

(English Translation of Financial Report Originally Issued in Chinese)

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)



安侯建業聯合會計師事務所
KPMG

台北市11049信義路5段7號68樓(台北101大樓)
68F., TAIPEI 101 TOWER, No.7, Sec. 5,
Xinyi Road, Taipei City 11049, Taiwan (R.O.C.)

Telephone 電話 + 886 (2) 8101 6666
Fax 傳真 + 886 (2) 8101 6667
Internet 網址 kpmg.com/tw

Independent Auditors' Report

The Board of Directors
Acer Incorporated:

We have audited the accompanying consolidated balance sheet of Acer Incorporated (the "Company") and subsidiaries as of December 31, 2015, and their restated consolidated balance sheet as of December 31, 2014, and the related consolidated statements of comprehensive income, restated changes in equity, and cash flows for the years ended December 31, 2015 and 2014. 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, 2015 and 2014, 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.

As described in Note 3 of the consolidated financial statements, starting January 1, 2015, the Company and its subsidiaries prepared the consolidated financial statements in accordance with International Accounting Standards 19 "Employee Benefits" of 2013 Taiwan-IFRS version endorsed by the Financial Supervisory Commission. Consequently, the consolidated financial statements as of and for the year ended December 31, 2014 have been restated retrospectively.

We have also audited the parent-company-only financial statements of Acer Incorporated as of and for the years ended December 31, 2015 and 2014, on which we have issued a modified unqualified opinion and an unqualified opinion, respectively.

KPMG
CPA : Tzu Chieh, Tang

Taipei, Taiwan (the Republic of China)
March 24, 2016

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, 2015 and 2014

(in thousands of New Taiwan dollars)

Assets	2015.12.31	2014.12.31 (Restated)
Current assets:		
Cash and cash equivalents (notes 6(1) and (24))	\$ 44,621,527	47,558,651
Financial assets at fair value through profit or loss — current (notes 6(2) and (24))	791,575	1,899,626
Available-for-sale financial assets — current (notes 6(3) & (24))	93,313	146,479
Notes and accounts receivable, net (notes 6(4) & (24))	48,173,027	59,167,731
Accounts receivable from related parties (notes 6(4) & (24) and 7)	52,749	23,837
Other receivables (notes 6(5) & (24))	1,309,972	1,261,631
Other receivables from related parties (notes 6(24) and 7)	276	9
Current income tax assets	818,938	1,244,873
Inventories (note 6(6))	34,043,598	36,600,487
Other current assets	<u>3,044,802</u>	<u>2,981,846</u>
Total current assets	<u>132,949,777</u>	<u>150,885,170</u>
Non-current assets:		
Available-for-sale financial assets — non-current (notes 6(3) & (24))	3,159,771	3,859,807
Investments in associates (note 6(7))	155,992	142,461
Property, plant and equipment (note 6(8))	4,827,412	5,484,061
Investment property (note 6(9))	1,192,699	1,113,067
Intangible assets (note 6(10))	26,609,427	26,727,547
Deferred income tax assets (note 6(16))	838,146	1,018,564
Other non-current assets (note 6(15))	1,065,370	701,834
Other financial assets — non-current (notes 6(24) and 8)	<u>943,609</u>	<u>1,162,526</u>
Total non-current assets	<u>38,792,426</u>	<u>40,209,867</u>
Total assets	\$ <u>171,742,203</u>	<u>191,095,037</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2015 and 2014

(in thousands of New Taiwan dollars)

Liabilities and Equity	2015.12.31	2014.12.31 (Restated)
Current liabilities:		
Short-term borrowings (notes 6(11), (24) & (25))	\$ 2,584,377	317,000
Financial liabilities at fair value through profit or loss — current (notes 6(2), (12), (24) & (25))	318,934	624,227
Notes and accounts payable (notes 6(24) & (25))	42,736,897	54,824,412
Accounts payables to related parties (notes 6(24) & (25) and 7)	10,285	13,961
Other payables (notes 6(21), (24) & (25) and 7)	38,793,970	42,165,243
Other payables to related parties (notes 6(24) & (25) and 7)	1,085	788
Current income tax liabilities	738,507	927,296
Provisions — current (note 6(13) and 9)	6,979,705	8,972,446
Current portion of bonds payable (notes 6(12), (24) & (25))	5,966,431	3,634,818
Current portion of long-term debt (notes 6(12), (24) & (25))	1,800,000	3,600,000
Other current liabilities	<u>2,645,901</u>	<u>2,675,700</u>
Total current liabilities	<u>102,576,092</u>	<u>117,755,891</u>
Non-current liabilities:		
Bonds payable (notes 6(12), (24) & (25))	-	5,880,437
Long-term debt (notes 6(12), (24) & (25))	-	3,600,000
Provisions — non-current (note 6(13) and 9)	94,946	127,752
Deferred income tax liabilities (note 6(16))	1,437,179	1,397,284
Other non-current liabilities (note 6(15))	<u>1,778,885</u>	<u>1,703,823</u>
Total non-current liabilities	<u>3,311,010</u>	<u>12,709,296</u>
Total liabilities	<u>105,887,102</u>	<u>130,465,187</u>
Equity (note 6(17)):		
Common stock	30,854,428	27,965,678
Capital surplus	36,232,755	34,098,396
Retained earnings:		
Legal reserve	93,166	-
Special reserve	838,498	-
Unappropriated earnings	520,235	903,649
Other reserves	228,505	845,908
Treasury stock	<u>(2,914,856)</u>	<u>(3,186,038)</u>
Equity attributable to shareholders of the Company	<u>65,852,731</u>	<u>60,627,593</u>
Non-controlling interests	<u>2,370</u>	<u>2,257</u>
Total equity	<u>65,855,101</u>	<u>60,629,850</u>
Total liabilities and equity	<u>\$ 171,742,203</u>	<u>191,095,037</u>

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2015 and 2014

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

	2015	2014
Revenue (notes 6(20), 7 and 14)	\$ 263,775,202	329,684,271
Cost of revenue (notes 6(6), (10), (13) & (14), 7 and 12)	<u>238,891,080</u>	<u>300,742,087</u>
Gross profit	<u>24,884,122</u>	<u>28,942,184</u>
Operating expenses (notes 6(4), (8), (9), (10), (13), (14), (15), (17), (18) & (21), 7 and 12):		
Selling expenses	17,701,583	19,143,432
Administrative expenses	4,431,082	4,899,465
Research and development expenses	<u>2,089,306</u>	<u>2,524,381</u>
Total operating expenses	<u>24,221,971</u>	<u>26,567,278</u>
Other operating income and loss – net (note 6(14) & (22))	<u>276,457</u>	<u>332,759</u>
Operating income	<u>938,608</u>	<u>2,707,665</u>
Non-operating income and loss:		
Other income (note 6(23))	476,684	414,732
Other gains and losses – net (notes 6(12) & (23))	(228,810)	17,599
Finance costs (notes 6(12) & (23))	(340,454)	(651,206)
Share of profits of associates and joint venture (note 6(7))	<u>529</u>	<u>125,629</u>
Total non-operating income and loss	<u>(92,051)</u>	<u>(93,246)</u>
Income before taxes	846,557	2,614,419
Income tax expenses (note 6(16))	<u>242,762</u>	<u>823,835</u>
Net income	<u>603,795</u>	<u>1,790,584</u>
Other comprehensive income (loss):		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit plans (note 6(15))	(104,521)	(54,382)
Income tax benefit (expense) related to items that will not be reclassified subsequently to profit or loss (note 6(16))	<u>12,130</u>	<u>(2,607)</u>
	<u>(92,391)</u>	<u>(56,989)</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations (note 6(17))	252,979	1,445,638
Change in fair value of available-for-sale financial assets (note 6(17))	(990,360)	1,049,440
Income tax benefit related to items that may be reclassified subsequently to profit or loss (note 6(16))	<u>623</u>	<u>375</u>
	<u>(736,758)</u>	<u>2,495,453</u>
Other comprehensive income (loss) for the year, net of taxes	<u>(829,149)</u>	<u>2,438,464</u>
Total comprehensive income (loss) for the year	<u>\$ (225,354)</u>	<u>4,229,048</u>
Net income attributable to:		
Shareholders of the Company	\$ 603,680	1,790,690
Non-controlling interests	<u>115</u>	<u>(106)</u>
	<u>\$ 603,795</u>	<u>1,790,584</u>
Total comprehensive income (loss) attributable to:		
Shareholders of the Company	\$ (225,467)	4,229,180
Non-controlling interests	<u>113</u>	<u>(132)</u>
	<u>\$ (225,354)</u>	<u>4,229,048</u>
Earnings per share (in New Taiwan dollars)(note 6(19)):		
Basic earnings per share	\$ <u>0.20</u>	<u>0.66</u>
Diluted earnings per share	\$ <u>0.20</u>	<u>0.63</u>

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the year ended December 31, 2015 and 2014
(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	Remeasurements of defined benefit plans	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, 2014	\$ 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
Effects of retrospective restatements	-	-	-	-	(85,004)	(85,004)	-	-	85,004	-	85,004	-	-	-	-
Restated balance at January 1, 2014	<u>28,347,268</u>	<u>43,707,727</u>	<u>10,012,168</u>	<u>6,126,774</u>	<u>(24,549,798)</u>	<u>(8,410,856)</u>	<u>(262,231)</u>	<u>(1,163,645)</u>	<u>85,004</u>	<u>-</u>	<u>(1,340,872)</u>	<u>(6,054,286)</u>	<u>56,248,981</u>	<u>2,389</u>	<u>56,251,370</u>
Appropriation approved by the stockholders:															
Decrease in capital surplus to offset accumulated deficits	-	(8,325,852)	-	-	8,325,852	8,325,852	-	-	-	-	-	-	-	-	-
Decrease in legal reserve to offset accumulated deficits	-	-	(10,012,168)	-	10,012,168	-	-	-	-	-	-	-	-	-	-
Decrease in special reserve to offset accumulated deficits	-	-	-	(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	-	-	-	-	-	-	1,446,039	1,049,440	(56,989)	-	2,438,490	-	2,438,490	(26)	2,438,464
Total comprehensive income in 2014	-	-	-	-	1,790,690	1,790,690	1,446,039	1,049,440	(56,989)	-	2,438,490	-	4,229,180	(132)	4,229,048
Restated Balance at December 31, 2014	<u>27,965,678</u>	<u>34,098,396</u>	<u>-</u>	<u>-</u>	<u>903,649</u>	<u>903,649</u>	<u>1,183,808</u>	<u>(114,205)</u>	<u>28,015</u>	<u>(251,710)</u>	<u>845,908</u>	<u>(3,186,038)</u>	<u>60,627,593</u>	<u>2,257</u>	<u>60,629,850</u>
Appropriation approved by the stockholders:															
Legal reserve	-	-	93,166	-	(93,166)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	838,498	(838,498)	-	-	-	-	-	-	-	-	-	-
Other changes in capital surplus:															
Change in equity of investments in subsidiaries	-	(4,662)	-	-	-	-	-	-	-	-	-	-	(4,662)	-	(4,662)
Issuance of new shares for cash	3,000,000	2,400,000	-	-	-	-	-	-	-	-	-	-	5,400,000	-	5,400,000
Retirement of treasury stock	(100,000)	(115,752)	-	-	(55,430)	(55,430)	-	-	-	-	-	271,182	-	-	-
Retirement of restricted shares of stock issued to employees	(11,250)	11,250	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation cost arising from restricted shares of stock issued to employees	-	(156,477)	-	-	-	-	-	-	-	211,744	211,744	-	55,267	-	55,267
Net income in 2015	-	-	-	-	603,680	603,680	-	-	-	-	-	-	603,680	115	603,795
Other comprehensive income in 2015	-	-	-	-	-	-	253,604	(990,360)	(92,391)	-	(829,147)	-	(829,147)	(2)	(829,149)
Total comprehensive income in 2015	-	-	-	-	603,680	603,680	253,604	(990,360)	(92,391)	-	(829,147)	-	(225,467)	113	(225,354)
Balance at December 31, 2015	<u>\$ 30,854,428</u>	<u>36,232,755</u>	<u>93,166</u>	<u>838,498</u>	<u>520,235</u>	<u>1,451,899</u>	<u>1,437,412</u>	<u>(1,104,565)</u>	<u>(64,376)</u>	<u>(39,966)</u>	<u>228,505</u>	<u>(2,914,856)</u>	<u>65,852,731</u>	<u>2,370</u>	<u>65,855,101</u>

