Acer Group

Packard Bell acer Gateway

Acer Incorporated
2007 Annual Report

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www.acer.com

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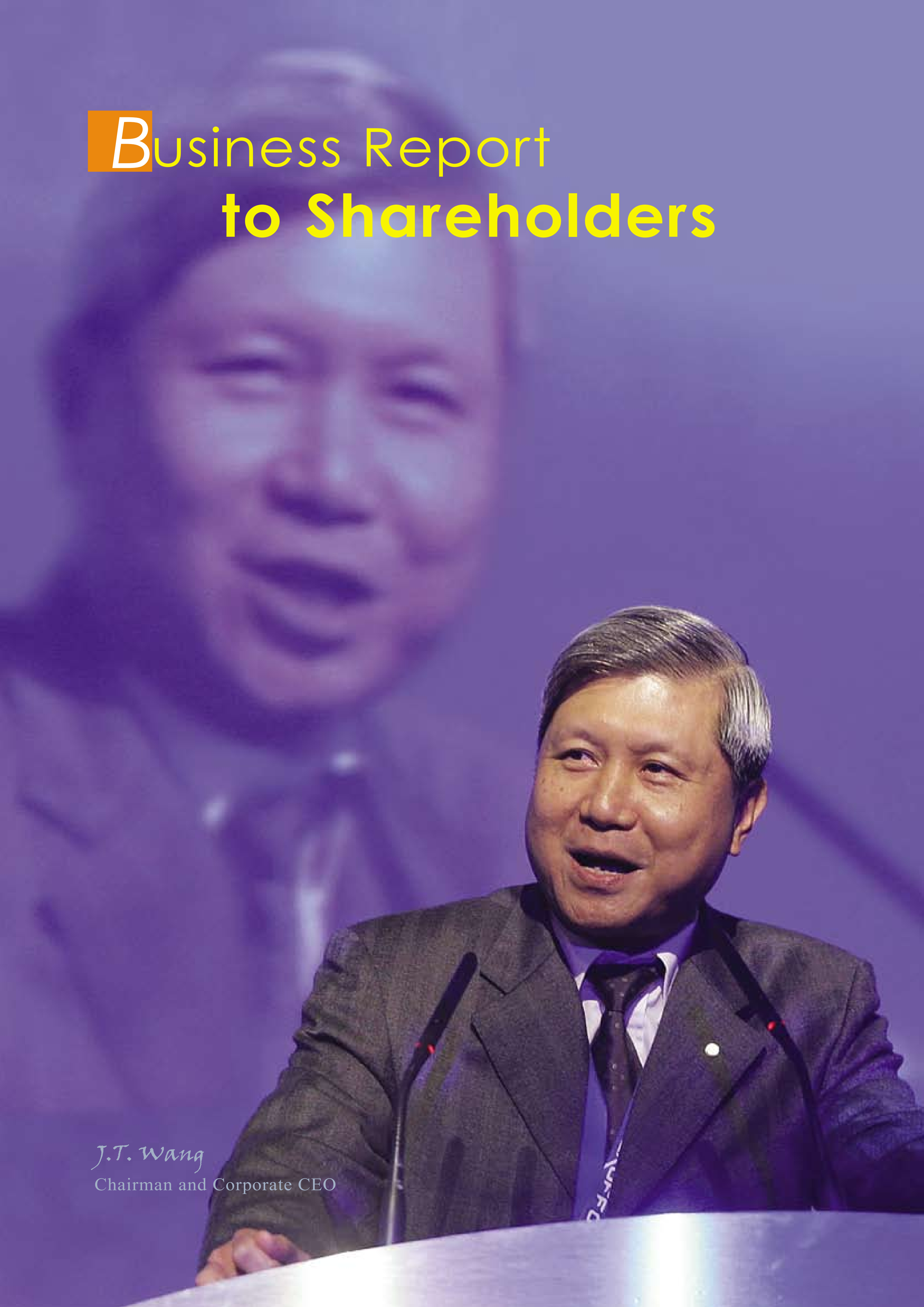
Business Report to Shareholders



J.T. Wang
Chairman and Corporate CEO

1 Business Report to Shareholders

In year 2007, Acer achieved record highs in revenue and profit since its founding. Our consolidated revenues rose 25% on-year to reach NT$462.1B (US$14.07B); operating income grew by 30% on-year to reach NT$10.2B (US$310.63M); profit after tax was NT$13.0B (US$395.90M), and earnings per share was NT$5.48.

According to the leading IT research company, Gartner, Acer also produced stellar results in the global PC market during 2007. The worldwide rankings and respective on-year growths were: No. 3 for Total PCs with 54% growth, No. 2 for notebooks with 60% growth, and No. 4 for desktops with 40% growth. In all three markets, Acer was the fastest-climbing vendor among the top five.

At the regional level, Acer maintained a solid foothold in Europe, Middle East and Africa (EMEA) as the No. 1 notebook vendor and rose to the No. 2 position for Total PCs. In the U.S., we ranked No. 4 for Total PCs and achieved the fastest on-year growth of 169% among the top-five vendors. In Asia Pacific, Acer achieved the No. 1 position for Total PCs in four countries. Acer also made major inroads within key emerging markets, becoming No. 1 vendor for Total PCs and notebooks in Russia, No. 2 for notebooks in Brazil, and No. 3 for notebooks in India.

Having witnessed the global PC market consolidation in recent years, operational scale has emerged to become a critical factor in the intensifying competition. Acer's market intelligence ascertained that acquiring U.S.-based Gateway and Europe's Packard Bell – and their respective brands – were the right strategic moves to ensure our sustainability ahead. The acquisitions immediately complete Acer's global footprint by strengthening our presence in the U.S, enhancing our already strong position in Europe, and ultimately solidifying Acer as the world's No. 3 PC vendor. Furthermore, the new Acer group of companies shall create a considerable increase in scale, thereby is expected to result in significant revenue and cost synergies.

In 2008, Acer will focus on implementing an effective multi-brand and multi-product line strategy that covers the major markets; achieving a better balance in revenue contribution from the EMEA, pan America and Asia Pacific regions; and promoting the "fast" and "efficient" values among employees to become a true brand-marketing company. This year, we also expect to grow Total PC unit shipments by more than 30% and notebooks by 40%.

Without a doubt, 2007 has been an action-packed year for Acer, setting new milestones and direction for our growth in the coming years.

We deeply thank our shareholders for your unrelenting support and guidance, and will work aggressively toward our next target to become the No. 1 notebook vendor worldwide.

Sincerely,

J.T. Wang
Chairman & Corporate CEO

1.1 Acer's Core Values

To be a successful global brand company, it is critical that employees have a consistent set of core values as a solid basis. The newly-defined core values will bring to the Company both short-term benefits and long-term advantages.

The approaches that we must base our actions: Value-creating, Customer-centric, Ethical and Caring. The way we must act: Innovative, Fast and Effective. We encourage all employees to understand, practice and emphasize the core values in our respective roles.

Core Value	Rational Meaning	Emotional Meaning
Value-creating	• Generating profit for shareholders • Growing the business by achieving challenging financial and strategic objectives • Leveraging our key assets: Brands, People, Customers and Channel	• Value for shareholders (good dividends and shares value) • Value for customers (good products, services, easy to do business) • Value for employees (good company, environment, opportunities)
Customer-centric	• Recognizing that customers are the essence of our business • Placing first priority on listening to and satisfying customer needs • Delivering first-class products and services	• Love and respect for our customers • Listen, learn and improve • Walk the talk (delivering on our promises)
Ethical	• Being a good corporate citizen by playing a role in social growth • Caring for the environment all across the business value chain • Building on trust and honesty internally and externally by respecting people, diversities and cultures	• Trust, respect and honesty • Care for the environment • An example to others
Caring	• Creating an attractive workplace and ensuring a proper work-life balance • Providing employees with development and professional growth opportunities	• Energetic and inspiring workplace • Growth potential • Teamwork

Caring	• Fostering teamwork and collaboration	
Innovative	• Challenging the way of doing things and adopting new ideas • Supporting continuous improvement in processes and products • Creating impact through original thinking	• Think big • Think smart • Think outside of the box (innovatively)
Fast	• Putting speed in execution at the heart of our operations • Being proactive in making decisions • Anticipating changes ahead of competition as key to success	• Think fast • Act quickly • Get there first
Effective	• Doing the right things right • Creating an empowered environment with clear responsibilities and targets • Recognizing the power of being simple and attentive to basics	• Clear objectives • Clear responsibilities • Keep it simple

1.2 2007 Operating Report

1.2.1 Consolidated Operating Results:

(Unit: NT$ Thousand)

Period / Item	Most recent 5-Year Financial Information				
	2003	2004	2005	2006	2007
Revenue	157,655,398	225,014,007	318,087,679	350,816,353	462,066,080
Gross Profit	20,811,379	27,219,303	34,121,461	38,171,313	47,418,310
Operating Income	1,840,636	3,806,657	7,648,961	7,462,446	10,185,123
Non-operating Income and Gain	8,466,976	6,742,733	7,176,374	9,266,120	6,699,671
Non-operating Expense and Loss	1,897,386	1,908,790	4,172,803	3,180,259	1,776,157
Income Before Income Taxes	8,410,226	8,640,600	10,652,532	13,548,307	15,108,637
Income(Loss) from Discontinued Segment	0	0	0	180,650	517,866
Extraordinary Items	0	0	0	0	0
Cumulative Effect of Changes in Accounting Principle	0	0	0	0	0
Income After Income Taxes	7,313,809	7,011,661	8,477,502	10,218,242	12,958,933
EPS	2.93	2.94	3.58	4.32	5.48

1.2.2 Budget Expenditure in 2007: Not applicable.

1.2.3 Financial Income and Earning Abilities

(Unit: NT$ Thousand)

Item		2007
Financial Income	Operating Revenue	462,066,080
	Gross Profit	47,418,310
	Income After Tax	12,958,933
Earning Abilities	Return on Assets (%)	6.27
	Return on Equity (%)	16.94
	Operating Income to Pay-in Capital (%)	42.34
	PBT to Paid-in Capital (%)	62.81
	Net Income Ratio (%)	2.80
	EPS (NT$)	5.48

1.3 2008 Business Plan

1.3.1 Business Direction

A. Profitable growth in all the major regions

B. Implement the multi-brand strategy by addressing different market segment with different brand and differentiated products

C. Further steer the Company toward globalization.

D. Focus on the keys to success: speed, effectiveness and scale.

E. Develop the synergies resulting from company mergers.

1.3.2 Goals

A. Continue to gaining market share in notebook and the other IT product market

B. Strengthen our presence in the U.S. , China and other key emerging markets

C. Develop our presence in the Japanese market.

1.3.3 Partner Strategy

A. Reinforce the cooperation with the first-tier suppliers and channel partners.

B. Fully capitalize on our partners resources.

C. Share the rewards of the win-win results with our partners.

1.3.4 Future Strategy

The Company will make every endeavor to pursue the strategy for growth:

A. Continue with the channel business model and enhance its efficiency.

B. Explore and define new growth drivers for the global PC market., particularly in the mobility segment

C. Special attention and actions toward corporate social responsibility.

1.3.5 Impact to the Company Due to Competition, Governmental Regulations and Overall Macro Market

A. The declining trend of the average selling price of personal computer is unavoidable.

B. The overall worldwide PC market is expected to grow in the low side of the double digit

Company in General

Gianfranco Lanci
President and CEO of IT Products

2

Company in General

2.1 Brief Account of the Company

2.1.1 Founded: August 1, 1976

1976 – 1986:Commercialized microprocessor technology

1987 – 1995:Created a brand name and went global

1996 – 2000:Fresh technology for everyone, everywhere

2001 – beyond:Transformed from manufacturing to services

1976

• Acer was founded under the name Multitech, focusing on trade and product design

1978

• Acer established the Microprocessor Training Center, training 3,000 engineers for Taiwan's information industry

1979

• Acer designed Taiwan's first mass-produced computer for export

1981

• Acer manufacturing operations were established in the Hsinchu Science-based Industrial Park, Taiwan

• MicroProfessor-I debuted as Acer's first branded product

1982

• MicroProfessor-II was unveiled as Taiwan's first 8-bit home computer

1983

• Acer was the first company to promote 16-bit PC products in Taiwan

1984

• Acer Peripherals, Inc. (now BenQ Corp.) and Multiventure Investments, Inc. were established

1985

• AcerLand, Taiwan's first and largest franchised computer retail chain was founded

1986

• Acer beat IBM with 32-bit PCs

1987

• The Acer name was created

1988

• Acer Inc. launched IPO

1989

• TI-Acer DRAM joint venture with Texas

Instruments was formed

• Acer initiated the Aspire Park project, based on the idea of providing housing for Acer employees

1991

• Acer introduced ChipUp™ technology—the world's first 386-to-486 single-chip CPU upgrade solution

1992

• Acer created the world's first 386SX-33 chipset
• Stan Shih introduced the Smiling Curve concept
• Acer initiated its first corporate re-engineering

1993

• Acer developed a 64-bit performance-enhanced I/O and CPU architecture to link MIPS RISC CPUs with Microsoft® Windows® NT

1994

• Acer introduced the world's first dual Intel® Pentium® PC

1995

• The popular Aspire multimedia PC brought Acer closer to the consumer electronics market

1996

• Acer announced its commitment to providing fresh technology to be enjoyed by everyone, everywhere

1997

• Official groundbreaking ceremony was held for Aspire Park, Acer's multifunction high-tech intelligence park

1998

• Acer was the official IT Sponsor of the 13th Asian Games in Bangkok, introducing the world's first PC-based management system for a major international sporting event

1999

• Aspire Academy was set up in Aspire Park to help managers of Asian firms and MNCs with offices in Asia to improve their organizational and leadership effectiveness

2000

• As part of Acer's latest re-engineering, Acer split off its OEM business unit to create Wistron Corp., an independent design and IT manufacturing company

2001

• Acer adopted a new corporate identity to reflect the company's commitment to enhancing people's lives through technology
• Acer revealed a new generation of e-business: MegaMicro e-Enabling Services

2002

• The new Acer Aspire was launched, bringing fresh standards to the global home-PC arena
• The Product Value Labs were inaugurated to enhance Acer's customer-centric focus, and integrated technologies that add value to customers' lives

• Launch of TravelMate C100 Convertible Tablet PC, the first convertible Tablet PC available in the worldwide market

2003

• The next-generation Empowering Technology platform was launched, integrating hardware, software and service to provide end-to-end technologies that are dependable and easy-to-use

2004

• Acer launched a new Folio design for notebooks, featuring pure functional simplicity, smooth curves and subtle elegance
• BusinessWeek selected Stan Shih as one of the "25 Stars of Asia"
• Acer Founder Stan Shih retired from the Group

2005

• J.T. Wang assumed the position of Chairman and Chief Executive Officer, while Gianfranco Lanci stepped into the role of President of Acer Inc.
• Launch of Ferrari 4000, the first carbon-fiber notebook available in the worldwide market
• A series of Empowering Technology products were unveiled
• Acer became the worldwide No. 4 vendor for Total PCs and notebooks
• Acer became the No. 1 brand in EMEA and Western Europe for notebooks

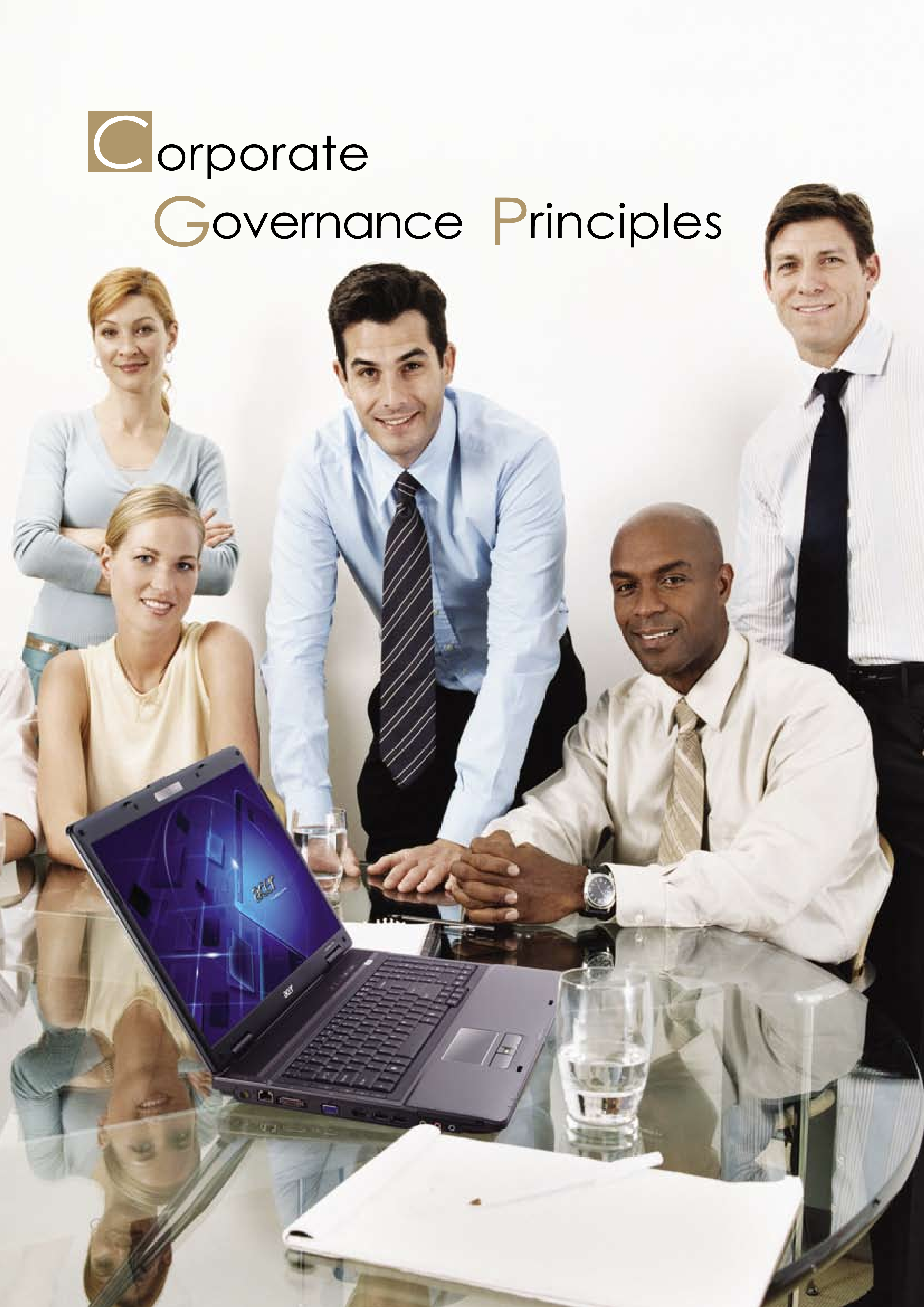
2006

• Acer was the first-to-market with a full line of Intel® Centrino® Duo mobile technology notebooks
• Acer became a Sponsor of Scuderia Ferrari
• Acer celebrated its 30th anniversary
• Acer AT3705-MGW LCD TV became the world's first digital TV to pass Intel® Viiv™ technology verification
• Acer became the No. 3 notebook and No. 4 desktop brand worldwide

