bank loan contracts. Refer to note 6 for a description of the pledged assets.

(Continued)

(16) Long-term debts

	December 31, 2008 NT$	December 31, 2009 NT$	December 31, 2009 US$
Citibank syndicated loan	12,200,000	12,200,000	380,893
Other bank loans	184,920	171,856	5,365
Less: current installments	(8,250,000)	-	-
	4,134,920	12,371,856	386,258

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

Type of Loan	Creditor	Credit Line	Term	December 31, 2008 NT$	December 31, 2009 NT$
Unsecured loan	Citibank and other banks	Term tranche of NT$16.5 billion; fire-year limit during which revolving credits disallowed	Repayable in 4 semi-annual installments starting from April 2009. An advance repayment of NT$4.3 billion was made in the first quarter of 2008. In May 2009, an amendment to the agreement was made, under which, the loan is repayable in 4 semi-annual installments starting from April 2011.	12,200,000	12,200,000
		Revolving tranche of NT$3.3 billion; three-year limit	One-time repayment in full in October 2010.	-	-
Less: current installment				(8,250,000)	-
				3,950,000	12,200,000

The above syndicated loan bore interest at a rate of 3.06% in 2008 and 1.67% in 2009. According to the loan agreement, the Company is required to maintain certain financial ratios calculated 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 the Company in writing to take action to improve within agreed days. No assertion of breach of contract will be tenable if the financial ratios are met within agreed days. As of December 31, 2009, the Company was in compliance with all such financial covenants.

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(17) Retirement plans

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

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

	2008	
	Plan assets in excess of accumulated benefit obligation NT$	**Accumulated benefit obligation in excess of plan assets NT$**
Benefit obligation:		
Vested benefit obligation	(124,967)	(33,041)
Nonvested benefit obligation	(469,607)	(100,237)
Accumulated benefit obligation	(594,574)	(133,278)
Projected compensation increases	(335,873)	(52,666)
Projected benefit obligation	(930,447)	(185,944)
Plan assets at fair value	643,793	59,610
Funded status	(286,654)	(126,334)
Unrecognized prior service cost	-	6,596
Unrecognized pension loss	459,393	39,982
Unrecognized transition (assets) obligation	(2,187)	25,426
Minimum pension liability adjustment	-	659
Prepaid pension cost (accrued pension liabilities)	**170,552**	**(53,671)**

	2009			
	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	(180,819)	(5,645)	(22,077)	(689)
Nonvested benefit obligation	(385,033)	(12,021)	(45,676)	(1,426)
Accumulated benefit obligation	(565,852)	(17,666)	(67,753)	(2,115)
Projected compensation increases	(319,849)	(9,986)	(114,991)	(3,590)
Projected benefit obligation	(885,701)	(27,652)	(182,744)	(5,705)
Plan assets at fair value	664,033	20,731	60,408	1,886
Funded status	(221,668)	(6,921)	(122,336)	(3,819)
Unrecognized pension loss	434,772	13,574	43,661	1,363
Unrecognized transition (assets) obligation	(1,592)	(49)	20,799	649
Minimum pension liability adjustment	-	-	(3,731)	(116)
Prepaid pension cost (accrued pension liabilities)	**211,512**	**6,604**	**(61,607)**	**(1,923)**

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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

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

	2008	2009	
	NT$	NT$	US$
Service cost	49,808	51,634	1,612
Interest cost	34,453	26,954	841
Actual return on plan assets	(18,586)	(6,087)	(190)
Amortization and deferral	31,937	7,222	225
Effect of pension plan curtailments	-	52,502	1,640
Net periodic pension cost	**97,612**	**132,225**	**4,128**

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

	2008	2009
Discount rate	2.50%	2.25%
Rate of increase in future compensation	3.00%	3.00%
Expected rate of return on plan assets	2.50%	2.25%

In 2008 and 2009, pension cost under the defined contribution retirement plans amounted to NT$367,627 and NT$331,469, respectively.