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(in thousands of New Taiwan dollars)

	2015	2014
Cash flows from operating activities:		
Income before taxes	\$ 846,557	2,614,419
Adjustments for:		
Depreciation	684,885	791,209
Amortization	1,000,991	1,202,555
Valuation loss (gain) on derivative financial assets and liabilities	1,303,264	(1,988,511)
Interest expense	340,454	651,206
Interest income	(227,438)	(283,592)
Dividend income	(249,246)	(131,140)
Share-based compensation cost	131,912	350,285
Effects of exchange rate changes on bonds payable	(103,634)	200,218
Share of profits of associates and joint venture	(529)	(125,629)
Loss (gain) on disposal of property, plant and equipment and investment property, net	12,045	(65,727)
Gain on disposal of intangible assets	(24,107)	-
Loss on disposal of subsidiaries	-	13,291
Gain on disposal of investments in associates	-	(41,495)
Gain on repurchase of bonds payable	(446,429)	-
Other investment loss (gain)	(23,613)	7,131
Intangible assets charged to cost of sale	-	2,174,851
Total profit and loss	2,398,555	2,754,652
Changes in operating assets and liabilities:		
Net changes in operating assets:		
Notes and accounts receivable	10,994,704	2,913,298
Receivables from related parties	(28,912)	(1,125)
Inventories	2,535,275	(1,087,115)
Other receivables and other current assets	(110,650)	533,462
Non-current accounts receivable	46,725	(45,523)
Net changes in operating assets	13,437,142	2,312,997
Net changes in operating liabilities:		
Notes and accounts payable	(12,087,515)	(392,949)
Payables to related parties	(3,379)	13,428
Other payables and other current liabilities	(3,354,855)	153,180
Provisions	(2,025,547)	(1,548,319)
Other non-current liabilities	75,062	103,911
Net changes in operating liabilities	(17,396,234)	(1,670,749)
Total changes in operating assets and liabilities	(3,959,092)	642,248
Cash provided by (used in) operations	(713,980)	6,011,319
Interest received	227,762	283,326
Income taxes paid	(379,349)	(671,046)
Net cash provided by (used in) operating activities	(865,567)	5,623,599

(Continued)

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2015 and 2014

(in thousands of New Taiwan dollars)

	2015	2014
Cash flows from investing activities:		
Purchase of available-for-sale financial assets	(345,581)	(70,000)
Proceeds from disposal of available-for-sale financial assets	52,261	-
Proceeds from capital return of available-for-sale investments	114,104	80,109
Additions to investments in associates	(30,552)	(20,462)
Proceeds from disposal of investments in associates	-	41,195
Proceeds from capital return of investments in associates	-	172,130
Additions to property, plant and equipment	(267,654)	(228,752)
Proceeds from disposal of property, plant and equipment and investment property	57,138	590,954
Decrease (increase) in advances to related parties	(267)	8
Additions to intangible assets	(62,930)	(103,873)
Proceeds from disposal of intangible assets	44,643	-
Decrease in other non-current financial assets and other non-current assets	1,439	177,098
Dividend received	<u>250,150</u>	<u>139,854</u>
Net cash provided by (used in) investing activities	<u>(187,249)</u>	<u>778,261</u>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	2,267,377	(72,989)
Repayment of long-term debt	(5,400,000)	(1,800,000)
Issuance of new shares for cash	5,400,000	-
Repurchase of bonds payable	(3,677,046)	-
Interest paid	<u>(194,790)</u>	<u>(260,250)</u>
Net cash used in financing activities	<u>(1,604,459)</u>	<u>(2,133,239)</u>
Effects of foreign exchange rate changes	<u>(279,849)</u>	<u>306,367</u>
Net (decrease) increase in cash and cash equivalents	<u>(2,937,124)</u>	<u>4,574,988</u>
Cash and cash equivalents at beginning of year	<u>47,558,651</u>	<u>42,983,663</u>
Cash and cash equivalents at end of year	\$ <u>44,621,527</u>	<u>47,558,651</u>

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2015 and 2014
(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 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 24, 2016.

3. Application of New and Revised Accounting Standards and Interpretations

- (1) Impact on the application of the new and revised accounting standards and interpretations endorsed by the Financial Supervisory Commissions of the R.O.C. (“FSC”)

Starting 2015, the Group has prepared its consolidated financial statements in accordance with the 2013 version of International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations (collectively “IFRSs”) endorsed by the FSC (collectively, “2013 Taiwan-IFRSs version”). IFRS 9 *Financial Instruments* is excluded from the 2013 Taiwan-IFRSs. The new and amended accounting standards and interpretations issued by the International Accounting Standards Board (“IASB”) are summarized as below.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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, 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 assessed that the adoption of the aforementioned 2013 Taiwan-IFRSs did not have 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 are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may 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. The Group has changed the presentation of its statement of comprehensive income, and the presentation of the comparative period has been restated accordingly.

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ACER INCORPORATED AND SUBSIDIARIES

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B. IFRS 13 *Fair Value Measurement*

The Group has applied the standards prospectively and increased the related disclosure with respect to the measurement of fair value (refer to note 6(24)) in accordance with the standard. Nevertheless, the Group is not required to disclose the related information for the comparative period. Although the Group has applied the standards starting 2015, the Group assessed that there is no significant impact on the measurement of the fair value of the Group's assets and liabilities.

C. IAS 19 *Employee Benefits*

IAS 19 (Revised 2011) has eliminated the requirement of recognizing the actuarial gains or losses arising from the defined benefit plans in retained earnings. The Group has opted to recognize the aforementioned actuarial gains or losses in other equity accounts starting 2015, and a retrospective adjustment has been made.

The table below summarizes the impact on the Group's financial position resulting from the aforementioned changes.

Impacted items on the consolidated balance sheet	Reported amounts before restatement	Effects of changes in accounting policies of defined benefit plans	Reported amounts after restatement
December 31, 2014			
Unappropriated earnings	\$ 931,664	(28,015)	903,649
Other reserves	817,893	28,015	845,908

(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>	Pending IASB resolution
• 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, 2018
• IFRS 16 <i>Leases</i>	January 1, 2019
• Amendments to IAS 1 <i>Disclosure Initiative</i>	January 1, 2016

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Notes to Consolidated Financial Statements

New or amended standards and interpretations	Effective date per IASB
• Amendments to IAS 7 <i>Disclosure Initiative</i>	January 1, 2017
• Amendments to IAS 12 <i>Recognition of Deferred Tax Assets for Unrealized Losses</i>	January 1, 2017
• 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>Agriculture: bearer Plants</i>	January 1, 2016
• Amendments to IAS 19 <i>Defined Benefit Plans: Employee Contributions</i>	July 1, 2014
• 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
• 2010-2012 & 2011-2013 Annual Improvements Cycles	July 1, 2014
• 2012-2014 Annual Improvements Cycles	January 1, 2016
• 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").

(Continued)

ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(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; and
- iii. Defined benefit assets (liabilities) recognized as the present value of the benefit obligation less the fair value of plan assets and the effect of the asset ceiling mentioned in note 4(18).

(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). The Company controls an investee when it is exposed, or has right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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. Inter-company balances, transactions and resulting unrealized income and loss are eliminated in full on consolidation. Total comprehensive income of subsidiaries is attributed to the shareholders of the Company and 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.

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. The difference between the adjustment of the non-controlling interests and the fair value of the payment or receipt is recognized as equity and belongs to the Company.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

(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	
			2015.12.31	2014.12.31
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 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
AEH	Acer Sales International SA ("ASIN", Switzerland)	Sale of brand-name IT products	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	
			2015.12.31	2014.12.31
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
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	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	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

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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	
			2015.12.31	2014.12.31
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	99.99	99.92
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

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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	
			2015.12.31	2014.12.31
The Company	Weblink International Inc. (“WLII”, Taiwan)	Sale of computers and communication products	99.79	99.79
WLII	Weblink (H.K.) International Ltd. (“WHI”, Hong Kong)	Sale of computers and communication products	99.79	99.79
WLII	Wellife Inc. (“WELL”, Taiwan)	Matchmaking of professional services, platform of client service and sale of products, and providing of professional seminars and courses	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)	Software design service	100.00	100.00
ADSC	MPS Energy Inc. (“MPS”, Taiwan)	Research, development, and sale of batteries	100.00	-
The Company	Acer Worldwide Incorporated (“AWT”, 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
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
AEB	XPLOVA Inc. (“XPL”, Taiwan)	Internet service of outdoor sports	100.00	-

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Notes to Consolidated Financial Statements

Name of Investor	Name of Investee	Main Business and Products	Percentage of Ownership	
			2015.12.31	2014.12.31
ACCSI	TWP International Inc. ("TWPBVI", British Virgin Islands)	Investment and holding activity	100.00	100.00
TWPBVI	Acer Third Wave Software (Beijing) Co., Ltd. ("TWBJ", 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
The Company	Acer Cloud Technology (Chongqing) Ltd. ("ACTCQ", China)	Design, development, sales, and advisory of computer software and hardware	100.00	-

XPL was acquired in 2015. WELL, MPS, ACTCQ, and ASIN were newly established subsidiaries during 2015. In 2014, the subsidiaries LGS and LTS were liquidated and were excluded from consolidation since the Group ceased control thereof.

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

(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.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

- (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.

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

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.

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

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).

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

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

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.

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.

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

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 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,

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

(8) Inventories

Inventories are measured at the lower of cost and net realizable value. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost at the end of the reporting period. 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 or jointly control, over the financial and operating policies.

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

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

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.

When an associate issues new shares and the Group does not subscribe to new shares in proportion to its original ownership percentage, the Group's interest in the associate's net assets will be changed. The change in the equity interest is adjusted through the capital surplus and investment accounts. If the Group's capital surplus is insufficient to offset the adjustment to investment accounts, the difference is charged as a reduction of retained earnings. If the Group's interest in an associate is reduced due to the additional subscription to the shares of associate by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate shall be reclassified to profit or loss on the same basis as would be required if the associate had directly disposed of the related assets or liabilities.

