

## **Review Report of Independent Certified Public Accounts**

The Board of Directors  
Acer Incorporated:

We have reviewed the consolidated balance sheets of Acer Incorporated (the “Company”) and subsidiaries as of June 30, 2007 and 2006, and the related consolidated statements of income, changes in stockholders’ equity, and cash flows for the six-month periods then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with Republic of China Statement of Auditing Standards No. 36 “The Review of Financial Statements”. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modification that should be made to the consolidated financial statements referred to in the first paragraph in order for them to be in conformity with the related financial accounting standards of the “Business Entity Accounting Act” and of the “Regulation on Business Entity Accounting Handling”, and accounting principles generally accepted in the Republic of China.

Starting from January 1, 2007, Acer Incorporated and subsidiaries adopted Statement of Financial Accounting Standards (“SFAS”) No. 38 “Non-current Assets Held for sale and Discontinued Operations”. In addition, the Company and subsidiaries adopted SFAS No.34 “Financial Instruments: Recognition and Measurement”, SFAS No.36 “Financial Instruments: Disclosure and Presentation” and the newly amended SFAS No.1 “Conceptual Framework for Financial Accounting and Preparation of Financial Statements”, and SFAS No. 5 “Long-term Investment under Equity Method” commencing from January 1, 2006. The effects of those accounting changes are discussed in note 3 to the consolidated financial statements.

KPMG Certified Public Accountants  
August 17, 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 AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**June 30, 2007 and 2006**  
(Expressed in thousands of New Taiwan dollars)  
**Unaudited**

Assets	<u>2007.6.30</u> NT\$	<u>2006.6.30</u> NT\$	Liabilities and Stockholders' Equity	<u>2007.6.30</u> NT\$	<u>2006.6.30</u> NT\$
<b>Current assets:</b>			<b>Current liabilities:</b>		
Cash and cash equivalents	44,116,353	31,135,646	Short-term borrowings	4,154,984	2,596,863
Notes and accounts receivable, net of allowance for doubtful accounts of NT\$737,209 and NT\$824,918 as of June 30, 2007 and 2006, respectively	75,764,016	51,694,746	Current installment of long-term debt	22,178	43,749
Notes and accounts receivables from related parties	416,402	6,631,798	Notes and accounts payable	71,179,526	40,657,044
Other receivables from related parties	14,738	158,613	Notes and accounts payable to related parties	1,412,109	6,791,435
Other receivables	5,587,135	4,141,414	Financial liabilities at fair value through profit or loss—current	301,428	308,411
Financial assets at fair value through profit or loss-current	32,520	58,291	Other payables to related parties	560,831	97,944
Available-for-sale financial assets-current	9,300,298	8,785,313	Hedging purpose derivative financial liabilities—current	300,319	127,178
Hedging purpose derivative financial assets-current	20,651	67,791	Royalties payable	8,042,051	5,634,641
Inventories	40,432,134	21,915,278	Accrued cash dividends, employees' bonuses and directors' and supervisors' remuneration	9,585,957	7,297,620
Deferred income tax assets-current	1,321,433	925,002	Accrued expenses and other current liabilities	29,840,721	18,375,456
Noncurrent assets held for sale	3,424,636	-	Amounts recognized directly in liabilities relating to noncurrent assets held for sale	2,342,717	-
Prepaid expenses and other current assets	803,054	1,370,360	Deferred income tax liabilities-current	402,503	355,800
Pledged time deposits	64,626	58,046	<b>Total current liabilities</b>	<u>128,145,324</u>	<u>82,286,141</u>
<b>Total current assets</b>	<u>181,297,996</u>	<u>126,942,298</u>			
<b>Funds and investments</b>			<b>Long-term liabilities:</b>		
Long-term equity investments under equity method	4,779,866	6,230,961	Long-term debt, excluding current installments	169,706	163,580
Financial assets carried at cost	3,034,850	5,684,992	Other liabilities	593,072	400,325
Available-for-sale financial assets—noncurrent	1,609,446	2,688,896	Deferred income tax liabilities—noncurrent	2,640,024	1,747,672
<b>Total Funds and investments</b>	<u>9,424,162</u>	<u>14,604,849</u>	<b>Total long-term liabilities</b>	<u>3,402,802</u>	<u>2,311,577</u>
			<b>Total liabilities</b>	<u>131,548,126</u>	<u>84,597,718</u>
<b>Property, plant and equipment:</b>			<b>Stockholders' equity:</b>		
Land	1,490,805	2,085,977	Common stock	23,370,637	22,545,187
Buildings and improvements	3,907,049	3,890,386	Stock dividend to be distributed	684,267	825,450
Computer equipment and machinery	2,497,940	3,539,566	Capital surplus	29,855,419	29,911,909
Transportation equipment	124,313	129,801	Retained earnings:		
Office equipment	927,601	795,794	Legal reserve	7,490,689	6,468,865
Other equipment	693,073	579,760	Special reserve	-	283,921
Leasehold improvement	400,413	384,036	Unappropriated earnings	8,237,244	8,415,766
Construction in progress and advance payments for purchases of property and equipment	405,617	609,791	Other stockholders' equity components:		
	10,446,811	12,015,111	Foreign currency translation adjustment	1,986,905	532,862
Less: accumulated depreciation	(3,607,819)	(4,337,630)	Unrealized gain on available-for-sale financial assets	2,376,562	3,486,384
Less: accumulated impairment	(274,758)	(257,000)	Hedging reserve	(134,437)	(87,851)
<b>Net property, plant and equipment</b>	<u>6,564,234</u>	<u>7,420,481</u>	Amounts recognized directly in equity relating to noncurrent assets held for sale	4,791	-
			Treasury stock	(3,270,920)	(3,270,920)
<b>Intangible assets</b>	530,148	454,026	<b>Total stockholders' equity</b>	<u>70,601,157</u>	<u>69,111,573</u>
<b>Property not used in operations</b>	3,886,448	4,351,802			
<b>Other financial assets</b>	1,113,760	1,109,640	<b>Minority interest</b>	1,260,572	1,482,441
<b>Deferred expenses and other assets</b>	593,107	308,636	<b>Total stockholders' equity and minority interest</b>	<u>71,861,729</u>	<u>70,594,014</u>
<b>Total assets</b>	<u>203,409,855</u>	<u>155,191,732</u>	<b>Commitments and contingencies</b>		
			<b>Total liabilities and stockholders' equity</b>	<u>203,409,855</u>	<u>155,191,732</u>

