

## **Independent Auditors' Report**

The Board of Directors  
Acer Incorporated:

We have audited the non-consolidated balance sheets of Acer Incorporated (the "Company") as of June 30, 2007 and 2006, 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 generally accepted auditing standards and the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" in the Republic of China. 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.

The Company's long-term equity investments of NT\$ 44,595,697 thousand and NT\$38,619,850 thousand, long-term equity investment credits of NT\$451,329 thousand and NT\$412,348 thousand, deferred inter-company profits of NT\$ 13,115 thousand and NT\$28,263 thousand and foreign currency translation adjustment of NT\$1,986,905 thousand and NT\$532,862 thousand as of June 30, 2007 and 2006, respectively, and related net investment income of NT\$4,772,102 thousand and NT\$4,195,527 thousand and change in realized inter-company profits of NT\$14,948 and NT\$25,236 thousand for the six-month periods ended June 30, 2007 and 2006, 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)(3) 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, 2007 and 2006, and the results of its operations and its cash flows for the six-month periods then ended, 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, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 38 “Non-current Assets Held for sale and Discontinued Operations”. In addition, the Company 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 non-consolidated financial statements.

We have reviewed the consolidated financial statements as of and for the six-month periods ended June 30 2007 and 2006 prepared by the Company. Based on our reviews, we express an unqualified review report with an explanatory paragraph related to a change in accounting principles on 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**  
**Non-Consolidated Balance Sheets**  
**June 30, 2007 and 2006**  
(Expressed in thousands of New Taiwan dollars)

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	23,522,654	15,417,423	Notes and accounts payable	44,671,359	24,035,126
Notes and accounts receivable, net of allowance for doubtful accounts of NT\$34,075 and NT\$49,485 as of June 30, 2007 and 2006, respectively	9,723,401	5,362,614	Notes and accounts payable to related parties	1,851,318	7,232,408
Notes and accounts receivables from related parties	34,285,803	33,122,475	Other payables to related parties	1,135,622	1,385,420
Other receivables from related parties	242,483	196,779	Financial liabilities at fair value through profit or loss—current	237,468	269,386
Other receivables	1,107,907	848,870	Hedging purpose derivative financial liabilities	39,381	33,212
Financial assets at fair value through profit or loss—current	15,762	24,719	Royalties payable	4,744,943	3,455,940
Available-for-sale financial assets-current	3,976,603	5,195,064	Accrued cash dividends, employees' bonuses and directors' and supervisors' remuneration	9,517,218	7,231,739
Hedging purpose derivative financial assets-current	6,584	6,393	Accrued expenses and other current liabilities	11,568,331	5,199,764
Inventories	16,930,987	5,413,946	Deferred inter-company profits	<u>13,115</u>	<u>28,263</u>
Deferred income tax assets-current	1,033,334	475,805	<b>Total current liabilities</b>	<u>73,778,755</u>	<u>48,871,258</u>
Noncurrent assets held for sale	1,237,153	-	<b>Long-term liabilities:</b>		
Prepaid expenses and other current assets	<u>217,104</u>	<u>257,815</u>	Other liabilities	225,702	94,935
<b>Total current assets</b>	<u>92,299,775</u>	<u>66,321,903</u>	Deferred income tax liabilities-noncurrent	2,579,308	1,727,807
<b>Funds and investments:</b>			Long-term equity investment credits	<u>451,329</u>	<u>412,348</u>
Long-term equity investments under equity method	44,595,697	38,619,850	<b>Total long-term liabilities</b>	<u>3,256,339</u>	<u>2,235,090</u>
Financial assets carried at cost-noncurrent	899,418	3,311,102	<b>Total liabilities</b>	<u>77,035,094</u>	<u>51,106,348</u>
Available-for-sale financial assets-noncurrent	<u>1,539,164</u>	<u>2,623,578</u>	<b>Stockholders' equity:</b>		
<b>Total funds and investments</b>	<u>47,034,279</u>	<u>44,554,530</u>	Common stock	23,370,637	22,545,187
<b>Property, plant and equipment:</b>			Stock dividend to be distributed	684,267	825,450
Land	376,842	476,159	Capital surplus	29,855,419	29,911,909
Buildings and improvements	578,892	658,733	Retained earnings:		
Machinery and computer equipment	427,271	536,622	Legal reserve	7,490,689	6,468,865
Transportation equipment	25,439	30,936	Special reserve	-	283,921
Office equipment	15,901	18,431	Unappropriated earnings	<u>8,237,244</u>	<u>8,415,766</u>
Other equipment	203,336	16,335	<b>Total retained earnings</b>	15,727,933	15,168,552
Leasehold improvement	26,053	26,053	Other stockholders' equity components:		
Construction in progress and advance payments for purchases of property and equipment	<u>399,624</u>	<u>365,314</u>	Foreign currency translation adjustment	1,986,905	532,862
	2,053,358	2,128,583	Unrealized gain on available-for-sale financial assets	2,376,562	3,486,384
Less: accumulated depreciation	<u>(526,372)</u>	<u>(680,287)</u>	Hedging reserve	(134,437)	(87,851)
<b>Net property, plant and equipment</b>	<u>1,526,986</u>	<u>1,448,296</u>	Amounts recognized directly in equity relating to noncurrent assets held for sale	4,791	-
<b>Intangible assets</b>	409,077	282,114	Treasury stock	<u>(3,270,920)</u>	<u>(3,270,920)</u>
<b>Property not used in operations</b>	5,142,328	6,332,228	<b>Total stockholders' equity</b>	70,601,157	69,111,573
<b>Refundable deposits</b>	350,775	406,230	<b>Commitments and contingencies</b>		
<b>Noncurrent receivable</b>	380,852	584,916			
<b>Deferred expenses and other assets</b>	<u>492,179</u>	<u>287,704</u>			
<b>Total assets</b>	<u>147,636,251</u>	<u>120,217,921</u>	<b>Total liabilities and stockholders' equity</b>	<u>147,636,251</u>	<u>120,217,921</u>