(18) Income taxes

(a) The components of income tax expense from continuing operations were as follows:

	2008	2009	
	NT$	NT$	US$
Current income tax expense	2,383,360	4,581,450	143,036
Deferred income tax (benefit) expense	786,086	(951,327)	(29,701)
	3,169,446	**3,630,123**	**113,335**

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) The statutory income tax rate applicable to the Company and its subsidiaries located in the ROC is 25%. Additionally, the amended Article 5 of the ROC Income Tax Law announced on May 27, 2009, requires that the income tax rate of profit-seeking enterprises will be reduced from 25% to 20%, effective in 2010. The Company and its domestic subsidiaries which are subject to the ROC Income Tax Act had recalculated their deferred tax assets in accordance with the amended Article and adjusted the resulting difference to income tax expense. 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.

	2008	2009	
	NT$	NT$	US$
Expected income tax	3,701,682	3,745,746	116,945
Effect of different tax rates applied to the Company's subsidiaries	720,278	1,032,938	32,249
Tax-exempt investment income from domestic investees	(154,526)	(86,873)	(2,712)
Prior-year adjustments	52,938	523,617	16,348
Gain on disposal of marketable securities not subject to income tax	(697,934)	124,873	3,899
Investment tax credits	295,939	198,804	6,207
Change in valuation allowance	225,493	(350,794)	(10,952)
Tax-exempt investment income resulting from operational headquarters	(1,386,033)	(2,556,360)	(79,811)
Surtax on unappropriated retained earrings	165,109	17,646	551
Deferred tax assets resulting from spin off adjustment (set note 5(2) (c))	(511,425)	(72,449)	(2,262)
Alternative minimum tax	44,430	1,417	44
Effect of change in income tax rate	-	438,368	13,686
Others	713,495	613,190	19,143
Income tax expense	**3,169,446**	**3,630,123**	**113,335**

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(c) The components of deferred income tax assets (liabilities) as of December 31, 2008 and 2009, were as follows:

	December 31, 2008	December 31, 2009	
	NT$	NT$	US$
Deferred income tax assets – current:			
Unrealized cost of revenues	1,093,887	902,570	28,179
Inventory provisions	620,737	1,058,032	33,033
Loss (gain) on valuation of financial instruments	156,932	(279,622)	(8,730)
Accrued advertising expense	181,323	87,747	2,739
Accrued sales discounts	111,826	149,501	4,667
Warranty provision	894,085	778,287	24,299
Allowance for doubtful accounts	397,292	118,924	3,713
Accrued non-recurring engineering cost	86,315	58,825	1,837
Deferred revenue	34,904	5,614	175
Accrued royalty	82,975	494	16
Net operating loss carryforwards	77,977	143,674	4,485
Investment tax credits	-	64,027	1,999
Unrealized foreign exchange (gains) losses	(386,944)	299,738	9,358
Others	467,468	396,570	12,381
	3,818,777	3,784,381	118,151
Valuation allowance	(1,535,834)	(1,571,166)	(49,053)
	2,282,943	**2,213,215**	**69,098**

	December 31, 2008	December 31, 2009	
	NT$	NT$	US$
Deferred income tax liabilities – current:			
Inventory provisions	(125,802)	(84,598)	(2,641)
Allowance for doubtful accounts	(462,980)	(559,274)	(17,461)
Unrealized exchange gains	(58,994)	(15,078)	(471)
Others	(8,834)	(21,764)	(679)
	(656,610)	**(680,714)**	**(21,252)**

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	December 31, 2008 NT$	December 31, 2009 NT$	December 31, 2009 US$
Deferred income tax assets – non-current:			
Investment loss under the equity method	44,649	66,861	2,087
Difference in depreciation for tax and financial purposes	20,638	16,462	514
Net operating loss carryforwards	773,919	410,104	12,804
Other	117,235	101,897	3,181
	956,441	595,324	18,586
Valuation allowance	(826,526)	(387,735)	(12,105)
	129,915	**207,589**	**6,481**