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.

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

The estimated useful lives of property, plant and equipment for the current and comparative periods 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.

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

(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 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 15 years; acquired software - 1 to 3 years.

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

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.

(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, and assets arising from employee benefits 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time values of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. 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.

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ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(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 discount 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.

(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). 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.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

(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.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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.

(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. The discount rate for calculating the present value of the defined benefit obligation refers to the interest rate of high-quality 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 obligation.

The defined benefit obligation is calculated annually by qualified actuaries using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total amount of the present value of the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The minimum funding requirements of any plans applicable to the Group should be taken into consideration when determining the present value of the economic benefits. An economic benefit is available to the Group if it is realizable during the life of the plan or upon settlement of the plan liabilities.

When the benefits of a plan are improved, the expenses related to the increased obligations resulting from the services rendered by employees in the past years are recognized in profit or loss immediately.

The remeasurements of the net defined benefit liability (asset) comprise (i) actuarial gains and losses; (ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and (iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). The remeasurements of the net defined benefit liability (asset). The remeasurements of the net defined benefit liability (asset) are recognized in other comprehensive income and then transferred immediately to other equity.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 and any change in the present value of the defined benefit obligation.

(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.

The grant date of options for employees to subscribe new shares for a cash injection is the date when the Board of Directors approves the exercise price and the shares to 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.

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

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

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

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.

(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, restricted shares of stock issued to employees, and profit sharing for employees to be settled in the form of common stock.

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ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(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 the Regulations and 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.

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 earning process is completed. 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(10) 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.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) Realization 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 judgment and estimate, including the future revenue growth, profitability, and feasible tax planning strategies. Any changes in the globe economic environment, the industry trends and relevant laws and regulations could result in significant adjustments to the deferred tax assets.

(4) Valuation of inventory

Inventories are stated at the lower of cost or net realizable value. 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.

(5) 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.

6. Significant account disclosures

(1) Cash and cash equivalents

	December 31, 2015	December 31, 2014
Cash on hand	\$ 5,625	5,982
Bank deposits	29,919,118	33,805,507
Time deposits	<u>14,696,784</u>	<u>13,747,162</u>
	\$ <u>44,621,527</u>	<u>47,558,651</u>

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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, 2015	December 31, 2014
Financial assets held for trading—current:		
Derivatives—Foreign currency forward contracts	\$ 783,900	1,899,626
Derivatives—Foreign currency options	<u>7,675</u>	<u>-</u>
	<u>\$ 791,575</u>	<u>1,899,626</u>
Financial liabilities held for trading—current:		
Derivatives—Foreign currency forward contracts	\$ (318,934)	(101,728)
Financial liabilities at fair value through profit or loss—current:		
Redemption options of convertible bonds (note 6(12))	<u>-</u>	<u>(522,499)</u>
Financial liabilities at fair value through profit or loss	<u>\$ (318,934)</u>	<u>(624,227)</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:

(a) Foreign currency forward contracts

		December 31, 2015		
	Contract amount (in thousands)	Buy	Sell	Maturity period
EUR	14,815	CHF	/ EUR	2016/01
EUR	2,547	DKK	/ EUR	2016/01
EUR	312	NOK	/ EUR	2016/01
EUR	2,546	EUR	/ DKK	2016/01
EUR	11,566	EUR	/ CHF	2016/01~2016/04
EUR	1,767	EUR	/ NOK	2016/01~2016/03
EUR	9,169	EUR	/ SEK	2016/01~2016/04
EUR	343,896	EUR	/ USD	2016/01
USD	50,880	USD	/ AUD	2016/01~2016/04
USD	23,319	USD	/ CAD	2016/01~2016/02
USD	105,000	USD	/ CNY	2016/01~2016/03
EUR	500,000	USD	/ EUR	2016/01~2016/07
USD	86,616	USD	/ GBP	2016/01~2016/04
USD	25,600	USD	/ IDR	2016/01~2016/02
USD	147,858	USD	/ INR	2016/01~2016/06
USD	34,000	USD	/ JPY	2016/01~2016/09
USD	79,000	USD	/ MXN	2016/01~2016/06
USD	27,300	USD	/ MYR	2016/01~2016/03
USD	653,800	USD	/ NTD	2016/01
USD	10,213	USD	/ NZD	2016/01~2016/04
USD	6,989	USD	/ PHP	2016/01~2016/05

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2015

Contract amount (in thousands)		Buy	Sell	Maturity period
USD	3,458	USD	/ RUB	2016/01
USD	9,000	USD	/ SGD	2016/01~2016/03
USD	70,000	USD	/ THB	2016/01~2016/05
USD	12,000	USD	/ CLP	2016/04~2016/05
USD	104,000	NTD	/ USD	2016/01~2016/02
USD	1,034	RUB	/ USD	2016/01
USD	8,200	CNY	/ USD	2016/01

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

(b) Foreign currency option contracts

(i) Long call

	December 31, 2015		
	Contract amount (in thousands)		Maturity period
USD Call/INR Put	USD	23,000	2016/01~2016/06
USD Call/CNY Put	USD	5,000	2016/01

(ii) Long put

	December 31, 2015		
	Contract amount (in thousands)		Maturity period
USD Call/EUR Put	EUR	30,000	2016/01

(iii) Short put

	December 31, 2015		
	Contract amount (in thousands)		Maturity period
CNY Call/USD Put	USD	5,000	2016/01

(3) Available-for-sale financial assets

	December 31, 2015	December 31, 2014
Domestic listed stock	\$ 2,305,026	3,264,003
Unlisted stock	<u>948,058</u>	<u>742,283</u>
	\$ <u>3,253,084</u>	<u>4,006,286</u>
Current	\$ 93,313	146,479
Non-current	<u>3,159,771</u>	<u>3,859,807</u>
	\$ <u>3,253,084</u>	<u>4,006,286</u>

As of December 31, 2015 and 2014, the available-for-sale financial assets were not pledged as collateral for loans and borrowings.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Notes and accounts receivable, net

	December 31, 2015	December 31, 2014
Notes receivable	\$ 1,103,681	1,269,167
Accounts receivable	47,213,296	58,095,839
Less: allowance for doubtful receivables	<u>(143,950)</u>	<u>(197,275)</u>
	48,173,027	59,167,731
Notes and accounts receivable – related parties	<u>52,749</u>	<u>23,837</u>
	<u>\$ 48,225,776</u>	<u>59,191,568</u>

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

	December 31, 2015	December 31, 2014
Past due 1-30 days	\$ 5,494,233	4,999,216
Past due 31-60 days	703,809	775,218
Past due 61-90 days	132,573	738,515
Past due 91 days or over	<u>200,642</u>	<u>632,636</u>
	<u>\$ 6,531,257</u>	<u>7,145,585</u>

For the years ended December 31, 2015 and 2014, movements of the allowance for doubtful receivables were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2015	\$ 192,248	5,027	197,275
Provision of impairment loss	15,553	3,123	18,676
Write-off	(67,852)	-	(67,852)
Effect of exchange rate changes	<u>(4,149)</u>	<u>-</u>	<u>(4,149)</u>
Balance at December 31, 2015	<u>\$ 135,800</u>	<u>8,150</u>	<u>143,950</u>

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	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>

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.

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, 2015					
Underwriting bank	Factoring credit limit	Receivables sold	Receivables derecognized	Interest rate	Collateral
Taishin International Bank	\$ <u>170,000</u>	<u>17,391</u>	<u>17,391</u>	-	Nil

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
	<u>\$ 1,700,000</u>	<u>281,372</u>	<u>281,372</u>	1.51%~1.77%	

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, 2015 and 2014, the notes and accounts receivable were not pledged as collateral for loans and borrowings.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(5) Other receivables

	December 31, 2015	December 31, 2014
Receivables from reimbursement of advertising expense	\$ 190,030	107,271
Receivables from purchase discount	677,179	759,450
Other receivables	<u>442,763</u>	<u>394,910</u>
	\$ <u>1,309,972</u>	<u>1,261,631</u>

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.

(6) Inventories

	December 31, 2015	December 31, 2014
Raw materials	\$ 8,158,604	9,661,265
Work in process	2,313	1,892
Finished goods and merchandise	17,907,866	15,964,434
Spare parts	1,398,905	1,464,540
Inventories in transit	<u>6,575,910</u>	<u>9,508,356</u>
	\$ <u>34,043,598</u>	<u>36,600,487</u>

For the years ended December 31, 2015 and 2014, the cost of inventories sold amounted to \$202,112,665 and \$256,422,720, respectively. For the year ended December 31, 2015 and 2014, the write-down of inventories to net realizable value amounted to \$3,527,826 and \$1,327,718, respectively.

As of December 31, 2015 and 2014, the inventories were not pledged as collateral.

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Notes to Consolidated Financial Statements

(7) 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, 2015		December 31, 2014	
	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
Aegis Semiconductor Technology Inc. ("Aegis")	44.04%	15,778	44.04%	15,778
ECOM Software Inc. ("ECOM")	33.93%	24,385	33.93%	23,154
Bluechip Infotech Pty Ltd. ("Bluechip")	29.26%	68,459	30.00%	74,226
Innovation and Commercialization Accelerator Inc. ("ICA")	30.00%	30,646	-	-
Others	-	<u>16,906</u>	-	<u>29,303</u>
		\$ <u>155,992</u>		<u>142,461</u>
		2015		2014
Share of profits of associates		\$ <u>529</u>		<u>125,629</u>

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

As of December 31, 2015 and 2014, the investments in associates were not pledged as collateral.