**ACER INCORPORATED**

**Non-Consolidated Statements of Income**

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

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

	<u>2007</u> NT\$	<u>2006</u> NT\$		
<b>Revenues</b>	133,202,981	100,374,248		
<b>Sales return and allowances</b>	<u>(1,559,868)</u>	<u>(1,739,604)</u>		
<b>Net Revenue</b>	131,643,113	98,634,644		
<b>Cost of revenues</b>	<u>(126,727,732)</u>	<u>(94,711,912)</u>		
<b>Gross profit</b>	4,915,381	3,922,732		
<b>Changes in unrealized inter-company profits</b>	<u>14,948</u>	<u>25,236</u>		
<b>Realized gross profit</b>	<u>4,930,329</u>	<u>3,947,968</u>		
<b>Operating expenses:</b>				
Selling	(1,272,544)	(1,231,091)		
Administrative	(82,463)	(91,216)		
Research and development	<u>(50,638)</u>	<u>(51,758)</u>		
<b>Total operating expenses</b>	<u>(1,405,645)</u>	<u>(1,374,065)</u>		
<b>Operating income</b>	<u>3,524,684</u>	<u>2,573,903</u>		
<b>Non-operating income and gains:</b>				
Interest income	214,999	166,484		
Investment gain recognized by equity method	918,191	1,958,138		
Gain on disposal of assets, net	117,927	-		
Gain on disposal of investments, net	3,168,330	4,526,314		
Foreign exchange gain, net	-	484,378		
Financial assets revaluation gain	893,005	-		
Other income	<u>63,473</u>	<u>300,429</u>		
	<u>5,375,925</u>	<u>7,435,743</u>		
<b>Non-operating expenses and loss:</b>				
Interest expense	(27,197)	(91,959)		
Foreign exchange loss, net	(913,601)	-		
Financial liabilities revaluation loss	-	(799,083)		
Assets impairment loss	-	(995,000)		
Other loss	<u>(39)</u>	<u>(32,341)</u>		
	<u>(940,837)</u>	<u>(1,918,383)</u>		
<b>Income before income taxes</b>	7,959,772	8,091,263		
<b>Income tax expense</b>	<u>(314,619)</u>	<u>(988,734)</u>		
<b>Net income</b>	<u><b>7,645,153</b></u>	<u><b>7,102,529</b></u>		
<b>Earnings per common share (in New Taiwan dollars):</b>			<b>Before</b>	<b>After</b>
			<b>income</b>	<b>income</b>
			<b>taxes</b>	<b>taxes</b>
			<u>NT\$</u>	<u>NT\$</u>
			<b>Before</b>	<b>After</b>
			<b>income</b>	<b>income</b>
			<b>taxes</b>	<b>taxes</b>
			<u>NT\$</u>	<u>NT\$</u>
Basic earnings per common share	<u><b>3.37</b></u>	<u><b>3.23</b></u>	<u><b>3.42</b></u>	<u><b>3.01</b></u>