	December 31, 2008 NT$	December 31, 2009 NT$	December 31, 2009 US$
Deferred income tax liabilities – non-current:			
Difference in amortization of intangible assets for tax and financial purposes	(2,705,258)	(3,507,908)	(109,519)
Investment income under the equity method	(3,804,043)	(2,867,839)	(89,536)
Net operating loss carryforwards	14,326,766	13,313,903	415,670
Difference in depreciation for tax and financial purposes	1,026,013	811,822	25,346
Provision for asset impairment loss	313,148	245,347	7,660
Investment tax credits	418,227	-	-
Software development cost	731,804	28,553	891
Unrealized investment loss	244,421	239,877	7,489
Foreign currency translation adjustment	-	(237,330)	(7,410)
Other	463,409	316,950	9,895
	11,014,487	8,343,375	260,486
Valuation allowance	(17,288,586)	(13,887,322)	(433,572)
	(6,274,099)	**(5,543,947)**	**(173,086)**

(d) The domestic Consolidated Companies were granted investment tax credits for the purchase of automatic machinery and equipment, for research and development expenditures, and for personnel training expenditures. These tax credits may be applied over a period of five years. The amount of the credit that may be applied in any year is limited to 50% of the income tax payable for that year, but there is no limitation on the amount of investment tax credit that may be applied in the final year.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

As of December 31, 2009, investment tax credits available to the Consolidated Companies were as follows:

Expiration date	**NT$**	**US$**
December 31, 2012	1,646	52
December 31, 2013	49,412	1,542
December 31, 2014	12,969	405
	64,027	**1,999**

(e) The tax effects of net operating loss carryforwards available to the Consolidated Companies as of December 31, 2009, were as follows:

Expiration date	**NT$**	**US$**
December 31, 2010	845	26
December 31, 2011	805,840	25,159
December 31, 2012	1,042,362	32,543
December 31, 2013	579,938	18,106
Thereafter	11,438,696	357,125
	13,867,681	**432,959**

(f) Information about the integrated income tax system

Beginning in 1998, an integrated income tax system was implemented in the Republic of China. Under the new tax system, the income tax paid at the corporate level can be used to offset Republic of China resident stockholders' individual income tax. The Company is required to establish an imputation credit account (ICA) 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 based on 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, 2008	**December 31, 2009**	
	NT$	**NT$**	**US$**
Unappropriated earnings:			
Earned before January 1, 1998	6,776	6,776	212
Earned after January 1, 1998	13,978,542	16,615,824	518,758
	13,985,318	**16,622,600**	**518,970**
Balance of ICA	**198,401**	**611,323**	**19,086**

The estimated creditable ratio for the 2009 earnings distribution to ROC resident stockholders is approximately 13.35%; and the actual creditable ratio for the 2008 earnings distribution was 5.01%.

(Continued)

(g) 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 its income tax returns from fiscal 2004 to 2006 regarding the adjustments of certain expenses and investment tax credits and has filed a request with the tax authorities for a reexamination. The reexamination of income tax returns was still in process, and the Company has accrued an additional tax liability related to the disallowed expenses and provided a valuation allowance on deferred tax assets based on the amount of assessed investment tax credits.

(19) Stockholders' equity

(a) Common stock

As of December 31, 2008 and 2009, the Company's authorized common stock consisted of 3,500,000,000 shares, respectively, of which 2,642,855,993 shares and 2,688,228,278 shares, respectively, were issued and outstanding. The par value of the Company's common stock is NT$10 per share.

As of December 31, 2008 and 2009, the Company had issued 8,412 thousand units and 18,284 thousand units, respectively, of global depository receipts (GDRs). The GDRs were listed on the London Stock Exchange, and each GDR represents five shares of common stock.

In 2008 and 2009, the Company issued 124 thousand and 2,709 thousand common shares, respectively, upon the exercise of employee stock options. Additionally, on September 1, 2008, the Company issued 168,159 thousand common shares for acquiring 100% equity ownership of E-Ten Information Systems Co., Ltd.