(8) 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, 2015	\$ 1,645,601	4,028,978	4,358,353	3,302,479	1,064	13,336,475
Additions	-	27,589	68,690	164,085	7,290	267,654
Disposals	-	(2,837)	(44,527)	(167,181)	(1,006)	(215,551)
Reclassification to investment property	(68,704)	(76,036)	-	-	-	(144,740)
Other reclassification and effect of exchange rate changes	<u>(48,331)</u>	<u>(222,030)</u>	<u>(11,498)</u>	<u>(141,649)</u>	<u>(5,815)</u>	<u>(429,323)</u>
Balance at December 31, 2015	\$ <u>1,528,566</u>	<u>3,755,664</u>	<u>4,371,018</u>	<u>3,157,734</u>	<u>1,533</u>	<u>12,814,515</u>

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Land	Buildings	Computer and communication equipment	Other equipment	Construction in progress	Total
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>
Accumulated depreciation and impairment loss:						
Balance at January 1, 2015	\$ 159,106	2,625,819	2,875,941	2,191,548	-	7,852,414
Depreciation	-	109,399	331,528	235,180	-	676,107
Disposals	-	(2,833)	(42,098)	(102,376)	-	(147,307)
Reclassification to investment property	-	(55,391)	-	-	-	(55,391)
Other reclassification and effect of exchange rate changes	1,384	(232,236)	(16,154)	(91,714)	-	(338,720)
Balance at December 31, 2015	<u>\$ 160,490</u>	<u>2,444,758</u>	<u>3,149,217</u>	<u>2,232,638</u>	<u>-</u>	<u>7,987,103</u>
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	(7,692)	(1,998)	2,943	(93,423)	-	(100,170)
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>
Carrying amounts:						
Balance at December 31, 2015	<u>\$ 1,368,076</u>	<u>1,310,906</u>	<u>1,221,801</u>	<u>925,096</u>	<u>1,533</u>	<u>4,827,412</u>
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>

(9) Investment property

	Land	Buildings	Total
Cost or deemed cost:			
Balance at January 1, 2015	\$ 1,127,848	3,158,705	4,286,553
Disposals	(939)	(812)	(1,751)
Reclassification from property, plant and equipment	68,704	76,036	144,740
Balance at December 31, 2015	<u>\$ 1,195,613</u>	<u>3,233,929</u>	<u>4,429,542</u>
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>

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Land	Buildings	Total
Accumulated depreciation and impairment loss:			
Balance at January 1, 2015	\$ 443,724	2,729,762	3,173,486
Depreciation	-	8,778	8,778
Disposals	-	(812)	(812)
Reclassification from property, plant and equipment	-	55,391	55,391
Balance at December 31, 2015	<u>\$ 443,724</u>	<u>2,793,119</u>	<u>3,236,843</u>
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>
Carrying amounts:			
Balance at December 31, 2015	<u>\$ 751,889</u>	<u>440,810</u>	<u>1,192,699</u>
Balance at December 31, 2014	<u>\$ 684,124</u>	<u>428,943</u>	<u>1,113,067</u>
Fair value:			
Balance at December 31, 2015			<u>\$ 1,638,690</u>
Balance at December 31, 2014			<u>\$ 1,532,827</u>

The fair value of the investment property is determined by referring to the market price of similar real estate, the adjusted value on the basis of valuation (the inputs, used in the fair value measurement, which were classified to level 3) 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 the future cash flows from continuous lease activities. On December 31, 2015 and 2014, the estimated discount rates used for calculating the present value of the future cash flows were 4.51% and 5.40%, respectively.

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, 2015 and 2014, investment property was not pledged as collateral.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) 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, 2015				
Cost	\$ 26,473,881	10,576,769	12,722,740	49,773,390
Accumulated amortization and impairment loss	<u>(4,635,184)</u>	<u>(10,377,540)</u>	<u>(8,033,119)</u>	<u>(23,045,843)</u>
Balance at January 1, 2015	21,838,697	199,229	4,689,621	26,727,547
Additions	-	-	62,930	62,930
Disposals	-	-	(20,536)	(20,536)
Reclassification	-	-	14,342	14,342
Amortization	-	(17,802)	(894,681)	(912,483)
Effect of exchange rate changes	<u>635,167</u>	<u>(241)</u>	<u>102,701</u>	<u>737,627</u>
Balance at December 31, 2015	<u>\$ 22,473,864</u>	<u>181,186</u>	<u>3,954,377</u>	<u>26,609,427</u>
December 31, 2015				
Cost	\$ 27,276,201	10,566,908	12,762,694	50,605,803
Accumulated amortization and impairment loss	<u>(4,802,337)</u>	<u>(10,385,722)</u>	<u>(8,808,317)</u>	<u>(23,996,376)</u>
Carrying amount	<u>\$ 22,473,864</u>	<u>181,186</u>	<u>3,954,377</u>	<u>26,609,427</u>
January 1, 2014				
Cost	\$ 25,452,036	10,430,695	14,989,997	50,872,728
Accumulated amortization and impairment loss	<u>(4,365,349)</u>	<u>(10,215,713)</u>	<u>(7,571,578)</u>	<u>(22,152,640)</u>
Balance at January 1, 2014	21,086,687	214,982	7,418,419	28,720,088
Addition	-	-	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	<u>937,323</u>	<u>1,533</u>	<u>215,147</u>	<u>1,154,003</u>
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	<u>(4,635,184)</u>	<u>(10,377,540)</u>	<u>(8,033,119)</u>	<u>(23,045,843)</u>
Carrying amount	<u>\$ 21,838,697</u>	<u>199,229</u>	<u>4,689,621</u>	<u>26,727,547</u>

In 2014, 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.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	2015	2014
Cost of revenue	\$ <u>1,752</u>	<u>2,662</u>
Operating expenses	\$ <u>910,731</u>	<u>1,107,312</u>

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

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, 2015 and 2014, were as follows:

December 31, 2015				
	RO-EMEA	RO-PA	RO-PAP	Multiple CGUs without significant goodwill
Goodwill	\$ 12,340,616	2,009,719	8,105,807	17,722
Trademarks & trade names	102,867	30,279	16,495	-
December 31, 2014				
	RO-EMEA	RO-PA	RO-PAP	Multiple CGUs without significant goodwill
Goodwill	\$ 11,977,977	1,931,403	7,911,595	17,722
Trademarks & trade names	102,867	30,279	66,083	-

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.

On December 31, 2015 and 2014, based on the results of the impairment tests conducted by the Group, the recoverable amount of each CGU, determined based on the value in use, exceeded its carrying amount; and therefore no impairment loss was recognized.

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
2015.12.31	0%~5%	0%~5%	0%~5%
2014.12.31	0%	0%	0%

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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
2015.12.31	18.8%	12.0%	15.9%
2014.12.31	17.4%	9.3%	15.2%

The estimation of discount rate is based on the weighted average cost of capital.

(11) Short-term borrowings

	December 31, 2015	December 31, 2014
Unsecured bank loans	\$ <u>2,584,377</u>	<u>317,000</u>
Unused credit facilities	\$ <u>32,392,859</u>	<u>33,481,766</u>
Interest rate	<u>1.13%~17.28%</u>	<u>1.16%~1.42%</u>

(12) Long-term debt and bonds payable

	December 31, 2015	December 31, 2014
Citibank syndicated loan	\$ 1,800,000	7,200,000
Overseas convertible bonds	-	3,634,818
Domestic convertible bonds	5,966,431	5,880,437
Less: current portion of long-term debt	(1,800,000)	(3,600,000)
Less: current portion of bonds payable	<u>(5,966,431)</u>	<u>(3,634,818)</u>
	\$ <u>-</u>	<u>9,480,437</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(a) Bank loans

Type of Loan	Creditor	Credit Line	Term	December 31, 2015	December 31, 2014
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. The amount of \$1.8 billion was prepaid in November 2015.	\$ 1,800,000	7,200,000
		Revolving tranche of \$6 billion; five-year limit	The credit facility has not yet been used until the maturity in April 2015.	-	-
Less: current portion of long-term debt				<u>(1,800,000)</u>	<u>(3,600,000)</u>
				<u>\$ -</u>	<u>3,600,000</u>
Unused credit facilities				<u>\$ -</u>	<u>4,800,000</u>
Interest rate				<u>1.59%</u>	<u>1.71%</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. On 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. On June 12, 2015, the Group obtained a waiver from the syndicated banks, which exempted the Group from complying with the required financial covenants on December 31, 2014.

On December 31, 2015, the Group was not in compliance with some of the financial covenants.

(b) Overseas convertible bonds

	2015	2014
Bonds payable:		
Beginning balance	\$ 3,634,818	3,179,548
Redemption	(3,622,969)	-
Amortization of bond discount and transaction cost (recognized as interest expense)	91,785	255,052
Unrealized exchange loss (gain) on bonds payable	<u>(103,634)</u>	<u>200,218</u>
	-	3,634,818
Less: current portion of bonds payable	<u>-</u>	<u>(3,634,818)</u>
Ending balance	<u>\$ -</u>	<u>-</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2015	2014
Financial liabilities at fair value through profit or loss (redemption options of the convertible bonds):		
Beginning balance	\$ 522,499	496,143
Redemption	(500,506)	-
Evaluation loss (gain)	<u>(21,993)</u>	<u>26,356</u>
	-	522,499
Less: current portion	<u>-</u>	<u>(522,499)</u>
Ending balance	<u>\$ -</u>	<u>-</u>

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

i. The 2015 Bonds

- i) Par value US\$300,000 thousand
- 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 May 19, 2015 (the last redemption date), the conversion price was \$100.59 (in New Taiwan 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”).

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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 thousand |
| 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 September 14, 2015 (the last redemption date), the conversion price was \$103.5 (in New Taiwan 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 2015, the bondholders required the Group to redeem the bonds payable; furthermore, the Group repurchased the bonds payable on the open market. The aggregated redemption and purchase price was US\$105,200 thousand and the gain on purchase and redemption of bonds payable of \$446,429 (classified under non-operating income and loss) was recognized.

(c) Domestic convertible bonds

	2015	2014
Bonds payable:		
Beginning balance	\$ 5,880,437	5,794,965
Amortization of bond discount (recognized as interest expense)	<u>85,994</u>	<u>85,472</u>
Ending balance	\$ <u>5,966,431</u>	<u>5,880,437</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	December 31, 2015	December 31, 2014
Capital surplus — conversion right (note 6(17))	\$ <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 \$24.97 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.

vii. Redemption at maturity

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

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(13) Provisions

		Warranties	Litigation	Sales returns	Restructuring	Environmental protection and others	Total
Balance at January 1, 2015	\$	6,615,333	773,811	1,320,922	125,918	264,214	9,100,198
Provisions made		6,162,486	167,887	3,410,695	-	101,534	9,842,602
Amount utilized		(7,102,723)	(283,864)	(3,702,519)	(116,467)	(140,928)	(11,346,501)
Amount reversed		(17,686)	(284,945)	-	-	(143)	(302,774)
Effect of exchange rate changes		(246,411)	(11,962)	45,551	(9,451)	3,399	(218,874)
Balance at December 31, 2015	\$	<u>5,410,999</u>	<u>360,927</u>	<u>1,074,649</u>	<u>-</u>	<u>228,076</u>	<u>7,074,651</u>
Current	\$	5,410,999	358,564	1,074,649	-	135,493	6,979,705
Non-current		-	2,363	-	-	92,583	94,946
	\$	<u>5,410,999</u>	<u>360,927</u>	<u>1,074,649</u>	<u>-</u>	<u>228,076</u>	<u>7,074,651</u>
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>

(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.

(c) Sales returns

Expected sales returns are estimated based on historical experience.

(d) Restructuring

A restructuring provision is recognized when a detailed formal restructuring plan is in place. Also, the plan has to be either implemented or its main features has be to announced to those who are affected by it.

(e) Environmental protection and others

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

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(14) 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, 2015	December 31, 2014
Not later than 1 year	\$ 633,374	553,268
Later than 1 year but not later than 5 years	1,004,268	871,125
Later than 5 years	<u>493,379</u>	<u>448,369</u>
	\$ <u>2,131,021</u>	<u>1,872,762</u>

For the years ended December 31, 2015 and 2014, rental expenses of \$933,017 and \$1,032,235, 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.

