

## **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, 2007 and 2006, 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 auditing standards generally accepted in the Republic of China and with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants". 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.

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, 2007 and 2006, and the results of its operations and its cash flows for the years 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, 2006, 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". 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, 2007 and 2006 prepared by the Company. Based on our audit, we express an unqualified audit opinion and an unqualified audit opinion with an explanatory paragraph related to a change in accounting principles on the consolidated financial statements, respectively.

KPMG  
March 14, 2008

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, 2007 and 2006**  
(Expressed in thousands of New Taiwan dollars)

Assets	<u>2007.12.31</u> NT\$	<u>2006.12.31</u> NT\$	Liabilities and Stockholders' Equity	<u>2007.12.31</u> NT\$	<u>2006.12.31</u> NT\$
<b>Current assets:</b>			<b>Current liabilities:</b>		
Cash and cash equivalents	1,333,012	3,306,845	Short-term borrowings	4,853,109	5,375,080
Notes and accounts receivable, net of allowance for doubtful accounts of NT\$50,202 and NT\$41,509 as of December 31, 2007 and 2006, respectively	11,046,526	8,016,274	Notes and accounts payable	34,546,552	35,698,961
Notes and accounts receivables from related parties	49,206,053	48,963,859	Notes and accounts payable to related parties	4,648,792	1,789,633
Other receivables from related parties	766,700	87,003	Financial liabilities at fair value through profit or loss—current	1,356,686	1,116,216
Other receivables	580,625	230,753	Other payables to related parties	2,547,183	1,427,860
Restricted assets-current	1,958,585	-	Hedging purpose derivative financial liabilities—current	-	46,793
Financial assets at fair value through profit or loss—current	708	1,505	Royalties payable	5,049,076	5,599,416
Available-for-sale financial assets-current	1,324,654	9,280,356	Accrued expenses and other current liabilities	11,662,799	6,530,574
Hedging purpose derivative financial assets-current	9,288	47,023	Deferred inter-company profits	15,961	28,062
Inventories	13,044,788	6,270,751	<b>Total current liabilities</b>	<u>64,680,158</u>	<u>57,612,595</u>
Deferred income tax assets-current	1,406,039	651,044	<b>Long-term liabilities:</b>		
Prepaid expenses and other current assets	159,290	287,710	Long-term debt	16,500,000	-
<b>Total current assets</b>	<u>80,836,268</u>	<u>77,143,123</u>	Other payables to related parties	841,367	-
<b>Funds and investments:</b>			Other liabilities	81,362	120,561
Long-term equity investments under equity method	68,422,359	43,403,377	Deferred income tax liabilities-noncurrent	3,143,894	2,250,317
Financial assets carried at cost-noncurrent	1,070,196	2,717,113	Long-term equity investment credits	447,475	433,218
Available-for-sale financial assets-noncurrent	3,360,276	2,273,775	<b>Total long-term liabilities</b>	<u>21,014,098</u>	<u>2,804,096</u>
<b>Total funds and investments</b>	<u>72,852,831</u>	<u>48,394,265</u>	<b>Total liabilities</b>	<u>85,694,256</u>	<u>60,416,691</u>
<b>Property, plant and equipment:</b>			<b>Stockholders' equity:</b>		
Land	376,842	376,842	Common stock	24,054,904	23,370,637
Buildings and improvements	578,892	578,892	Capital surplus	29,898,983	29,947,020
Machinery and computer equipment	413,381	541,302	Retained earnings:		
Transportation equipment	25,503	31,650	Legal reserve	7,490,689	6,468,865
Office equipment	15,901	17,755	Special reserve	-	283,921
Other equipment	373,659	203,452	Unappropriated earnings	13,551,024	11,531,479
Leasehold improvement	26,053	26,053	<b>Total retained earnings</b>	<u>21,041,713</u>	<u>18,284,265</u>
Construction in progress and advance payments for purchases of property and equipment	330,897	6,633	Other stockholders' equity components:		
	2,141,128	1,782,579	Foreign currency translation adjustment	2,733,899	1,335,500
Less: accumulated depreciation	(526,414)	(642,708)	Minimum pension liability adjustment	(173,364)	-
<b>Net property, plant and equipment</b>	<u>1,614,714</u>	<u>1,139,871</u>	Unrealized gain on available-for-sale financial assets	2,508,663	4,374,388
<b>Intangible assets</b>	615,383	271,373	Hedging reserve	15,836	(12,780)
<b>Property not used in operations</b>	5,060,884	6,142,558	Treasury stock	(3,270,920)	(3,270,920)
<b>Refundable deposits</b>	235,932	379,348		1,814,114	2,426,188
<b>Noncurrent receivable</b>	255,612	480,537	<b>Total stockholders' equity</b>	76,809,714	74,028,110
<b>Deferred expenses and other assets</b>	1,032,346	493,726	<b>Commitments and contingencies</b>		
<b>Total assets</b>	<u>162,503,970</u>	<u>134,444,801</u>	<b>Total liabilities and stockholders' equity</b>	<u>162,503,970</u>	<u>134,444,801</u>

