

Independent Auditors' Report

The Board of Directors
Acer Incorporated:

We have audited the non-consolidated balance sheets of Acer Incorporated (the "Company") as of December 31, 2006 and 2005, and the related non-consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" in the Republic of China. 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 non-consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Acer Incorporated as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

As discussed in Note 2(8)(9)(12)(14) to the non-consolidated financial statements, starting from January 1, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 35 "Accounting for Assets Impairment". Starting from January 1, 2006, the Company adopted the provisions of SFAS No.34 "Accounting for Financial Instruments", SFAS No.36 "Disclosure and Presentation of Financial Instruments" and revised SFAS No.1 "Conceptual Framework for Financial Accounting and Preparation of Financial Statements", and revised SFAS No. 5 "Long-term Investment Accounted by Equity Method". The effects of those accounting changes are discussed in note 3 to the non-consolidated financial statement.

We have audited the consolidated financial statements as of and for the years ended December 31, 2006 and 2005 prepared by the Company. Based on our audit, we express an unqualified audit opinion with an explanatory paragraph related to a change in accounting principles on the consolidated financial statements.

KPMG Certified Public Accountants
March 12, 2007

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
December 31, 2006 and 2005
(Expressed in thousands of New Taiwan dollars)

Assets	<u>2006.12.31</u> NT\$	<u>2005.12.31</u> NT\$	Liabilities and Stockholders' Equity	<u>2006.12.31</u> NT\$	<u>2005.12.31</u> NT\$
Current assets:			Current liabilities:		
Cash and cash equivalents	3,306,845	10,918,662	Short-term borrowings	5,375,080	2,538
Notes and accounts receivable, net of allowance for doubtful accounts of NT\$41,509 thousand and NT\$95,130 thousand as of December 31, 2006 and 2005, respectively	8,016,274	20,693,541	Notes and accounts payable	35,698,961	39,571,454
Notes and accounts receivables from related parties	48,963,859	31,408,327	Notes and accounts payable to related parties	1,789,633	8,740,460
Other receivables from related parties	87,003	773,286	Financial liabilities at fair value through profit or loss-current	1,116,216	-
Other receivables	230,753	59,720	Other payables to related parties	1,427,860	2,669,418
Financial assets at fair value through profit or loss-current	1,505	554,416	Hedging derivative financial liabilities-current	46,793	-
Available-for-sale financial assets-current	9,280,356	3,726,081	Royalties payable	5,599,416	4,258,035
Hedging derivative financial assets-current	47,023	22,623	Accrued expenses and other current liabilities	6,530,574	5,121,575
Inventories	6,270,751	7,472,234	Deferred inter-company profits	<u>28,062</u>	<u>53,499</u>
Deferred income tax assets-current	651,044	538,031	Total current liabilities	<u>57,612,595</u>	<u>60,416,979</u>
Prepaid expenses and other current assets	<u>287,710</u>	<u>108,405</u>	Long-term liabilities:		
Total current assets	<u>77,143,123</u>	<u>76,275,326</u>	Other liabilities	120,561	81,937
Funds and investments			Deferred income tax liabilities-noncurrent	2,250,317	1,681,544
Long-term equity investments under equity method	43,403,377	39,084,754	Long-term equity investment credits	<u>433,218</u>	<u>411,850</u>
Financial assets measured at holding cost-noncurrent	2,717,113	3,361,060	Total long-term liabilities	<u>2,804,096</u>	<u>2,175,331</u>
Available-for-sale financial assets-noncurrent	<u>2,273,775</u>	-	Total liabilities	<u>60,416,691</u>	<u>62,592,310</u>
Net long-term equity investments	<u>48,394,265</u>	<u>42,445,814</u>	Stockholders' equity:		
Property, plant and equipment:			Common stock	23,370,637	22,545,187
Land	376,842	1,722,448	Capital surplus	29,947,020	30,552,133
Buildings and improvements	578,892	3,149,031	Retained earnings:		
Computer and machinery equipment	541,302	551,412	Legal reserve	6,468,865	5,621,115
Transportation equipment	31,650	31,364	Special reserve	283,921	2,017,819
Office equipment	17,755	18,519	Unappropriated earnings	11,531,479	8,484,278
Other equipment	203,452	16,335	Other stockholders' equity components:		
Leasehold improvement	26,053	26,053	Unrealized depreciation on long-term equity investments	-	(454)
Construction in progress and advance payments for purchases of property and equipment	<u>6,633</u>	<u>141,446</u>	Foreign currency translation adjustment	1,335,500	(226,806)
Less: accumulated depreciation	1,782,579	5,656,608	Unrealized gain on available-for-sale financial assets	4,374,388	-
Less: accumulated impairment	(642,708)	(1,052,779)	Hedge revaluation gain (loss)	(12,780)	66,062
Net property, plant and equipment	<u>1,139,871</u>	<u>4,108,829</u>	Treasury stock	<u>(3,270,920)</u>	<u>(3,270,920)</u>
Intangible assets	271,373	319,106	Total stockholders' equity	74,028,110	65,788,414
Property not used in operation	6,142,558	4,156,320	Commitments and contingencies		
Refundable deposits	379,348	341,549			
Long-term notes and lease accounts receivable	480,537	486,991			
Deferred expenses and other assets	<u>493,726</u>	<u>246,789</u>			
Total assets	<u>134,444,801</u>	<u>128,380,724</u>	Total liabilities and stockholders' equity	<u>134,444,801</u>	<u>128,380,724</u>