(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, 2015	December 31, 2014
Not later than 1 year	\$ 35,313	31,312
Later than 1 year but not later than 5 years	<u>26,945</u>	<u>25,654</u>
	\$ <u>62,258</u>	<u>56,966</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In 2015 and 2014, the rental income from investment property amounted to \$96,326 and \$89,205, respectively. Related repair and maintenance expenses were as follows:

	2015	2014
Arising from investment property that generated rental income during the period	\$ 29,154	26,221
Arising from investment property that did not generate rental income during the period	<u>71,352</u>	<u>76,959</u>
	<u><u>\$ 100,506</u></u>	<u><u>103,180</u></u>

(15) Employee benefits

(a) Defined benefit plans

The reconciliation between the present value of defined benefit obligations and the net defined benefit liabilities (assets) for defined benefit plans was as follows:

	December 31, 2015	December 31, 2014
Present value of benefit obligations	\$ 2,312,528	2,056,189
Fair value of plan assets	<u>(1,084,928)</u>	<u>(1,051,029)</u>
Net defined benefit liabilities (classified under other non-current liabilities)	<u><u>\$ 1,227,600</u></u>	<u><u>1,005,160</u></u>

	December 31, 2015	December 31, 2014
Present value of benefit obligations	\$ 34,629	32,488
Fair value of plan assets	<u>(72,292)</u>	<u>(71,121)</u>
Net defined benefit assets (classified under other non-current assets)	<u><u>\$ (37,663)</u></u>	<u><u>(38,633)</u></u>

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, ACN and ACF, also have defined benefit pension plans based on their respective local laws and regulations.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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, 2015 and 2014, the Group’s fair value of plan assets, by major categories, was as follows:

	December 31, 2015	December 31, 2014
Cash	\$ 636,788	669,861
Equity instruments	287,899	255,014
Instruments with fixed return	121,803	115,478
Real estate	<u>110,730</u>	<u>81,797</u>
	\$ <u>1,157,220</u>	<u>1,122,150</u>

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.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

ii. Movements in present value of the defined benefit obligations

In 2015 and 2014, the movements in present value of the defined benefit obligations of the Group were as follows:

	2015	2014
Defined benefit obligations at January 1	\$ 2,088,677	2,029,872
Current service costs	270,851	222,829
Net interest expense	37,009	44,919
Remeasurement on the net defined benefit liabilities (assets) :		
Actuarial loss (gain) arising from experience adjustments	63,957	(35,929)
Actuarial loss (gain) arising from changes in population assumption	(2,850)	-
Actuarial loss (gain) arising from changes in financial assumption	34,922	70,986
Benefits paid by the plan	(229,919)	(210,355)
Settlement loss (curtailment gain)	7,929	(2,331)
Effect of exchange rate changes	48,509	(58,685)
Contributions by plan participants	<u>28,072</u>	<u>27,371</u>
Defined benefit obligations at December 31	\$ <u>2,347,157</u>	<u>2,088,677</u>

iii. Movements in fair value of plan assets

In 2015 and 2014, the movements in fair value of plan assets of the Group were as follows:

	2015	2014
Fair value of plan assets at January 1	\$ 1,122,150	1,197,180
Remeasurement on the net defined benefit liabilities (assets):		
Return on plan assets (excluding amounts included in net interest expense)	(8,492)	(19,325)
Benefits paid by the plan	(222,935)	(199,046)
Interest income	19,555	25,418
Contributions by plan participants	28,072	27,371
Contributions by the employer	188,624	146,064
Effect of exchange rate changes	<u>30,246</u>	<u>(55,512)</u>
Fair value of plan assets at December 31	\$ <u>1,157,220</u>	<u>1,122,150</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

iv. Changes in the effect of the asset ceiling

In 2015 and 2014, there was no effect of the asset ceiling.

v. Expenses recognized in profit or loss

In 2015 and 2014, the expenses recognized in profit or loss were as follows:

	2015	2014
Current service costs	\$ 270,851	222,829
Net interest expense	17,454	19,501
Settlement loss (curtailment gain)	7,929	(2,331)
	<u>\$ 296,234</u>	<u>239,999</u>
Classified under operating expense	<u>\$ 296,234</u>	<u>239,999</u>

vi. Remeasurement of net defined benefit liabilities (assets) recognized in other comprehensive income

In 2015 and 2014, the remeasurement of the net defined benefit liabilities (assets) recognized in other comprehensive income were as follows:

	2015	2014
Cumulative amount at January 1	\$ 44,447	98,829
Recognized during the period	(104,521)	(54,382)
Cumulative amount at December 31	<u>\$ (60,074)</u>	<u>44,447</u>

vii. Actuarial assumptions

The principal assumptions of the actuarial valuation were as follows:

	December 31, 2015	December 31, 2014
Discount rate	0.80%~9.03%	0.90%~8.30%
Future salary increase rate	1.90%~6.00%	1.80%~6.00%

The Group expects to make contribution of \$136,256 to the defined benefit plans in the year following December 31, 2015. The weighted average duration of the defined benefit plans is ranged from 12.86 years to 22.60 years.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

viii. Sensitivity analysis

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.

The following table summarizes the impact of a change in the assumptions on the present value of the defined benefit obligation on December 31, 2015.

	Discount rate		Change in salary rate	
	0.25% Increase	0.25% Decrease	0.25% Increase	0.25% Decrease
Increase (decrease) in present value of defined benefit obligation	\$ <u>(99,814)</u>	<u>112,284</u>	<u>59,256</u>	<u>(59,335)</u>

Each sensitivity analysis considers the change in one assumption at a time, leaving the other assumptions unchanged. This approach shows the isolated effect of changing one individual assumption but does not take into account that some assumptions are related. The method used to carry out the sensitivity analysis is the same as the calculation of the net defined benefit liabilities recognized in the balance sheets.

The method used to carry out the sensitivity analysis is the same as in the prior year.

(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.

For the years ended December 31, 2015 and 2014, the Group recognized pension expenses of \$375,423 and \$389,109, respectively, in relation to the defined contribution plans.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(16) 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 2015 and 2014. Foreign subsidiaries calculated income tax in accordance with their respective local tax law and regulations. The components of income tax expense for the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Current income tax expense		
Current period	\$ 212,787	623,097
Adjustments for prior years	<u>(79,004)</u>	<u>(35,881)</u>
	<u>133,783</u>	<u>587,216</u>
Deferred tax expense		
Origination and reversal of temporary differences	68,152	448,267
Change in unrecognized deductible temporary differences and tax losses	<u>40,827</u>	<u>(211,648)</u>
	<u>108,979</u>	<u>236,619</u>
Income tax expense	<u><u>\$ 242,762</u></u>	<u><u>823,835</u></u>

In 2015 and 2014, the components of income tax expense (benefit) recognized in other comprehensive income were as follows:

	2015	2014
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit plans	\$ 12,130	(2,607)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	<u>623</u>	<u>375</u>
	<u><u>\$ 12,753</u></u>	<u><u>(2,232)</u></u>

Reconciliation of the expected income tax expense calculated based on the R.O.C. statutory tax rate compared with the actual income tax expense as reported in the consolidated statements of comprehensive income for 2015 and 2014 was as follows:

	2015	2014
Income before taxes	<u><u>\$ 846,557</u></u>	<u><u>2,614,419</u></u>
Income tax using the Company's statutory tax rate	\$ 143,915	444,451
Effect of different tax rates in foreign jurisdictions	(149,371)	815,445
Adjustments for prior-year income tax expense	(79,004)	(35,881)
Taxable loss not qualified to be carried forward	-	149,582
Change in unrecognized temporary differences and tax losses	40,827	(211,648)
Others	<u>286,395</u>	<u>(338,114)</u>
	<u><u>\$ 242,762</u></u>	<u><u>823,835</u></u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Deferred income tax assets and liabilities

i. Unrecognized deferred income tax assets

	December 31, 2015	December 31, 2014
Deductible temporary differences	\$ 6,598,461	6,951,267
Tax losses	<u>7,606,851</u>	<u>7,450,099</u>
	\$ <u>14,205,312</u>	<u>14,401,366</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, 2015, the unrecognized tax losses and the respective expiry years were as follows:

<u>Tax effects of tax losses</u>	<u>Year of expiry</u>
\$ 359,091	2016
88,038	2017
193,280	2018
368,104	2019
<u>6,598,338</u>	2020 and thereafter
\$ <u>7,606,851</u>	

ii. Unrecognized deferred income tax liabilities

	December 31, 2015	December 31, 2014
Net profits associated with investments in subsidiaries	\$ <u>4,378,941</u>	<u>4,615,822</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.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

iii. Recognized deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities for 2015 and 2014 were as follows:

Deferred income tax assets:

	Inventory	Accrual expense and provisions	Unused loss carryforwards	Others	Total
Balance at January 1, 2015	\$ 211,256	460,914	235,826	110,568	1,018,564
Recognized in profit or loss	(41,445)	(83,160)	16,240	36,846	(71,519)
Recognized in other comprehensive income	-	-	-	15,188	15,188
Effect of exchange rate changes	-	-	-	(124,087)	(124,087)
Balance at December 31, 2015	<u>\$ 169,811</u>	<u>377,754</u>	<u>252,066</u>	<u>38,515</u>	<u>838,146</u>
Balance at January 1, 2014	\$ 341,964	910,916	519,838	131,165	1,903,883
Recognized in profit or loss	(130,708)	(450,002)	(284,012)	71,608	(793,114)
Recognized in other comprehensive income	-	-	-	5,204	5,204
Effect of exchange rate changes	-	-	-	(97,409)	(97,409)
Balance at December 31, 2014	<u>\$ 211,256</u>	<u>460,914</u>	<u>235,826</u>	<u>110,568</u>	<u>1,018,564</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, 2015	\$ 514,047	5,275	867,100	10,862	1,397,284
Recognized in profit or loss	46,723	2,590	(12,819)	966	37,460
Recognized in other comprehensive income	-	-	-	2,435	2,435
Balance at December 31, 2015	<u>\$ 560,770</u>	<u>7,865</u>	<u>854,281</u>	<u>14,263</u>	<u>1,437,179</u>
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>

- (c) Except for 2012, the Company's income tax returns for the years through 2013 were examined and approved by the R.O.C. income tax authorities.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Information about the integrated income tax system

	December 31, 2015	December 31, 2014 (Restated)
Unappropriated earnings earned commencing from January 1, 1998	\$ <u>520,235</u>	<u>903,649</u>
Balance of imputation credit account	\$ <u>1,918,373</u>	<u>1,729,121</u>
	2015 (estimated)	2014 (actual)
Creditable ratio for distribution of earnings to R.O.C. residents	<u>20.48%</u>	<u>20.48%</u>

Effective January 1, 2015, the creditable ratio for distribution of earnings to R.O.C. residents is half of the original creditable ratio mentioned above in accordance with the amended Income Tax Act. Furthermore, the 10% surtax paid on any unappropriated earnings for the years following December 31, 1997 can be credited against the dividend withholding tax for non-resident stockholders once the Company distributes its dividends from the corresponding retained earnings in the subsequent years. According to the amended Income Tax Act, effective January 1, 2015, only half of the retained earnings tax paid can be credited against the dividend withholding tax.

(17) Capital and other equity

(a) Common stock

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, and the related registration process has been completed.

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. The issuance has been approved by the securities and Futures Bureau of the FSC and the Company has issued 17,460,000 restricted shares of stock to employees on August 26, 2014. The effective date of the capital increase was set on the same date. The related registration process has been completed.

