

Acer Incorporated **2008 Annual Report**



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1. Business Report **to Shareholders**



Business Report to Shareholders



In year 2008, Acer once again achieved record-breaking revenue and profit figures. The consolidated revenues rose 18% on-year to reach NT\$546.27B (US\$16.65B), operating income grew 38% on-year to reach NT\$14.1B (US\$429M), profit after tax was NT\$11.7B (US\$357.6M), and earnings-per-share was NT\$4.72.

Acer's share in the global PC market grew significantly, drawing vast attention from the industry and media in the second half of 2008 with the highly successful launch of Aspire One netbooks. According to leading IT research firm, Gartner, Acer ranked No. 3 for Total PCs with 55% growth, and No. 2 for notebooks (including netbooks) with 60% growth, globally. In both categories, Acer's on-year growth rates were the highest among the top players.

Since the acquisition of Gateway and Packard Bell, Acer has completed the integration of its resources and is now operating with powerful synergy. We conducted in-depth research and defined a new multi-brand strategy. Acer, Gateway, eMachines and Packard Bell each have clear brand positioning by geography and customer segment, and with differentiated product line design.

During this global economic downturn, our competitors are inclined to taking a conservative approach; Acer, however, remains positive, firmly believing that current conditions present hidden opportunities. With our sustainable business model and lower operating costs, we aim to continue expanding market share and improve our worldwide ranking. In 2009, we expect to boost our notebook market share by 2~3% from the previous year with netbooks playing a key role, and to maintain healthy revenue and profit growths.

Acer shall focus on the effective implementation of our multi-brand strategy - a key factor of our success that encompasses global brand management and differentiated product line design. We will continue to minimize operational costs, improve our customer order fulfillment to meet the fast-changing demands of the PC market. Opportunities lie ahead, we've set our sights on attaining significant growth in the U.S., China and Japan markets, and ultimately, gaining a more even spread of revenues from our worldwide markets.

Acer's business model has proved to be the best in high-uncertainty business environments. We regard ourselves to be in the favorable position compared to the key PC players, and are confident that our goal of becoming the world's No. 1 notebook vendor is in close proximity.

Finally, we thank all our shareholders for their relentless support and guidance.

Sincerely,

J.T. Wang
Acer Group CEO and Acer Inc. Chairman

1.1 Acer's Core Values

Core Value	Rational Meaning	Emotional Meaning
Value-creating	Generating profit for shareholders Growing the business by achieving the 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 Fostering teamwork and collaboration	Energetic and inspiring workplace Growth potential Teamwork
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

Acer's Core Values



The challenge for all businesses is to be unique. Whether you're a customer, an employee or a shareholder, the only way any business will attract you is if it stands out from the crowd.

Being unique, however, isn't a quality you can simply switch on and off.

At Acer, we have built our reputation on creating value in every aspect of the company throughout our history:

- We create value for our customers by offering a continuous stream of innovative and empowering solutions that anticipate and satisfy their needs.
- We create value for our investors by consistently providing positive returns year after year.
- We create value for our employees, allowing us to realize our full potential and achieve our goals.
- We create value for our business partners with win-win solutions with our vendors and our valuable channel partners.

Creating value through brand recognition is the way forward rather than competitive pricing. There's no other way to win tomorrow's business than to believe in the power of our brands right now.

To be a successful global brand company, it is critical that employees have a consistent set of core values as a solid basis. The 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.

Sincerely,

Gianfranco Lanci
CEO & Corp. President

1.2 2008 Operating Report

1.2.1 Consolidated Operating Results:

(Unit: NT\$ Thousand)

Item	Period	Most Recent 5-Year Financial Information				
		2004	2005	2006	2007	2008
Operating Revenue		225,014,007	318,087,679	350,816,353	462,066,080	546,274,115
Gross Profit		27,219,303	34,121,461	38,171,313	47,418,310	57,285,660
Operating Income		3,806,657	7,648,961	7,462,446	10,185,123	14,072,302
Non-operating Income and Gain		6,742,733	7,176,374	9,266,120	6,699,671	5,353,038
Non-operating Expense and Loss		1,908,790	4,172,803	3,180,259	1,776,157	4,618,613
Continuing Operating Income before Tax		8,640,600	10,652,532	13,548,307	15,108,637	14,806,727
Income(Loss) from Discontinued Segment		0	0	0	517,866	99,843
Income after Income Taxes		7,011,661	8,477,502	10,218,242	12,958,933	11,742,135
EPS		2.86	3.48	4.20	5.33	4.72

1.2.2 Budget Expenditure in 2008: Not applicable.

1.2.3 Financial Income and Earning Abilities

(Unit:NT\$ Thousand)

Item	2008
Operating Revenue	546,274,114
Gross Profit	57,285,660
Income After Tax	11,742,135
Return on Assets(%)	5.23
Return on Equity(%)	14.65
Net Income ratio (%)	2.15
EPS(NT\$)	4.72

1.3 2009 Business Plan

1.3.1 Business Direction

- Implement the multi-brand strategy worldwide, with differentiated multi-brand products to satisfy diverse customer and market segments.
- Expand Acer Group's global PC market share.
- Improve time-to-market by enhancing order fulfillment and global logistics.
- Maintain control and minimize operating expenses.

1.3.2 Goals

- Introduce a full line of power-saving, all-day computing and ultra-thin notebooks with the aim of expanding market share
- Double annual netbook shipments over previous year.
- Achieve significant growth in the U.S., China and Japan.

1.3.3 Partner Strategy

- Reinforce the cooperation with first-tier suppliers and channel partners.
- Fully capitalize on partners' resources.
- Share the success by rewarding our partners.

1.3.4 Future Strategy

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

- Continue and enhance the channel business model.
- Enhance the global management of all operations.
- Increase efforts on corporate social responsibility.
- Generate more proportionate revenues from the geographies.
- Entry into the smart handheld and mobile communications markets.

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

- Slowdown of the global economy continues through 2009, making the prediction of PC market trend difficult.
- Volatile PC market condition may result in wide fluctuation of channel needs.
- The notebook PC market remains the segment with the brightest prospect compared to other segments.



2. Company In General



2.1 Brief Account of the Company

2.1.1 Founded: August 1, 1976

1976 – 1986:

- Commercialized microprocessor technology

1987 – 2000:

- Created the Acer brand name and went global

2001 – 2007:

- Transformed from manufacturing to a marketing and sales company

2008 – beyond:

- Enhancing worldwide presence with a new multi-brand strategy

1976

- Acer was founded under the name *Multitech*, focusing on trade and product design.

1978

- Acer established the Microprocessor Training Centre, 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

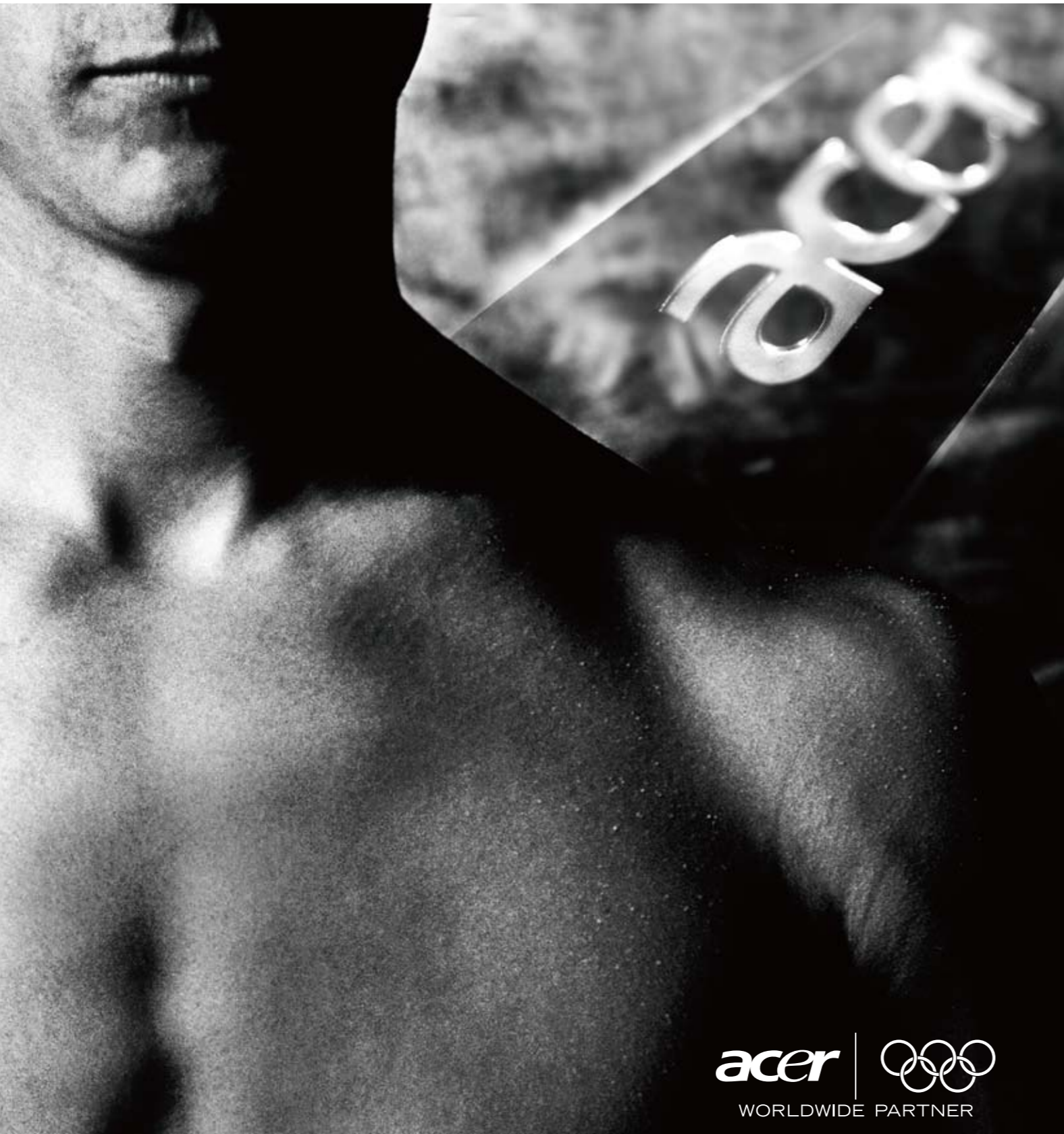
- Acer announced its commitment to providing fresh technology to be enjoyed by everyone, everywhere.

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.
- Launched the 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

- 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 positions of Chairman and Chief Executive Officer, while Gianfranco Lanci stepped into the role of President of Acer Inc.
- Acer launched the 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 announced readiness for Windows Vista™ with full range of Vista-certified LCD monitors.
- Acer set the trend in product design with new Aspire Gemstone-design consumer notebooks.
- 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 Vancouver 2010 Olympic Winter Games and London 2012 Olympic Games.
- Acer became the No. 2 notebook and No. 3 desktop PC vendor worldwide.

2008

- Acer was voted *Reader's Digest* gold-medal Computer *TrustedBrand* in Asia for the ninth consecutive year.
- Acer launched a new generation of the Aspire Gemstone Blue design notebooks, the first to incorporate full HD 18.4" and 16" LCDs with widescreen 16:9 aspect ratio, Blue-Ray Disc™ drive, and the latest generation of Dolby® Surround sound.
- The Aspire One launched as the Company's first mobile internet device, and won the coveted Japan Good Design award – an internationally-recognized mark of design quality.
- Acer ranked No. 3 for Total PCs and No. 2 for notebooks worldwide.

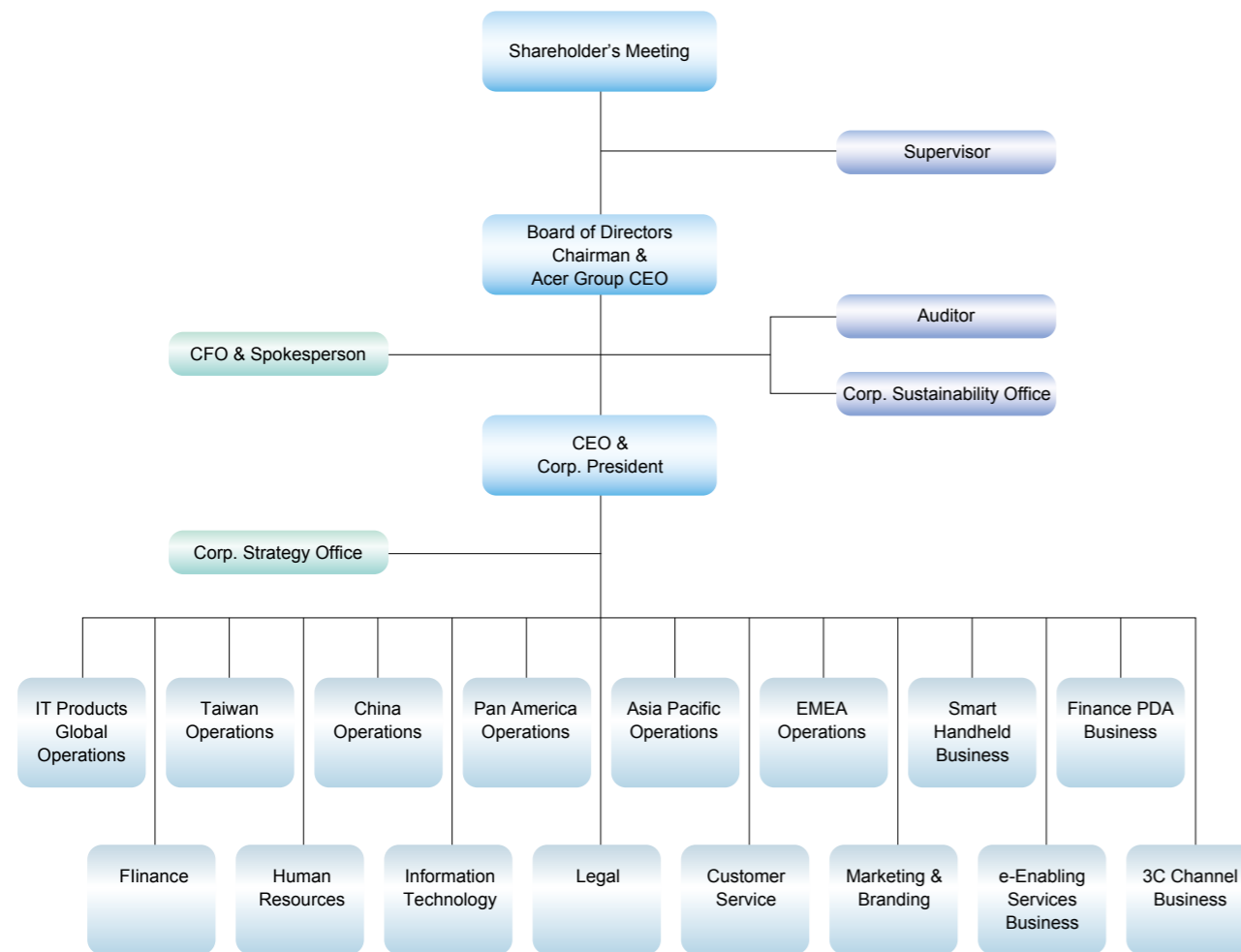


3. Corporate **Governance Principles**

3.1 Organization of the Company

3.1.1 Department Functions

Acer Organization Chart



Corporate Functions

Auditor

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

CFO & Spokesperson

- Management of Acer's long-term finance, investments and is the corporate spokesperson

Corp. Sustainability Office

- Strategic planning and management in corporate sustainability, with the aim of fulfilling corporate social responsibilities.

