

Independent auditors' Report

The Board of Directors
Acer Incorporated:

We have audited the accompanying non-consolidated balance sheets of Acer Incorporated (the "Company") as of December 31, 2010 and 2009, and the related non-consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 non-consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Acer Incorporated as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling" and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of Acer Incorporated and subsidiaries as of and for the years ended December 31, 2010 and 2009 prepared by the Company, and expressed unqualified opinions for 2010 and 2009 consolidated financial statements.

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

Note to Readers

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

ACER INCORPORATED
Non-Consolidated Balance Sheets
December 31, 2010 and 2009
(Expressed in thousands of New Taiwan dollars)

Assets	<u>2010.12.31</u> NT\$	<u>2009.12.31</u> NT\$	Liabilities and Stockholders' Equity	<u>2010.12.31</u> NT\$	<u>2009.12.31</u> NT\$
Current assets:			Current liabilities:		
Cash and cash equivalents	37,402,911	4,653,227	Notes and accounts payable	62,868,178	71,706,626
Notes and accounts receivable, net of allowance for doubtful accounts of NT\$85,261 and NT\$173,367 as of December 31, 2010 and 2009, respectively	8,864,537	12,956,349	Notes and accounts payable to related parties	6,459,150	8,922,931
Notes and accounts receivables from related parties	48,532,715	87,715,638	Financial liabilities at fair value through profit or loss – current	353	-
Other receivables from related parties	1,935,985	115,613	Other payables to related parties	1,008,133	942,400
Other receivables	2,296,426	2,234,997	Hedging purpose derivative financial liabilities – current	427,901	2,901
Inventories	18,428,930	19,001,720	Royalties payable	9,151,415	12,610,950
Financial assets at fair value through profit or loss – current	18,945	16,409	Accrued expenses and other current liabilities	14,710,399	18,754,153
Available-for-sale financial assets-current	85,617	117,653	Current portion of long-term debt	6,100,000	-
Hedging purpose derivative financial assets-current	66,984	1,086,092	Deferred inter-company profits	98,746	58,352
Deferred income tax assets – current	493,170	1,334,710	Total current liabilities	<u>100,824,275</u>	<u>112,998,313</u>
Prepayments and other current assets	296,655	196,579			
Total current assets	<u>118,422,875</u>	<u>129,428,987</u>	Long-term liabilities:		
Long-term investments:			Financial liabilities at fair value through profit or loss – noncurrent	1,338,524	-
Investments accounted for using equity method	81,374,091	77,682,825	Bonds Payable	13,103,887	-
Available-for-sale financial assets – noncurrent	1,986,812	2,450,631	Long-term debt, excluding current portion	6,100,000	12,200,000
Financial assets carried at cost – noncurrent	699,321	796,169	Other liabilities	27,971	28,859
Total long-term investments	<u>84,060,224</u>	<u>80,929,625</u>	Deferred income tax liabilities – noncurrent	2,836,228	3,595,953
			Total long-term liabilities	<u>23,406,610</u>	<u>15,824,812</u>
			Total liabilities	<u>124,230,885</u>	<u>128,823,125</u>
Property, plant and equipment:			Stockholders' equity:		
Land	699,850	376,842	Common stock	27,001,793	26,882,283
Buildings and improvements	1,010,699	578,892	Common stock subscribed	21,656	-
Computer equipment and machinery	585,920	549,522	Capital surplus	39,578,915	38,494,118
Other equipment	769,652	765,723	Retained earnings:		
Construction in progress and advance payments for purchases of property and equipment	9,072	77,692	Legal reserve	11,096,134	9,960,796
	3,075,193	2,348,671	Special reserve	-	1,991,615
Less: accumulated depreciation	(848,218)	(709,786)	Unappropriated earnings	24,233,146	16,622,600
Less: accumulated impairment	(236,380)	-	Other equity components:		
Net property, plant and equipment	<u>1,990,595</u>	<u>1,638,885</u>	Foreign currency translation adjustment	(5,095,919)	959,621
			Minimum pension liability adjustment	(23,957)	(7,908)
Intangible assets:			Unrealized gain (loss) on financial instruments	460,600	1,014,317
Trademark	7,431,112	2,543,005	Treasury stock	(3,522,598)	(3,522,598)
Other intangible assets	1,112,417	875,614	Total stockholders' equity	<u>93,749,770</u>	<u>92,394,844</u>
Total intangible assets	<u>8,543,529</u>	<u>3,418,619</u>	Commitments and contingencies		
Property not used in operation	3,479,214	4,210,620			
Refundable deposits	185,911	230,081			
Noncurrent receivable	82,260	17,754			
Deferred charges and other assets	1,216,047	1,343,398			
Total assets	<u>217,980,655</u>	<u>221,217,969</u>	Total liabilities and stockholders' equity	<u>217,980,655</u>	<u>221,217,969</u>

ACER INCORPORATED
Non-Consolidated Statements of Income
For the years ended December 31, 2010 and 2009
(Expressed in thousands of New Taiwan dollars, except earnings per share data)