# ACER INCORPORATED AND SUBSIDIARIES

## Consolidated Statements of Income

**For the six-month periods ended June 30, 2007 and 2006**  
**(Expressed in thousands of New Taiwan dollars, except per share data)**  
**Unaudited**

	<u>2007</u> NT\$	<u>2006</u> NT\$
<b>Revenues</b>	193,033,116	147,371,785
<b>Cost of revenues</b>	<u>(173,671,659)</u>	<u>(131,047,029)</u>
<b>Gross profit</b>	19,361,457	16,324,756
<b>Operating expenses:</b>		
Selling	(13,685,171)	(11,401,000)
Administrative	(1,527,846)	(1,433,668)
Research and development	<u>(239,656)</u>	<u>(200,964)</u>
<b>Total operating expenses</b>	<u>(15,452,673)</u>	<u>(13,035,632)</u>
<b>Operating income</b>	<u>3,908,784</u>	<u>3,289,124</u>
<b>Non-operating income and gains:</b>		
Interest income	605,685	329,605
Investment gain recognized by equity method	313,192	12,524
Gain on disposal of assets	117,814	34
Gain on disposal of investments, net	3,860,084	5,326,692
Financial assets revaluation gain	833,313	-
Foreign exchange gain, net	-	624,346
Other income	<u>194,534</u>	<u>1,852,113</u>
	<u>5,924,622</u>	<u>8,145,314</u>
<b>Non-operating expenses and loss:</b>		
Interest expense	(229,373)	(162,798)
Other investment loss	-	(154,829)
Foreign exchange loss, net	(674,893)	-
Financial liabilities revaluation loss	-	(934,980)
Assets impairment loss	-	(995,000)
Other loss	<u>(146,928)</u>	<u>(414,920)</u>
	<u>(1,051,194)</u>	<u>(2,662,527)</u>
<b>Income from continuing operations before income taxes</b>	8,782,212	8,771,911
<b>Income tax expense</b>	<u>(1,189,394)</u>	<u>(1,702,514)</u>
<b>Income from continuing operations</b>	7,592,818	7,069,397
<b>Income from discontinued operations (net of income taxes of NT\$23,120 and NT\$28,458)</b>	<u>86,856</u>	<u>81,311</u>
<b>Consolidated net income</b>	<u><b>7,679,674</b></u>	<u><b>7,150,708</b></u>
<b>Net income attributable to:</b>		
<b>Shareholders of parent company</b>	7,645,153	7,102,529
<b>Minority shareholders</b>	<u>34,521</u>	<u>48,179</u>
	<u><b>7,679,674</b></u>	<u><b>7,150,708</b></u>
<b>Earnings per common share (in New Taiwan dollars):</b>	<b>After</b>	<b>After</b>
	<b>income</b>	<b>income</b>
	<b>taxes</b>	<b>taxes</b>
	<b>NT\$</b>	<b>NT\$</b>
Basic earnings per common share-retroactively adjusted		
Income from continuing operations	3.20	2.97
Income from discontinued operations	<u>0.03</u>	<u>0.04</u>
	<u><b>3.23</b></u>	<u><b>3.01</b></u>