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

Taiwan Operations

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

China Operations

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

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

EMEA Operations

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

Smart Handheld Business

- Responsible for global sales, marketing, and development of the smart handheld business.

Finance PDA Business

- Development, sales, marketing and customer service of Finance PDA products

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

3C Channel Business

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

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

Customer Service

- Global services strategy and global service center management

Marketing & Branding

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

3.2 Information Regarding Board of Directors, Supervisors and Key Managers

(1) Board of Directors and Supervisors (April 21, 2009)

Title	Name	Date of Election	Term	Shares Held When Elected		Shares Held at Present		Shares Held by Spouse & Minors		Education	Main Curriculum Vitae	Spouse or Immediate Family Holding Managerial Position		
				Number	Percentage	Number	Percentage	Number	Percentage			Title	Name	Relationship
Chairman	J.T. Wang	06/13/2008	3	10,806,070	0.45	13,038,161	0.49	204,520	0	Bachelor	<ul style="list-style-type: none"> Chairman of HiTRUST.COM Inc. Chairman of Cross Century Investment Chairman of Acer Cyber Center Services Inc. Director of Minly Tech. Corp. Director of Weblink International Inc. Director of Acer Investment Inc. 	-	-	-
Director	Stan Shih	06/13/2008	3	72,927,824	3.03	74,021,741	2.80	17,514,543	0.66	Master	<ul style="list-style-type: none"> Director of Dragon Investment Co., Ltd. Director of Qisda Corp. Director of Wistron Corp. Director of Acer Investment Inc. Independent director of TSMC Co, Ltd. Director of Acer SoftCapital Director of Acer Worldwide Inc. 	Supervisor	Carolyn Yeh	Wife
Director	Gianfranco Lanci	06/13/2008	3	406,925	0.02	969,978	0.04	0	0	Bachelor	-	-	-	-
Director	Walter Deppeler	06/13/2008	3	0	0	0	0	0	0	Master	-	-	-	-
Director	Hsin-I Lin	06/13/2008	3	0	0	0	0	0	0	Master	<ul style="list-style-type: none"> Independent director of Sinyi Realty Inc. Independent director of Nan Ya Plastics Co. Director of Yulon Motor Co, Ltd Director of China Motor Corp. Co. Independent director of E.Sun Financial Holdings Co Ltd 	-	-	-
Director	Philip Peng (Representative of Smart Capital Corp.)	06/13/2008	3	10,974	0	11,138	0	0	0	Master	<ul style="list-style-type: none"> Director of Cross Century Investment Director of Multiventure Investment Inc. Supervisor of Acer Laboratories Inc. Supervisor of Aspire Incubation Venture Capital Supervisor of Wistron Corp. Supervisor of Apacer Technology Inc. Director of iDSoftCapital Inc. Supervisor of Dragon Investment Co., Ltd. Chairman of Acer Capital Corp. 	-	-	-
Director	Hung Rouan Investment Corp.	06/13/2008	3	66,069,816	2.75	67,060,863	2.54	0	0	-	-	-	-	
Supervisor	George Huang	06/13/2008	3	6,102,022	0.25	6,193,653	0.23	1,844,489	0.07	Bachelor	<ul style="list-style-type: none"> Director of Apacer Technology Inc. Independent Supervisor of Les Enphants Ltd. Independent Supervisor of Mtech Industries Inc Independent Supervisor of PChome Online Inc Director of China Productivity Center Director of Eslite Corp. 	-	-	-
Supervisor	Carolyn Yeh	06/13/2008	3	17,255,708	0.72	17,514,543	0.66	74,021,741	2.80	Bachelor	<ul style="list-style-type: none"> Director of Aspire Incubation Venture Capital Chairman of iDSoftCapital Inc. Supervisor of Acer Capital Corp. 	Director	Stan Shih	Husband

Major Institutional Shareholders(April 21, 2009)

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 21, 2009)

Title	Name	Date of Accession	Shares Held Directly		Shares Held by Spouse & Minors		Shares Held by the Other's		Education	Main Curriculum Vitae	Spouse or Immediate Family Holding Position as President or Vice President		
			Number	Percentage	Number	Percentage	Number	Percentage			Title	Name	Relationship
CEO of Acer Inc. & Corp. President	Gianfranco Lanci	01/01/2005	969,978	0.04	0	0	0	0	Bachelor	-	-	-	-
Sr. Corp. VP & EMEA Deputy President	Walter Deppeler	09/29/2007	0	0	0	0	0	0	Bachelor	-	-	-	-
Sr. Corp. VP & SHBG President	Aymar de Lencquesaing	01/01/2009	0	0	0	0	0	0	Bachelor	-	-	-	-
Sr. Corp. VP & ITGO President	Jim Wong	11/01/2001	4,361,812	0.17	0	0	0	0	Master	-	-	-	-
Corp. VP & PA President	Rudi Schmidleithner	09/29/2007	29,705	0	0	0	0	0	Bachelor	-	-	-	-
Corp. VP & AP President	Steve Lin	11/01/2001	3,305,497	0.13	0	0	0	0	Bachelor	-	-	-	-
Corp. VP & ACCN President	Oliver Ahrens	04/01/2009	0	0	0	0	0	0	Bachelor	-	-	-	-
Corp. VP, Marketing & Branding	Gianpiero Morbello	05/01/2008	0	0	0	0	0	0	Bachelor	-	-	-	-
Corp. VP & TWN Operation President	Scott Lin	11/01/2001	1,248,264	0.05	7,511	0	0	0	Bachelor	• Chairman of Minly Technology Corp..	-	-	-
Corp. VP & CBG President	James Chiang	01/01/2002	1,604,536	0.06	21,944	0	0	0	Bachelor	• Chairman of Weblink International Inc. • Director of Lottery Technology Services Corp. • Director of Minly Technology Corp.	-	-	-
Corp. VP & ETBG President	Simon Hwang	09/01/2008	11,250,591	0.43	3,400,428	0.13	0	0	Bachelor	• Director of RoyalTek Co., Ltd. • Director of ETEN Investment Co., Ltd. • Director of PROTEK Investment Co., Ltd. • Director of LITEN Technology Co., Ltd. • Director of TOPTEK Investment Co., Ltd.	-	-	-
Corp. VP & ACCN President	T.Y Lay	11/01/2001	2,532,833	0.10	16,039	0	0	0	Bachelor	-	-	-	-
EBG President	Ben Wan	05/16/2002	28,840	0	0	0	0	0	Master	• Director of Acer Cyber Center Services Inc. • Director of ARC Consultants Ltd.	-	-	-
CFO	Howard Chan	01/19/2000	818,786	0.03	21,226	0	0	0	Master	• Chairman of Acer Investment Inc. • Director of Lottery Technology Services Corp. • Director of Cross Century Investment	-	-	-
VP of ITGO	Campbell Kan	03/28/2007	870,821	0.03	8,784	0	0	0	Bachelor	-	-	-	-

Title	Name	Date of Accession	Shares Held Directly		Shares Held by Spouse & Minors		Shares Held by the Other's		Education	Main Curriculum Vitae	Spouse or Immediate Family Holding Position as President or Vice President		
			Number	Percentage	Number	Percentage	Number	Percentage			Title	Name	Relationship
VP of ITGO	Jackson Lin	02/16/2004	735,185	0.03	7,250	0	0	0	Bachelor	-	-	-	-
VP of ITGO	Towny Huang	01/01/2008	149,408	0.01	0	0	0	0	Bachelor	• Chairman of Lottery Technology Services Corp.	-	-	-
VP of ITGO	Wayne Ma	11/01/2008	3,308,585	0.13	684,434	0.03	0	0	Bachelor	• Director of RoyalTek Co., Ltd.	-	-	-
VP of TWN Operation	Peter Shieh	11/01/2001	855,179	0.03	77,534	0	0	0	Bachelor	-	-	-	-
VP of TWN Operation	Jafa Lin	07/01/1996	210,938	0.01	0	0	0	0	Bachelor	-	-	-	-
VP of EBG	Angelina Hwang	09/01/2002	136,778	0	8,891	0	0	0	Bachelor	-	-	-	-
VP of EBG	Michael Wang	11/01/2008	905	0	0	0	0	0	Bachelor	-	-	-	-
VP of TWN Operation	Calvin Chang	11/01/2001	155,258	0.01	0	0	0	0	Bachelor	-	-	-	-
Head of Branch Office	PH Wu	01/12/2006	139,121	0	0	0	0	0	Bachelor	-	-	-	-
Head of Branch Office	Tc Yang	01/12/2006	383,618	0.01	0	0	0	0	Bachelor	-	-	-	-
Head of Branch Office	YS Shiau	01/12/2006	437,808	0.02	0	0	0	0	Bachelor	-	-	-	-

3.3 Corporate Governance Status

3.3.1 Meetings Held by the Board of Directors

The Board of Directors held four meetings. 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	4	0	100%	
Director	Stan Shih	4	0	100%	
Director	Hung Rouan Investment Corp	4	0	100%	
Director	Gianfranco Lanci	4	0	100%	
Director	Walter Deppeler	4	0	100%	
Director	Philip Peng (Representative of Smart Capital Corp.)	4	0	100%	
Director	Hsin-I Lin	4	0	100%	

3.3.2 Operational Situation of the Audit Committee: Not applicable.

3.3.3 Supervisor's Participation of Meetings Held by the Board

The Board of Directors held four meetings. The record of the supervisors' attendances is shown below:

Title	Name	No. of Meetings Attended	No. of Meetings Attended by Proxy	Meeting Attendance Rate (%)	Note
Supervisor	Carolyn Yeh	4	0	100%	
Supervisor	George Huang	4	0	100%	

3.3.4 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 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	The composition of the Board has been taken into considerations on the business needs and operations of the Board. The Articles of Incorporation has been amended to elect independent directors, which should be followed in future elections.	No discrepancy

Items	Enforcement Status	Discrepancy between the corporate governance principles implemented by the Company and the Principles, and the reason for discrepancy
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 establishment of communication channels with stakeholders	The Company has established the appropriate communication channels with suppliers, buyers, banks, investors and other stakeholders.	No discrepancy
D. 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, one acting speakers and designated team to be responsible for gathering and disclosing the information.	No discrepancy
E. The establishment and enforcement of Nomination and Compensation Committee and other Functional Committees	The Company has established a Compensation Committee	No discrepancy
F. 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:		
<ul style="list-style-type: none"> · Not applicable. 		
G. Other important information that may facilitate better understanding of the status of corporate governance (e.g. human rights, employee rights, investors relationships, the relationship with suppliers, interested parties' rights, D&O liabilities insurance, and such):		
<ul style="list-style-type: none"> · The Company has actively participated in community or charitable activities such as: <ol style="list-style-type: none"> 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 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. · In addition to the training courses required by authorities, the Company has 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. 		

3.3.5 Statement of Internal Control System

Date: March 31, 2009

Based on the findings of a self-assessment, Acer Incorporated (hereinafter, the "Company") states the following with regard to its internal control system during the period from January 1, 2008 to December 31, 2008:

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are the responsibility 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 safe-guarding 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 2008, 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 achievement of the above-stated objectives.
6. This Statement will be an essential content of the Company's Annual Report for the year 2008 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 31, 2009, with none of the 7 attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Acer Incorporated

Chairman of the Board of Directors

CEO of Acer Inc. & Corp. President

3.3.6 Resolutions of the General Shareholder's Meeting and the Meeting of the Board of Directors

Resolutions of the General Shareholder's Meeting and the Meeting of the Board of Directors

Date	Meeting	Major Resolutions
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. The New Issuance of Common Shares through Capital Increases IV. Amendments to Acer's "Articles of Incorporation" V. "The Procedure of Proxy Statistic Verification"
May 2, 2008	Second 2008 Special BOD Meeting	I. The Approve Taking Necessary Legal Actions against Keypoint regarding Keypoint Would Infringe Acer Incorporated's Trademark Rights in Malaysia. II. To Approve Amendments to Acer's Foreign Exchange Risk Management Policy and Guidelines. III. To Approve Amendments to Acer's Articles of Incorporation. IV. To Approve Issuance of Discounted Employee Stock Options and Acer Incorporated 2008 Discounted Employee Stock Option Plan V. To Amend the Convene Issue of the Company's 2008 General Shareholder's Meeting
Jun 13, 2008	Third 2008 Special BOD Meeting	I. To Elect The Chairman of Acer Incorporated II. To Approve Amendments to Criteria for Authorities of Assents Management and Handling Committee III. To Elect The Members of Acer's Assets Management and Handling Committee, Compensation Committee, and Financial Statement and Internal Control Review Committee IV. To Endow Mr. Gianfranco Lanci with the title of Acer Inc. CEO & Corporate President V. To Endow Chairman, Mr. J.T. Wang with the title of Acer Group CEO, concurrently VI. To Approve the Ex-dividend and Ex-right Date VII. The Ratio of Share Exchange Between Acer and E-Ten (Acer : E-Ten=1 : 1.07) VIII. To Amend the Date of Share Exchange between Acer and E-Ten IX. To Sell out All the Common Shares of Apacer Technology Inc
Aug 28, 2008	Third 2008 BOD Meeting	I. The First Half of FY2008 Financial Statement II. Amendments to Acer Incorporated 2008 Employee Stock Option Plan III. Amendments to Regulations Governing Procedure for Board Directors Meetings IV. To Approve Acer's Regulations Governing Shareholder Services V. To Endow Mr. Aymar de Lencquesaing the President of Smart Handheld Business Group, with the Title of Senior Corporate Vice President VI. To Appoint Mr. Simon Hwang as the President of ET Business Group along with the Top Manager of the New Business Concurrently and to Endow Mr. Hwang with the Title of Corporate Vice President VII. The Budget of Donation to Acer Foundation for Sponsoring Pubic Activities