In 2015, the Company recalled 1,125,000 of its restricted shares of stock due to the resignation and retirement of certain employees, as well as failing to meet certain vesting conditions. On August 6, 2015, the Board of Directors approved a resolution to retire 1,125,000 restricted shares of stock for which the effective date of the retirement was August 31, 2015. The related registration process has been completed.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2015 and 2014, the Company's authorized shares of common stock consisted of 3,500,000,000 shares, of which 3,085,442,828 shares and 2,796,567,828 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, 2015 and 2014, the Company had issued 6,833 thousand units and 6,862 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 2015 and 2014 were as follows (in thousands of shares):

	Ordinary Shares	
	2015	2014
Balance at January 1	2,722,362	2,722,362
Issuance of new shares for cash	300,000	-
Vested restricted shares of stock	3,915	-
Balance at December 31	<u>3,026,277</u>	<u>2,722,362</u>

(b) Capital surplus

	December 31, 2015	December 31, 2014
Share premium:		
Paid-in capital in excess of par value	\$ 16,251,978	13,904,632
Surplus from mergers	19,475,618	19,538,716
Others:		
Employee share options	90,000	90,000
Surplus from equity-method investments	163,012	167,674
Conversion right of convertible bonds (note 6(12))	261,000	261,000
Restricted shares of stock issued to employees	(8,853)	136,374
	<u>\$ 36,232,755</u>	<u>34,098,396</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.

(Continued)

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.

In accordance with the amendments to the Company Act in May 2015, employee bonus and the remuneration for directors are no longer subject to earnings distribution. According, the Company expects to make amendments to its articles of incorporation to be approved during the 2016 annual shareholders' meeting.

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.

(Continued)

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

After offsetting the deduction on retained earnings arising from the retirement of treasury stock and actuarial loss from the defined benefit plans and the appropriation of legal reserve and special reserve of \$93,166 and \$838,498, respectively, there were no earnings for 2014; therefore, the Company's shareholders decided not to distribute any earnings during their meeting on June 23, 2015.

During the shareholders' meeting held on June 18, 2014, the Company's shareholders decided not to distribute any earnings for 2013 as the Company incurred a net loss in that year. The shareholders also approved a decrease in its legal reserve, special reserve and capital surplus of \$10,012,168, \$3,460,642, and \$8,325,852, respectively, to offset accumulated deficit. Related information on 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 distribution in 2014, no employee bonuses or remuneration for directors and supervisors was accrued for the year ended December 31, 2014; except for the remunerations for directors and supervisors of \$15,990, which was accrued regardless of whether there is operating profit or loss according to the Company's article of incorporation. There was no difference between the actual distribution approved by the shareholders and the estimation accrued by the Company. Related information on the distribution of employee bonuses 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. On August 6, 2015, the Board of Directors approved a resolution to retire 10,000,000 shares of treasury stock for which the effective date of the retirement of treasury stock was August 31, 2015. The related registration process has been completed.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

As of December 31, 2015 and 2014, 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, 2015			
	Number of shares	Carrying amount	Market value
Common stock	21,809	\$ 945,239	263,889
GDRs	24,937	<u>1,969,617</u>	<u>280,356</u>
		<u>\$ 2,914,856</u>	<u>544,245</u>

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>

(e) Other equity items (net after tax)

i. Foreign currency translation differences:

	2015	2014
Balance at January 1	\$ 1,183,808	(262,231)
Foreign exchange differences arising from translation of foreign operations	<u>253,604</u>	<u>1,446,039</u>
Balance at December 31	<u>\$ 1,437,412</u>	<u>1,183,808</u>

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	2015	2014
Balance at January 1	\$ (114,205)	(1,163,645)
Changes in fair value of available-for-sale financial assets	(955,117)	1,049,440
Net gain on disposal of available-for-sale financial assets reclassified to profit or loss	<u>(35,243)</u>	<u>-</u>
Balance at December 31	<u>\$ (1,104,565)</u>	<u>(114,205)</u>

iii. Remeasurement of defined benefit plans:

	2015	2014 (Restated)
Balance at January 1	\$ 28,015	85,004
Change in the period	<u>(92,391)</u>	<u>(56,989)</u>
Balance at December 31	<u>\$ (64,376)</u>	<u>28,015</u>

v. Unearned compensation cost:

	2015	2014
Balance at January 1	\$ (251,710)	-
Unearned compensation cost arising from restricted shares of stock issued to employees	<u>211,744</u>	<u>(251,710)</u>
Balance at December 31	<u>\$ (39,966)</u>	<u>(251,710)</u>

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(18) Share-based payment

In 2015 and 2014, the Group had 3 share-based payment transactions as follows:

	Equity-settled		
	Employee stock option plans (ESOPs) of the Company	Restricted shares of stock issued to employees	Issuance of new shares partially reserved for employee subscription
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 were 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 were granted to the full-time employees who were with the Company at the grant date.

(a) Employee stock option plan

Movements in number of ESOPs outstanding:

	2014	
	The Company's ESOPs	
	Number of options (in thousands)	Weighted-average exercise price (in New Taiwan dollars)
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

(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 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.

The movements in number of restricted shares of stock issued (in thousands) in 2015 and 2014 were as follows:

	2015	2014
Beginning of the year	17,220	-
Granted	(3,915)	17,460
Forfeited	<u>(1,158)</u>	<u>(240)</u>
End of the year	<u>12,147</u>	<u>17,220</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 years ended December 31, 2015 and 2014, the compensation cost for the restricted shares of stock amounted to \$55,267 and \$59,264, respectively, recognized as operating expenses.

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Notes to Consolidated Financial Statements

(c) Issuance of new shares partially 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 partially reserved for employee subscription amounted to \$90,000, recognized as operating expenses.

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, 2015 and 2014, the related compensation costs recognized amounted to \$76,645 and \$201,021, respectively.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(19) Earnings per share ("EPS")

(a) Basic earnings per share

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

	2015	2014
Net income attributable to the shareholders of the Company	\$ <u>603,680</u>	<u>1,790,690</u>
Weighted-average number of ordinary shares outstanding (in thousands)	<u>3,014,625</u>	<u>2,722,362</u>
Basic earnings per share (in New Taiwan dollars)	\$ <u><u>0.20</u></u>	<u><u>0.66</u></u>

(b) Diluted earnings per share

	2015	2014
Net income attributable to the shareholders of the Company	\$ 603,680	1,790,690
Effect of dilutive potential common stock:		
Interest expense from convertible bonds, net of tax	<u>-</u>	<u>70,942</u>
Net income attributable to the shareholders of the Company (including effect of dilutive potential common stock)	\$ <u><u>603,680</u></u>	<u><u>1,861,632</u></u>
Weighted-average number of ordinary shares outstanding (in thousands of shares)	3,014,625	2,722,362
Effect of dilutive potential common stock:		
Restricted shares of stock issued to employees	15,487	5,780
Domestic convertible bonds	-	233,281
Compensation to employees	<u>2,331</u>	<u>-</u>
Weighted-average shares of common stock outstanding (including effect of dilutive potential common stock)	<u><u>3,032,443</u></u>	<u><u>2,961,423</u></u>
Diluted earnings per share (in New Taiwan dollars)	\$ <u><u>0.20</u></u>	<u><u>0.63</u></u>

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(20) Revenue

	2015	2014
Revenue from sale of goods	\$ 257,922,031	316,476,644
Revenue from services rendered	4,450,038	4,946,292
Others	<u>1,403,133</u>	<u>8,261,335</u>
	\$ <u>263,775,202</u>	<u>329,684,271</u>

(21) Compensation to employees and directors

Pursuant to the Company's articles of incorporation passed by the Board of Directors but not yet approved by the shareholders, the Company shall distribute no less than 4% of its profits in the current period as compensation to its employees and no more than 0.8% to its directors. Nevertheless, the profits in the current period should be reserved for offsetting the accumulated deficit, if any, prior to distributing the compensation to the employees and directors. The aforementioned compensation to employees could be distributed in the form of cash or stock to the employees of the Company's subsidiaries conforming to certain requirements.

For the year ended December 31, 2015, the Company accrued its compensation to employees and directors of \$28,200 and \$5,640, respectively, which were calculated based on a certain percentage of the profits in the current period (excluding the compensation to employees and directors) and recognized them as operating expense. The aforementioned accrued compensation to employees is same with the amount approved by the Board of Directors on March 24, 2016 and will be paid in cash. Meanwhile, the Company's directors voluntarily renounced their entitlement for compensation. The difference of \$5,640 is treated as change in accounting estimate and charged to profit and loss in 2016.

Furthermore, according to the Company's article of incorporation, regardless of whether there is operating profit or loss, the remuneration for directors is determined based on their involvement and contribution to the Company, as well as by taking into consideration the amount of compensation given to directors of a company within the same industry. The amount is proposed by the compensation committee and approved by the Board of Directors. For the year ended December 31, 2015, the remuneration for directors of \$10,000 was recognized regardless of whether or not there were earnings.

(22) Other operating income and loss – net

	2015	2014
Rental income (note 6(14))	\$ 123,006	154,191
Government grants	<u>153,451</u>	<u>178,568</u>
	\$ <u>276,457</u>	<u>332,759</u>

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(23) Non-operating income and loss

(a) Other income

	2015	2014
Interest income	\$ 227,438	283,592
Dividend income	<u>249,246</u>	<u>131,140</u>
	\$ <u>476,684</u>	<u>414,732</u>

(b) Other gains and losses

	2015	2014
Foreign currency exchange loss	\$ (2,096,215)	(3,642,695)
Gain on financial assets and liabilities at fair value through profit or loss	1,338,861	3,502,725
Loss on hedging instruments — fair value hedge	-	(12,161)
Gain (loss) on disposal of property, plant and equipment and investment property, net	(12,045)	65,727
Gain on disposal of intangible assets	24,107	-
Gain on repurchase of bonds payable	446,429	-
Loss on disposal of investments in subsidiaries	-	(13,291)
Gain on disposal of investments in associates	-	41,495
Other investment gain (loss)	23,613	(7,131)
Others	<u>46,440</u>	<u>82,930</u>
	\$ <u>(228,810)</u>	<u>17,599</u>

(c) Finance costs

	2015	2014
Interest expense from convertible bonds (note 6(12))	\$ 177,779	340,524
Interest expense from bank loans	162,675	265,775
Others	<u>-</u>	<u>44,907</u>
	\$ <u>340,454</u>	<u>651,206</u>

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Notes to Consolidated Financial Statements

(24) Financial instruments

(a) Categories of financial instruments

i. Financial assets

	December 31, 2015	December 31, 2014
Financial assets at fair value through profit or loss	\$ 791,575	1,899,626
Available-for-sale financial assets	3,253,084	4,006,286
Loans and receivables:		
Cash and cash equivalents	44,621,527	47,558,651
Notes and accounts receivable and other receivables (including related parties)	49,536,024	60,453,208
Other financial assets – non-current	<u>943,609</u>	<u>1,162,526</u>
	\$ <u>99,145,819</u>	<u>115,080,297</u>

ii. Financial liabilities

	December 31, 2015	December 31, 2014
Financial liabilities at fair value through profit or loss	\$ 318,934	624,227
Financial liabilities measured at amortized cost:		
Short-term borrowings	2,584,377	317,000
Accounts payable and other payables (including related parties)	78,075,927	93,627,646
Bonds payable (including current portion)	5,966,431	9,515,255
Long-term debt (including current portion)	<u>1,800,000</u>	<u>7,200,000</u>
	\$ <u>88,745,669</u>	<u>111,284,128</u>

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Fair value information - financial instruments not measured at fair value

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, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities measured at amortized cost:				
Bonds payable (including current portion)	\$ 5,966,431	5,976,600	9,515,255	9,709,282

The hierarchy of the above-mentioned fair value is as below:

	December 31, 2015			
	Fair value			
	Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost:				
Bonds payable (including current portion)	\$ <u>-</u>	<u>5,976,600</u>	<u>-</u>	<u>5,976,600</u>

The above - mentioned Level 2 fair value is estimated based on the Binominal Tree Approach.

