

**ACER INCORPORATED AND SUBSIDIARIES**  
**Consolidated Financial Statements**  
**December 31, 2014 and 2013**  
**(With Independent Auditors' Report Thereon)**



安侯建業聯合會計師事務所

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## Independent Auditors' Report

The Board of Directors  
Acer Incorporated:

We have audited the accompanying consolidated balance sheets of Acer Incorporated (the "Company") and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for the years ended December 31, 2014 and 2013. 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 the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those regulations and standards 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 consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of Acer Incorporated and subsidiaries as of December 31, 2014 and 2013, and the results of their consolidated financial performance and their consolidated cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission of the Republic of China.

We have also audited the parent company only financial statements of Acer Incorporated as of and for the years ended December 31, 2014 and 2013 on which we have issued an unqualified opinion.

Taipei, Taiwan (the Republic of China)  
March 25, 2015

### Notes to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations, and cash flows in accordance with the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the Financial Supervisory Commission of the Republic of China. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail.

# ACER INCORPORATED AND SUBSIDIARIES

## Consolidated Balance Sheets

December 31, 2014 and 2013

(in thousands of New Taiwan dollars)

Assets	2014.12.31	2013.12.31
<b>Current assets:</b>		
Cash and cash equivalents (notes 6(1) and (25))	\$ 47,558,651	42,983,663
Financial assets at fair value through profit or loss — current (notes 6(2) and (25))	1,899,626	246,295
Hedging derivative financial assets — current (notes 6(3) & (25))	-	12,161
Available-for-sale financial assets — current (notes 6(4) & (25))	146,479	123,130
Notes and accounts receivable, net (notes 6(5) & (25))	59,167,731	62,081,029
Accounts receivable from related parties (notes 6(5) & (25) and 7)	23,837	22,712
Other receivables (notes 6(6) & (25))	1,261,631	1,701,702
Other receivables from related parties (notes 6(25) and 7)	9	17
Current income tax assets	1,244,873	1,272,678
Inventories (note 6(7))	36,600,487	35,566,324
Other current assets	<u>2,981,846</u>	<u>3,079,144</u>
<b>Total current assets</b>	<u>150,885,170</u>	<u>147,088,855</u>
<b>Non-current assets:</b>		
Available-for-sale financial assets — non-current (notes 6(4) & (25))	3,859,807	2,900,334
Investments in associates (note 6(8))	142,461	176,334
Property, plant and equipment (note 6(9))	5,484,061	6,133,729
Investment property (note 6(10))	1,113,067	1,590,433
Intangible assets (note 6(11))	26,727,547	28,720,088
Deferred income tax assets (note 6(17))	1,018,564	1,903,883
Other non-current assets (note 6(16))	701,834	820,243
Other financial assets — non-current (notes 6(25) and 8)	<u>1,162,526</u>	<u>1,165,811</u>
<b>Total non-current assets</b>	<u>40,209,867</u>	<u>43,410,855</u>
<b>Total assets</b>	<b>\$ <u>191,095,037</u></b>	<b><u>190,499,710</u></b>

(Continued)

# ACER INCORPORATED AND SUBSIDIARIES

## Consolidated Balance Sheets

December 31, 2014 and 2013

(in thousands of New Taiwan dollars)

Liabilities and Equity	2014.12.31	2013.12.31
<b>Current liabilities:</b>		
Short-term borrowings (notes 6(12), (25) & (26))	\$ 317,000	389,989
Financial liabilities at fair value through profit or loss — current (notes 6(2), (13), (25) & (26))	624,227	475,425
Notes and accounts payable (notes 6(25) & (26))	54,824,412	55,217,361
Accounts payables to related parties (notes 6(25) & (26) and 7)	13,961	665
Other payables (notes 6(25) & (26) and 7)	42,165,243	41,371,865
Other payables to related parties (notes 6(25) & (26) and 7)	788	656
Current income tax liabilities	927,296	847,385
Provisions — current (note 6(14))	8,972,446	10,305,579
Current portion of bonds payable (notes 6(13), (25) & (26))	3,634,818	-
Current portion of long-term debt (notes 6(13), (25) & (26))	3,600,000	1,800,000
Other current liabilities	<u>2,675,700</u>	<u>3,279,566</u>
<b>Total current liabilities</b>	<u>117,755,891</u>	<u>113,688,491</u>
<b>Non-current liabilities:</b>		
Financial liabilities at fair value through profit or loss — non-current (notes 6(2), (13) & (25))	-	496,143
Bonds payable (notes 6(13), (25) & (26))	5,880,437	8,974,513
Long-term debt (notes 6(13), (25) & (26))	3,600,000	7,200,000
Provisions — non-current (note 6(14))	127,752	342,938
Deferred income tax liabilities (note 6(17))	1,397,284	1,946,343
Other non-current liabilities (note 6(16))	<u>1,703,823</u>	<u>1,599,912</u>
<b>Total non-current liabilities</b>	<u>12,709,296</u>	<u>20,559,849</u>
<b>Total liabilities</b>	<u>130,465,187</u>	<u>134,248,340</u>
<b>Equity (note 6(18)):</b>		
Common stock	27,965,678	28,347,268
Capital surplus	34,098,396	43,707,727
Retained earnings:		
Legal reserve	-	10,012,168
Special reserve	-	6,126,774
Unappropriated earnings (accumulated deficit)	931,664	(24,464,794)
Other reserves	817,893	(1,425,876)
Treasury stock	<u>(3,186,038)</u>	<u>(6,054,286)</u>
<b>Equity attributable to shareholders of the Company</b>	<u>60,627,593</u>	<u>56,248,981</u>
<b>Non-controlling interests</b>	<u>2,257</u>	<u>2,389</u>
<b>Total equity</b>	<u>60,629,850</u>	<u>56,251,370</u>
<b>Total liabilities and equity</b>	<u>\$ 191,095,037</u>	<u>190,499,710</u>

See accompanying notes to consolidated financial statements.

# ACER INCORPORATED AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income

For the years ended December 31, 2014 and 2013

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

	2014	2013
<b>Revenue (notes 6(21), 7 and 14)</b>	\$ 329,684,271	360,132,042
<b>Cost of revenue (notes 6(7), (11), (14) &amp; (15), 7 and 12)</b>	<u>300,742,087</u>	<u>337,581,776</u>
<b>Gross profit</b>	<u>28,942,184</u>	<u>22,550,266</u>
<b>Operating expenses (notes 6(5), (9), (10), (11), (14), (15), (16), (18), (19) &amp; (22), 7 and 12):</b>		
Selling expenses	19,143,432	21,802,936
Administrative expenses	4,899,465	8,006,491
Research and development expenses	2,524,381	3,091,790
Other expenses	-	1,293,223
<b>Total operating expenses</b>	<u>26,567,278</u>	<u>34,194,440</u>
<b>Other operating income and loss – net (note 6(23))</b>	<u>332,759</u>	<u>234,508</u>
<b>Operating income (losses)</b>	<u>2,707,665</u>	<u>(11,409,666)</u>
<b>Non-operating income and loss:</b>		
Other income (note 6(24))	414,732	530,124
Other gains and losses – net (notes 6(3), (13) & (24))	17,599	808,082
Finance costs (note 6(24))	(651,206)	(909,476)
Share of profits of associates (note 6(8))	125,629	5,175
Impairment loss on property, plant, and equipment (note 6(9))	-	(143,102)
Impairment loss on intangible assets (note 6(11))	-	(9,943,350)
Impairment loss on investment property (note 6(10))	-	(1,523)
<b>Total non-operating income and loss</b>	<u>(93,246)</u>	<u>(9,654,070)</u>
<b>Income (losses) before taxes</b>	<u>2,614,419</u>	<u>(21,063,736)</u>
<b>Income tax benefits (expenses) (note 6(17))</b>	<u>(823,835)</u>	<u>544,387</u>
<b>Net income (losses)</b>	<u>1,790,584</u>	<u>(20,519,349)</u>
<b>Other comprehensive income:</b>		
Exchange differences on translation of foreign operations (note 6(18))	1,445,638	1,966,965
Change in fair value of available-for-sale financial assets (note 6(18))	1,049,440	(274,147)
Change in fair value of cash flow hedges (note 6(18))	-	402,433
Actuarial gains (losses) from defined benefit plans (note 6(16))	(54,382)	178,404
Less: Income taxes related to components of other comprehensive income (note 6(17))	<u>2,232</u>	<u>11,150</u>
<b>Other comprehensive income for the year, net of taxes</b>	<u>2,438,464</u>	<u>2,262,505</u>
<b>Total comprehensive income for the year</b>	<u><u>\$ 4,229,048</u></u>	<u><u>(18,256,844)</u></u>
<b>Net income (losses) attributable to:</b>		
Shareholders of the Company	\$ 1,790,690	(20,519,428)
Non-controlling interests	(106)	79
	<u><u>\$ 1,790,584</u></u>	<u><u>(20,519,349)</u></u>
<b>Total comprehensive income attributable to:</b>		
Shareholders of the Company	\$ 4,229,180	(18,256,899)
Non-controlling interests	(132)	55
	<u><u>\$ 4,229,048</u></u>	<u><u>(18,256,844)</u></u>
<b>Earnings (losses) per share (in New Taiwan dollars)(note 6(20)):</b>		
Basic earnings (losses) per share	<u><u>\$ 0.66</u></u>	<u><u>(7.54)</u></u>
Diluted earnings (losses) per share	<u><u>\$ 0.63</u></u>	<u><u>(7.54)</u></u>

See accompanying notes to consolidated financial statements.

**ACER INCORPORATED AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**

**For the years ended December 31, 2014 and 2013**

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

	Attributable to shareholders of the Company														
	Retained earnings						Other reserves								
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings (accumulated deficit)	Total	Foreign currency translation differences	Unrealized gain (loss) from available-for-sale financial assets	Cash flow hedge reserve	Other equity — unearned compensation cost arising from restricted shares of stock issued to employees	Total	Treasury stock	Total	Non-controlling interests	Total equity
Balance at January 1, 2013	\$ 28,347,268	43,403,533	12,607,933	6,126,774	(6,706,640)	12,028,067	(2,230,965)	(889,498)	(402,433)	-	(3,522,896)	(6,054,286)	74,201,686	2,334	74,204,020
Appropriation approved by the stockholders:															
Decrease in legal reserve to offset accumulated deficit	-	-	(2,595,765)	-	2,595,765	-	-	-	-	-	-	-	-	-	-
Other changes in capital surplus:															
Share-based compensation cost	-	43,194	-	-	-	-	-	-	-	-	-	-	43,194	-	43,194
Conversion right from issuance of convertible bonds	-	261,000	-	-	-	-	-	-	-	-	-	-	261,000	-	261,000
Net losses in 2013	-	-	-	-	(20,519,428)	(20,519,428)	-	-	-	-	-	-	(20,519,428)	79	(20,519,349)
Other comprehensive income in 2013	-	-	-	-	165,509	165,509	1,968,734	(274,147)	402,433	-	2,097,020	-	2,262,529	(24)	2,262,505
Total comprehensive income in 2013	-	-	-	-	(20,353,919)	(20,353,919)	1,968,734	(274,147)	402,433	-	2,097,020	-	(18,256,899)	55	(18,256,844)
Balance at December 31, 2013	28,347,268	43,707,727	10,012,168	6,126,774	(24,464,794)	(8,325,852)	(262,231)	(1,163,645)	-	-	(1,425,876)	(6,054,286)	56,248,981	2,389	56,251,370
Appropriation approved by the stockholders:															
Decrease in capital surplus to offset accumulated deficit	-	(8,325,852)	-	-	8,325,852	8,325,852	-	-	-	-	-	-	-	-	-
Decrease in legal reserve to offset accumulated deficit	-	-	(10,012,168)	-	10,012,168	-	-	-	-	-	-	-	-	-	-
Decrease in special reserve to offset accumulated deficit	-	-	-	(3,460,642)	3,460,642	-	-	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(2,666,132)	2,666,132	-	-	-	-	-	-	-	-	-	-
Other changes in capital surplus:															
Change in equity of investments in subsidiaries	-	168	-	-	-	-	-	-	-	-	-	-	168	-	168
Compensation cost arising from issuance of new shares reserved for employee subscription	-	90,000	-	-	-	-	-	-	-	-	-	-	90,000	-	90,000
Issuance of restricted shares of stock to employees	174,600	136,374	-	-	-	-	-	-	-	(310,974)	(310,974)	-	-	-	-
Compensation cost arising from restricted shares of stock issued to employees	-	-	-	-	-	-	-	-	-	59,264	59,264	-	59,264	-	59,264
Retirement of treasury stock	(556,190)	(1,510,021)	-	-	(802,037)	(802,037)	-	-	-	-	-	2,868,248	-	-	-
Net income in 2014	-	-	-	-	1,790,690	1,790,690	-	-	-	-	-	-	1,790,690	(106)	1,790,584
Other comprehensive income in 2014	-	-	-	-	(56,989)	(56,989)	1,446,039	1,049,440	-	-	2,495,479	-	2,438,490	(26)	2,438,464
Total comprehensive income in 2014	-	-	-	-	1,733,701	1,733,701	1,446,039	1,049,440	-	-	2,495,479	-	4,229,180	(132)	4,229,048
Balance at December 31, 2014	\$ 27,965,678	34,098,396	-	-	931,664	931,664	1,183,808	(114,205)	-	(251,710)	817,893	(3,186,038)	60,627,593	2,257	60,629,850

See accompanying notes to consolidated financial statements.

# ACER INCORPORATED AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013

(in thousands of New Taiwan dollars)

	2014	2013
<b>Cash flows from operating activities:</b>		
Income (losses) before taxes	\$ <u>2,614,419</u>	<u>(21,063,736)</u>
Adjustments for:		
Depreciation	791,209	947,566
Amortization	1,202,555	1,751,961
Valuation gain on derivative financial assets and liabilities	(1,988,511)	(517,236)
Interest expense	651,206	909,476
Interest income	(283,592)	(324,821)
Dividend income	(131,140)	(205,303)
Share-based compensation cost	350,285	306,597
Effects of exchange rate changes on bonds payable	200,218	236,923
Share of profits of associates	(125,629)	(5,175)
Gain on disposal of property, plant and equipment and investment property, net	(65,727)	(105,317)
Gain on disposal of available-for-sale financial assets	-	(227,722)
Loss on disposal of subsidiaries	13,291	-
Gain on disposal of investments in associates	(41,495)	-
Impairment loss on non-financial assets	-	10,087,975
Loss on purchase and redemption of bonds payable	-	73,972
Other investment loss	7,131	38,995
Intangible assets charged to cost of revenue	<u>2,174,851</u>	<u>-</u>
Total profit and loss	<u>2,754,652</u>	<u>12,967,891</u>
Changes in operating assets and liabilities:		
Net changes in operating assets:		
Notes and accounts receivable	2,913,298	6,737,926
Receivables from related parties	(1,125)	18,571
Inventories	(1,087,115)	7,710,531
Other receivables and other current assets	533,462	(111,992)
Non-current accounts receivable	<u>(45,523)</u>	<u>16,569</u>
Net changes in operating assets	<u>2,312,997</u>	<u>14,371,605</u>
Net changes in operating liabilities:		
Notes and accounts payable	(392,949)	(16,421,367)
Payables to related parties	13,428	(593)
Other payables and other current liabilities	153,180	2,481,522
Provisions	(1,548,319)	(544,348)
Other non-current liabilities	<u>103,911</u>	<u>197,756</u>
Net changes in operating liabilities	<u>(1,670,749)</u>	<u>(14,287,030)</u>
Total changes in operating assets and liabilities	<u>642,248</u>	<u>84,575</u>
Cash provided by (used in) operations	6,011,319	(8,011,270)
Interest received	283,326	324,568
Income taxes paid	<u>(671,046)</u>	<u>(964,282)</u>
Net cash provided by (used in) operating activities	<u>5,623,599</u>	<u>(8,650,984)</u>

(Continued)

See accompanying notes to consolidated financial statements.

# ACER INCORPORATED AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013

(in thousands of New Taiwan dollars)

	2014	2013
<b>Cash flows from investing activities:</b>		
Purchase of available-for-sale financial assets	(70,000)	-
Proceeds from sale of available-for-sale financial assets	-	273,062
Proceeds from capital return of available-for-sale investment	80,109	147,743
Additions to investment in associates	(20,462)	-
Proceeds from sale of investment in associates	41,195	-
Proceeds from capital return of investment in associates	172,130	-
Additions to property, plant and equipment	(228,752)	(377,087)
Proceeds from disposal of property, plant and equipment and investment property	590,954	684,807
Decrease in advances to related parties	8	-
Additions to intangible assets	(103,873)	(191,985)
Decrease (increase) in other non-current financial assets and other non-current assets	177,098	(21,743)
Dividend received	139,854	213,269
<b>Net cash provided by investing activities</b>	<u>778,261</u>	<u>728,066</u>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term borrowings	(72,989)	40,015
Issuance of bonds payable	-	6,000,000
Purchase and redemption of bonds payable	-	(6,669,074)
Repayment of long-term debt	(1,800,000)	-
Interest paid	(260,250)	(396,800)
<b>Net cash used in financing activities</b>	<u>(2,133,239)</u>	<u>(1,025,859)</u>
<b>Effects of foreign exchange rate changes</b>	<u>306,367</u>	<u>1,319,876</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	4,574,988	(7,628,901)
<b>Cash and cash equivalents at beginning of year</b>	42,983,663	50,612,564
<b>Cash and cash equivalents at end of year</b>	<u><u>\$ 47,558,651</u></u>	<u><u>42,983,663</u></u>

See accompanying notes to consolidated financial statements.

## **ACER INCORPORATED AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements**

**For the years ended December 31, 2014 and 2013**  
**(amounts expressed in thousands of New Taiwan dollars**  
**except for per share information and unless otherwise noted)**

#### **1. Organization and business**

Acer Incorporated (the “Company”) was incorporated on August 1, 1976, as a company limited by shares under the laws of the Republic of China (“R.O.C.”) and registered under the Ministry of Economic Affairs, R.O.C. On October 15, 2007, the Company completed acquisition of 100% equity ownership of Gateway, Inc. (including eMachines brand), a personal computer company in the U.S. The Company also acquired 100% equity ownership of Packard Bell B.V., a personal computer company in Europe on March 14, 2008. Following the acquisitions of Gateway and Packard Bell, the Company has expanded its multi-brand strategy. Additionally, on September 1, 2008, the Company entered the smartphone market following the acquisition of E-Ten Information Systems Co., Ltd. In October 2010, in order to expand into the market in China, the Company acquired the PC business, management team and employees, and regional sales and marketing channels of Founder Technology Group Corporation. On January 12, 2012, the Company acquired 100% equity ownership of iGware Inc. for the development of a unique AcerCloud system in order to enhance Acer brand positioning and increase brand value. The Company and its subsidiaries (collectively the “Group”) primarily are involved in globally marketing its brand-name IT products and promoting electronic information services to clients.

The consolidated financial statements prepared for the year ended December 31, 2014, comprise the Group and the Group’s interests in associates.

#### **2. Authorization of the Consolidated Financial Statements**

These consolidated financial statements were authorized for issuance by the Board of Directors on March 25, 2015.

#### **3. New Accounting Standards and Interpretations Not Yet Adopted**

- (1) International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations (collectively “IFRSs”) endorsed by the Financial Supervisory Commission of the R.O.C. (FSC) but not yet in effect

According to Ruling No. 1030010325 issued by the FSC on April 3, 2014, starting from 2015, companies with shares listed on the Taiwan Stock Exchange or traded on the Taipei Exchange or Emerging Stock Market are required to prepare their financial statements in accordance with the 2013 IFRSs endorsed by the FSC (2013 Taiwan-IFRSs version). IFRS 9 *Financial Instruments* is excluded from the 2013 Taiwan-IFRSs.

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## ACER INCORPORATED AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

The new or amended standards and interpretations issued by the International Accounting Standards Board (“IASB”) and endorsed by the FSC but not yet in effect are as follows:

New or amended standards and interpretations	Effective date per IASB
• Amendments to IFRS 1 <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>	July 1, 2010
• Amendments to IFRS 1 <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>	July 1, 2011
• Amendments to IFRS 1 <i>Government Loans</i>	January 1, 2013
• Amendments to IFRS 7 <i>Disclosure — Transfers of Financial Assets</i>	July 1, 2011
• Amendments to IFRS 7 <i>Disclosure — Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2013
• IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (investment entities (amendments to IFRS 10, IFRS 12 and IAS 27) effective January 1, 2014)
• IFRS 11 <i>Joint Arrangements</i>	January 1, 2013
• IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
• IFRS 13 <i>Fair Value Measurement</i>	January 1, 2013
• Amendments to IAS 1 <i>Presentation of Items of Other Comprehensive Income</i>	July 1, 2012
• Amendments to IAS 12 <i>Deferred Tax: Recovery of Underlying Assets</i>	January 1, 2012
• Amendments to IAS 19 (Revised 2011) <i>Employee Benefits</i>	January 1, 2013
• Amendments to IAS 27 (Revised 2011) <i>Separate Financial Statements</i>	January 1, 2013
• Amendments to IAS 32 <i>Offsetting Financial Assets and Financial Liabilities</i>	January 1, 2014
• IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013

Except for the following items, the Group believed that the adoption of the aforementioned 2013 Taiwan-IFRSs will not have a significant impact on the Group’s consolidated financial statements.

#### A. Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

According to the amendments to IAS 1, the items of other comprehensive income will be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. In addition, income tax on items of other comprehensive income is also required to be allocated on the same basis.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

Furthermore, IAS 19 (Revised 2011) has eliminated the requirement of recognizing actuarial gains or losses arising from defined benefit plans in retained earnings. The Group has opted to recognize the aforementioned actuarial gains or losses in other equity accounts starting in 2015, and a retrospective adjustment will be made. Accordingly, the Group will reclassify the actuarial gains or losses arising from the defined benefit plans recognized and accumulated in retained earnings prior to January 1, 2015, from retained earnings to other equity accounts. Except for the adjustments in retained earnings for a decrease of \$28,012 against an increase in other equity of same amount, there is no significant impact on the consolidated financial statements.

#### B. IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 integrates the disclosure requirements stated in other standards with respect to an entity's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The Group will expand the disclosure relating to the consolidated entities and associates in accordance with the standard.

#### C. IFRS 13 *Fair Value Measurement*

IFRS 13 defines fair value and establishes a framework for measuring fair value and requires disclosures on fair value measurement. Based on the Group's assessment, IFRS 13 will not have significant impact on the consolidated financial position and results of operations. The Group will expand the disclosure relating to fair value measurement in accordance with the standard.

#### (2) Impact of IFRS issued by the IASB but not yet endorsed by the FSC

Below is a summary of IFRS issued by the IASB but not yet endorsed by the FSC.

New or amended standards and interpretations	Effective date per IASB
• IFRS 9 <i>Financial Instruments</i>	January 1, 2018
• Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	January 1, 2016
• Amendments to IFRS10, IFRS12 and IAS 28 <i>Investment Entities: Applying the Consolidation Exception</i>	January 1, 2016
• Amendments to IFRS 11 <i>Accounting for Acquisitions of Interests in Joint Operations</i>	January 1, 2016
• IFRS 14 <i>Regulatory Deferral Accounts</i>	January 1, 2016
• IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2017
• Amendments to IAS1 <i>Disclosure Initiative</i>	January 1, 2016
• Amendments to IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>	January 1, 2016
• Amendments to IAS 16 and IAS 41 <i>Bearer Plants</i>	January 1, 2016
• Amendments to IAS 19 <i>Defined Benefit Plans: Employee Contributions</i>	July 1, 2014

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

New or amended standards and interpretations	Effective date per IASB
• Amendments to IAS 27 <i>Equity Method in Separate Financial Statements</i>	January 1, 2016
• Amendments to IAS 36 <i>Recoverable Amount Disclosures for Non-Financial Assets</i>	January 1, 2014
• Amendments to IAS 39 <i>Novation of Derivatives and Continuation of Hedge Accounting</i>	January 1, 2014
• IFRIC 21 <i>Levies</i>	January 1, 2014

The Group continues to evaluate the impact on the consolidated financial position and the results of operations as a result of the adoption of the above standards or interpretations. The related impact will be disclosed when the Group completes the assessments.

#### 4. Summary of significant accounting policies

The significant accounting policies presented in the consolidated financial statements are summarized as follows and have been applied consistently to all periods presented in these financial statements.

The consolidated financial statements are the English translation of the original Chinese version prepared and used in the ROC. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese language consolidated financial statements shall prevail.

##### (1) Statement of compliance

The Group's accompanying consolidated financial statements have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" (the "Regulations") and the IFRSs, IASs, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (collectively "Taiwan-IFRSs").

##### (2) Basis of preparation

###### (a) Basis of measurement

The accompanying consolidated financial statements have been prepared on a historical cost basis except for the following items in the balance sheets:

- i. Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
- ii. Available-for-sale financial assets measured at fair value;
- iii. Hedging derivative financial instruments measured at fair value; and
- v. Defined benefit assets (liabilities) recognized as the fair value of plan assets less the present value of the benefit obligation.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(b) Functional and presentation currency**

The functional currency of each Group entity is determined based on the primary economic environment in which the entity operates. The Group's consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional currency. Except when otherwise indicated, all financial information presented in New Taiwan dollars has been rounded to the nearest thousand.

**(3) Basis of consolidation****(a) Principles of preparation of the consolidated financial statements**

The accompanying consolidated financial statements incorporate the financial statements of the Company and its controlled entities (the subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity in order to obtain benefits from its activities.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Profit and loss attributable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, financial statements of subsidiaries are adjusted to align their accounting policies with those adopted by the Company.

Intra-group balances and transactions, and any unrealized profit and loss arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss, which is calculated as the difference between (1) the aggregate of the fair value of consideration received and the fair value of any retained interest at the date when control is lost, and (2) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interest. All amounts recognized in other comprehensive income in relation to the subsidiary are accounted for on the same basis as would be required if the Group had directly disposed of the related assets and liabilities.

The fair value of any investment retained in a former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an available-for-sale financial asset or an investment in an associate.