ACER INCORPORATED

Non-Consolidated Statements of Income

For the years ended December 31, 2006 and 2005

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

	<u>2006</u>	<u>2005</u>		
	NT\$	NT\$		
Revenues	241,761,193	207,668,832		
Sales return and allowances	<u>(3,562,546)</u>	<u>(2,710,733)</u>		
Net Revenue	238,198,647	204,958,099		
Cost of revenues	<u>(228,756,836)</u>	<u>(196,643,286)</u>		
Gross profit	9,441,811	8,314,813		
Changes in unrealized inter-company profits	<u>25,437</u>	<u>17,606</u>		
Realized gross profit	<u>9,467,248</u>	<u>8,332,419</u>		
Operating expenses:				
Selling	(2,455,690)	(2,268,817)		
Administrative	(170,835)	(177,539)		
Research and development	<u>(104,118)</u>	<u>(49,551)</u>		
Total operating expenses	<u>(2,730,643)</u>	<u>(2,495,907)</u>		
Operating income	<u>6,736,605</u>	<u>5,836,512</u>		
Non-operating income and gains:				
Interest income	430,093	134,370		
Investment gain recognized by equity method	2,286,451	-		
Gain on disposal of investments, net	4,577,414	5,385,966		
Foreign exchange gain, net	261,860	18,272		
Other income	<u>263,149</u>	<u>624,924</u>		
	<u>7,818,967</u>	<u>6,163,532</u>		
Non-operating expenses and loss:				
Interest expense	(224,824)	(186,459)		
Investment loss recognized by equity method	-	(1,508,656)		
Investment loss on financial assets measured at holding cost	(368,390)	(103,673)		
Assets impairment loss	(995,000)	(548,000)		
Financial liabilities revaluation loss	(1,114,711)	-		
Other loss	<u>(77,900)</u>	<u>(3,100)</u>		
	<u>(2,780,825)</u>	<u>(2,349,888)</u>		
Income before income taxes	11,774,747	9,650,156		
Income tax expense	<u>(1,556,505)</u>	<u>(1,172,654)</u>		
Net income	<u>10,218,242</u>	<u>8,477,502</u>		
Earnings per common share (in New Taiwan dollars):	Before	After	Before	After
	income	income	income	income
	<u>tax</u>	<u>tax</u>	<u>tax</u>	<u>tax</u>
	NT\$	NT\$	NT\$	NT\$
Basic earnings per common share	<u>5.13</u>	<u>4.45</u>	<u>4.21</u>	<u>3.69</u>

ACER INCORPORATED

Non-Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2006 and 2005

(Expressed in thousands of New Taiwan dollars)

	<u>Retained earnings</u>					Unrealized depreciation on long-term equity investments	Foreign currency translation adjustment	Unrealized gain(loss) on available-for-sale financial asset	Hedge revaluation gain (loss)	Treasury stock	Total stockholders' equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings						
	NT\$	NT\$	NT\$	NT\$	NT\$						
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	-	-	-	-	8,477,502	-	-	-	-	-	8,477,502
Foreign currency translation adjustment	-	-	-	-	-	-	(359,322)	-	-	-	(359,322)
Hedge revaluation gain	-	-	-	-	-	-	-	-	582,673	-	582,673
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)
Change in unrealized depreciation on long-term equity investment	-	-	-	-	-	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	-	985,448	-	-	-	-	-	-	-	-	985,448
Disposal of treasury stock	-	(38,785)	-	-	-	-	-	-	-	140,360	101,575
Balance at December 31, 2005	22,545,187	30,552,133	5,621,115	2,017,819	8,484,278	(454)	(226,806)	-	66,062	(3,270,920)	65,788,414
Effect of adoption of Statement of Financial Accounting Standard No.34 "Accounting for Financial Instruments" starting from January 1, 2006.	-	-	-	-	-	-	-	4,503,791	-	-	4,503,791
2006 net income	-	-	-	-	10,218,242	-	-	-	-	-	10,218,242
Foreign currency translation adjustment	-	-	-	-	-	-	1,562,306	-	-	-	1,562,306
Hedge revaluation gain	-	-	-	-	-	-	-	-	(78,842)	-	(78,842)
Appropriation approved by the stockholders:											
Legal reserve	-	-	847,750	-	(847,750)	-	-	-	-	-	-
Stock dividends and employees' bonuses in stock	825,450	-	-	-	(825,450)	-	-	-	-	-	-
Special reserve	-	-	-	(1,733,898)	1,733,898	-	-	-	-	-	-
Cash dividends	-	-	-	-	(6,763,556)	-	-	-	-	-	(6,763,556)
Directors' and supervisors' remuneration	-	-	-	-	(93,637)	-	-	-	-	-	(93,637)
Employees' bonuses in cash	-	-	-	-	(374,546)	-	-	-	-	-	(374,546)
Change in unrealized depreciation on long-term equity investments	-	-	-	-	-	454	-	-	-	-	454
Cash dividends distributed to subsidiaries	-	93,240	-	-	-	-	-	-	-	-	93,240
Decrease in capital surplus resulting from long-term equity investments accounted for by the equity method	-	(698,353)	-	-	-	-	-	-	-	-	(698,353)
Unrealized loss on available-for sale financial assets	-	-	-	-	-	-	-	(129,403)	-	-	(129,403)
Balance at December 31, 2006	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)	74,028,110