**ACER INCORPORATED AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**For the six-month periods ended June 30, 2007 and 2006**

(Expressed in thousands of New Taiwan dollars)  
**Unaudited**

	<u>Retained earnings</u>						Foreign currency translation adjustment	Unrealized loss on long-term equity investments	Unrealized gain on available-for- sale financial asset	Hedging reserve	Amounts recognized directly in equity relating to noncurrent assets held for sale	Treasury stock	Minority interest	Total stockholders' equity
	Common stock	Stock dividend to be distributed	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings								
<b>Balance at January 1, 2006</b>	22,545,187	-	30,552,133	5,621,115	2,017,819	8,484,278	(226,806)	(454)	-	66,062	-	(3,270,920)	1,461,037	67,249,451
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	-	-	-	-	-	7,102,529	-	-	-	-	-	-	48,179	7,150,708
Foreign currency translation adjustment	-	-	-	-	-	-	759,668	-	-	-	-	-	-	759,668
Change in fair values of financial instruments	-	-	-	-	-	-	-	-	-	(153,913)	-	-	-	(153,913)
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 loss long-term equity investments	-	-	-	-	-	-	-	454	-	-	-	-	-	454
Decrease in capital surplus resulting from long-term equity investments accounted for by the equity method	-	-	(640,224)	-	-	-	-	-	-	-	-	-	-	(640,224)
Unrealized loss on available-for sale financial assets	-	-	-	-	-	-	-	-	(1,017,407)	-	-	-	-	(1,017,407)
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(26,775)	(26,775)
<b>Balance at June 30, 2006</b>	<b>22,545,187</b>	<b>825,450</b>	<b>29,911,909</b>	<b>6,468,865</b>	<b>283,921</b>	<b>8,415,766</b>	<b>532,862</b>	<b>-</b>	<b>3,486,384</b>	<b>(87,851)</b>	<b>-</b>	<b>(3,270,920)</b>	<b>1,482,441</b>	<b>70,594,014</b>
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	-	-	-	-	-	7,645,153	-	-	-	-	-	-	34,521	7,679,674
Foreign currency translation adjustment	-	-	-	-	-	-	651,405	-	-	-	-	-	-	651,405
Change in fair values of financial instruments	-	-	-	-	-	-	-	-	-	(121,657)	-	-	-	(121,657)
Appropriation approved by the stockholders:														
Legal reserve	-	-	-	1,021,824	-	(1,021,824)	-	-	-	-	-	-	-	-
Stock dividends and employees' bonuses in stock	-	684,267	-	-	-	(684,267)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(283,921)	283,921	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(8,997,695)	-	-	-	-	-	-	-	(8,997,695)
Directors' and supervisors' remuneration	-	-	-	-	-	(94,804)	-	-	-	-	-	-	-	(94,804)
Employees' bonuses in cash	-	-	-	-	-	(424,719)	-	-	-	-	-	-	-	(424,719)
Translation adjustment of noncurrent assets held for sale	-	-	-	-	-	-	-	-	-	-	4,791	-	-	4,791
Decrease in capital surplus resulting from long-term equity investments accounted for by the equity method	-	-	(91,601)	-	-	-	-	-	-	-	-	-	-	(91,601)
Unrealized loss on available-for sale financial assets	-	-	-	-	-	-	-	-	(1,997,826)	-	-	-	-	(1,997,826)
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(301,622)	(301,622)
<b>Balance at June 30, 2007</b>	<b>23,370,637</b>	<b>684,267</b>	<b>29,855,419</b>	<b>7,490,689</b>	<b>-</b>	<b>8,237,244</b>	<b>1,986,905</b>	<b>-</b>	<b>2,376,562</b>	<b>(134,437)</b>	<b>4,791</b>	<b>(3,270,920)</b>	<b>1,260,572</b>	<b>71,861,729</b>