2007

• Acer readies for Windows Vista™ with full range of Vista-certified LCD monitors
• Acer was voted Reader's Digest gold-medal Computer TrustedBrand in Asia for the ninth consecutive year
• Acer set the trend in product design with new Aspire Gemstone-design consumer notebooks
• Acer disclosed plans to sell partial Apacer shares to Powerchip Semiconductor Corp.
• Acer completed the merger of Gateway, Inc.
• Acer announced its joining as an Olympic Worldwide Partner for the Winter Olympics in Vancouver 2010 and Summer Olympics in London 2012
• Acer became the No. 2 notebook and No. 3 desktop PC vendor worldwide

Corporate Governance Principles

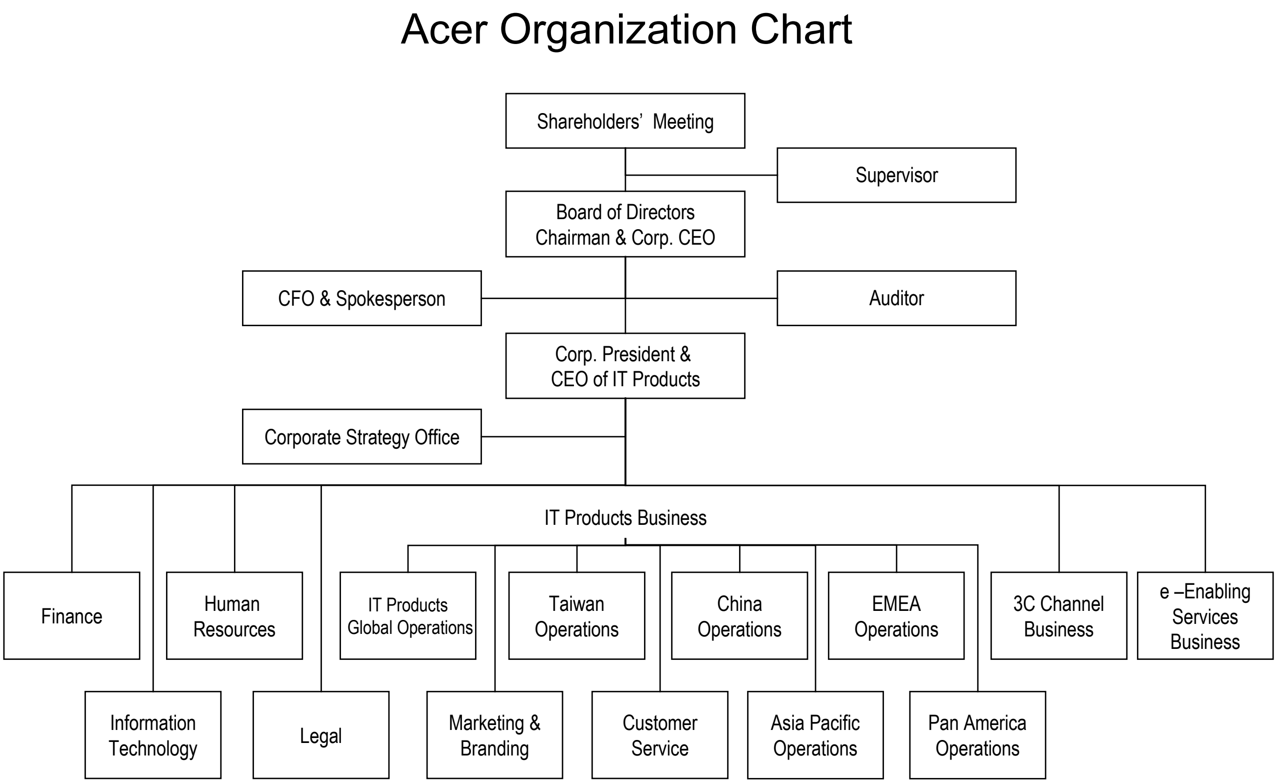


3 Corporate Governance Principles

3.1 Organization of the Company

3.1.1 Department Functions

(1) Acer Organization Chart



(2) Corporate Functions

Auditor

• Evaluation, planning and improvement of Acer's internal operations

CFO & Spokesperson

• Manage Acer's long-term finance, investments and corporate spokesperson

Corporate Strategy Office

• Consolidation, management, design and implementation of key global initiatives

IT Products Global Operations

• Development and management of Acer's IT products and services

EMEA Operations

• Sales, marketing and after-sales service of Acer's IT products in Europe, Middle East and Africa

Pan America Operations

• Sales, marketing and after-sales service of Acer's IT products in Pan America

Asia Pacific Operations

• Sales, marketing and after-sales service of Acer's IT products in Asia Pacific

China Operations

• Sales, marketing and after-sales service of Acer's IT products in China

Taiwan Operations

• Sales, marketing and after-sales service of Acer's IT products in Taiwan

Marketing & Branding

• Corporate brand management, consolidation and development of global marketing strategies

Customer Service

• Global services strategy and global service center management

3C Channel Business

• Channel distribution of non-Acer branded 3C products in Taiwan

e-Enabling Services Business

• ICT solutions and services provider, including information security management, mobility applications, software systems development, systems integration, system operation services, value-added business solutions, and Internet data center services

Finance

• Corporate finance, investment, treasury, credit and risk control and accounting services management

Human Resources

• Human resources and organizational strategy

Information Technology

• Corporate information infrastructure and information systems management

Legal

• Corporate legal consulting, contracts and patents, and other intellectual property management

3.2 Information Regarding Board of Directors, Supervisors and Key Managers

Title	Name	Date of Election	Term	Shares Held When Elected		Shares Held at Present	
				Number	Percentage	Number	Percentage
Chairman	J.T. Wang	Jun 14, 2005	3	5,212,666	0.25	10,806,070	0.45
Director	Stan Shih	Jun 14, 2005	3	43,794,001	2.09	72,927,824	3.03
Director	Gianfranco Lanci	Jun 14, 2005	3	-	-	406,925	0.02
Director	Jim Wong	Jun 14, 2005	3	1,712,318	0.08	3,531,096	0.15
Director	Pier Carlo Falotti	Jun 14, 2005	3	-	-	-	-
Director	Philip Peng (Representative of Smart Capital Corp.)	Jun 14, 2005	3	10,000	-	10,974	-
Director	Yen-Liang Yin (Representative of Hung Rouan Investment Corp.)	Jun 14, 2005	3	60,204,788	2.88	66,069,816	2.75
Supervisor	George Huang	Jun 14, 2005	3	7,560,437	0.36	6,102,022	0.25
Supervisor	Carolyn Yeh	Jun 14, 2005	3	8,324,731	0.41	17,255,708	0.72

(1) Board of Directors and Supervisors (April 15, 2008)

Shares Held by Spouse & Minors		Education	Main Curriculum Vitae	Spouse or Immediate Family Holding Managerial Position		
Number	Percentage			Title	Name	Relation-Ship
201,498	-	Bachelor	● Chairman of HiTRUST.COM Inc. ● Chairman of Cross Century Investment ● Director of E-life Mall Corp. ● Director of TWP Corp. ● Chairman of Acer Cyber Center Services Inc. ● Director of Minly Tech. Corp. ● Director of Weblink International Inc. ● Director of Acer Investment Inc.	-	-	-
17,255,708	0.72	Master	● Director of Dragon Investment Co., Ltd. ● Director of BenQ Corp. ● Director of Wistron Corp. ● Director of Acer Investment Inc. ● Director of TSMC Co, Ltd. ● Director of Acer SoftCapital	Supervisor	Carolyn Yeh	Wife
-	-	Bachelor	-	-	-	-
-	-	Master	-	-	-	-
-	-	Bachelor	-	-	-	-
-	-	Master	● Director of Cross Century Investment ● Director of Multiventure Investment Inc. ● Supervisor of Acer Laboratories Inc. ● Supervisor of Aspire Incubation Venture Capital ● Supervisor of BenQ Corp ● Supervisor of Wistron Corp. ● Supervisor of Apacer Technology Inc. ● Director of iDSoftCapital Inc. ● Supervisor of Dragon Investment Co., Ltd. ● Chairman of Acer Capital Corp.	-	-	-
-	-	PhD	● Chairman of Anshin Card Services			
2,494,693	0.10	Bachelor	● Director of Apacer Technology Inc. ● Chairman of EB-Easy ● Director of SYNQ Technology Inc. ● Chairman of CTS Digi-Tech Co.,Ltd. ● Vice-Chairman of Taiwan Fixed Network Co., Ltd. ● Supervisor of TFN Investment Co.,Ltd. ● Vice-Chairman of Taiwan Hong Yuan Investment Co., Ltd.	-	-	-
72,927,824	3.03	Bachelor	● Director of Aspire Incubation Venture Capital ● Chairman of iDSoftCapital Inc. ● Supervisor of Acer Capital Corp.	Director	Stan Shih	Husband

Major Institutional Shareholders (April 15, 2008)

Name	Name of Major Shareholders	Percentage of Shares
Hung Rouan Investment Corp.	Carolyn Yeh	20.13%
	Shih Hsuen Rouan Charity Foundation	1.60%
	Shih Hsuen Rouan	17.25%
	Shih Hsuen Huei	26.09%
	Shih Hsuen Lin	17.16%
	Shih Fang Cheng	8.93%
	Yeh Ting Yu	8.84%
Smart Capital Corp.	Philip Peng	66.67%
	Jill Ho	33.33%

(2) Key Managers (April 15, 2008)

Title	Name	Date of Accession	Shares Held Directly		Shares Held by Spouse & Minors		Shares Held by the Other's	
			Number	Percentage	Number	Percentage	Number	Percentage
President	Gianfranco Lanci	01/01/2005	406,925	0.02	-	-	-	-
President	Jim Wong	11/01/2001	3,531,096	0.15	-	-	-	-
President	T.Y Lay	11/01/2001	2,363,565	0.10	15,802	-	-	-
President	James Chiang	01/01/2003	1,773,090	0.07	21,620	-	-	-
President	Ben Wan	05/16/2002	119,720	0.01	-	-	-	-
President	Scott Lin	11/01/2001	1,181,472	0.05	7,400	-	-	-
Oversea President	Walter Deppeler	09/29/2007	-	-	-	-	-	-
Oversea President	Rudi Schmidleithner	09/29/2007	-	-	-	-	-	-
Oversea President	Steve Lin	11/01/2001	2,842,362	0.12	-	-	-	-
Vice President, CFO	Howard Chan	01/19/2000	856,243	0.04	20,913	-	-	-
Vice President	Peter Shieh	11/01/2001	789,339	0.03	76,389	-	-	–
Vice President	Angelina Hwang	09/01/2002	166,885	0.01	8,760	-	-	-
Vice President	Jackson Lin	16/02/2004	295,654	0.01	-	-	-	-

Education	Main Curriculum Vitae	Spouse or Immediate Family Holding Position as President or Vice President		
		Title	Name	Relationship
Bachelor	-	-	-	-
Master	-	-	-	-
Bachelor	-	-	-	-
Bachelor	● Chairman of Weblink International Inc. ● Director of TWP Corp. ● Director of Lottery Technology Services Corp. ● Director of Minly Technology Corp.	-	-	-
Master	● Director of Acer Cyber Center Services Inc. ● Director of ARC Consultants Ltd. ● Chairman of TWP Corp.	-	-	-
Bachelor	● Chairman of Minly Technology Corp. ● Director of E-life Mall Corp.	-	-	-
Bachelor	-	-	-	-
Bachelor	-	-	-	-
Bachelor	-	-	-	-
Master	● Chairman of Acer Investment Inc. ● Director of Lottery Technology Services Corp. ● Director of Cross Century Investment	-	-	-
Bachelor	-	-	-	-
Bachelor	-	-	-	-
Bachelor	-	-	-	-

Title	Name	Date of Accession	Shares Held Directly		Shares Held by Spouse & Minors		Shares Held by the Other's	
			Number	Percentage	Number	Percentage	Number	Percentage
Vice President	Calvin Chang	11/01/2001	55,501	-	-	-	-	-
Vice President	Jafa Lin	07/01/1996	621,395	0.03	2,217	-	-	-
Vice President	Campbell Kan	03/28/2007	582,090	0.02	5,655	-	-	-
Vice President	Towny Huang	01/01/2008	80,205	-	-	-	-	-
Head of Branch Office	PH Wu	01/12/2006	88,790	-	-	-	-	-
Head of Branch Office	Tc Yang	01/12/2006	329,673	0.01	-	-	-	-
Head of Branch Office	YS Shiau	01/12/2006	378,136	0.02	-	-	-	-

3.3 Corporate Governance Status

3.3.1 Meetings Held by the Board of Directors

The Board of Directors held six (6) meetings in 2007. The record of their attendances is shown below:

Title	Name	No. of Meetings Attended	No. of Meetings Attended by Proxy	Meeting Attendance Rate (%)	Note
Chairman	J.T. Wang	6	0	100%	
Director	Stan Shih	6	0	100%	
Director	Yen-Liang Yin (Representative of Hung Rouan Investment Corp.)	1	3	16%	
Director	Gianfranco Lanci	5	1	83%	
Director	Pier Carlo Falotti	4	0	66%	
Director	Philip Peng (Representative of Smart Capital Corp.)	6	0	100%	
Director	Jim Wong	6	0	100%	
Supervisor	Carolyn Yeh	6	0	100%	
Supervisor	George Huang	6	0	100%	

Education	Main Curriculum Vitae	Spouse or Immediate Family Holding Position as President or Vice President		
		Title	Name	Relationship
Bachelor	-	-	-	-
Bachelor	-	-	-	-
Bachelor	-	-	-	-
Bachelor	-	-	-	-
Bachelor	-	-	-	-
Bachelor	-	-	-	-
Bachelor	-	-	-	-

3.3.2 Operational Situation of the Audit Committee: Not applicable.

3.3.3 Enforcement of Corporate Governance Implemented by the Company and Reasons for Discrepancy

Items	Enforcement Status	Discrepancy between the corporate governance principles implemented by the Company and the Principles, and the reason for the discrepancy
A. The ownership structure and shareholders' rights		
a. The handling of the shareholders' proposals and disputes	The Company has designated the Office of Shareholders' Affairs to handle the shareholders' proposals and disputes.	No discrepancy
b. Information held on the identities of major shareholders and their ultimate controlling persons	The Company holds information on the identities of major shareholders and their ultimate controlling persons.	No discrepancy
c. The establishment of risk control mechanism and firewalls with affiliates	The Company has established the appropriate risk control mechanism and firewalls according to internal rules such as rules of supervision over subsidiaries, rules governing endorsement and guarantee, and the rules governing acquisitions and dispositions of assets etc.	No discrepancy
B. The composition and duties of Board of Directors		
a. The election of independent directors	None	The composition of the Board is taken into considerations of the business needs and operations of the Board.
b. The regular evaluation of the independence of CPA	The evaluation of the CPA is one of the main duties of the Financial Statement and Internal Control Review Committee	No discrepancy
C. The composition and duties of supervisors		
a. The election of independent supervisors	None	The composition of supervisors is taken into considerations of business needs and practice.
b. The communication between supervisors and employees and shareholders	The Company has established an appropriate channel for supervisors to communicate with executives, key managers and shareholders.	No discrepancy
D. The establishment of communication channels with stakeholders	The Company has established the appropriate communication channels with suppliers, buyers, banks, investors and other stakeholders.	No discrepancy
E. The disclosure of information		
a. The utilization of website to disclose the information on finance, operations and corporate governance	The Company has set up a website containing the information regarding its finance and operations. The Company also discloses the enforcement of corporate governance in the shareholders' meeting and other institutional investor meetings.	No discrepancy
b. Others means of disclosing information	The Company has one chief speaker, two acting speakers and designated team to be responsible for gathering and disclosing the information. The Company has been awarded A-grade by the Securities and Futures Institute in regards to information disclosure	No discrepancy
F. The establishment and enforcement of Nomination and Compensation Committee and other Functional Committees	The Company has established a Compensation Committee	No discrepancy

G. If the Company has implemented the corporate governance principles according to TSE Corporate Governance Best-Practice Principles, please identify the discrepancy between your principles and their implementation:

- Not applicable.

H. The systems, action plans and implementation of the Company's social responsibility (e.g. human rights, employee rights, environmental protection, community supports and involvements, social responsibility, the relationship with supplies, and interested parties' rights):

- The Company has actively participated in community or charitable activities such as:
  1. sponsoring sport and literature/arts events,
  2. sponsoring the Council of Agriculture for Production Resume Scheme though assisting the use of IT products in remote districts.
  3. organizing the Acer Volunteer Team to take good care of disadvantaged children.
- The BVQI has awarded the Company with the ISO 14001 registration, further, Acer's Eco organization was adjusted to be responsible for overseeing the Company's worldwide Eco strategy, and monitoring the results of the Eco management system. The Company has also set up an exclusive e-mail account (eco@acer.com.tw), environmental web, and published a Corporate Environmental Report.
- The Company has set up an exclusive web site for the new labor pension system containing information for employees regarding the laws and regulations, and to offer assistance.

I. Other important information that may facilitate better understanding of the status of corporate governance：

- In additional to the training courses required by authorities, the Company also held related training courses for members of the Board
- The Company clearly sets forth in the rules for the proceedings of Board meetings, that a director shall voluntarily abstain from voting on a proposal involved with his/her own interests.
- The Chairman of the Company does not act as the President, and both of them are not spouses or relatives within one degree of kinship.
- The Company has purchased liability insurance for directors and officers.