During their meeting on June 13, 2008, the Company's shareholders resolved to distribute stock dividends to shareholders and employees bonus of NT$390,823 and NT$330,000, respectively. As a result, a total of 69,082 thousand new shares were issued. The stock issuance was authorized by and registered with the governmental authorities.

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

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) Treasury stock

As of December 31, 2008 and 2009, details of the GDRs (for the implementation of an overseas employee stock option plan) held by AWI and the common stock held by the Company's subsidiaries namely CCI and E-Ten were as follows (expressed in thousands of shares and New Taiwan dollars):

	December 31, 2008			December 31, 2009		
	Number of Shares	Book Value NT$	Market Price NT$	Number of Shares	Book Value NT$	Market Price NT$
Common stock	21,571	1,050,341	918,946	21,787	1,050,341	2,095,930
GDRs	4,933	2,472,257	1,100,893	4,982	2,472,257	2,393,831
		3,522,598	2,019,839		3,522,598	4,489,761

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

2008

Description	Beginning Balance	Additions	Disposal	Ending Balance
Common Stock	17,057	4514	-	21,571
GDRs	4,860	73	-	4,933

2009

Description	Beginning Balance	Additions	Disposal	Ending Balance
Common Stock	21,571	216	-	21,787
GDRs	4,933	49	-	4,982

Upon the acquisition of E-Ten in September 2008, the Company issued 4,259 thousand common shares to E-Ten's subsidiaries in exchange of E-Ten's common shares owned by the subsidiaries. Such shares were accounted for as treasury stock.

(c) Capital surplus

	December 31, 2008 NT$	December 31, 2009 NT$	December 31, 2009 US$
Share premium:			
Paid-in capital in excess of par value	857,759	1,784,258	55,706
Surplus from merger	29,800,881	29,800,881	930,405
Premium on common stock issued from conversion of convertible bonds	4,552,585	4,552,585	142,135
Forfeited interest from conversion of convertible bonds	1,006,210	1,006,210	31,415
Surplus related to treasury stock transactions by subsidiary companies	431,161	501,671	15,662
Employee stock options	174,372	360,630	11,259
Other:			
Surplus from equity-method investments	306,984	487,883	15,232
	37,129,952	38,494,181	1,201,814

According to the ROC Company Act, any realized capital surplus could be transferred to common stock as stock dividends after deducting accumulated deficit, if any. Realized capital surplus includes share premium and donations from shareholders. Distribution of stock dividends from realized capital surplus is subject to certain restrictions imposed by the governmental authorities.

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

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

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

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

(Continued)

the paid-in capital, it can be transferred to common stock at the amount of one-half of legal reserve; and (ii) when it reaches an amount exceeding one-half of the authorized common stock, dividends and bonuses can be distributed from the excess portion of the legal reserve.

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

The appropriation of 2007 and 2008 earnings was approved by the shareholders at meetings on June 13, 2008, and June 19, 2009, respectively. The appropriations of employee bonus and remuneration to directors and supervisors and dividends per share were as follows:

		2007 NT$	2008 NT$
Dividends per share (NT$)			
Cash dividends	$	3.60	2.00
Stock Dividends		0.15	0.10
	$	3.75	2.10

		2007 NT$	2008 NT$
Employee bonus – stock	$	330,000	900,000
Employee bonus – cash		544,728	600,000
Remuneration to directors and supervisors		116,630	85,763
	$	991,358	1,585,763

The 2008 employee bonus in stock of 16,234 thousand common shares was determined by the closing price of the Company's common shares (after considering the effect of dividends) on the day preceding the shareholder's meeting, which was NT$58 (dollars). The above appropriations were consistent with the resolutions approved by the Company's directors.

The Company estimated and accrued employee bonus of NT$1,000,000 and directors' and supervisors' remuneration of NT$122,096 for the year ended December 31, 2009 based on the total amount of bonus expected to be distributed to employees and the Company's article of incorporation, under which, remuneration for directors and supervisors is distributed at 1% of the remainder of annual net income. If the actual amounts subsequently resolved by the stockholders differ from the estimated amounts, the differences are treated as a change in accounting estimate and are recorded as income or expense in the year of stockholder's resolution. If bonus to employees is resolved to be distributed in stock, the number of shares is determined by dividing the amount of stock bonus by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholder's meeting.

