

Audit Report of Independent Certified Public Accountants

The Board of Directors
Acer Incorporated:

We have audited the non-consolidated balance sheets of Acer Incorporated (the "Company") as of June 30, 2005 and 2004, and the related non-consolidated statements of income, changes in stockholders' equity, and cash flows for the six-month periods 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.

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

The Company's long-term equity investments of NT\$41,131,139 thousand and NT\$45,822,199 thousand, long-term equity investment credits of NT\$390,694 thousand and NT\$1,214,771 thousand, deferred inter-company profits of NT\$103,968 thousand and NT\$52,798 thousand and foreign currency translation adjustment of NT\$(846,306) thousand and NT\$195,546 thousand as of June 30, 2005 and 2004, respectively, and related net investment income of NT\$3,232,375 thousand and NT\$1,623,069 thousand and change in unrealized inter-company profits of NT\$32,862 and NT\$2,230 thousand for the six-month periods ended June 30, 2005 and 2004, respectively, were accounted for under the equity method based on the unaudited financial statements of the related investees of the Company. Therefore, we are unable to evaluate the effect on the Company's financial statements referred to in the first paragraph if such investees' financial statements were audited by independent auditors. In addition, the information related to investee companies and investments in Mainland China as stated in note 11(2) is provided by investee companies and is not audited using the audit procedures as stated in the second paragraph.

In our opinion, except for the effect of possible adjustments, if any, that might have been determined to be necessary had the investees' financial statements been audited by independent auditors, the non-consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Acer Incorporated as of June 30, 2004 and 2005, and the results of its operations and its cash flows for the six-month periods then ended, in conformity with accounting principles generally accepted in the Republic of China.

As stated in note 2(12) to the non-consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 35 "Accounting for Assets Impairment" starting from January 1, 2005. The effect of this accounting change is discussed in note 3.

We have reviewed the consolidated financial statements as of and for the six-month period ended June 30, 2005 prepared by the Company. Based on our reviews, we express an unqualified review opinion with an explanatory paragraph related to a change in accounting principles on the consolidated financial statements.

KPMG Certified Public Accountants
August 22, 2005

This document is an English translation of a report originally issued in Chinese. In the event of a conflict between the English translation and the original Chinese version, the Chinese language auditors' report shall prevail.

ACER INCORPORATED
Non-Consolidated Balance Sheets
June 30, 2005 and 2004
(Expressed in thousands of New Taiwan dollars)