3.3.4 Statement of Internal Control System

Date: March 27, 2008

Based on the findings of a self-assessment, Acer Inc. (hereinafter, the "Company") states the following with regard to its internal control system during the period from January 1, 2007 to December 31, 2007:

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are the responsibilities of its Board of Directors and managers. The Company has established such a system aimed at providing reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations (including profitability, performance, and safeguarding of assets), (2) reliability of financial reporting, and (3) compliance with applicable laws and regulations.

2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three objectives mentioned above. Moreover, the effectiveness of an internal control system may be subject to changes of environment or circumstances. Nevertheless, the internal control system of the Company contains self-monitoring mechanisms, and the Company promptly takes corrective actions whenever a deficiency is identified.

3. The Company evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the "Regulations Governing Establishment of Internal Control Systems by Public Companies" promulgated by the Securities and Futures Bureau of the Financial Supervisory Commission (hereinafter, the "Regulations"). The criteria adopted by the Regulations identify five constituent elements of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. Each constituent element further contains several items. Please refer to the Regulations for details.

4. The Company has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.

5. Based on the findings of the evaluation mentioned in the preceding paragraph, the Company believes that, during the year 2006, its internal control system (including its supervision of subsidiaries), as well as its internal controls to monitor the achievement of its objectives concerning operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.

6. This Statement will be an essential content of the Company's Annual Report for the year 2006 and Prospectus, and will be publicly disclosed. Any false-hood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchanged Act.

7. This Statement has been passed by the Board of Directors in their meeting held on March 27, 2008, with 0 of the 7 attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Acer Inc.

President

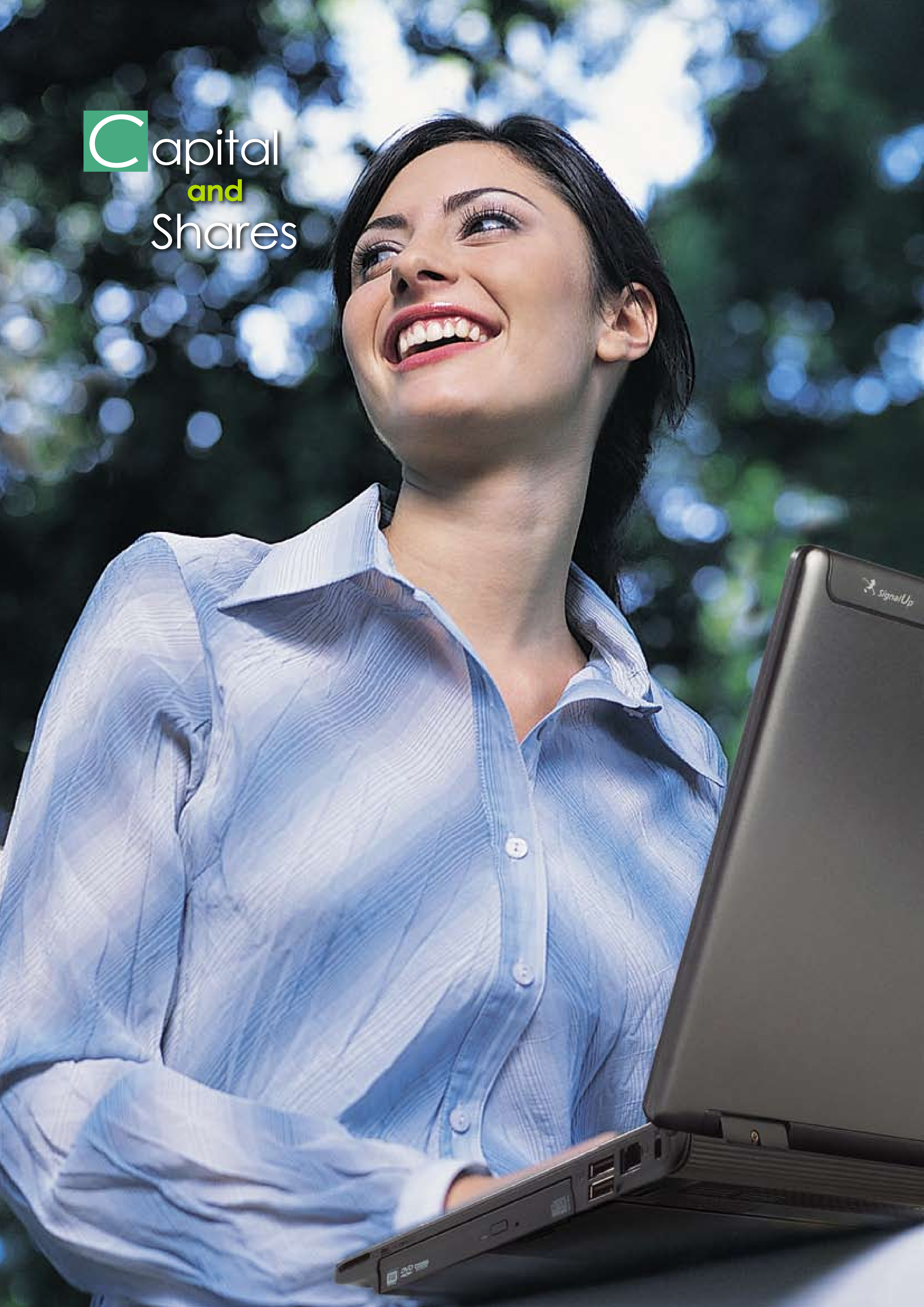
Chairman of the Board of Directors

3.3.5 Resolutions of the General Shareholder’s Meeting and the Meeting of the Board of Directors

Date	Meeting	Major Resolutions
Mar 28, 2007	First 2007 BOD Meeting	I. To Sell Common Stocks Issued by Sertek Inc. to Yosun Industrial Corp. II. The FY2006 Financial Statements and Business Report III. Amendments to Acer's Articles of Incorporation IV. The Agenda and Logistics of 2007 General Shareholder’s Meeting V. The Appointment of the Auditors of Acer Inc. VI. Acer’s Statement of Internal Control System for 2006
Apr 26, 2007	Second 2007 BOD Meeting	I. The First Quarter of FY2007 Financial Statements II. The Proposal for Distribution of FY2006 Retained Earnings III. The New Issuance of Common Shares through Capital Increases
Jun 14, 2007	2007 General Shareholder’s Meeting	I. The FY2006 Financial Statements and Business Report II. The Proposal for Distribution of FY2006 Retained Earnings III. The New Issuance of Common Shares through Capital Increases IV. The Amendments to Acer’s Articles of Incorporation
Jun 28, 2007	First 2007 Special BOD Meeting	I. To Acquire Certain Assigned Patent Rights Currently Owned by NEC Corp. or Other Companies II. To Acquire Certain Patent Rights from the Industrial Technology Research Institute III. To Sell Acer’s Shareholding of Apacer Technology Inc. to Powerchip Semiconductor Corp. IV. To Set the Ex-dividend and Ex-right Date and Approve Other Related Issues
Aug 27, 2007	Third 2007 BOD Meeting	I. To Launch a Tender Offer for 100% of Gateway’s Outstanding Shares II. To Authorize Chairman to Obtain Necessary Bridge Loan III. The First Half of FY2007 Financial Statements IV. To Increase the Capital Expenditure for Acer’s eDC Business V. To Exchange the Real Estate With Wistron Corp. VI. Acer’s Amendment of Internal Control Policies VII. Acer’s Amendment of 2007 Annual Audit Plan
Oct 25, 2007	Fourth 2007 BOD Meeting	I. The Third Quarter of FY2007 Financial Statements II. To Restructure the Investment Framework of Acer Inc. for the Acquisition of Gateway III. The Credit Facility Loan provided by CITIBANK N.A., Taipei Branch IV. To Inject US$240,000,000 to the Company’s Wholly-owned Subsidiaries, for the End Purpose of Investing or Financing Gateway Inc. and Its Direct or Indirect Controlling Companies V. The Appointment of Sonia Chang as the Auditors of Acer Inc.

Date	Meeting	Major Resolutions
		VI. The Appointment of Towny Huang as the Vice President of Acer Inc. VII. The Procedure Governing Lending of Capital to Others” Enacted by Acer’ s subsidiaries
Dec 19, 2007	Second 2007 Special BOD Meeting	I. Acer’ s 2008 Annual Audit Plan II. Disposal of Common Stock Issued by Wistron Corp. III. Disposal of Common Stock Issued by HiTRUST.COM Inc. IV. To Endow Rudi Schmidleithner, the Incumbent President of Acer Pan Americans, with the Title of Corporate Vice President
Mar 3, 2008	First 2008 Special BOD Meeting	I. To enter a Share Exchange Agreement with E-ten Information Systems Co. Ltd. (E-ten) II. The New Issuance of Common Shares Through Capital Increases for the Share Exchange III. To Purchase the Common Shares of E-ten from the Stock Market
Mar 27, 2008	First 2008 BOD Meeting	I. The FY2007 Financial Statements and Business Report II. The election of Acer’s Board of Directors and Supervisors III. Amendments to Acer’s “Articles of Incorporation IV. Amendments to Acer’s “Procedures of Acquiring or Disposing of Assets” V. To Release the Non-competition Restriction of Acer’s Board of Directors VI. The Agenda and Logistics of 2008 General Shareholder’s Meeting VII. The Appointment of the Auditors of Acer Inc. VIII. Acer’s Statement of Internal Control System for 2007 IX. To Endow Gianpiero Morbello, the Incumbent Head of Marketing and Branding Unit, with the Title of Corporate Vice President.
Apr 23, 2008	Second 2008 BOD Meeting	I. The First Quarter of FY2008 Non-consolidated and Consolidated Financial Statements II. The Proposal for Distribution of FY2007 Retained Earnings III. New Issuance of Common Shares through Capital Increases IV. Amendments to Acer’s “Articles of Incorporation” V. “The Procedure of Proxy Statistic Verification”

Capital and Shares



4

Capital and Shares

4.1 Capital

4.1.1 Sources of Capital

Unit: Share/ NT$ Thousand

Date	Price of Issuance	Authorized Common stock		Paid-in Common stock		Notes
		Shares	Value	Shares	Value	Source of the Capital
August, 2007	Share/ NT$10	2,800,000,000	28,000,000	2,405,490,426	24,054,904	

Unit: Shares

Shares Category	Authorized capital			Notes
	Issued shares	Non-issued	Total	
Common shares	2,405,490,426	394,509,574	2,800,000,000	

4.1.2 Shareholding Structure (April 15, 2008)

Category/Number	Government Institution	Financial Institution	Other Institution	Individual	FINI and Foreign Investors	Total
No. of Shareholders	22	33	526	299,775	776	301,132
Number	90,183,363	68,897,455	236,680,623	1,030,745,483	978,983,502	2,405,490,426
Percentage	3.75%	2.86%	9.84%	42.85%	40.70%	100.00%

4.1.3 Distribution of Shareholdings (April 15, 2008)

Category	No. of Shareholders	Number	Percentage
1～999	151,522	52,000,044	2.162%
1,000～5,000	112,379	246,664,374	10.130%
5,001～10,000	20,537	145,186,959	6.036%
10,001～15,000	6,791	81,053,810	3.370%
15,001～20,000	3,081	53,619,560	2.229%
20,001～30,000	2,725	65,774,945	2.734%
30,001～50,000	1,830	70,379,187	2.925%
50,001～100,000	1,137	79,813,646	3.318%
100,001～200,000	465	63,305,092	2.632%
200,001～400,000	246	69,255,254	2.879%
400,001～600,000	109	53,408,222	2.220%
600,001～800,000	59	41,580,026	1.729%
800,001～1,000,000	28	25,502,878	1.060%
1,000,001 and above	223	1,360,946,329	56.577%
Total	301,132	2,405,490,426	100.000%

4.1.4 List of Major Shareholders

Name \ Shares	Number	Percentage
JPMorgan Chase Bank N.A. Taipei Branch in Custody for Capital World Growth and Income Fund Inc.	118,605,500	4.93%
JPMorgan Chase Bank N.A. Taipei Branch in Custody for EuroPacific Growth Fund	114,007,101	4.74%
Stan Shih	72,927,824	3.03%
Hong Rong Investment Corp.	66,069,816	2.75%
Management Board of Public Service Pension Fund	50,182,240	2.09%
Sansar Capital Master Fund, L.P.	40,622,000	1.69%
Acer Inc. Global Depositary Receipt	39,471,755	1.64%
Bureau of Labor Insurance	33,166,844	1.38%
Eleven Trustees in Total as Trustee for The New Economy Fund	28,216,654	1.17%
JPMorgan Chase Bank N.A. Taipei Branch in Custody for Capital Income Builder, Inc.	23,804,795	0.99%

4.1.5 Market Price Per Share, Net Value, Earning& Dividend For Latest Two Years

Item \ Period			2006	2007	Until Mar. 31st, 2008
Market Price Per Share	Highest		82.03	78.10	61.5
	Lowest		40.09	55.10	48.1
	Average		58.87	64.10	53.80
Net Value Per Share	Before Distribution		32.24	32.49	31.90
	After Distribution		28.09	Un-appropriated	Un-appropriated
Earning Per Share	Weighted Average Share Numbers		2,364,132 Thousand shares	2,364,132 Thousand shares	2,364,132 Thousand shares
	Earning Per Share	Current	4.45	5.48	1.25
		Adjusted	4.32	Un-appropriated	Un-appropriated
Dividend Per Share	Cash Dividend (NT$)		3.85	3.6	Un-appropriated
	Stock Dividend	Retained Earning (%)	0.15	0.15	
		Capital Surplus (%)	-	-	
	Accumulated unpaid dividends		-	-	-
Return on Investment Analysis	P/E Ratio		13.23	11.70	-
	P/D Ratio		15.29	17.81	-
	Cash Dividend Yield		6.54%	5.62%	-

4.1.6 Dividend Distribution Plan Proposed To General Shareholders' Meeting

Acer as devised a long-term capital policy to ensure continuous development and steady growth; the Company has adopted the remainder appropriation method as its dividend policy, which was approved at the Shareholder's Meeting on May 23, 2000.

The proposed dividend distribution plan, agreed by the Company's Board of Directors, will be submitted to the Shareholders' Meeting on June 13, 2008 for approval:
The Company proposed to appropriate NT$8,659,765,534 from retained earnings for shareholders' dividend and bonus as cash dividend. The cash dividend will be distributed to the Company's listed shareholders on the ex-right day based on their holdings at NT$3.6 per share.

Another NT$360,823,560 from retained earnings will be distributed to shareholders through issuance of shares. The stock dividend will be distributed to the listed shareholders with their respective holdings at the ratio of 15 shares for every one thousand shares held.

4.1.7 Analysis on Impact of Proposed Stock Dividends Appropriation in Terms of Operating Results, Earnings Per Share and Rate of Return of Shareholders' Investment:

Description / Year			Estimates for 2008
Paid-in capital at the beginning of the term (Unit: Thousand NT$)			24,054,904
Stocks, Dividend Allocated in the Year	Cash dividend per share (Unit: Thousand NT$) (Note 1)		3.6
	Stock allocated per share upon capital increase with earning		0.015 Share
	Stock allocated per share upon capital increase with capital reserve		0 Share
Change in Business Performance	Operating profit (Unit: Thousand NT$)		Note 2
	Increase (decrease) of operating profit compared with preceding year		
	Net profit after tax (Unit: Thousand NT$)		
	Increase (decrease) of net profit after tax compared with preceding year		
	Earning per share (EPS) (NT$)		
	Increase (decrease) of EPS compared with preceding year		
	Annual average return rate of investment (on grounds of annual EPS)		
Presumed EPS and EPS Ratio	Assume earnings converted to capital increase are fully allocated as cash dividend	Presumed EPS	Note 2
		Presumed annual average return rate of investment	
	If capital reserve was not converted to capital increase.	Presumed EPS	
		Presumed annual average return rate of investment	
	If capital reserve was not converted to capital increase but allocated as cash dividend.	Presumed EPS	
		Presumed annual average return rate of investment	

Note 1: Waiting to be approved by Shareholders' Meeting on June 13, 2008
Note 2: According to the "Regulations Governing the Publication of Financial Forecasts of Public Companies," the company is not required to announce the Financial Forecasts information for year 2008.

4.1.8 Employees Bonuses and Remunerations to Directors, Supervisors

1. Where this Company has earnings at the end of the business operational year, after paying all relevant taxes, making up losses of previous year, setting aside a legal reserve of ten percent (10%) and a special reserve as required by laws or competent authorities, the balance of the earnings shall be distributed as follows:

(1) At least five percent (5%) as employee bonuses; Employees may include subsidiaries that that meet certain criteria set by the board of directors. (2) One percent (1%) as remuneration of directors and supervisors; and (3) The remainder may be allocated to shareholders as bonuses.

2. The Board of Directors proposed a dividend distribution plan of year 2007 as follows:

A. NT$544,728,100 as cash bonuses to employees, NT$329,999,880 as stock bonuses to employees, NT$116,630,397 as remuneration to directors and supervisors.

B. 32,999,988 shares to be distributed as employees' stock bonuses account for 47.77% of earnings converted to capital increase, 1.4% of shares circulated in stock market.

C. The estimated EPS is NT$5.06, after taking consideration of the bonuses or remuneration distributed to employees, directors and supervisors respectively.