ACER INCORPORATED

Non-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)

	Common stock	Stock dividend to be distributed	Capital surplus	Retained earnings			Foreign currency translation adjustment	Unrealized loss on long-term equity investments	Unrealized gain on available-for-sale financial assets	Hedging reserve	Amounts recognized directly in equity relating to noncurrent assets held for sale	Treasury stock	Total stockholders' equity
				Legal reserve	Special reserve	Unappropriated earnings							
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
<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)	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	-	-	-	-	-	7,102,529	-	-	-	-	-	-	7,102,529
Change in fair values of financial instruments	-	-	-	-	-	-	759,668	-	-	-	-	-	759,668
Hedge revaluation loss	-	-	-	-	-	-	-	-	-	(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 on 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)
<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>69,111,573</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)	74,028,110
2007 net income	-	-	-	-	-	7,645,153	-	-	-	-	-	-	7,645,153
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)
<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>70,601,157</b>

**ACER INCORPORATED**

**Non-Consolidated Statements of Cash Flows**

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

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

	<u>2007</u>	<u>2006</u>
	NT\$	NT\$
<b>Cash flows from operating activities:</b>		
Net income	7,645,153	7,102,529
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation	65,765	89,115
Amortization	103,630	85,498
Loss (gain) on disposal of assets, net	(117,927)	652
Other expenses	2,150	-
Gain on disposal of investments, net	(3,168,330)	(4,526,314)
Net investment gain on long-term equity investments accounted for by equity method, net of cash dividends received	(3,768,452)	(4,028,181)
Assets impairment loss	-	995,000
Realized foreign exchange gain on long-term investments	-	3,343
Deferred income tax expense (benefit)	(53,300)	108,489
Changes in operating assets and liabilities:		
Notes and accounts receivable	(1,707,127)	15,330,927
Receivables from related parties	14,678,056	(1,714,148)
Inventories	(10,800,422)	1,997,268
Other financial assets, prepaid expenses and other current assets	(169,625)	(17,002)
Noncurrent receivable	99,685	(97,926)
Notes and accounts payable	8,972,399	(15,536,328)
Payables to related parties	(230,553)	(2,792,051)
Deferred inter-company profits	(14,947)	(25,236)
Other financial liabilities royalties payable, accrued expenses and other current liabilities	3,224,539	(470,750)
Other liabilities	<u>102,962</u>	<u>12,998</u>
<b>Cash provided by (used in ) operating activities</b>	<u>14,863,656</u>	<u>(3,482,117)</u>
<b>Cash flows from investing activities:</b>		
Decrease in available-for-sale financial assets-current	5,512,857	3,060,828
Proceeds from sales of long-term equity investments and available-for-sale financial assets-noncurrent	4,328,328	3,995,425
Increase in available-for-sale financial assets-noncurrent	(4)	-
Return of capital from investees	369,435	1,043,881
Proceeds from disposal of property, plant and equipment and property not used in operations	1,152,460	119
Additions to property, plant and equipment	(351,043)	(609,682)
Increase in intangible assets	(113,464)	(23,283)
Decrease (increase) in loans and advances to related parties	(155,481)	576,507
Increase in refundable deposits, deferred expenses and other assets	<u>(15,855)</u>	<u>(60,379)</u>
<b>Cash provided by investing activities</b>	<u>10,727,233</u>	<u>7,983,416</u>
<b>Cash flows from financing activities:</b>		
Decrease in short-term borrowings	<u>(5,375,080)</u>	<u>(2,538)</u>
<b>Cash used in financing activities</b>	<u>(5,375,080)</u>	<u>(2,538)</u>
<b>Net increase in cash and cash equivalents</b>	20,215,809	4,498,761
<b>Cash and cash equivalents at beginning of period</b>	<u>3,306,845</u>	<u>10,918,662</u>
<b>Cash and cash equivalents at end of period</b>	<u><b>23,522,654</b></u>	<u><b>15,417,423</b></u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	<u>27,197</u>	<u>25,807</u>
Income taxes paid	<u>217,693</u>	<u>11,506</u>
<b>Supplementary schedules of non-cash investing and financing activities:</b>		
Accrued cash dividends, employees' bonuses and directors' and supervisors' remuneration	<u>9,517,218</u>	<u>7,231,739</u>
Change in foreign currency translation adjustment	<u>651,405</u>	<u>756,325</u>
Change in unrealized gain on available-for-sale financial assets	<u>2,226,063</u>	<u>3,223,940</u>