(Continued)

Distribution of 2009 earnings has not been proposed yet by the board of directors and is still subject to approval by the stockholders. After the resolutions, related information can be obtained from the public information website.

(20) Stock-based compensation plans

As of December 31, 2009, details of the employee stock option plans ("ESOP") were as follows:

	Stock Options			
	Employee stock option plan 1	**Employee stock option plan 2**	**Employee stock option plan 3**	**Employee stock option plan 4**
Grant date	2008/11/31	2008/09/01 (note 1)	2008/09/01 (note 1)	2009/10/30
Granted shares (in thousands)	14,000	8,717	1,067	14,000
Contractual life (in years)	3	4.97	2	3
Vesting period	2 years of service subsequent to grant date	1~3 years of service subsequent to grant date	1 year of service subsequent to grant date	2 years of service subsequent to grant date
Qualified employees	(note 2)	(note 3)	(note 3)	(note 2)

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

Note 2: The options are granted to eligible employees of the Company and its domestic or foreign subsidiaries, in which the Company directly or indirectly, owns 50% or more of the subsidiary's voting shares.

Note 3: The options are granted to eligible employees of the Company's subsidiaries, in which the Company directly or indirectly owns 50% or more of equity interests.

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

	2008			2009
	Employee stock option plan 1	**Employee stock option plan 2**	**Employee stock option plan 3**	**Employee stock option plan 4**
Exercise price (NT$)	25.28	44.50	16.90	42.90
Expected remaining contractual life (in years)	3	4.26	0.56	3
Fair market value for underlying securities－Acer shares (NT$)	45.95	59.10	59.10	78.00
Fair value of options granted (NT$)	25.124	25.47 ~ 26.11	42.20 ~ 42.58	40.356
Expected volatility	45.01%	34.98%	37.35%	40.74%
Expected dividend yield	note 4	note 4	note 4	note 4
Risk-free interest rate	2.50%	2.40%	1.84%	1.03%

Note 4: 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.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Movements in number of stock options outstanding:

	2008			
	The Company's employee stock option plan		E-Ten's Employee stock option plan	
	Number of options (in thousands)	Weighted-average exercise price (NT$)	Number of options (in thousands)	Weighted-average exercise price (NT$)
Outstanding, beginning of year	-	-	-	-
Granted	14,000	25.28	9,784	41.49
Forfeited	-	-	(518)	-
Exercised	-	-	(173)	16.90
Outstanding, end of year	14,000	25.28	9,,093	41.66
Exercisable, end of year	-		406	

	2009			
	The Company's Employee stock option plan		E-Ten's Employee stock Option plan	
	Number of options (in thousands)	Weighted-average exercise price (NT$)	Number of options (in thousands)	Weighted-average exercise price (NT$)
Outstanding, beginning of year	14,000	25.28	9,093	41.90
Granted	14,000	42.90	-	-
Forfeited	-	-	(890)	-
Exercised	-	-	(3,083)	38.12
Outstanding, end of year	28,000	33.62	5,120	41.52
Exercisable, end of year	-		1,541	

In 2008 and 2009, the Consolidated Companies recognized the compensation costs from the employee stock option plans of NT$37,856 an NT$298,952, respectively, which were accounted for under operating expenses.

(21) Restructuring charges

In 2008 and 2009, due to the acquisition of Gateway Inc. and Packard Bell B.V., the Consolidated Companies recognized restructuring charges of NT$1,582,408 and NT$164,595, respectively, which were accounted for under "restructuring cost" of non-operating expenses and loss in the accompanying statements of income. These restructuring charges were associated with severance payments to employees and integration of the information technology system.

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(22) Net income from discontinued operations

On July 1, 2007, the Company disposed all of its ownership interest in a subsidiary, Sertek Inc. 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 March 2008.