Date	Meeting	Major Resolutions
Oct 31, 2008	Fourth 2008 BOD Meeting	I. The Third Quarter of FY2008 Financial Statements II. To Issue 14,000 units of Acer Incorporated 2008 Employee Stock Option III. To Decide the Effective Date of the New Issued Shared for the Execution of E-ten Employee Stock Option IV. To Proposed to Invest in FUHU, INC., through Acer Inc. Subsidiaries and Affiliates V. To Participate in the Re-construction Project of Oriental Technopolis Building A&B Located in Hsichih, Taipei VI. The Appoint Mr. Wayne Ma as the Vice President of Smart Handheld Business Unit VII. To Promote Mr. Michael Wang as the Vice President of Commercial Software Business Unit
Dec 18, 2008	Fourth 2008 Special BOD Meeting	I. Acer's 2009 Annual Audit Plan II. To Acquire Trademarks Currently Owned by Gateway US Retail, Inc. and Packard Bell B.V. III. It's Proposed a Total Accrual of NT\$1,500,000,000 as the FY2008 Employee Bonus
Mar 31, 2009	First 2009 BOD Meeting	I. The FY2008 Financial Statements and Business Report II. Amendments to Acer's "Procedures Governing Lending of Capital to Others" III. Amendments to Acer's "Procedures Governing Endorsement and Guarantee" IV. The Agenda and Logistics of 2009 General Shareholder's Meeting V. The Appointment of the Auditors of Acer Inc. VI. Acer's Statement of Internal Control System for 2008 VII. To Decide the Effective Date of New Issued Shares for the Execution of E-ten Employee Stock Option VIII. To Remove Mr. T.Y. Lay from Acer Management Team IX. To Appoint Mr. Oliver Ahrens as the President of Acer China Operations, and to Endow him with the Title of Corporate Vice President

Implementation of Resolutions in 2008 General Shareholder's Meeting

Major Resolutions	Carries out the situation
1. To accept the 2007 Financial Statements and Business Report	Approved by 2008 General Shareholder's Meeting
2. To approve the proposal for distribution of 2007 profits	Has distributed stock and cash dividends to the shareholders on August 15, 2008.
3. To approve the New Issuance of Common Shares through Capital Increases	Has amended the capital's registration to the Ministry of Economic Affairs
4. To approve the Company's proposal to merge E-TEN Information Systems Co., Ltd. as its wholly-owned subsidiary by stock exchange and issuing new shares.	Has amended the registration to the Ministry of Economic Affairs
5. To approve amendments to the Articles of Incorporation	Has amended Acer's Article of Incorporated to the Ministry of Economic Affairs
6. To approve issuance of discounted Employee Stock Option	Approved by 2008 General Shareholder's Meeting
7. To approve amendments to Acer's "Procedures of Acquiring Or Disposing of Assets"	Approved by 2008 General Shareholder's Meeting
8. To approve amendments to Acer's "Foreign Exchange Risk Management Policy and Guidelines"	Approved by 2008 General Shareholder's Meeting
9. To release the non-competition restriction of a board of director elected as an individual or as a legal representative	To release the non-competition restriction of Acer's new 7 members of the board of directors and 2 members of supervisors



4. Capital and **Shares**

4.1 Sources of the Capital

4.1.1 Sources of the Capital (April 21, 2009)

Unit: Share/NT\$ Thousand

Date	Price of Issuance	Authorized Common stock		Paid-in Common stock		Notes
		Shares	Value	Shares	Value	Source of the capital
April, 2009	Share/NT\$10	3,500,000,000	35,000,000	2,642,982,993	26,429,830	

Unit: Share

Shares Category	Authorized capital			Notes
	Issued shares	Non-issued	Total	
Common shares	2,642,982,993	857,017,007	3,500,000,000	

4.1.2 Shareholding Structure (April 21, 2009)

Category/Number	Government Institution	Financial Institution	Other Institution	Individual	FINI and Foreign Investors	Total
No. of Shareholders	19	31	673	304,748	1,272	306,743
Shares	173,269,174	35,195,183	298,069,491	1,022,368,583	1,114,080,562	2,642,982,993
Percentage	6.56%	1.33%	11.28%	38.68%	42.15%	100.00%

4.1.3 The Distribution of Shareholdings (April 21, 2009)

Category	No. of Shareholders	Shares	Percentage
1 ~ 999	161,687	52,264,493	1.977%
1,000 ~ 5,000	108,926	231,996,525	8.778%
5,001 ~ 10,000	19,637	135,499,093	5.127%
10,001 ~ 15,000	6,776	79,792,333	3.019%
15,001 ~ 20,000	2,806	48,441,115	1.833%
20,001 ~ 30,000	2,598	61,991,711	2.346%
30,001 ~ 50,000	1,734	65,920,573	2.494%
50,001 ~ 100,000	1,155	79,631,458	3.013%
100,001 ~ 200,000	505	69,801,481	2.641%
200,001 ~ 400,000	342	96,360,504	3.646%
400,001 ~ 600,000	166	81,629,152	3.089%
600,001 ~ 800,000	79	55,324,451	2.093%
800,001 ~ 1,000,000	58	51,599,391	1.952%
1,000,001 and above	274	1,532,730,713	57.992%
Total	306,743	2,642,982,993	100.000%

4.1.4 The List of Major Shareholders (April 21, 2009)

Name	Shares	Percentage
National Financial Stabilization Fund	74,850,000	2.83%
Stan Shih	74,021,741	2.80%
Hong Rong Investment Corp.	67,060,863	2.54%
Management Board of Public Service Pension Fund	52,154,978	1.97%
Acer Incorporated Global Depositary Receipt	51,659,897	1.95%
Government of Singapore Fund	43,142,880	1.63%
Saudi Arabian Monetary Agency	36,790,290	1.39%
JPMorgan Chase Bank N.A. Taipei Branch in custody for Capital World Growth and Income Fund Inc.	31,753,338	1.20%
Capital Income Builder, Inc.	31,631,866	1.20%
Bureau of Labor Insurance	30,051,891	1.14%

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

Unit: NT\$

Item	Period	2007	2008	Until Mar. 31st, 2009
		Market Price Per Share	Highest	75.96
	Lowest	53.59	39.75	39.65
	Average	62.35	55.51	45.48
Net Value Per Share	Before Distribution	32.49	31.70	32.99
	After Distribution	28.55	Un-appropriated	Un-appropriated
Earning Per Share	Weighted Average Share Numbers	2,432,594	2,487,238	2,596,619
		Thousand shares	Thousand shares	thousand shares
	Earning Per Share	Current	5.48	4.72
	Adjusted	5.33	Un-appropriated	Un-appropriated
Dividend Per Share	Cash Dividend (NT\$)		3.6	2
	Stock Dividend	Retained Earning (%)	0.15	0.1
		Capital Surplus (%)	-	-
	Accumulated Unpaid Dividends	-	-	-
Return on Investment Analysis	P/E Ratio	11.70	11.76	-
	P/D Ratio	17.32	27.76	-
	Cash Dividend Yield	5.77%	3.60%	-

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 19, 2009 for approval:

The Company proposed to appropriate NT\$5,285,965,986 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\$2.0 per share.

Another NT\$264,298,300 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 10 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 2009
Paid-in capital at the beginning of the term (Unit: NT\$ Thousand)			26,428,560
Stocks, Dividend Allocated in the Year	Cash dividend per share (Note 1)		2.0
	Stock allocated per share upon capital increase with earning		0.01 Share
Stock allocated per share upon capital increase with capital reserve			0 Share
Operating profit (Unit: NT\$ Thousand)			
Increase (decrease) of operating profit compared with preceding year			
Change in Business Performance	Net profit after tax (Unit: NT\$ Thousand)		N/A
	Increase (decrease) of net profit after tax compared with preceding year		(Note 2)
	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	
		Presumed annual average return rate of investment	
	If capital reserve was not converted to capital increase.	Presumed EPS	N/A
		Presumed annual average return rate of investment	(Note 2)
	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 19, 2009

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 2009.

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 2008 as follows:

A. NT\$600,000,000 as cash bonuses to employees, NT\$900,000,000 as stock bonuses to employees, NT\$85,763,059 as remuneration to directors and supervisors.

3. The Bonuses to Employees and Remunerations to Directors, Supervisors in 2008:

	2008			
	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\$544,728,100	NT\$544,728,100	-	-
2. Stock Bonuses to Employees				
(1) Number of Shares				
(2) Value	(1) 32,999,988 shares	(1) 32,999,988 shares	-	-
(3) Circulation Rate of Shares in Stock Market on Ex-right Day	(2) NT\$329,999,880	(2) NT\$329,999,880	-	-
	(3) 1.37%	(3) 1.37%	-	-
3. Remunerations to Directors, Supervisors	NT\$116,630,397	NT\$116,630,397	-	-
(2) Earning Per Share (EPS):				
Original EPS	NT\$5.48	NT\$5.48	-	-
Reset EPS	NT\$5.06	NT\$5.06	-	-

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 (March 31, 2009)

Description	Date of issuance	November 1, 1995	July 23, 1997
Date of issuance		November 1, 1995	July 23, 1997
Location of issuance and transaction		London	London
Total amount of issuance		US\$220,830,000	US\$160,600,000
Unit price of issuance		US\$32.475	US\$40.15
Total number of units issued		6,800,000units	4,000,000units
Sources of valuable securities demonstrated		Capital increased in cash	Capital increased in cash
Number of valuable securities demonstrated		Each unit stands for Acer's 5 common shares	Each unit stands for Acer's 5 common shares
Rights and obligations of GDR holders		Same as Acer's common shareholders	Same as Acer's common shareholders
Consignee		None	None
Depository organization		Citicorp	Citicorp
Custodian organization		Citibank Taipei Branch	Citibank Taipei Branch
Balance not retrieved		9,927,667 units of Global Deposit Receipt as representing 49,638,422 shares of common stocks	
Method to allocate fees incurred during the period of issuance and existence		The expenses incurred by issuance being taken to offset premium reserve. Expenses incurred during existence being taken as expenses of the current term.	The expenses incurred by issuance being taken to offset premium reserve. Expenses incurred during existence being taken as expenses of the current term.
Any key issue for the depository and custodian agreements		None	None
Market Price Per Share	2008	Highest	US\$11.50
		Lowest	US\$ 5.95
		Average	US\$ 8.86
	Until Mar. 31th, 2009	Highest	US\$ 7.55
		Lowest	US\$ 5.94
		Average	US\$ 6.65

4.5 Employee Stock Options: (March 31, 2009)

Employee Stock Option Granted	First Grant of 2008
Approval Date by the Authority	September 15, 2008
Grant Date	November 03, 2008
Number of Options Granted	14,000 units
Percentage of Shares Exercisable to Outstanding Common Shares (%)	0.5297
Option Duration	3 years
Source of Option Shares	new Common stocks
Vesting Schedule	From the 2nd anniversary of the grant date, except that all or partial options revoked by the company, 100% vested options can be exercised without conditions
Shares Exercised	0
Value of Shares Exercised	NT\$ 0

Shares Unexercised	14,000,000 shares
Adjusted Exercise Price Per Share	NT\$ 25.28
Percentage of Shares Unexercised to Outstanding Common Shares (%)	0.52975
Impact on Shareholders' Equity	Dilution to Shareholders' Equity is limited.

4.6 Issuance of New Shares Due to Company's Mergers and Acquisitions:

4.6.1 Underwriter's Opinion for the Mergers and Acquisitions

1. Underwriter's Opinion of the Impact of Acer's Operating Business, Financial Aspect and Stock Holders' Equity

(1) Impact of Acer's Operating Business after Acquisition

Acer ranked among the world's top five PC vendors, and E-ten was a leading vendor of smart handheld devices. The merger of the two companies was anticipated to expand Acer's product offering and client base, and increase sales.

When E-ten became a wholly-owned subsidiary of Acer and merged its R&D resources, the launch of Acer branded smartphones in Q4 2008 immediately enhanced our product offering in the mobile Internet device (MID) market segment.

In Q4 2008, smartphone sales increased to NT\$110.24 billion, representing 10.69% on-year growth. This significant increase goes to prove the new synergies that were expected, in terms of expanded product offering and client base.

(2) Financial Impact on Acer after Acquisition

The acquisition of E-ten not only benefited Acer in terms of technology in the MID segment, but also enhanced our scale of procurement. With the greater scale, Acer was able to negotiate better costs and reflect the savings in our product competitiveness.

On the balance sheet, Acer issued 168,158,878 new shares for this acquisition, and increased long term investments by NT\$8.7 billion. Growth in the Q4 2008 sales again shows the acquisition has increased Acer's profitability.

(3) Influence on Stockholders' Equity after Acquisition

As for stockholder's equity, Acer issued 168,158,878 new shares in exchange for 179,930,000 E-ten shares; hence Acer's long term investment increased by NT\$8.7 billion and then increase its book value per share. Overall, the acquisition has a positive impact on Acer stockholder's equity.

(4) Evaluation of the Acquisition

The date of Acer's and E-ten's share conversion was September 1, 2008, and the Company has issued the shares and registered on October 14, 2008. After this acquisition, both sides will gain better purchasing bargaining power through Acer's supply chain and reduce the overall purchase cost so that the company can increase its stockholder's equity and profitability. Both sides also can enhance company's competitiveness and profitability by sharing resources of financial, business, channels, purchasing, R&D and Acer's global brand image. It's foreseen that the coalition synergy will gradually emerge.

2. Execution Update and Impact of Acer's Stock Holders' Equity of the Unachieved Goals: Not applicable.

4.6.2 Resolutions of Mergers and Acquisitions in the Meeting of the Board of Directors in the Previous Year: None



5. Acer's **Winning Formula**

5.1 Acer's Winning Formula

Since the Company's inception in 1976, Acer has grown to become the world's No. 3 vendor for Total PCs and No.2 for notebooks. Focusing on research and development, marketing, sales and after-services of IT and communications devices, Acer's range of product offering includes notebooks, desktop PCs, LCD monitors, projectors, servers, and smartphones. Under the Acer Group umbrella consists of four brands – Acer, Gateway, Packard Bell and eMachines. In 2008, the consolidated financial results showed revenues of NT\$546.27B (US\$16.65B) and the operating income of NT\$14.07B (US\$428.8M).

In the past five years, Acer has demonstrated a strong growing momentum in global PC shipments; our annual growth rate was more than twice the industry average and far surpassed the top PC players. According to the 2008 global PC shipment data by Gartner Dataquest, Acer's growth of 55.2% year-on-year was the highest among the top 3 vendors.