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## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (b) List of subsidiaries in the consolidated financial statements

The subsidiaries included in the consolidated financial statements at the end of the reporting period were as follows:

Name of Investor	Name of Investee	Main Business and Products	Percentage of Ownership	
			2014.12.31	2013.12.31
The Company	Acer Greater China (B.V.I.) Corp. (“AGC”, British Virgin Islands)	Investment and holding activity	100.00	100.00
AGC	Acer Market Services Limited (“AMS”, Hong Kong)	Investment and holding activity	100.00	100.00
AGC	Acer Computer (Far East) Limited (“AFE”, Hong Kong)	Sale of brand-name IT products	100.00	100.00
AGC	Acer Intellectual (Chongqing) Limited (“AICQ”, China)	Research and design of smart phone and touchpad products	-	100.00
AGC	Acer Information Technology R&D (Shanghai) Co., Ltd. (“ARD”, China)	Research and design of smart phone products	100.00	100.00
AMS	Acer Information (Zhong Shan) Co., Ltd. (“AIZS”, China)	Sale of brand-name IT products	100.00	100.00
AMS	Beijing Acer Information Co., Ltd. (“BJAI”, China)	Sale of brand-name IT products	100.00	100.00
AMS	Acer Computer (Shanghai) Ltd. (“ACCN”, China)	Sale of brand-name IT products	100.00	100.00
AMS	Acer (Chongqing) Ltd. (“ACCQ”, China)	Sale of brand-name IT products	100.00	100.00
The Company	Acer European Holdings Limited (“AEH”, Cyprus )	Investment and holding activity	100.00	100.00
AEH	Acer Europe B.V. (“AHN”, the Netherlands)	Investment and holding activity	100.00	100.00
AEH	Acer CIS Incorporated (“ACR”, British Virgin Islands)	Sale of brand-name IT products	100.00	100.00
AEH	Acer BSEC Inc. (“AUA”, British Virgin Islands)	Sale of brand-name IT products	100.00	100.00
AEH	Acer Computer (M.E.) Ltd. (“AME”, British Virgin Islands)	Sale of brand-name IT products	100.00	100.00
AEH	Acer Africa (Proprietary) Limited (“AAF”, South Africa)	Sale of brand-name IT products	100.00	100.00
AEH	AGP Insurance (Guernsey) Limited (“AGU”, Guernsey)	Financial company	100.00	100.00
AHN	Acer Computer France S.A.S.U. (“ACF”, France)	Sale of brand-name IT products	100.00	100.00
AHN	Acer U.K. Limited (“AUK”, the United Kingdom)	Sale of brand-name IT products	100.00	100.00
AHN	Acer Italy S.R.L. (“AIT”, Italy)	Sale of brand-name IT products	100.00	100.00
AHN	Acer Computer GmbH (“ACG”, Germany)	Sale of brand-name IT products	100.00	100.00
AHN	Acer Austria GmbH (“ACV”, Austria)	Sale of brand-name IT products	100.00	100.00
AHN	Acer Europe SA (“AEG”, Switzerland)	Sale of brand-name IT products	100.00	100.00
AHN	Acer Czech Republic S.R.O. (“ACZ”, Czech Republic)	Sale of brand-name IT products	100.00	100.00

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Name of Investor	Name of Investee	Main Business and Products	Percentage of Ownership	
			2014.12.31	2013.12.31
AHN	Esplex Limited (“AEX”, the United Kingdom)	Repair and maintenance of brand-name IT products	-	100.00
AHN	Acer Computer Iberica, S.A. (“AIB”, Spain)	Sale of brand-name IT products	100.00	100.00
AHN	Acer Computer (Switzerland) AG (“ASZ”, Switzerland)	Sale of brand-name IT products	100.00	100.00
AHN	Acer Slovakia s.r.o. (“ASK”, Slovakia)	Sale of brand-name IT products	100.00	100.00
AHN	Asplex Sp. z.o.o. (“APX”, Poland)	Repair and maintenance of brand-name IT products	100.00	100.00
AHN	Acer Marketing Services LLC (“ARU”, Russia)	Sale of brand-name IT products	100.00	100.00
AHN	Acer Hellas Limited Liability Company of Marketing and Sales Services (“AGR”, Greece)	Sale of brand-name IT products	100.00	100.00
AHN	Acer Poland sp. z.o.o. (“APL”, Poland)	Sale of brand-name IT products	100.00	100.00
AHN	Acer Bilisim Teknolojileri Limited Sirketi (“ATR”, Turkey)	Sale of brand-name IT products	100.00	100.00
AHN	Packard Bell B.V. (“PBHO”, the Netherlands)	Investment and holding activity	100.00	100.00
AHN (note 1)	Acer Computer B.V. (“ACH”, Netherlands)	Sale of brand-name IT products	100.00	100.00
ACH	Acer Computer Norway AS (“ACN”, Norway)	Sale of brand-name IT products	100.00	100.00
ACH	Acer Computer Finland Oy (“AFN”, Finland)	Sale of brand-name IT products	100.00	100.00
ACH	Acer Computer Sweden AB (“ACW”, Sweden)	Sale of brand-name IT products	100.00	100.00
ACH	Acer Denmark A/S (“ACD”, Denmark)	Sale of brand-name IT products	100.00	100.00
The Company and AEH (note 2)	Boardwalk Capital Holdings Limited (“Boardwalk”, British Virgin Islands)	Investment and holding activity	100.00	100.00
Boardwalk	Acer Computer Mexico, S.A. de C.V. (“AMEX”, Mexico)	Sale of brand-name IT products	99.92	99.92
Boardwalk	Acer American Holding Corp. (“AAH”, U.S.A.)	Investment and holding activity	100.00	100.00
Boardwalk	AGP Tecnologia em Informatica do Brasil Ltda. (“ATB”, Brazil)	Sale of brand-name IT products	100.00	100.00
AMEX	Aurion Tecnologia, S.A. de C.V. (“Aurion”, Mexico)	Sale of brand-name IT products	99.92	99.92
AAH	Acer Cloud Technology Inc. (“ACTI”, U.S.A.)	Software research, development, design, trading and consulting	100.00	100.00
AAH	Gateway, Inc. (“GWI”, U.S.A.)	Sale of brand-name IT products	100.00	100.00
GWI	Acer Latin America, Inc. (“ALA”, U.S.A.)	Sale of brand-name IT products	100.00	100.00
GWI	Acer America Corporation. (“AAC”, U.S.A.)	Sale of brand-name IT products	99.92	99.92

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Name of Investor	Name of Investee	Main Business and Products	Percentage of Ownership	
			2014.12.31	2013.12.31
GWI	Acer Service Corporation (“ASC”, U.S.A.)	Repair and maintenance of brand-name IT products	100.00	100.00
The Company	Acer Holdings International, Incorporated (“AHI”, British Virgin Islands)	Investment and holding activity	100.00	100.00
AHI	Acer Computer Co., Ltd. (“ATH”, Thailand)	Sale of brand-name IT products	100.00	100.00
AHI	Acer Japan Corp. (“AJC”, Japan)	Sale of brand-name IT products	100.00	100.00
AHI	Acer Computer Australia Pty. Limited (“ACA”, Australia)	Sale of brand-name IT products	100.00	100.00
AHI	Acer Sales and Service Sdn Bhd (“ASSB”, Malaysia)	Sale of brand-name IT products	100.00	100.00
AHI	Acer Asia Pacific Sdn Bhd (“AAPH, Malaysia”)	Sale of brand-name IT products	100.00	100.00
AHI	Acer Computer (Singapore) Pte. Ltd. (“ACS”, Singapore)	Sale of brand-name IT products	100.00	100.00
AHI	Acer Computer New Zealand Limited (“ACNZ”, New Zealand)	Sale of brand-name IT products	100.00	100.00
AHI	PT Acer Indonesia (“AIN”, Indonesia)	Sale of brand-name IT products	100.00	100.00
AIN	PT Acer Manufacturing Indonesia (“AMI”, Indonesia)	Assembly and sale of brand-name IT products	100.00	100.00
AHI	Acer India Private Limited (“AIL”, India)	Sale of brand-name IT products	100.00	100.00
AHI	Acer Vietnam Co., Ltd. (“AVN”, Vietnam)	Sale of brand-name IT products	100.00	100.00
AHI	Acer Philippines, Inc. (“APHI”, Philippines)	Sale of brand-name IT products	100.00	100.00
ACA	Highpoint Australia Pty. Ltd. (“HPA”, Australia)	Repair and maintenance of brand-name IT products	100.00	100.00
ASSB	Highpoint Service Network Sdn Bhd (“HSN”, Malaysia)	Repair and maintenance of brand-name IT products	100.00	100.00
ASSB	Servex (Malaysia) Sdn Bhd (“SMA”, Malaysia)	Sale of computers and communication products	100.00	100.00
ACS	Logistron Service Pte Ltd. (LGS, Singapore)	Assembly of brand-name IT products	100.00	100.00
The Company	Weblink International Inc. (“WII”, Taiwan)	Sale of computers and communication products	99.79	99.79
WII	Weblink (H.K.) International Ltd. (“WHI”, Hong Kong)	Sale of computers and communication products	99.79	99.79
The Company	Acer Digital Service Co. (“ADSC”, Taiwan)	Investment and holding activity	100.00	100.00
ADSC	Acer Property Development Inc. (“APDI”, Taiwan)	Property development	100.00	100.00
ADSC	Aspire Service & Development Inc. (“ASDI”, Taiwan)	Property development	100.00	100.00
ADSC	Acer Octon Inc. (“AOI”, Taiwan)	Communication service	100.00	-

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## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Name of Investor	Name of Investee	Main Business and Products	Percentage of Ownership	
			2014.12.31	2013.12.31
The Company	Acer Worldwide Incorporated (“AWI”, British Virgin Islands)	Investment and holding activity	100.00	100.00
The Company	Cross Century Investment Limited (“CCI”, Taiwan)	Investment and holding activity	100.00	100.00
The Company	Acer Digital Services (B.V.I.) Holding Corp. (“ADSBH”, British Virgin Islands)	Investment and holding activity	100.00	100.00
ADSBH	Acer Digital Services (Cayman Islands) Corp. (“ADSCC”, Cayman Islands)	Investment and holding activity	100.00	100.00
ADSCC	Longwick Enterprises Inc. (“LONG”, Seychelles)	Investment and holding activity	100.00	100.00
LONG	S. Excel. Co., Ltd. (“SURE”, Samoa)	Investment and holding activity	100.00	100.00
The Company	Acer SoftCapital Incorporated (“ASCBVI”, British Virgin Islands)	Investment and holding activity	100.00	100.00
ASCBVI	ASC Cayman, Limited (“ASCCAM”, Cayman Islands)	Investment and holding activity	100.00	100.00
ASCBVI	Acer Technology Venture Asia Pacific Ltd. (“ATVAP”, Cayman Islands)	Investment and holding activity	-	100.00
The Company	Eten Information System Co., Ltd. (“ETEN”, Taiwan)	Research, design and sale of smart handheld products	100.00	100.00
The Company	Acer Cyber Center Services Ltd. (“ACCSI”, Taiwan)	Electronic data supply, processing and storage services	100.00	100.00
The Company	Acer e-Enabling Service Business Inc. (“AEB”, Taiwan)	Electronic data supply, processing and storage services	100.00	100.00
ACCSI	TWP International Inc. (“TWPBVI”, British Virgin Islands)	Investment and holding activity	100.00	100.00
TWPBVI	Acer Third Wave Software (Beijing) Co., Ltd. (“TWPBJ”, China)	Software research, development, design, trading and consultation	100.00	100.00
The Company	Lottery Technology Service Corp. (“LTS”, Taiwan)	Electronic data supply, processing and storage services	100.00	100.00

Note 1 ACH was formerly owned by AEH. The ownership of ACH was transferred to AHN after restructuring in 2014.

Note 2 Boardwalk was formerly 100% owned by the Company. After restructuring in 2014, the Company and AEH owned 91.68% and 8.32%, respectively, of Boardwalk.

In 2014, the Group established a new subsidiary, AOI. In 2014, the subsidiaries ATVAP and AEX were liquidated, and were excluded from consolidation since the Group ceased control thereof. In 2014, AICQ merged with ACCQ, and ACCQ was the surviving entity from the merger.

- c. List of subsidiaries which are not included in the consolidated financial statements: None.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(4) Foreign currency****(a) Foreign currency transactions**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates at the end of the period (the reporting date) of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate prevailing at the date when the fair value is determined. Exchange differences arising on the translation of non-monetary items are recognized in profit or loss, except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income. Non-monetary items denominated in foreign currencies that are measured at historical cost are not retranslated.

**(b) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from acquisition, are translated into the presentation currency of the Group's consolidated financial statements at the exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated into the presentation currency of the Group's consolidated financial statements at the average exchange rates for the period. All resulting exchange differences are recognized in other comprehensive income.

On the disposal of a foreign operation which involves a loss of control over a subsidiary or loss of significant influence over an associate that includes a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the Company are entirely reclassified to profit or loss. In the case of a partial disposal that does not result in the Group losing control over a subsidiary, the proportionate share of accumulated exchange differences is reclassified to non-controlling interests. For a partial disposal of the Group's ownership interest in an associate or joint venture, the proportionate share of the accumulated exchange differences in equity is reclassified to profit or loss.

When the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, the monetary item is, in substance, a part of net investment in that foreign operation, and the related foreign exchange gains and losses thereon are recognized as other comprehensive income.

**(5) Classification of current and non-current assets and liabilities**

An asset is classified as current when one of following criteria is met; all other assets are classified as non-current assets.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

- (a) It is expected to be realized, or sold or consumed in the normal operating cycle;
- (b) It is held primarily for the purpose of trading;
- (c) It is expected to be realized within twelve months after the reporting date; or
- (d) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

A liability is classified as current when one of following criteria is met; all other liabilities are classified as non-current liabilities:

- (a) It is expected to be settled in the normal operating cycle;
- (b) It is held primarily for the purpose of trading;
- (c) It is due to be settled within twelve months after the reporting date; or
- (d) The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

#### (6) Cash and cash equivalents

Cash consists of cash on hand, checking deposits, and demand deposits. Cash equivalents consist of short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits that meet the aforesaid criteria and are not held for investing purposes are also classified as cash equivalents.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

#### (7) Financial instruments

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

##### (a) Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. Regular way purchases or sales of financial assets are recognized or derecognized on a trade-date basis, the date on which the Group commits to purchase or sell the assets.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements****i. Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss consist of financial assets held for trading and those designated as at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as financial assets at fair value through profit or loss unless they are designated as hedges. The Group designates financial assets, other than ones classified as held for trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- i) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;
- ii) Performance of the financial asset is evaluated on a fair value basis;
- iii) A hybrid instrument contains one or more embedded derivatives.

At initial recognition, financial assets carried at fair value through profit or loss are recognized at fair value. Any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to the initial recognition, changes in fair value (including dividend income and interest income) are recognized in profit or loss.

**ii. Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise accounts receivable and other receivables. At initial recognition, such assets are recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables other than insignificant interest on short-term receivables are measured at amortized cost using the effective interest method less any impairment losses. Interest income is recognized as non-operating income in profit or loss.

**iii. Available-for sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. At initial recognition, available-for-sale financial assets are recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these assets are measured at fair value, and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on monetary financial assets, are recognized in other comprehensive income and presented in “unrealized gain/loss from available-for-sale financial assets” in equity. When the financial asset is derecognized, the gain or loss previously accumulated in equity is reclassified to profit or loss.

Dividends received from equity investments are recognized as non-operating income on the date of entitlement to receive the dividends (usually the ex-dividend date).

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## iv. Impairment of financial assets

Financial assets, other than those carried at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Those financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, their estimated future cash flows have been affected.

Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, indications that the debtor or issuer will probably enter bankruptcy or other financial reorganization, and the disappearance of an active market for that financial asset because of financial difficulties. For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, such asset is included in a group of financial assets with similar credit risk characteristics which are then collectively assessed for impairment. Objective evidence that receivables are impaired includes the Group's collection experience in the past, an increase of delayed payments, and national or local economic conditions that correlate with arrears of receivables.

An impairment loss is recognized by reducing the carrying amount of the respective financial assets with the exception of receivables, where the carrying amount is reduced through an allowance account. Except for the write-off of uncollectible receivables against the allowance account, changes in the amount of the allowance account are recognized in profit or loss.

An impairment loss in respect of a financial asset measured at amortized cost is measured as the excess of the asset's carrying amount over the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying amount of the financial assets at the date the impairment loss is reversed does not exceed what the amortized cost would have been had the impairment loss not been recognized.

When an impairment loss is recognized for an available-for-sale asset, the cumulative gains or loss that had been recognized in other comprehensive income is reclassified from equity to profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## v. Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers out substantially all the risks and rewards of ownership of the financial assets to other enterprises.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and accumulated in other equity – unrealized gains or losses from available-for-sale financial assets is recognized in profit or loss, and included in the non-operating income and loss of the consolidated statement of comprehensive income.

On derecognition of part of a financial asset, the previous carrying amount of the financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of relative fair values of those parts on the date of transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received or receivable for the part of the financial asset derecognized and the cumulative gain or loss that has been recognized in other comprehensive income allocated to the part derecognized is charged to profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts.

## (b) Financial liabilities and equity instruments

## i. Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recognized at the amount of consideration received less the direct issuing cost.

For overseas convertible bonds issued by the Group, for which the bondholders were granted an option to convert a variable amount of bonds into a fixed number of common shares, the derivatives embedded in convertible bonds (conversion and redemption options) are recognized at fair value and are accounted for as financial liabilities at fair value through profit or loss on initial recognition. The difference between the consideration received from the issuance of the bonds and the fair value of embedded derivatives is accounted for as bonds payable. Any transaction costs directly attributable to the issuance of the bonds are allocated to the liability components in proportion to their initial carrying amounts.

For domestic convertible bonds issued by the Group, for which the bondholders were granted an option to convert a fixed amount of bonds into a fixed number of common shares, the liability component (including redemption options embedded in the bond) of a compound financial instrument is recognized initially at the fair value of a similar

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any transaction costs directly attributable to the issuance of the bonds are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, bonds payable are measured at amortized cost using the effective interest method, and the embedded derivatives (conversion and redemption options) are measured at fair value. The equity component is not re-measured subsequent to initial recognition. Interest and gain or loss related to the financial liability are recognized in profit or loss.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

ii. Financial liabilities at fair value through profit or loss

A financial liability is classified in this category if it is classified as held for trading or is designated as a financial liability at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also categorized as financial liabilities at fair value through profit or loss unless they are designated as hedges. The Group designates financial liabilities, other than those classified as held for trading, as measured at fair value through profit or loss at initial recognition under one of the following situations:

- i) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on a different basis;
- ii) Performance of the financial liabilities is evaluated on a fair value basis;
- iii) A hybrid instrument contains one or more embedded derivatives.

At initial recognition, this type of financial liability is recognized at fair value, and any attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, the financial liabilities are measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss and included in the non-operating income and loss of the consolidated statement of comprehensive income.

iii. Other financial liabilities

Financial liabilities not classified as held for trading or not designated as at fair value through profit or loss, which comprise loans and borrowings, accounts payable, and other payables, are measured at fair value plus any directly attributable transaction costs at initial recognition. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## iv. Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been fulfilled or cancelled, or has expired. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss and included in the non-operating income and loss of the consolidated statement of comprehensive income.

## v. Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis only when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

## (c) Derivative financial instruments and hedge accounting

Derivative financial instruments are held to hedge the Group's foreign currency exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and included in the non-operating income and loss. The resulting gain or loss is recognized in profit or loss immediately unless the derivative financial instrument is designated and effective as a hedging instrument, in which the timing of the recognition in profit or loss depends on the nature of the hedge relationship. If the valuation of a derivative instrument results in a positive fair value, it is classified as a financial asset; otherwise, it is classified as a financial liability.

Certain derivatives are designated as either (i) hedges of the fair value of recognized assets or liabilities (fair value hedge) or (ii) hedges of highly probable forecast transactions (cash flow hedge). The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

## i. Fair value hedge

Changes in the fair value of a hedging instrument designated and qualified as a fair value hedge are recognized in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

## ii. Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income and accumulated in "cash flow hedge reserve". The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses on the hedging instrument that had been recognized in other comprehensive income for the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the aforesaid cumulative gains or losses on the hedging instrument are reclassified from equity to profit or loss immediately.

(8) Inventories

Inventories are measured at the lower of standard cost and net realizable value. The differences between standard and actual cost are fully recognized in cost of sales. Net realizable value represents the estimated selling price in the ordinary course of business, less all estimated costs of completion and necessary selling expenses.

(9) Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at cost plus any transaction costs. The carrying amount of the investment in associates includes goodwill identified on acquisition, net of any accumulated impairment losses. Such impairment loss is not allocated to goodwill or other assets but reduces the carrying amount of the investments.

The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized as other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group discontinues the use of the equity method from the date when the Group ceases to have significant influence over an associate. When the Group retains an interest in the former associate, the Group measures the retained interest at fair value at that date. Any difference between the fair value of any retained interest and any proceeds from disposing of the part interest in the associate, and the carrying amount of the associate at the date when significant influence is ceased is recognized in profit or loss. Additionally, all amounts recognized in other comprehensive income in relation to that associate are accounted for on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Unrealized profits resulting from transactions between the Group and an associate are eliminated to the extent of the Group's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

Adjustments are made to associates' financial statements to conform to the accounting policies applied by the Group.

(10) Property, plant and equipment

(a) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset and bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that is eligible for capitalization. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The gain or loss arising from the disposal of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized as non-operating income and loss.

(b) Reclassification to investment property

A property is reclassified to investment property at its carrying amount when the purpose of the property changes from owner-occupied to investment.

(c) Subsequent costs

Subsequent costs are capitalized only when it is probable that future economic benefits associated with the costs will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized in profit and loss. All other repairs and maintenance are charged to expense as incurred.

(d) Depreciation

Depreciation is provided for property, plant and equipment over the estimated useful lives using the straight-line method. When an item of property, plant and equipment comprises significant individual components for which different depreciation methods or useful lives are appropriate, each component is depreciated separately. Land is not depreciated. The depreciation is recognized in profit or loss.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The estimated useful lives for the current and comparative periods of property, plant and equipment are as follows: buildings—main structure - 30 to 50 years; air-conditioning system - 10 years; other equipment pertaining to buildings - 20 years; computer and communication equipment - 2 to 5 years; and other equipment - 3 to 10 years.

If there is reasonable certainty that the Group will obtain the ownership of the leased property and equipment by the end of the lease term, the depreciation is provided over the estimated useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

**(11) Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business or for administrative purposes. Investment property is measured at cost on initial recognition. Subsequent to initial recognition, investment property is measured at initial acquisition cost less accumulated depreciation and accumulated impairment losses. The methods for depreciating and determining the useful life and residual value of investment property are the same as those adopted for property, plant and equipment.

Cost includes expenditure that is directly attributable to the acquisition of the investment property, bringing the investment property to the condition necessary for it to be available for use, and any borrowing cost that is eligible for capitalization.

An investment property is reclassified to property, plant and equipment at its carrying amount when the purpose of the investment property has been changed from investment to owner-occupied.

**(12) Leases**

Leases are classified as finance leases when the Group assumes substantially all the risks and rewards incidental to ownership of the assets. All other leases are classified as operating leases.

**(a) The Group as lessor**

Lease income from an operating lease is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as expense over the lease term on a straight-line basis. Incentives granted to the lessee to enter into the operating lease are recognized as a reduction of rental income over the lease term on a straight-line basis. Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(b) The Group as lessee**

Payments made under operating leases (excluding insurance and maintenance expenses) are charged to expense over the lease term on a straight-line basis. Lease incentives received from the lessor are recognized as a reduction of rental expense over the lease term on a straight-line basis. Contingent rents are recognized as expense in the period when the lease adjustments are confirmed.

**(13) Intangible assets****(a) Goodwill**

Goodwill arising from acquisitions of subsidiaries is accounted for as intangible assets. Refer to note 4(21) for the description of the measurement of goodwill at initial recognition. Goodwill arising from acquisitions of associates is included in the carrying amount of investments in associates. Goodwill is not amortized but is measured at cost less accumulated impairment losses.

**(b) Trademarks**

Trademarks acquired in a business combination are measured at fair value at the acquisition date. Subsequent to the initial recognition, trademarks with definite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over the estimated useful lives of 7 to 20 years. Trademarks with indefinite useful lives are carried at cost less any accumulated impairment losses and tested for impairment annually. The useful life of an intangible asset not subject to amortization is reviewed annually at each financial year-end to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Any change in the useful life assessment from indefinite to definite is accounted for as a change in accounting estimate.

**(c) Other intangible assets**

Other separately acquired intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in profit or loss on a straight-line basis over the following estimated useful lives: customer relationships - 7 to 10 years; developed technology - 10 years; channel resources - 8.8 years; developing technology - 15 years; patents - 4 to 16 years; acquired software - 1 to 3 years.

The residual value, amortization period, and amortization method are reviewed at least at each financial year-end, with the effect of any changes in estimate accounted for on a prospective basis.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(14) Impairment of non-financial assets****(a) Goodwill**

For the purpose of impairment testing, goodwill arising from a business combination is allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the synergies of the combination. The CGUs with goodwill are tested annually (or when there are indications that a CGU may have been impaired) for impairment. When the recoverable amount of a CGU is less than the carrying amount of the CGU, the impairment loss is recognized firstly by reducing the carrying amount of any goodwill allocated to the CGU and then proportionately allocated to the other assets of the CGU on the basis of the carrying amount of each asset in the CGU. Any impairment loss is recognized immediately in profit or loss. A subsequent reversal of the impairment loss on goodwill is prohibited.

**(b) Other tangible and intangible assets**

Non-financial assets other than inventories, deferred income tax assets, assets arising from employee benefits, and non-current assets held for sale are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. When there exists an indication of impairment for an asset, the recoverable amount of the asset is estimated. If the recoverable amount of an individual asset cannot be determined, the Group estimates the recoverable amount of the CGU to which the asset has been allocated.

The recoverable amount for an individual asset or a CGU is the higher of its fair value less costs to sell or its value in use. When the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount, and an impairment loss is recognized in profit or loss immediately. The Group assesses at each reporting date whether there is any evidence that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If so, an impairment loss recognized in prior periods for an asset other than goodwill is reversed, and the carrying amount of the asset or CGU is increased to its revised estimate of recoverable amount. The increased carrying amount shall not exceed the carrying amount (net of amortization or depreciation) that would have been determined had no impairment loss been recognized in prior years.