(c) Fair value information – financial instruments measured by fair value

(i) 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).

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Financial assets at fair value through profit or loss:				
Foreign currency forward contracts	\$ -	783,900	-	783,900
Foreign currency option contracts	-	7,675	-	7,675
	<u>\$ -</u>	<u>791,575</u>	<u>-</u>	<u>791,575</u>
Available-for-sale financial assets:				
Domestic listed stock	\$ 2,305,026	-	-	2,305,026
Unlisted stock	-	-	948,058	948,058
	<u>\$ 2,305,026</u>	<u>-</u>	<u>948,058</u>	<u>3,253,084</u>
Financial liabilities at fair value through profit or loss:				
Foreign currency forward contracts	\$ -	(318,934)	-	(318,934)
December 31, 2014				
Financial assets at fair value through profit or loss:				
Foreign currency forward contracts	\$ -	1,899,626	-	1,899,626
Available-for-sale financial assets:				
Domestic listed stock	\$ 3,264,003	-	-	3,264,003
Unlisted stock	-	-	742,283	742,283
	<u>\$ 3,264,003</u>	<u>-</u>	<u>742,283</u>	<u>4,006,286</u>
Financial liabilities at fair value through profit or loss:				
Foreign currency forward contracts	\$ -	(101,728)	-	(101,728)
Redemption options of convertible bonds	-	(522,499)	-	(522,499)
	<u>\$ -</u>	<u>(624,227)</u>	<u>-</u>	<u>(624,227)</u>

There were no transfers between fair value levels for the years ended December 31, 2015 and 2014.

- (ii) Movement in financial assets included Level 3 of fair value hierarchy (available-for-sale financial assets)

	2015	2014
Balance at January 1	\$ 742,283	634,778
Total gains or losses:		
Recognized in gains and losses	(36,601)	-
Recognized in other comprehensive income	(36,503)	109,369
Additions	345,581	70,000
Disposal	(81,565)	(80,109)
Effect of exchange rate changes	14,863	8,245
Balance at December 31	<u>\$ 948,058</u>	<u>742,283</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The above-mentioned total gains or losses were included in “other gains and losses” and “change in fair value of available-for-sale financial assets”, respectively. The gains or losses attributable to the assets held on December 31, 2015 and 2014 are as follows:

	2015	2014
Total gains or losses:		
Recognized in gains and losses (included in “other gains and losses”)	\$ (36,601)	-
Recognized in other comprehensive income (included in “change in fair value of available-for-sale financial assets”)	23,980	109,369

(iii) 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 and foreign currency option contracts is computed individually by each contract using the valuation technique.
- 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. The significant unobservable input is the liquidity discount. No quantitative information is disclosed due to that the possible changes in liquidity discount would not cause significant potential financial impact.

(d) Offsetting of financial assets and liabilities

The Group has financial instruments which are set off in accordance with paragraph 42 of IAS 32 endorsed by the FSC; the related financial assets and liabilities are presented in the balance sheets on a net basis.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The table below summarizes the related information of offsetting of financial assets and liabilities:

December 31, 2015						
Financial assets subject to offsetting, enforceable master arrangements and similar agreements						
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amount not set off in the balance sheet (d)		Net amounts
	(a)	(b)	(c)=(a)-(b)	Financial instruments	Cash collateral received	(e)=(c)-(d)
Notes and accounts receivable, net	<u>\$78,382,130</u>	<u>30,209,103</u>	<u>48,173,027</u>	<u>-</u>	<u>-</u>	<u>48,173,027</u>
December 31, 2015						
Financial liabilities subject to offsetting, enforceable master arrangements and similar agreements						
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amount not set off in the balance sheet (d)		Net amounts
	(a)	(b)	(c)=(a)-(b)	Financial instruments	Cash collateral received	(e)=(c)-(d)
Notes and accounts payable	<u>\$72,946,000</u>	<u>30,209,103</u>	<u>42,736,897</u>	<u>-</u>	<u>-</u>	<u>42,736,897</u>
December 31, 2014						
Financial assets subject to offsetting, enforceable master arrangements and similar agreements						
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amount not set off in the balance sheet (d)		Net amounts
	(a)	(b)	(c)=(a)-(b)	Financial instruments	Cash collateral received	(e)=(c)-(d)
Notes and accounts receivable, net	<u>\$98,394,696</u>	<u>39,226,965</u>	<u>59,167,731</u>	<u>-</u>	<u>-</u>	<u>59,167,731</u>
December 31, 2014						
Financial liabilities subject to offsetting, enforceable master arrangements and similar agreements						
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amount not set off in the balance sheet (d)		Net amounts
	(a)	(b)	(c)=(a)-(b)	Financial instruments	Cash collateral received	(e)=(c)-(d)
Notes and accounts payable	<u>\$94,051,377</u>	<u>39,226,965</u>	<u>54,824,412</u>	<u>-</u>	<u>-</u>	<u>54,824,412</u>

(Continued)

ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements****(25) 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.

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, 2015 and 2014, the Group had unused credit facilities of \$32,392,859 and \$38,281,766, 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
December 31, 2015				
Non-derivative financial liabilities:				
Short-term borrowings carrying floating interest rates	\$ 2,604,779	2,604,779	-	-
Bonds payable with fixed interest rates	6,000,000	6,000,000	-	-
Long-term borrowings carrying floating interest rates	1,810,703	1,810,703	-	-
Accounts payable (including related party)	42,747,182	42,747,182	-	-
Other payables (including related party)	<u>35,328,745</u>	<u>33,877,950</u>	<u>1,450,053</u>	<u>742</u>
	\$ 88,491,409	87,040,614	1,450,053	742
Derivative financial instruments:				
Foreign currency forward contracts — settled in gross:				
Outflow	\$ 79,837,704	79,837,704	-	-
Inflow	<u>(80,354,681)</u>	<u>(80,354,681)</u>	<u>-</u>	<u>-</u>
	\$ (516,977)	(516,977)	-	-
Derivative financial instruments:				
Foreign currency option contracts — settled in gross:				
Outflow	\$ 2,196,439	2,196,439	-	-
Inflow	<u>(2,138,130)</u>	<u>(2,138,130)</u>	<u>-</u>	<u>-</u>
	\$ 58,309	58,309	-	-
December 31, 2014				
Non-derivative financial liabilities:				
Short-term borrowings carried 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 carried floating interest rates	7,338,112	3,638,364	3,699,748	-
Accounts payables (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>
	\$ 111,056,151	101,284,476	9,769,771	1,904
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>
	\$ (1,761,655)	(1,761,655)	-	-

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.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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).

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, 2015					
	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	\$ 16,234	35.9163	583,065	1%	5,831
USD	1,359,976	33.0660	44,968,966	1%	449,690
<u>Financial liabilities</u>					
EUR	5,785	35.9163	207,776	1%	2,078
USD	2,070,887	33.0660	68,475,950	1%	684,760

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

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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, 2015 and 2014, would have been \$43,844 and \$75,170, 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, 2015 and 2014, would have increased or decreased by \$162,654 and \$200,314, respectively.

(26) 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.

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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, 2015	December 31, 2014
Total equity (excluding non-controlling interests)	\$ <u>65,852,731</u>	<u>60,627,593</u>
Total assets	\$ <u>171,742,203</u>	<u>191,095,037</u>
Equity percentage	<u>38.34%</u>	<u>31.73%</u>

As of December 31, 2015, 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

	2015	2014
Associates	\$ <u>229,946</u>	<u>244,109</u>

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

(b) Purchases

	2015	2014
Associates	\$ <u>71,337</u>	<u>101,567</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.

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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:

	2015	2014
Associates	\$ <u>18,327</u>	<u>21,140</u>

(d) Receivables

Account	Related party category	December 31, 2015	December 31, 2014
Accounts receivable	Associates	\$ 52,676	23,836
Notes receivable	Associates	73	1
Other receivables	Associates	<u>276</u>	<u>9</u>
		\$ <u>53,025</u>	<u>23,846</u>

(e) Payables

Account	Related party category	December 31, 2015	December 31, 2014
Accounts payable	Associates	\$ 10,285	13,961
Other payables	Associates	<u>1,085</u>	<u>788</u>
		\$ <u>11,370</u>	<u>14,749</u>

(f) Others

Account	Related party category	December 31, 2015	December 31, 2014
Advertising expense payable (accounted for as "other payables")	Associates	\$ <u>-</u>	<u>139,392</u>

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Notes to Consolidated Financial Statements

(3) Compensation for key management personnel

	2015	2014
Short-term employee benefits	\$ 349,479	343,971
Post-employment benefits	28,186	70,833
Other long-term benefits	6,559	3,738
Share-based payments	14,836	13,304
	<u>\$ 399,060</u>	<u>431,846</u>

Refer to note 6(18) 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, 2015	December 31, 2014
Cash in bank and time deposits	Contract bidding, security for letters of credit, project fulfillment, and lease guarantee	\$ <u>513,531</u>	<u>671,904</u>

9. Significant commitments and contingencies

(1) Royalties

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) 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.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (3) Koninklijke Philips N. V., Sony Corp. and Pioneer Corp. have filed a lawsuit against Acer Computer GmbH for infringing their patent on DVD softwares that were embedded in its products. The Group has hired lawyers to handle the case and taken preventive measures by removing the software. The final result is still unpredictable; however, the Group has properly accrued its provisions based on the development of the aforesaid lawsuit and is monitoring on its status. Thus, management foresees no immediate material adverse effect on the Group's business operations and finance.
- (4) 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.
- (5) As of December 31, 2015 and 2014, the Group had outstanding stand-by letters of credit totaling \$332,803 and \$326,926, respectively, for purposes of bids and contracts.
- (6) As of December 31, 2015 and 2014, the Group had issued promissory notes amounting to \$49,233,424 and \$47,758,012, respectively, as collateral for obtaining credit facilities from financial institutions.