The successful mergers of Gateway (2007) and Packard Bell (2008) together complete Acer's global footprint by strengthening our presence in the U.S. and allowing a deeper penetration into the European and Asian markets. These acquisitions also marked the beginning of a new era for Acer with a multi-brand strategy to target different geographic- and consumer segments. In 2008 Acer also acquired E-ten; a decision that reflects our anticipation of an accelerating convergence between PC and handheld communication devices over the next few years.

5.2 The Five Keys to a Sustainable Future

5.2.1 Multi-brand Strategy

The PC is becoming a commodity. Aware of the vast diversity among consumer tastes, a single brand cannot cover the preferences of all market segments. Acer saw the opportunity to adopt a multi-brand strategy by acquiring Gateway and Packard Bell. The results so far have assured us the multi-brand approach was and is the right response to an ever-changing market. In just over a year, Acer has set up a global multi-brand management framework, and launched differentiated product designs to precisely target all major market segments.

5.2.2 Sustainable and Profitable Business Model

Acer adheres to a channel business model that involves collaboration with first-class suppliers and distributors, leveraging their resources and ultimately, sharing the fruits of success among all partners. Besides, our low capital- and operating expense policy has been beneficial to the steady growth of our business operations.

5.2.3 Efficient Global Operations

Based upon the management philosophy of upholding a "simple" and "focused" approach, Acer spun off the manufacturing operations in 2000 to concentrate all resources on building its brand name business. Our top management from product development, marketing and the regions gather on a regular basis to discuss key issues. This practice ensures clear understanding and smooth internal communication, which lead to efficient decision making followed by accurate implementation. In addition, Acer has a flexible and dynamic global logistics network to ensure time-to-market delivery of our products.

5.2.4 End-to-End Marketing Strengths

To begin with, our products are designed around customer needs – that means understanding exactly what our customers want, and using our knowledge and skills to exceed their expectations by making technology simple to use, stylish to own and accessible to everyone. Combined with Acer's fast decision making, call to action and timely release of products to market, to form an end-to-end marketing prowess that ensures continuing business success ahead.

5.2.5 Growth and Scale

The recent mergers and combined scales have already created new synergies as predicted. With remarkable growths in revenue, operating income and market share worldwide, Acer is today more competitive than ever.

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 2007				Year 2008			
	From	Amount	Percentage of total net sales (%)	Relationship with Acer Inc.	From	Amount	Percentage of total net sales (%)	Relationship with Acer Inc.
1	AEG	156,272,182	49	(Note 1)	AEG	175,166,900	42	(Note 1)
2	Acer America	53,157,861	17	(Note 1)	Acer America	77,740,860	19	(Note 1)
3	AAPH	0	0	(Note 1)	AAPH	39,997,623	10	(Note 1)

Note 1: Subsidiary of the Company.

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

Unit: NT\$ Thousand

Item	Year 2007				Year 2008			
	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	108,314,055	23	none	Supplier A	132,799,596	20	none
2	Supplier B	64,575,335	13	(Note 2)	Supplier B	80,334,992	12	none
3	Supplier C	51,409,143	11	none				

Note 2: Investee of the Company

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

5.3 Employees

5.3.1 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 (Figures in 2007 excludes 787 employees from Gateway):

-By Manpower, Age and Years of Service

Category	Date	December 2007	December 2008	February 2009
Manpower		5,251	6,727	6,877
Average Age		37.3	37.5	37.6
Average Years of Employment		6.6	7.1	7.1

-By Job Function

Job Function	Date	December 2007	December 2008	February 2009
General Management		136	157	157
Sales & Product Marketing		1,423	1,857	1,927
Customer Service		2,287	2,710	2,761
Research & Development		198	510	527
Sales Support		707	872	883
Administrations		500	621	622
Total		5,251	6,727	6,877

- By Education Level

Education Level	Date	December 2007	December 2008	February 2009
Doctor of Philosophy		0.3%	0.2%	0.2%
Master's Degree		18.5%	19.0%	19.2%
Bachelor's Degree		42.2%	43.7%	43.7%
Vocational Study		33.2%	31.7%	31.6%
Senior High School Below		5.8%	5.4%	5.3%
Total		100%	100%	100%

5.3.2 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.

5.3.3 Acer Employee Management

To assure business growth on a healthy and comprehensive management system, the mutual rights and obligations between the Company and employees are explicitly specified as follows:

· **Authority Management**

According to the levels of management responsibilities, "The Table of Authority Approval," "Regulations on Delegated Deputy", and the "Scheme of Job Categories and Titles" are regulated to assure well-functioning in all layers of directive operations, and furthermore, to provide staff with a sound blueprint for career development paths.

· **Acer Employee Code of Conduct**

1. Emphasize on both customer rights and Company interests, and put pragmatic consideration of economic factors during policy making.
2. Do not argue with customers and attentively work to resolve customer complaints.
3. Do not reveal customer or Company secrets.
4. Strive to protect the company's physical and intangible assets.
5. Actively work to uphold the Company's reputation and refrain from deleterious behavior.
6. Clearly understand and respect the scope of authority given, and do not autonomously override these parameters.
7. Avoid involvement in any behavior or act that could pose a conflict of interest with your personal affairs and the Company's interests; if this occurs then these matters should be disclosed accordingly.
8. Do not utilize your professional authority to accept personal bribes or kickbacks.
9. Do not utilize the Company's computer network system to carry out inappropriate acts.
10. Do not engage in illegal or inappropriate activities.

· **Sexual Harassment Prevention Measures**

The Company is dedicated to ensuring sex equality and human dignity in workplace, securing working environment free from sexual harassment and discrimination. With the promise, the Prevention Measures and Disciplinary Actions on Sexual Harassment were enacted, which specify the reporting channels, dealing procedures, and disciplines.

· **Declaration of Secrecy and Intellectual Property Rights**

The Company places extreme importance on the protection of intellectual properties rights. All staff are required to sign the Declaration on Non-Disclosure Agreement on joining the Company, which declares the obligations to protect confidential information and the restrictions on use of the confidential information during the employment period and employment termination.

5.3.4 Training and Development

Acer has created an employee training system that encourages people development and assists with career planning. People from diversified fields of profession are developed by means of on-the-job training, job rotation and overseas assignments, and comprehensive training modules, with an aim to aligning mindset and strengthening core competencies as well as managerial skills.

1. Managerial Training: Managers are trained to think strategically, to strictly enforce rules, be proficient in problem analysis and solving – creatively and efficiently.
2. Professional Training: The specialized function staff is advanced to have cutting-edged knowledge, with emphasis on branding management, marketing, supply chain management, and process leveraged.
3. General Education: Guided by Acer's Core Values, the design of training calls attention to the fast, efficient, and innovative actions, and value-creating, customer-centric, caring, and ethical pillars of belief.

5.3.5 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 conforming to labor regulations, the Company provides group medical insurance and educational grants, in addition to arranging family outings, internal social clubs, domestic and overseas holiday breaks, gift vouchers, and such.

5.3.6 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.

5.3.7 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.

5.3.8 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.
- The Company conducts an annual employee opinion poll to understand the perceptions of employees on the Company, management team and working environment. Such feedback provides valuable direction for the management to take improved actions.

5.4 Important Contracts

Nature of Contracts	Contracting Parties	Beginning and Ending Dates of Contracts	Major Content	Restrictive Clauses
Software License Agreement	Microsoft Inc.	Aug 1, 2008~Jul 31, 2009	Obtain license from Microsoft for using certain software	Confidential Non-assignable
Patent License Agreement	IBM Corp.	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
	Hewlett-Packard Development L.P.	Jun 13, 2008~Jun 12 2014	Cross license arrangements for certain 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	Coodinator: 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





6. Corporate **Social Responsibility**

As one of the world's leading PC vendors, 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 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 2006 Acer's year of sustainability. Responding to challenges from the organizational level, Acer set up a Corporate Sustainability Office (CSO). We spent almost one year to complete an integrated strategy and set the 2008-2010 CSR action plans for a sustainable Acer. In spring 2008, our board of directors highlighted the milestones for embedding CSR within Acer, and designated Acer Inc. CEO & Corporate President Gianfranco Lanci to be the corporate sustainability officer of the CSO. Acer's CSR agenda in 2008 focused on the following five areas: energy and climate, green product, recycling, supply chain management, and reporting. Acer will continue to fulfill its mission to breaking the barriers between people and technology, with a strong commitment on CSR. We believe that Acer will be a leading solution provider for our sustainable future.

6.1 Environmental, Safety and Health Management

Environmental Protection

Energy and Climate Change

In response to global warming and climate change, Acer's Integrated Strategy on Energy and Climate Change was formulated in 2008. The Company aspires to lead its supply-chain members to take part in the fight against global warming, and began conducting a comprehensive examination of all potential methods to conserve energy and reduce carbon dioxide emissions. In 2008, the following actions were taken:

1. Improve energy consumption in products: Acer became a sponsoring member of the Climate Saver Computing Initiative (CSCI), and pledged to adopt CSCI's objectives of producing and purchasing products of lower power consumption. Meanwhile, Acer focused on designing power-saving products and compliance with Energy Star standards to help protect our planet.

2. Carbon disclosure: Acer began a corporate-wide green house gas (GHG) emission inventory in April 2008 with the GHG Protocol as the central guiding principles. We responded and publicly disclosed the questionnaire published by Carbon Disclosure Project (CDP) – an organization established by major investment bodies around the world. Acer is well aware of the significance of topics such as climate changes, GHG and their vital relation to supply chains, this is why Acer is participating in the Supply Chain Leadership Collaboration (SCLC) project initiated by the CDP and calling for our suppliers to start GHG inventory. In the future, we will engage more suppliers and request more comprehensive information on GHG emission. We will also start collecting transportation data relating to GHG emissions from our product logistics and after-sales services.
3. Energy efficiency improvement in office buildings: Besides reducing power from air-conditioning at Acer's headquarters, we also took several power-saving measures such as turning off lights during lunch times, and installing low power consumption lighting such as using LED emergency signage.
4. GHG reduction initiatives: Acer collaborated with other companies to host the Taiwan Corporate Sustainability Forum in 2008, which presented a platform for the effective discussion and knowledge exchange on GHG reduction for Taiwan.

Green Product Design

Minimizing the impact on our environment is one of Acer's focal concerns from the early stage of our product design. Less packaging materials are used to save resources, and a guidance of restricted chemical substances was established to manage banned substances, and restricted substances of the present and the future in our products. We will continue to research and find PVC, BFR and phthalates substitutes for hazardous substance-free designs. Staying abreast with international environmental trends, Acer complies with related international and domestic regulations and makes every effort to design environmentally friendly products by being responsible for product recycling, disclosing product environmental information and providing guidance and management on environmental aspects for green suppliers.

Safety and Health Management

Working Environment Safety Management Plan

At the Acer headquarters in Taiwan, employees and guests must use an access card to enter the general office areas in normal office hours. During holidays and evenings, entry into the office area requires an additional personal identity number. In the interest of safety for female employees, entry into women's restrooms also requires card access; inside these restrooms emergency alarms and telephones have been installed to provide a double measure of protection.

Occupational Health and Safety Management System

Acer introduced the OHSAS 18001 (Occupational Health and Safety Assessment Series 18001) and TOSHMS (Taiwan Occupational Safety and Health Management System) in the Taipei headquarters in fall 2008. We believe these two systems will help us further manage occupational health and safety risks and reduce accidents. The two systems will go into effect commencing 2009 and provide Acer a more systematic management method of measure.

In addition to these jobsite safety and fire protection measures, Acer conducts – annually – two CO2 level inspections and one electromagnetic wave inspection of the office area. These checks go to ensure a healthy and safe office environment, and to provide employees with a peace-of-mind.

Acer has formed its own firefighting operating procedure for the initial line of self-defense in an emergency. Acer's firefighting team consists of an escape assistance squad, fire-extinguishing squad, reporting squad, first-aid squad, transport squad, and safety and prevention squad. The team's primary mission is to carry out the initial fire extinguishing efforts and evacuate employees in the case of a fire emergency, thus reducing the impact of

disaster. Acer coordinates with the Building Management Committee to conduct biannual fire safety drills. Random, unscheduled drills are made to ensure employees remain prepared at the Acer headquarters, while also cooperating with the Fire Department to update on firefighting training.

Employees are the most valuable asset to Acer. An employee leisure zone has been set up along with a basketball court at the rooftop of the Acer headquarters. A series of lectures on health management is held to promote healthy living among employees, with topics ranging from allergies, nutrition to stress management and more. We established the Acer Sports Team to encourage employee participation in sports activities such as running and swimming. Employees are encouraged to get together outside of work and organize group activities where they can share interests and build friendships. Since 2008, Acer has organized a massage service for employees to help relief pressure. These various activities help Acer's employees to better balance their professional and personal lives and to be more productive in their work.

6.2 Stakeholders Communication and Management

Supply Chain Management

Green Supply Chain Management

With increasing global environmental awareness, supply chain management is now adding environmental elements to the conventional production management-centered paradigm. In other words, environmental protection principles have been included in supply-chain management mechanisms. Acer and its suppliers are interdependent and therefore should work together towards the establishment of a green supply chain management system. The system includes three main parts: 1. Environmental Management System: Acer demands that its first-tier suppliers establish an environmental management system. Currently all suppliers to Acer are ISO14001 certified; 2. Eco Product Requirement: All suppliers should meet the Eco Product Requirement put forward by Acer; 3. Restricted Chemical Materials Management: Acer requires suppliers to follow Acer's Guidance of Restricted Substances in Products. This management framework guarantees product quality and ensures the restricted use or elimination of hazardous chemical substances.

Electronic Industry Citizenship Coalition

Acer applied to the Electronic Industry Citizenship Coalition (EICC) in May 2008. We implemented the EICC Code of Conduct with the cooperation of its members and support from our supply chain. We believe the EICC Code of Conduct can reduce suppliers' duplicate work, build suppliers' capacity of human rights, health, safety, environment, ethics, and social responsibility in our supply chain.

We announced in our 2008 supplier conference that all Acer's ODM and key components suppliers had to answer the EICC Self-Assessment Questionnaire (SAQ) to understand how they perform in social and environmental responsibility. We then evaluated their EICC SAQ result and conducted on-site audits of selected suppliers to confirm their actual situation in December 2008.

The first Acer CSR Forum with the theme of Global Challenges to a Sustainable Development was held at the end of 2008 to increase awareness among Acer's suppliers and Taiwan's ICT industry on CSR and sustainable development. Acer invited international and domestic CSR stakeholders to share experiences with the Taiwan ICT industry; groups invited included CDP, CSCI, EICC, Greenpeace, Centre for Research on Multinational Corporations (SOMO), Workers' Assistance Center (WAC), Association in Sustainable & Responsible Investment in Asia (ASrIA) and Taiwan Environmental Action Network (TEAN). The forum also involved enterprises with outstanding CSR performance, including Sony, Delta Electronics, AUO and Foxconn.