Intangible assets with indefinite useful lives or those not yet available for use are tested annually for impairment. An impairment loss is recognized for the excess of the asset's carrying amount over its recoverable amount.

**(15) Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance costs.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(a) Warranties**

A provision for warranties is recognized when the underlying products or services are sold. This provision reflects the historical warranty claim rate and the weighting of all possible outcomes against their associated probabilities.

**(b) Sales return provision**

A provision for sales returns is recognized when the underlying products are sold. This provision is estimated based on historical sales return data.

**(c) Restructuring**

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or been announced publicly. Provisions are not recognized for future operating losses.

**(d) Others**

Provisions for litigation claims and environmental restoration are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

**(16) Treasury stock**

Common stock repurchased by the Group treated as treasury stock (a contra-equity account) is reported at acquisition cost (including all directly accountable costs), net of taxes. When treasury stock is sold, the excess of sales proceeds over cost is accounted for as capital surplus — treasury stock. If the sales proceeds are less than cost, the deficiency is accounted for as a reduction of the remaining balance of capital surplus — treasury stock. If the remaining balance of capital surplus — treasury stock is insufficient to cover the deficiency, the remainder is recorded as a reduction of retained earnings. The cost of treasury stock is computed using the weighted-average method.

If treasury stock is retired, the weighted-average cost of the retired treasury stock is written off against the par value and the capital surplus premium, if any, of the stock retired on a pro rata basis. If the weighted-average cost written off exceeds the sum of the par value and the capital surplus, the difference is accounted for as a reduction of capital surplus — treasury stock, or a reduction of retained earnings for any deficiency where capital surplus — treasury stock is insufficient to cover the difference. If the weighted-average cost written off is less than the sum of the par value and capital surplus, if any, of the stock retired, the difference is accounted for as an increase in capital surplus — treasury stock.

**(17) Revenue recognition**

Revenue from the sale of goods or services is measured at the fair value of consideration received or receivable, net of returns, rebates, and other similar discounts.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(a) Sale of goods**

Revenue from the sale of goods is recognized when all the following conditions have been satisfied: (a) the significant risks and rewards of ownership of the goods have been transferred to the buyer; (b) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the Group; and (e) the cost incurred or to be incurred in respect of the transaction can be measured reliably.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. Revenue is not recognized for the sale of key components to an original design manufacturer for manufacture or assembly as the significant risks and rewards of the ownership of materials are not transferred.

Revenue from extended warranty contracts is deferred and amortized as earned over the contract period, ranging from one to three years.

**(b) Services**

Revenue from services rendered is recognized by reference to the stage of completion at the reporting date.

**(c) Rental income, interest income, and dividend income**

Rental income from investment property is recognized over the lease term on a straight-line basis.

Dividend income from investments is recognized when the shareholder's right to receive payment has been established, provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

**(d) Government grant**

A government grant is recognized only when there is reasonable assurance that the Group will comply with the conditions attached to it and that the grant will be received.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs is recognized in profit or loss in the period in which it becomes receivable.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(18) Employee benefits****(a) Defined contribution plans**

Obligations for contributions to defined contribution pension plans are expensed during the year in which employees render services.

**(b) Defined benefit plans**

The liability recognized in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date, less the fair value of plan assets and adjustments for unrecognized past service costs. The discount rate for calculating the present value of the defined benefit obligation refers to the interest rate of high-quality corporate bonds or government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

When the defined benefit obligation calculation results in a benefit to the Group, an asset is recognized but is limited to the total amount of any unrecognized past service costs and the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The Group recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income and recognizes them immediately in retained earnings.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, and any related actuarial gains or losses and past service cost that had not previously been recognized.

**(c) Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed during the period in which employees render services. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to make such payments as a result of past service provided by the employees, and the obligation can be estimated reliably.

**(19) Share-based payment**

Share-based payment awards granted to employees are measured at fair value at the date of grant. The fair value determined at the grant date is expensed over the period that the employees become unconditionally entitled to the awards, with a corresponding increase in equity. The compensation cost is adjusted to reflect the number of awards given to employees for which the performance and non-market conditions are expected to be met, such that the amount ultimately recognized shall be based on the number of equity instruments that eventually vested.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The grant date of new shares reserved for employee subscription is the date when the Board of Directors approves the exercise price and the shares for which employees can subscribe.

**(20) Income taxes**

Income tax expenses include both current taxes and deferred taxes. Current and deferred taxes are recognized in profit or loss unless they relate to business combinations or items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized for:

- (a) Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- (b) Temporary differences arising from investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences, and it is probable that the differences will not reverse in the foreseeable future; and
- (c) Temporary differences arising from initial recognition of goodwill.

Deferred tax is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets are recognized for unused tax losses, tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(21) Business combination**

Goodwill is measured as the excess of the acquisition-date fair value of consideration transferred (including any non-controlling interest in the acquiree) over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed (generally at fair value). If the residual balance is negative, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed and recognize any

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## ACER INCORPORATED AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

additional assets or liabilities that are identified in that review, and shall recognize a gain on the bargain purchase thereafter.

For each business combination, non-controlling interest in the acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, provisional amounts for the items for which the accounting is incomplete are reported in the financial statements. During the measurement period, the provisional amounts recognized at the acquisition date are retrospectively adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date.

Acquisition-related costs are expensed as incurred except for the costs related to issuance of debt or equity instruments.

#### (22) Earnings per share ("EPS")

The basic and diluted EPS attributable to stockholders of the Company are disclosed in the consolidated financial statements. Basic EPS is calculated by dividing net income attributable to stockholders of the Company by the weighted-average number of common shares outstanding during the year. In calculating diluted EPS, the net income attributable to stockholders of the Company and weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common shares. The Group's dilutive potential common shares include convertible bonds, stock options, restricted shares of stock issued to employees, and profit sharing for employees to be settled in the form of common stock and to be approved by the shareholders in the following year.

#### (23) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker, who decides on the allocation of resources to the segment and assesses its performance for which discrete financial information is available.

### 5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The preparation of the consolidated financial statements in conformity with Taiwan-IFRSs requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in the future periods affected.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included as follows:

(1) Revenue recognition

The Group recognizes revenue when the conditions described in note 4(17) are satisfied. The Group also records a provision for estimated future returns and other allowances in the same period the related revenue is recorded. Provision for estimated sales returns and other allowances is generally made and adjusted based on historical experience, market and economic conditions, and any other known factors that would significantly affect the allowance. The adequacy of estimations is reviewed periodically. The fierce market competition and rapid evolution of technology could result in significant adjustments to the provision made.

(2) Impairment of intangible assets

The assessment of impairment of goodwill requires the Group to make subjective judgments to identify cash-generating units, allocate the goodwill to relevant cash-generating units, and estimate the recoverable amount of relevant cash-generating units. Refer to note 6(11) for further description of the impairment of goodwill.

In the process of evaluating the potential impairment of intangible assets other than goodwill, the Group is required to make subjective judgments in determining the useful lives and expected future revenue and expenses related to the specific asset groups considering the usage of assets and business characteristics. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges or reversal in future years.

(3) Recognition and measurement of deferred income tax assets

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which those deferred tax assets can be utilized. Assessment of the realization of the deferred tax assets requires the Group's subjective judgments and estimates, including future revenue growth and profitability and feasible tax planning strategies. Any changes in the global economic environment, industry trends, and relevant laws and regulations could result in significant adjustments to the deferred tax assets.

(4) Recognition and measurement of defined benefit obligation

When calculating the present value of the defined benefit obligation, the Group uses judgments and estimations to determine the actuarial assumptions, including discount rates and the expected long-term rate of return on assets. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations. Refer to note 6(16) for further description.

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## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (5) Valuation of inventory

Inventories are stated at the lower of cost or net realizable value, and the Group uses judgment and estimates to determine the net realizable value of inventory at each reporting date.

Due to rapid technological changes, the Group estimates the net realizable value of inventory, taking into account obsolescence and unmarketable items at the reporting date, and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions of future demand within a specific time horizon, which could result in significant adjustments.

## (6) Warranty provision

The warranty provision is made based on the estimated product warranty cost when revenue is recognized. Factors that affect the Group's warranty provision include the number of sold units currently under warranty, historical and anticipated rates of warranty claims on those units, and cost per claim to satisfy the warranty obligation. The estimation basis is reviewed on an ongoing basis and revised when appropriate. Any changes to the aforementioned basis of estimation may significantly impact the amount of the warranty provision.

## (7) Litigation provisions

Litigation provisions are recorded for pending litigation when it is determined that an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates.

## 6. Significant account disclosures

## (1) Cash and cash equivalents

	December 31, 2014	December 31, 2013
Cash on hand	\$ 5,982	7,521
Bank deposits	33,805,507	36,619,580
Time deposits	<u>13,747,162</u>	<u>6,356,562</u>
	<b>\$ <u>47,558,651</u></b>	<b><u>42,983,663</u></b>

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## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (2) Financial assets and liabilities at fair value through profit or loss

	December 31, 2014	December 31, 2013
Financial assets held for trading — current:		
Derivatives — Foreign currency forward contracts	\$ <u>1,899,626</u>	<u>246,295</u>
Financial liabilities held for trading:		
Derivatives — Foreign currency forward contracts	\$ (101,728)	(475,425)
Financial liabilities at fair value through profit or loss:		
Redemption options of convertible bonds (note 6(13))	(522,499)	(496,143)
Financial liabilities at fair value through profit or loss	\$ <u>(624,227)</u>	<u>(971,568)</u>
Current	\$ (624,227)	(475,425)
Non-current	-	(496,143)
	\$ <u>(624,227)</u>	<u>(971,568)</u>

The Group entered into derivative contracts to manage foreign currency exchange risk arising from operating activities. At each reporting date, the outstanding foreign currency forward contracts that did not conform to the criteria for hedge accounting consisted of the following:

		December 31, 2014		
	Contract amount (in thousands)	Buy	Sell	Maturity period
EUR	4,159	CHF	/ EUR	2015/01
EUR	1,209	DKK	/ EUR	2015/01
EUR	10,379	EUR	/ CHF	2015/01~2015/03
EUR	4,190	EUR	/ NOK	2015/01~2015/04
EUR	5,269	EUR	/ SEK	2015/01~2015/03
EUR	332,485	EUR	/ USD	2015/01
EUR	2,101	SEK	/ EUR	2015/01
USD	51,535	USD	/ AUD	2015/01~2015/11
USD	48,480	USD	/ CAD	2015/01~2015/03
USD	170,000	USD	/ CNY	2015/01~2015/03
EUR	494,000	USD	/ EUR	2015/01~2015/04
USD	146,043	USD	/ GBP	2015/01~2015/07
USD	20,000	USD	/ IDR	2015/01~2015/02
USD	120,232	USD	/ INR	2015/01~2015/07
USD	52,000	USD	/ JPY	2015/01~2015/06
USD	42,000	USD	/ MXN	2015/01~2015/03
USD	26,000	USD	/ MYR	2015/01~2015/02
USD	674,500	USD	/ NTD	2015/01
USD	13,000	USD	/ NZD	2015/01~2015/05
USD	6,060	USD	/ PHP	2015/01~2015/04
USD	82,084	USD	/ RUB	2015/01~2015/03
USD	6,000	USD	/ SGD	2015/01~2015/02
USD	32,000	USD	/ THB	2015/01~2015/02

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

		December 31, 2013		
	Contract amount (in thousands)	Buy	Sell	Maturity period
AUD	2,750	AUD	/ NZD	2014/01~2014/03
EUR	7,341	CHF	/ EUR	2014/01
EUR	5,163	DKK	/ EUR	2014/01
EUR	11,304	EUR	/ CHF	2014/01~2014/04
EUR	5,967	EUR	/ SEK	2014/01~2014/04
EUR	305,000	EUR	/ USD	2014/01
EUR	4,211	EUR	/ NOK	2014/01~2014/03
USD	26,630	MXN	/ USD	2014/01~2014/04
USD	500	MYR	/ USD	2014/01
EUR	7,402	NOK	/ EUR	2014/01
USD	82,000	USD	/ AUD	2014/01~2014/06
USD	29,302	USD	/ CAD	2014/01
USD	113,000	USD	/ CNY	2014/02~2014/04
EUR	485,267	USD	/ EUR	2014/01~2014/11
USD	125,123	USD	/ GBP	2014/01~2014/04
USD	11,800	USD	/ IDR	2014/01
USD	127,418	USD	/ INR	2014/01~2014/06
USD	53,000	USD	/ JPY	2014/01~2014/06
USD	79,000	USD	/ MXN	2014/01~2014/05
USD	18,100	USD	/ MYR	2014/01~2014/02
USD	571,000	USD	/ NTD	2014/01
USD	6,750	USD	/ NZD	2014/01~2014/04
USD	400	USD	/ PHP	2014/01
USD	103,571	USD	/ RUB	2014/01~2014/03
USD	5,000	USD	/ SGD	2014/01
USD	40,500	USD	/ THB	2014/01~2014/02

## (3) Hedging derivative financial assets and liabilities — current

	December 31, 2014	December 31, 2013
Hedging derivative financial assets:		
Cash flow hedge — Foreign currency forward contracts	\$ <u>-</u>	<u>12,161</u>

The Group uses foreign currency forward contracts to hedge its estimated foreign currency exposure in respect of forecasted sales and purchases over the following 12 months. When actual sales and purchases occur, the amount accumulated in equity — cash flow hedge reserve is reclassified to profit or loss.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

At each reporting date, the outstanding hedging foreign currency forward contracts were as follows:

December 31, 2013				
Contract amount (in thousands)	Buy	Sell	Maturity period	
USD 10,000	USD	/ JPY	2014/01~2014/02	

For the year ended December 31, 2013, the Group reclassified foreign currency forward contract losses of \$9,493 arising from transactions that were no longer expected to occur and that had been accumulated in equity – cash flow hedge reserve to profit or loss.

## (4) Available-for-sale financial assets

	December 31, 2014	December 31, 2013
Domestic listed stock	\$ 3,264,003	2,388,686
Unlisted stock	<u>742,283</u>	<u>634,778</u>
	<b>\$ <u>4,006,286</u></b>	<b><u>3,023,464</u></b>
Current	\$ 146,479	123,130
Non-current	<u>3,859,807</u>	<u>2,900,334</u>
	<b>\$ <u>4,006,286</u></b>	<b><u>3,023,464</u></b>

As of December 31, 2014 and 2013, the available-for-sale financial assets were not pledged as collateral for loans and borrowings.

## (5) Notes and accounts receivable, net

	December 31, 2014	December 31, 2013
Notes receivable	\$ 1,269,167	802,457
Accounts receivable	58,095,839	61,517,420
Less: allowance for doubtful receivables	<u>(197,275)</u>	<u>(238,848)</u>
	59,167,731	62,081,029
Notes and accounts receivable – related parties	<u>23,837</u>	<u>22,712</u>
	<b>\$ <u>59,191,568</u></b>	<b><u>62,103,741</u></b>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Aging analysis of notes and accounts receivable that are overdue but not impaired is as follows:

	December 31, 2014	December 31, 2013
Past due 1-30 days	\$ 4,999,216	5,145,971
Past due 31-60 days	775,218	1,230,378
Past due 61-90 days	738,515	1,148,052
Past due 91 days or over	632,636	212,884
	<u>\$ 7,145,585</u>	<u>7,737,285</u>

For the years ended December 31, 2014 and 2013, movements of the allowance for doubtful receivables were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2014	\$ 229,095	9,753	238,848
Reversal of impairment loss	(2,421)	(4,726)	(7,147)
Write-off	(32,246)	-	(32,246)
Effect of exchange rate changes	(2,180)	-	(2,180)
Balance at December 31, 2014	<u>\$ 192,248</u>	<u>5,027</u>	<u>197,275</u>

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2013	\$ 392,984	14,773	407,757
Reversal of impairment loss	(80,722)	(5,020)	(85,742)
Write-off	(87,426)	-	(87,426)
Effect of exchange rate changes	4,259	-	4,259
Balance at December 31, 2013	<u>\$ 229,095</u>	<u>9,753</u>	<u>238,848</u>

In principle, the average credit term granted to customers for the sale of goods ranged from 30 to 90 days. To assess the recoverability of the notes and accounts receivable, the Group assesses any changes in the credit quality between the initial transaction date and the reporting date. The allowance for doubtful receivables is assessed by referring to the collectability of receivables based on an individual trade term analysis, the historical payment behavior and current financial condition of customers, and the provision for sales returns and allowances. Notes and accounts receivable that are past due but for which the Group has not recognized a specific allowance for doubtful receivables after the assessment are still considered recoverable.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The Group entered into factoring contracts with several banks to sell part of their accounts receivable without recourse. At each reporting date, details of these contracts were as follows:

December 31, 2014					
Underwriting bank	Factoring credit limit	Receivables sold	Receivables derecognized	Interest rate	Collateral
China Trust Bank	\$ 780,000	83,606	83,606		Nil
Taipei Fubon Bank	750,000	186,729	186,729		Nil
Taishin International Bank	<u>170,000</u>	<u>11,037</u>	<u>11,037</u>		Nil
	<b>\$ <u>1,700,000</u></b>	<b><u>281,372</u></b>	<b><u>281,372</u></b>	1.51%~1.77%	

December 31, 2013					
Underwriting bank	Factoring credit limit	Receivables sold	Receivables derecognized	Interest rate	Collateral
China Trust Bank	\$ 880,000	177,719	177,719		Nil
Taipei Fubon Bank	750,000	154,525	154,525		Nil
Norden Finans Norge AS	<u>164,641</u>	<u>74,002</u>	<u>74,002</u>		Nil
	<b>\$ <u>1,794,641</u></b>	<b><u>406,246</u></b>	<b><u>406,246</u></b>	1.19%~2.72%	

The factoring credit limit is revolving. According to the factoring contracts, the Group does not assume the risk of uncollectible accounts receivable, but only the risk of loss due to commercial disputes.

As of December 31, 2014 and 2013, the notes and accounts receivable were not pledged as collateral for loans and borrowings.

## (6) Other receivables

	December 31, 2014	December 31, 2013
Receivables from reimbursement of advertising expense	\$ 107,271	265,235
Receivables from purchase discount	759,450	780,628
Other receivables	<u>394,910</u>	<u>655,839</u>
	<b>\$ <u>1,261,631</u></b>	<b><u>1,701,702</u></b>

The other receivables mentioned above are expected to be collected within one year, and no allowances for doubtful receivables was necessary based on the result of management's assessment.

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## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (7) Inventories

	December 31, 2014	December 31, 2013
Raw materials	\$ 9,661,265	11,751,803
Work in process	1,892	16,888
Finished goods and merchandise	15,964,434	13,034,377
Spare parts	1,464,540	1,524,411
Inventories in transit	<u>9,508,356</u>	<u>9,238,845</u>
	<b>\$ <u>36,600,487</u></b>	<b><u>35,566,324</u></b>

For the years ended December 31, 2014 and 2013, the cost of inventories sold amounted to \$256,422,720 and \$289,745,422, respectively. For the year ended December 31, 2014, the reversal gain on write-down of inventories, arising from the increase in net realizable value or disposal or use of inventories, amounted to \$1,327,718. For the year ended December 31, 2013, the write-down of inventories to net realizable value amounted to \$2,585,327.

As of December 31, 2014 and 2013, the inventories were not pledged as collateral.

## (8) Investments in associates

A summary of the Group's financial information for investments in associates at the reporting date is as follows:

Name of Associates	December 31, 2014		December 31, 2013	
	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
Aegis Semiconductor Technology Inc. ("Aegis")	44.04%	15,778	44.04%	64,180
ECOM Software Inc. ("ECOM")	33.93%	23,154	33.93%	21,860
Bluechip Infotech Pty Ltd.	30.00%	74,226	34.05%	76,136
Others	-	<u>29,303</u>	-	<u>14,158</u>
		<b>\$ <u>142,461</u></b>		<b><u>176,334</u></b>
		<b>2014</b>	<b>2013</b>	
Share of profits of associates		<b>\$ <u>125,629</u></b>	<b><u>5,175</u></b>	

In 2014, Aegis returned capital of \$172,130 to the Group.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Summarized financial information on investments in associates is as follows (before being adjusted to the Group's proportionate share):

	December 31, 2014	December 31, 2013
Total assets	\$ <u>943,050</u>	<u>855,676</u>
Total liabilities	\$ <u>537,320</u>	<u>334,865</u>
	2014	2013
Revenue	\$ <u>2,388,745</u>	<u>2,167,654</u>
Net income	\$ <u>255,577</u>	<u>20,421</u>

As of December 31, 2014 and 2013, the investments in associates were not pledged as collateral.

## (9) Property, plant and equipment

The movements of cost, and accumulated depreciation and impairment loss of the property, plant and equipment were as follows:

	Land	Buildings	Computer and communication equipment	Other equipment	Construction in progress	Total
Cost or deemed cost:						
Balance at January 1, 2014	\$ 1,594,331	4,077,199	4,326,181	3,485,485	-	13,483,196
Additions	-	30,696	80,834	116,076	1,146	228,752
Disposals	(15,556)	(137,904)	(79,317)	(157,653)	-	(390,430)
Reclassification from investment property	91,045	63,432	-	-	-	154,477
Other reclassification and effect of exchange rate changes	(24,219)	(4,445)	30,655	(141,429)	(82)	(139,520)
Balance at December 31, 2014	\$ <u>1,645,601</u>	<u>4,028,978</u>	<u>4,358,353</u>	<u>3,302,479</u>	<u>1,064</u>	<u>13,336,475</u>
Balance at January 1, 2013	\$ 1,366,614	3,819,837	4,322,550	3,238,382	41,772	12,789,155
Additions	-	69,157	125,071	182,150	-	376,378
Disposals	(950)	(992)	(103,301)	(120,482)	(25)	(225,750)
Reclassification from investment property	205,713	145,713	-	-	-	351,426
Other reclassification and effect of exchange rate changes	22,954	43,484	(18,139)	185,435	(41,747)	191,987
Balance at December 31, 2013	\$ <u>1,594,331</u>	<u>4,077,199</u>	<u>4,326,181</u>	<u>3,485,485</u>	<u>-</u>	<u>13,483,196</u>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	Land	Buildings	Computer and communication equipment	Other equipment	Construction in progress	Total
Accumulated depreciation and impairment loss:						
Balance at January 1, 2014	\$ 166,798	2,490,379	2,572,035	2,120,255	-	7,349,467
Depreciation	-	117,626	376,826	287,175	-	781,627
Disposals	-	(2,745)	(75,863)	(122,459)	-	(201,067)
Reclassification from investment property	-	22,557	-	-	-	22,557
Other reclassification and effect of exchange rate changes	<u>(7,692)</u>	<u>(1,998)</u>	<u>2,943</u>	<u>(93,423)</u>	<u>-</u>	<u>(100,170)</u>
Balance at December 31, 2014	<u>\$ 159,106</u>	<u>2,625,819</u>	<u>2,875,941</u>	<u>2,191,548</u>	<u>-</u>	<u>7,852,414</u>
Balance at January 1, 2013	\$ 136,452	2,196,459	2,305,232	1,802,775	-	6,440,918
Depreciation	-	164,011	411,651	355,553	-	931,215
Impairment loss	30,610	112,492	-	-	-	143,102
Disposals	-	(727)	(96,323)	(102,502)	-	(199,552)
Reclassification to investment property	-	(28,080)	-	-	-	(28,080)
Other reclassification and effect of exchange rate changes	<u>(264)</u>	<u>46,224</u>	<u>(48,525)</u>	<u>64,429</u>	<u>-</u>	<u>61,864</u>
Balance at December 31, 2013	<u>\$ 166,798</u>	<u>2,490,379</u>	<u>2,572,035</u>	<u>2,120,255</u>	<u>-</u>	<u>7,349,467</u>
Carrying amounts:						
Balance at December 31, 2014	<u>\$ 1,486,495</u>	<u>1,403,159</u>	<u>1,482,412</u>	<u>1,110,931</u>	<u>1,064</u>	<u>5,484,061</u>
Balance at December 31, 2013	<u>\$ 1,427,533</u>	<u>1,586,820</u>	<u>1,754,146</u>	<u>1,365,230</u>	<u>-</u>	<u>6,133,729</u>

In 2013, the Group recognized an impairment loss of \$143,102, including impairment loss on land of \$30,610, and impairment loss on buildings of \$112,492, as the carrying amount of certain property was less than its recoverable amount.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (10) Investment property

	Land	Buildings	Total
Cost or deemed cost:			
Balance at January 1, 2014	\$ 1,558,388	3,227,760	4,786,148
Disposals	(345,118)	-	(345,118)
Reclassification to property, plant and equipment	(91,045)	(63,432)	(154,477)
Other reclassification	5,623	(5,623)	-
Balance at December 31, 2014	<u>\$ 1,127,848</u>	<u>3,158,705</u>	<u>4,286,553</u>
Balance at January 1, 2013	\$ 2,316,684	3,373,473	5,690,157
Additions	709	-	709
Disposals	(553,292)	-	(553,292)
Reclassification to property, plant and equipment	(205,713)	(145,713)	(351,426)
Balance at December 31, 2013	<u>\$ 1,558,388</u>	<u>3,227,760</u>	<u>4,786,148</u>
Accumulated depreciation and impairment loss:			
Balance at January 1, 2014	\$ 452,978	2,742,737	3,195,715
Depreciation	-	9,582	9,582
Disposals	(9,254)	-	(9,254)
Reclassification to property, plant and equipment	-	(22,557)	(22,557)
Balance at December 31, 2014	<u>\$ 443,724</u>	<u>2,729,762</u>	<u>3,173,486</u>
Balance at January 1, 2013	\$ 668,948	2,480,813	3,149,761
Depreciation	-	16,351	16,351
Impairment loss	-	217,493	217,493
Reversal of impairment loss	(215,970)	-	(215,970)
Reclassification from property, plant and equipment	-	28,080	28,080
Balance at December 31, 2013	<u>\$ 452,978</u>	<u>2,742,737</u>	<u>3,195,715</u>
Carrying amounts:			
Balance at December 31, 2014	<u>\$ 684,124</u>	<u>428,943</u>	<u>1,113,067</u>
Balance at December 31, 2013	<u>\$ 1,105,410</u>	<u>485,023</u>	<u>1,590,433</u>
Fair value:			
Balance at December 31, 2014			<u>\$ 1,532,827</u>
Balance at December 31, 2013			<u>\$ 1,888,870</u>

The fair value of the investment property was determined by referring to the market price of similar real estate, the adjusted value on the basis of valuation by an independent appraiser after considering the building's location and features, or the value in use of the investment property. The value in use is the present value of future cash flows from continuous lease activities. On December 31, 2014 and 2013, the estimated discount rate used for the calculation of the present value of future cash flows was 5.40% and 6.73%, respectively.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

In 2013, after assessing the recoverable amounts of investment property, impairment loss on land of \$215,970 was reversed, which did not exceed the impairment loss that had been recognized in prior years. Also, the Group recognized an impairment loss of \$217,493 on leased-out buildings.