3. The Bonuses to Employees and Remunerations to Directors, Supervisors in 2007:

	2007			
	Dividend Distribution Approved by the Shareholders' Meeting	Dividend Distribution Proposed by the BOD	Different Value	Different Reason
(1) The Dividend Distribution:				
1. Cash Bonuses to Employees	NT$424,719,165	NT$424,719,165		
2. Stock Bonuses to Employees			-	-
(1) Number of Shares	(1) 33,370,790 shares	(1) 33,370,790 shares	-	-
			-	-
(2) Value	(2) NT$333,707,900	(2) NT$333,707,900	-	-
(3) Circulation Rate of Shares in Stock Market on Ex-right Day	(3) 1.45%	(3) 1.45%		
3. Remunerations to Directors, Supervisors	NT$94,803,383	NT$94,803,383	-	-
(2) Earning Per Share (EPS):				
Original EPS	NT$4.45	NT$4.45	-	-
Reset EPS	NT$4.08	NT$4.08	-	-

4.1.9 Stock Buyback: None

4.2 Corporate Bonds: Not applicable.

4.3 Special Shares: Not applicable.

4.4 Global Depository Receipts (GDRs) Issuance

Date: March 31, 2008

<table>
<tr><td colspan="3">Date of issuance
Description</td><td>November 1, 1995</td><td>July 23, 1997</td></tr>
<tr><td colspan="3">Date of issuance</td><td>November 1, 1995</td><td>July 23, 1997</td></tr>
<tr><td colspan="3">Location of issuance and transaction</td><td>London</td><td>London</td></tr>
<tr><td colspan="3">Total amount of issuance</td><td>US$220,830,000</td><td>US$160,600,000</td></tr>
<tr><td colspan="3">Unit price of issuance</td><td>US$32.475</td><td>US$40.15</td></tr>
<tr><td colspan="3">Total number of units issued</td><td>6,800,000 units</td><td>4,000,000 units</td></tr>
<tr><td colspan="3">Sources of valuable securities demonstrated</td><td>Capital increased in cash</td><td>Capital increased in cash</td></tr>
<tr><td colspan="3">Number of valuable securities demonstrated</td><td>Each unit stands for Acer’s 5 common shares</td><td>Each unit stands for Acer’s 5 common shares</td></tr>
<tr><td colspan="3">Rights and obligations of GDR holders</td><td>Same as Acer’s common shareholders</td><td>Same as Acer’s common shareholders</td></tr>
<tr><td colspan="3">Consignee</td><td>None</td><td>None</td></tr>
<tr><td colspan="3">Depository organization</td><td>Citicorp</td><td>Citicorp</td></tr>
<tr><td colspan="3">Custodian organization</td><td>Citibank Taipei Branch</td><td>Citibank Taipei Branch</td></tr>
<tr><td colspan="3">Balance not retrieved</td><td colspan="2">7,914,335 units of Global Deposit Receipt as representing 39,571,755 shares of common stocks</td></tr>
<tr><td colspan="3">Method to allocate fees incurred during the period of issuance and existence</td><td>The expenses incurred by issuance being taken to offset premium reserve. Expenses incurred during existence being taken as expenses of the current term.</td><td>The expenses incurred by issuance being taken to offset premium reserve. Expenses incurred during existence being taken as expenses of the current term.</td></tr>
<tr><td colspan="3">Any key issue for the depository and custodian agreements</td><td>None</td><td>None</td></tr>
<tr><td rowspan="6">Market Price Per Share</td><td rowspan="3">2007</td><td>Highest</td><td colspan="2">US$11.89</td></tr>
<tr><td>Lowest</td><td colspan="2">US$8.00</td></tr>
<tr><td>Average</td><td colspan="2">US$9.77</td></tr>
<tr><td rowspan="3">Until March 31, 2008</td><td>Highest</td><td colspan="2">US$9.90</td></tr>
<tr><td>Lowest</td><td colspan="2">US$7.01</td></tr>
<tr><td>Average</td><td colspan="2">US$8.53</td></tr>
</table>

4.5 Employee Stock Options: Not applicable.

4.6 Mergers, Acquisitions, and Issuance of New Shares Due to Company Acquisitions: None

Acer's Winning Formula

5 Acer's Winning Formula

5.1 Acer Today - A Top-three PC Company

As one of the world's top-three vendors in the Total PC market and No. 2 notebook brand, Acer is an established PC leader who continues to gain momentum with rapid speed. With the recent acquisitions of Gateway and Packard Bell, the Company is positioned amid a new level of increased competition in the PC arena.

Central to the Company's business strategy is the Channel Business Model that draws on the strengths of our world-class partners to form mutually winning collaborations. This proven and sustainable business model is set to propel Acer further ahead in the highly competitive and volatile IT industry.

Acer is focused on globally marketing its brand-name products; our PC-centric offering includes mobile and desktop PCs, servers and storage, LCD monitors, high-definition TVs and projectors.

IT Product Revenue Breakdown – by Product

Unit: NT$ Million

Products	Year 2006		Year 2007†		Growth
	Revenue	Weight	Revenue	Weight	YoY
Mobile PCs	194,433	60.5%	277,452	63.8%	43%
Desktop PCs	48,983	15.2%	70,071	16.1%	43%
Displays	59,450	18.5%	69,692	16.0%	17%
Others*	18,600	5.8%	17,970	4.1%	-3%
Total	321,466	100%	435,185	100.0%	35%

* Others include servers, projectors and peripheral products

† Includes revenue from Gateway in Q4, 2007

In 2007, Acer maintained its already strong presence in Europe, Middle East, and Africa (EMEA) with the fastest year-on-year (YOY) shipment growth for Total PCs and notebooks. In the U.S. we were the fastest rising vendor among the top 10 for Total PCs, desktops and notebooks. In Asia and other emerging countries, Acer sees good prospects to expand into these markets and becoming one of the leading PC vendors. The successful mergers of Gateway and Packard Bell complete the Company's global footprint by strengthening our foothold in the U.S., and allowing deeper penetration into Europe and Asia.

IT Product Revenue Breakdown – by Region

Unit: NT$ Million

Region	Year 2006 Revenue	Year 2006 Weight	Year 2007† Revenue	Year 2007† Weight	Growth YoY
EMEA	194,953	60.6%	236,376	54.3%	21%
Pan America	55,707	17.3%	106,132	24.4%	91%
Asia Pacific※	43,194	13.4%	59,562	13.7%	38%
China & Hong Kong	15,635	4.9%	21,543	5.0%	38%
Taiwan	11,976	3.8%	11,572	2.7%	-3%
Total	321,466	100%	435,185	100.0%	35%

※Excludes Taiwan, Hong Kong and Mainland China

† Includes revenue from Gateway in Q4, 2007

Regions	Form Factor	Rank
Worldwide	PC	3
	Desktop	4
	Notebook	2
Asia/Pacific	PC	4
	Notebook	3
	Monitor	3
	Projector	4
E. Europe	PC	1
	Notebook	1
EMEA	PC	2
	Desktop	3
	Notebook	1
	Server	5
	Projector	3
	Monitor	4
Latin America	PC	4
	Notebook	2
W. Europe	PC	2
	Desktop	3
	Notebook	1
	Server	5

EMEA	Form Factor	Rank
Austria	PC	4
	Notebook	2
Belgium	PC	2
	Desktop	4
	Notebook	1
Denmark	PC	2
	Desktop	4
	Notebook	2
Czech	PC	1
	Desktop	5
	Notebook	1
	Projector	2
Finland	PC	3
	Desktop	5
	Notebook	2

EMEA Countries	Form Factor	Rank
France	PC	2
	Desktop	2
	Notebook	1
	Monitor	4
Germany	PC	3
	Desktop	4
	Notebook	1
	Monitor	5
	Projector	1
Greece	Notebook	3
Hungary	PC	3
	Notebook	1
	Projector	1
Israel	Desktop	5
	Notebook	5
Italy	PC	2
	Desktop	2
	Notebook	1
	Server	5
Netherlands	PC	2
	Desktop	3
	Notebook	1
	Projector	2
Norway	PC	3
	Desktop	5
	Notebook	2
Poland	PC	2
	Notebook	1
Portugal	PC	3
	Notebook	3
Romania	Projector	4
Russia	PC	1
	Notebook	1
	Monitor	2
	Projector	1
Saudi Arabia	Projector	2
South Africa	PC	2
	Notebook	2
	Projector	1

EMEA Countries	Form Factor	Rank
Spain	PC	2
	Desktop	3
	Notebook	1
	Server	5
Sweden	PC	4
	Desktop	5
	Notebook	2
Switzerland	PC	3
	Desktop	4
	Notebook	2
	Projector	1
Turkey	PC	3
	Notebook	2
	Projector	4
U. K.	PC	3
	Desktop	3
	Notebook	2
	Monitor	4

Pan America	Form Factor	Rank
Canada	PC	3
	Desktop	4
	Notebook	4
	Monitor	1
USA	PC	4
	Desktop	5
	Notebook	4

AP Countries	Form Factor	Rank
Australia	PC	3
	Desktop	3
	Notebook	3
	Server	5
	Monitor	2
China	Notebook	5
Hong Kong	PC	5
	Desktop	5

AP Countries	Form Factor	Rank
India	PC	4
	Desktop	5
	Notebook	3
	Monitor	2
Indonesia	PC	1
	Desktop	3
	Notebook	1
	Server	4
	Monotor	3
Malaysia	PC	1
	Desktop	3
	Notebook	1
	Server	4
	Monitor	2
	Projector	5
New Zealand	PC	2
	Desktop	3
	Notebook	2
	Server	4
	Projector	3
Philippines	PC	2
	Desktop	4
	Notebook	1
	Server	5
	Projector	1
Singapore	PC	2
	Desktop	3
	Notebook	2
	Monitor	2
Taiwan	PC	1
	Desktop	1
	Notebook	2
	Server	5
	Monitor	3
Thailand	PC	1
	Desktop	2
	Notebook	1
	Server	4
	Monitor	1
	projector	2
Vietnam	PC	2
	Desktop	3
	Notebook	1
	Server	4

Source: Gartner Dataquest, 2007 Result; the Company Data

Ranking by unit shipment

5.2 Customer-centric Innovations

Acer focuses on the mainstream IT market and is responding to users' true needs by striving to be the first to deliver fresh technology innovations; the resulting business success has reinforced Acer's position in the global PC market. For example, the Aspire Gemstone Blue design notebook brings to fruition the goal to develop a high-definition mobile PC, equipped with industry-leading features–Blu-Ray Disc™ drive and 16:9" resolution–encased in an exquisite design. In May 2006, Acer led the global industry trend with the first generation of Aspire Gemstone notebooks by incorporating Dolby® Surround sound into the full consumer product line; the trend was followed six months later by other major notebook companies. Further, we have continued to enhance Acer Empowering Technology, a simple and easy-to-use portal for managing Acer IT products via an intuitive, customer-centric interface, since its launch in 2003. These initiatives illustrate Acer's long-term mission to "breaking the barriers between people and technology" through our "innovative-caring" approach.

Recent Media Quotes

"…clearly scaring … competitors half to death." – *TG Daily*, March 2008

"Combined Acer / Gateway growth continued to be the fastest among the top vendors and is a very solid performance for the first quarter of merged operations. Acer also clearly established itself as the third largest vendor…and seems to be handling the Gateway integration quickly…" – *IDC*, February 2008

"Acer continues to get bigger and stronger through Gateway acquisition" – *Gartner*, November 2007

"Acer has emerged as one of the biggest turnaround stories in the history of the PC industry" – *Wall Street Journal*, April 2007

"A racer called Acer" – *BusinessWeek*, January 2007

5.3 Embracing New Mega Markets

Growth, scale and globalization are the answers to reaching Acer's next goals. Our market-intelligence team explores and identifies opportunities that are sustainable and profitable for our stakeholders, i.e. what is the next mega market to emerge? Acer's basic – yet effective – principle calls for extensive market study; only when the research data confirms a potential mainstream market, will we allocate investments with the confidence of achieving commercial success and reward.

Acer saw the opportunity to own high-value brands through the acquisitions of Gateway and Packard Bell, which effectively create new synergies from increased scale and efficiencies. The new multi-brand strategy enables Acer to strategically position itself into different markets, by geography and by customer segment.

Acer expects the global Total PC market to continue double-digit growth over the next three years, and notebooks rising by 20~25%. The escalating convergence of mobile PCs and communication devices will shape new ultra mobile devices (UMD). The concept of the UMD is its compactness, light weight, wireless communication, without sacrificing on essential PC features. We also see demand for intensive gaming machines, home theaters and multimedia content sharing via a media gateway.

There are also new opportunities in prominent emerging markets – such as Brazil, Russia, India and China, in addition to Japan – as result of rapid economic growth in these countries.

Market Trends

(1) Market Share of Top 10 PC Vendors

PC Vendor	Year 2005	Year 2006	Year 2007
Hewlett-Packard	14.6%	15.9%	18.2%
Dell Inc.	16.8%	15.9%	14.2%
Acer	4.6%	5.9%	7.9%
Lenovo	6.9%	7.0%	7.4%
Toshiba	3.3%	3.8%	4.0%
Fujitsu Siemens	3.8%	3.5%	3.2%
Apple Computer	2.2%	2.4%	2.8%
Sony	1.5%	1.6%	1.8%
ASUS	N/A	1.2%	1.7%
NEC	2.8%	2.1%	1.3%
All Others Subtotal	43.5%	40.8%	37.5%

Source: Gartner Dataquest

Acer shipments include Gateway's consumer PCs in Q4, 2007

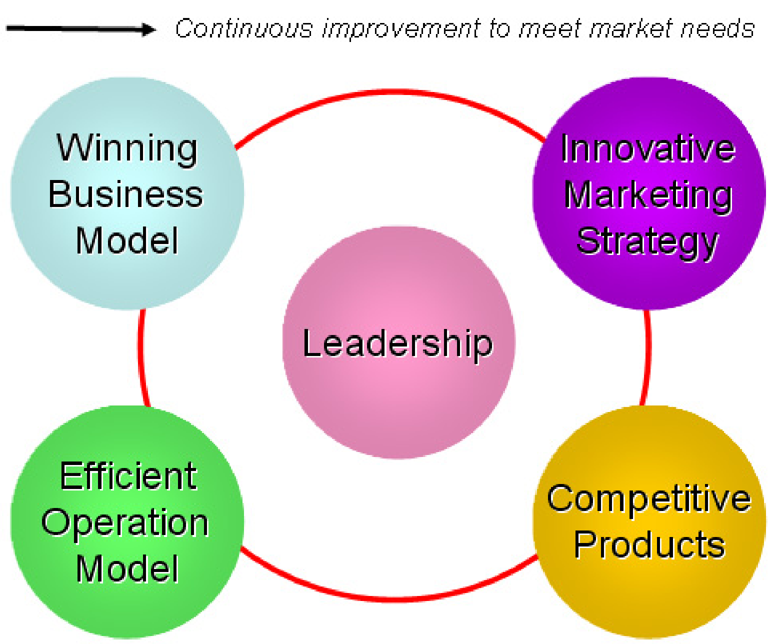
(2) Market Growth

According to Gartner Dataquest, global Total PC shipments increased 13.8% YOY to reach 272.3 million units. The major growth driver came from notebook PCs with 32.3% YOY growth, far exceeding 4.2% for desktop PCs. Looking ahead, Gartner predicts Total PC unit shipments to grow by 10.9% in 2008 and 13.0% in 2009, respectively; specifically, the notebook sector is expected to maintain strong YOY growths of 25.1% and 22.4% during the same period. Further ahead, Gartner foresees a high possibility of the notebook quantity to surpass desktop PCs by 2010.

Additionally, Acer is targeting key emerging markets that are generating rapid PC growth momentum. These markets include Asia Pacific, Greater China, Latin America, Eastern Europe, Middle East and Africa.

For converged mobile devices (CMD), total shipments exceeded 125 million units in 2007 with 52.8%YOY growth, according to IDC. By 2011, IDC predicts that total shipments will hit 314 million units, reaching 30.9% in compound annual growth rate (CAGR). Western Europe will emerge as the leading region, followed by the U.S. and Asia Pacific. Meanwhile, the market share of Microsoft Windows®-based operating systems will increase from 10.7% in 2007, to 19.3% in 2011; although Symbian's operating system will still dominate the market through to 2011 by more than 50% share.

5.4 The Four Pillars of Success



Acer's "four pillars of success" are the foundations for our continuing advancement and further success in the IT industry:

- **Winning Business Model** – Acer's unique Channel Business Model has been instrumental in the company's latest success, by encouraging first-class suppliers and channel partners to collaborate in a winning formula of supply-chain management. The model prevents duplicate efforts by Acer and the suppliers, leverages our channels' expertise and resources, to effectively manage our global logistics, while minimizing overall operating- and capital expenditures. This high-efficiency win-win collaboration rewards Acer and its long-term channel partners.

- **Efficient Operation Model** – Our simple and sustainable operational structure adapts to the fast-changing IT industry with precision. Acer focuses on the sales and marketing of its IT products, and out sources all manufacturing. Products are shipped from suppliers direct to Acer's channels, hubs or customers worldwide.

- **Innovative Marketing Strategy** – Acer's market strengths lie in our endeavor to understand customers' true needs, the ability to design innovative products to fulfill those needs, and capability to deliver products in time-to-market. Our strategy to continue ascent along the worldwide PC ranking is by:

  – Having significant presence in the U.S. market – in 2007, we achieved the highest YOY growth among the top-five players for Total PCs, notebooks and desktops.

  – Owning strong multiple brands – the PC is maturing to become a commodity; our findings show that Gateway, eMachines and Packard Bell present a portfolio of strong, highly-recognizable brands that can create a US$20 billion multi-branded PC company, and ship in excess of 25 million PC units per year.

  – Following the acquisitions of Gateway and Packard Bell, Acer has defined a clear path for its multi-brand strategy. From identifying the consumer segmentation to positioning the brand by geography, then differentiating products by brand, and finally, defining specific marketing and sales tools to position each Acer Group brand to the appropriate consumer segment.

  – Consumer segmentation is based on the influence of two key factors on the purchasing process: the brand and technology. The Acer Group has identified four main clusters of purchaser profiles ranging from those who are strongly influenced by brand or technology, consumers who tend to follow their peers, and to purchasers whose main concern is in value-for-money.

  – Placing multiple brands strategically in each region – currently, Acer plans to introduce three brands per region.

Acer Group Brand Positioning

	eMachines	Acer	Packard Bell / Gateway
BRAND POSITIONING	**VALUE**	**"Simplify my life – Feel in Control" Performance**	**"Social recognition" Cutting edge design**
END USER VALUE	**Trusted value offering**	**Time to market seamless technology**	**Cutting edge IDs, premium appeal**

Acer Group Brands By Region

• Competitive Products – Acer strives to introduce fresh technologies that empower users to become more productive – at the right moment in time.