Acer understands that to fully practice CSR requires cooperation among all stakeholders. The forum enabled Acer to collect stakeholders' opinions and recommendations to help draw up Acer's future CSR strategies, build relations

with stakeholders based on mutual understanding and respect, and express Acer's standpoint and stance on CSR. Acer is committed to ongoing communications with its stakeholders and to influencing suppliers to enhance overall competitiveness.

Client Relations

Acer strives to meet customer demands by understanding exactly what our customers need, and using our knowledge and skills to exceed their expectations through cutting-edge technology. Ultimately, we hope that customers are proud of their Acer products. Acer is ISO 9001 certified, which 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." Product repair reports are reviewed every week with improvements immediately incorporated into the production lines. Customers can rest assured knowing that they have a safe product and that Acer will continue to provide comprehensive customer service.

6.3 Social Welfare

Acer Foundation

Founded in July 1996, the Acer Foundation was established through donations from various departments throughout the Company. Acer Foundation upholds the concept that "embracing technology allows us to widen our horizons" and believes the key to working together toward an international alliance of wisdom requires a long period of cultivation. Acer Foundation's mission is threefold: research and develop technology and management; cultivate talents; and reward and promote service.

In mid 2008, Acer CEO J.T. Wang was elected as the CEO of Acer Foundation and took the foundation to a new phase by becoming involved in the Company's resolution to promote CSR. Acer Foundation will serve as a platform for international and domestic CSR stakeholders to communicate and help the ICT industry in Taiwan to become more sustainable.

Acer Volunteers

The Acer Volunteer Team was established in October 2004 for the purpose of giving colleagues a channel to contribute their spare time and energy to public welfare services. Apart from providing opportunities for interaction and friendship between colleagues from different departments and backgrounds, Acer volunteers bring new life experiences and personal growth through their activities.

In the initial stage, volunteer activities mainly revolved around Acer's core business and involved setting up Internet service, computer repair, software design, and providing assistance to disadvantaged minority groups. Since 2007, the Acer Volunteer Team gradually expanded its scope of charity to cover various kinds of activities, including money donation, blood donation, and second-hand goods donation. Acer volunteers also funded after-class projects for less privileged children in Taiwan's Hsichih county every year. To raise environmental awareness among our employees, Acer volunteers initiated on Earth Day, April 22, 2008, the practice of switching off office lights during lunch breaks. In the future, Acer volunteers will keep giving back to society and manifest corporate responsibility.



7. Financial Standing

7.1 Five-Year Consolidated Financial Information

7.1.1 Five-Year Balance Sheet

As of March 31, 2009
Unit: NT\$ Thousand

Item	Period	Most Recent 5-Year Financial Information					Current Year as of Mar.31, 2009
		2004	2005	2006	2007	2008	
Current Assets		85,029,907	139,242,560	161,267,661	191,626,201	186,390,592	201,740,858
Fund and Long-term Equity Investments		20,644,599	17,605,973	13,835,538	11,202,652	6,773,547	7,445,583
Net Property, Plant and Equipment		13,446,980	9,468,157	6,190,501	8,636,441	9,336,221	9,262,067
Intangible Assets		784,296	501,878	396,682	25,926,493	34,746,765	37,656,421
Other Assets		4,555,507	4,763,374	6,809,916	5,891,555	6,195,100	6,373,407
Total Assets		124,461,289	171,581,942	188,500,298	243,283,342	243,442,225	262,478,335
Current	Before Distribution	59,898,759	102,158,601	109,970,460	142,842,574	149,315,158	164,687,935
Liabilities	After Distribution	64,857,922	109,390,340	119,487,678	152,163,698	Un-appropriated	Un-appropriated
Long-term Liabilities		257,007	146,623	168,627	16,790,876	4,134,920	4,116,219
Other Liabilities		2,087,804	2,027,268	2,805,428	6,240,899	7,114,532	7,432,099
Total	Before Distribution	62,243,570	104,332,491	112,944,515	165,874,348	160,564,610	176,236,253
Liabilities	After Distribution	67,202,733	111,564,230	122,461,733	175,195,472	Un-appropriated	Un-appropriated
Common stock		20,933,677	22,545,187	23,370,637	24,054,904	26,428,560	26,428,560
Capital surplus		30,541,969	30,552,132	29,947,020	29,898,982	37,129,952	37,203,104
Retained	Before Distribution	13,211,567	16,123,212	18,284,265	21,041,713	22,771,901	24,797,631
Earnings	After Distribution	8,252,404	8,891,473	8,767,047	11,720,589	Un-appropriated	Un-appropriated
Unrealized Gain (loss) on Financial Assets		(731,426)	65,608	4,361,608	2,524,500	(1,729,631)	(1,085,579)
Translation Adjustments		132,516	(226,806)	1,335,500	2,733,899	1,241,058	1,844,113
Minimum Pension Liability Adjustment		(0)	(0)	0	(173,364)	(283)	(283)
Treasury Stock		(3,411,280)	(3,270,920)	(3,270,920)	(3,270,920)	(3,522,598)	(3,522,598)
Minority Interest		1,540,696	1,461,038	1,527,674	599,280	558,656	577,134
Stockholders' Equity	Before Distribution	62,217,719	67,249,451	75,555,783	77,408,994	82,877,615	86,242,082
	After Distribution	57,258,556	60,017,712	66,038,565	68,087,869	Un-appropriated	Un-appropriated

7.1.2 Five-Year Consolidated Income Statement

Unit: NT\$ Thousand

Item	Period	Most Recent 5-Year Financial Information					Current Year as of Mar.31, 2009
		2004	2005	2006	2007	2008	
Operating Revenue		225,014,007	318,087,679	350,816,353	462,066,080	546,274,115	119,086,448
Gross Profit		27,219,303	34,121,461	38,171,313	47,418,310	57,285,660	11,918,367
Operating (loss) Income		3,806,657	7,648,961	7,462,446	10,185,123	14,072,302	2,570,574
Non-operating Income and Gain		6,742,733	7,176,374	9,266,120	6,699,671	5,353,038	467,666
Non-operating Expense and Loss		1,908,790	4,172,803	3,180,259	1,776,157	4,618,613	282,903
Continuing Operating Income before Tax		8,640,600	10,652,532	13,548,307	15,108,637	14,806,727	2,755,337
Income(Loss) from Discontinued Segment		0	0	0	517,866	99,843	0
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		7,011,661	8,477,502	10,218,242	12,958,933	11,742,135	2,025,730
EPS		2.86	3.48	4.20	5.33	4.72	0.78

7.1.3 CPAs and Auditor's Opinions:

Year	Name of CPA(s)	Auditor's Opinion
2004	Sonia Chang, Winston Yu	Unreserved
2005	Sonia Chang, Winston Yu	Modified Unreserved
2006	Winston Yu, Albert Lou	Modified unreserved
2007	Sonia Chang, Winston Yu	Unreserved
2008	Sonia Chang, Agnes Yang	Modified unreserved

7.2 Five-Year Financial Analysis

Period	Item	Most Recent 5-Year Financial Information					Current Year as of Mar.31, 2009	
		2004	2005	2006	2007	2008		
Financial Ratio (%)	Total liabilities to Total Assets	50.01	60.81	59.92	68.18	65.96	67.14	
	Long-term Debts to Fixed Assets	480.13	733.23	1,268.55	1,162.99	1,008.19	1,055.82	
Ability to Payoff Debt	Current Ratio (%)	141.96	136.30	146.65	134.15	124.83	122.50	
	Quick Ratio (%)	117.11	106.20	121.20	106.32	95.47	99.30	
	Interest Protection	15	29	33	21	12	14	
Ability to Operate	A/R Turnover (times)	7.28	6.05	5.26	5.34	5.18	4.61	
	A/R Turnover days	50	60	69	68	70	79	
	Inventory Turnover (times)	17.52	13.39	12.01	13.88	13.24	11.64	
	Inventory Turnover days	21	27	30	26	28	31	
	A/P Turnover (times)	7.80	5.67	4.72	5.63	6.39	5.62	
	Fixed Assets Turnover (times)	16.73	33.60	56.67	53.50	58.51	51.43	
	Total Assets Turnover (times)	1.81	1.85	1.86	1.90	2.24	1.81	
Earning Ability	Return on Assets (%)	6.17	5.92	5.85	6.27	5.23	3.45	
	Return on Equity (%)	11.07	13.10	14.31	16.94	14.65	9.58	
	To Pay-in Capital %	Operating Income	18.18	33.93	31.93	42.34	53.25	38.91
		PBT	41.28	47.25	57.97	62.81	56.03	41.70
	Net Income Ratio (%)		3.12	2.67	2.91	2.80	2.15	1.70
	EPS (NTD)		2.86	3.48	4.20	5.33	4.72	0.78
Cash flow(%)	Cash Flow Ratio	3.40	6.97	12.03	(4.59)	(3.46)	19.08	
	Cash Flow Adequacy Ratio	19.96	46.41	61.02	26.47	17.55	45.37	
Leverage	Cash Reinvestment Ratio	(4.24)	3.11	7.89	(19.89)	(21.40)	48.05	
	Operating Leverage	4.90	2.93	3.45	2.99	3.14	3.83	
	Financial Leverage	1.19	1.05	1.06	1.08	1.10	1.09	

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 = (Net 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 2009 General Shareholders Meeting

The Board of Directors of the Company has prepared the 2008 financial report, including balance sheet, statement of income, statements of changes in stockholders' equity, and statement of cash flows. Sonia Chang and Agnes Yang 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.

ACER INCORPORATED AND SUBSIDIARIES
Consolidated Financial Statements
December 31, 2007 and 2008
(With Independent Auditors' Report Thereon)

Supervisor: George Huang

Supervisor: Carolyn Yeh

Dated: April 24, 2009

Independent Auditors' Report

The Board of Directors
Acer Incorporated:

We have audited the consolidated balance sheets of Acer Incorporated (the "Company") and subsidiaries as of December 31, 2007 and 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Acer Incorporated and subsidiaries as of December 31, 2007 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

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

The consolidated financial statements as of and for the year ended December 31, 2008, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation, and in our opinion, the consolidated financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(26) to the consolidated financial statements.

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

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, 2007 and 2008

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

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

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2007 and 2008

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

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

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2007 and 2008

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

	2007	2008	
	NTS	NTS	US\$
Revenues (note 5)	462,066,080	546,274,115	16,645,564
Cost of revenues (note 5)	(414,647,770)	(488,988,455)	(14,900,008)
Gross profit	47,418,310	57,285,660	1,745,556
Operating expenses (notes 4(14), 4(18), 4(21), 5, and 10)			
Selling	(32,727,126)	(35,764,261)	(1,089,776)
Administrative	(4,156,402)	(6,899,059)	(210,222)
Research and development	(349,659)	(550,038)	(16,760)
Total operating expenses	(37,233,187)	(43,213,358)	(1,316,758)
Operating income	10,185,123	14,072,302	428,798
Non-operating income and gains:			
Interest income	1,343,523	1,207,826	36,804
Investment gain recognized by equity method (note 4(10))	695,660	404,184	12,316
Gain on disposal of property and equipment (note 4(12))	121,418	515,272	15,701
Gain on disposal of investments, net (notes 4(4), 4(9), 4(10) and 4(11))	4,045,981	2,709,524	82,562
Other income	493,089	516,232	15,730
	6,699,671	5,353,038	163,113
Non-operating expenses and loss:			
Interest expense	(759,907)	(1,305,746)	(39,787)
Other investment loss (notes 4(9) and 4(10))	-	(416,404)	(12,688)
Restructuring cost (note 4(22))	-	(1,582,408)	(48,218)
Foreign currency exchange loss and loss on evaluation of financial instruments, net (notes 4(5) and 4(6))	(455,385)	(866,315)	(26,398)
Asset impairment loss (note 4(13))	-	(221,931)	(6,762)
Other loss	(560,865)	(225,809)	(6,881)
	(1,776,157)	(4,618,613)	(140,734)
Income from continuing operations before income taxes	15,108,637	14,806,727	451,177
Income tax expense (note 4(19))	(2,665,578)	(3,169,446)	(96,576)
Income from continuing operations	12,443,059	11,637,281	354,601
Income from discontinued operations (net of income taxes of NTS0 and NTS23,120 in 2008 and 2007, respectively) (note 4(23))	517,866	99,843	3,042
Consolidated net income	12,960,925	11,737,124	357,643
Net income attributable to:			
Shareholders of parent company	12,958,933	11,742,135	357,796
Minority shareholders	1,992	(5,011)	(153)
	12,960,925	11,737,124	357,643
Earnings per common share (in dollars) (note 4(24)):			
Basic earnings per common share – retroactively adjusted	5.33	4.72	0.14
Diluted earnings per common share		4.65	0.14