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

	2008		
	Amount	**Weighted-average number of outstanding shares of common stock (in thousands)**	**EPS (in dollars)**
	NT$		**NT$**
Basic EPS－after retroactive adjustments			
Net income attributable to common shareholders of parent company	11,742,135	2,512,122	4.67
Diluted EPS			
Effect of dilutive potential common shares:			
Employee bonus	-	39,042	
Employee stock option plan	-	1,286	
Net income attributable to common shareholders of parent company	11,742,135	2,552,450	4.60

	2009				
	Amount (in thousand)		**Weighted-average number of outstanding shares of common stock (in thousands)**	**EPS (in dollars)**	
	NT$	**US$**		**NT$**	**US$**
Basic EPS－after retroactive adjustments					
Net income attributable to common shareholders of parent company	11,353,374	354,445	2,632,379	4.31	0.13
Diluted EPS					
Effect of dilutive potential common shares:					
Employee bonus	-	-	23,175		
Employee stock option plan	-	-	10,953		
Net income attributable to common shareholders of parent company	11,353,374	354,445	2,666,507	4.26	0.13

(24) Disclosure of financial instruments

(a) Fair values of financial instruments

The book value of short-term financial instruments is considered to be the fair value because of the short-term maturity of these instruments. Such method is applied to cash and cash equivalents, notes and accounts receivable (including receivables from related parties), other receivables

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(including receivables from related parties), notes and accounts payables (including payables to related parties), short-term borrowings, current installments of long-term debt, payables to related parties and royalties payable.

The estimated fair values and carrying amounts of all other financial assets and liabilities as of December 31, 2008 and 2009 were as follows:

	2008			2009		
		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	591,444	591,444	-	223,437	223,437	-
Available-for-sale financial assets－noncurrent	1,160,487	1,160,487	-	3,306,742	3,306,742	-
Financial assets carried at cost	2,684,270	-	see below (b)	2,251,058	-	see below (b)
Refundable deposits (classified as "other financial assets")	781,080	-	781,080	771,957	-	771,957
Noncurrent receivables (classified as "other financial assets")	87,680	-	87,680	17,754	-	17,754
Financial liabilities:						
Long-term debt	4,134,920	-	4,134,920	12,371,856	-	12,371,856
Derivative financial instruments						
Financial assets:						
Foreign currency forward contracts	1,302,085	-	1,302,085	1,414,672	-	1,414,672
Foreign exchange swap	7,113	-	7,113	-	-	-
Cross currency swap	7,821	-	7,821	-	-	-
Foreign currency options	60,514	-	60,514	18,144	-	18,144
Financial liabilities:						
Foreign currency forward contracts	1,860,465	-	1,860,465	354,562	-	354,562
Foreign currency options	23,298	-	23,298	4,691	-	4,691
Foreign exchange swap	14	-	14	-	-	-

(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 non-current

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－non-current

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

(iii) Refundable deposits

The fair values are the book values as the date of expiry cannot be determined.

(iv) Non-current receivables

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

(Continued)

(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 derivative financial instruments are estimated using a valuation technique, with estimates and assumptions consistent with those made by market participants and are readily available to the Consolidated Companies.

(c) For the years ended December 31, 2008 and 2009, valuation gain on financial assets and liabilities using a valuation technique amounted to NT$989,905 and NT$1,293,844, respectively.

(d) Disclosure of financial risks

(i) Market risk

Open-end mutual funds and publicly traded stocks held by the Consolidated Companies classified as "available-for-sale financial assets" are valued 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 which are denominated in US dollars and Euros, respectively. Hence, the Consolidated Companies entered into foreign currency forward contracts, foreign currency options, foreign exchange swap and cross currency swap for hedging purposes. The lengths and amounts of aforementioned derivative transactions were in line with the settlement date of the Consolidated Companies' recorded foreign currency assets and liabilities and future cash flows. Gains or losses from these hedging derivatives are expected to substantially offset those from the hedged assets or liabilities. Therefore, management believes that market risk related to the changes in exchange rates was not significant.