At the Forefront of Technology

- March 2008 : World's first desktop PCs to feature hybrid graphics chipset solution with the launch of Aspire M5200/M3200
- March 2008 : First-to-market with two new notebook families, Aspire 8920/6920, built on a unique 18.4" and 16" LCD, equipped with Blu-Ray Disc™ drive, Full HD LCD screens and native 16:9 resolution
- May 2007 : Acer launches a full line of consumer notebooks with Dolby® Surround sound solution
- Jan 2007 : Acer readies for Windows Vista™ with full range of Vista-certified LCD monitors
- Jan 2007 : Acer AT3705-MGW LCD TV becomes the world's first digital TV to pass Intel
- ® Viiv™ technology verification
- Sep 2006 : Aspire L350 is the world's first 3-liter size mini PC – at a tenth size and 25% weight of a typical tower PC – its the ideal balance of compact size and performance Jan
- 2006 : Acer is first-to-market with full line of Intel® Centrino® Duo mobile technology notebooks

Appendix

1. Key Buyers and Suppliers Accounting Over 10% of Total Net Sales and Purchase:

(1) Key Buyers for Acer Inc. (Parent Company)

Unit: NT$ Thousand

Item	Year 2006				Year 2007			
	From	Amount	Percentage of total net sales (%)	Relationship with Acer Inc.	From	Amount	Percentage of total net sales (%)	Relationship with Acer Inc.
1	AEG	122,919,107	52	(Note 1)	AEG	156,272,084	49	(Note 1)
2	Acer America	42,236,362	18	(Note 1)	Acer America	53,070,340	17	(Note 1)

Note 1: Subsidiary of the Company.
Central billing to AEG for Europe region since 2005.
AAC (PA region) increased retailer model since 2005.

(2) Key Suppliers for Acer Inc. (Parent Company)

Unit: NT$ Thousand

Item	Year 2006				Year 2007			
	From	Amount	Percentage of total net purchase (%)	Relationship with Acer Inc.	From	Amount	Percentage of total net purchase (%)	Relationship with Acer Inc.
1	Supplier A	74,930,987	21	none	Supplier A	108,314,055	23	(Note 2)
2	Supplier B	73,416,724	20	none	Supplier B	71,971,373	15	
3	Supplier C	46,245,728	13	none	Supplier C	64,575,335	13	
4	Supplier D	39,049,635	11	(Note 2)	Supplier D	51,409,143	11	

Note 2: Investee of the Company

2. Production Value in the Most Recent Two Years: Not applicable.

5.5 Employees

5.5.1 Global Human Asset Management

Employees are the Company's key assets and the main driver of business growth. Acer has fostered a work environment that empowers employees by entrusting them with the tasks matched to their skill or qualification. There are clear objectives and reward for achievement, extensive communication and interaction among coworkers, constant encouragement for innovations, and an effective decision making process. On-the-job training provides the ideal platform for learning and development.

As a result of employees' joint effort, Acer has received numerous industry and media recognition. For example, Acer was voted by Reader's Digest readers as a "Trusted Brand" in Asia for 10 consecutive years from 1999~2008; in 2006, Acer was honored for excellent service standards by Taiwan's renowned business magazine – CommonWealth; in 2007 Forbes selected Acer as one of the "Fabulous 50" – a list of the best of Asia-Pacific's biggest listed companies; also in 2007, we achieved our goal of becoming the world's No. 3 PC vendor.

Summary of Acer's Workforce (excludes 787 employees from Gateway):

-By Manpower, Age and Years of Service

Category / Date	December 2006	December 2007	February 2008
Manpower	5,273	5,251	5,411
Average Age	36.6	37.3	37.2
Average Years of Employment	6.3	6.6	6.6

-By Job Function

Job Function / Date	December 2006	December 2007	February 2008
General Management	126	136	140
Sales & Product Marketing	1,362	1,423	1,510
Customer Service	2,278	2,287	2,338
Research & Development	181	198	221
Sales Support	689	707	704
Administrations	637	500	498
Total	5,273	5,251	5,411

- By Education Level

Education Level \ Date	December 2006	December 2007	February 2008
Doctor of Philosophy	0.3%	0.3%	0.3%
Master's Degree	17.8%	18.5%	19.2%
Bachelor's Degree	41.9%	42.2%	42.4%
Vocational Study	34.0%	33.2%	33.0%
High School	6.0%	5.8%	5.1%
Total	100%	100%	100%

5.5.2 Recruitment

The Company abides to each country's labor laws and customs. We are committed to providing equal opportunities and prohibit discrimination against candidates in regards to their ethnic origin, gender, age, religion or nationality. Acer seeks high-potential candidates with multi-disciplinary backgrounds in order to build a strong global workforce.

5.5.3 Training and Development

Acer has created an employee training system that encourages people development and assists with career planning. Specific skills training, on-the-job training, job rotation and overseas assignments, form a diverse and comprehensive training set that develops both functional and managerial skills.

5.5.4 Welfare

The Company abides to each country's labor laws and customs, and aims to provide a comfortable working environment along with competitive fringe benefits to enhance productivity and creativity. Taking Taiwan for example, Acer has established a welfare committee that initiates activities for employees' well being. Besides conformance to labor regulations, the Company provides group medical insurance and educational grants, in addition to arranging family outings, internal clubs, domestic and overseas holiday breaks, gift vouchers, and such.

5.5.5 Salary & Retention

Acer provides a competitive salary package to attract and retain high-potential human assets. The Company surveys global IT companies' salary levels annually, to ensure that our salary packages are adjusted accordingly and reasonably to reflect market conditions. On top of the monthly salary, the Company offers a bonus that measures both the division's and employee's performances. Taking Taiwan for example, in addition to the fixed monthly salary and festival bonuses, Acer offers incentives that reward new innovations, intellectual property rights, sales achievements, performance bonus and profit sharing.

5.5.6 Pension Scheme

The Company abides to each country's labor laws and customs. Taking Taiwan for example, Acer conforms to the Labor Standards Act and Labor Pension Act; by contributing a portion of employees' salaries toward a pension scheme. Employees who have served for 15 years and have reached 50 years of age can apply for early retirement.

5.5.7 Employee Relations

Acer respects employees' opinions and is dedicated to maintaining a harmonious relation between managers and their team members. In the past two years, Acer has not suffered any financial loss from employee conflict.

Taking Taiwan for example, Acer offers multiple channels for interaction in order to improve two-way communication:

• A hotline for each supporting function has been set up for employees to call, in confidence, to express concerns or issues. Acer will provide counsel and/or resolve the issue in the most efficient way.

• Employees can report areas of concern to their immediate supervisor or choose to convey to higher authorities for resolution. Meanwhile, the Company Chairman meets face-to-face with employee representatives from each division on a quarterly basis, to discuss areas of improvement and respond to issues. The Chairman also assigns the relevant member(s) to aggressively follow up on change or improvement, and to report on progress at the next quarterly meeting. The meeting minutes are published on the Company Intranet for all employees' attention.

5.6 Important Contracts

Nature of Contracts	Contracting Parties	Beginning and Ending Dates of Contracts	Major Content	Restrictive Clauses
Software License Agreement	Microsoft Inc.	Aug 1, 2007~Jul 31, 2008	Obtain license from Microsoft for using certain software	Confidential Non-assignable
Patent License Agreement	IBM Corporation	Nov 22, 2006 until the end of related patents period	Cross license arrangements for certain patents	Confidential Non-assignable
	Lucent Technologies GRL, LLC	Apr 1, 2004~Dec 31, 2010	Cross license arrangements for certain patents	Confidential Non-assignable
	MPEG LA, LLC	Jun 1, 1994~Dec 31, 2010	Obtain license for MPEG-2 encoding/decoding patents	Confidential Non-assignable
Consultant Service Agreement	ID SoftCapital Inc.	Feb 1, 2005~Jan 31, 2010	Obtain consulting services from IDS in investment management	Confidential Non-assignable
Credit Facility Agreement	Coordinating Arranger: Citibank N.A., Taipei Branch	Oct 11, 2007, Oct 10, 2010	The syndicated financing in the amount of up to NT$19,800 million	Confidential Non-assignable

Corporate Social Responsibility

6 Corporate Social Responsibility

As one of the world's leading PC brands, Acer is committed to sustainable business operations; fulfilling our corporate social responsibilities is the key to achieving this goal. Our policy to be a socially responsible corporation is built around three principles: stable business operations, financial transparency, and care for the environment – while seeking winning partnerships for the company and its stakeholders. In addition to looking after customers, employees and shareholders, ensuring the rights and welfare of the general public is our foremost concern.

The OECD (Organization for Economic Cooperation and Development) Guidelines on Multinational Enterprises state that enterprises should ensure timely and accurate disclosure of their activities, structure, financial situation and performance. Enterprises are also encouraged to apply high quality standards for non-financial information including environmental, social and shareholder reporting where they exist. Acer shares the same ideas and practices beginning with the transparency of financial disclosure.

Under proper guidance and administration, uniformed accounting standards throughout its global operations and order transparency of the supply chain lay a solid foundation of mutual trust between Acer and its suppliers, which not only upgrades the level of technology but enhances the overall corporate competitiveness.

Regarding the disclosure of non-financial information, Acer established environmental communication channels in 2005, which include an email (eco@acer.com.tw), environmental homepage, and corporate environmental reports. These channels enable the company to disclose information on its environmental management and performance such as efforts to comply with international environmental regulations, management of green supply chain, products that meet eco-design requirements, and green office practices. Furthermore, Acer actively communicates with international environmentalist organizations such as Greenpeace and Silicon Valley Toxic Coalition (SVTC) to better sensitize itself with related issues as well as expectations of other sectors.

Acer maintains the spirit of "Innovative Caring." The Company is dedicated to enhancing corporate performance, ensuring benefits for employees and shareholders, and providing consumers with state-of-the-art technology. Moreover, it pays attention to important issues such as the environment, human rights, supplier management, community communications, and philanthropy. 2005 was Acer's year of environmental management, and also the inaugural year of sustainability to facilitate a comprehensive support mechanism that will help reach the goal of sustainable management.

6.1 Environmental, Safety and Health Management

6.1.1 ISO Management System

Acer makes use of ISO standards as tools to improve internal procedures. The ISO 9001 Quality Management System ensures and enhances quality of goods and services, while ISO 14001 works to evaluate potential environmental impacts of products. The scope covered by our Environmental Management System (EMS) ranges from design, production, supplier management, markets, to post-sale lifecycle of products. Acer also requires its suppliers to establish their own EMS. Currently all of Acer's first-tier suppliers are ISO 14001 certified.

6.1.2 Product Environmental Management

Acer is fully aware of the potential impact our products may have on the environment. Hence, our product design takes into consideration the ways to reduce environmental loading from the outset of production, in addition to user needs, functionality and added value.

In a world of limited natural resources, Acer places great importance on making the best use of all material resources. One of our foremost principles is to extend product life to optimize use of our resources. To ensure all Acer products meet environmental regulatory requirements in addition to customer needs, our Eco Product Requirement ensures all designs meet standards set for energy conservation, low toxicity, ease of recycling and green labeling. Among these standards, low toxicity criteria restrict the use of hazardous substances including batteries and packaging materials. Green labeling criteria ensure strict standards on material labeling, recycling labeling and packaging material labeling.

As a branded PC vendor, Acer does not engage in R&D and manufacture. However, Acer takes seriously its responsibility toward environmental protection and is acutely attentive to international trends in this area. One issue currently receiving worldwide attention is the Kyoto Protocol, which Acer actively follows up on and stays abreast of related information and trends in order to plan a response strategy beforehand.

In addition to actively staying abreast with international environmental trends, Acer makes every effort to design environmentally friendly products in compliance with related international and domestic regulations. This includes recycling products, disclosing product environmental information and providing guidance and management on environmental aspects for green suppliers.

6.1.3 Employee Relations

In 2007, there were approximately 5,300 Acer employees worldwide. Acer respects diversity, creating an optimal work environment that allows people to fully actualize their potential and maximize efficiency. Acer employees extend throughout the globe, and the respective labor laws of each country or region are met with full compliance. The internal principles include Acer Employee Code of Conduct, Jobsite Safety and Health, Employee Care and Benefits, Educational Training and Diversity and Equity. For the details, please refer to Acer's website: www.acer.com

6.1.4 Client Relations

Acer strives to provide clients with professional services and satisfy customer demands through innovation and steadfast intent. Ultimately, we hope that customers are proud of their Acer products. Acer satisfies customer demands through innovative thinking, always seeking ways to put our creativity to optimal use and provide customers with cutting edge technology. Our customers rely on the knowledge that we conduct strict inspections on the quality of our products. Customers can rest assured knowing that they have a safe product and that Acer will continue to provide comprehensive customer service.

Acer is an ISO 9001 certified company, meaning our quality control and environmental management systems meet international standards. It is primarily concerned with quality management and fulfillment of customer demands for quality. The quality policy of Acer is to "deliver zero-defect, competitive products and services on time." Acer works early on in the design stage to provide customers with reassurance and high quality products. All Acer products must undergo relevant reliability, compatibility and regulatory compliance tests before mass production. To further confirm product stability, all products undergo the On-going Reliability Test (ORT) during mass production.

After new products enter the market, we launch an Early Warning Program to check the status of products at all times. Any problems are immediately reported to Acer headquarters upon discovery, and improvements are immediately incorporated into products already under production. Every week we compile product repair reports, in which we record problems, causes, consequences and solutions.

Acer's most important mission is customer satisfaction. We draw on the most dynamic ideas in pursuing whole systems innovation to provide customers with the latest technology. Acer clientele spans the entire range, from large corporations, small- to medium-sized enterprises, and government agencies to individual consumers. We not only provide unique IT products to suit each customer's needs, we also provide an e-info management center, and provide enterprises with easy-to-use, efficient, flexible, reliable, end-to-end e-services.

6.2 Social Welfare

6.2.1 Acer Foundation

Founded in July 1996, the Acer Foundation was established through donations from personnel of various departments throughout the company. Acer Foundation's mission is threefold: research and develop technology and management; cultivate talents; and reward and promote service.

Acer upholds the concept that “embracing technology allows us to widen our horizons.” Acer Foundation believes the key to working together toward an international alliance of wisdom requires a long period of cultivation, drawing on the strengths of all disciplines to develop scientific knowledge and train talented professionals. Internally, through public welfare and cultivation of talents, we aspire to help society prosper, raise the standards of academic research and accelerate the establishment of Taiwan as a technology island. Externally, we adopt a cosmopolitan view in hopes of fostering international talents and strengthening international cooperation and exchange to promote global economic prosperity.

6.2.2 Acer Volunteers

Acer Volunteers Committee was established in October 2004 for the purpose of giving colleagues a channel to contribute their spare time and energy to public welfare service. Apart from providing opportunities for interaction and friendship between colleagues from different departments and backgrounds, Acer Volunteers leads to new life experiences and personal growth through volunteer activities that give back to society and manifest corporate responsibility.

Acer Volunteers now has nearly 130 members who volunteer their knowledge. Activities mainly revolve around Acer's core business and involve setting up Internet service, computer repair, software design, and providing assistance to disadvantaged minority groups. Among the numerous activities held by Acer Volunteers since its establishment include donating computer equipment to Taiwan's rural Pingtung county and installing computer classrooms for the local aboriginal children there, setting up free computer maintenance clinics at annual community gatherings, promoting child sponsorship programs, donating resources to related charitable organizations (such as the Hualien Society for Early Intervention), holding annual donation drives for charity and participating "Donate Blood, Save a Life" campaign.

Financial Standing

7

Financial Standing

7.1 Five-Year Consolidated Financial Information

7.1.1 Five-Year Balance Sheet

As of March 31, 2008
Unit: NT$ Thousand

Item \ Period		Five-Year Financial Information					Current year as of Mar 31, 2008
		2003	2004	2005	2006	2007	
Current assets		68,295,983	85,029,907	139,242,560	161,267,661	191,626,201	188,093,047
Fund and Long-term Equity Investments		28,545,430	20,644,599	17,605,973	13,835,538	11,202,652	10,390,777
Net Property, Plant and Equipment		14,107,056	13,446,980	9,468,157	6,190,501	8,636,441	7,719,062
Intangible Assets		1,039,357	784,296	501,878	396,682	25,926,493	25,389,337
Other Assets		5,260,271	4,555,507	4,763,374	6,809,916	5,891,555	5,996,766
Total Assets		117,248,097	124,461,289	171,581,942	188,500,298	243,283,342	237,588,989
Current Liabilities	Before Distribution	43,604,939	59,898,759	102,158,601	109,970,460	142,842,574	142,496,622
	After Distribution	48,712,013	64,857,922	109,390,340	119,487,678	Un-appropriated	Un-appropriated
Long-term Liabilities		7,264,870	257,007	146,623	168,627	16,790,876	12,406,734
Other Liabilities		1,891,077	2,087,804	2,027,268	2,805,428	6,240,899	6,295,056
Total Liabilities	Before Distribution	52,760,886	62,243,570	104,312,491	112,944,515	165,874,348	161,198,413
	After Distribution	57,867,960	67,202,733	111,564,230	122,461,733	Un-appropriated	Un-appropriated
Common Stock		20,650,877	20,933,677	22,545,187	23,370,637	24,054,904	24,054,904
Capital Surplus		33,433,750	30,541,969	30,552,132	29,947,020	29,898,983	29,891,872
Retained Earnings	Before Distribution	15,372,714	13,211,567	16,123,212	18,284,265	21,041,713	23,993,503
	After Distribution	10,265,640	8,252,404	8,891,473	8,767,047	Un-appropriated	Un-appropriated
Unrealized Gain (loss) on Financial assets		(210,492)	(731,426)	65,608	4,361,608	2,524,500	185,429
Translation Adjustments		491,763	132,516	(226,806)	1,335,500	2,733,899	728,503
Minimum Pension Liability adjustment		(0)	(0)	(0)	0	(173,364)	(169,766)
Treasury Stock		(6,730,384)	(3,411,280)	(3,270,920)	(3,270,920)	(3,270,920)	(3,270,920)
Minority Interest		1,478,983	1,540,696	1,461,038	1,527,674	599,280	977,051
Stockholders' Equity	Before Distribution	64,487,211	62,217,719	67,249,451	75,555,783	77,408,994	76,390,576
	After Distribution	59,380,137	57,258,556	60,017,712	66,038,565	Un-appropriated	Un-appropriated

7.1.2 Five-Year Consolidated Income Statement

As of March 31, 2008
Unit: NT$ Thousand

Item \ Period	Five-Year Financial Information 2003	2004	2005	2006	2007	Current year as of Mar 31, 2008
Operating Revenue	157,655,398	225,014,007	318,087,679	350,816,353	462,066,080	127,376,081
Gross Profit	20,811,379	27,219,303	34,121,461	38,171,313	47,418,310	13,464,815
Operating Income	1,840,636	3,806,657	7,648,961	7,462,446	10,185,123	2,738,189
Non-operating Income and Gain	8,466,976	6,742,733	7,176,374	9,266,120	6,699,671	2,427,041
Non-operating Expense and Loss	1,897,386	1,908,790	4,172,803	3,180,259	1,776,157	1,862,421
Income Before Income Taxes	8,410,226	8,640,600	10,652,532	13,548,307	15,108,637	3,302,808
Income (Loss) from Discontinued Segment	0	0	0	180,650	517,866	100,000
Extraordinary Items	0	0	0	0	0	0
Cumulative Effect of Changes in Accounting Principle	0	0	0	0	0	0
Income After Income Taxes	7,313,809	7,011,661	8,477,502	10,218,242	12,958,933	2,951,789
Earning Per Share	2.93	2.94	3.58	4.32	5.48	1.25