Assets	<u>2005.6.30</u> NT\$	<u>2004.6.30</u> NT\$	Liabilities and Stockholders' Equity	<u>2005.6.30</u> NT\$	<u>2004.6.30</u> NT\$
Current assets:			Current liabilities:		
Cash and cash equivalents	11,397,178	2,682,003	Notes and accounts payable	26,588,303	10,696,313
Short-term investments	4,055,192	5,118,783	Payables to related parties	5,271,057	5,410,123
Notes and accounts receivable, net of allowance for doubtful accounts of NT\$89,427 thousand and NT\$47,024 thousand as of June 30, 2005 and 2004, respectively	11,598,142	2,707,643	Current installments of bonds payable	3,000,000	3,000,000
Receivables from related parties	21,781,922	15,728,595	Royalties payable	2,868,866	1,362,123
Other financial assets	1,538,109	745,548	Accrued cash dividends, employees' bonuses and directors' and supervisors' remuneration	4,959,163	5,107,074
Inventories	3,948,450	3,168,968	Accrued expenses and other current liabilities	5,007,596	3,320,545
Deferred income tax asset	623,348	533,163	Deferred inter-company profits	<u>103,968</u>	<u>52,798</u>
Prepaid expenses and other current assets	<u>125,475</u>	<u>81,966</u>	Total current liabilities	<u>47,798,953</u>	<u>28,948,976</u>
Total current assets	<u>55,067,816</u>	<u>30,766,669</u>	Long-term liabilities:		
Long-term equity investments:			Bonds payable	-	3,000,000
Accounted for using equity method	41,131,139	45,822,199	Deferred income tax liability	897,736	168,769
Accounted for using cost method or lower-of-cost-or-market-value method	3,428,687	3,843,921	Other liabilities	85,249	80,977
Allowance for unrealized depreciation on investments	-	(190,300)	Long-term equity investment credits	<u>390,694</u>	<u>1,214,771</u>
Net long-term equity investments	<u>44,559,826</u>	<u>49,475,820</u>	Total long-term liabilities	<u>1,373,679</u>	<u>4,464,517</u>
Property and equipment:			Total liabilities	<u>49,172,632</u>	<u>33,413,493</u>
Land	1,722,897	1,722,897	Stockholders' equity:		
Buildings and improvements	3,153,648	3,163,068	Common stock	20,933,677	20,012,934
Machinery and computer equipments	565,907	536,696	Stock dividends to be distributed	1,611,510	1,432,537
Transportation equipments	30,213	32,246	Capital surplus	29,480,510	31,861,182
Furniture and fixtures	17,329	22,047	Retained earnings:		
Other equipments	15,252	14,033	Legal reserve	5,621,115	4,919,949
Leasehold improvements	26,357	26,684	Special reserve	2,017,819	1,261,851
Construction in progress and advance payments for purchases of property and equipment	<u>82,532</u>	<u>20,839</u>	Unappropriated earnings	4,416,490	3,598,054
Less: accumulated depreciation	(977,169)	(780,650)	Other stockholders' equity components:		
accumulated impairment	<u>(495,000)</u>	<u>-</u>	Unrealized loss on long-term equity investments	-	(190,300)
Net property and equipment	<u>4,141,966</u>	<u>4,757,860</u>	Foreign currency translation adjustment	(846,306)	195,546
Intangible assets	414,372	464,778	Hedge revaluation gain	63,726	29,688
Refundable deposits	341,116	268,495	Treasury stock	<u>(3,411,280)</u>	<u>(5,807,394)</u>
Deferred expenses	91,876	118,598	Total stockholder's equity	59,887,261	57,314,047
Long-term accounts receivable	269,496	95,680	Commitments and contingencies		
Property not used in operation	<u>4,173,425</u>	<u>4,779,640</u>			
Total assets	<u>109,059,893</u>	<u>90,727,540</u>	Total liabilities and stockholders' equity	<u>109,059,893</u>	<u>90,727,540</u>

ACER INCORPORATED

Non-Consolidated Statements of Income

For the six-month periods ended June 30, 2005 and 2004
(Expressed in thousands of New Taiwan dollars, except per share data)

	<u>2005</u> NT\$	<u>2004</u> NT\$
Revenues	84,882,319	54,978,274
Sales return and allowances	<u>(1,098,086)</u>	<u>(1,523,006)</u>
Net Revenue	83,784,233	53,455,268
Cost of revenues	<u>(80,209,007)</u>	<u>(50,942,347)</u>
Gross profit	3,575,226	2,512,921
Changes in unrealized inter-company profits	<u>(32,862)</u>	<u>(2,230)</u>
Realized gross profit	<u>3,542,364</u>	<u>2,510,691</u>
Operating expenses:		
Selling	(1,271,266)	(1,044,508)
Administrative	(93,138)	(74,393)
Research and development	<u>(28,398)</u>	<u>(14,930)</u>
Total operating expenses	<u>(1,392,802)</u>	<u>(1,133,831)</u>
Operating income	<u>2,149,562</u>	<u>1,376,860</u>
Non-operating income and gains:		
Interest income	53,085	5,524
Investment income recognized by equity method	568,893	-
Gain on disposal of investments, net	2,424,403	2,070,843
Foreign exchange gain, net	36,236	-
Other income	<u>134,269</u>	<u>120,653</u>
	<u>3,216,886</u>	<u>2,197,020</u>
Non-operating expenses and loss:		
Interest expense	(96,024)	(183,888)
Investment loss recognized by equity method	-	(403,612)
Investment loss recognized by cost method	(23,000)	-
Foreign exchange gain, net	-	(148,073)
Assets impairment loss	(548,000)	-
Other loss	<u>(1,650)</u>	<u>(158,362)</u>
	<u>(668,674)</u>	<u>(893,935)</u>
Income before income taxes	4,697,774	2,679,945
Income tax expense	<u>(288,060)</u>	<u>(279,631)</u>
Net income	<u>4,409,714</u>	<u>2,400,314</u>