ACER INCORPORATED

Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2006 and 2005
(Expressed in thousands of New Taiwan dollars)

	<u>2006</u>	<u>2005</u>
	NT\$	NT\$
Cash flows from operating activities:		
Net income	10,218,242	8,477,502
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation	168,509	235,426
Amortization	181,471	281,455
Loss on disposal of assets, net	(31,164)	1,129
Gain on disposal of investments, net	(4,577,414)	(5,385,966)
Net investment income on long-term equity investments accounted for by equity method, net of cash dividends received	(7,289,970)	(4,406,431)
Investment loss on financial assets measured at holding cost	368,390	103,673
Assets impairment loss	995,000	548,000
Realized foreign exchange gain on long-term investments	4,218	12,074
Allowance for doubtful accounts of advances to related parties	385,043	-
Deferred income tax expense	455,760	1,157,185
Changes in operating assets and liabilities:		
Notes and accounts receivable	12,677,267	(9,755,066)
Receivables from related parties	(17,555,532)	(11,789,120)
Inventories	1,464,327	(4,787,247)
Other financial assets, prepaid expenses and other current assets	225,196	261,930
Long-term notes and lease accounts receivable	6,454	(366,555)
Notes and accounts payable	(3,872,494)	20,421,735
Payables to related parties	(8,192,385)	6,163,802
Deferred inter-company profits	(25,437)	(17,606)
Royalties payable, accrued expenses and other current liabilities	3,449,693	1,772,674
Other liabilities	<u>38,624</u>	<u>(5,103)</u>
Cash (used in) provided by operating activities	<u>(10,906,202)</u>	<u>2,923,491</u>
Cash flows from investing activities:		
Decrease in available-for-sale financial asset	(289,041)	9,119,469
Proceeds from disposal of long-term investments	3,995,417	4,550,247
Refund from reduction in investees' share capital	1,582,629	4,344,021
Proceeds from disposal of property, plant and equipment and property not used in operation	440,374	6,780
Additions to property, plant and equipment and property not used in operation	(757,795)	(132,672)
Increase in intangible assets	(62,878)	(81,589)
Increase in long-term investments	-	(452,120)
Decrease (increase) in loans and advances to related parties	301,240	(4,637)
Decrease (increase) in refundable deposits, deferred expenses and other assets	<u>(56,364)</u>	<u>50,459</u>
Cash provided by investing activities	<u>5,153,582</u>	<u>17,399,958</u>
Cash flows from financing activities:		
Decrease in short-term borrowings	5,372,542	(129,379)
Redemption of bonds	-	(6,000,000)
Payment of cash dividends, employee's bonuses and director's and supervisor's remuneration	(7,231,739)	(4,959,163)
Cash used in financing activities	<u>(1,859,197)</u>	<u>(11,088,542)</u>
Net increase in cash and cash equivalents	(7,611,817)	9,234,907
Cash and cash equivalents at beginning of period	<u>10,918,662</u>	<u>1,683,755</u>
Cash and cash equivalents at end of period	<u><u>3,306,845</u></u>	<u><u>10,918,662</u></u>
Supplemental disclosures of cash flow information:		
Interest paid	<u>224,824</u>	<u>356,877</u>
Income tax paid	<u>35,760</u>	<u>-</u>
Supplementary schedules of non-cash investing and financing activities:		
Foreign currency translation adjustment	<u>1,558,088</u>	<u>(371,396)</u>
Unrealized gain on available-for-sale financial assets	<u>3,582,469</u>	<u>-</u>
Long-term equity investments transit to available-for-sale financial assets	<u>1,444,641</u>	<u>-</u>