7.1.3 CPAs and Auditor's Opinions:

Year	Name of CPA(s)	Auditor's Opinion
2003	James Wu, Sonia Chang	Unqualified
2004	Sonia Chang, Winston Yu	Unqualified
2005	Sonia Chang, Winston Yu	Unqualified
2006	Winston Yu, Albert Lou	Modified unqualified
2007	Sonia Chang, Winston Yu	Unqualified

7.2 Five-Year Financial Analysis

Item		Period	Five-Year Financial Information					Current year as of Mar. 31, 2008
			2003 NT$	2004 NT$	2005 NT$	2006 NT$	2007 NT$	
Financial Ratio (%)	Total Liabilities to Total Assets		45.00	50.01	60.81	59.92	68.18	67.85
	Long-term Debts to Fixed Assets		522.03	480.13	733.23	1,268.55	1,162.99	1,231.92
Ability to Payoff Debt	Current Ratio (%)		156.62	141.96	136.30	146.65	134.15	132.00
	Quick Ratio (%)		130.72	117.11	106.20	121.20	106.32	103.29
	Interest Protection		15	15	29	33	21	12
Ability to Operation	A/R Turnover (times)		6.58	7.28	6.05	5.26	5.34	4.97
	A/R Turnover Days		55	50	60	69	68	73
	Inventory Turnover (times)		16.82	17.52	13.39	12.01	13.88	12.78
	Inventory Turnover Days		22	21	27	30	26	29
	A/P Turnover (times)		6.77	7.80	5.67	4.72	5.63	5.64
	Fixed Assets Turnover (times)		11.18	16.73	33.60	56.67	53.50	66.01
	Total Assets Turnover (times)		1.34	1.81	1.85	1.86	1.90	2.14
Earning Ability	Return on Assets (%)		6.85	6.17	5.92	5.85	6.27	5.29
	Return on Equity (%)		11.06	11.07	13.10	14.31	16.94	15.35
	To Pay-in Capital %	Operating Income	8.91	18.18	33.93	31.93	42.34	45.53
		PBT	40.73	41.28	47.25	57.97	62.81	54.92
	Net Income Ratio (%)		4.64	3.12	2.67	2.91	2.80	2.32
	Earning Per Share（NT$）		2.93	2.94	3.58	4.32	5.48	1.25
Cash Flow (%)	Cash Flow Ratio		16.54	3.40	6.97	12.03	(4.59)	(0.55)
	Cash Flow Adequacy Ratio		15.69	19.96	46.41	61.02	26.47	18.54
	Cash Reinvestment Ratio		4.63	(4.24)	3.11	7.89	(19.89)	(1.04)
Leverage	Operating Leverage		8.00	4.90	2.93	3.45	2.99	3.10
	Financial Leverage		1.5	1.19	1.05	1.06	1.08	1.12

1. Financial Ratio

(1) Total liabilities to total assets＝Total liabilities ／Total assets

(2) Long-term funds to fixed assets＝（Net equity＋Long term debts）／Net fixed assets

2. Ability to Pay off Debt

(1) Current ratio＝Current Assets／Current liability

(2) Quick ratio＝（Current assets－Inventory－Prepaid expenses）／Current liability

(3) Interest protection＝Net income before income tax and interest expense／Interest expense

3. Ability to Operate

(1) Account receivable (including account receivable and notes receivable from operation) turnover＝Net sales／the average of account receivable (including account receivable and notes receivable from operation) balance

(2) A/R turnover day＝365／account receivable turnover

(3) Inventory turnover＝Cost of goods sold／the average of inventory

(4) Account payable (including account payable and notes payable from operation)turnover＝Cost of goods sold／the average of account payable（including account payable and notes payable from operation）balance

(5) Inventory turnover day＝365／Inventory turnover

(6) Fixed assets turnover＝Net sales／Net Fixed Assets

(7) Total assets turnover＝Net sales／Total assets

4. Earning Ability

(1) Return on assets＝〔PAT＋Interest expense ×(1－interest rate)〕／the average of total assets

(2) Return on equity＝PAT／the average of net equity

(3) Net income ratio＝PAT／Net sales

(4) EPS ＝（PAT－Dividend from prefer stock）／weighted average outstanding shares

5. Cash Flow

(1) Cash flow ratio＝Cash flow from operating activities／Current liability

(2) Cash flow adequacy ratio＝Most recent 5-year Cash flow from operating activities／Most recent 5-year (Capital expenditure＋the increase of inventory＋cash dividend)

(3) Cash reinvestment ratio＝（Cash flow from operating activities－cash dividend） ／(Gross fixed assets＋long-term investment＋other assets ＋working capital)

6. Leverage

(1) Operating leverage＝(Nest revenue－variable cost of goods sold and operating expense)／operating income

(2) Financial leverage＝Operating income／(Operating income－interest expenses)

7.3 Supervisor's Audit Report

To : The 2008 General Shareholders Meeting

The Board of Directors of the Company has prepared the 2007 financial report, including balance sheet, statement of income, statements of changes in stockholders' equity, and statement of cash flows. Sonia Chang and Winston Yu at KPMG have been retained by the Board of Directors of the Company to issue an audit report. The undersigned supervisors have reviewed the audit report and the aforesaid documents, which made by The Board of Directors in compliance with Article 228 of the Company Law, and did not find any incompliance. In accordance with Article 219 of the Company Law, it is hereby submitted for your review and perusal.

Supervisor : George Huang

Supervisor : Carolyn Yeh

7.4 Financial Statements Consolidated With Subsidiaries Audited by CPAs of the Recent Year

Independent Auditors' Report

The Board of Directors
Acer Incorporated:

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

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Acer Incorporated and subsidiaries as of December 31, 2006 and 2007, and the results of their operations and their cash flows for the years then ended, in conformity with the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and accounting principles generally accepted in the Republic of China.

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

The consolidated financial statements as of and for the year ended December 31, 2007, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation, and in our opinion, the consolidated financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(x) to the consolidated financial statements.

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

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

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2006 and 2007

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

Assets	2006	2007	
	NT$	NT$	US$
Current assets:			
Cash and cash equivalents (note 4(l))	44,685,211	37,945,339	1,169,889
Notes and accounts receivable, net of allowance for doubtful accounts of NT$677,092 and NT$898,972 as of December 31, 2006 and 2007, respectively (notes 4(2) and 6)	69,621,856	101,898,281	3,141,615
Notes and accounts receivable from related parties (note 5)	940,950	448,481	13,827
Other receivable from related parties (note 5)	89,937	59,403	1,831
Other receivables (note 10)	3,740,455	7,375,569	227,395
Financial assets at fair value through profit or loss－current (notes 4(4) and 4(21))	99,965	19,982	616
Available-for-sale financial assets－current (notes 4(3) and 4(21))	13,805,760	2,852,061	87,932
Hedging derivative financial assets－current (notes 4(5) and 4(21))	66,541	235,198	7,251
Inventories, net (notes 4(6) and 6)	25,941,852	33,815,697	1,042,568
Prepayments and other current assets (note 4(7))	1,073,120	2,828,601	87,208
Deferred income tax assets (note 4(17))	972,714	1,914,006	59,011
Restricted assets (notes 6 and 10)	229,300	2,233,583	68,864
Total current assets	161,267,661	191,626,201	5,908,007
Long-term investments			
Equity method investments (note 4(9))	6,613,462	4,689,684	144,587
Financial assets carried at cost (notes 4(8) and 4(21))	4,837,842	3,142,121	96,875
Available-for-sale financial assets－noncurrent (notes 4(10) and 4(21))	2,384,234	3,370,847	103,926
Total long-term investments	13,835,538	11,202,652	345,388
Property, plant and equipment (note 6):			
Land	1,478,486	1,560,568	48,114
Buildings and improvements	3,842,966	3,627,214	111,830
Computer equipment and machinery	2,609,649	4,367,924	134,667
Transportation equipment	134,293	114,923	3,543
Office equipment	946,829	985,679	30,389
Leasehold improvements	397,339	487,647	15,035
Other equipment	686,227	723,029	22,292
Prepayments for purchases of equipment	12,390	490,749	15,130
	10,108,179	12,357,733	381,000
Less: accumulated depreciation	(3,660,678)	(3,446,629)	(106,263)
accumulated impairment	(257,000)	(274,663)	(8,468)
Net property, plant and equipment	6,190,501	8,636,441	266,269
Intangible assets (notes 4(12) and 10)	396,682	25,926,493	799,337
Property not used in operations (notes 4(11) and 6)	4,896,809	3,806,103	117,346
Other financial assets (notes 4(13), 4(21) and 6)	1,294,344	961,393	29,641
Deferred charges and other assets (note 4(17))	618,763	1,124,059	34,655
Total assets	188,500,298	243,283,342	7,500,643

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2006 and 2007

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

Liabilities and Stockholders' Equity	**2006**	**2007**	
	NT$	**NT$**	**US$**
Current liabilities:			
Short-term borrowings (notes 4(14) and 6)	7,629,178	5,372,109	165,627
Current installments of long-term debt (notes 4(15) and 6)	28,377	17,366	535
Notes and accounts payable	65,591,958	76,259,412	2,351,146
Notes and accounts payable to related parties (note 5)	824,288	4,583,615	141,317
Financial liabilities at fair value through profit or loss (notes 4(4) and 4(21))	1,202,186	1,395,142	43,013
Other payables to related parties (note 5)	573,586	609,717	18,798
Hedging derivative financial liabilities－current (notes 4(5) and 4(21))	321,016	66,786	2,059
Royalties payable	8,562,475	11,670,600	359,815
Accrued expenses and other current liabilities (notes 4(11) and 4(17))	25,237,396	42,867,827	1,321,654
Total current liabilities	109,970,460	142,842,574	4,403,964
Long-term liabilities:			
Long-term debt, excluding current installments (notes 4(15) and 6)	168,627	16,790,876	517,678
Other liabilities (note 4(16))	545,320	1,121,524	34,578
Deferred income tax liabilities－noncurrent (note 4(17))	2,260,108	5,119,374	157,835
Total long-term liabilities	2,974,055	23,031,774	710,091
Total liabilities	112,944,515	165,874,348	5,114,055
Stockholders' equity and minority interest (notes 3 and 4(18)):			
Common stock	23,370,637	24,054,904	741,634
Capital surplus	29,947,020	29,898,983	921,812
Retained earnings:			
Legal reserve	6,468,865	7,490,689	230,945
Special reserve	283,921	-	-
Unappropriated earnings	11,531,479	13,551,024	417,790
Other stockholders' equity components:			
Foreign currency translation adjustment	1,335,500	2,733,899	84,289
Minimum pension liability adjustment	-	(173,364)	(5,345)
Unrealized gain on available-for-sale financial assets	4,374,388	2,508,663	77,344
Hedging reserve	(12,780)	15,836	488
Treasury stock	(3,270,920)	(3,270,920)	(100,845)
Total stockholders' equity	74,028,110	76,809,714	2,368,112
Minority interest	1,527,673	599,280	18,476
Total stockholders' equity and minority interest	75,555,783	77,408,994	2,386,588
Commitments and contingent liabilities (notes 4(4), 4(5) and 7)			
Total liabilities and stockholders' equity	188,500,298	243,283,342	7,500,643

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2006 and 2007

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

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

	Before income taxes	After income taxes	Before income taxes		After income taxes	
Earnings per common share (in dollars) (note 4(20)):	**NT$**	**NT$**	**NT$**	**US$**	**NT$**	**US$**
Basic earnings per common share－retroactively adjusted	**4.98**	**4.32**	**5.74**	**0.18**	**5.48**	**0.17**

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2006 and 2007

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

			Retained earnings		
	Common stock	**Capital surplus**	**Legal reserve**	**Special reserve**	**Unappropriated earnings**
	NT$	**NT$**	**NT$**	**NT$**	**NT$**
Balance at January 1, 2006	22,545,187	30,552,133	5,621,115	2,017,819	8,484,278
Effect of adoption of Statement of Financial Accounting Standards No. 34 "Financial Instruments : Recognition and Measurement" starting from January 1, 2006 (note 3)	-	-	-	-	-
2006 net income	-	-	-	-	10,218,242
Foreign currency translation adjustment	-	-	-	-	-
Change in fair values of financial instruments	-	-	-	-	-
Appropriation approved by the stockholders (note 4(18)) :					
Legal reserve	-	-	847,750	-	(847,750)
Stock dividends and employees' bonuses in stock	825,450	-	-	-	(825,450)
Special reserve	-	-	-	(1,733,898)	1,733,898
Cash dividends	-	-	-	-	(6,763,556)
Directors' and supervisors' remuneration	-	-	-	-	(93,637)
Employees' bonuses in cash	-	-	-	-	(374,546)
Change in unrealized loss on long-term equity investments	-	-	-	-	-
Cash dividends distributed to subsidiaries	-	93,240	-	-	-
Decrease in capital surplus resulting from long-term equity investments accounted for by the equity method (note 4(9))	-	(698,353)	-	-	-
Change in unrealized gain on available-for sale financial assets	-	-	-	-	-
Change in minority interest	-	-	-	-	-
Balance at December 31, 2006	23,370,637	29,947,020	6,468,865	283,921	11,531,479
2007 net income	-	-	-	-	12,958,933
Foreign currency translation adjustment	-	-	-	-	-
Change in fair values of financial instruments	-	-	-	-	-
Appropriation approved by the stockholders (note 4(18)) :					
Legal reserve	-	-	1,021,824	-	(1,021,824)
Stock dividends and employees' bonuses in stock	684,267	-	-	-	(684,267)
Special reserve	-	-	-	(283,921)	283,921
Cash dividends	-	-	-	-	(8,997,695)
Directors' and supervisors' remuneration	-	-	-	-	(94,804)
Employees' bonuses in cash	-	-	-	-	(424,719)
Decrease in capital surplus resulting from long-term equity investments accounted for by the equity method (note 4(9))	-	(169,810)	-	-	-
Cash dividends distributed to subsidiaries	-	121,773	-	-	-
Change in unrealized gain on available-for sale financial assets	-	-	-	-	-
Minimum pension liability adjustment	-	-	-	-	-
Change in minority interest	-	-	-	-	-
Balance at December 31, 2007	24,054,904	29,898,983	7,490,689	-	13,551,024
Balance at December 31, 2007 (in US$)	741,634	921,812	230,945	-	417,790

Unappropriated earnings	Foreign currency translation adjustment	Unrealized loss on long-term equity investments	Minimum pension liability adjustment	Unrealized gain on available-for-sale financial assets	Hedging reserve	Treasury stock	Minority interest	Total stockholders' equity
NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$
8,484,278	(226,806)	(454)	-	-	66,062	(3,270,920)	1,461,037	67,249,451
-	-	-	-	4,503,791	-	-	-	4,503,791
10,218,242	-	-	-	-	-	-	122,798	10,341,040
-	1,562,306	-	-	-	-	-	-	1,562,306
-	-	-	-	-	(78,842)			(78,842)
(847,750)	-	-	-	-	-	-	-	-
(825,450)	-	-	-	-	-	-	-	-
1,733,898	-	-	-	-	-	-	-	-
(6,763,556)	-	-	-	-	-	-	-	(6,763,556)
(93,637)	-	-	-	-	-	-	-	(93,637)
(374,546)	-	-	-	-	-	-	-	(374,546)
-	-	454	-	-	-	-	-	454
-	-	-	-	-	-	-	-	93,240
-	-	-	-	-	-	-	-	(698,353)
-	-	-	-	(129,403)	-	-	-	(129,403)
-	-	-	-	-	-	-	(56,162)	(56,162)
11,531,479	1,335,500	-	-	4,374,388	(12,780)	(3,270,920)	1,527,673	75,555,783
12,958,933	-	-	-	-	-	-	1,992	12,960,925
-	1,398,399	-	-	-	-	-	-	1,398,399
-	-	-	-	-	28,616			28,616
(1,021,824)	-	-	-	-	-	-	-	-
(684,267)	-	-	-	-	-	-	-	-
283,921	-	-	-	-	-	-	-	-
(8,997,695)	-	-	-	-	-	-	-	(8,997,695)
(94,804)	-	-	-	-	-	-	-	(94,804)
(424,719)	-	-	-	-	-	-	-	(424,719)
-	-	-	-	-	-	-	-	(169,810)
-	-	-	-	-	-	-	-	121,773
-	-	-	-	(1,865,725)	-	-	-	(1,865,725)
-	-	-	(173,364)	-	-	-	-	(173,364)
-	-	-	-	-	-	-	(930,385)	(930,385)
13,551,024	2,733,899	-	(173,364)	2,508,663	15,836	(3,270,920)	599,280	77,408,994
417,790	84,289	-	(5,345)	77,344	488	(100,845)	18,476	2,386,588

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

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

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of and for the years ended

December 31, 2006 and 2007

(amounts expressed in thousands of New Taiwan dollars and US dollars, except for earnings per share information and unless otherwise noted)

1. Reporting Entities of the Consolidated Financial Statements and Their Business Scopes

Acer Sertek Inc. (the "Company") was incorporated on August 1, 1976, as a company limited by shares under the laws of the Republic of China ("ROC"). The Company merged with Acer Incorporated ("AI") on March 27, 2002, with the Company as the surviving entity from the merger but renaming itself Acer Incorporated. After the merger, the principal activities of the Company focus on globally marketing its brand-name IT products, and promoting E-commerce solutions to clients.