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

	<u>Retained earning</u>				Unappropriated earnings	Foreign currency translation adjustment	Minimum pension liability adjustment	Unrealized gain (loss) on available-for-sale financial assets	Hedging reserve	Treasury stock	Minority interest	Total stockholders' equity
	Common stock	Capital surplus	Legal reserve	Special reserve								
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Balance at January 1, 2007	23,370,637	29,947,020	6,468,865	283,921	11,531,479	1,335,500	-	4,374,388	(12,780)	(3,270,920)	1,527,673	75,555,783
2007 net income	-	-	-	-	12,958,933	-	-	-	-	-	1,992	12,960,925
Foreign currency translation adjustment	-	-	-	-	-	1,398,399	-	-	-	-	-	1,398,399
Unrealized gain (loss) on qualifying cash flow hedge	-	-	-	-	-	-	-	-	28,616	-	-	28,616
Appropriation approved by the stockholders (note 4(20)):												
Legal reserve	-	-	1,021,824	-	(1,021,824)	-	-	-	-	-	-	-
Stock dividends and employee bonuses in stock	684,267	-	-	-	(684,267)	-	-	-	-	-	-	-
Special reserve	-	-	-	(283,921)	283,921	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(8,997,695)	-	-	-	-	-	-	(8,997,695)
Directors' and supervisors' remuneration	-	-	-	-	(94,804)	-	-	-	-	-	-	(94,804)
Employee bonuses in cash	-	-	-	-	(424,719)	-	-	-	-	-	-	(424,719)
Decrease in capital surplus resulting from long-term equity investments accounted for by the equity method (note 4(10))	-	(169,810)	-	-	-	-	-	-	-	-	-	(169,810)
Cash dividends distributed to subsidiaries	-	121,773	-	-	-	-	-	-	-	-	-	121,773
Unrealized loss on available-for sale financial assets	-	-	-	-	-	-	-	(1,865,725)	-	-	-	(1,865,725)
Minimum pension liability adjustment	-	-	-	-	-	-	(173,364)	-	-	-	-	(173,364)
Change in minority interest	-	-	-	-	-	-	-	-	-	-	(930,385)	(930,385)
Balance at December 31, 2007	24,054,904	29,898,983	7,490,689	-	13,551,024	2,733,899	(173,364)	2,508,663	15,836	(3,270,920)	599,280	77,408,994
2008 net income	-	-	-	-	11,742,135	-	-	-	-	-	(5,011)	11,737,124
Foreign currency translation adjustment	-	-	-	-	-	(1,492,841)	-	-	-	-	-	(1,492,841)
Unrealized gain (loss) on qualifying cash flow hedge	-	-	-	-	-	-	-	-	(289,401)	-	-	(289,401)
Appropriation approved by the stockholders (note 4(20)):												
Legal reserve	-	-	1,295,894	-	(1,295,894)	-	-	-	-	-	-	-
Stock dividends and employees' bonuses in stock	690,823	-	-	-	(690,823)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(8,659,766)	-	-	-	-	-	-	(8,659,766)
Directors' and supervisors' remuneration	-	-	-	-	(116,630)	-	-	-	-	-	-	(116,630)
Employees' bonuses	-	-	-	-	(544,728)	-	-	-	-	-	-	(544,728)
Cash dividends distributed to subsidiaries	-	114,832	-	-	-	-	-	-	-	-	-	114,832
Decrease in capital surplus resulting from long-term equity investments accounted for by the equity method (note 4(10))	-	(78,255)	-	-	-	-	-	-	-	-	-	(78,255)
Unrealized loss on available-for sale financial assets	-	-	-	-	-	-	-	(3,964,729)	-	-	-	(3,964,729)
Minimum pension liability adjustment	-	-	-	-	-	-	173,081	-	-	-	-	173,081
Issuance of shares for acquisitions (note 4(20))	1,681,589	7,155,678	-	-	-	-	-	-	-	-	-	8,837,267
Issuance of shares for the exercise of stock options (note 4(20))	1,244	858	-	-	-	-	-	-	-	-	-	2,102
Share-based payment transactions (note 4(21))	-	37,856	-	-	-	-	-	-	-	-	-	37,856
Treasury stock held by subsidiaries	-	-	-	-	-	-	-	-	-	(251,678)	-	(251,678)
Change in minority interest	-	-	-	-	-	-	-	-	-	-	(35,613)	(35,613)
Balance at December 31, 2008	26,428,560	37,129,952	8,786,583	-	13,985,318	1,241,058	(283)	(1,456,066)	(273,565)	(3,522,598)	558,656	82,877,615
Balance at December 31, 2008 (in US\$)	805,307	1,131,390	267,737	-	426,148	37,816	(9)	(44,368)	(8,336)	(107,337)	17,023	2,525,371

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2008

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

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

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of and for the years ended

December 31, 2007 and 2008

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

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

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

The reporting entities of the consolidated financial statements include the Company and its subsidiaries (hereinafter referred to collectively as the "Consolidated Companies"). On December 31, 2007 and 2008, the number of employees of the Consolidated Companies was 6,271 and 6,727, respectively. The Consolidated Companies are summarized below according to their primary business activity.

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

Investor	Percentage of Ownership by the Company at December 31,		
	2007	2008	
(a) Acer Incorporated			
(b) Acer Greater China (B.V.I.) Corp. ("AGC", British Virgin Islands) and its subsidiaries	The Company	100.00	100.00
• Acer Market Services Limited ("AMS", Hong Kong)	AGC	100.00	100.00
• Acer Computer (Far East) Limited ("AFE", Hong Kong)	AGC	100.00	100.00
• Acer Information (Zhong Shan) Co., Ltd. ("AIZS", China)	AMS	100.00	100.00
• Beijing Acer Information Co., Ltd. ("BJAI", China)	AMS	100.00	100.00
• Acer Computer (Shanghai) Ltd. ("ACCN", China)	AMS	100.00	100.00
(c) Acer European Holding N.V. ("AEH", Netherlands Antilles) and its subsidiaries	The Company	100.00	100.00
• Acer Europe B.V. ("AHN", the Netherlands)	AEH	100.00	100.00
• Acer Computer B.V. ("ACH", the Netherlands)	AEH	100.00	100.00
• Acer Computer France S.A.R.L. ("ACF", France)	AHN	100.00	100.00
• Acer U.K. Limited ("AUK", the United Kingdom)	AHN	100.00	100.00
• Acer Italy S.R.L. ("AIT", Italy)	AHN	100.00	100.00
• Acer Computer GmbH ("ACG", Germany)	AHN	100.00	100.00
• Acer Austria GmbH ("ACV", Austria)	AHN	100.00	100.00
• Acer Europe Services S.R.L. ("AES", Italy)	AHN	100.00	100.00
• Acer Europe AG ("AEG", Switzerland)	AHN	100.00	100.00

	Investor	Percentage of Ownership by the Company at December 31,			Investor	Percentage of Ownership by the Company at December 31,	
		2007	2008			2007	2008
· Acer Czech Republic S.R.O. ("ACZ", Czech Republic)	AHN	100.00	100.00	· Aurion Technologie, S.A. de C.V. ("Aurion", Mexico)	AMEX	100.00	100.00
· ESPLEX Limited ("AEX", the United Kingdom)	AHN	100.00	100.00	· Gateway, Inc. ("GWI", U.S.A.)	AAH	100.00	100.00
· Acer Computer Iberica, S.A. ("AIB", Spain)	AHN	100.00	100.00	· Acer America Corporation. ("AAC", U.S.A.)	GWJ	100.00	100.00
· Acer Computer (Switzerland) AG ("ASZ", Switzerland)	AHN	100.00	100.00	· Gateway US Retail, Inc. ("GRA", U.S.A.)	GWJ	100.00	100.00
· Acer Slovakia s.r.o. ("ASK", Slovakia)	AHN	100.00	100.00	· Gateway Direct, Inc. ("GDA", U.S.A.)	GWJ	100.00	100.00
· Acer International Services GmbH ("AIS", Switzerland)	AHN	100.00	100.00	· Gateway Manufacturing LLC ("GMA", U.S.A.)	GWJ	100.00	100.00
· Acer Computer Norway AS ("ACN", Norway)	ACH	100.00	100.00	· Gateway KK ("GJP", Japan)	GRA	100.00	100.00
· Acer Computer Finland Oy ("AFN", Finland)	ACH	100.00	100.00	· Gateway de Mexico S. de R.L. de C.V. ("GMX", Mexico)	GWJ	100.00	100.00
· Acer Computer Sweden AB ("ACW", Sweden)	ACH	100.00	100.00	· Gateway Ltd. ("GUK", the United Kingdom)	GRA	100.00	100.00
· Acer Denmark A/S ("ACD", Denmark)	ACH	100.00	100.00	· Gateway France SAS ("GFR", France)	GRA	100.00	100.00
· Acer CIS Incorporated ("ACR", British Virgin Islands)	AEH	100.00	100.00	· Gateway International Holdings, Inc. ("GIH", U.S.A.)	GWJ	100.00	100.00
· Acer BSEC Inc. ("AUA", British Virgin Islands)	AEH	-	100.00	· Gateway International Computers Limited ("GIC", the United Kingdom)	GIH	100.00	100.00
· Acer Computer (M.E.) Limited ("AME", British Virgin Islands)	AEH	100.00	100.00	· Gateway Canada Corporation ("GCA", Canada)	GIC	100.00	100.00
· Acer Africa (Proprietary) Limited ("AAF", South Africa)	AEH	100.00	100.00	· eMachines Internet Group ("EMA", U.S.A.)	GRA	100.00	100.00
· AGP Technology AG ("AGP", Switzerland)	AHN	-	100.00	· Servicio Profesionales de Acceso S. de C.V. ("GSMX", Mexico)	EMA	100.00	100.00
· PB Holding Company S.A.R.L. ("PBLU", Luxembourg)	AHN	-	100.00	· Gateway Europe B.V. ("GEBV", U.S.A.)	GRA	100.00	100.00
· Packard Bell B.V. ("PBHO", the Netherlands)	PBLU	-	100.00	· Gateway Computers Ireland Ltd. ("GCI", the)	GRA	100.00	100.00
· Packard Bell Finance B.V. ("PBFN", the Netherlands)	PBHO	-	100.00	· Gateway Hong Kong Ltd. ("GHK", Hong Kong)	GWJ	100.00	100.00
· Packard Bell Netherland B.V. ("PBNL", the Netherlands)	PBHO	-	100.00	· Gateway Bermuda LP ("GBM", Bermuda)	GWJ	100.00	100.00
· Packard Bell Services s.a.r.l. ("PBSV", France)	PBHO	-	100.00	· Gateway Asia, inc. ("GAI", U.S.A.)	GWJ	100.00	100.00
· Packard Bell Angers s.a.r.l. ("PBAN", France)	PBHO	-	100.00	(e) Acer Holding International, Incorporated ("AHI", British Virgin Islands) and its subsidiaries	The Company	100.00	100.00
· Packard Bell France s.a.s ("PBFR", France)	PBHO	-	100.00	· Acer Computer Co., Ltd. ("ATH", Thailand)	AHI	100.00	100.00
· Packard Bell (UK) Ltd. ("PBUK", the United Kingdom)	PBHO	-	100.00	· Acer Japan Corp. ("AJC", Japan)	AHI	100.00	100.00
· Packard Bell Scotland Ltd. ("PBSC", the United Kingdom)	PBHO	-	100.00	· Acer Computer Australia Pty. Limited ("ACA", Australia)	AHI	100.00	100.00
· Packard Bell Iberica s.l. ("PBES", Spain)	PBHO	-	100.00	· Acer Sales and Service Sdn. Bhd. ("ASSB", Malaysia)	AHI	100.00	100.00
· Packard Bell Italia s.r.l. ("PBIT", Italy)	PBHO	-	100.00	· Acer Computer (Singapore) Pte. Ltd. ("ACS", Singapore)	AHI	100.00	100.00
· Packard Bell Deutschland GmbH ("PBDE", Germany)	PBHO	-	100.00	· Acer Computer New Zealand Ltd. ("ACNZ", New Zealand)	AHI	100.00	100.00
· Packard Bell Belgium BVBA ("PBBE", Belgium)	PBHO	-	100.00	· PT Acer Indonesia ("AIN", Indonesia)	AHI	100.00	100.00
· Packard Bell Sverige AB ("PBSE", Sweden)	PBHO	-	100.00	· Acer India Private Limited ("AIL", India)	AHI	100.00	100.00
· Packard Bell Norden AS ("PBNO", Norway)	PBHO	-	100.00	· Acer Vietnam Co., Ltd. ("AVN", Vietnam)	AHI	100.00	100.00
· Packard Bell Schweiz GmbH ("PBCH", Switzerland)	PBHO	-	100.00	· Acer Philippines, Inc. ("APHI", Philippines)	AHI	100.00	100.00
· ZDS Europe s.a.r.l. ("PBE", France)	PBHO	-	100.00	· Acer Asia Pacific Sdn Bhd ("AAPH", Malaysia)	AHI	100.00	100.00
· NEC Computers South Africa (Pty) Ltd. ("PBZA", South Africa)	PBHO	-	100.00	· Acer Finance Australia Pty. Ltd. ("AFA", Australia)	ACA	100.00	100.00
· Packard Bell Electronic Technical Services (Shanghai) Co., Ltd. ("PBCN", China)	PBHO	-	100.00	· Highpoint Australia Pty. Ltd. ("HPA", Australia)	ACA	100.00	100.00
(d) Boardwalk Capital Holding Limited ("Boardwalk", British Virgin Islands) and its subsidiaries	The Company	100.00	100.00	· Highpoint Service Network Sdn. Bhd. ("HSN", Malaysia)	ASSB	100.00	100.00
· Acer Service Corporation ("ASC", U.S.A.)	Boardwalk	100.00	100.00	· Logistron Service Pte Ltd. (LGS, Singapore) and its subsidiaries	ACS	100.00	100.00
· Acer Computer Mexico, S.A. de C.V. ("AMEX", Mexico)	Boardwalk	99.89	99.92	(f) Acer Computer International Ltd. ("ACI", Singapore)	The Company	100.00	100.00
· Acer Latin America, Inc. ("ALA", U.S.A.)	Boardwalk	99.89	99.92	(g) Acer Sales & Distribution Ltd. ("ASD", Hong Kong)	The Company	100.00	100.00
· Acer American Holding Corp. ("AAH", USA)	Boardwalk	100.00	100.00				

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

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

(3) Investing and holding companies:

	Investor	Percentage of Ownership by the Company	
		at December 31,	
		2007	2008
(a) Multiventure Investment Inc. ("MVI", Taiwan)	The Company	100.00	100.00
(b) Acer Digital Service Co. ("ADSC", Taiwan)	The Company	100.00	100.00
(c) Acer Worldwide Incorporated ("AWI", British Virgin Islands)	The Company	100.00	100.00
(d) Cross Century Investment Limited ("CCI", Taiwan)	The Company	100.00	100.00
(e) Acer SoftCapital Incorporated ("ASCBVI", British Virgin Islands)	The Company	100.00	100.00
(f) Acer Venture Associates ("AVA", Cayman Islands)	ASCBVI	100.00	-
(g) Acer Capital Limited ("ACBVI", British Virgin Islands)	ASCBVI	100.00	100.00
(h) ASC Cayman, Limited ("ASCCAM", Cayman Islands)	ASCBVI	100.00	100.00
(i) Acer Capital Corporation ("ACT", Taiwan)	The Company	100.00	100.00
(j) Aspire Incubation Venture Capital ("AIVC", Taiwan)	The Company	100.00	100.00
(k) Acer Digital Services (B.V.I.) Holding Corp. ("ADSBH", British Virgin Islands)	The Company	100.00	100.00
(l) Acer Digital Services (Cayman Islands) Corp. ("ADSCC", Cayman Islands)	ADSBH	100.00	100.00
(m) Nicholas Insurance Company Ltd. ("NIC", Bermuda)	GWJ	100.00	100.00
(n) Acer Capital Australia Pty Ltd. ("ACAP", Australia)	ACBVI	100.00	100.00
(o) Acer Technology Venture Asia Pacific Ltd. ("ATVAP", British Virgin Islands)	ASCBVI	100.00	100.00
(p) Eten Investment Co., Ltd. ("ETO", Taiwan)	ETEN	-	100.00
(q) Protek Investment Co., Ltd. ("PTO", Taiwan)	ETEN	-	100.00
(r) Toptek Investment Co., Ltd. ("DTO", Taiwan)	ETEN	-	100.00
(s) Eten International Holdings Ltd. ("EIH", British Virgin Islands)	DTO	-	100.00

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

	Investor	Percentage of Ownership by the Company	
		at December 31,	
		2007	2008
(a) E-ten Information System Co., Ltd. ("ETEN", Taiwan)	The Company	-	100.00
(b) Eten China Information System Co., Ltd. ("CETEN", China)	EIH	-	100.00

(5) Property development:

	Investor	Percentage of Ownership by the Company	
		at December 31,	
		2007	2008
(a) Acer Property Development Inc. ("APDI", Taiwan)	ADSC	100.00	100.00
(b) Aspire Service & Development Inc. ("ASDI", Taiwan)	ADSC	100.00	100.00

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

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

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

	Investor	Percentage of Ownership by the Company	
		at December 31,	
		2007	2008
(a) TWP Corporation ("TWP", Taiwan)	The Company	100.00	-
(b) Acer TWP Innovation Information Co. Ltd. (ATIM, Taiwan)	TWP	100.00	-
(c) TWP International Inc. ("TWP BVI", British Virgin Islands)	ACCSI	100.00	100.00
(d) Acer Third Wave Software (Beijing) Co., Ltd. ("TWPBJ", China)	TWPBVI	100.00	100.00

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

In July and September 2007, the Company sold all its ownership interest in Sertek Incorporated (“SNX”) and Digital Computer System Co. (“DCS”), respectively. As a result, SNX and DCS are excluded from the consolidated financial statements from the dates of sale.