**ACER INCORPORATED**

**Non-Consolidated Statements of Income**

**For the years ended December 31, 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>	322,464,816	241,761,193		
<b>Sales return and allowances</b>	<u>(3,294,624)</u>	<u>(3,562,546)</u>		
<b>Net Revenue</b>	319,170,192	238,198,647		
<b>Cost of revenues</b>	<u>(307,120,105)</u>	<u>(228,756,836)</u>		
<b>Gross profit</b>	12,050,087	9,441,811		
<b>Changes in unrealized inter-company profits</b>	<u>12,102</u>	<u>25,437</u>		
<b>Realized gross profit</b>	<u>12,062,189</u>	<u>9,467,248</u>		
<b>Operating expenses:</b>				
Selling	(2,697,796)	(2,455,690)		
Administrative	(163,866)	(170,835)		
Research and development	<u>(101,205)</u>	<u>(104,118)</u>		
<b>Total operating expenses</b>	<u>(2,962,867)</u>	<u>(2,730,643)</u>		
<b>Operating income</b>	<u>9,099,322</u>	<u>6,736,605</u>		
<b>Non-operating income and gains:</b>				
Interest income	410,532	430,093		
Investment gain recognized by equity method	1,208,944	2,286,451		
Gain on disposal of investments, net	3,587,521	4,577,414		
Other income	<u>260,087</u>	<u>263,149</u>		
	<u>5,467,084</u>	<u>7,557,107</u>		
<b>Non-operating expenses and loss:</b>				
Interest expense	(207,899)	(224,824)		
Investment loss recognized by financial assets carried at cost	-	(368,390)		
Foreign exchange loss and loss on derivative contracts, net	(786,493)	(852,852)		
Assets impairment loss	-	(995,000)		
Other loss	<u>(19)</u>	<u>(77,899)</u>		
	<u>(994,411)</u>	<u>(2,518,965)</u>		
<b>Income before income taxes</b>	13,571,995	11,774,747		
<b>Income tax expense</b>	<u>(613,062)</u>	<u>(1,556,505)</u>		
<b>Net income</b>	<u>12,958,933</u>	<u>10,218,242</u>		
			<b>Before</b>	<b>After</b>
<b>Earnings per common share (in New Taiwan dollars):</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 — retroactively adjusted	<u>5.74</u>	<u>5.48</u>	<u>4.98</u>	<u>4.32</u>

**ACER INCORPORATED**

**Non-Consolidated Statements of Changes in Stockholders' Equity**

**For the years ended December 31, 2007 and 2006**  
(Expressed in thousands of New Taiwan dollars)

	Retained earnings					Foreign currency translation adjustment	Unrealized loss on long-term equity investments	Minimum pension liability adjustment	Unrealized gain on available-for- sale financial assets	Hedging reserve	Treasury stock	Total stockholders' equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings							
	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 "Financial Instruments: Recognition and Measurement" 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
Change in fair values of financial instructions	-	-	-	-	-	-	-	-	-	(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 loss 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)
<b>Balance at December 31, 2006</b>	<u>23,370,637</u>	<u>29,947,020</u>	<u>6,468,865</u>	<u>283,921</u>	<u>11,531,479</u>	<u>1,335,500</u>	<u>-</u>	<u>-</u>	<u>4,374,388</u>	<u>(12,780)</u>	<u>(3,270,920)</u>	<u>74,028,110</u>
2007 net income	-	-	-	-	12,958,933	-	-	-	-	-	-	12,958,933
Foreign currency translation adjustment	-	-	-	-	-	1,398,399	-	-	-	-	-	1,398,399
Change in fair values of financial instruments	-	-	-	-	-	-	-	-	-	28,616	-	28,616
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)
Decrease in capital surplus resulting from long-term equity investments accounted for by the equity method	-	(169,810)	-	-	-	-	-	-	-	-	-	(169,810)
Cash dividends distributed to subsidiaries	-	121,773	-	-	-	-	-	-	-	-	-	121,773
Unrealized loss on available-for sale financial assets	-	-	-	-	-	-	-	-	(1,865,725)	-	-	(1,865,725)
Minimum pension liability adjustment	-	-	-	-	-	-	-	(173,364)	-	-	-	(173,364)
<b>Balance at December 31, 2007</b>	<u>24,054,904</u>	<u>29,898,983</u>	<u>7,490,689</u>	<u>-</u>	<u>13,551,024</u>	<u>2,733,899</u>	<u>-</u>	<u>(173,364)</u>	<u>2,508,663</u>	<u>15,836</u>	<u>(3,270,920)</u>	<u>76,809,714</u>