For certain land acquired, the ownership registration has not been transferred to the land acquirer, APDI, a subsidiary of the Company. To protect its interests, APDI has obtained signed deeds of assignment from the titleholders assigning all rights and obligations related to the land to APDI. Additionally, the land title certificates are held by APDI, and APDI has registered its liens thereon.

As of December 31, 2014 and 2013, investment property was not pledged as collateral.

## (11) Intangible assets

- (a) The movements of costs, and accumulated amortization and impairment loss of intangible assets were as follows:

	Goodwill	Trademarks and trade names	Others	Total
January 1, 2014				
Cost	\$ 25,452,036	10,430,695	14,989,997	50,872,728
Accumulated amortization and impairment loss	(4,365,349)	(10,215,713)	(7,571,578)	22,152,640
Balance at January 1, 2014	21,086,687	214,982	7,418,419	28,720,088
Additions	-	-	103,873	103,873
Disposals and charged to cost of revenue	(185,313)	-	(1,989,538)	(2,174,851)
Reclassification	-	-	34,408	34,408
Amortization	-	(17,286)	(1,092,688)	(1,109,974)
Effect of exchange rate changes	937,323	1,533	215,147	1,154,003
Balance at December 31, 2014	<u>\$ 21,838,697</u>	<u>199,229</u>	<u>4,689,621</u>	<u>26,727,547</u>
December 31, 2014				
Cost	\$ 26,473,881	10,576,769	12,722,740	49,773,390
Accumulated amortization and impairment loss	(4,635,184)	(10,377,540)	(8,033,119)	(23,045,843)
Carrying amount	<u>\$ 21,838,697</u>	<u>199,229</u>	<u>4,689,621</u>	<u>26,727,547</u>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	Goodwill	Trademarks and trade names	Others	Total
January 1, 2013				
Cost	\$ 24,747,209	10,367,632	14,568,812	49,683,653
Accumulated amortization and impairment loss	-	(4,409,390)	(6,139,343)	(10,548,733)
Balance at January 1, 2013	24,747,209	5,958,242	8,429,469	39,134,920
Addition	-	-	191,985	191,985
Disposal	-	-	(57)	(57)
Reclassification	-	-	25,160	25,160
Amortization	-	(269,886)	(1,399,133)	(1,669,019)
Impairment loss	(4,365,349)	(5,536,437)	(41,564)	(9,943,350)
Effect of exchange rate changes	704,827	63,063	212,559	980,449
Balance at December 31, 2013	<u>\$ 21,086,687</u>	<u>214,982</u>	<u>7,418,419</u>	<u>28,720,088</u>
December 31, 2013				
Cost	\$ 25,452,036	10,430,695	14,989,997	50,872,728
Accumulated amortization and impairment loss	(4,365,349)	(10,215,713)	(7,571,578)	(22,152,640)
Carrying amount	<u>\$ 21,086,687</u>	<u>214,982</u>	<u>7,418,419</u>	<u>28,720,088</u>

In 2013, the Group licensed out part of its intangible assets to one of its key customers. The economic benefits of those intangible assets were realized, and the carrying amounts of those intangible assets were charged to cost of revenue accordingly.

The amortization and impairment losses of intangible assets are included in the following line items of the statement of comprehensive income:

	2014	2013
Cost of revenue	\$ <u>2,662</u>	<u>13,898</u>
Operating expenses	\$ <u>1,107,312</u>	<u>1,655,121</u>
Non-operating loss	\$ <u>-</u>	<u>9,943,350</u>

## (b) Impairment test on goodwill and trademarks and trade names

In the fourth quarter of 2014, the Group underwent an organization restructuring and integrated RO-AAP, RO-China and RO-TWN into ITRO-PAP; the related intangible assets were re-allocated to RO-PAP as well.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The carrying amounts of significant goodwill and trademarks and trade names with indefinite useful lives and the respective CGUs to which they were allocated as of December 31, 2014 and 2013, were as follows:

December 31, 2014							Platform Service of Console Game
	RO-EMEA	RO-PA	RO-PAP	RO-AAP	RO-China	RO-TWN	
Goodwill	\$ 11,977,977	1,931,403	7,911,595	-	-	-	-
Trademarks & trade names	102,867	30,279	66,083	-	-	-	-

  

December 31, 2013							Platform Service of Console Game
	RO-EMEA	RO-PA	RO-PAP	RO-AAP	RO-China	RO-TWN	
Goodwill	\$ 11,489,540	1,828,686	-	3,575,889	2,970,087	1,022,016	182,747
Trademarks & trade names	102,867	30,279	-	15,078	65,933	825	-

Each CGU to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

In the third quarter of 2013, the Group re-adjusted its brand strategy and re-allocated its resources after assessing the current position and possible future changes of the global PC industry and handheld device industry (including tablets and smartphones). This change triggered an impairment test of trademarks and trade names. The Group estimated the fair value of the “Gateway”, “Packard Bell”, “E-ten”, and “Founders” trademarks and trade names by calculating the present value of the royalties saved that would have been paid to a third party had the Group not owned the trademarks and trade names. As a result of this test, the Group recognized an impairment loss of \$5,536,437 in 2013.

Furthermore, as the Group’s revenue and profitability were below expectation for a continuous period and the carrying amount of the Group’s net assets exceeded its market capitalization, the Group concluded that there were indications that non-financial assets may be impaired, so an impairment test was made in the third quarter of 2013. As a result of the test, the Group recognized an impairment loss on goodwill and other intangible assets of \$4,365,349 and \$41,564, respectively.

Based on the results of impairment tests conducted by the Group, there was no evidence of impairment of goodwill and other non-financial assets as of December 31, 2014.

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## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The recoverable amount of a CGU was determined based on the value in use, and the related key assumptions were as follows:

- i. The cash flow projections were based on historical operating performance and future financial budgets, covering a period of 5 years, approved by management and estimated terminal values at the end of the 5-year period. Cash flows beyond that 5-year period have been extrapolated using the following growth rates:

	RO-EMEA	RO-PA	RO-PAP	RO-AAP	RO-China	RO-TWN	Platform Service of Console Game
2014.12.31	0%	0%	0%	-	-	-	-
2013.12.31	0%	0%	-	0%	0%	0%	0%

The growth rates above do not exceed the long-term average growth rates for the market in which the each CGU operates.

- ii. Discount rates used to determine the value in use for each CGU were as follows:

	RO-EMEA	RO-PA	RO-PAP	RO-AAP	RO-China	RO-TWN	Platform Service of Console Game
2014.12.31	17.4%	9.3%	15.2%	-	-	-	-
2013.12.31	15.1%	9.3%	-	20.9%	17.6%	16.7%	10.8%

## (12) Short-term borrowings

	December 31, 2014	December 31, 2013
Short-term notes and bills payable	\$ -	99,989
Unsecured bank loans	317,000	290,000
	<u>\$ 317,000</u>	<u>389,989</u>
Unused credit facilities	\$ 33,481,766	32,403,312
Interest rate	<u>1.16%~1.42%</u>	<u>0.67%~1.38%</u>

## (13) Long-term debt and bonds payable

	December 31, 2014	December 31, 2013
Citibank syndicated loan	\$ 7,200,000	9,000,000
Overseas convertible bonds	3,634,818	3,179,548
Domestic convertible bonds	5,880,437	5,794,965
Less: current portion of long-term debt	(3,600,000)	(1,800,000)
Less: current portion of bonds payable	(3,634,818)	-
	<u>\$ 9,480,437</u>	<u>16,174,513</u>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (a) Bank loans

Type of Loan	Creditor	Credit Line	Term	December 31, 2014	December 31, 2013
Unsecured loan	Citibank and other banks	Term tranche of \$9 billion; five-year limit during which revolving credits disallowed	The loan is repayable in 5 semi-annual installments starting from November 2014	\$ 7,200,000	9,000,000
		Revolving tranche of \$6 billion; five-year limit	One-time repayment in full in November 2016. The credit facility has not been used.	-	-
Less: current portion of long-term debt				<u>(3,600,000)</u>	<u>(1,800,000)</u>
				<u>\$ 3,600,000</u>	<u>7,200,000</u>
Unused credit facilities				<u>\$ 6,000,000</u>	<u>6,000,000</u>
Interest rate				<u>1.71%</u>	<u>1.59%</u>

According to the syndicated loan agreements, the Group is required to maintain certain financial ratios calculated based on its annual and semi-annual consolidated financial statements. As of December 31, 2014, the Group was not in compliance with some of the financial covenants. Nevertheless, according to the amendment of the syndicated loan agreements dated March 4, 2013, the non-compliance with financial covenants is not considered a default as long as the Group obtains a waiver from the syndicated banks no later than November 30 in the current year (grace period for the semi-annual consolidated financial statements) and June 30 in the following year (grace period for the annual consolidated financial statements). If the Group fails to obtain a waiver from the syndicated banks within the grace period, then it will be considered an event of default under the loan agreements.

As of December 31, 2013, the Group was not in compliance with some of the financial covenants. Nevertheless, on June 20, 2014, the Group obtained a waiver from the syndicated banks, which exempted the Group from complying with the required financial covenants.

## (b) Overseas convertible bonds

	2014	2013
Bonds payable:		
Beginning balance	\$ 3,179,548	8,732,093
Purchase and redemption	-	(6,231,463)
Amortization of bond discount and transaction cost (recognized as interest expense)	255,052	441,995
Unrealized exchange loss on bonds payable	<u>200,218</u>	<u>236,923</u>
	3,634,818	3,179,548
Less: current portion of bonds payable	<u>(3,634,818)</u>	<u>-</u>
Ending balance	<u>\$ -</u>	<u>3,179,548</u>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	2014	2013
Financial liabilities at fair value through profit or loss (redemption options of the convertible bonds):		
Beginning balance	\$ 496,143	799,511
Purchase and redemption	-	(363,639)
Evaluation loss	<u>26,356</u>	<u>60,271</u>
	522,499	496,143
Less: current portion	<u>(522,499)</u>	<u>-</u>
Ending balance	\$ <u><u>-</u></u>	<u><u>496,143</u></u>

On August 10, 2010, the Group issued US\$300,000 thousand of zero coupon overseas convertible bonds due 2015 (the “2015 Bond”) and US\$200,000 thousand of zero coupon overseas convertible bonds due 2017 (the “2017 Bond”) on the Singapore Exchange Securities Trading Limited, for the purpose of purchasing merchandise in line with business growth. The significant terms and conditions of the convertible bonds are as follows:

## i. The 2015 Bonds

- i) Par value US\$300,000,000
- ii) Issue date August 10, 2010
- iii) Maturity date August 10, 2015
- iv) Coupon rate 0%
- v) Conversion

Bondholders may convert bonds into the Company’s common shares at any time starting the 41st day from the issue date until 10 days prior to the maturity date. On December 31, 2014, the conversion price was \$102.01 (dollars) per common share, with a fixed exchange rate of \$31.83 = US\$1.00, subject to adjustment by the formula provided in the issue terms if the Company’s outstanding common shares are increased.

## vi) Redemption at the option of the bondholders

A. A bondholder shall have the right, at such holder’s option, to require the Company to redeem, in whole or in part, the 2015 Bonds held by such holder at a redemption price of principal amount plus a gross yield of 0.43% per annum (calculated on a semi-annual basis) in US dollars on August 10, 2013.

B. In the event that the Company’s common shares are officially delisted from the Taiwan Securities Exchange, each bondholder shall have the right, at such holder’s option, to require the Company to redeem the 2015 Bonds, in whole or in part, at an amount equal to the principal amount plus a gross yield of 0.43% per annum (calculated on a semi-annual basis) at the relevant date (the “2015 Early Redemption Amount”).

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

C. If a change of control (as defined in the issue terms) occurs, each bondholder shall have the right, at such holder's option, to require the Group to redeem the 2015 Bonds, in whole or in part, at the 2015 Early Redemption Amount.

vii) Redemption at the option of the Company

The Company may redeem the 2015 Bonds, in whole or in part, at the 2015 Early Redemption Amount, in the following cases:

A. At any time on or after August 10, 2013, and prior to the maturity date, the closing price (translated into US dollars at the prevailing rate) of its common shares on the Taiwan Stock Exchange is at least 130% of the 2015 Early Redemption Amount for 20 consecutive trading days.

B. If more than 90% of the 2015 Bonds have been redeemed, repurchased and cancelled, or converted;

C. A change in ROC tax regulations causes the Company to become obliged to pay additional amounts in respect of taxes or expenses.

viii) Redemption at maturity

Unless previously redeemed, repurchased and cancelled, or converted, the Company shall redeem the 2015 Bonds at a redemption price of their principal amount plus a gross yield of 0.43% per annum (calculated on a semi-annual basis) on August 10, 2015.

ii. The 2017 Bonds

i) Par value	US\$200,000,000
ii) Issue date	August 10, 2010
iii) Maturity date	August 10, 2017
iv) Coupon rate	0%
v) Conversion	

Bondholders may convert bonds into the Company's common shares at any time starting the 41st day from the issue date until 10 days prior to the maturity date. On December 31, 2014, the conversion price was \$104.96 (dollars) per common share, with a fixed exchange rate of \$31.83 = US\$1.00, subject to adjustment by the formula provided in the issue terms if the Company's outstanding common shares are increased.

vi) Redemption at the option of the bondholders

A. A bondholder shall have the right, at such holder's option, to require the Company to redeem, in whole or in part, the 2017 Bonds held by such holder at a redemption price of the principal amount plus a gross yield of 2.5% per annum (calculated on a semi-annual basis) on August 10, 2015.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

B. In the event that the Company's common shares are officially delisted from the Taiwan Securities Exchange, each bondholder shall have the right, at such holder's option, to require the Company to redeem the 2017 Bonds, in whole or in part, at an amount equal to the principal amount plus a gross yield of 2.5% per annum (calculated on a semi-annual basis) at the relevant date (the "2017 Early Redemption Amount").

C. If a change of control (as defined in the issue terms) occurs, each bondholder shall have the right, at such holder's option, to require the Company to redeem the 2017 Bonds, in whole or in part, at 2017 Early Redemption Amount.

#### vii) Redemption at the option of the Company

The Company may redeem the 2017 Bonds, in whole or in part, at the 2017 Early Redemption Amount, in the following cases:

- A. At any time on or after August 10, 2013, and prior to the maturity date, the closing price (translated into US dollars at the prevailing rate) of its common shares on the Taiwan Stock Exchange is at least 130% of the 2017 Early Redemption Amount for 20 consecutive trading days.
- B. If more than 90% of the 2017 Bonds have been redeemed, repurchased and cancelled, or converted;
- C. A change in ROC tax regulations causes the Company to become obliged to pay additional amounts in respect of taxes or expenses.

#### viii) Redemption at maturity

Unless previously redeemed, repurchased and cancelled, or converted, the Company shall redeem the 2017 Bonds at a redemption price of their principal amount plus a gross yield of 2.5% per annum (calculated on a semi-annual basis) on August 10, 2017.

In 2013, the bondholders required the Group to redeem US\$168,700 thousand of the bonds payable at a redemption price of \$5,109,550 (approximately US\$170,888 thousand). In addition, the Group purchased US\$48,400 thousand of the bonds payable on the open market at a price of \$1,559,524 (approximately US\$52,158 thousand) in 2013. The redemption price and purchase price were allocated to liability components, and the loss on purchase and redemption of bonds payable of \$73,972 (classified under non-operating income and loss) was recognized.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (c) Domestic convertible bonds

	2014	2013
Bonds payable:		
Beginning balance (balance at issue date)	\$ 5,794,965	5,742,000
Amortization of bond discount (recognized as interest expense)	<u>85,472</u>	<u>52,965</u>
Ending balance	<u>\$ 5,880,437</u>	<u>5,794,965</u>
Financial assets at fair value through profit or loss (redemption options of the convertible bonds):		
Beginning balance (balance at issue date)	\$ -	3,000
Evaluation loss	<u>-</u>	<u>(3,000)</u>
Ending balance	<u>\$ -</u>	<u>-</u>
	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Capital surplus — conversion right (note 6(18))	<u>\$ 261,000</u>	<u>261,000</u>

On May 14, 2013, the Group issued \$6,000,000 of zero coupon domestic convertible bonds due 2016 (the “2016 Bond”) on the Taipei Exchange. The significant terms and conditions of the convertible bonds are as follows:

- i. Par value \$6,000,000
- ii. Issue date May 14, 2013
- iii. Maturity date May 14, 2016
- iv. Coupon rate 0%
- v. Conversion:

Bondholders may convert the bonds into the Company’s common shares at any time starting one month from the issue date until 10 days prior to the maturity date. The conversion price is \$25.72 per common share and is subject to adjustment by the formula provided in the issue terms if the Company’s outstanding common shares are increased.

vi. Redemption at the option of the Company

The Company may redeem the 2016 Bond, in whole or in part, at the principal amounts, in the following cases:

- i) At any time on or after June 15, 2013, and until 40 days prior to the maturity date, the closing price of its common shares on the Taiwan Stock Exchange is at least 130% of the conversion price for 30 consecutive trading days.
- ii) At any time on or after June 15, 2013, and until 40 days prior to the maturity date, the outstanding balance of the convertible bonds is less than 10% of the original issuance amount.

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## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## vii. Redemption at maturity

Unless previously redeemed, repurchased and cancelled, or converted, the Company shall redeem the bonds at their par value in cash.

## (14) Provisions

		Warranties	Litigation	Sales returns	Restructuring	Environmental protection and others	Total
Balance at January 1, 2014	\$	6,487,775	1,740,947	1,491,118	660,651	268,026	10,648,517
Provisions made		8,188,488	178,560	4,015,670	-	163,657	12,546,375
Amount utilized		(7,950,456)	(711,200)	(4,262,914)	(408,694)	(122,257)	(13,455,521)
Amount reversed		-	(473,998)	-	(122,085)	(35,663)	(631,746)
Effect of exchange rate changes		(110,474)	39,502	77,048	(3,954)	(9,549)	(7,427)
Balance at December 31, 2014	\$	<u>6,615,333</u>	<u>773,811</u>	<u>1,320,922</u>	<u>125,918</u>	<u>264,214</u>	<u>9,100,198</u>
Current	\$	6,615,333	750,406	1,320,922	125,918	159,867	8,972,446
Non-current		-	23,405	-	-	104,347	127,752
	\$	<u>6,615,333</u>	<u>773,811</u>	<u>1,320,922</u>	<u>125,918</u>	<u>264,214</u>	<u>9,100,198</u>
Balance at January 1, 2013	\$	7,376,790	1,620,028	1,909,917	-	286,130	11,192,865
Provisions made		6,271,421	2,472,850	6,159,474	1,019,641	99,139	16,022,525
Amount utilized		(7,320,508)	(2,411,277)	(6,627,165)	(364,570)	(105,133)	(16,828,653)
Effect of exchange rate changes		160,072	59,346	48,892	5,580	(12,110)	261,780
Balance at December 31, 2013	\$	<u>6,487,775</u>	<u>1,740,947</u>	<u>1,491,118</u>	<u>660,651</u>	<u>268,026</u>	<u>10,648,517</u>
Current	\$	6,487,775	1,515,404	1,491,118	660,651	150,631	10,305,579
Non-current		-	225,543	-	-	117,395	342,938
	\$	<u>6,487,775</u>	<u>1,740,947</u>	<u>1,491,118</u>	<u>660,651</u>	<u>268,026</u>	<u>10,648,517</u>

## (a) Warranties

The provision for warranties is made based on the number of sold units currently under warranty, historical rates of warranty claim on those units, and cost per claim to satisfy the warranty obligation. The Group reviews the estimation basis on an ongoing basis and revises it when appropriate.

## (b) Litigation

Litigation provisions are recorded for pending litigation when it is determined that an unfavorable outcome is probable and the amount of loss can be reasonably estimated.

As a result of the acquisition of eMachines, a subsidiary of Gateway Inc., the Group assumed a contingent liability with respect to the defects in Floppy Disk Controllers of certain computer models. District Courts of three states in the U.S.A. listed eMachines as a defendant in consumer class action between 2004 and 2005. The Group reached a settlement with the plaintiffs, and final approval was given by the Court in July 2013. In addition to the settlement with the plaintiffs, the Group was also required to pay compensation to customers who had purchased the defective products in prior years. The compensation claims made by customers were gradually fulfilled by the Group commencing from July 2013 in order to execute the final settlement approved by the Court. The Group has made a related provision in accordance with the compensation claims made by customers.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (c) Sales returns

Expected sales returns are estimated based on historical experience.

## (d) Restructuring

Due to the tremendous impact of the rapid development in tablets and smartphones on the PC industry, the Company's Board of Directors resolved a personnel and business restructuring plan on November 5, 2013. Following the announcement of the plan, the Group recognized a provision of \$1,019,641 for expected restructuring costs in the fourth quarter of 2013, mainly for employee termination benefits.

## (e) Environmental protection and others

An environmental protection provision is made when products are sold and is estimated based on historical experience.

## (15) Operating lease

## (a) Lessee

The Group leases offices and warehouses under operating leases. The future minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2014	December 31, 2013
Not later than 1 year	\$ 553,268	643,440
Later than 1 year but not later than 5 years	871,125	1,024,955
Later than 5 years	<u>448,369</u>	<u>560,092</u>
	<b>\$ <u>1,872,762</u></b>	<b><u>2,228,487</u></b>

For the years ended December 31, 2014 and 2013, rental expenses of \$1,032,235 and \$1,076,141, respectively, were recognized and included in the cost of revenue and operating expenses.

Office and warehouse leases entered into by the Group include leases of both land and buildings where the offices and warehouses are located. As the lessor has not transferred the ownership of the land to the Group, the rental payment to the lessor is increased to the market rate at regular intervals, and the Group does not participate in the residual value of the land and buildings. As a result, the Group determined that substantially all the risks and rewards of the land and buildings are with the lessor. Therefore, the office and warehouse leases are operating leases.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (b) Lessor

The Group leased its investment property under operating leases. The future minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2014	December 31, 2013
Not later than 1 year	\$ 31,312	27,786
Later than 1 year but not later than 5 years	<u>25,654</u>	<u>39,016</u>
	<u>\$ 56,966</u>	<u>66,802</u>

In 2014 and 2013, the rental income from investment property amounted to \$89,205 and \$88,928, respectively. Related repair and maintenance expenses were as follows:

	2014	2013
Arising from investment property that generated rental income during the period	\$ 26,221	33,895
Arising from investment property that did not generate rental income during the period	<u>76,959</u>	<u>72,916</u>
	<u>\$ 103,180</u>	<u>106,811</u>

## (16) Employee benefits

## (a) Defined benefit plans

The present value of defined benefit obligations and the fair value of the plan assets were as follows:

	December 31, 2014	December 31, 2013
Present value of benefit obligations	\$ 2,056,189	1,995,552
Fair value of plan assets	<u>(1,051,029)</u>	<u>(1,128,400)</u>
Recognized liabilities for defined benefit plans (classified under other non-current liabilities)	<u>\$ 1,005,160</u>	<u>867,152</u>
	December 31, 2014	December 31, 2013
Present value of benefit obligations	\$ 32,488	34,320
Fair value of plan assets	<u>(71,121)</u>	<u>(68,780)</u>
Recognized assets for defined benefit plans (classified under other non-current assets)	<u>\$ (38,633)</u>	<u>(34,460)</u>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The Company and its domestic subsidiaries make defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pension benefits for employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive a payment based on years of service and average salary for the six months prior to the employee's retirement.

Foreign subsidiaries, including AJC, ATH, AIN, APHI, AEG, ASZ, AIT, AME, ACN and ACF, also have defined benefit pension plans based on their respective local laws and regulations.

i. Composition of plan assets

The pension fund (the "Fund") contributed by the Company and its domestic subsidiaries is managed and administered by the Bureau of Labor Funds of the Ministry of Labor (the Bureau of Labor Funds). According to the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund", with regard to the utilization of the Fund, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks. The Company and its domestic subsidiaries also established pension funds in accordance with the "Regulations Governing the Management, Investment, and Distribution of the Employees' Retirement Fund Established by a Profit-seeking Enterprise", which are funded by time deposits and bank deposits deposited in the designated financial institutions. The administration of pension funds is separate from the Group, and the principal and interest from such funds shall not be used in any form except for the payment of pension and severance to employees.

Foreign subsidiaries with defined benefit pension plans make pension contributions to pension management institutions in accordance with their respective local regulations.

