

Audit Report of Independent Certified Public Accountants

The Board of Directors
Acer Incorporated:

We have audited the consolidated balance sheets of Acer Incorporated (the “Company”) and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in stockholders’ equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China and the “Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants”. Those standards and rules require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, 2005 and 2004, 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 2(1) to the consolidated financial statements, the Company and subsidiaries 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.

Taipei, Taiwan (the Republic of China)
March 15, 2006

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of China. 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, 2005 and 2004

(in thousands of New Taiwan dollars and US dollars)

Assets	2005 NT\$	2004 NT\$	Liabilities and Stockholders' Equity	2005 NT\$	2004 NT\$
Current assets:			Current liabilities:		
Cash and cash equivalents (note 4(1))	28,482,653	15,686,705	Short-term borrowings (note 4(10) and 6)	3,400,617	5,182,060
Short-term investments (note 4(2)(17) and 6)	6,160,138	16,157,618	Current installments of long-term debt (note 4(11) and 6)	42,238	67,395
Notes and accounts receivable, net of allowance for doubtful accounts of NT\$855,489 and NT\$820,383 as of December 31, 2005 and 2004, respectively (note 4(3) and 6)	63,861,995	33,939,116	Current installments of bonds payable (note 4(12))	-	6,000,000
Notes and accounts receivables from related parties (note 5)	6,040,397	1,351,451	Notes and accounts payable	64,779,336	23,592,932
Other receivables from related parties (note 5)	724,502	1,072,139	Notes and accounts payables to related parties (note 5)	8,598,247	3,126,267
Other financial assets (note 4(4)(17))	3,179,466	1,852,351	Other payables to related parties (note 5)	73,366	227,541
Inventories (note 4(5) and 6)	29,055,723	13,363,463	Royalties payable	4,677,416	2,363,365
Prepaid expenses and other current assets	647,089	935,163	Accrued expenses and other current liabilities (note 4(17))	<u>20,567,088</u>	<u>19,339,199</u>
Deferred income tax assets (note 4(14))	1,051,878	599,970	Total current liabilities	<u>102,138,308</u>	<u>59,898,759</u>
Pledged time deposits (note 6)	<u>18,426</u>	<u>71,931</u>			
Total current assets	<u>139,222,267</u>	<u>85,029,907</u>	Long-term liabilities:		
Long-term equity investments (note 4(6)(17) and 6)			Long-term debt, excluding current installments (note 4(11) and 6)	146,623	257,007
Accounted for using equity method	13,299,186	15,869,274	Other liabilities (note 4(13))	326,510	1,509,671
Accounted for using cost method or lower-of-cost-or-market-value method	<u>4,306,787</u>	<u>4,775,325</u>	Deferred income tax liabilities (note 4(14))	<u>1,700,757</u>	<u>578,133</u>
Total long-term equity investments	<u>17,605,973</u>	<u>20,644,599</u>	Total long-term liabilities	<u>2,173,890</u>	<u>2,344,811</u>
Property and equipment			Total liabilities	<u>104,312,198</u>	<u>62,243,570</u>
Land	2,510,171	4,868,749	Stockholders' equity and minority interest (note 4(15)(17))		
Buildings and improvements	6,687,113	6,983,541	Common stock	22,545,187	20,933,677
Machinery and computer equipment	3,444,609	3,789,980	Capital surplus	30,552,133	30,541,968
Furniture and fixtures	767,100	760,408	Retained earnings:		
Leasehold improvement	334,426	403,331	Legal reserve	5,621,115	4,919,949
Leased equipment	128,826	189,719	Special reserve	2,017,819	1,261,851
Other equipment	806,378	758,220	Unappropriated earnings	8,484,278	7,029,767
Construction in progress and advance payments for purchases of property and equipment	142,396	35,466	Other stockholders' equity components:		
	<u>14,821,019</u>	<u>17,789,414</u>	Unrealized loss on long-term equity investments	(454)	(214,814)
Less: accumulated depreciation	(4,600,862)	(4,342,434)	Foreign currency translation adjustment	(226,806)	132,516
accumulated asset impairment	<u>(752,000)</u>	<u>-</u>	Hedge revaluation loss	66,062	(516,611)
Net property, plant and equipment	<u>9,468,157</u>	<u>13,446,980</u>	Treasury stock	<u>(3,270,920)</u>	<u>(3,411,280)</u>
Intangible assets (note 4(8))	501,878	784,296	Total stockholders' equity	65,788,414	60,677,023
Property not used in operation (note 4(7) and 6)	3,478,937	3,469,674			
Other financial assets (note 4(9))	988,033	659,627	Minority interest	<u>1,461,037</u>	<u>1,540,696</u>
Deferred income tax-noncurrent (note 4(14))	71,720	179,064	Total stockholders' equity and minority interest	67,249,451	62,217,719
Deferred expenses and other assets	224,684	247,142			
			Commitments and contingencies (note 7)		
Total assets	<u>171,561,649</u>	<u>124,461,289</u>			
			Total liabilities and stockholders' equity	<u>171,561,649</u>	<u>124,461,289</u>
			Liabilities and Stockholders' Equity		