**ACER INCORPORATED**

**Non-Consolidated Statements of Cash Flows**

**For the years ended December 31, 2007 and 2006**

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

	<u>2007</u> NT\$	<u>2006</u> NT\$
<b>Cash flows from operating activities:</b>		
Net income	12,958,933	10,218,242
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation	130,375	168,509
Amortization	228,457	181,471
Gain on disposal of assets, net	(107,683)	(31,164)
Other expenses	4,757	-
Gain on disposal of investments, net	(3,587,521)	(4,577,414)
Net investment gain on long-term equity investments accounted for by equity method, net of cash dividends received	(7,784,833)	(7,289,970)
Net investment loss recognized by financial assets carried at cost	-	368,390
Assets impairment loss	-	995,000
Realized foreign exchange (gain) loss on long-term investments	(18,780)	4,218
Allowance for doubtful of advances to related parties	-	385,043
Deferred income tax expense	138,583	455,760
Changes in operating assets and liabilities:		
Notes and accounts receivable	(3,030,252)	12,677,267
Receivables from related parties	(330,283)	(17,555,532)
Inventories	(7,035,549)	1,464,327
Other financial assets, prepaid expenses and other current assets	12,877	225,196
Noncurrent receivable	224,925	6,454
Notes and accounts payable	(1,152,408)	(3,872,494)
Payables to related parties	3,978,482	(8,192,385)
Deferred inter-company profits	(12,102)	(25,437)
Other financial liabilities, royalties payable, accrued expenses and other current liabilities	4,354,502	3,449,693
Other liabilities	(39,199)	38,624
<b>Cash used in operating activities</b>	<u>(1,066,719)</u>	<u>(10,906,202)</u>
<b>Cash flows from investing activities:</b>		
Decrease in available-for-sale financial assets-current	7,981,738	(289,041)
Increase in long-term equity investments and available-for-sale financial assets-noncurrent	(24,374,926)	-
Proceeds from sales of long-term equity investments and available-for-sale financial assets-noncurrent	6,912,865	3,995,417
Return of capital from investees	3,649,915	1,582,629
Proceeds from disposal of property, plant and equipment and property not used in operations	1,220,389	440,374
Additions to property, plant and equipment	(442,076)	(757,795)
Increase in intangible assets	(381,558)	(62,878)
Decrease (increase) in loans and advances to related parties	(591,608)	301,240
Increase in restricted assets — current	(1,958,585)	-
Increase in refundable deposits, deferred expenses and other assets	(225,445)	(56,364)
<b>Cash provided by (used in) investing activities</b>	<u>(8,209,291)</u>	<u>5,153,582</u>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term borrowings	(521,972)	5,372,542
Increase in long-term debt	16,500,000	-
Increase in other payables to related parties	841,367	-
Payment of cash dividends, employees' bonuses and directors' and supervisor's remuneration	(9,517,218)	(7,231,739)
<b>Cash provided by (used in) financing activities</b>	<u>7,302,177</u>	<u>(1,859,197)</u>
<b>Net decrease in cash and cash equivalents</b>	(1,973,833)	(7,611,817)
<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>1,333,012</b></u>	<u><b>3,306,845</b></u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	<u>181,367</u>	<u>224,824</u>
Income taxes paid	<u>236,553</u>	<u>35,760</u>
<b>Supplementary schedules of non-cash investing and financing activities:</b>		
Change in foreign currency translation adjustment	<u>1,417,179</u>	<u>1,558,088</u>
Change in unrealized gain on available-for-sale financial assets	<u>(1,865,725)</u>	<u>3,582,469</u>