As of December 31, 2014 and 2013, the Group's fair value of plan assets, by major categories, was as follows:

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Cash	\$ 669,861	784,599
Equity instruments	255,014	231,986
Instruments with fixed return	115,478	120,212
Real estate	81,797	60,383
	<b>\$ <u>1,122,150</u></b>	<b><u>1,197,180</u></b>

Cash includes the labor pension fund assets. For information on the labor pension fund assets (including the asset portfolio and yield of the fund), please refer to the website of the Bureau of Labor Funds.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## ii. Movements in present value of the defined benefit obligations

In 2014 and 2013, the movements in present value of the defined benefit obligations of the Group were as follows:

	2014	2013
Defined benefit obligation at January 1	\$ 2,029,872	2,346,454
Current service costs	222,829	217,436
Interest costs	44,919	45,465
Benefits paid by the plan	(210,355)	(237,504)
Settlement	-	(95,900)
Curtailement gains	(2,331)	(68,164)
Actuarial losses (gains)	35,057	(210,849)
Past service cost	-	(26,398)
Contributions by plan participants	27,371	3,488
Effect of exchange rate changes	(58,685)	55,844
Defined benefit obligation at December 31	<u>\$ 2,088,677</u>	<u>2,029,872</u>

## iii. Movements in fair value of plan assets

In 2014 and 2013, the movements in fair value of plan assets of the Group were as follows:

	2014	2013
Fair value of plan assets at January 1	\$ 1,197,180	1,380,238
Benefits paid by the plan	(199,046)	(228,170)
Settlement	-	(95,900)
Expected return on plan assets	25,418	26,616
Contributions by plan participants	27,371	3,488
Contributions by the employer	146,064	123,103
Actuarial gains (losses)	(19,325)	(32,445)
Effect of exchange rate changes	(55,512)	20,250
Fair value of plan assets at December 31	<u>\$ 1,122,150</u>	<u>1,197,180</u>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## iv. Expenses recognized in profit or loss

In 2014 and 2013, the expenses recognized in profit or loss were as follows:

	<b>2014</b>	<b>2013</b>
Current service costs	\$ 222,829	217,436
Interest costs	44,919	45,465
Curtailment gains	(2,331)	(68,164)
Expected return on plan assets	(25,418)	(26,616)
Past service costs	-	(26,398)
	<u>\$ 239,999</u>	<u>141,723</u>
Classified under operating expense	<u>\$ 239,999</u>	<u>141,723</u>
Actual return on plan assets	<u>\$ 6,093</u>	<u>(5,829)</u>

## v. Actuarial gains and losses recognized in other comprehensive income

In 2014 and 2013, the actuarial gains and losses recognized in other comprehensive income were as follows:

	<b>2014</b>	<b>2013</b>
Cumulative amount at January 1	\$ 98,829	(79,575)
Recognized during the period	(54,382)	178,404
Cumulative amount at December 31	<u>\$ 44,447</u>	<u>98,829</u>

## vi. Actuarial assumptions

The principal assumptions of the actuarial valuation were as follows:

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Discount rate	0.90%~8.30%	1.30%~5.20%
Expected return rate on plan assets	1.25%~3.00%	1.75%~4.10%
Future salary increase rate	1.80%~6.00%	1.80%~8.00%

The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## vii. Experience adjustments based on historical information

	December 31, 2014	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligations	\$ 2,056,189	1,995,552	2,316,364	2,189,336
Fair value of plan assets	<u>(1,051,029)</u>	<u>(1,128,400)</u>	<u>(1,312,329)</u>	<u>(1,347,962)</u>
Liabilities for defined benefit plans	<u>\$ 1,005,160</u>	<u>867,152</u>	<u>1,004,035</u>	<u>841,374</u>
Experience adjustments arising from present value of defined benefit obligations	<u>\$ (45,299)</u>	<u>(110,097)</u>	<u>(12,304)</u>	<u>-</u>
Experience adjustments arising from fair value of plan assets	<u>\$ 20,291</u>	<u>(32,126)</u>	<u>(47,438)</u>	<u>-</u>
	December 31, 2014	December 31, 2013	December 31, 2012	January 1, 2012
Present value of defined benefit obligations	\$ 32,488	34,320	30,090	30,606
Fair value of plan assets	<u>(71,121)</u>	<u>(68,780)</u>	<u>(67,909)</u>	<u>(67,259)</u>
Assets for defined benefit plans	<u>\$ (38,633)</u>	<u>(34,460)</u>	<u>(37,819)</u>	<u>(36,653)</u>
Experience adjustments arising from present value of defined benefit obligations	<u>\$ (10,644)</u>	<u>1,478</u>	<u>(358)</u>	<u>-</u>
Experience adjustments arising from fair value of plan assets	<u>\$ (966)</u>	<u>(319)</u>	<u>(694)</u>	<u>-</u>

The Group expects to contribute \$152,501 to the defined benefit plans in the year following December 31, 2014.

viii. When calculating the present value of the defined benefit obligations, the Group uses judgments and estimations to determine the actuarial assumptions for each measurement date, including discount rates and future salary changes. Any changes in the actuarial assumptions may significantly impact the amount of the defined benefit obligations.

As of December 31, 2014, the Group's accrued pension liabilities and prepaid pension were \$1,005,160 and \$38,633, respectively. If the discount rate had increased or decreased by 0.25%, the Group's accrued pension liabilities would have decreased by \$73,901 or increased by \$109,925, respectively, while the Group's prepaid pension would have increased by \$1,168 or decreased by \$1,222, respectively. If the salary adjustment rate had increased or decreased by 0.25%, the Group's accrued pension liabilities would have increased by \$66,066 or decreased by \$53,935, respectively, while the Group's prepaid pension would have decreased by \$1,188 or increased by \$1,189, respectively.

## (b) Defined contribution plans

The Company and its domestic subsidiaries contribute monthly an amount equal to 6% of each employee's monthly wages to the employee's individual pension fund account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Group has no legal or constructive obligation to pay additional amounts after contributing a fixed amount to the Bureau of Labor Insurance. Foreign subsidiaries make contributions in compliance with their respective local regulations.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

For the years ended December 31, 2014 and 2013, the Group recognized pension expenses of \$389,109 and \$425,390, respectively, in relation to the defined contribution plans.

## (17) Income taxes

- (a) Income tax returns of the Group are filed individually by each entity and not on a combined basis. The Company and its subsidiaries incorporated in the R.O.C. are subject to R.O.C. income tax at a rate of 17% for the years 2014 and 2013. Foreign subsidiaries calculated income tax in accordance with their respective local tax law and regulations. The components of income tax expense (benefit) for the years ended December 31, 2014 and 2013, were as follows:

	2014	2013
Current income tax expense (benefit)		
Current period	\$ 525,688	560,290
Adjustments for prior years	<u>(35,881)</u>	<u>(1,374,100)</u>
	<u>489,807</u>	<u>(813,810)</u>
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	808,819	(4,452,029)
Change in unrecognized deductible temporary differences and tax losses	<u>(474,791)</u>	<u>4,721,452</u>
	<u>334,028</u>	<u>269,423</u>
Income tax expense (benefit)	<u>\$ <b>823,835</b></u>	<u><b>(544,387)</b></u>

In 2014 and 2013, the components of income tax recognized in other comprehensive income were as follows:

	2014	2013
Exchange differences on translation of foreign operations	\$ (375)	(1,745)
Actuarial losses arising from defined benefit plans	<u>2,607</u>	<u>12,895</u>
	<u>\$ <b>2,232</b></u>	<u><b>11,150</b></u>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Reconciliation of the expected income tax expense (benefit) calculated based on the R.O.C. statutory tax rate compared with the actual income tax expense (benefit) as reported in the consolidated statements of comprehensive income for 2014 and 2013 was as follows:

	2014	2013
Income (losses) before taxes	\$ <u>2,614,419</u>	<u>(21,063,736)</u>
Income tax using the Company's statutory tax rate	\$ 444,451	(3,580,835)
Effect of tax rates in foreign jurisdictions	815,445	(2,383,670)
Adjustments for prior-year income tax expense	(35,881)	(1,374,100)
Impairment loss on intangible assets	-	1,451,155
Taxable loss not qualified to be carried forward	149,582	155,447
Change in unrecognized temporary differences and tax losses	(474,791)	4,721,452
Others	<u>(74,971)</u>	<u>466,164</u>
	\$ <u><u>823,835</u></u>	<u><u>(544,387)</u></u>

## (b) Deferred income tax assets and liabilities

## i. Unrecognized deferred income tax assets

	December 31, 2014	December 31, 2013
Deductible temporary differences	\$ 6,951,267	6,809,547
Tax losses	<u>7,450,099</u>	<u>8,066,610</u>
	\$ <u><u>14,401,366</u></u>	<u><u>14,876,157</u></u>

The tax benefits from tax losses that each entity in the Group is entitled to in accordance with the respective local tax regulations of each jurisdiction were not recognized as deferred income tax assets as management believed that it is not probable that future taxable profits will be available against which the Group can utilize the benefits therefrom.

As of December 31, 2014, the unrecognized tax losses and the respective expiry years were as follows:

<u>Tax effects of tax losses</u>	<u>Year of expiry</u>
\$ 115,426	2015
96,485	2016
87,478	2017
114,341	2018
<u>7,036,369</u>	2019 and thereafter
\$ <u><u>7,450,099</u></u>	

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## ii. Unrecognized deferred income tax liabilities

	December 31, 2014	December 31, 2013
Net profits associated with investments in subsidiaries	\$ <u>4,615,822</u>	<u>4,878,965</u>

The Company is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries. As management believed that it is probable that the temporary differences will not reverse in the foreseeable future, such temporary differences were not recognized as deferred income tax liabilities.

## iii. Recognized deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities for 2014 and 2013 were as follows:

## Deferred income tax assets:

	Property, plant and equipment	Inventory	Accrual expense and provisions	Unused loss carryforwards	Others	Total
Balance at January 1, 2014	\$ 3,280	341,964	910,916	519,838	127,885	1,903,883
Recognized in profit or loss	(966)	(130,708)	(450,002)	(284,012)	(24,835)	(890,523)
Recognized in other comprehensive income	-	-	-	-	5,204	5,204
Balance at December 31, 2014	\$ <u>2,314</u>	<u>211,256</u>	<u>460,914</u>	<u>235,826</u>	<u>108,254</u>	<u>1,018,564</u>
	Property, plant and equipment	Inventory	Accrual expense and provisions	Unused loss carryforwards	Others	Total
Balance at January 1, 2013	\$ 279,948	438,122	1,391,331	693,116	522,439	3,324,956
Recognized in profit or loss	(276,668)	(96,158)	(480,415)	(173,278)	(380,132)	(1,406,651)
Recognized in other comprehensive income	-	-	-	-	(14,422)	(14,422)
Balance at December 31, 2013	\$ <u>3,280</u>	<u>341,964</u>	<u>910,916</u>	<u>519,838</u>	<u>127,885</u>	<u>1,903,883</u>

## Deferred income tax liabilities:

	Unremitted earnings from subsidiaries	Unrealized foreign exchange gain and unrealized gain on valuation of financial instruments	Intangible assets	Others	Total
Balance at January 1, 2014	\$ 250,899	2,683	1,624,772	67,989	1,946,343
Recognized in profit or loss	263,148	2,592	(757,672)	(64,563)	(556,495)
Recognized in other comprehensive income	-	-	-	7,436	7,436
Balance at December 31, 2014	\$ <u>514,047</u>	<u>5,275</u>	<u>867,100</u>	<u>10,862</u>	<u>1,397,284</u>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	Unremitted earnings from subsidiaries	Unrealized foreign exchange gain and unrealized gain on valuation of financial instruments	Intangible assets	Others	Total
Balance at January 1, 2013	\$ 1,172,970	129,130	1,767,605	17,138	3,086,843
Recognized in profit or loss	(922,071)	(126,447)	(142,833)	54,123	(1,137,228)
Recognized in other comprehensive income	-	-	-	(3,272)	(3,272)
Balance at December 31, 2013	\$ <u>250,899</u>	<u>2,683</u>	<u>1,624,772</u>	<u>67,989</u>	<u>1,946,343</u>

(c) The Company's income tax returns for the years through 2011 were examined and approved by the R.O.C. income tax authorities.

(d) Information about the integrated income tax system

	December 31, 2014	December 31, 2013
Unappropriated earnings earned commencing from January 1, 1998	\$ <u>931,664</u>	<u>(24,464,794)</u>
Balance of imputation credit account	\$ <u>1,729,097</u>	<u>1,538,555</u>
	2014 (estimated)	2013 (actual)
Creditable ratio for distribution of earnings to R.O.C. residents	<u>20.48%</u>	<u>-</u>

Effective January 1, 2015, the creditable ratio for distribution of earnings to R.O.C. residents will be half of the original creditable ratio mentioned above in accordance with the amended Income Tax Act.

(18) Capital and other equity

(a) Common stock

During their meeting on June 18, 2014, the Company's shareholders resolved to issue 50,000,000 restricted shares of stock to employees in one tranche or in installments within one year following the date of receipt of approval from the government authorities. As of December 31, 2014, the Company has issued 17,460,000 restricted shares of stock to employees. The effective date of the capital increase was August 26, 2014, and the related registration process has been completed.

The Board of Directors approved a resolution to issue 300,000,000 shares of common stock for cash at a price of \$18 (dollars) per share on August 7 and December 23, 2014. The cash injection has been approved by the government authorities, and the effective date of capital increase is January 11, 2015.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

As of December 31, 2014 and 2013, the Company's authorized shares of common stock consisted of 3,500,000,000 shares, of which 2,796,567,828 shares and 2,834,726,828 shares, respectively, were issued and outstanding. The par value of the Company's common stock is \$10 (dollars) per share. All issued shares were paid up upon issuance.

As of December 31, 2014 and 2013, the Company had issued 6,862 thousand units and 6,775 thousand units, respectively, of global depository receipts (GDRs). The GDRs were listed on the London Stock Exchange, and each GDR represents five common shares.

The movements in outstanding common shares of stock in 2014 and 2013 were as follows (in thousands of shares):

	<b>Ordinary Shares</b>	
	<b>2014</b>	<b>2013</b>
Balance at January 1 and December 31	<u><u>2,722,362</u></u>	<u><u>2,722,362</u></u>
(b) Capital surplus		
	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Share premium:		
Paid-in capital in excess of par value	\$ 13,904,632	13,937,133
Surplus from mergers	19,538,716	22,781,719
Premium on common stock issued from conversion of convertible bonds	-	4,552,585
Forfeited interest from conversion of convertible bonds	-	1,006,210
Surplus related to treasury stock transactions and cash dividends	-	760,447
Others:		
Employee share options	90,000	241,127
Surplus from equity-method investments	167,674	167,506
Conversion right of convertible bonds (note 6(13))	261,000	261,000
Restricted shares of stock to employees	136,374	-
	<u><u>\$ 34,098,396</u></u>	<u><u>43,707,727</u></u>

Pursuant to the Company Act, any realized capital surplus is initially used to cover accumulated deficit, and the balance, if any, could be transferred to common stock as stock dividends based on the original shareholding ratio or distributed by cash based on a resolution approved by the stockholders. Realized capital surplus includes the premium derived from the issuance of shares of stock in excess of par value and donations received by the Company. In accordance with the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers", distribution of stock dividends from capital surplus in any one year shall not exceed 10% of paid-in capital.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(c) Legal reserve, special reserve, and dividend policy**

The Company's articles of incorporation stipulate that at least 10% of annual net income after deducting accumulated deficit, if any, must be retained as legal reserve until such retention equals the amount of paid-in capital. In addition, a special reserve shall be set aside in accordance with applicable laws and regulations. The remaining balance of annual net income, if any, can be distributed as follows:

- i. At least 5% as employee bonuses; employees entitled to a stock bonus may include subsidiaries' employees that meet certain criteria set by the Board of Directors;
- ii. 1% or lower as remuneration to directors; the distribution is proposed by the compensation committee and approved by the Board of Directors;
- iii. The remaining balance, together with unappropriated earnings from previous years, after retaining a certain portion for business considerations, as dividends to stockholders; except for the distribution of earnings made from capital surplus and legal reserve, the Company could not distribute earnings when there are no retained earnings.

According to the Company's article of incorporation, regardless of operating profit or loss, the remuneration for directors is determined based on their involvement and contribution to the Company and considering industry practice. The amount is proposed by the compensation committee and approved by the Board of Directors. Additionally, when the Company makes profits, directors are entitled to the aforementioned earnings distribution.

Since the Company operates in an industry experiencing rapid change and development, earnings are distributed in consideration of the current year's earnings, the overall economic environment, related laws and decrees, and the Company's long-term development and stability in its financial position. The Company has adopted a stable dividend policy, in which a cash dividend comprises at least 10% of the total dividend distribution.

Additionally, according to the Company Act, a company shall first retain 10% of its income after taxes as legal reserve until such retention equals the amount of paid-in capital. If a company has no accumulated deficit, it may, pursuant to a resolution approved by the stockholders, distribute its legal reserve by issuing new shares or distributing cash for the portion of legal reserve which exceeds 25% of the paid-in capital.

In accordance with Ruling No. 1010047490 issued by the FSC on November 21, 2012, a special reserve shall be retained at an amount equal to the proportionate share of the carrying value of the treasury stock held by subsidiaries in excess of the market value at the reporting date. The special reserve may be reversed when the market value recovers in subsequent periods.

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**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a special reserve equal to the total amount of items that are accounted for as deductions from stockholders' equity shall be set aside from current and prior-year earnings. This special reserve shall revert to retained earnings and be made available for distribution when the items that are accounted for as deductions from stockholders' equity are reversed in subsequent periods.

iv. Earnings distribution

During their meeting on June 18, 2014, the Company's shareholders decided not to distribute earnings for 2014 as the Company incurred a net loss in 2013 and approved a decrease in legal reserve of \$10,012,168, in special reserve of \$3,460,642, and in capital surplus of \$8,325,852 to offset accumulated deficit. During their meeting on June 19, 2013, the Company's shareholders decided not to distribute earnings for 2012 as the Company incurred a net loss in 2012 and approved a decrease in legal reserve of \$2,595,765 to offset accumulated deficit. Related information about the appropriation of earnings proposed by the Board of Directors and approved by the shareholders is available on the Market Observation Post System website of the Taiwan Stock Exchange.

As the Company had no earnings to distribute for 2014 and incurred a net loss in 2013, no employee bonus or remuneration for directors and supervisors was accrued for the years ended December 31, 2014 and 2013. However, remuneration for directors and supervisors of \$15,990 and \$21,796 was recognized in 2014 and 2013, respectively, regardless of whether or not there were earnings. Related information on the distribution of employee bonus and remuneration for directors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

(d) Treasury stock

In accordance with Article 28-2 of the Securities and Exchange Act, the Company purchased 10,000,000 shares of its own common stock for an aggregate amount of \$271,182 from July to September 2012 in order to retain and motivate employees.

According to Article 28-2 of the Securities and Exchange Act, the Company purchased its own common shares of 55,619,000 shares for an aggregate amount of \$2,868,248 from April to June 2011 in order to maintain its shareholders' equity.

On May 8, 2014, the Board of Directors approved a resolution to retire 28,619,000 shares and 27,000,000 shares of treasury stock for which the effective date of the retirement of treasury stock was May 26 and June 29, 2014, respectively. The related registration process has been completed.

According to the Securities and Exchange Act, treasury stock cannot be collateralized. In addition, treasury shares do not bear shareholder rights prior to being sold to third parties. Moreover, the number of treasury shares shall not exceed 10% of the number of common shares issued. The total amount of treasury stock shall not exceed the sum of retained earnings, paid-in capital in excess of par value, and other realized capital surplus.

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## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

As of December 31, 2014 and 2013, details of the GDRs (for the implementation of an overseas employee stock option plan) held by subsidiary AWI and the Company's common stock held by subsidiaries AWI (to maintain the Company's shareholders' equity), CCI (to maintain the Company's shareholders' equity), and E-Ten (resulting from the acquisition of E-Ten) were as follows (expressed in thousands of shares):

December 31, 2014			
	Number of shares	Carrying amount	Market value
Common stock	21,809	\$ 945,239	465,622
GDRs	24,937	<u>1,969,617</u>	<u>544,972</u>
		<u>\$ 2,914,856</u>	<u>1,010,594</u>

  

December 31, 2013			
	Number of shares	Carrying amount	Market value
Common stock	21,809	\$ 945,239	399,105
GDRs	24,937	<u>1,969,617</u>	<u>480,985</u>
		<u>\$ 2,914,856</u>	<u>880,090</u>

## (e) Other equity items (net after tax)

## i. Foreign currency translation differences:

	2014	2013
Balance at January 1	\$ (262,231)	(2,230,965)
Foreign exchange differences arising from translation of foreign operations	<u>1,446,039</u>	<u>1,968,734</u>
Balance at December 31	<u>\$ 1,183,808</u>	<u>(262,231)</u>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## ii. Unrealized gain (loss) from available-for-sale financial assets:

	<b>2014</b>	<b>2013</b>
Balance at January 1	\$ (1,163,645)	(889,498)
Changes in fair value of available-for-sale financial assets	1,049,440	(46,425)
Net gain on disposal of available-for-sale financial assets reclassified to profit or loss	<u>-</u>	<u>(227,722)</u>
Balance at December 31	<u><u>\$ (114,205)</u></u>	<u><u>(1,163,645)</u></u>

## iii. Cash flow hedge reserve:

	<b>2014</b>	<b>2013</b>
Balance at January 1	\$ -	(402,433)
Change in fair value of cash flow hedges	-	556,883
Net change in fair value of cash flow hedges reclassified to profit or loss	-	(163,943)
Net change in fair value of cash flow hedges reclassified to profit or loss for forecasted transactions which are no longer expected to occur	<u>-</u>	<u>9,493</u>
Balance at December 31	<u><u>\$ -</u></u>	<u><u>-</u></u>

## v. Unearned compensation cost:

	<b>2014</b>	<b>2013</b>
Balance at January 1	\$ -	-
Unearned compensation cost arising from restricted shares of stock issued to employees	<u>(251,710)</u>	<u>-</u>
Balance at December 31	<u><u>\$ (251,710)</u></u>	<u><u>-</u></u>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (19) Share-based payment

As of December 31, 2014, the Group had 3 share-based payment transactions as follows:

	<b>Equity-settled</b>		
	<b>Employee stock option plans (ESOPs) of the Company</b>	<b>Restricted shares of stock issued to employees</b>	<b>Issuance of new shares reserved for employee subscription</b>
Grant date	2011/6/15	2014/8/26	2014/12/23
Number of shares granted (in thousands)	10,000	17,460	30,000
Contract term	3 years	1~4 years	35 days
Qualified employees	Note 1	Employees of the Company conforming to certain requirements	Note 2
Vesting conditions	2 years of service subsequent to grant date	1~4 years of service subsequent to grant date	Nil

Note 1: The options are granted to eligible employees of the Company and its subsidiaries in which the Company, directly or indirectly, owns 50% or more of the subsidiary's voting shares.

Note 2: The options are granted to the full-time employees who are with the Company at the grant date.

## (a) Employee stock option plan

Movements in number of ESOPs outstanding:

	<b>2014</b>	
	<b>The Company's ESOPs</b>	<b>Weighted-average exercise price</b>
	<b>Number of options (in thousands)</b>	<b>(in New Taiwan dollars)</b>
Outstanding, beginning of year	9,354	\$25.99
Granted	-	-
Forfeited	(9,354)	-
Exercised	-	-
Outstanding, end of year	-	-
Exercisable, end of year	-	-

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	2013			
	<u>The Company's ESOPs</u>		<u>E-Ten's ESOPs</u>	
		Weighted-average exercise price		Weighted-average exercise price
	Number of options (in thousands)	(in New Taiwan dollars)	Number of options (in thousands of units)	(in New Taiwan dollars)
Outstanding, beginning of year	14,000	\$31.43	1,758	\$38.30
Granted	-	-	-	-
Forfeited	(4,646)	-	(1,758)	-
Exercised	-	-	-	-
Outstanding, end of year	<u>9,354</u>	25.99	<u>-</u>	-
Exercisable, end of year	<u>9,354</u>	25.99	<u>-</u>	-

Information on outstanding ESOPs for each reporting date was as follows:

	December 31, 2013			
Year of grant	Number outstanding (in thousands)	Weighted-average remaining contractual years	Weighted-average exercise price (in New Taiwan dollars)	Number exercisable (in thousands)
2011	<u>9,354</u>	0.46	25.99	<u>9,354</u>

For the year ended December 31, 2013, the compensation costs recognized for the aforementioned ESOPs amounted to \$43,194, recorded under operating expenses.

(b) Restricted shares of stock issued to employees

During their meeting on June 18, 2014, the Company's shareholders approved a resolution to issue 50,000,000 restricted shares of stock to full-time employees who conformed to certain requirements in one tranche or in installments within one year following the date of receipt of approval from the government authorities. The Company has received approval from the Securities and Futures Bureau of the FSC.

On August 26, 2014, the Board of Directors approved a resolution to issue 17,460,000 restricted shares of stock to employees, and the effective date of capital increase was set on the same date. The employees who were granted restricted shares of stock are entitled to purchase the restricted shares of stock at the exercise price of \$0. The vesting period of the restricted shares of stock is 1~4 years subsequent to the grant date, and the restricted shares of stock will be vested from 0% to 25% considering the Company's and individual employee's performance conditions. The restricted shares of stock received by the employees shall be deposited and held in an escrow account and could not be sold, pledged, transferred, gifted, or disposed of in any other forms during the vesting period; nevertheless, the rights of

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

a shareholder (such as voting and election at the shareholders' meeting) are the same as the rights of the Company's shareholders but are executed by the custodian. During the vesting period, the restricted shares of stock are entitled to any earnings distribution. The Company will take back the restricted shares of stock from employees and retire those shares when the vesting conditions are not met by the employees.

Movements in number of restricted shares of stock issued (in thousands):

	2014	2013
Issued, beginning of the year	-	-
Granted	17,460	-
Forfeited	(240)	-
Issued, end of the year	<u>17,220</u>	<u>-</u>

The fair value of the restricted shares of stock was \$24.15 (in New Taiwan dollars) per share, which was determined by reference to the closing price of the Company's common stock traded on the Taiwan Stock Exchange at the grant date. For the year ended December 31, 2014, the compensation cost for the restricted shares of stock amounted to \$59,264, recognized as operating expenses.

(c) Issuance of new shares reserved for employee subscription

On August 7 and December 23, 2014, the Board of Directors approved a resolution to issue 300,000,000 shares of common stock, of which 30,000,000 shares were reserved for employees to subscribe. The Company utilized the Black-Scholes pricing model to calculate the fair value of the share-based transactions at the grant date. The assumptions adopted in the valuation model were as follows:

Expected volatility	29.23%
Expected contractual life	35 days
Risk-free interest rate	0.88%
Market price for underlying common stock at the grant date (in New Taiwan dollars)	\$21
Exercise price per share (in New Taiwan dollars)	\$18

The expected volatility is calculated based on the weighted average of historical volatility, while the expected contractual life of the option is determined by the contract term. The risk-free interest rate refers to the interest rate on one-month time deposits offered by Bank of Taiwan. Performance conditions and non-market conditions were excluded from the determination of fair value.