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES
Consolidated Statements of Income
For the years ended December 31, 2005 and 2004
(in thousands of New Taiwan dollars and US dollars, except per share data)

	2005 NT\$	2004 NT\$
Revenues (note 5)	318,087,679	225,014,007
Cost of revenues (note 5)	<u>(283,966,218)</u>	<u>(197,794,704)</u>
Gross profit	<u>34,121,461</u>	<u>27,219,303</u>
Operating expenses (note 10)		
Selling	(23,168,521)	(20,579,110)
Administrative	(2,866,287)	(2,389,309)
Research and development	<u>(437,692)</u>	<u>(444,227)</u>
Total operating expenses	<u>(26,472,500)</u>	<u>(23,412,646)</u>
Operating income	<u>7,648,961</u>	<u>3,806,657</u>
Non-operating income and gains:		
Interest income	402,634	225,671
Investment gain recognized by equity method (note 4(6))	-	147,402
Gain on disposal of property and equipment	46,605	-
Gain on disposal of investments, net (note 4(2)(6))	5,634,709	5,432,389
Other income	<u>1,092,426</u>	<u>937,271</u>
	<u>7,176,374</u>	<u>6,742,733</u>
Non-operating expenses and loss:		
Interest expense	(385,293)	(596,007)
Investment loss recognized by equity method (note 4(6))	(42,179)	-
Other investment loss	(2,294,293)	(628,587)
Loss on disposal of property and equipment (note 4(2)(6))	-	(47,643)
Foreign exchange loss, net	(69,393)	(339,135)
Asset impairment loss (note 3 and 4(7))	(805,000)	-
Other loss	<u>(576,645)</u>	<u>(297,418)</u>
	<u>(4,172,803)</u>	<u>(1,908,790)</u>
Income before income taxes, minority interest, and pre-acquisition loss	10,652,532	8,640,600
Income tax expense	<u>(2,187,044)</u>	<u>(1,549,177)</u>
Income before minority interest in net income	<u>8,465,488</u>	<u>7,091,423</u>
Net Income	8,477,502	7,011,661
Minority interest in net income	<u>(12,014)</u>	<u>79,762</u>
	<u>8,465,488</u>	<u>7,091,423</u>
Earnings per common share(note 4(16), in New Taiwan Dollars) :		
Basic earnings per common share	<u>3.83</u>	<u>3.14</u>
Diluted earnings per common share	<u>3.83</u>	<u>3.14</u>

See accompanying notes to consolidated financial statements.

ACER INCORPORATED
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2005 and 2004
(Expressed in thousands of New Taiwan dollars)

	Common stock	Convertible bonds being converted to common stock	Retained earnings				Unrealized loss on long-term equity investments	Foreign currency translation adjustment	Hedge revaluation gain (loss)	Treasury stock	Minority interest	Total stockholders' equity
			Capital surplus	Legal reserve	Special reserve	Unappropriated earnings						
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)	1,478,983	64,487,211
2004 net income	-	-	-	-	-	7,011,661	-	-	-	-	79,762	7,091,423
Foreign currency translation adjustment	-	-	-	-	-	-	-	(359,247)	-	-	-	(359,247)
Appropriation approved by the stockholders (note 4(15)):												
Reverse of special reserve	-	-	-	-	(409,440)	409,440	-	-	-	-	-	-
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)	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(4,925,285)	-	-	-	-	-	(4,925,285)
Directors' and supervisors' remuneration	-	-	-	-	-	(69,919)	-	-	-	-	-	(69,919)
Employees' bonuses in cash	-	-	-	-	-	(111,870)	-	-	-	-	-	(111,870)
Change in unrealized loss on long-term equity investment	-	-	-	-	-	-	(28,692)	-	-	-	-	(28,692)
Cash dividends distributed to subsidiaries	-	-	71,783	-	-	-	-	-	-	-	-	71,783
Decrease in capital surplus resulting from long-term equity investments accounted for by the equity method (note 4(6))	-	-	(597,980)	-	-	-	-	-	-	-	-	(597,980)
Convertible bonds converted into common stock	255,787	(86,121)	515,357	-	-	-	-	-	-	-	-	685,023
Hedge revaluation gain (note 4(17))	-	-	-	-	-	-	-	-	(492,241)	-	-	(492,241)
Common stock acquired by the Company (note 4(15))	-	-	-	-	-	-	-	-	-	(3,849,015)	-	(3,849,015)
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 (note 4(15))	(1,405,524)	-	(2,302,293)	-	-	(3,122,050)	-	-	-	6,829,867	-	-
Change in minority interest	-	-	-	-	-	-	-	-	-	-	(18,049)	(18,049)
Balance at December 31, 2004	<u>\$ 20,933,677</u>	<u>-</u>	<u>30,541,968</u>	<u>4,919,949</u>	<u>1,261,851</u>	<u>7,029,767</u>	<u>(214,814)</u>	<u>132,516</u>	<u>(516,611)</u>	<u>(3,411,280)</u>	<u>1,540,696</u>	<u>62,217,719</u>
2005 net income	-	-	-	-	-	8,477,502	-	-	-	-	(12,014)	8,465,488
Foreign currency translation adjustment	-	-	-	-	-	-	-	(359,322)	-	-	-	(359,322)
Hedge revaluation gain (note 4(17))	-	-	-	-	-	-	-	-	582,673	-	-	582,673
Appropriation approved by the stockholders (note 4(15)):												
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)
Change in unrealized loss on long-term equity investments	-	-	-	-	-	-	214,360	-	-	-	-	214,360
Cash dividends distributed to subsidiaries	-	-	68,318	-	-	-	-	-	-	-	-	68,318
Increase in capital surplus resulting from long-term equity investments accounted for by the equity method (note 4(6))	-	-	985,448	-	-	-	-	-	-	-	-	985,448
Cancellation of treasury stock	-	-	(38,785)	-	-	-	-	-	-	140,360	-	101,575
Change in minority interest	-	-	-	-	-	-	-	-	-	-	(67,645)	(67,645)
Balance at December 31, 2005	<u>\$ 22,545,187</u>	<u>-</u>	<u>30,552,133</u>	<u>5,621,115</u>	<u>2,017,819</u>	<u>8,484,278</u>	<u>(454)</u>	<u>(226,806)</u>	<u>66,062</u>	<u>(3,270,920)</u>	<u>1,461,037</u>	<u>67,249,451</u>