(ii) Credit risk

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

The Consolidated Companies primarily sell and market the multi-branded IT products to a large number of customers in different geographic areas. As a result, 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 fulfill their contract payment obligations. Therefore, management believes that there is no significant liquidity risk.

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

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

The Consolidated Companies' short-term borrowings and long-term debt carried floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rates and thereby influences the Consolidated Companies' future cash flow. If the market interest rate increases by 1%, cash outflows in respect of these interest payments would increase by approximately NT$129,199 per annum.

5. Transactions with Related Parties

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

Name	Relationship with the Company
Wistron Corporation ("Wistron")	Investee of the Company accounted for by equity method
Cowin Worldwide Corporation ("COWIN")	Subsidiary of Wistron
Bluechip Infotech Pty Ltd. ("SAL")	Investee of the Consolidated Companies 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
Directors, supervisors, chief executive officers and vice presidents	The Consolidated Companies' executive officers

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(2) Significant transactions with related parties as of and for the years ended December 31, 2008 and 2009 were as follows:

(a) Net sales and related notes and accounts receivable

(i) Net sales to:

	2008	2009	
	NT$	NT$	US$
SAL	758,797	768,379	23,989
eLIFE	885,662	690,738	21,566
COWIN	462,430	-	-
Other (individually less than 5%)	114,486	77,605	2,423
	2,221,375	1,536,722	47,978

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

(ii) Notes and accounts receivable from:

	December 31, 2008	December 31, 2009	
	NT$	NT$	US$
COWIN	329,848	315,929	9,864
SAL	64,529	116,156	3,626
eLIFE	159,182	109,090	3,406
Wistron	248,930	43,305	1,352
Others (individually less than 5%)	38,976	15,826	494
	841,465	600,306	18,742

(b) Purchases and related notes and accounts payable

(i) Purchases from:

	2008	2009	
	NT$	NT$	US$
Wistron	25,228,683	32,351,566	1,010,040
Others	270	214	6
	25,228,953	32,351,780	1,010,046

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

The Consolidated Companies sold raw material to Wistron and its subsidiaries and purchased back the finished goods after being manufactured. To avoid double-counting, the revenues and sales of raw materials to Wistron and its subsidiaries amounting to NT$88,579,887 and NT$127,377,990 for the years ended December 31, 2008 and 2009, respectively, were excluded from the consolidated revenues and cost of goods sold. Having enforceable rights, the Consolidated Companies offset the outstanding receivables and payables resulting from the above-mentioned transactions. The offset resulted in a net payable balance.

(ii) Notes and accounts payable to:

	December 31, 2008	December 31, 2009	
	NT$	NT$	US$
Wistron	7,681,059	10,172,553	317,595
Others	69,161	59,811	1,867
	7,750,220	10,232,364	319,462

(c) Spin-off of assets

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

In 2008 and 2009, the tax authorities subsequently concluded that Wistron could utilize portions of the aforementioned deferred tax assets resulting from the spin-off. Based on the tax authorities' conclusion, the Company collected the outstanding receivables from Wistron in 2009. Additionally, the valuation allowance was reversed to current income tax benefit in the amount of NT$511,425 and $72,449, for the years ended December 31, 2008 and 2009, respectively.

(d) Other expenses

The Consolidated Companies paid iD Soft Capital Inc. management service fees amounting to NT$61,633 and NT$49,333 for the years ended December 31, 2008 and 2009, respectively.

(Continued)

(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, 2008 and 2009, the Consolidated Companies had aggregate receivables from related parties of NT$45,173 and NT$21,507, respectively, and payables to related parties of NT$189,964 and NT$92,187, respectively, resulting from these transactions.

(3) Compensation to executive officers

For the years ended December 31, 2008 and 2009, compensation paid to the Consolidated Companies' executive officers including directors, supervisors, president and vice-presidents was as follows:

	2008 Amount	2009 Amount	
	NT$	NT$	US$
Salaries	249,243	339,997	10,615
Cash awards and special allowances	134,574	175,655	5,484
Business service charges	1,989	1,080	34
Employee bonuses	360,581	443,855	13,857
	746,387	960,587	29,990

The aforementioned compensation included the accruals for employee bonus and directors' and supervisors' remuneration as discussed in note 4(19).