For the year ended December 31, 2014, the compensation cost arising from issuance of new shares reserved for employee subscription amounted to \$90,000, recognized as operating expenses.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

On January 12, 2012, the Group completed the acquisition of 100% equity ownership of iGware Inc.. In order to retain the Restricted Stock Units issued by iGware Inc. to its employee shareholders, the Company paid cash of US\$18,144 and issued 11,517,053 shares of its common stock to the employee shareholders of iGware Inc. pursuant to the terms of the purchase agreement. Such cash shall be vested and common shares shall be transferred without restrictions when the employee shareholders have rendered services for a vesting period of 5 to 45 months and achieved certain performance conditions. During the vesting period, the cash and common shares were deposited and held in an escrow account; however, the employee shareholders still have the right to vote and receive earnings distributions. When the employee shareholders leave Acer Cloud Technology Inc., the unvested common shares held in the escrow account are forfeited and converted into cash. The cash, together with the cash deposited in the escrow account, if any, will be allocated to the other shareholders of iGware Inc. based on the original ownership percentage prior to the acquisition. The fair value of common shares issued was based on the closing price of the Company on January 12, 2012. As of the acquisition date, the unvested common stock and cash amounting to \$797,418 were recognized as deferred compensation costs in the consolidated balance sheet, and amortized over the vesting period into operating expense. For the years ended December 31, 2014 and 2013, the related compensation costs recognized amounted to \$201,021 and \$263,403, respectively.

## (20) Earnings (losses) per share ("EPS")

## (a) Basic earnings (losses) per share

The basic earnings (losses) per share were calculated as the earnings (losses) attributable to the shareholders of the Company divided by the weighted-average number of ordinary shares outstanding as follows:

	2014	2013
Net income (losses) attributable to the shareholders of the Company	\$ <u>1,790,690</u>	<u>(20,519,428)</u>
Weighted-average number of ordinary shares outstanding (in thousands)	<u>2,722,362</u>	<u>2,722,362</u>
Basic earnings (losses) per share (in New Taiwan dollars)	\$ <u><u>0.66</u></u>	<u><u>(7.54)</u></u>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (b) Diluted earnings (losses) per share

	2014	2013
Net income (losses) attributable to the shareholders of the Company	\$ 1,790,690	(20,519,428)
Effect of dilutive potential common stock:		
Interest expense from convertible bonds, net of tax	<u>70,942</u>	<u>-</u>
Net income (losses) attributable to the shareholders of the Company (including effect of dilutive potential common stock)	\$ <u><b>1,861,632</b></u>	<u><b>(20,519,428)</b></u>
Weighted-average number of ordinary shares outstanding (in thousands of shares)	2,722,362	2,722,362
Effect of dilutive potential common stock:		
Restricted shares of stock issued to employees	5,780	-
Domestic convertible bonds	<u>233,281</u>	<u>-</u>
Weighted-average shares of common stock outstanding (including effect of dilutive potential common stock)	<u><b>2,961,423</b></u>	<u><b>2,722,362</b></u>
Diluted earnings (losses) per share (in New Taiwan dollars)	\$ <u><b>0.63</b></u>	<u><b>(7.54)</b></u>

When the Company incurs a net loss or the potential common stock arising from convertible bonds and employee stock options has an anti-dilutive effect, convertible bonds and employee stock options are not included in the calculation of diluted EPS.

## (21) Revenue

	2014	2013
Revenue from sale of goods	\$ 316,476,644	351,619,000
Revenue from services rendered	4,946,292	5,233,600
Others	<u>8,261,335</u>	<u>3,279,442</u>
	\$ <u><b>329,684,271</b></u>	<u><b>360,132,042</b></u>

## (22) Other expenses

	2014	2013
Restructuring costs (note 6(14))	\$ -	1,019,641
Tax penalty	<u>-</u>	<u>273,582</u>
	\$ <u><b>-</b></u>	<u><b>1,293,223</b></u>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (23) Other operating income and loss – net

	2014	2013
Rental income (note 6(15))	\$ 154,191	146,343
Government grants	<u>178,568</u>	<u>88,165</u>
	<u><u>\$ 332,759</u></u>	<u><u>234,508</u></u>

## (24) Non-operating income and loss

## (a) Other income

	2014	2013
Interest income	\$ 283,592	324,821
Dividend income	<u>131,140</u>	<u>205,303</u>
	<u><u>\$ 414,732</u></u>	<u><u>530,124</u></u>

## (b) Other gains and losses

	2014	2013
Foreign currency exchange loss	\$ (3,642,695)	(447,456)
Gain on financial assets and liabilities at fair value through profit or loss	3,502,725	311,208
Gain (loss) on hedging instruments – fair value hedge	(12,161)	37,600
Net change in fair value of cash flow hedges reclassified from equity	-	163,943
Net change in fair value of cash flow hedges reclassified from equity – for the forecast transactions which are no longer expected to occur	-	(9,493)
Gain on disposal of available-for-sale financial assets	-	227,722
Gain on disposal of property, plant and equipment and investment property, net	65,727	105,317
Loss on purchase and redemption of bonds payable	-	(73,972)
Loss on disposal of investments in subsidiaries	(13,291)	-
Gain on disposal of investments accounted for using equity method	41,495	-
Other investment gain (loss)	(7,131)	355,620
Others	<u>82,930</u>	<u>137,593</u>
	<u><u>\$ 17,599</u></u>	<u><u>808,082</u></u>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (c) Finance costs

	2014	2013
Interest expense from convertible bonds (note 6(13))	\$ 340,524	494,960
Interest expense from bank loans	265,775	341,049
Others	<u>44,907</u>	<u>73,467</u>
	<b>\$ <u>651,206</u></b>	<b><u>909,476</u></b>

## (25) Financial instruments

## (a) Categories of financial instruments

## i. Financial assets

	December 31, 2014	December 31, 2013
Financial assets at fair value through profit or loss	\$ 1,899,626	246,295
Hedging derivative financial assets	-	12,161
Available-for-sale financial assets	4,006,286	3,023,464
Loans and receivables:		
Cash and cash equivalents	47,558,651	42,983,663
Notes and accounts receivable and other receivables (including related parties)	60,453,208	63,805,460
Other financial assets – non-current	<u>1,162,526</u>	<u>1,165,811</u>
	<b>\$ <u>115,080,297</u></b>	<b><u>111,236,854</u></b>

## ii. Financial liabilities

	December 31, 2014	December 31, 2013
Financial liabilities at fair value through profit or loss	\$ 624,227	971,568
Financial liabilities measured at amortized cost:		
Short-term borrowings	317,000	389,989
Accounts payable and other payables (including related parties)	93,627,646	93,837,561
Bonds payable (including current portion)	9,515,255	8,974,513
Long-term debt (including current portion)	<u>7,200,000</u>	<u>9,000,000</u>
	<b>\$ <u>111,284,128</u></b>	<b><u>113,173,631</u></b>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (b) Fair value of financial instruments measured at amortized cost

Except for those described in the table below, the Group considers the carrying amounts of financial assets and financial liabilities measured at amortized cost approximate their fair values:

	December 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Bonds payable (including current portion)	\$ 9,515,255	9,709,282	8,974,513	9,317,672

## (c) Fair value hierarchy

The table below analyzes financial instruments that are measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The different levels have been defined as follows:

- i. Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- ii. Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- iii. Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
<b>December 31, 2014</b>				
Available-for-sale financial assets	\$ 3,264,003	-	742,283	4,006,286
Derivative financial assets	-	1,899,626	-	1,899,626
	<u>\$ 3,264,003</u>	<u>1,899,626</u>	<u>742,283</u>	<u>5,905,912</u>
Derivative financial liabilities	\$ -	(624,227)	-	(624,227)
<b>December 31, 2013</b>				
Available-for-sale financial assets	\$ 2,388,686	-	634,778	3,023,464
Derivative financial assets	-	258,456	-	258,456
	<u>\$ 2,388,686</u>	<u>258,456</u>	<u>634,778</u>	<u>3,281,920</u>
Derivative financial liabilities	\$ -	(971,568)	-	(971,568)

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

There were no transfers between fair value levels for the years ended December 31, 2014 and 2013.

## (d) Movement in financial assets included in Level 3 of fair value hierarchy

	2014	2013
Balance at January 1	\$ 634,778	717,137
Total gains or losses:		
Recognized in other comprehensive income	109,369	58,465
Additions	70,000	-
Disposal	(80,109)	(147,743)
Effect of exchange rate changes	8,245	6,919
Balance at December 31	<u>\$ 742,283</u>	<u>634,778</u>

## (e) Valuation techniques and assumptions used in fair value measurement

The Group uses the following methods in determining the fair value of its financial assets and liabilities:

- i. The fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (e.g. publicly traded stocks).
- ii. The fair value of derivative financial instruments is determined using a valuation technique, with estimates and assumptions consistent with those used by market participants and that are readily available to the Group. The fair value of foreign currency forward contracts is computed individually based on the maturity date, the spot rate, and the swap points using quotes provided by Bloomberg.
- iii. The fair value of privately held stock is estimated by using the market approach and is determined by reference to recent financing activities, valuations of similar companies, market conditions, and other economic indicators.
- iv. The fair value of overseas convertible bonds payable is estimated based on the 4-Factor Quad Tree Approach, which considers the expected volatility and risk-free interest rate; the fair value of domestic convertible bonds payable is estimated based on the Binominal Tree Approach.

## (26) Financial risk management

The Group is exposed to credit risk, liquidity risk, and market risk (including currency risk, interest rate risk, and other market price risk). The Group has disclosed the information on exposure to the aforementioned risks and the Group's policies and procedures to measure and manage those risks as well as the quantitative information below.

(Continued)

**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The Board of Directors is responsible for developing and monitoring the Group's risk management policies. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor adherence to the controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's operations.

The Group's management monitors and reviews the financial activities in accordance with procedures required by relevant regulations and internal controls. Internal auditors undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty of a financial instrument fails to meet its contractual obligations, and arises principally from the Group's cash and cash equivalents, derivative instruments, receivables from customers, and other receivables. The maximum exposure to credit risk is equal to the carrying amount of the Group's financial assets.

The Group maintains cash and enters into derivative transactions with reputable financial institutions; therefore, the exposure related to the potential default by those counter-parties is not considered significant.

The Group has established a credit policy under which each customer is analyzed individually for creditworthiness for purposes of setting the credit limit. Additionally, Group continuously evaluates the credit quality of customers and utilizes insurance to minimize the credit risk.

The Group primarily sells and markets its multi-branded IT products through distributors in different geographic areas. The Group believes that there is no significant concentration of credit risk due to the Group's large number of customers and their wide geographical spread.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in settling its financial liabilities by delivering cash or another financial asset. The Group manages liquidity risk by monitoring regularly the current and mid- to long-term cash demand, maintaining adequate cash and banking facilities, and ensuring compliance with the terms of the loan agreements. As of December 31, 2014 and 2013, the Group had unused credit facilities of \$39,481,766 and \$38,403,312, respectively.

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## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including principal and interest.

	Contractual cash flows	Within 1 year	1-2 years	2-5 years
<b>December 31, 2014</b>				
Non-derivative financial liabilities:				
Short-term borrowings carrying floating interest rates	\$ 317,216	317,216	-	-
Bonds payable with fixed interest rates	9,773,177	3,773,177	6,000,000	-
Long-term borrowings carrying floating interest rates	7,338,112	3,638,364	3,699,748	-
Accounts payable (including related party)	54,838,373	54,838,373	-	-
Other payables (including related party)	<u>38,789,273</u>	<u>38,717,346</u>	<u>70,023</u>	<u>1,904</u>
	<b>\$ <u>111,056,151</u></b>	<b><u>101,284,476</u></b>	<b><u>9,769,771</u></b>	<b><u>1,904</u></b>
Derivative financial instruments:				
Foreign currency forward contracts — settled in gross:				
Outflow	\$ 78,940,401	78,940,401	-	-
Inflow	<u>(80,702,056)</u>	<u>(80,702,056)</u>	<u>-</u>	<u>-</u>
	<b>\$ <u>(1,761,655)</u></b>	<b><u>(1,761,655)</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>December 31, 2013</b>				
Non-derivative financial liabilities:				
Short-term borrowings carried floating interest rates	\$ 390,064	390,064	-	-
Bonds payable with fixed interest rates	9,562,855	-	3,562,855	6,000,000
Long-term borrowings carried floating interest rates	9,267,570	1,824,973	3,692,758	3,749,839
Accounts payables (including related party)	55,218,026	55,218,026	-	-
Other payables (including related party)	<u>38,619,535</u>	<u>37,020,443</u>	<u>1,599,092</u>	<u>-</u>
	<b>\$ <u>113,058,050</u></b>	<b><u>94,453,506</u></b>	<b><u>8,854,705</u></b>	<b><u>9,749,839</u></b>
Derivative financial instruments:				
Foreign currency forward contracts — settled in gross:				
Outflow	\$ 76,440,473	76,440,473	-	-
Inflow	<u>(76,078,207)</u>	<u>(76,078,207)</u>	<u>-</u>	<u>-</u>
	<b>\$ <u>362,266</u></b>	<b><u>362,266</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

The Group does not expect that the cash flows included in the maturity analysis would occur significantly earlier or at significantly different amounts.

## (c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity prices, will affect the Group's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Group utilizes derivative financial instruments to manage foreign currency risks and the volatility of profit or loss. All such transactions are carried out within the guidelines set by the Board of Directors.

## i. Foreign currency risk

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of the Group entities. The foreign currencies used in these transactions are mainly the US dollar (USD) and Euro (EUR).

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The Group utilizes foreign currency forward contracts to hedge its foreign currency exposure with respect to its forecast sales and purchases over the following 12 months.

## i) Exposure to foreign currency risk and sensitivity analysis

The Group's exposure to foreign currency risk arises from cash and cash equivalents, notes and accounts receivable (including related-party transactions), notes and accounts payable (including related-party transactions), other receivables (including related-party transactions), other payables (including related-party transactions), loans and borrowings, and overseas convertible bonds that are denominated in a currency other than the respective functional currencies of the Group entities. At the reporting date, the carrying amounts of the Group's significant monetary assets and liabilities denominated in a currency other than the respective functional currencies of Group entities were as follows (including the monetary items that have been eliminated in the accompanying consolidated financial statements):

December 31, 2014					
	Foreign currency (in thousands)	Exchange rate	NTD (in thousands)	Change in magnitude	Pre-tax effect on profit or loss (in thousands)
<u>Financial assets</u>					
EUR	28,886	38.3724	1,108,426	1%	11,084
USD	1,720,697	31.7180	54,577,067	1%	545,771
<u>Financial liabilities</u>					
EUR	22,295	38.3724	855,513	1%	8,555
USD	2,556,850	31.7180	81,098,176	1%	810,982

  

December 31, 2013					
	Foreign currency (in thousands)	Exchange rate	NTD (in thousands)	Change in magnitude	Pre-tax effect on profit or loss (in thousands)
<u>Financial assets</u>					
EUR	48,604	41.1603	2,000,555	1%	20,006
USD	1,524,321	29.9500	45,653,414	1%	456,534
<u>Financial liabilities</u>					
EUR	18,647	41.1603	767,516	1%	7,675
USD	2,699,280	29.9500	80,843,436	1%	808,434

(Continued)

**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## ii. Interest rate risk

The Group's short-term borrowings and long-term debt carried floating interest rates, and the Group has not entered into interest rate swap contracts to convert floating interest rates to fixed interest rates. To manage the interest rate risk, the Group periodically assesses the interest rates of bank loans and maintains good relationships with financial institutions to obtain lower financing costs. The Group also strengthens the management of working capital to reduce the dependence on bank loans as well as the risk arising from fluctuation of interest rates.

The following sensitivity analysis is based on the risk exposure to floating-interest-rate liabilities on the reporting date. The sensitivity analysis assumes the liabilities recorded at the reporting date had been outstanding for the entire period. The change in interest rate reported to the key management in the Group is based on 100 basis points (1%), which is consistent with the assessment made by the key management in respect of the possible change in interest rate.

If the interest rate had been 100 basis points (1%) higher/lower with all other variables held constant, pre-tax loss for the years ended December 31, 2014 and 2013, would have been \$75,170 and \$93,900, respectively, higher/lower, which mainly resulted from the borrowings with floating interest rates.

## iii. Other market price risk

The Group is exposed to the risk of price fluctuation in the securities market due to the investment in publicly traded stocks. The Group supervises the equity price risk actively and manages the risk based on fair value. The Group also has strategic investments in privately held stocks, which the Group does not actively participate in trading.

Assuming a hypothetical increase or decrease of 5% in equity prices of the equity investments at each reporting date, the other comprehensive income for the years ended December 31, 2014 and 2013, would have increased or decreased by \$200,314 and \$151,173, respectively.

## (27) Capital management

In consideration of the industry dynamics and future developments, as well as external environment factors, the Group maintains an optimal capital structure to enhance long-term shareholder value by managing its capital in a manner to ensure that it has sufficient and necessary financial resources to fund its working capital needs, research and development activities, dividend payments, and other business requirements for continuing operations and to reward shareholders and take into consideration the interests of other stakeholders. The Group monitors its capital through reviewing the financial ratios periodically.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The Group's equity ratio at the end of each reporting period was as follows:

	December 31, 2014	December 31, 2013
Total equity (excluding non-controlling interests)	\$ <u>60,627,593</u>	<u>56,248,981</u>
Total assets	\$ <u>191,095,037</u>	<u>190,499,710</u>
Equity percentage	<u>31.73%</u>	<u>29.53%</u>

As of December 31, 2014, there were no changes in the Group's approach to capital management.

## 7. Related-party Transactions

### (1) Parent company and ultimate controlling party

The Company is the ultimate controlling party of the Group. Intercompany balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated upon consolidation and are not disclosed in this note. The following is a summary of transactions between the Group and other related parties.

### (2) Significant related-party transactions

#### (a) Revenue

	2014	2013
Associates	\$ <u>244,109</u>	<u>276,705</u>

The sales prices and payment terms for related parties were not significantly different from those for sales to non-related parties.

#### (b) Purchases

	2014	2013
Associates	\$ <u>101,567</u>	<u>82,942</u>

The trading terms with related parties are not comparable to the trading terms with third-party vendors as the specifications of products are different.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (c) Operating expenses

The operating expenses related to the management consulting service provided by related parties were as follows:

		<b>2014</b>	<b>2013</b>
Associates	\$	<u><u>20,000</u></u>	<u><u>20,417</u></u>

## (d) Receivables

<b>Account</b>	<b>Related party category</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Accounts receivable	Associates	\$ 23,836	22,602
Notes receivable	Associates	1	110
Other receivables	Associates	<u>9</u>	<u>17</u>
		<b>\$ <u><u>23,846</u></u></b>	<b><u><u>22,729</u></u></b>

## (e) Payables

<b>Account</b>	<b>Related party category</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Accounts payable	Associates	\$ 13,961	665
Other payables	Associates	<u>788</u>	<u>656</u>
		<b>\$ <u><u>14,749</u></u></b>	<b><u><u>1,321</u></u></b>

## (f) Others

<b>Account</b>	<b>Related party category</b>	<b>December 31, 2014</b>	<b>December 31, 2013</b>
Advertising expense payable (accounted for as "other current liabilities")	Associates	<b>\$ <u><u>139,392</u></u></b>	<b><u><u>131,622</u></u></b>

## (3) Compensation for key management personnel

	<b>2014</b>	<b>2013</b>
Short-term employee benefits	\$ 343,971	622,079
Post-employment benefits	70,833	100,722
Other long-term benefits	3,738	35,247
Termination benefits	-	113,131
Share-based payments	<u>13,304</u>	<u>7,961</u>
	<b>\$ <u><u>431,846</u></u></b>	<b><u><u>879,140</u></u></b>

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# ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Refer to note 6(19) for the information related to share-based payments.

### 8. Pledged assets

The carrying amounts of assets pledged as collateral (classified as “other financial assets — non-current”) are detailed below:

Asset	Pledged to secure	December 31, 2014	December 31, 2013
Cash in bank and time deposits	Contract bidding, security for letters of credit, project fulfillment, and lease guarantee	\$ <u>671,904</u>	<u>702,093</u>

### 9. Significant commitments and contingencies

#### (1) Royalties

(a) The Company has entered into patent cross license agreements with International Business Machines Corporation (“IBM”) and Lucent Technologies Inc. (“Lucent”). These license agreements in essence authorize both parties to use each other’s worldwide computer-related patents for manufacturing and selling personal computer products. The Company agrees to make fixed payments periodically to IBM and Lucent, and the Company will not have any additional obligation for the use of IBM and Lucent patents other than the agreed-upon fixed amounts of payments.

(b) The Company has entered into software and royalty license agreements with Microsoft, MPEG-LA, and other companies. The Company has fulfilled its obligations according to the contracts.

(2) Ericsson Inc. and Telefonaktiebolaget LM Ericsson filed patent infringement lawsuits against the Company and its Acer America Corporation and Gateway Inc. subsidiaries which are pending before the United States District Court for the Eastern District of Texas; and Telefonaktiebolaget LM Ericsson filed patent infringement lawsuits against the Company’s Acer Computer GmbH subsidiary, which are pending before the German Regional Court of Mannheim. American and German law firms have been retained to consult with and represent the Group on those matters. For the patent lawsuits in the U.S.A., decisions made by the courts of first instance were in favor of the Company and its subsidiaries and Ericsson Inc., and both parties appealed the decisions. For the patent lawsuits in Germany, one case was suspended, and the final decisions of the other two cases were in favor of Acer Computer GmbH. The Group continues to manage these cases and to receive support from component suppliers. In addition, the Group made a provision to address the matters described above. Therefore, management foresees no immediate material adverse effect on the Group’s business operations and finances.

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## ACER INCORPORATED AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

- (3) Andrea Electronics Corporation filed patent infringement lawsuits against the Company, Acer America Corporation, and other companies regarding audio enhancement technology for PCs with the United States District Court for the Eastern District of New York in mid-2014 and the United States International Trade Commission (ITC) at the beginning of 2015. The Group is being sued because of component suppliers' products. Outside counsel was retained to deal with this case. Management foresees no immediate material adverse effect on the Group's business operations and finance.
- (4) Verwertungsgesellschaft Wort ("VG Wort"), a German language copyright association, has filed several lawsuits against PC companies for copyright levies on the sales of PC products in Germany in recent years. Among these lawsuits, the outcome of litigation brought by VG Wort against Fujitsu, which has been reviewed by the courts for several years, will be a leading case for the PC industry. If the final decision of the aforesaid lawsuit is in favor of VG Wort, it is expected that VG Wort will claim against other PC companies by invoking such decision. Given that the possibility of the courts making contrary decisions in similar cases is extremely remote, the Group has properly accrued provisions based on the aforesaid lawsuit and is keeping an eye on its status. Since the Group has not yet been a party to the lawsuits, management foresees no immediate material adverse effect on the Group's business operations and finance.
- (5) In the ordinary course of its business, from time to time, the Group receives notices from third parties asserting that Acer has infringed certain patents or demanding that Acer obtain certain patent licenses. Although the Group does not expect that the outcome in any of these other legal proceedings, individually or collectively, will have a material adverse effect on the Group's business operations and finance, litigation is inherently unpredictable. Therefore, the Group could incur judgments or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period.
- (6) As of December 31, 2014 and 2013, the Group had outstanding stand-by letters of credit totaling \$326,926 and \$170,686, respectively, for purposes of bids and contracts.
- (7) As of December 31, 2014 and 2013, the Group had issued promissory notes amounting to \$47,758,012 and \$46,976,910, respectively, as collateral for factoring of accounts receivable and for obtaining credit facilities from financial institutions.

**10. Significant loss from Casualty: None.**

**11. Significant subsequent events**

In order to repay bank loans and meet the requests for redemption made by the holders of the 2017 Bonds, the Company issued 300,000,000 new shares for cash at a price of \$18 (dollars) per common share. The effective date of the capital increase was January 11, 2015. All issued shares were paid up, and the relevant registration process has been completed.

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 12. Others

	2014			2013		
	Cost of sales	Operating expense	Total	Cost of sales	Operating expense	Total
	\$	\$	\$	\$	\$	\$
Employee benefits:						
Salaries	1,390,113	10,824,600	12,214,713	1,371,410	11,328,917	12,700,327
Insurance	177,336	1,184,259	1,361,595	170,538	1,275,604	1,446,142
Pension	23,643	605,465	629,108	26,452	540,661	567,113
Other	72,120	643,571	715,691	123,039	853,402	976,441
Depreciation	48,199	743,010	791,209	54,115	893,451	947,566
Amortization	2,662	1,199,893	1,202,555	22,360	1,729,601	1,751,961

## 13. Additional disclosures

- (1) Information on significant transactions:
  - (a) Financing provided to other parties: Table 1 (attached)
  - (b) Guarantees and endorsements provided to other parties: Table 2 (attached)
  - (c) Marketable securities held at reporting date (excluding investment in subsidiaries, associates, and jointly controlled entities): Table 3 (attached)
  - (d) Marketable securities for which the accumulated purchase or sale amounts for the period exceed \$300 million or 20% of the paid-in capital: Table 4 (attached)
  - (e) Acquisition of real estate which exceeds \$300 million or 20% of the paid-in capital: None
  - (f) Disposal of real estate which exceeds \$300 million or 20% of the paid-in capital: Table 5 (attached)
  - (g) Total purchases from and sales to related parties which exceed \$100 million or 20% of the paid-in capital: Table 6 (attached)
  - (h) Receivables from related parties which exceed \$100 million or 20% of the paid-in capital: Table 7 (attached)
  - (i) Information about derivative instruments transactions: Please refer to notes 6(2) and 6(3).
  - (j) Business relationships and significant intercompany transactions: Table 8 (attached)

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

- (2) Information on investees: Table 9 (attached)
- (3) Information on investment in Mainland China:
- (a) The names of investees in Mainland China, the main businesses and products, paid-in capital, method of investment, information on inflow or outflow of capital, ownership, investment gain or loss, ending balance, amount received as earnings distributions from the investment, and limitation on investment: Table 10 (attached)
- (b) Significant direct or indirect transactions with investee companies, the prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: For the Group's significant direct or indirect transactions (eliminated when compiling the consolidated financial report) with investee companies in Mainland China for the year ended December 31, 2014, please refer to "Information on significant transactions" and "Business relationships and significant intercompany transactions" above.