See accompanying notes to consolidated financial statements.

ACER INCORPORATED
Consolidated Statements of Cash Flows
For the years ended December 31, 2005 and 2004
(in thousands of New Taiwan dollars and US dollars)

	2005	2004
	NT\$	NT\$
Cash flows from operating activities:		
Net income	8,465,488	7,091,423
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	976,348	1,077,790
Amortization	519,946	664,167
Loss on disposal of assets, net	(46,605)	47,643
Gain on disposal of investments, net	(5,634,709)	(5,432,389)
Net investment gain on long-term equity investments accounted for by equity method, net of cash dividends received	246,985	421,127
Other investment loss	2,294,293	628,587
Assets impairment loss	805,000	184,178
Provision for redemption of convertible bonds	-	6,542
Deferred income tax expense	1,222,533	820,057
Changes in operating assets and liabilities:		
Notes and accounts receivable	(29,922,879)	(8,374,939)
Receivables from related parties	(4,353,425)	(200,131)
Inventories	(15,722,725)	(4,187,754)
Other financial assets, prepaid expenses and other current assets	(1,039,041)	16,065
Long-term accounts receivable	(366,555)	(120,436)
Notes and accounts payable	41,186,404	4,011,172
Payables to related parties	5,317,805	(1,283,317)
Royalties payable, accrued expenses and other current liabilities	3,536,327	7,087,227
Other liabilities	(360,105)	(417,560)
Cash provided by operating activities	<u>7,125,085</u>	<u>2,039,452</u>
Cash flow from investing activities:		
Decrease in short-term investments	11,958,174	2,834,536
Proceeds from sales of long-term investments	5,269,601	6,707,723
Increase in long-term investments	(304,205)	(1,561,520)
Refund from reduction in investees' share capital	294,835	1,008,128
Proceeds from disposal of property and equipment	3,248,469	18,637
Additions to property and equipment	(505,397)	(472,734)
Increase in intangible assets	(126,186)	(117,703)
Decrease in loans and advances to related parties	12,116	22,897
Increase in refundable deposits, deferred expenses and other assets	16,064	25,867
Cash provided by investing activities	<u>19,863,471</u>	<u>8,465,831</u>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	(1,781,443)	112,356
Disposal of treasury stock	-	335,247
Redemption of bonds payable	(6,000,000)	-
Payment of long-term debt	(135,541)	(412,069)
Payment of cash dividends, employee's bonus and directors' and supervisors' remuneration	(4,959,163)	(5,035,291)
Purchase of treasury stock	90,288	(3,849,015)
Increase (decrease) in deposits received	(823,056)	36,154
Cash used in financing activities	<u>(13,608,915)</u>	<u>(8,812,618)</u>
Net increase in cash and cash equivalents	13,379,641	1,692,665
Effects of exchange rate changes	(583,693)	(132,003)
Cash and cash equivalents at beginning of period	<u>15,686,705</u>	<u>14,126,043</u>
Cash and cash equivalents at end of period	<u><u>28,482,653</u></u>	<u><u>15,686,705</u></u>
Supplemental disclosures of cash flow information		
Interest paid	<u>556,946</u>	<u>602,059</u>
Income taxes paid	<u>928,813</u>	<u>743,379</u>
Supplementary schedules of non-cash investing and financing activities:		
Convertible bonds converted to common stock	<u>-</u>	<u>685,023</u>
Foreign currency translation adjustment	<u>(359,322)</u>	<u>(359,247)</u>

See accompanying notes to consolidated financial statements.