In October 2007, the Company reduced its investment in AMT to an ownership interest of less than 50% and no longer held a controlling interest in AMT. AMT is excluded from the consolidated financial statements from the date of sale.

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

2. Summary of Significant Accounting Policies

(1) Accounting principles and consolidation policy

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

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

(2) Use of estimates

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

(3) Foreign currency transactions and translations

The Company’s reporting currency is the New Taiwan dollar. The Consolidated Companies record transactions in their respective functional currencies, which generally are the local currency of the primary economic environment in which these entities operate. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets

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

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

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

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

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

(5) Cash and cash equivalents

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

(6) Allowance for doubtful accounts

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

(7) Inventories

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

(8) Financial instruments

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

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

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

(b) Hedging derivative financial assets / liabilities

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

(c) 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.

(d) Available-for-sale financial assets

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

(e) Financial assets carried at cost

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

(9) Derivative financial instruments and hedging activities

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

(a) Fair value hedges

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

(b) Cash flow hedges

Changes in the fair value of a hedging instrument designated as a cash flow hedge are recognized directly

in equity. If a hedge of a forecasted transaction subsequently results in the recognition of an asset or a liability, then the amount recognized in equity is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

(10) Noncurrent assets held for sale and discontinued operation

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

An impairment loss is recognized for any initial or subsequent write-down of the assets (or disposal groups) to fair value less costs to sell in the consolidated statements of income. A gain from any subsequent increase in fair value less costs to sell of an asset (or a disposal group) shall be recognized, but not in excess of the cumulative impairment loss that has been recognized.

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

(11) Equity method investments

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

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

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

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

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

(12) Capital leases

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

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

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

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

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

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

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

(14) Intangible assets

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

Other intangible assets, including patents, trademarks and trade names, customer relationships, developed technology and purchased software, are stated at cost. Intangible assets with finite useful lives are amortized using the straight-line method over the expected useful lives. The estimated useful lives are as follows:

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

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

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

(15) Non-financial asset impairment

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

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

(16) Deferred charges

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

(17) Treasury stock

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

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

off is less than the sum of both the par value and capital surplus premium, if any, of the stock retired, the difference is accounted for as an increase in capital surplus – treasury stock.

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

(18) Revenue recognition

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

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

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

(20) Share-based payment transactions

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

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

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

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

(21) Administrative expenses

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

(22) Retirement plan

(a) Defined benefit retirement plans

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

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

(b) Defined contribution retirement plans

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

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

(23) Income taxes

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

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

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

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

(24) Earnings per common share

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

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

(25) Business combination

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

(26) Convenience translation into U.S. dollars

The consolidated financial statements are stated in New Taiwan dollars. Translation of the 2008 New Taiwan dollar amounts into U.S. dollar amounts, using the spot rate on December 31, 2008, of NT\$32.818 to US\$1, is included solely for the convenience of the readers. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

3. Accounting Changes

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

4. Significant Account Disclosures

(1) Cash and cash equivalents

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

(2) Notes and accounts receivable

The Consolidated Companies entered into factoring contracts with several banks to sell certain of their accounts receivable without recourse. As of December 31, 2007 and 2008, details of the contracts were as follows:

Buyer	Factored amount	Factoring credit limit	December 31, 2007		Collateral
			Advance amount (Derecognized amount)	Interest rate	
ABN AMRO Bank	\$ 72,068	72,068	72,068		-
La Caixa Bank	4,415,967	6,577,855	4,415,967		-
Ifitalia Factor S.P.A.	4,598,145	12,183,229	-		-
Standard Chartered Bank	596,346	1,777,960	596,346		-
China Trust Bank	254,498	1,800,000	254,498		note 7(4)
Taipei Fubon Bank	823,824	1,000,000	823,824		note 7(4)
	<u>\$ 10,760,848</u>	<u>23,411,112</u>	<u>6,162,703</u>	<u>1.62%~6.00%</u>	

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

(3) Other receivable

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

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

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

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

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

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

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

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

As of December 31, 2007 and 2008, the Consolidated Companies entered into foreign currency forward contracts and foreign currency options to hedge their exposure to the foreign currency exchange rate risk generated by operating activities. The derivative financial instruments that did not meet the criteria for hedge accounting (classified as financial assets and liabilities at fair value through profit or loss) were as follows:

(a) Foreign currency options:

(i) Long options:

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

(ii) Short options

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

(b) Foreign currency forward contracts:

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

		December 31, 2008			
		Notional amount (in thousand)	Settlement date		
Buy	Sell				
USD	/	SGD	USD	7,000	2009/01/14~2009/02/26
USD	/	CAD	USD	47,806	2009/01/28~2009/02/26
EUR	/	CHF	EUR	19,000	2008/01/05~2009/03/30
USD	/	EUR	EUR	720,000	2009/01/15~2009/02/21
USD	/	INR	USD	61,600	2009/01/06~2009/05/29
USD	/	MYR	USD	19,138	2009/01/14~2009/02/17
USD	/	PHP	USD	500	2009/01/15
USD	/	THB	USD	28,700	2009/01/14~2009/05/29
USD	/	RMB	USD	70,000	2009/02/02~2009/03/30
USD	/	JPY	USD	5,000	2009/01/14
USD	/	NTD	USD	5,000	2009/01/09~2009/01/22

(c) Cross currency swaps:

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

(d) Foreign exchange swaps:

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

(6) Hedging derivative financial assets and liabilities

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

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

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

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

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

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

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

December 31, 2007				
Hedged items	Hedging instruments	Fair value of hedging instruments	Expected period of cash flow	Expected period of recognition in earnings
Accounts payable denominated in foreign currencies	Foreign currency forward contracts	<u>15,836</u>	2008/01~04	2008/01~04

December 31, 2008				
Hedged items	Hedging instruments	Fair value of hedging instruments	Expected period of cash flow	Expected period of recognition in earnings
Accounts payable denominated in foreign currencies	Foreign currency forward contracts and foreign currency options	<u>(273,565)</u>	2009/01~05	2009/01~05

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

(a) Foreign currency options

(i) Long position

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

(ii) Short position

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

(b) Foreign currency forward contracts

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

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

(c) Foreign exchange swap

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

(7) Inventories

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

(8) Noncurrent assets held for sale

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

(9) Financial assets carried at cost – noncurrent

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

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

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

(10) Equity-method investments

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

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

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

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

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

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

In 2007, the Consolidated Companies sold portions of their investments in Wistron, Apacer, HiTRUST.COM, and other investees, and an aggregate gain of NT\$1,834,450 was recognized from these sales. In 2008, the Company sold portions of their investment in Wistron, and recognized a disposal gain of NT\$1,441,906.

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

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

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

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

The Company sold all its ownership interest in a subsidiary, Sertek Inc., on July 1, 2007. The price included cash consideration and stock consideration amounting to 27,000,000 shares of Yosun Industrial Corp. Through the acquisition of E-Ten Information System Co., Ltd. in September 2008, the Consolidated Companies increased their investment in RoyalTek Co., Ltd. and Quanta Computer Inc.

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

(12) Property, plant and equipment

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

(13) Property not in use

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

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

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

(14) Intangible assets

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

(a) Acquisitions

(i) Gateway, Inc.

On October 15, 2007, the Company completed the acquisition of 100% ownership of Gateway, Inc., a personal computer company in the U.S., through its indirectly wholly owned subsidiary Acer American Holding, at a price of US\$1.90 (dollars) per share. The total purchase price amounted to US\$711,420 thousand, which was inclusive of direct transaction costs. Gateway Inc. then became the Company's indirectly wholly owned subsidiary.

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

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

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

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

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

(ii) Packard Bell B.V.

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

The acquisition was accounted for in accordance with ROC SFAS No. 25 "Business Combinations". The Consolidated Companies recognized goodwill, which represents the excess of the purchase price and direct transaction costs over the fair value of the net identifiable tangible and intangible assets. The following represents the allocation of the purchase price to the assets acquired, liabilities assumed, and goodwill at the date of acquisition:

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

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

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

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

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

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

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

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

(b) Pro forma information

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

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

(c) Impairment test

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

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

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

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

Acer Pan-America business group

(i) Budgets approved by management covering a 5-year period, and a stable growth rate of 3% for the future earnings potential of the CGU beyond five years. This expected growth rate is determined by the assumptions concerning the overall economic environment and introduction of new products.

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

Packard Bell brand business group

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

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

E-Ten Information System group

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

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

(15) Other financial assets – noncurrent

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

(16) Short-term borrowings

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

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

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

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

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

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

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

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

(19) Income taxes

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

(b) The components of income tax expense from continuing operations for the years ended December 31, 2007 and 2008, were as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

(g) Information about the integrated income tax system

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

Information related to the ICA is summarized below:

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

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

(h) The ROC income tax authorities have examined the income tax returns of the Company for all fiscal years through 2006. However, the Company disagreed with the assessments of income tax returns from fiscal 2002 to 2006 regarding the adjustments of certain investment tax credits and has filed a request with the tax authorities for a recheck. The recheck of income tax returns was still in process, and the Company has accrued a valuation allowance on deferred tax assets by the amount of investment tax credits.

(20) Stockholders' equity

(a) Common stock

As of December 31, 2007 and 2008, the Company's authorized common stock consisted of 2,800,000,000 shares and 3,500,000,000 shares, respectively, of which 2,405,490,426 shares and 2,642,855,993 shares, respectively, were issued and outstanding. The par value of the Company's common stock is NT\$10 per share.

As of December 31, 2007 and 2008, the Company had issued 8,229 thousand units and 8,412 thousand units, respectively, of global depository receipts (GDRs). The GDRs were listed on the London Stock Exchange, and each GDR represents five shares of common stock.

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

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

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

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

(b) Treasury stock

As of December 31, 2007 and 2008, details of the GDRs (for the implementation of its overseas employees' stock option plan) owned by AWI and the common stock owned by the Company's subsidiaries CCI and E-Ten were as follows (expressed in thousands of shares and New Taiwan dollars):

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

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

(c) Capital surplus

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

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.

Pursuant to SFB regulations, an amount equal to the total amount of any deduction items of shareholders' equity shall be provided from the net income of the current year as a special reserve that cannot be distributed as dividend or bonus. Accordingly, such special reserve shall be adjusted to reflect the changes in the deduction items. Any reversal of the special reserve can be added back to unappropriated earnings for distribution of dividends or bonus.

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

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

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

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

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

(21) Employee stock option plan

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

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

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

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

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

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

Movements in number of stock options outstanding:

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

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

(22) Restructuring charges

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

(23) Net income from discontinued operations

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

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

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

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

	2007				
	Amount		Weighted- average number of outstanding shares of common stock (in thousands)		
	NTS	NTS	EPS (in dollars) NTS		
Basic EPS – after retroactive adjustments:					
Net income attributable to shareholders of parent company	<u>12,958,933</u>	<u>2,432,594</u>	<u>5.33</u>		
	2008				
	Amount		Weighted- average number of outstanding shares of common stock (in thousands)	EPS (in dollars)	
	NTS	US\$		NTS	US\$
Basic EPS – after retroactive adjustments:					
Net income attributable to shareholders of parent company	11,742,135	357,796	2,487,238	<u>4.72</u>	<u>0.14</u>
Diluted EPS:					
Effect of dilutive potential common shares:					
Employee bonus	-	-	39,042		
Employee stock option plan	-	-	1,286		
Net income attributable to shareholders of parent company	<u>11,742,135</u>	<u>357,796</u>	<u>2,527,566</u>	<u>4.65</u>	<u>0.14</u>

(25) Disclosure of financial instruments

(a) Fair values of financial instruments

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

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

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

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

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

The fair value of publicly traded stocks is the closing quotation price at the balance sheet date. The fair value of open-end mutual funds is based on the net asset value of the mutual funds at balance sheet date.

(ii) Financial assets carried at cost

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

(iii) Refundable deposits

The fair values are the book values as the date of expiry was unable to be determined.

(iv) Noncurrent receivables

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

(v) Long-term debt

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

(vi) Derivative financial instruments

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

(c) For the years ended December 31, 2007 and 2008, remeasurement loss on financial assets and liabilities using an assessment method amounted to NT\$121,332 and NT\$989,905, respectively.

(d) Disclosure of financial risks

(i) Market risk

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

The Consolidated Companies engaged in purchase and sale transactions with the functional currency of US dollars and Euros, respectively. Hence, the Consolidated Companies entered into foreign currency forward contracts and foreign currency options to hedge exchange risk resulting from assets and liabilities denominated in foreign currency and cash flows resulting from anticipated transactions in foreign currency. The lengths and amounts of the foreign exchange forward contracts and foreign currency options were in line with the settlement date and anticipated cash outflows of the Consolidated Companies' foreign currency assets and liabilities. The gain or loss from exchange rate

fluctuation of hedging derivatives was offset by that from the hedged assets or liabilities. Therefore, the market risk related to the changes in exchange rates was not considered significant.

(ii) Credit risk

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

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

(iii) Liquidity risk

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

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

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

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

The Consolidated Companies' short-term borrowings and long-term debt carried floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rates and thereby influences the Consolidated Companies' future cash flow. If the market interest rate increases by 1%, cash outflows in respect of these interest payments would increase by approximately NT\$134,718 per annum.