## 14. Segment information

- (1) General information

The Group's reportable segments comprise the device business group ("Device BG") and other business groups. The Device BG engages mainly in the research, design, marketing and service activities of personal computers, IT products, and smart handheld and tablet products. Other business groups which do not meet the quantitative threshold mainly engage in the activities of e-commerce, distribution of IT products, cloud services, and handheld devices for the finance field and real estate services.

Restructuring costs and strategic investment expenditures (such as global branding expenditures, the amortization of the capital expenditures for the strengthening of the global information structure, and non-routine long-term strategic expenditures) are not allocated to reportable segments. Operating profit is used as the measurement for segment profit and the basis for performance evaluation. The reporting amount is consistent with the report used by chief operating decision maker. There was no material inconsistency between the accounting policies adopted for the operating segments and the accounting policies described in note 4.

The Group's operating segment information and reconciliation are as follows:

2014				
	Device BG	Others	Adjustments and eliminations	Total
Revenues from external customers	\$ 309,534,058	20,150,213	-	329,684,271
Intra-group revenue	<u>1,727,649</u>	<u>1,201,520</u>	<u>(2,929,169)</u>	<u>-</u>
<b>Total revenues</b>	<b>\$ <u>311,261,707</u></b>	<b><u>21,351,733</u></b>	<b><u>(2,929,169)</u></b>	<b><u>329,684,271</u></b>
<b>Segment profit</b>	<b>\$ <u>5,147,794</u></b>	<b><u>1,541,084</u></b>	<b><u>(3,981,213)</u></b>	<b><u>2,707,665</u></b>

(Continued)

## ACER INCORPORATED AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	2013			
	Device BG	Others	Adjustments and eliminations	Total
Revenues from external customers	\$ 345,175,637	14,956,405	-	360,132,042
Intra-group revenue	<u>1,738,623</u>	<u>951,357</u>	<u>(2,689,980)</u>	<u>-</u>
<b>Total revenues</b>	<b>\$ <u>346,914,260</u></b>	<b><u>15,907,762</u></b>	<b><u>(2,689,980)</u></b>	<b><u>360,132,042</u></b>
<b>Segment profit</b>	<b>\$ <u>(2,274,139)</u></b>	<b><u>418,722</u></b>	<b><u>(9,554,249)</u></b>	<b><u>(11,409,666)</u></b>
Other material non-cash items:				
Impairment loss on intangible assets	\$ <u>(9,520,580)</u>	<u>(565,872)</u>	<u>(1,523)</u>	<u>(10,087,975)</u>

## (2) Product information

Revenues from external customers are detailed below:

Products	2014	2013
Personal computers	\$ 267,962,103	298,250,826
Peripherals and others	<u>61,722,168</u>	<u>61,881,216</u>
	<b>\$ <u>329,684,271</u></b>	<b><u>360,132,042</u></b>

## (3) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers, and segment assets are based on the geographical location of the assets.

Revenues from external customers are detailed below:

Region	2014	2013
Americas	\$ 63,303,062	65,018,320
Mainland China	33,192,182	46,356,837
Taiwan	22,768,179	22,353,031
Others	<u>210,420,848</u>	<u>226,403,854</u>
	<b>\$ <u>329,684,271</u></b>	<b><u>360,132,042</u></b>

Non-current assets:

Region	December 31, 2014	December 31, 2013
Americas	\$ 18,636,984	20,524,559
Taiwan	8,044,084	9,146,094
Mainland China	3,251,514	3,343,275
Others	<u>4,055,294</u>	<u>3,953,336</u>
	<b>\$ <u>33,987,876</u></b>	<b><u>36,967,264</u></b>

(Continued)

**ACER INCORPORATED AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Non-current assets include property, plant and equipment, investment property, intangible assets and other assets, and do not include financial instruments, deferred tax assets, and pension fund assets.

## (4) Major customers' information

	<b>2014</b>	<b>2013</b>
Customer A	\$ 35,463,359	35,330,188

**Acer Incorporated and Subsidiaries**  
**Financing provided to other parties**  
**For the year ended December 31, 2014**

**Table 1**

(Amounts in Thousands of New Taiwan Dollars)

No.	Financing Company	Counter-party	Financial Statement Account	Related Party	Maximum Balance for the Period	Ending Balance	Actually drawdown Amounts	Interest Rate	Nature of Financing (Note 1)	Transaction Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Financing Limit for Each Borrowing Company (Note 2)	Financing Company's Total Financing Amount Limits (Note 2)
													Item	Value		
1	ACCN	ACCQ	Other receivables from related parties	Yes	2,255,175	-	-	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
2	ACCQ	AICQ	Other receivables from related parties	Yes	300,690	-	-	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
2	ACCQ	ACCN	Other receivables from related parties	Yes	1,022,260	1,022,260	-	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
3	AHI	ACA	Other receivables from related parties	Yes	389,683	-	-	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
3	AHI	Boardwalk	Other receivables from related parties	Yes	793,260	-	-	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
3	AHI	ACCQ	Other receivables from related parties	Yes	951,540	951,540	-	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
3	AHI	ACA	Other receivables from related parties	Yes	237,009	217,429	217,429	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
3	AHI	Boardwalk	Other receivables from related parties	Yes	919,822	919,822	-	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
4	ASCBVI	Boardwalk	Other receivables from related parties	Yes	91,530	-	-	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
5	GWI	AAC	Other receivables from related parties	Yes	1,617,030	634,360	459,911	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
6	GIC	GWI	Other receivables from related parties	Yes	159,491	-	-	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
6	GIC	GWI	Other receivables from related parties	Yes	152,550	-	-	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
7	GRA	GWI	Other receivables from related parties	Yes	101,498	101,498	101,498	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
8	ALA	ATB	Other receivables from related parties	Yes	948,368	948,368	-	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
8	ALA	AAC	Other receivables from related parties	Yes	862,730	862,730	862,730	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
9	AEG	AEH	Other receivables from related parties	Yes	1,466,360	-	-	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
9	AEG	AEH	Other receivables from related parties	Yes	21,005	-	-	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732

(Amounts in Thousands of New Taiwan Dollars)

No.	Financing Company	Counter-party	Financial Statement Account	Related Party	Maximum Balance for the Period	Ending Balance	Actually drawdown Amounts	Interest Rate	Nature of Financing (Note 1)	Transaction Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Financing Limit for Each Borrowing Company (Note 2)	Financing Company's Total Financing Amount Limits (Note 2)
													Item	Value		
10	AGU	AEG	Other receivables from related parties	Yes	210,046	191,862	191,862	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
10	AGU	AEG	Other receivables from related parties	Yes	210,046	191,862	191,862	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
10	AGU	AEG	Other receivables from related parties	Yes	204,798	191,862	191,862	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
10	AGU	AEG	Other receivables from related parties	Yes	193,249	191,862	191,862	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
11	PBHO	AEG	Other receivables from related parties	Yes	210,046	191,862	191,862	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
12	AAC	ATB	Other receivables from related parties	Yes	1,268,720	1,268,720	1,268,720	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
13	ACTI	Boardwalk	Other receivables from related parties	Yes	951,540	951,540	-	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
13	ACTI	AAC	Other receivables from related parties	Yes	1,585,900	1,585,900	1,585,900	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
13	ACTI	AAC	Other receivables from related parties	Yes	2,537,440	2,537,440	2,537,440	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
14	AIZS	ACCN	Other receivables from related parties	Yes	230,008	230,008	230,008	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
15	BJAI	ACCN	Other receivables from related parties	Yes	40,890	40,890	40,890	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732
16	AI	ACCQ	Other receivables from related parties	Yes	920,034	920,034	920,034	0%~4%	2	-	Operating requirements	-	None	-	5,794,946	28,974,732

Note 1: Nature for Financing :

Type 2: Short-term financing purpose

Note 2: The aggregate financing amount shall not exceed 50% of the most recent audited or reviewed net worth of the Company (the amount showed above is based on the net worth as of September 30, 2014), within which the short-term financing amount shall not exceed 20% of the most recent audited or reviewed net worth of the Company.

For an entity which the Company owns more than 50% of its outstanding common shares, the individual financing amounts shall not exceed 10% of the most recent audited or reviewed net worth of the Company.

When a subsidiary directly or indirectly wholly owned by the Company provides financing to others, the aforementioned limitation of aggregate and individual financing amount is applied.

Note 3: The above transactions are eliminated when prepare the consolidated financial statements.

**Acer Incorporated and Subsidiaries**  
**Guarantees and endorsements provided to other parties**  
**For the year ended December 31, 2014**

**Table 2**

(Amounts in Thousands of New Taiwan Dollars)

No.	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 2)	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable (Note 2)	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China
		Name	Nature of Relationship (Note 1)										
0	The Company	AIL	3	11,589,893	930,735	930,735	395,635	-	1.61%	57,949,465	Y		
0	The Company	LTS	2	11,589,893	5,000	-	-	-	0.00%	57,949,465	Y		
0	The Company	ACN/ACD/ACW/AFN	3	11,589,893	23,682	20,314	20,314	-	0.04%	57,949,465	Y		
0	The Company	ATH	3	11,589,893	168,105	168,105	4,005	-	0.29%	57,949,465	Y		
0	The Company	AEG	3	11,589,893	206,941	191,399	191,399	-	0.33%	57,949,465	Y		
0	The Company	SMA	3	11,589,893	216,312	206,327	8,202	-	0.36%	57,949,465	Y		
0	The Company	AGU	3	11,589,893	301,321	301,321	301,321	-	0.52%	57,949,465	Y		
0	The Company	ACCSI	2	11,589,893	300,000	300,000	77,000	-	0.52%	57,949,465	Y		
0	The Company	ACA	3	11,589,893	317,180	317,180	317,180	-	0.55%	57,949,465	Y		
0	The Company	AJC	3	11,589,893	1,341,900	609,040	68,734	-	1.05%	57,949,465	Y		
0	The Company	ATB	3	11,589,893	1,585,900	1,585,900	-	-	2.74%	57,949,465	Y		
0	The Company	Acer Asia Pacific subsidiaries	3	11,589,893	4,281,930	4,281,930	219,608	-	7.39%	57,949,465	Y		
0	The Company	Acer EMEA subsidiaries	3	11,589,893	4,861,190	4,861,190	189,714	-	8.39%	57,949,465	Y		
0	The Company	Acer Pan America subsidiaries	3	11,589,893	5,392,060	5,392,060	75,786	-	9.30%	57,949,465	Y		
0	The Company	Acer Greater China subsidiaries	3	11,589,893	1,744,490	1,744,490	318,436	-	3.01%	57,949,465	Y		Y
0	The Company	AMEX	3	11,589,893	285,462	285,462	-	-	0.49%	57,949,465	Y		

Note 1: Relationships between the endorsement/guarantee provider and the guaranteed party:

Type 2: a subsidiary directly owned by the Company over 50%

Type 3: a subsidiary indirectly owned by the Company over 50%

Note 2: The aggregate endorsement/guarantee amount provided shall not exceed the most recent audited or reviewed net worth of the Company (the amount showed above is based on the net worth as of September 30, 2014).

The endorsement/guarantee provided to individual guarantee party shall not exceed 20% of the most recent audited or reviewed net worth of the Company.

**Acer Incorporated and Subsidiaries**  
**Marketable securities held**  
**(Excluding investments in subsidiaries, associates, and joint controlled entities)**  
**December 31, 2014**

**Table 3**

(Amounts in Thousands of New Taiwan Dollars)

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	Ending Balance				Maximum ownership during 2014		Note
				Number of Shares/ Units (in thousands)	Carrying Value	Percentage of Ownership	Fair Value	Shares/ Units (in thousands)	Percentage of Ownership	
The Company	Stock: Hon Hai	-	Available-for-sale financial assets - Current	1,086	95,479	0.01%	95,479	1,086	0.01%	
The Company	Stock: Qisda	-	Available-for-sale financial assets - Non Current	81,713	1,188,920	4.15%	1,188,920	81,713	4.15%	
The Company	Stock: WPG Holdings	-	Available-for-sale financial assets - Non Current	4,360	160,680	0.26%	160,680	4,360	0.26%	
The Company	Stock: Wistron	-	Available-for-sale financial assets - Non Current	48,720	1,398,274	1.97%	1,398,274	48,720	1.99%	
The Company	Stock: InCOMM	-	Available-for-sale financial assets - Non Current	19	2,360	0.24%	2,360	39	0.24%	
The Company	Stock: iDSOftCapital Inc.	-	Available-for-sale financial assets - Non Current	398	3,675	19.90%	3,675	398	19.90%	
The Company	Stock: World Venture, Inc.	-	Available-for-sale financial assets - Non Current	8,505	28,865	19.35%	28,865	10,500	19.35%	
The Company	Shars: ID Reengineering Fund Inc.	-	Available-for-sale financial assets - Non Current	5,597	91,455	19.99%	91,455	9,995	19.99%	
The Company	Stock: Dragon Investment Co. Ltd.	-	Available-for-sale financial assets - Non Current	17,791	44,573	19.94%	44,573	17,791	19.94%	
The Company	Stock: Venture Power	-	Available-for-sale financial assets - Non Current	15	670	4.15%	670	15	4.15%	
ADSC	Stock: Wistron	-	Available-for-sale financial assets - Non Current	11,595	332,789	0.47%	332,789	11,595	0.47%	
ADSC	Stock: PChome Pay	-	Available-for-sale financial assets - Non Current	7,000	70,000	15.56%	70,000	7,000	15.56%	
ASCBVI	Stock: IP FUND III L.P.	-	Available-for-sale financial assets - Non Current	4,068	69,001	19.99%	69,001	4,068	19.99%	
ASCBVI	Stock: IDSCBVI	-	Available-for-sale financial assets - Non Current	60	1,389	19.90%	1,389	60	19.90%	
ASCBVI	Stock: ID5 Fund L.P.	-	Available-for-sale financial assets - Non Current	3,800	318,872	19.39%	318,872	3,800	19.39%	
ASCBVI	Stock: IP Cathay One, L.P.	-	Available-for-sale financial assets - Non Current	6,282	46,323	8.00%	46,323	6,282	8.00%	
ASCBVI	Stock: ID5 Annex I Fund L.P.	-	Available-for-sale financial assets - Non Current	970	14,397	19.39%	14,397	970	19.39%	
AWI	Stock: Acer Inc.	Parent/Subsidiary	Treasury stock	12,730	522,237	0.46%	271,783	12,730	0.46%	
AWI	GDR: Acer Inc.	Parent/Subsidiary	Treasury stock	4,987	1,969,617	0.90%	544,972	4,987	0.90%	
CCI	Stock: China Development Financial	-	Available-for-sale financial assets - Current	5,049	51,000	0.03%	51,000	5,049	0.03%	
CCI	Stock: Acer Inc.	Parent/Subsidiary	Available-for-sale financial assets - Non Current	4,774	101,919	0.17%	101,919	4,774	0.17%	
ETEN	Stock: RoyalTek	-	Available-for-sale financial assets - Non Current	1,015	36,861	2.01%	36,861	1,015	2.01%	
ETEN	Stock: Acer Inc.	Parent/Subsidiary	Available-for-sale financial assets - Non Current	4,305	91,920	0.15%	91,920	4,305	0.15%	
ETEN	Stock: Abico Shi-pro Co., Ltd.	-	Available-for-sale financial assets - Non Current	284	2,931	7.89%	2,931	284	7.89%	
WLII	Stock: TekCare Co.	-	Available-for-sale financial assets - Non Current	1,260	12,600	15.00%	12,600	1,260	15.00%	
Boardwalk	Stock: FuHu	-	Available-for-sale financial assets - Non Current	2,315	35,172	17.23%	35,172	2,315	17.23%	

**Acer Incorporated and Subsidiaries**  
**Marketable securities for which the accumulated purchase or sale amounts for the period exceed NT\$300 million or 20% of the paid-in capital**  
**For the year ended December 31, 2014**

**Table 4**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Name of Relationship	Beginning Balance		Acquisitions		Disposal				Ending Balance	
					Shares (in thousands)	Amount	Shares (in thousands)	Amount	Shares (in thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (in thousands)	Amount (Note1)
The Company	Stock: ADSC	Investment accounted for using equity method	Note 2	Subsidiary	40,931	1,166,534	87,351 (Note 3)	600,000	-	-	-	-	128,282	1,873,565
AEH	Stock: Boardwalk	Investment accounted for using equity method	Note 2	Fellow subsidiary	-	-	109,639	3,333,032	-	-	-	-	109,639	2,766,203

Note 1: The ending balance includes unrealized gains/losses on financial assets, share of gains/losses of investees, foreign currency translation adjustments and other related adjustments.

Note 2: Not applicable as it is a capital injection made to the subsidiary / fellow subsidiary.

Note 3: It includes the stock dividend of 27,351,000 shares.

**Acer Incorporated and Subsidiaries**  
**Disposal of real estate which exceeds NT\$300 million or 20% of the paid-in capital**  
**For the year ended December 31, 2014**

**Table 5**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Type of Property	Transcation Date	Acquisition Date	Carrying Amount	Transaction Amount	Status of receiving money	Disposal gain or loss (Note)	Counter-Party	Nature of Relationship	Purpose of Disposal	Reference price	Notes
The Company	Land	February 13, 2014	January 2008	9,159	-	Received	(9,273)	Taoyuan City Government	Non-Related Party	Disposal of investment property not in use	Carrying Value	None
The Company	Land	March 6, 2014	January 2008	-	1,200	Received	1,200	AU Optronics Corp.	Non-Related Party	Disposal of investment property not in use	Carrying Value	None
The Company	Land	March 20, 2014	January 2008	48,736	105,430	Received	44,923	KE, ZHEN-LIANG	Non-Related Party	Disposal of investment property not in use	Appraisal report	None
The Company	Land	April 28, 2014	January 2008	14,826	22,870	Received	3,265	TSAL, SU-HUI	Non-Related Party	Disposal of investment property not in use	Appraisal report	None
The Company	Land	August 7, 2014	January 2008	104,366	120,320	Received	881	LIU, CAI-BAO	Non-Related Party	Disposal of investment property not in use	Appraisal report	None
The Company	Land	August 7, 2014	January 2008	155,669	179,470	Received	1,433	LIU, CAI-BAO	Non-Related Party	Disposal of investment property not in use	Appraisal report	None

Note: The disposal gain or loss is the net amount after deducting related taxes and service fees.

**Acer Incorporated and Subsidiaries**  
**Total purchases from and sales to related parties which exceed NT\$100 million or 20% of the paid-in capital**  
**For the year ended December 31, 2014**

**Table 6**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Name of Relationship	Transaction Details				Transactions with Terms Different from Others (Note 1)		Notes/Accounts Receivable or (Payable)		Note
			Purchases/(Sales)	Amount	% of Total Purchases/(Sales)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
The Company	AEG	Parent/Subsidiary	(Sales)	(101,677,610)	(41.23)%	OA60	-	-	597,306	2.43%	
The Company	AAC	Parent/Subsidiary	(Sales)	(62,862,909)	(25.49)%	OA90	-	-	11,443,761	46.52%	
The Company	AAPH	Parent/Subsidiary	(Sales)	(40,321,281)	(16.35)%	OA60	-	-	3,823,866	15.54%	
The Company	ACCN	Parent/Subsidiary	(Sales)	(16,159,625)	(6.55)%	OA45	-	-	2,211,805	8.99%	
The Company	ACCQ	Parent/Subsidiary	(Sales)	(8,478,887)	(3.44)%	OA60	-	-	1,456,754	5.92%	
The Company	WLII	Parent/Subsidiary	(Sales)	(2,319,527)	(0.94)%	EM45	-	-	23,262	0.09%	
The Company	AFE	Parent/Subsidiary	(Sales)	(981,338)	(0.40)%	OA60	-	-	41,237	0.17%	
The Company	AIL	Parent/Subsidiary	(Sales)	(634,816)	(0.26)%	OA60	-	-	25	0.00%	
The Company	APX	Parent/Subsidiary	(Sales)	(384,123)	(0.16)%	OA60	-	-	47,944	0.19%	
The Company	HSN	Parent/Subsidiary	(Sales)	(101,239)	(0.04)%	OA60	-	-	40,276	0.16%	
The Company	ACCSI	Parent/Subsidiary	Purchases	734,745	0.31%	OA60	-	-	(93,701)	(0.20)%	
The Company	WLII	Parent/Subsidiary	Purchases	611,306	0.26%	OA60	-	-	(122,563)	(0.27)%	
The Company	ACTI	Parent/Subsidiary	Purchases	228,989	0.10%	OA60	-	-	(66,787)	(0.15)%	
ACCSI	The Company	Parent/Subsidiary	(Sales)	(734,745)	(70.24)%	OA60	-	-	93,701	55.51%	
WLII	The Company	Parent/Subsidiary	(Sales)	(611,306)	(6.38)%	EM60	-	-	122,563	6.80%	
WLII	WHI	Parent/Subsidiary	(Sales)	(114,545)	(1.20)%	OA60	-	-	21,732	1.21%	
WLII	The Company	Parent/Subsidiary	Purchases	2,319,527	25.10%	EM45	-	-	(23,262)	(1.86)%	
AAC	AMEX	Fellow subsidiary	(Sales)	(5,450,919)	(8.67)%	OA60	-	-	1,686,071	25.41%	
AAC	ASC	Fellow subsidiary	(Sales)	(412,506)	(0.66)%	OA60	-	-	69,561	1.05%	
AAC	The Company	Parent/Subsidiary	Purchases	62,862,909	100.00%	OA90	-	-	(11,443,761)	(96.57)%	
AAF	AME	Fellow subsidiary	(Sales)	(146,410)	(73.78)%	OA60	-	-	4,508	35.91%	
AAPH	ATH	Fellow subsidiary	(Sales)	(6,795,136)	(16.29)%	OA60	-	-	979,698	11.66%	
AAPH	AIL	Fellow subsidiary	(Sales)	(6,253,421)	(14.99)%	OA60	-	-	2,898,047	34.49%	
AAPH	AIN	Fellow subsidiary	(Sales)	(5,339,743)	(12.80)%	OA60	-	-	384,537	4.58%	
AAPH	ACA	Fellow subsidiary	(Sales)	(5,287,452)	(12.67)%	OA60	-	-	1,303,233	15.51%	
AAPH	ASSB	Fellow subsidiary	(Sales)	(4,547,620)	(10.90)%	OA60	-	-	434,658	5.17%	
AAPH	AJC	Fellow subsidiary	(Sales)	(3,856,005)	(9.24)%	OA60	-	-	1,167,673	13.90%	
AAPH	ACS	Fellow subsidiary	(Sales)	(2,478,998)	(5.94)%	OA60	-	-	165,737	1.97%	

Company Name	Related Party	Name of Relationship	Transaction Details				Transactions with Terms Different from Others (Note 1)		Notes/Accounts Receivable or (Payable)		Note
			Purchases/(Sales)	Amount	% of Total Purchases/(Sales)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
AAPH	ACNZ	Fellow subsidiary	(Sales)	(930,596)	(2.23)%	OA60	-	-	213,332	2.54%	
AAPH	APHI	Fellow subsidiary	(Sales)	(771,094)	(1.85)%	OA60	-	-	152,198	1.81%	
AAPH	AMI	Fellow subsidiary	(Sales)	(104,632)	(0.25)%	OA60	-	-	14,150	0.17%	
AAPH	The Company	Parent/Subsidiary	Purchases	40,321,281	97.59%	OA60	-	-	(3,823,866)	(99.94)%	
AAPH	APHI	Fellow subsidiary	Purchases	107,967	0.26%	OA60	-	-	0	0.00%	
ACA	ACNZ	Fellow subsidiary	(Sales)	(201,685)	(2.75)%	OA60	-	-	15,813	1.24%	
ACA	Bluechip	Other related party	(Sales)	(234,988)	(3.21)%	OA60	-	-	23,759	1.87%	
ACA	AAPH	Fellow subsidiary	Purchases	5,287,452	77.07%	OA60	-	-	(1,303,233)	(88.21)%	
ACA	HSN	Fellow subsidiary	Purchases	118,782	1.73%	OA60	-	-	(47,130)	(3.19)%	
ACCN	The Company	Parent/Subsidiary	Purchases	16,159,625	77.51%	OA45	-	-	(2,211,805)	(81.04)%	
ACCQ	The Company	Parent/Subsidiary	Purchases	8,478,887	81.03%	OA60	-	-	(1,456,754)	(89.91)%	
ACF	AEG	Fellow subsidiary	(Sales)	(420,705)	(2.37)%	OA60	-	-	669,192	14.47%	
ACF	AEG	Fellow subsidiary	Purchases	16,229,712	91.58%	OA60	-	-	(1,514,597)	(95.58)%	
ACF	APX	Fellow subsidiary	Purchases	222,591	1.26%	OA60	-	-	(12,763)	(0.81)%	
ACG	AEG	Fellow subsidiary	(Sales)	(812,536)	(2.31)%	OA60	-	-	1,296,911	19.45%	
ACG	APX	Fellow subsidiary	(Sales)	(210,991)	(0.60)%	OA60	-	-	31,553	0.47%	
ACG	AEG	Fellow subsidiary	Purchases	32,654,669	89.87%	OA60	-	-	(2,896,034)	(102.19)%	
ACG	APX	Fellow subsidiary	Purchases	478,750	1.32%	OA60	-	-	(79,471)	(2.80)%	
ACG	ACW	Fellow subsidiary	Purchases	132,152	0.36%	OA60	-	-	(12,300)	(0.43)%	
ACH	AEG	Fellow subsidiary	(Sales)	(279,820)	(3.16)%	OA60	-	-	418,826	20.81%	
ACH	AEG	Fellow subsidiary	Purchases	7,958,717	91.76%	OA60	-	-	(1,120,830)	(97.61)%	
ACH	APX	Fellow subsidiary	Purchases	173,982	2.01%	OA60	-	-	(27,049)	(2.36)%	
ACNZ	AAPH	Fellow subsidiary	Purchases	930,596	75.22%	OA60	-	-	(213,332)	(89.50)%	
ACNZ	ACA	Fellow subsidiary	Purchases	201,685	16.30%	OA60	-	-	(15,813)	(6.63)%	
ACR	APX	Fellow subsidiary	(Sales)	(102,521)	(0.59)%	OA60	-	-	29,546	1.01%	
ACR	AEG	Fellow subsidiary	Purchases	14,033,649	81.25%	OA60	-	-	(1,743,989)	(97.13)%	
ACR	ARU	Fellow subsidiary	Purchases	217,756	1.26%	OA60	-	-	(16,843)	(0.94)%	
ACR	APX	Fellow subsidiary	Purchases	211,140	1.22%	OA60	-	-	(29,818)	(1.66)%	
ACS	AAPH	Fellow subsidiary	Purchases	2,478,998	94.14%	OA60	-	-	(165,737)	(95.50)%	
ACTI	The Company	Parent/Subsidiary	(Sales)	(228,989)	(3.42)%	OA60	-	-	66,787	26.94%	
ACW	ACG	Fellow subsidiary	(Sales)	(132,152)	(76.58)%	OA60	-	-	12,300	78.78%	
ACZ	AEG	Fellow subsidiary	(Sales)	(267,790)	(47.82)%	OA60	-	-	181	0.67%	
ACZ	APX	Fellow subsidiary	Purchases	187,958	37.59%	OA60	-	-	(30,232)	(92.24)%	
AEG	ACG	Fellow subsidiary	(Sales)	(32,654,669)	(26.28)%	OA60	-	-	2,896,034	15.24%	