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

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

	Investor	Percentage of Ownership by the Company at December 31, 2006	2007
(1) Acer Incorporated	The Company	100.00	100.00
(2) Acer Greater China (B.V.I.) Corp. ("AGC", British Virgin Islands) and its subsidiaries	AGC	100.00	100.00
● Acer Market Services Limited ("AMS", Hong Kong)	AGC	100.00	100.00
● Acer Computer (Far East) Limited ("AFE", Hong Kong)	AMS	100.00	100.00
● Acer Information (Zhong Shan) Co., Ltd. ("AIZS", China)	AMS	100.00	100.00
● Beijing Acer Information Co., Ltd. ("BJAI", China)	AMS	100.00	100.00
● Acer Computer (Shanghai) Ltd. ("ACCN", China)			
(3) Acer European Holding N.V. ("AEH", Netherlands Antilles) and its subsidiaries	The Company	100.00	100.00
● Acer Europe B.V. ("AHN", the Netherlands)	AEH	100.00	100.00
● Acer Computer B.V. ("ACH", the Netherlands)	AEH	100.00	100.00
● Acer Computer France S.A.R.L. ("ACF", France)	AHN	100.00	100.00
● Acer U.K. Limited ("AUK", the United Kingdom)	AHN	100.00	100.00
● Acer Italy S.R.L. ("AIT", Italy)	AHN	100.00	100.00
● Acer Computer GmbH ("ACG", Germany)	AHN	100.00	100.00
● Acer Austria GmbH ("ACV", Austria)	AHN	100.00	100.00

	Investor	Percentage of Ownership by the Company at December 31, 2006	2007
• Acer Europe Services S.R.L. ("AES", Italy)	AHN	100.00	100.00
• Acer Europe AG ("AEG", Switzerland)	AHN	100.00	100.00
• Acer Czech Republic S.R.O. ("ACZ", Czech Republic)	AHN	100.00	100.00
• ESPLEX Limited ("AEX", the United Kingdom)	AHN	100.00	100.00
• Acer Computer Iberica, S.A. ("AIB", Spain)	AHN	100.00	100.00
• Acer Computer (Switzerland) AG ("ASZ", Switzerland)	AHN	100.00	100.00
• Acer Slovakia s.r.o. ("ASK", Slovakia)	AHN	100.00	100.00
• Acer International Services GmbH ("AIS", Switzerland)	AHN	100.00	100.00
• Acer Computer Norway AS ("ACN", Norway)	ACH	100.00	100.00
• Acer Computer Finland Oy ("AFN", Finland)	ACH	100.00	100.00
• Acer Computer Sweden AB ("ACW", Sweden)	ACH	100.00	100.00
• Acer Denmark A/S ("ACD", Denmark)	ACH	100.00	100.00
• Acer CIS Incorporated ("ACR", British VirginIslands)	AEH	100.00	100.00
• Acer BSEC Inc. ("AUA", British Virgin Islands)	AEH	100.00	-
• Acer Computer (M.E.) Limited ("AME", British Virgin Islands)	AEH	100.00	100.00
• Acer Africa (Proprietary) Limited ("AAF", South Africa)	AEH	100.00	100.00
(4) Boardwalk Capital Holding Limited ("Boardwalk", British Virgin Islands) and its subsidiaries	The Company	100.00	100.00
• Acer America Corporation ("AAC", U.S.A.)	Boardwalk	100.00	100.00
• Acer Service Corporation ("ASC", U.S.A.)	Boardwalk	100.00	100.00
• Acer Computer Mexico, S.A. de C.V. ("AMEX", Mexico)	Boardwalk	99.89	99.89
• Acer Latin America, Inc. ("ALA", U.S.A.)	Boardwalk	99.89	99.89
• Acer American Holding Corp. ("AAH", USA)	Boardwalk	-	100.00
• Gateway, Inc. ("GWI", U.S.A.)	AAH	-	100.00
• Gateway US Retail, Inc. ("GRA", U.S.A.)	GWI	-	100.00
• Gateway Direct, Inc. ("GDA", U.S.A.)	GWI	-	100.00
• Gateway Manufacturing LLC ("GMA", U.S.A.)	GWI	-	100.00
• Gateway KK ("GJP", Japan)	GWI	-	100.00
• Gateway de Mexico S. de R.L. de C.V. ("GMX", Mexico)	GWI	-	100.00
• Gateway Ltd. ("GUK", the United Kingdom)	GWI	-	100.00

	Investor	Percentage of Ownership by the Company at December 31,	
		2006	2007
• Gateway France SAS ("GFR", France)	GWI	-	100.00
• Gateway International Computers Limited ("GIC", the United Kingdom)	GIH	-	100.00
• Gateway International Holdings, Inc. ("GIH", U.SA.)	GWI	-	100.00
• Gateway Canada Corporation ("GCA", Canada)	GWI	-	100.00
• Serviceio Profesionales de Aceso S. de ("GSMX", Mexico)	GWI	-	100.00
• Gateway Europe B.V. ("GEBV", the Nethenands)	GWI	-	100.00
• Gateway Computers Ireland Ltd. ("GCI", Ireland)	GWI	-	100.00
• Gateway Hong Kong Ltd. ("GHK", Hong Kong)	GWI	-	100.00
• eMachines Internet Group ("EMA", U.S.A.)	GWI	-	100.00
• Gateway Bermuda LP ("GBM", Bermuda)	GWI	-	100.00
(5) Acer Holding International, Incorporated ("AHI", British Virgin Islands) and its subsidiaries	The Company	100.00	100.00
• Acer Computer Co., Ltd. ("ATH", Thailand)	AHI	100.00	100.00
• Acer Japan Corp. ("AJC", Japan)	AHI	100.00	100.00
• Acer Computer Australia Pty. Limited ("ACA", Australia)	AHI	100.00	100.00
• Acer Sales and Service Sdn. Bhd. ("ASSB", Malaysia)	AHI	100.00	100.00
• Acer Computer (Singapore) Pte. Ltd. ("ACS", Singapore)	AHI	100.00	100.00
• Acer Computer New Zealand Ltd. ("ACNZ", New Zealand)	AHI	100.00	100.00
• PT Acer Indonesia ("AIN", Indonesia)	AHI	100.00	100.00
• Acer India Private Limited ("AIL", India)	AHI	100.00	100.00
• Acer Vietnam Co., Ltd. ("AVN", Vietnam)	AHI	100.00	100.00
• Acer Philippines, Inc. ("APHI", Philippines)	AHI	100.00	100.00
• Acer Asia Pacific Sdn Bhd ("AAPH, Malaysia")	AHI	-	100.00
(6) Acer Computer International Ltd. ("ACI", Singapore)	The Company	100.00	100.00
(7) Acer Sales & Distribution Ltd. ("ASD", Hong Kong)	The Company	100.00	100.00

(b) Sale and distribution of computer products, electronic communication products, and integrated circuits:

	Investor	Percentage of Ownership by the Company at December 31, 2006	2007
(1) Weblink International Inc. (“WII”, Taiwan)	The Company	99.79	99.79
(2) Sertek Incorporated (“SNX”, Taiwan)	The Company	100.00	-
(3) Digital Computer System Co., Ltd. (“DCS”, Taiwan)	The Company	100.00	-
(4) Weblink (H.K.) International Ltd. (“WHI”, Hong Kong)	WII	99.79	99.79
(5) Weblink Shanghai International Limited (“WSHI”, China)	WII	99.79	99.79
(6) Sertek Limited (“STKL, Hong Kong)	SNX	100.00	-
(7) Sertek (Shanghai) Limited (“STKS”, China)	SNX	100.00	-
(8) Servex (Malaysia) Sdn Bhd (“SMA”, Malaysia) and its subsidiaries	ASSSB	100.00	100.00
(9) Servex International (Thailand) Co., Ltd. (“STH”, Thailand)	ATH	100.00	100.00
(10) Logistron Services Ptd Ltd. (LGS, Singapore) and its subsidiaries	ACS	100.00	100.00

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

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

(d)Investing and holding companies:

	Investor	Percentage of Ownership by the Company at December 31, 2006	2007
(1) Multiventure Investment Inc. ("MVI", Taiwan)	The Company	100.00	100.00
(2) Acer Digital Service Co. ("ADSC", Taiwan)	The Company	100.00	100.00
(3) Acer Worldwide Incorporated ("AWI", British Virgin Islands)	The Company	100.00	100.00
(4) Cross Century Investment Limited ("CCI", Taiwan)	The Company	100.00	100.00
(5) Acer SoftCapital Incorporated ("ASCBVI", British Virgin Islands)	The Company	100.00	100.00
(6) Acer Venture Associates ("AVA", Cayman Islands)	ASCBVI	100.00	100.00
(7) Acer Capital Limited ("ACBVI", British Virgin Islands)	ASCBVI	100.00	100.00
(8) ASC Cayman, Limited ("ASCCAM", Cayman Islands)	ASCBVI	100.00	100.00
(9) Acer Capital Corporation ("ACT", Taiwan)	The Company	100.00	100.00
(10) Aspire Incubation Venture Capital ("AIVC", Taiwan)	The Company	100.00	100.00
(11) Acer Digital Services (B.V.I.) Holding Corp. ("ADSBH", British Virgin Islands)	The Company	100.00	100.00
(12) Acer Digital Services (Cayman Islands) Corp. ("ADSCC", Cayman Islands)	ADSBH	100.00	100.00
(13) Nicholas Insurance Company Ltd.("NIC", Bermuda)	GWI	-	100.00

(e) Property development:

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

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

	Investor	Percentage of Ownership by the Company at December 31, 2006	2007
(1) EB Easy Business Services Limited ("AGES", Hong Kong)	ADSCC	85.00	85.00
(2) EB Easy (TWN) Corp. ("AGEST", Taiwan)	AGES	85.00	85.00
(3) Acer Cyber Center Services Ltd. ("ACCSI", Taiwan)	The Company	100.00	100.00
(4) Lottery Technology Service Corp. ("LTS", Taiwan)	The Company	56.00	100.00
(5) Minly Corp. ("MINLY", Taiwan)	The Company	100.00	100.00
(6) Taiwan ETC Service Corporation ("TESC", Taiwan)	The Company	60.00	-

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

	Investor	Percentage of Ownership by the Company at December 31, 2006	2007
(1) TWP Corporation ("TWP", Taiwan)	The Company	100.00	100.00
(2) BRAVO Information Technology Co., Ltd. ("BIT", Taiwan)	TWP	100.00	-
(3) Acer TWP Innovation Information Co. Ltd. (ATIM,Taiwan)	TWP	100.00	-
(4) TWP International Inc. ("TWP BVI", British Virgin Islands)	TWP	100.00	100.00
(5) Acer Third Wave Software (Beijing) Co., Ltd. ("TWPBJ", China)	TWPBVI	100.00	100.00

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

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

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

2. Summary of Significant Accounting Policies

(a) Accounting principles and consolidation policy

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

The consolidated financial statements include the accounts of the Company and subsidiaries in which the Company is able to exercise control over the subsidiary's operations and financial policies. The operating activity of the subsidiary is included in the consolidated statements of income from the date of acquisition, and is excluded from the consolidated statements of income when the Company loses its power to control the subsidiary. All significant inter-company balances and transactions are eliminated in consolidation.

(b) Use of estimates

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

(c) Foreign currency transactions and translations

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

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

(d) Classification of current and noncurrent assets and liabilities

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

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

(e) Cash and cash equivalents

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

(f) Allowance for doubtful accounts

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

(g) Inventories; land held for sale and development

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

(h) Financial instruments

The Consolidated Companies adopted transaction date accounting for financial instrument transactions. Upon initial recognition, financial instruments are evaluated at fair value. Except for trading-purpose financial instruments, acquisition cost or issuance cost is added to the originally recognized amount. Subsequent to initial recognition, financial instruments are classified into the following categories in accordance with the purpose of holding or issuing of such financial instruments :

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

Derivatives that do not meet the criteria for hedge accounting are classified as financial assets or liabilities at fair value through profit or loss. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(2)Hedging derivative financial assets / liabilities

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

(3) Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value, and any changes are recognized directly in equity. The fair value of publicly traded stocks is the closing price at the balance sheet date. The fair value of open-end mutual funds is based on the net asset value of the mutual funds at balance sheet date. When an investment is derecognized, the cumulative unrealized gain or loss in equity account is transferred to profit or loss. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized in profit or loss. If, in a subsequent period, events or changes in circumstances indicate that the amount of impairment loss decreases, reversal of a previously recognized impairment loss for equity securities is charged to equity; while for debt securities, the reversal is allowed through profit or loss provided that the decrease is clearly attributable to an event which occurred after the impairment loss is recognized.

(4) Financial assets carried at cost

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

(i) Derivative financial instruments and hedging activities

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

(1) Fair value hedges

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

(2) Cash flow hedges

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

(j) Noncurrent assets held for sale and discontinued operation

Noncurrent assets and groups of assets and liabilities which comprise disposal groups are classified as "held for sale" when all of the following criteria are met: a decision has been made to sell, the assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups), and their sale within one year is highly probable. Noncurrent assets or disposal groups classified as "held for sale" are measured at the lower of their book value or fair value less costs to sell. Noncurrent assets or disposal groups classified as held for sale are not depreciated, amortized or depleted. Total assets and total liabilities are each shown separately and excluded from the individual line items of the consolidated balance sheets. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognized.

An impairment loss is recognized for any initial or subsequent write-down of the assets (or disposal groups) to fair value less costs to sell in the consolidated statements of income. A gain from any subsequent increase in fair value less costs to sell of an asset (or a disposal group) shall be recognized, but not in excess of the cumulative impairment loss that has been recognized and the amount that is allowed to be recovered in accordance with SFAS No. 35 "Impairment of Assets".

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

(k) Equity method investments

Long-term equity investments in which the Consolidated Companies, directly or indirectly, own 20% or more of the investee's voting shares, or less than 20% of the investee's voting shares but are able to exercise significant influence over the investee's operating and financial policies, are accounted for using the equity method. Prior to January 1, 2006, differences between the acquisition cost and net equity of the investee that could not be attributed to any reason were amortized over five years as investment income or losses.

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

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

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

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

(l) Capital leases

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

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

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

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

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

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

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

(n) Intangible assets

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

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

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

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

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

(o) Non-financial asset impairment

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

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

(p) Deferred charges

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

(q) Treasury stock

Treasury stock repurchased by the Company is accounted for at acquisition cost. Upon disposal of the treasury stock, the sale proceeds in excess of cost are accounted for as capital surplus—treasury stock. If the sale proceeds are less than cost, the deficiency is accounted for as a reduction of the remaining balance of capital surplus—treasury stock. If the remaining balance of capital surplus—treasury stock is insufficient to cover the deficiency, the remainder is recorded as a reduction of retained earnings. The cost of treasury stock is computed using the weighted-average method.

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

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

(r) Revenue recognition

Revenue from sales of products is recognized at the time products are delivered and the significant risks and rewards of ownership are transferred to customers. Revenue generated from service is recognized when the service is provided and the amount becomes billable currently.

(s) Administrative expenses

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

(t) Retirement plan

(1) Defined benefit retirement plans

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

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

(2) Defined contribution retirement plans

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

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

(u) Income taxes

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

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

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

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

(v) Earnings per common share

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

(w) Business combination

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

(x) Convenience translation into U.S. dollars

The consolidated financial statements are stated in New Taiwan dollars. Translation of the 2007 New Taiwan dollar amounts into U.S. dollar amounts, using the spot rate on December 31, 2007, of NT$32.435 to US$1, is included solely for the convenience of the readers. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

3. Accounting Changes

The Consolidated Companies adopted

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

4. Significant Account Disclosures

(1) Cash and cash equivalents

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

(2) Notes and accounts receivable

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

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

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

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

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

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

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

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

(a) Foreign currency options:

(i) Long options:

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

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

(ii) Short options

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

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

(b) Foreign currency forward contracts:

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

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

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

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

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

(5) Hedging derivative financial assets and liabilities

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

(a) Fair value hedge

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

December 31, 2006

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

December 31, 2007

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

(b) Cash flow hedging

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

December 31, 2006

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

December 31, 2007

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

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

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

(6) Inventories

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

(7) Noncurrent assets held for sale

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

(8) Financial assets carried at cost－noncurrent

	December 31, 2006 NT$	December 31, 2007 NT$	December 31, 2007 US$
Privately held stock:			
National Securities Corp.	12,188	12,188	376
Prosperity Venture Capital Corp.	72,000	28,000	863
Sheng-Hua Venture Capital Corp.	50,000	30,000	925
Legend Technology	39,200	27,205	839
Taiwan Fixed Network Co., Ltd. ("TFNC")	1,743,000	-	-
W.I. Harper International Corp.	26,250	20,650	637
Megic Corp.	647	647	20
InCOMM Technologies Co., Ltd.	7,080	2,360	73

	December 31, 2006 NT$	December 31, 2007 NT$	US$
IP Fund II	32,400	32,400	999
Dragon Investment Co. Ltd.	323,000	323,000	9,958
World Venture, Inc.	300,000	300,000	9,249
iD Reengineering Inc.	119,940	199,900	6,163
HiTRUST. COM Inc.	-	90,818	2,800
DYNA Fund II	20,982	23,459	723
IP Fund III	196,130	195,161	6,017
GE Fund	45,741	-	-
iD5 Fund LTP	86,833	73,879	2,278
IP Cathay One, L.P.	65,192	194,610	6,000
IP Fund One L.P.	1,632,438	1,274,713	39,301
MPC Corporation	-	231,100	7,125
Other	64,821	82,031	2,529
	4,837,842	3,142,121	96,875

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

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

(9) Equity-method investments

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

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

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

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

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

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

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

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

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

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

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

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

(11) Property not used in operations

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

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

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

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

(12) Intangible assets

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

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

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

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

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

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

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

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

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

(13) Other financial assets－noncurrent

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

(14) Short-term borrowings

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

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

(15) Long-term debt

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

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

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

The interest rate of the above-mentioned syndicated loan was 3.02% in 2007. According to the loan agreement, the Company is required to maintain certain financial ratios based on annual and semi-annual audited financial statements. If the Company fails to meet any of the financial ratios, the managing bank will request in writing that the Company take action to improve within 30 days. No breach of contract will be tenable if the financial ratios are met within 30 days. The Company complied with the aforementioned debt covenants in 2007. Refer to note 6 for a description of pledged assets related to these loans.