	Before	After	Before	After
	income	income	income	income
	<u>tax</u>	<u>tax</u>	<u>tax</u>	<u>tax</u>
	NT\$	NT\$	NT\$	NT\$
Earnings per common share (in New Taiwan dollars):				
Basic earnings per common share	<u>2.12</u>	<u>1.99</u>	<u>1.19</u>	<u>1.07</u>
Diluted earnings per common share	<u>2.12</u>	<u>1.99</u>	<u>1.19</u>	<u>1.06</u>

ACER INCORPORATED

Non-Consolidated Statements of Changes in Stockholders' Equity

For the six-month periods ended June 30, 2005 and 2004

(Expressed in thousands of New Taiwan dollars)

	Common stock NT\$	Convertible bonds being converted to common stock NT\$	Stock dividends to be distributed NT\$	Capital surplus NT\$	Retained earnings			Unrealized loss on long-term equity investments NT\$	Foreign currency translation adjustment NT\$	Hedge revaluation gain (loss) NT\$	Treasury stock NT\$	Total stockholders' equity NT\$
					Legal reserve NT\$	Special reserve NT\$	Unappropriated earnings NT\$					
					NT\$	NT\$	NT\$					
Balance at January 1, 2004	\$ 20,650,877	86,121	-	33,347,630	4,188,567	1,671,291	9,512,855	(186,122)	491,763	(24,370)	(6,730,384)	63,008,228
2004 net income	-	-	-	-	-	-	2,400,314	-	-	-	-	2,400,314
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	(296,217)	-	-	(296,217)
Hedge revaluation loss	-	-	-	-	-	-	-	-	-	54,058	-	54,058
Convertible bonds converted into common stock	255,787	(86,121)	-	515,357	-	-	-	-	-	-	-	685,023
Appropriation approved by the stockholders:												
Legal reserve	-	-	-	-	731,382	-	(731,382)	-	-	-	-	-
Stock dividends and employees' bonuses in stock	-	-	940,008	-	-	-	(940,008)	-	-	-	-	-
Capital surplus transferred to common stock	-	-	492,529	(492,529)	-	-	-	-	-	-	-	-
Reverse of special reserve	-	-	-	-	-	(409,440)	409,440	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(4,925,285)	-	-	-	-	(4,925,285)
Directors' and supervisors' remuneration	-	-	-	-	-	-	(69,919)	-	-	-	-	(69,919)
Employees' bonuses in cash	-	-	-	-	-	-	(111,870)	-	-	-	-	(111,870)
Unrealized loss on long-term equity investment	-	-	-	-	-	-	-	(4,178)	-	-	-	(4,178)
Increase in capital surplus resulting from long-term equity investments accounted for by the equity method	-	-	-	380	-	-	-	-	-	-	-	380
Common stock acquired by the Company	-	-	-	-	-	-	-	-	-	-	(3,761,064)	(3,761,064)
Disposal of the Company's common stock held by subsidiaries	-	-	-	-	-	-	(2,872)	-	-	-	2,202	(670)
Disposal of treasury stock	-	-	-	-	-	-	(803)	-	-	-	336,050	335,247
Cancellation of treasury stock	(893,730)	-	-	(1,509,656)	-	-	(1,942,416)	-	-	-	4,345,802	-
Balance at June 30, 2004	<u>20,012,934</u>	<u>-</u>	<u>1,432,537</u>	<u>31,861,182</u>	<u>4,919,949</u>	<u>1,261,851</u>	<u>3,598,054</u>	<u>(190,300)</u>	<u>195,546</u>	<u>29,688</u>	<u>(5,807,394)</u>	<u>57,314,047</u>
Balance at January 1, 2005	\$ 20,933,677	-	-	30,541,968	4,919,949	1,261,851	7,029,767	(214,814)	132,516	(516,611)	(3,411,280)	60,677,023
2005 net income	-	-	-	-	-	-	4,409,714	-	-	-	-	4,409,714
Foreign currency translation adjustment	-	-	-	-	-	-	-	-	(978,822)	-	-	(978,822)
Hedge revaluation gain	-	-	-	-	-	-	-	-	-	580,337	-	580,337
Appropriation approved by the stockholders:												
Legal reserve	-	-	-	-	701,166	-	(701,166)	-	-	-	-	-
Stock dividends and employees' bonuses in stock	-	-	606,694	-	-	-	(606,694)	-	-	-	-	-
Special reserve	-	-	-	-	-	755,968	(755,968)	-	-	-	-	-
Capital surplus transferred to common stock	-	-	1,004,816	(1,004,816)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(4,814,746)	-	-	-	-	(4,814,746)
Directors' and supervisors' remuneration	-	-	-	-	-	-	(55,545)	-	-	-	-	(55,545)
Employees' bonuses in cash	-	-	-	-	-	-	(88,872)	-	-	-	-	(88,872)
Unrealized loss on long-term equity investments	-	-	-	-	-	-	-	214,814	-	-	-	214,814
Decrease in capital surplus resulting from long-term equity investments accounted for by the equity method	-	-	-	(56,642)	-	-	-	-	-	-	-	(56,642)
Balance at June 30, 2005	<u>20,933,677</u>	<u>-</u>	<u>1,611,510</u>	<u>29,480,510</u>	<u>5,621,115</u>	<u>2,017,819</u>	<u>4,416,490</u>	<u>-</u>	<u>(846,306)</u>	<u>63,726</u>	<u>(3,411,280)</u>	<u>59,887,261</u>