	<u>2010</u> NT\$	<u>2009</u> NT\$		
Net Sales	521,545,234	485,922,979		
Cost of sales	<u>(504,780,886)</u>	<u>(470,452,873)</u>		
Gross profit	16,764,348	15,470,106		
Changes in unrealized inter-company profits	<u>(40,394)</u>	<u>(36,737)</u>		
Realized gross profit	<u>16,723,954</u>	<u>15,433,369</u>		
Operating expenses:				
Selling	(5,629,069)	(5,792,300)		
Administrative	(1,004,766)	(570,500)		
Research and development	<u>(1,042,303)</u>	<u>(722,402)</u>		
Total operating expenses	<u>(7,676,138)</u>	<u>(7,085,202)</u>		
Operating income	<u>9,047,816</u>	<u>8,348,167</u>		
Non-operating income and gains:				
Interest income	46,741	65,719		
Investment gain recognized using equity method, net	8,708,131	4,823,788		
Gain on disposal of investments, net	1,979,734	60,573		
Other income	<u>317,911</u>	<u>102,792</u>		
	<u>11,052,517</u>	<u>5,052,872</u>		
Non-operating expenses and losses:				
Interest expense	(456,938)	(271,355)		
Foreign currency exchange loss and valuation loss on financial instruments, net	(1,491,045)	(98,207)		
Impairment loss of non-financial assets, net of reversal gain	(378,178)	-		
Other losses	<u>(171,092)</u>	<u>(668)</u>		
	<u>(2,497,253)</u>	<u>(370,230)</u>		
Income before income taxes	17,603,080	13,030,809		
Income tax expense	<u>(2,485,083)</u>	<u>(1,677,435)</u>		
Net income	<u>15,117,997</u>	<u>11,353,374</u>		
	Before	After	Before	After
Earnings per common share (in New Taiwan dollars):	income	income	income	income
	<u>tax</u>	<u>tax</u>	<u>tax</u>	<u>tax</u>
	NT\$	NT\$	NT\$	NT\$
Basic earnings per common share – retroactively adjusted	<u>6.65</u>	<u>5.71</u>	<u>4.95</u>	<u>4.31</u>
Diluted earnings per common share – retroactively adjusted	<u>6.48</u>	<u>5.57</u>	<u>4.88</u>	<u>4.25</u>

ACER INCORPORATED

Non-Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2010 and 2009
(Expressed in thousands of New Taiwan dollars)

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

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

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

ACER INCORPORATED

Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009

(Expressed in thousands of New Taiwan dollars)

	<u>2010</u>	<u>2009</u>
	NT\$	NT\$
Cash flows from operating activities:		
Net income	15,117,997	11,353,374
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	190,524	171,662
Amortization	490,624	437,956
Stock-based compensation cost	453,861	269,479
Valuation loss (gain) on financial assets and liabilities	1,412,907	(1,699,484)
Investment gain recognized using equity method, net	(9,171,921)	(5,587,889)
Cash dividends received from equity method investments	380,478	5,023,447
Gain on disposal of investments, net	(1,979,734)	(60,573)
Other investment gain	(27,058)	(32,886)
Amortization of bonds payable discount and transaction cost	171,597	-
Unrealized exchange gain on bonds payable	(1,239,955)	-
Loss (gain) on disposal of property and equipment, net	25,771	(145)
Impairment loss of non-financial assets, net of reversal gain	378,178	-
Other expenses reclassified from deferred charges	-	4,747
Gain on disposal of intangible assets	-	(46,037)
Deferred income tax expense (benefit)	1,347,370	(765,435)
Changes in operating assets and liabilities:		
Notes and accounts receivable	4,091,812	(2,493,748)
Receivables from related parties	39,182,923	(30,710,807)
Inventories	510,235	(4,849,698)
Other receivables, prepayments and other current assets	(411,444)	1,108,400
Noncurrent receivable	(64,507)	51,194
Notes and accounts payable	(8,838,448)	26,921,226
Payables to related parties	(2,398,059)	2,931,843
Royalties payable, accrued expenses and other current liabilities	(7,629,459)	8,714,533
Deferred inter-company profits	40,394	36,737
Other liabilities	(888)	(2,926)
Cash provided by operating activities	<u>32,033,198</u>	<u>10,774,970</u>
Cash flows from investing activities:		
Increase in long-term investments	(4,530,000)	(3)
Proceeds from disposal of investments	3,327,662	259,951
Proceeds from capital return and liquidation of investees	1,023,596	538,595
Additions to property, plant and equipment and property not used in operation	(413,022)	(124,079)
Proceeds from disposal of property, plant and equipment and property not used in operation	345,367	844
Decrease (increase) in loans and advances to related parties	(1,820,372)	739,604
Additions to intangible assets	(5,009,933)	(2,996,843)
Proceeds from disposal of intangible assets	-	25,000
Increase in refundable deposits, deferred charges and other assets	58,423	(2,843)
Cash used in investing activities	<u>(7,018,279)</u>	<u>(1,559,774)</u>
Cash flows from financing activities:		
Issuance of convertible bonds	15,865,788	-
Decrease in loans from related parties	-	(2,671,861)
Distribution of cash dividends	(8,336,835)	(5,285,966)
Proceeds from exercise of employee stock option	205,812	103,590
Cash provided by (used in) financing activities	<u>7,734,765</u>	<u>(7,854,237)</u>
Net increase in cash and cash equivalents	32,749,684	1,360,959
Cash and cash equivalents at beginning of period	<u>4,653,227</u>	<u>3,292,268</u>
Cash and cash equivalents at end of period	<u>37,402,911</u>	<u>4,653,227</u>
Supplemental disclosures of cash flow information:		
Interest paid	<u>264,704</u>	<u>289,097</u>
Income taxes paid	<u>2,665,082</u>	<u>696,678</u>
Supplementary disclosures of non-cash investing and financing activities:		
Current portion of long-term debt	<u>6,100,000</u>	<u>-</u>
Change in unrealized valuation gain (loss) on financial instruments	<u>(553,717)</u>	<u>2,743,948</u>
Change in foreign currency translation adjustment	<u>(6,055,540)</u>	<u>(281,437)</u>
Additions to property and equipment included in other current liabilities	<u>99,670</u>	<u>-</u>