**ACER INCORPORATED AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the six-month periods ended June 30, 2007 and 2006**

**(Expressed in thousands of New Taiwan dollars)**

**Unaudited**

	<u>2007</u>	<u>2006</u>
	NT\$	NT\$
<b>Cash flows from operating activities:</b>		
Consolidated Net income	7,679,674	7,150,708
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation	296,614	438,465
Amortization	142,136	164,608
Loss on disposal of assets, net	(117,814)	(59,297)
Gain on disposal of investments, net	(3,860,084)	(5,326,750)
Net investment gain on long-term equity investments accounted for by equity method, net of cash dividends received	261,673	185,823
Other investment loss and other loss	3,937	154,829
Assets impairment loss	-	995,000
Deferred income tax expense (benefit)	(100,532)	59,734
Changes in operating assets and liabilities:		
Notes and accounts receivable	(7,260,547)	12,167,249
Receivables from related parties	(86,200)	(591,401)
Inventories	(16,150,988)	7,135,311
Other receivables, prepaid expenses and other current assets	(959,766)	(1,393,676)
Noncurrent receivable	99,685	-
Notes and accounts payable	7,107,193	(24,122,292)
Payables to related parties	601,220	(1,782,234)
Royalties payable, accrued expenses and other current liabilities	4,131,012	(147,526)
Other liabilities	<u>46,911</u>	<u>73,317</u>
<b>Cash used in operating activities</b>	<u>(8,165,876)</u>	<u>(4,898,132)</u>
<b>Cash flows from investing activities:</b>		
Decrease in available-for-sale financial asset	4,964,692	2,190,839
Proceeds from sales of long-term equity investments	5,420,859	5,683,340
Proceeds from disposal of property, plant and equipment and property not used in operations	1,174,618	94,402
Additions to property, plant and equipment and property not used in operation	(495,480)	(831,779)
Increase in intangible assets	(118,262)	(39,164)
Increase in long-term equity investments	(40,248)	-
Return of capital from investees	85,165	-
Decrease in loans and advances to related parties	75,199	565,889
Decrease (increase) in refundable deposits, deferred expenses and other assets	<u>(72,263)</u>	<u>958,569</u>
<b>Cash provided by investing activities</b>	<u>10,994,280</u>	<u>8,622,096</u>
<b>Cash flows from financing activities:</b>		
Decrease in short-term borrowings	(3,066,982)	(802,243)
Increase (decrease) in long-term debt	(5,120)	16,957
Decrease in minority interest	<u>(249,060)</u>	<u>-</u>
<b>Cash used in financing activities</b>	<u>(3,321,162)</u>	<u>(785,286)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(492,758)	2,938,678
<b>Effect of exchange rate changes</b>	(76,100)	(285,685)
<b>Cash and cash equivalents at beginning of period</b>	<u>44,685,211</u>	<u>28,482,653</u>
<b>Cash and cash equivalents at end of period</b>	<u><b>44,116,353</b></u>	<u><b>31,135,646</b></u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	<u>297,540</u>	<u>155,657</u>
Income taxes paid	<u>1,153,082</u>	<u>953,477</u>
<b>Supplementary schedules of non-cash investing and financing activities:</b>		
Accrued cash dividends, employees' bonuses and directors' and supervisors' remuneration	<u>9,585,957</u>	<u>7,297,620</u>