ACER INCORPORATED

Non-Consolidated Statements of Cash Flows

For the six-month periods ended June 30, 2005 and 2004

(Expressed in thousands of New Taiwan dollars)

	<u>2005</u>	<u>2004</u>
	NT\$	NT\$
Cash flows from operating activities:		
Net income	4,409,714	2,400,314
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	119,247	128,312
Amortization	135,081	111,263
Loss on disposal of assets, net	955	990
Gain on disposal of investments, net	(2,424,403)	(2,070,843)
Realized translation loss	12,074	-
Net investment income on long-term equity investments accounted for by equity method, net of cash dividends received	(3,180,197)	115,234
Investment loss on long-term equity investments accounted for by cost method	23,000	-
Assets impairment loss	548,000	-
Provision for redemption of convertible bonds	-	6,542
Deferred income tax expense	288,060	279,425
Changes in operating assets and liabilities:	-	
Notes and accounts receivable	(659,667)	(75,981)
Receivables from related parties	(1,476,676)	1,360,990
Inventories	(1,119,079)	(1,557,838)
Other financial assets, prepaid expenses and other current assets	(757,312)	46,230
Long-term accounts receivable	(149,060)	(95,680)
Notes and accounts payable	7,438,585	(375,734)
Payables to related parties	24,980	(241,352)
Deferred inter-company profits	32,862	2,231
Royalties payable, accrued expenses and other current liabilities	867,367	(412,442)
Other liabilities	(1,791)	(17,109)
Cash provided by (used in) operating activities	<u>4,131,740</u>	<u>(395,448)</u>
Cash flows from investing activities:		
Decrease in short-term investments	7,779,732	4,171,448
Proceeds from disposal of long-term investments	56	959,066
Proceeds from disposal of property and equipment	2,119	2,597
Additions to property and equipment	(65,242)	(41,033)
Increase in intangible assets	(58,884)	(16,511)
Increase in long-term equity investments	(440,440)	(266,447)
Refund from reduction in investees' share capital	1,320,483	-
Decrease in loans and advances to related parties	82,610	136,356
Decrease in refundable deposits, deferred expenses and other assets	93,166	86,697
Cash provided by investing activities	<u>8,713,600</u>	<u>5,032,173</u>
Cash flows from financing activities:		
Decrease in short-term borrowings	(131,917)	(979,400)
Redemption of bonds payable	(3,000,000)	-
Purchase of treasury stock	-	(3,761,064)
Disposal of treasury stock	-	335,247
Cash used in financing activities	<u>(3,131,917)</u>	<u>(4,405,217)</u>
Net increase in cash and cash equivalents	9,713,423	231,508
Cash and cash equivalents at beginning of period	<u>1,683,755</u>	<u>2,450,495</u>
Cash and cash equivalents at end of period	<u>11,397,178</u>	<u>2,682,003</u>
Supplemental disclosures of cash flow information:		
Interest paid	<u>182,051</u>	<u>185,298</u>
Income taxes paid	<u>5,610</u>	<u>86,673</u>
Supplementary schedules of non-cash investing and financing activities:		
Accrued cash dividends, employees' bonuses and directors' and supervisors' remuneration	<u>4,959,163</u>	<u>5,107,074</u>
Foreign currency translation adjustment	<u>(990,896)</u>	<u>(296,217)</u>
Accounts receivable transferred to investments in a subsidiary company	<u>-</u>	<u>998,070</u>