(16) Retirement plans

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

	2006 Plan assets in excess of accumulated benefit obligation NT$	2006 Accumulated benefit obligation in excess of plan assets NT$
Benefit obligation:		
Vested benefit obligation	-	(94,729)
Nonvested benefit obligation	(4,836)	(492,658)
Accumulated benefit obligation	(4,836)	(587,387)
Projected compensation increases	(1,392)	(345,779)
Projected benefit obligation	(6,228)	(933,166)
Plan assets at fair value	7,878	428,072

	2006	
	Plan assets in excess of accumulated benefit obligation NT$	Accumulated benefit obligation in excess of plan assets NT$
Funded status	1,650	(505,094)
Unrecognized pension loss	(2,380)	345,091
Unrecognized prior service cost	-	613
Unrecognized transition (assets) obligation	-	(3,748)
Minimum pension liability adjustment	-	(3,408)
Accrued pension liabilities	(730)	(166,546)

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

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

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

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

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

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

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

(17) Income taxes

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

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

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

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

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

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

	December 31, 2006	December 31, 2007	
	NT$	**NT$**	**US$**
Current:			
Deferred income tax assets	1,977,846	4,624,566	142,579
Valuation allowance	(1,005,132)	(2,710,560)	(83,568)
Net deferred income tax assets	**972,714**	**1,914,006**	**59,011**
Deferred income tax liabilities (included in "accrued expenses and other current liabilities" in the accompanying consolidated balance sheets)	**(566,319)**	**(709,697)**	**(21,881)**

	December 31, 2006 NT$	December 31, 2007 NT$	December 31, 2007 US$
Non-current:			
Deferred income tax asset	4,589,737	16,652,016	513,397
Valuation allowance	(4,506,829)	(16,586,178)	(511,367)
Net deferred income tax assets－noncurrent (included in "deferred charges and other assets" in the accompanying consolidated balance sheets)	82,908	65,838	2,030
Deferred income tax assets	359,808	1,567,019	48,313
Deferred income tax liabilities	(2,619,916)	(6,686,393)	(206,147)
Net deferred income tax liabilities	**(2,260,108)**	**(5,119,374)**	**(157,835)**
Total deferred income tax assets	**6,927,391**	**22,843,601**	**704,289**
Total deferred income tax liabilities	**(3,186,235)**	**(7,396,090)**	**(228,028)**
Total valuation allowance	**(5,511,961)**	**(19,296,738)**	**(594,935)**

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

	December 31, 2006 NT$	December 31, 2007 NT$	December 31, 2007 US$
Deferred income tax assets:			
Investment loss recognized by the equity method	939,187	109,017	3,361
Allowance for doubtful accounts	113,136	226,718	6,990
Net operating loss carryforwards	3,163,338	14,879,372	458,744
Investment tax credits	747,783	702,539	21,660
Accrued advertising expense	222,240	319,702	9,857
Accrued non-recurring engineering cost	117,298	102,485	3,160
Accrued cost of sales	74,179	78,029	2,406
Accrued restructuring cost	18,669	184,435	5,685
Accrued royalty	-	707,627	21,817
Accrued purchase discounts	11,346	631,360	19,465
Inventory provisions	218,591	631,109	19,459
Warranty provisions	285,244	867,643	26,750
Provision for asset impairment loss	397,742	332,569	10,253
Loss on valuation of financial instruments	395,487	622,140	19,181
Unrealized exchange gains	(267,062)	(201,717)	(6,219)
Difference in depreciation for tax and financial purposes	(968)	954,883	29,440
Other	491,181	1,695,690	52,280
	6,927,391	**22,843,601**	**704,289**
Deferred income tax liabilities:			
Investment income recognized by the equity method	2,627,738	2,777,678	85,638
Difference in intangible assets for tax and financial purposes	-	3,596,148	110,872
Other	558,497	1,022,264	31,518
	3,186,235	**7,396,090**	**228,028**

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

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

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

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

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

(h) Information about the integrated income tax system

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

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

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

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

(18) Stockholders' equity

(a) Common stock

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

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

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

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

(b) Treasury stock

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

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

(c) Capital surplus

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

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

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

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

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

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

According to the ROC Company Act, the legal reserve can be used to offset an accumulated deficit and may be distributed in the following manner: (i) when it reaches an amount equal to one-half of the paid-in capital, it can be transferred to common stock at the amount of one-half of legal reserve; and (ii) when it reaches an amount exceeding one-half of the authorized common stock, dividends and bonuses can be distributed from the excess portion of the legal reserve.

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

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

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

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

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

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

(19) Net income from discontinued operations

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

	2006	2007	
	NT$	NT$	US$
Net revenues	18,276,621	9,398,700	289,770
Cost of revenues and operating expenses	(17,927,037)	(9,224,222)	(284,390)
Non-operating income and expenses	(107,865)	(64,502)	(1,989)
Income before income taxes	241,719	109,976	3,391
Income tax expense	(61,069)	(23,120)	(713)
Net income from discontinued operations	180,650	86,856	2,678
Gain from disposal of discontinued operations	-	431,010	13,288
Total net income from discontinued operations	**180,650**	**517,866**	**15,966**
Discontinued operations cash flows:			
Cash provided by (used in) operating activities	1,282,906	(69,408)	(2,140)
Cash used in investing activities	(4,550)	(645)	(20)
Cash used in financing activities	(1,152,304)	(118,307)	(3,648)

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

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

(21) Disclosure of financial instruments

(a) Fair values of financial instruments

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

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

	2006			2007		
		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	13,805,760	13,805,760	-	2,852,061	2,852,061	-
Financial assets carried at cost	4,837,842	see below (b)	see below (b)	3,142,121	see below (b)	see below (b)
Available-for-sale financial assets－noncurrent	2,384,234	2,384,234	-	3,370,847	3,370,847	
Refundable deposits (classified as “other financial assets”)	813,807	-	813,807	687,109	-	687,109
Noncurrent receivables (classified as “other financial assets”)	480,537	-	480,537	274,284	-	274,284
Financial liabilities:						
Long-term debt	168,627	-	168,627	16,790,876	-	16,790,876
Derivative financial instruments						
Financial assets:						
Foreign currency forward contracts	162,498	-	162,498	250,197	-	250,197
Foreign currency options	4,008	-	4,008	4,983	-	4,983
Financial liabilities:						
Foreign currency forward contracts	1,478,113	-	1,478,113	1,461,335	-	1,461,335
Foreign currency options	45,089	-	45,089	593	-	593

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

(i) Available-for-sale financial assets－current and noncurrent

Publicly quoted market prices are used as fair value.

(ii) Financial assets carried at cost

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

(iii) Refundable deposits

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

(iv) Noncurrent receivables

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

(v) Long-term debt

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

(vi) Derivative financial instruments

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

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

(d) Disclosure of financial risks

(i) Market risk

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

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

(ii) Credit risk

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

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

(iii) Liquidity risk

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

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

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

The purpose of the Consolidated Companies' foreign currency forward contracts and foreign currency options is to hedge the exchange rate risk resulting from assets and liabilities denominated in foreign currency and cash flows resulting from anticipated transactions in foreign currency. The lengths of the contracts are in line with the payment date and the anticipated cash outflows of the Consolidated Companies' assets and liabilities denominated in foreign currency. As a result, the Consolidated Companies settle their foreign currency assets and liabilities with contract obligations or rights at the maturity date and do not expect to have significant liquidity risk.

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

The Consolidated Companies' short-term borrowings and long-term debt carried floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rates and thereby influences the Consolidated Companies' future cash flow. If the market interest rate increases by 1%, cash outflows in respect of these interest payments would increase by approximately NT$221,804 per annum.

5. Transactions with Related Parties

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

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

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

1. Net sales to:

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

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

2. Notes and accounts receivable from:

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

(2) Purchases and related notes and accounts payable

1. Purchases from:

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

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

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

2. Notes and accounts payable to:

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

(3) Spin-off of assets

On February 28, 2002, AI spun off its design, manufacturing and services business from its Acer-brand business and transferred the related operating assets and liabilities to Wistron. The Company agreed with Wistron that Wistron is obligated to pay for the deferred income tax assets being transferred only when they are actually utilized. In 2006, the ROC income tax authorities examined and rejected Wistron's claim of investment credits transferred from the spin-off in the income tax returns for 2002, 2003, and 2004. Wistron disagreed with the assessment and filed a request with the tax authorities for a recheck of its 2002, 2003 and 2004 income tax returns. To be conservative, the Company recognized income tax expense of NT$875,802 based on total tax impact estimated in 2006 and provided a valuation allowance of NT$385,043 against the receivables from Wistron as of December 31, 2006 and 2007. The remaining balance of $490,759 was recorded as other payables to related parties.

(4) Other expenses

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

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

6. Pledged Assets

Assets pledged for various purposes were as follows:

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

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

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

7. Commitments and Contingencies

(a) Royalties

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

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

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

(c) Others

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

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

Year	NT$	US$
2008	530,435	16,354
2009	367,876	11,342
2010	182,228	5,618
2011	65,218	2,011
2012 and thereafter	124,679	3,844
	1,270,436	**39,169**

8. Significant Loss from Casualty: None

9. Subsequent Events

The directors of the Company in a meeting held on March 3, 2008, passed a resolution to acquire E-TEN Information Systems Co., Ltd. ("E-TEN") by issuing the Company's shares in exchange for E-TEN shares. After the acquisition, E-TEN will become a wholly owned subsidiary of the Company. The acquisition has also been approved by the directors of E-TEN. Under the terms of the acquisition agreement, Acer Inc. will offer a share exchange with ratio of 1:1.07 for all the outstanding shares of

E-TEN. Currently, the acquisition is subject to approval by the shareholders of both companies and by the governmental authorities. The Company expects the acquisition to be completed during the third quarter of 2008.

10. Other

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

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

(b) Acquisition of Packard Bell B.V.

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

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

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

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

11. Segment Information

(a) Industry segment

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

(b) Geographic information

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

2006

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

2007

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

(c) Export sales

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

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

(d) Major customers

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

	2006		2007		
	NT$	**Percentage**	**NT$**	**US$**	**Percentage**
Customer A	47,790,111	13%	30,325,050	934,948	7%

7.5 Disclosure of the Impact on Company's Financial Status Due to Financial Difficulties

Not applicable.

7.6 Financial Prediction and Achievements

7.6.1 Financial Forecast of Year 2007 : Not applicable.

8

Risk Management

Item / Description	Amount (Note)	Business Type
Acer Digital Service Co.	2,017,456	Investment and holding company
Acer European Holdings N.V.	23,822,007	Sales and service of "Acer" brand-name IT products
Acer Holdings International, Inc.	5,647,088	Sales and service of "Acer" brand-name IT products
Boardwalk Capital Holding Ltd.	23,912,517	Sales and service of "Acer" brand-name IT products
Acer Worldwide Inc.	3,539,655	Investment and holding company
Acer SoftCapital Inc.	1,838,414	Investment and holding company
Acer Computer International Ltd.	983,689	Sales and service of "Acer" brand-name IT products
Cross Century Investment Ltd.	2,594,037	Investment and holding company
Acer CyberCenter Services Ltd.	1,828,074	Data storage and processing company
Acer Greater China (B.V.I.) Corp.	1,752,173	Sales and service of "Acer" brand IT products
Weblink International Inc.	1,282,957	Distributor of computers and 3C products to channel partners
Wistron Corp.	2,838,891	Manufacture of computer and IT products
Qisda Corp.	2,655,514	Manufacture of computer and IT products

8.1 Annual Investment Policy:

Reasons of Gain or Loss and Improvement Plan

Year 2007 P&L	Main Reason of Gain or Loss	The Plan for Improvement	Investment Plan for Next Year
673,975	Recognized disposal gain for land	Not applicable.	Not applicable.
6,230,682	Stable growth in Europe		
1,245,183	Stable growth in Asia Pacific		
577,781	Stable growth in Pan America		
134,500	Recognized dividend income		
130,386	Recognized dividend income		
-1,774	Operating expenses		
244,439	Recognized disposal stock gain		
8,402	Gain on operating activity		
162,493	Great China market gain		
82,417	Gain on operating activity		
637,398	Gain on operating activity		

8.2 Important Notices for Risk Management and Evaluation

8.2.1 Impact of Interest Rate, Exchange Rate and Inflation on Company's P&L and Future Strategy

Interest Rate Fluctuation

During 2007, the U.S. interest rates remained at around 5.25% between January and August. From September, the U.S. Federal Reserve Board began to cut interest rates - reaching 4.25% in December - to ease the sub-prime mortgage crisis. This did not impact on Acer as the company does not own medium- or long-term liabilities in U.S. currency.

The New Taiwan (NT) dollar interest rate remained low; therefore, there was minor impact on the cost of our loans. Acer's short-term investment tool is the US dollar time deposit; while medium to long-term investments include money market funds and time deposits in NT dollars.

It is expected that the U.S. Federal Reserve Board may continue to cut interest rates in 2008, while there will only be minor interest rate adjustments to the NT dollar. Acer will reduce its loans in NT dollar gradually, thereby also decreasing interest-related expenses.

Foreign Exchange Rate

The Euro is the major foreign currency exposure by Acer. In response to the high fluctuation of Euro/US dollar exchange rates in 2007, Acer adopted a conservative hedging strategy. Despite this safety measure, Acer's foreign exchange investment ended with loss. The Euro exchange rate – currently at a record high – is advantageous for Acer in terms of cost, but the Company will keep to a consistent strategy and aggressively hedge its foreign exchange to reduce impacts on profit and loss resulting from currency fluctuation.

Inflation

Price hikes of oil and materials did not hurt Acer as the Company had increased its stocks and adjusted prices accordingly.

The price of oil and materials is expected to remain high this year. Should material price lead to a cost increase, Acer shall act accordingly to avoid loss.

8.2.2 How Corporate Image Change Affects the Company's Risk Management Mechanism

The Company had split off its manufacturing division at the end of year 2000 in order to focus on the design and marketing of IT products and services. The potential crises within manufacturing and marketing companies are very different, and the Company's crisis management now focuses on our global supply-chain and logistics. By outsourcing our manufacturing sector to multiple vendors and suppliers, the Company gained greater flexibility in inventory control and lowered risks compared to a single-vendor policy. With the ever-changing global economy, it is essential to be prepared for risks and challenges at all times. The Company's risk management team has a clear sense of crisis management and has taken the precautions where necessary. We have set up a crisis mechanism that will minimize potential damages to ensure the Company's sustainable management.

8.2.3 Predicted Benefits and Potential Risk to the Company with Factory/Office Expansion

Not applicable.

8.2.4 Potential Risks to the Company from Procurement and Sales

None.

8.2.5 Affect on Company from Shares Transfers by Directors, Supervisors or Shareholders Holding More Than 10% Shares

Not applicable.

8.2.6 Impact and Potential Risks to Company Management Team Change

Not applicable.

8.2.7 The major litigious, non-litigious or administrative disputes that: (1) involve Acer and/or any Acer director, any Acer supervisor, the general manager, any person with actual responsibility for the firm, any major shareholder holding a stake of greater than 10 percent, and/or any company or companies controlled by Acer; and (2) have been concluded by means of a final and unappealable judgment, or are still under litigation. Where such a dispute could materially affect shareholders' equity or the prices of the company's securities, the facts of the dispute, amount of money at stake in the dispute, the date of litigation commencement, the main parties to the dispute, and the status of the dispute as of the date of printing of this annual report shall be disclosed as follows :

1. (1)Similar to other IT companies, Acer receives notices from third parties asserting that Acer has infringed certain patents or demands Acer obtain certain patents licenses. Acer takes these matters seriously and may take appropriate counter actions.

   (2)During March-April 2007, Hewlett-Packard Development Company (HP) filed patent infringement lawsuits against Acer Inc. and its U.S. subsidiary, Acer America Corporation, which is pending before the United States District Court for the Eastern District of Texas and United States International Trade Commission. In addition to the patent infringement counterclaims (with the United States District Court for the Eastern District of Texas) against HP with certain

U.S. patents filed by Acer on July 19, 2007, Acer filed patent infringement complaints against HP with certain U.S. patents, with the United States District Court for the Western District of Wisconsin and United States International Trade Commission on October 30, 2007.

U.S. law firms have been retained to consult for and represent Acer on those matters. At this moment, it is not realistic to reasonably estimate the relative financial impact toward Acer; however, until now there foresees no immediate material adverse effect toward Acer's business operations.

.2. In year 2007 and as of the date of printing of this annual report, any Acer director, supervisor, the general manager, any person with actual responsibility for the firm, any major shareholder holding a stake of greater than 10% were not involved in any material litigious, non-litigious or administrative disputes.

3. In year 2007 and as of the date of printing of this annual report, any company or companies controlled by Acer were not involved in any material litigious, non-litigious or administrative disputes.

8.2.8 Other Risks : None

Appendix

1. Name, Title and Contact Details of Company's Spokespersons:

Principal	Howard Chan	CFO	+886-2-2696-3131	HowardChan@acer.com.tw
Deputy	Thomas Shin	Director	+886-2-2696-3131	ThomasShin@acer.com.tw
	Steven Wang	Manager	+886-2-2509-2368	Steven_Wang@acer.com.tw

2. Address and Telephone Numbers of Company's Headquarter and Branches

Office	Address	Tel
Acer Inc. Registered Address	7F, No.137, Sec.2, Chien Kuo N. Road, Taipei, Taiwan, R.O.C.	+886-2-2509-2368
Acer Inc. (Hsichih Office)	8F, 88, Sec.1, Hsin Tai Wu Road, Hsichih, Taipei Hsien, Taiwan, R.O.C.	+886-2-2696-1234
Acer Inc. (Hsinchu Branch)	3-4F, 139 Min Tsu Road, Hsinchu, Taiwan, R.O.C.	+886-3-533-9141
Acer Inc. (Taichung Branch)	3F, No.371, Sec.1, Wen-Hsin Road, Taichung, Taiwan, R.O.C.	+886-4-2250-3355
Acer Inc. (Kaohsiung Branch)	4F-2, 38, Shin Guang Road, Kaohsiung, Taiwan, R.O.C.	+886-7-338-8386
Acer Inc. (Shipping & Warehouse Management Center)	1F, 138, Nan-Gong Road, Lu Chu Tsuan, Lu Chu, Taoyuan Hsiang, Taiwan, R.O.C.	+886-3-322-2421

3. Address and Contact Details of Acer Shareholders' Services

Address: 7F, No.137, Sec.2, Chien Kuo N. Road, Taipei, Taiwan, R.O.C.
Tel: +886-2-2509-2368
e-mail: stockaffairs@acer.com.tw

4. Address and Contact Details of Auditing CPAs in the Most Recent Year

Name: Winston Yu and Sonia Chang at KPMG
Address: 68F, Taipei, 101 Tower, No. 7, Sec. 5, Xinyi Road, Taipei, 11049, Taiwan, R.O.C.
Tel: +886-2-8101-6666
e-mail: www.kpmg.com.tw

5. Listed Market for GDRs: London Stock Exchange Market

For further information, please refer to Website: www.Londonstockexchange.com

6. Acer's Website: www.acer.com

acer