6. Pledged Assets

Pledged assets	Pledged to secure	Carrying amount at December 31, 2008 NT$	2009 NT$	US$
Cash in bank and time deposits	Contract bidding and project fulfillment	109,586	61,939	1,934
Property, plant and equipment	Credit lines of bank loans	4,902	-	-
		114,488	61,939	1,934

As of December 31, 2008 and 2009, the above pledged cash in bank and time deposits were classified as "restricted deposits" and "other financial assets" in the accompanying consolidated balance sheets.

7. Commitments and Contingencies

(1) Royalties

(a) The Company has entered into a patent cross license agreement with International Business Machines Corporation (IBM). Under this agreement, 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 agreed upon fixed amounts of payments.

(b) The Company and Lucent Technologies Inc. (Lucent) entered into a Patent Cross License agreement. This license agreement in essence authorizes both parties to use each other's worldwide computer-related patents for manufacturing and selling personal computer products. The 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 agreed upon fixed amounts of payments.

(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 agreed upon fixed amounts of payments.

(2) As of December 31, 2008 and 2009, the Consolidated Companies had provided outstanding stand-by letters of credit totaling NT$133,304 and NT$269,957, respectively, for purposes of 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$
2010	624,358	19,493
2011	388,781	12,138
2012	212,284	6,628
2013	167,010	5,214
2014 and thereafter	169,701	5,298
	1,562,134	**48,771**

(4) As of December 31, 2008 and 2009, the Consolidated Companies had provided promissory notes amounting to NT$29,150,262 and NT$28,552,820, respectively, as collateral for factored accounts receivable and for obtaining credit facilities from financial institutions.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

8. Significant Loss from Casualty: None

9. Subsequent Events: None

10. Labor cost, depreciation and amortization

	2008			2009		
	Operating expense	**Cost of sales**	**Total**	**Operating expense**	**Cost of sales**	**Total**
	NT$	**NT$**	**NT$**	**NT$**	**NT$**	**NT$**
Labor cost:						
Salaries	11,363,684	1,559,145	12,922,829	10,691,422	2,203,906	12,895,328
Insurance	1,259,823	149,681	1,409,504	1,103,299	202,810	1,306,109
Pension	448,196	17,042	465,238	438,401	25,293	463,694
Other	10,464	131,997	142,461	927,649	104,031	1,031,680
Depreciation	917,394	38,486	955,880	797,215	49,088	846,303
Amortization	791,510	454,051	1,245,561	1,847,624	12,660	1,860,284

11. Segment Information

(1) Industry segment

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

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(2) Geographic information

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 by the equity method						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

2009

	Taiwan NT$	North America NT$	Europe NT$	Asia NT$	Eliminations NT$	Consolidated NT$
Area income:						
Customers	32,527,383	153,258,163	294,783,234	107,213,050	-	587,781,830
Inter-company	404,809,061	187,495	6,404,956	7,297	(411,408,809)	-
	437,336,444	153,445,658	301,188,190	107,220,347	(411,408,809)	587,781,830
Area profit (loss) before income taxes	354,733,460	(3,051,275)	71,362,909	3,489,518	(411,408,809)	15,125,803
Net investment income by the equity method						400,098
Gain on disposal of investments, net						79,162
Interest expense						(622,080)
Consolidated income before income taxes						14,982,983
Area identifiable assets	154,584,475	68,774,280	106,947,852	32,809,119	(97,383,442)	265,732,284
Equity method investments						3,314,950
Goodwill						21,977,454
Total assets						291,024,688
Depreciation and amortization	1,064,578	667,269	847,796	126,944	-	2,706,587
Capital expenditures	413,968	30,381	243,081	84,145	-	771,575

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(3) Export sales

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

(4) Major customers:

No individual customers accounting for more than 10% of the consolidated revenues in 2008 and 2009.