5. Transactions with Related Parties

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

Name	Relationship with the Company
Wistron Corporation ("Wistron")	Investee of the Company accounted for by equity method
Cowin Worldwide Corporation ("COWIN")	Subsidiary of Wistron
Wistron InfoComm (Kunshan) Co., Ltd. ("WKS")	Subsidiary of Wistron
Wistron InfoComm Technology (Kunshan) Co., Ltd. ("WIKS")	Subsidiary of Wistron
Bluechip Infotech Pty Ltd. ("SAL")	Investee of the Company accounted for by equity method
e-Life Mall Corp. ("eLIFE")	Investee of the Company accounted for by equity method
iD Softcapital Inc.	Its chairman is one of the Company's supervisors
All directors, supervisors, chief executive officers and executive vice presidents	The Consolidated Companies' main management

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

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

(i) Net sales to:

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

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

(ii) Notes and accounts receivable from:

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

(b) Purchases and related notes and accounts payable

(i) Purchases from:

	2007	2008	
	NTS	NTS	US\$
Wistron	14,788,985	25,228,683	768,745
Others	296,079	270	8
	<u>15,085,064</u>	<u>25,228,953</u>	<u>768,753</u>

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

In 2007 and 2008, the Consolidated Companies sold raw material to Wistron and purchased back the finished goods after manufacture. To avoid overstating the revenues, sales of raw material to Wistron amounting to NT\$58,666,096 and NT\$88,579,887 for the years ended December 31, 2007 and 2008, respectively, were excluded from the consolidated revenues. Having legally enforceable rights, the Consolidated Companies offset the outstanding receivables and payables resulting from the above-mentioned transactions. The offset resulted in a payable balance.

(ii) Notes and accounts payable to:

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

(c) Spin-off of assets

On February 28, 2002, AI spun off its design, manufacturing and services business from its Acer-brand business and transferred the related operating assets and liabilities to Wistron. The Company agreed with Wistron that Wistron is obligated to pay for the deferred income tax assets being transferred only when they are actually utilized. In 2006, the ROC income tax authorities examined and rejected Wistron's claim of investment credits transferred from the spin-off in the income tax returns for 2002, 2003, and 2004. Wistron disagreed with the assessment and filed a request with the tax authorities for a recheck of its 2002, 2003 and 2004 income tax returns. To be conservative, the Company recognized income tax expense of NT\$875,802 based on total tax impact estimated in 2006 and provided a valuation allowance of NT\$385,043 against the receivables from Wistron as of December 31, 2007 and 2008. The remaining balance of \$490,759 was recorded as income tax expense and other payables to related parties.

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

(d) Other expenses

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

(e) Advances to/from related parties

The Consolidated Companies paid certain expenses on behalf of related parties. Additionally, related parties paid certain expenses and accounts payable on behalf of the Consolidated Companies. As of December 31, 2007 and 2008, the Consolidated Companies had aggregate receivables from related parties of NT\$59,403 and NT\$45,173, respectively, and payables to related parties of NT\$609,717 and NT\$189,964, respectively, resulting from these transactions.

(3) Main management compensation

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

	2007		2008	
	Amount	Amount	Amount	US\$
	NT\$	NT\$	NT\$	US\$
Salaries	178,334	249,243		7,595
Cash awards and special allowances	69,669	134,574		4,101
Business expense	6,520	1,989		60
Employee bonus	482,825	360,581		10,987
	<u>737,348</u>	<u>746,387</u>		<u>22,743</u>

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

6. Pledged Assets

Assets pledged for various purposes were as follows:

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

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

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

7. Commitments and Contingencies

(1) Royalties

(a) The Company has entered into a patent cross license agreement with IBM. The agreement mainly states that both parties have the right to make use of either party's global technological patents to manufacture and sell personal computer products. The Company agrees to make fixed payments periodically to IBM, and the Company will not have any additional obligation for the use of IBM patents other than the fixed amounts of payments agreed upon.

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

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

(2) Others

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

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

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

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

8. Significant Loss from Casualty: None

9. Subsequent Events: None

10. Other

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

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

11. Segment Information

(1) Industry segment

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

(2) Geographic information

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

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

	2007					
	Taiwan	North America	Europe	Asia	Eliminations	Consolidated
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Depreciation and amortization	<u>1,088,239</u>	<u>32,112</u>	<u>11,239</u>	<u>10,879</u>	-	<u>1,142,469</u>
Capital expenditures	<u>665,555</u>	<u>59,128</u>	<u>140,593</u>	<u>185,338</u>	-	<u>1,050,664</u>

	2008					
	Taiwan	North America	Europe	Asia	Eliminations	Consolidated
	NTS	NTS	NTS	NTS	NTS	NTS
Area income:						
Customers	25,879,015	152,469,649	279,790,219	90,925,741	-	549,064,624
Inter-company	341,107,152	3,203	6,057,224	13,642	(347,181,221)	-
	<u>366,986,167</u>	<u>152,472,852</u>	<u>285,847,443</u>	<u>90,939,383</u>	<u>(347,181,221)</u>	<u>549,064,624</u>
Area profit (loss) before income taxes	<u>342,361,748</u>	<u>(1,044,322)</u>	<u>15,501,048</u>	<u>3,361,512</u>	<u>(347,181,221)</u>	12,998,765
Net investment income						404,184
Gain on disposal of investments, net						2,709,524
Interest expense						(1,305,746)
Consolidated income before income taxes						<u>14,806,727</u>
Area identifiable assets	<u>111,929,202</u>	<u>47,044,049</u>	<u>95,789,881</u>	<u>25,518,735</u>	<u>(62,342,472)</u>	217,939,395
Equity method investments						2,928,790
Goodwill						22,574,040
Total assets						243,442,225
Depreciation and amortization	<u>685,120</u>	<u>1,090,051</u>	<u>290,210</u>	<u>136,060</u>	-	<u>2,201,441</u>
Capital expenditures	<u>171,677</u>	<u>220,011</u>	<u>154,207</u>	<u>205,397</u>	-	<u>751,292</u>

(3) Export sales

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

(4) Major customers:

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

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

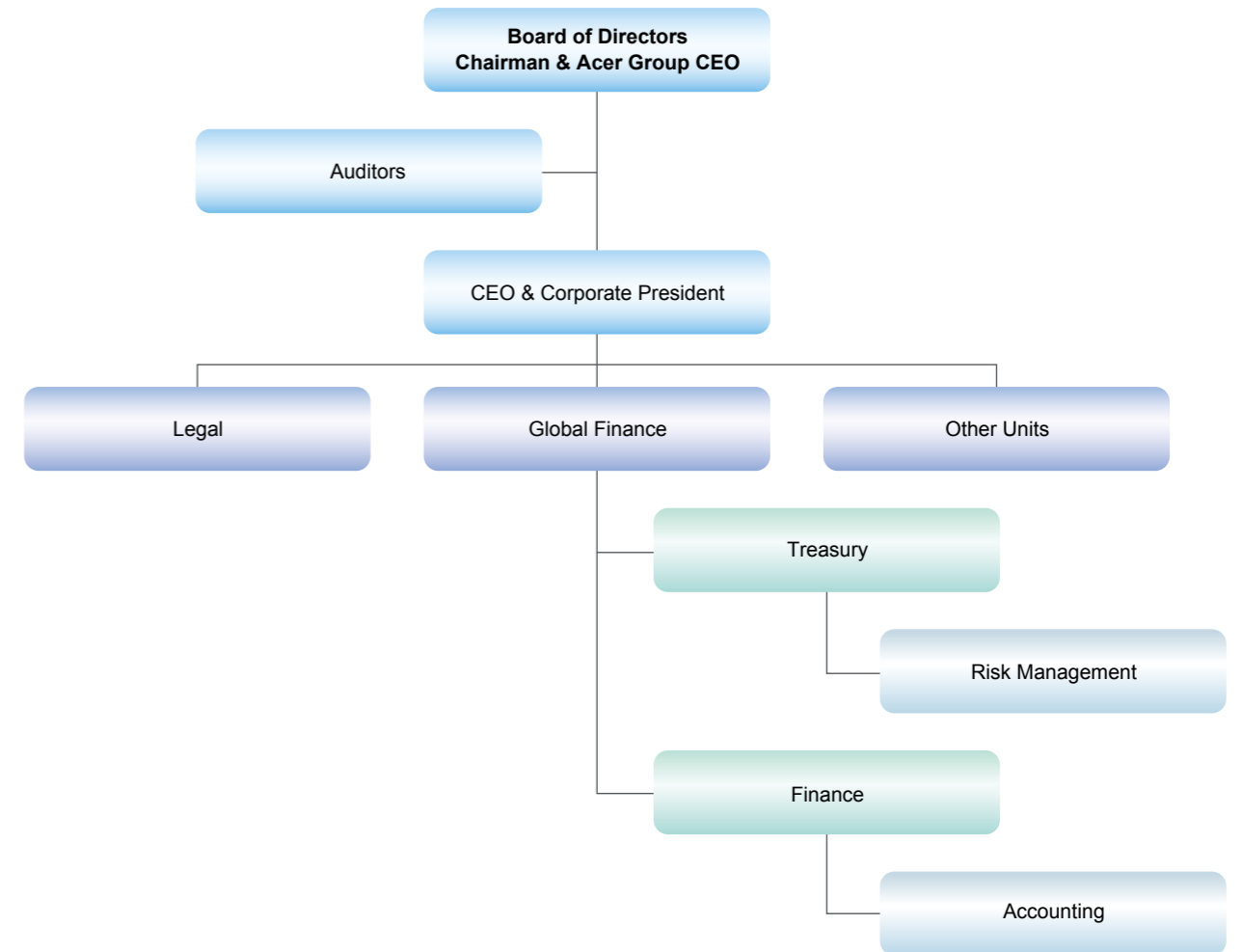
8.1 Annual Investment Policy: Reasons of Gain or Loss and Improvement Plan

Description Item	Amount (Note)	Business Type	Year 2008 P&L	Main reason of Gain or Loss	The Plan for Improvement	Investment Plan for Next Year
Acer Digital Service Co.	1,504,342	Investing and holding company	429,672	Recognized Investment gain and Disposal gain for stock		
Acer European Holdings N.V.	30,687,579	Sales and maintenance of "Acer" brand-name information technology products	7,593,643	Growth Stably in Europe		
Acer Holdings International, Incorporated	6,012,549	Sales and maintenance of "Acer" brand-name information technology products	1,825,499	Growth Stably in Asia Pacific		
Boardwalk Capital Holding Limited	22,281,994	Sales and maintenance of "Acer" brand-name information technology products	(1,578,360)	Recognized the restructuring provision for Gateway		
Acer Worldwide Incorporated	2,909,273	Investing and holding company	(649,954)	Recognized Debt forgiveness loss for ADSBH	Not applicable	Not applicable
E-TEN INFORMATION SYSTEMS CO., LTD.	7,458,457	PDA manufacturing and sale	(220,193)	Operating expenses		
Cross Century Investment Limited	2,275,616	Investing and holding company	414,855	Recognized Disposal Stock Gain		
Acer CyberCenter Services Ltd.	1,788,607	Data storage and processing company	72,464	Gain on operating activity		
Wistron Corporation	1,665,372	Investing on industry of manufacturing computer and information technology products	434,187	Gain on operating activity		

(Note) Disclose the amount excess the 5% of Acer Inc. Capital

8.2 Important Notices for Risk Management and Evaluation

Risk Management Organization



- Board of directors – review and approve the risk management policy and the authority for decision
- The head and top management of Business Units – oversee risk management activities with periodic monitoring and evaluation
- Auditors – provide annual auditing plan; review the Company's internal execution and control of risk management
- Legal – review legal contracts and agreements; manage lawsuit and litigation affairs
- Treasury – manage financial hedging and deals
- Accounting – oversee monetary transactions, ensure consistency with booking keeping and accuracy of financial reporting

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

Interest Rate Fluctuation

The current economic recession is not expected to end in the short term. The U.S. Federal Reserve Board will keep the federal fund rate between zero and 0.25% throughout 2009, along with quantitative easing (QE) measures to effectively stimulate economic growth.

Given the overall money-loosing situation and low risk of inflation, the Central Bank of the R.O.C. is expected to maintain the current benchmark policy rate of 1.25% till year end, supporting the Taiwan government efforts on boosting sagging domestic demand.

Low interest rates will reduce the cost of our loans. Acer is making short-term deposits in New Taiwan Dollar (NTD) or other foreign currencies to accrue yield and reduce risks.

Exchange Rate

At the Federal Open Market Committee (FOMC) on March 18, 2009, the Federal Reserve Board's announcement of a move to an aggressive QE policy has driven the U.S. dollar substantially lower. In the short-term, the currencies of the QE countries, including the U.S., United Kingdom, and Japan, tend to weaken against the currencies of non-QE countries. For the long-run, however, even if QE economies recover, it does not necessarily follow that their currencies will. Acer will keep to a consistent strategy and aggressively hedge to reduce the impact on profit and loss resulting from currency fluctuation.

Inflation

Inflation risk is substantially reduced due to falling prices of crude oil and raw materials worldwide. Should the material price lead to an increase in cost, Acer shall act accordingly to avoid loss.

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

The Company 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 Company with Factory/Office Expansion

Not applicable.

8.2.4 Potential Risks to 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. 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. In year 2008 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 2008 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

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

Office	Address	Tel
Acer Inc.	7F, No.137, Sec.2, Chien Kuo N. Road, Taipei, Taiwan, R.O.C.	+886-2-2509-2368
Registered Address	7F, No.137, Sec.2, Chien Kuo N. Road, Taipei, Taiwan	+886-2-2509-2368
Acer Inc.	3-4F, 139 Min Tsu Road, Hsinchu, Taiwan, R.O.C.	+886-3-533-9141
(Hsichih Office)	8F, 88, Sec.1, Hsin Tai Wu Road, Hsichih, Taipei Hsien, Taiwan	+886-2-2696-1234
Acer Inc.	4F-2, 38, Shin Guang Road, Kaohsiung, Taiwan, R.O.C.	+886-7-338-8386
(Hsinchu Branch)	3-4F, 139 Min Tsu Road, Hsinchu, Taiwan	+886-3-533-9141
Acer Inc.		
(Taichung Branch)	3F, No.371, Sec.1, Wen-Hsin Road, Taichung, Taiwan	+886-4-2250-3355
Acer Inc.		
(Kaohsiung Branch)	4F-2, 38, Shin Guang Road, Kaohsiung, Taiwan	+886-7-338-8386
Acer Inc.		
(Shipping & Warehouse Management Center)	1F, 138, Nan-Gong Road, Lu Chu Tsuan, Lu Chu, Taoyuan Hsiang, Taiwan	+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
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:	Sonia Chang and Agnes Yang at KPMG
Address:	68F, Taipei, 101 Tower, No.7, Sec.5, Xinyi Road, Taipei, 11049, Taiwan
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-group.com

Acer Group

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