Company Name	Related Party	Name of Relationship	Transaction Details				Transactions with Terms Different from Others (Note 1)		Notes/Accounts Receivable or (Payable)		Note
			Purchases/(Sales)	Amount	% of Total Purchases/(Sales)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
AEG	ACF	Fellow subsidiary	(Sales)	(16,229,712)	(13.06)%	OA60	-	-	1,514,597	7.97%	
AEG	ACR	Fellow subsidiary	(Sales)	(14,033,649)	(11.29)%	OA60	-	-	1,743,989	9.18%	
AEG	AUK	Fellow subsidiary	(Sales)	(12,393,055)	(9.97)%	OA60	-	-	2,975,063	15.66%	
AEG	AME	Fellow subsidiary	(Sales)	(12,040,693)	(9.69)%	OA60	-	-	1,837,496	9.67%	
AEG	ASK	Fellow subsidiary	(Sales)	(8,462,635)	(6.81)%	OA60	-	-	966,689	5.09%	
AEG	AIB	Fellow subsidiary	(Sales)	(8,401,034)	(6.76)%	OA60	-	-	2,031,669	10.69%	
AEG	ACH	Fellow subsidiary	(Sales)	(7,958,717)	(6.40)%	OA60	-	-	1,120,830	5.90%	
AEG	AIT	Fellow subsidiary	(Sales)	(7,885,669)	(6.35)%	OA60	-	-	2,481,091	13.06%	
AEG	ASZ	Fellow subsidiary	(Sales)	(2,848,929)	(2.29)%	OA60	-	-	497,914	2.62%	
AEG	AUA	Fellow subsidiary	(Sales)	(1,204,279)	(0.97)%	OA60	-	-	24,091	0.13%	
AEG	The Company	Parent/Subsidiary	Purchases	101,677,610	86.84%	OA60	-	-	(597,306)	(6.39)%	
AEG	ACZ	Fellow subsidiary	Purchases	267,790	0.23%	OA60	-	-	(181)	0.00%	
AEG	APX	Fellow subsidiary	Purchases	265,424	0.23%	OA60	-	-	(709)	(0.01)%	
AEG	ACG	Fellow subsidiary	Purchases	812,536	0.69%	OA60	-	-	(1,296,911)	(13.87)%	
AEG	ACF	Fellow subsidiary	Purchases	420,705	0.36%	OA60	-	-	(669,192)	(7.16)%	
AEG	AIT	Fellow subsidiary	Purchases	367,223	0.31%	OA60	-	-	(457,704)	(4.89)%	
AEG	ACH	Fellow subsidiary	Purchases	279,820	0.24%	OA60	-	-	(418,826)	(4.48)%	
AEG	AIB	Fellow subsidiary	Purchases	241,224	0.21%	OA60	-	-	(525,495)	(5.62)%	
AEG	AUK	Fellow subsidiary	Purchases	144,235	0.12%	OA60	-	-	(788,701)	(8.43)%	
AEG	The Company	Parent/Subsidiary	Purchases	981,338	91.40%	OA60	-	-	(41,237)	(84.72)%	
AIB	AEG	Fellow subsidiary	(Sales)	(241,224)	(2.65)%	OA60	-	-	525,495	14.63%	
AIB	AEG	Fellow subsidiary	Purchases	8,401,034	98.49%	OA60	-	-	(2,031,669)	(98.60)%	
AIB	APX	Fellow subsidiary	Purchases	156,811	1.84%	OA60	-	-	(28,542)	(1.39)%	
AIL	The Company	Parent/Subsidiary	Purchases	634,816	5.90%	EM60	-	-	(25)	0.00%	
AIL	AAPH	Fellow subsidiary	Purchases	6,253,421	58.07%	OA60	-	-	(2,898,047)	(90.19)%	
AIN	AMI	Parent/Subsidiary	(Sales)	(638,038)	(9.87)%	OA60	-	-	22,814	10.96%	
AIN	AMI	Parent/Subsidiary	Purchases	833,012	13.06%	OA60	-	-	(3,565)	(0.49)%	
AIN	AAPH	Fellow subsidiary	Purchases	5,339,743	83.70%	OA60	-	-	(384,537)	(53.26)%	
AIT	AEG	Fellow subsidiary	(Sales)	(367,223)	(4.16)%	OA60	-	-	457,704	13.88%	
AIT	AEG	Fellow subsidiary	Purchases	7,885,669	91.98%	OA60	-	-	(2,481,091)	(99.22)%	
AIT	APX	Fellow subsidiary	Purchases	115,324	1.35%	OA60	-	-	(18,110)	(0.72)%	
AJC	AAPH	Fellow subsidiary	Purchases	3,856,005	89.88%	OA60	-	-	(1,167,673)	(95.62)%	
AME	AEG	Fellow subsidiary	Purchases	12,040,693	88.56%	OA60	-	-	(1,837,496)	(96.92)%	
AME	AAF	Fellow subsidiary	Purchases	146,410	1.08%	OA60	-	-	(4,508)	(0.24)%	

Company Name	Related Party	Name of Relationship	Transaction Details				Transactions with Terms Different from Others (Note 1)		Notes/Accounts Receivable or (Payable)		Note
			Purchases/(Sales)	Amount	% of Total Purchases/(Sales)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
AME	APX	Fellow subsidiary	Purchases	114,378	0.84%	OA60	-	-	(18,803)	(0.99)%	
AMEX	AAC	Fellow subsidiary	Purchases	5,450,919	97.26%	OA60	-	-	(1,686,071)	(100.65)%	
AMI	AIN	Parent/Subsidiary	(Sales)	(833,012)	(100.00)%	OA60	-	-	3,565	100.00%	
AMI	AIN	Parent/Subsidiary	Purchases	638,038	77.24%	OA60	-	-	(22,814)	(119.58)%	
AMI	AAPH	Fellow subsidiary	Purchases	104,632	12.67%	OA60	-	-	(14,150)	(74.16)%	
APHI	AAPH	Fellow subsidiary	(Sales)	(107,967)	(9.21)%	OA60	-	-	0	0.00%	
APHI	AAPH	Fellow subsidiary	Purchases	771,094	75.34%	OA60	-	-	(152,198)	(88.06)%	
APX	ACG	Fellow subsidiary	(Sales)	(478,750)	(20.71)%	OA60	-	-	79,471	27.02%	
APX	AEG	Fellow subsidiary	(Sales)	(265,424)	(11.48)%	OA60	-	-	709	0.24%	
APX	ACF	Fellow subsidiary	(Sales)	(222,591)	(9.63)%	OA60	-	-	12,763	4.34%	
APX	ACR	Fellow subsidiary	(Sales)	(211,140)	(9.13)%	OA60	-	-	29,818	10.14%	
APX	ACZ	Fellow subsidiary	(Sales)	(187,958)	(8.13)%	OA60	-	-	30,232	10.28%	
APX	ACH	Fellow subsidiary	(Sales)	(173,982)	(7.52)%	OA60	-	-	27,049	9.20%	
APX	AIB	Fellow subsidiary	(Sales)	(156,811)	(6.78)%	OA60	-	-	28,542	9.70%	
APX	AUK	Fellow subsidiary	(Sales)	(144,748)	(6.26)%	OA60	-	-	22,025	7.49%	
APX	AIT	Fellow subsidiary	(Sales)	(115,324)	(4.99)%	OA60	-	-	18,110	6.16%	
APX	AME	Fellow subsidiary	(Sales)	(114,378)	(4.95)%	OA60	-	-	18,803	6.39%	
APX	The Company	Parent/Subsidiary	Purchases	384,123	18.81%	OA60	-	-	(47,944)	(14.83)%	
APX	ACG	Fellow subsidiary	Purchases	210,991	10.33%	OA60	-	-	(31,553)	(9.76)%	
APX	ACR	Fellow subsidiary	Purchases	102,521	5.02%	OA60	-	-	(29,546)	(9.14)%	
ARU	ACR	Fellow subsidiary	(Sales)	(217,756)	(100.00)%	OA60	-	-	16,843	100.00%	
ASC	AAC	Fellow subsidiary	Purchases	412,506	50.60%	OA60	-	-	(69,561)	(54.42)%	
ASK	AEG	Fellow subsidiary	Purchases	8,462,635	98.99%	OA60	-	-	(966,689)	(99.37)%	
ASSB	SMA	Parent/Subsidiary	(Sales)	(402,593)	(7.92)%	OA60	-	-	24,997	5.01%	
ASSB	HSN	Parent/Subsidiary	(Sales)	(105,542)	(2.08)%	OA60	-	-	15,574	3.12%	
ASSB	AAPH	Fellow subsidiary	Purchases	4,547,620	96.00%	OA60	-	-	(434,658)	(95.16)%	
ASSB	HSN	Parent/Subsidiary	Purchases	121,637	2.57%	OA60	-	-	(6)	0.00%	
ASZ	AEG	Fellow subsidiary	Purchases	2,848,929	94.00%	OA60	-	-	(497,914)	(98.99)%	
ATH	AAPH	Fellow subsidiary	Purchases	6,795,136	93.84%	OA60	-	-	(979,698)	(92.78)%	
AUA	AEG	Fellow subsidiary	Purchases	1,204,279	89.83%	OA60	-	-	(24,091)	(82.13)%	
AUK	AEG	Fellow subsidiary	(Sales)	(144,235)	(1.07)%	OA60	-	-	788,701	15.80%	
AUK	AEG	Fellow subsidiary	Purchases	12,393,055	92.52%	OA60	-	-	(2,975,063)	(99.25)%	
AUK	APX	Fellow subsidiary	Purchases	144,748	1.08%	OA60	-	-	(22,025)	(0.73)%	
HSN	ASSB	Parent/Subsidiary	(Sales)	(121,637)	(19.54)%	OA60	-	-	6	0.01%	

Company Name	Related Party	Name of Relationship	Transaction Details				Transactions with Terms Different from Others (Note 1)		Notes/Accounts Receivable or (Payable)		Note
			Purchases/(Sales)	Amount	% of Total Purchases/(Sales)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
HSN	ACA	Fellow subsidiary	(Sales)	(118,782)	(19.08)%	OA60	-	-	47,130	50.40%	
HSN	The Company	Parent/Subsidiary	Purchases	101,239	20.37%	OA60	-	-	(40,276)	(33.94)%	
HSN	ASSB	Parent/Subsidiary	Purchases	105,542	21.23%	OA60	-	-	(15,574)	(13.12)%	
SMA	ASSB	Parent/Subsidiary	Purchases	402,593	8.94%	OA60	-	-	(24,997)	(14.15)%	
WHI	WLII	Parent/Subsidiary	Purchases	114,545	97.94%	OA60	-	-	(21,732)	(100.00)%	

Note 1: The trade terms and price of sales with related parties are not comparable to the trading terms and prices with third-party customers as they are determined by the economic environment and market competition of specific locations. The trading terms of purchase with related parties are not comparable to the trading terms with third-party vendors as the specifications of products are different.

Note 2: The above transactions between parent and subsidiary are eliminated when prepare the consolidated financial statements.

**Acer Incorporated and Subsidiaries**  
**Receivables from related parties which exceed NT\$100 million or 20% of the paid-in capital**  
**December 31, 2014**

**Table 7**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
The Company	AEG	Parent/Subsidiary	597,306	157.27	-	-	597,306	
The Company	AAC	Parent/Subsidiary	11,443,761	5.88	25	Under collection	8,908,846	
The Company	AAPH	Parent/Subsidiary	3,823,866	10.41	-	-	3,823,866	
The Company	ACCN	Parent/Subsidiary	2,211,805	6.10	-	-	2,211,805	
The Company	ACCQ	Parent/Subsidiary	2,378,065	5.68	1,278	Under collection	1,456,754	
The Company	TWPBJ	Parent/Subsidiary	102,624	0.76	93,042	Under collection	-	
The Company	ACCSI	Parent/Subsidiary	298,248	14.83	-	-	42,000	
WLII	The Company	Parent/Subsidiary	123,175	4.71	-	-	-	
AAC	AMEX	Fellow subsidiary	1,687,107	6.47	161	Under collection	624,069	
AAC	ASC	Fellow subsidiary	655,203	8.21	-	-	68,734	
AAC	AEG	Fellow subsidiary	113,112	-	-	-	-	
AAC	ATB	Fellow subsidiary	1,271,956	0.59	-	-	2,820	
AAPH	ATH	Fellow subsidiary	979,698	7.94	-	-	951,615	
AAPH	AIL	Fellow subsidiary	2,898,047	1.98	-	-	1,074,535	
AAPH	AIN	Fellow subsidiary	384,537	11.38	2,811	Under collection	384,537	
AAPH	ACA	Fellow subsidiary	1,303,233	3.84	-	-	880,462	
AAPH	ASSB	Fellow subsidiary	434,853	12.75	-	-	434,849	
AAPH	AJC	Fellow subsidiary	1,167,673	2.58	-	-	365,352	
AAPH	ACS	Fellow subsidiary	165,737	19.50	-	-	165,737	
AAPH	ACNZ	Fellow subsidiary	213,476	5.73	-	-	144,811	
AAPH	APHI	Fellow subsidiary	152,198	3.86	6,196	Under collection	100,973	
ACCN	ACCQ	Fellow subsidiary	333,023	0.71	-	-	1,699	
ACF	AEG	Fellow subsidiary	860,595	0.67	-	-	97,293	
ACG	AEG	Fellow subsidiary	1,393,915	0.67	-	-	-	
ACH	AEG	Fellow subsidiary	458,279	0.70	-	-	23,328	

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
ACR	AEG	Fellow subsidiary	265,470	-	-	-	822	
ACTI	AAC	Fellow subsidiary	4,123,340	-	-	-	-	
AEG	ACG	Fellow subsidiary	2,896,034	11.71	-	-	2,882,334	
AEG	ACF	Fellow subsidiary	1,514,597	13.02	-	-	1,514,597	
AEG	ACR	Fellow subsidiary	1,748,710	16.06	64	Under collection	1,743,989	
AEG	AUK	Fellow subsidiary	2,976,421	4.05	-	-	2,975,821	
AEG	AME	Fellow subsidiary	1,841,572	6.56	-	-	1,841,572	
AEG	ASK	Fellow subsidiary	966,689	9.99	-	-	966,689	
AEG	AIB	Fellow subsidiary	2,031,677	4.69	-	-	1,899,377	
AEG	ACH	Fellow subsidiary	1,120,830	6.27	-	-	1,120,830	
AEG	AIT	Fellow subsidiary	2,481,091	3.38	-	-	1,805,426	
AEG	ASZ	Fellow subsidiary	497,939	7.71	39	Under collection	497,939	
AGU	AEG	Fellow subsidiary	767,448	-	-	-	-	
AHI	ACA	Parent/Subsidiary	217,429	-	-	-	-	
AIB	AEG	Fellow subsidiary	557,231	0.51	-	-	-	
AIT	AEG	Fellow subsidiary	600,929	0.84	-	-	71,756	
AIZS	ACCN	Fellow subsidiary	230,009	-	-	-	-	
ALA	AAC	Fellow subsidiary	862,730	-	-	-	-	
AME	AEG	Fellow subsidiary	208,503	1.17	-	-	12,700	
ASC	AAC	Fellow subsidiary	126,888	3.28	-	-	16	
ASCBVI	LONG	Parent/Subsidiary	317,180	-	-	-	-	
ASK	AEG	Fellow subsidiary	381,501	-	15,042	Under collection	-	
ASZ	AEG	Fellow subsidiary	234,954	0.35	-	-	14,709	
AUK	AEG	Fellow subsidiary	923,066	0.22	-	-	38,466	
GRA	GWI	Parent/Subsidiary	101,498	-	-	-	-	
GWI	AAC	Parent/Subsidiary	694,242	-	-	-	-	
LONG	SURE	Parent/Subsidiary	317,181	-	-	-	-	

Note: The above transactions between parent and subsidiary are eliminated when prepare the consolidated financial statements.

**Acer Incorporated and Subsidiaries**  
**Intercompany relationships and significant intercompany transactions**  
**For the year ended December 31, 2014**

**Table 8**

(Amounts in Thousands of New Taiwan Dollars)

Intercompany relationships and significant intercompany transactions for the year ended December 31, 2014 were as follows:

Number (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Transaction Details			Percentage of Consolidated Net Revenue or Total Assets
				Account	Amount	Transaction Terms	
0	The Company	AEG	1	Sales	101,677,610	OA60	30.84%
0	The Company	AAC	1	Sales	62,862,909	OA90	19.07%
0	The Company	AAPH	1	Sales	40,321,281	OA60	12.23%
0	The Company	ACCN	1	Sales	16,159,625	OA45	4.90%
0	The Company	ACCQ	1	Sales	8,478,887	OA60	2.57%
0	The Company	AAC	1	Accounts receivable	11,443,761	OA90	5.99%
0	The Company	ACCN	1	Accounts receivable	2,211,805	OA45	1.16%
0	The Company	AAPH	1	Accounts receivable	3,823,866	OA60	2.00%

Note 1: Parties to the intercompany transactions are identified and numbered as follows:

1. "0" represents the Company.
2. Subsidiaries are numbered from "1".

Note 2: No. 1 represents the transactions from parent company to subsidiary.

No. 2 represents the transactions from subsidiary to parent company.

Note 3: Intercompany relationships and significant intercompany transactions are disclosed only for the amounts that exceed 1% of consolidated net revenue or total assets. The corresponding purchases and accounts payables are not disclosed.

**Acer Incorporated and Subsidiaries**  
**Names, Locations, and Related Information of Investees over which The Company Exercises Significant Influence**  
**December 31, 2014**

**Table 9** **(Amounts in Thousands of New Taiwan Dollars)**

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balances as of December 31, 2014			Maximum ownership during 2014		Net Income (Loss) of the Investee	Share of profits/ losses of investee	Note
				December 31, 2014	December 31, 2013	Shares (in thousands)	Percentage of Ownership	Carrying Value	Shares (in thousands)	Percentage of Ownership			
The Company	ADSC	Taiwan	Investing and holding company	1,746,549	1,146,549	128,282	100.00	1,873,565	128,282	100.00	58,739	58,739	Parent/Subsidiary
The Company	Boardwalk	British Virgin Islands	Investing and holding company	39,757,383	39,757,383	1,278,432	91.68	30,178,680	1,278,432	100.00	1,605,968	1,474,301	Parent/Subsidiary
The Company	AEH	Cyprus	Investing and holding company	2,464,262	2,464,262	10	100.00	20,036,848	10	100.00	1,483,521	1,483,521	Parent/Subsidiary
The Company	AHI	British Virgin Islands	Investing and holding company	1,130,566	1,130,566	33,550	100.00	9,080,603	33,550	100.00	(69)	(69)	Parent/Subsidiary
The Company	Bluechip	Australia	Sale of peripheral and software system	24,249	24,249	1,073	30.00	74,226	1,073	34.05	5,053	3,307	Associate
The Company	AWI	British Virgin Islands	Investing and holding company	4,069,764	4,069,764	1,326,193	100.00	260,967	1,326,193	100.00	1,127	1,127	Parent/Subsidiary
The Company	ASCBVI	British Virgin Islands	Investing and holding company	1,718,547	1,718,547	35,067	100.00	1,112,290	35,067	100.00	5,884	5,884	Parent/Subsidiary
The Company	CCI	Taiwan	Investing and holding company	1,299,817	1,299,817	-	100.00	1,150,288	-	100.00	2,935	2,935	Parent/Subsidiary
The Company	ADSBH	British Virgin Islands	Investing and holding company	1,175,933	1,175,933	2,246	100.00	(235,857)	2,246	100.00	(64,312)	(64,312)	Parent/Subsidiary
The Company	ACCSI	Taiwan	Electronic data supply, processing and storage services	2,943,044	2,943,044	187,092	100.00	1,940,633	187,092	100.00	169,233	169,233	Parent/Subsidiary
The Company	AGC	British Virgin Islands	Investing and holding company	4,941,292	4,834,892	160,989	100.00	5,754,834	160,989	100.00	(1,016,016)	(1,016,016)	Parent/Subsidiary
The Company	AEB	Taiwan	Electronic data supply, processing and storage services	250,000	250,000	25,000	100.00	280,971	25,000	100.00	31,208	31,208	Parent/Subsidiary
The Company	WLII	Taiwan	Sale of computers and communication products	1,115,474	1,115,474	67,425	99.79	1,215,406	67,425	99.79	31,481	31,414	Parent/Subsidiary
The Company	ATI	Taiwan	Integrated circuit test service	819,792	895,571	1,203	19.39	6,599	12,028	19.39	254,070	54,470	Associate
The Company	LTS	Taiwan	Electronic data supply, processing and storage services	-	-	100	100.00	38,704	100	100.00	5,704	5,704	Parent/Subsidiary
The Company	ETEN	Taiwan	Research, design and sale of smart hand held products	6,800,751	7,100,751	20,000	100.00	2,770,216	50,000	100.00	(119,718)	(119,718)	Parent/Subsidiary
ACCSI	TWPBVI	British Virgin Islands	Investing and holding company	32,298	32,298	11,068	100.00	7,215	11,068	100.00	904	904	Parent/Subsidiary
ADSC	ECOM	Taiwan	Business integration system	40,851	40,851	1,244	24.88	18,838	1,244	24.88	11,429	2,866	Associate
ADSC	APDI	Taiwan	Property development	29,577	29,577	2,958	100.00	114,276	2,958	100.00	14,266	14,266	Parent/Subsidiary
ADSC	ASDI	Taiwan	Property development	500,000	500,000	22,593	100.00	219,234	22,593	100.00	326	326	Parent/Subsidiary
ADSC	AOI	Taiwan	Software design services	30,000	-	3,000	100.00	29,958	3,000	100.00	(42)	(42)	Parent/Subsidiary
ADSC	YR Creative Cultural Art International Co.	Taiwan	Cultural and creative industries	6,000	-	600	20.00	1,836	600	20.00	(21,661)	(4,332)	Associate
WLII	Provision International	Taiwan	Retail of information software	23,668	23,668	882	30.22	16,103	882	30.22	13,944	4,214	Associate
AEH	Boardwalk	British Virgin Islands	Investing and holding company	3,333,032	-	109,639	8.32	2,766,203	109,639	8.32	1,605,968	131,666	Associate
AHN	Fizzle shares	Cyprus	Holding company	241,478	241,478	1	40.00	-	1	40.00	-	-	Associate
AHN	Sertec 360	Switzerland	After-sales maintenance service	14,462	-	1	51.00	10,874	1	51.00	(7,036)	(3,588)	Associate

**Acer Incorporated and Subsidiaries**  
**Information on Investment in Mainland China**  
**For the year ended December 31, 2014**

**Table 10**

(Amounts in Thousands of New Taiwan Dollars)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2014	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2014	Net Income (Losses) of Investee	% of Ownership of Direct or Indirect Investment	Maximum ownership during 2014		Share of profits/ losses of investee	Carrying Value as of December 31, 2014	Accumulated Inward Remittance of Earnings as of December 31, 2014
					Outflow	Inflow				Shares	Percentage of Ownership			
Acer Third Wave Software (Beijing) Co., Ltd.	Software research, development, design, trading and consultation	95,154	Note 1	95,154	-	-	95,154	1,109	100.00	-	100.00	1,109	2,251	-
Beijing Acer Information Co., Ltd.	Sale of brand-name information technology product	57,092	Note 1	-	-	-	-	(24)	100.00	-	100.00	(24)	43,532	-
Acer Information (Zhong Shan) Co., Ltd.	Sale of brand-name information technology product	47,577	Note 1	-	-	-	-	1,440	100.00	-	100.00	1,440	231,804	-
Acer Computer (Shanghai) Ltd.	Sale of brand-name information technology product	63,436	Note 1	63,436	-	-	63,436	(1,460,785)	100.00	-	100.00	(1,460,785)	1,367,892	-
Acer (Chongqing) Ltd.	Sale of brand-name information technology product	4,757,700	Note 1	4,884,572 (Note 2)	-	-	4,884,572	528,776	100.00	-	100.00	528,776	3,646,674	-
Acer Information Technology R&D (Shanghai) Co., Ltd	Research and design of smart hand held products	63,436	Note 1	-	-	-	-	(16,697)	100.00	-	100.00	(16,697)	3,755	-

Note 1: Indirect investment in Mainland China through a holding company established in other country.

Note 2: Acer Intellectual (Chongqing) Limited had merged with Acer (Chongqing) Ltd. in 2014, and Acer (Chongqing) Ltd. was the surviving entity from the merger. This amount included the original investment in Acer Intellectual (Chongqing) Limited of \$ 126,872.

Investor Company Name	Accumulated Investment in Mainland China as of December 31, 2014	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
The Company and Subsidiaries	\$ 5,043,162 (US \$159,000,000)	\$ 5,763,931 (US \$181,724,286.5)	(Note 3)

The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1=NT\$31.718 as of December 31, 2014.

Note 3: Since the Company has obtained the Certificate of Headquarter Operation, there is no upper limitation on investment in Mainland China.