10. Significant loss from Casualty: None.

11. Significant subsequent events: None.

12. Others

	2015			2014		
	Cost of sales	Operating expense	Total	Cost of sales	Operating expense	Total
Employee benefits:						
Salaries	\$ 1,263,651	9,958,380	11,222,031	1,390,113	10,824,600	12,214,713
Insurance	155,960	1,095,694	1,251,654	177,336	1,184,259	1,361,595
Pension	21,587	650,070	671,657	23,643	605,465	629,108
Other	73,218	944,428	1,017,646	72,120	643,571	715,691
Depreciation	32,277	652,608	684,885	48,199	743,010	791,209
Amortization	1,752	999,239	1,000,991	2,662	1,199,893	1,202,555

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ACER INCORPORATED AND SUBSIDIARIES**Notes to Consolidated Financial Statements****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: None
 - (g) Total purchases from and sales to related parties which exceed \$100 million or 20% of the paid-in capital: Table 5 (attached)
 - (h) Receivables from related parties which exceed \$100 million or 20% of the paid-in capital: Table 6 (attached)
 - (i) Information about derivative instruments transactions: Please refer to note 6(2).
 - (j) Business relationships and significant intercompany transactions: Table 7 (attached)
- (2) Information on investees: Table 8 (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 9 (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, 2015, please refer to "Information on significant transactions" and "Business relationships and significant intercompany transactions" above.

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Notes to Consolidated Financial Statements

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, tablet products and cloud services. Other business groups which do not meet the quantitative threshold mainly engage in the activities of e-commerce, distribution of IT products, 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:

2015				
	Device BG	Others	Adjustments and eliminations	Total
Revenues from external customers	\$ 248,627,388	15,147,814	-	263,775,202
Intra-group revenue	<u>1,941,263</u>	<u>309,669</u>	<u>(2,250,932)</u>	<u>-</u>
Total revenues	\$ <u>250,568,651</u>	<u>15,457,483</u>	<u>(2,250,932)</u>	<u>263,775,202</u>
Segment profit	\$ <u>718,305</u>	<u>256,918</u>	<u>(36,615)</u>	<u>938,608</u>
2014				
	Device BG	Others	Adjustments and eliminations	Total
Revenues from external customers	\$ 315,986,915	13,697,356	-	329,684,271
Intra-group revenue	<u>1,727,649</u>	<u>1,201,520</u>	<u>(2,929,169)</u>	<u>-</u>
Total revenues	\$ <u>317,714,564</u>	<u>14,898,876</u>	<u>(2,929,169)</u>	<u>329,684,271</u>
Segment profit	\$ <u>6,355,848</u>	<u>333,030</u>	<u>(3,981,213)</u>	<u>2,707,665</u>

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Product information

Revenues from external customers are detailed below:

Products	2015	2014
Personal computers	\$ 207,663,803	267,962,103
Peripherals and others	<u>56,111,399</u>	<u>61,722,168</u>
	\$ <u>263,775,202</u>	<u>329,684,271</u>

(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	2015	2014
Americas	\$ 54,948,732	63,303,062
Mainland China	27,517,743	33,192,182
Taiwan	22,095,249	22,768,179
Others	<u>159,213,478</u>	<u>210,420,848</u>
	\$ <u>263,775,202</u>	<u>329,684,271</u>

Non-current assets:

Region	December 31, 2015	December 31, 2014
Americas	\$ 20,114,236	18,636,984
Taiwan	7,419,564	8,044,084
Mainland China	3,071,177	3,251,514
Others	<u>3,052,268</u>	<u>4,055,294</u>
	\$ <u>33,657,245</u>	<u>33,987,876</u>

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.

(Continued)

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

(4) Major customers' information

	2015	2014
Customer A	\$ <u>27,450,667</u>	<u>35,463,359</u>

Acer Incorporated and Subsidiaries
Financing provided to other parties
For the year ended December 31, 2015

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 drawndown 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	ACCQ	ACCN	Other receivables from related parties	Yes	1,022,260	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
2	AIZS	ACCN	Other receivables from related parties	Yes	230,009	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
3	BJAI	ACCN	Other receivables from related parties	Yes	40,890	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
4	AI	ACCQ	Other receivables from related parties	Yes	891,102	891,102	891,102	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
4	AI	ACCQ	Other receivables from related parties	Yes	938,175	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
5	AHI	ACA	Other receivables from related parties	Yes	217,429	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
5	AHI	Boardwalk	Other receivables from related parties	Yes	919,822	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
6	GWI	AAC	Other receivables from related parties	Yes	634,360	479,457	446,391	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
7	GRA	GWI	Other receivables from related parties	Yes	108,660	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
8	ALA	ATB	Other receivables from related parties	Yes	990,527	988,673	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
8	ALA	AAC	Other receivables from related parties	Yes	903,864	903,864	903,864	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
9	AAC	ATB	Other receivables from related parties	Yes	1,268,720	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
10	ACTI	Boardwalk	Other receivables from related parties	Yes	951,540	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
10	ACTI	AAC	Other receivables from related parties	Yes	1,585,900	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
10	ACTI	AAC	Other receivables from related parties	Yes	2,650,240	2,645,280	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
10	ACTI	AAC	Other receivables from related parties	Yes	2,650,240	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
11	AGU	AEG	Other receivables from related parties	Yes	191,862	179,581	179,581	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
11	AGU	AEG	Other receivables from related parties	Yes	191,862	179,582	179,582	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
11	AGU	AEG	Other receivables from related parties	Yes	191,862	179,582	179,582	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
11	AGU	AEG	Other receivables from related parties	Yes	191,862	179,582	179,582	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
12	PBHO	AEG	Other receivables from related parties	Yes	191,862	179,581	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406

No.	Financing Company	Counter-party	Financial Statement Account	Related Party	Maximum Balance for the Period	Ending Balance	Actually drawndown 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		
13	AEB	XPL	Other receivables from related parties	Yes	10,000	10,000	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
14	AAH	AAC	Other receivables from related parties	Yes	5,125,230	5,125,230	5,125,230	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406
15	ADSC	AOI	Other receivables from related parties	Yes	10,000	10,000	-	0%~4%	2	-	Operating requirements	-	None	-	6,614,481	33,072,406

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 shown above is based on the net worth as of September 30, 2015), 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 over 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 is directly or indirectly wholly owned by the Company who provides financing to other parties, the aforementioned limitation of aggregate amount and individual financing amount is applied.

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

Acer Incorporated and Subsidiaries
Guarantees and endorsements provided to other parties
For the year ended December 31, 2015

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	AJC	3	13,228,962	635,589	632,605	42,806	-	0.96%	66,144,812	Y		
0	The Company	ATH	3	13,228,962	175,578	175,250	10,713	-	0.26%	66,144,812	Y		
0	The Company	Acer Asia Pacific subsidiaries	3	13,228,962	4,472,280	4,463,910	386,222	-	6.75%	66,144,812	Y		
0	The Company	AGU	3	13,228,962	314,716	314,127	314,127	-	0.47%	66,144,812	Y		
0	The Company	AEG	3	13,228,962	204,221	197,980	197,980	-	0.30%	66,144,812	Y		
0	The Company	Acer EMEA subsidiaries	3	13,228,962	4,861,190	4,298,580	588,361	-	6.50%	66,144,812	Y		
0	The Company	ACN/ACD/ACW/AFN	3	13,228,962	20,314	15,669	15,669	-	0.02%	66,144,812	Y		
0	The Company	ATB	3	13,228,962	2,184,237	2,154,199	291,399	-	3.26%	66,144,812	Y		
0	The Company	Acer Pan America subsidiaries	3	13,228,962	5,631,760	5,621,220	259,740	-	8.50%	66,144,812	Y		
0	The Company	AMEX	3	13,228,962	298,152	297,594	-	-	0.45%	66,144,812	Y		
0	The Company	Acer Greater China subsidiaties	3	13,228,962	1,822,040	1,818,630	4,699	-	2.75%	66,144,812	Y		Y
0	The Company	ACCSI	2	13,228,962	300,000	300,000	77,000	-	0.45%	66,144,812	Y		
0	The Company	AEB	2	13,228,962	400,000	400,000	-	-	0.60%	66,144,812	Y		
0	The Company	SMA	3	13,228,962	86,302	77,000	17,974	-	0.12%	66,144,812	Y		
0	The Company	ACA	3	13,228,962	356,615	356,615	356,615	-	0.54%	66,144,812	Y		
0	The Company	AIL	3	13,228,962	943,500	924,697	394,331	-	1.40%	66,144,812	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 show above is based on the net worth as of September 30, 2015).

The endoresement/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, 2015

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 2015		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	641	51,755	0.00%	51,755	1,141	0.01%	
The Company	Stock: Qisda	-	Available-for-sale financial assets - Non Current	81,713	894,754	4.15%	894,754	81,713	4.15%	
The Company	Stock: WPG Holdings	-	Available-for-sale financial assets - Non Current	4,360	137,134	0.26%	137,134	4,360	0.26%	
The Company	Stock: Wistron	-	Available-for-sale financial assets - Non Current	50,218	934,062	1.97%	934,062	50,218	1.97%	
The Company	Stock: InCOMM	-	Available-for-sale financial assets - Non Current	-	2,360	0.06%	2,360	19	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	36,372	19.35%	36,372	8,505	19.35%	
The Company	Stock: Dragon Investment Co. Ltd.	-	Available-for-sale financial assets - Non Current	15,834	45,070	19.94%	45,070	17,791	19.94%	
The Company	Stock: Venture Power	-	Available-for-sale financial assets - Non Current	15	10	4.15%	10	15	4.15%	
ADSC	Stock: Wistron	-	Available-for-sale financial assets - Non Current	11,952	222,306	0.47%	222,306	11,952	0.47%	
ADSC	Stock: PChome Pay	-	Available-for-sale financial assets - Non Current	12,600	126,000	14.82%	126,000	12,600	14.82%	
ASCBVI	Stock: IP FUND III L.P.	-	Available-for-sale financial assets - Non Current	4,068	46,969	19.99%	46,969	4,068	19.99%	
ASCBVI	Stock: IDSCBVI	-	Available-for-sale financial assets - Non Current	60	1,448	19.90%	1,448	60	19.90%	
ASCBVI	Stock: ID5 Fund L.P.	-	Available-for-sale financial assets - Non Current	3,800	293,568	19.39%	293,568	3,800	19.39%	
ASCBVI	Stock: IP Cathay One, L.P.	-	Available-for-sale financial assets - Non Current	6,282	58,293	8.00%	58,293	6,282	8.00%	
ASCBVI	Stock: ID5 Annex I Fund L.P.	-	Available-for-sale financial assets - Non Current	957	18,672	19.15%	18,672	970	19.39%	
ASCBVI	Stock: ATS	-	Available-for-sale financial assets - Non Current	2,000	33,066	13.79%	33,066	2,000	13.79%	
ASCBVI	Stock: Trutag	-	Available-for-sale financial assets - Non Current	1,346	99,214	1.94%	99,214	1,346	1.94%	
ASCBVI	Stock: Gorilla	-	Available-for-sale financial assets - Non Current	244	66,132	2.21%	66,132	244	2.21%	
ASCBVI	Stock: Jibo	-	Available-for-sale financial assets - Non Current	5,659	66,132	2.33%	66,132	5,659	2.33%	
ASCBVI	Stock: Revolve	-	Available-for-sale financial assets - Non Current	927	19,013	10.07%	19,013	927	10.07%	
ASCBVI	Stock: Apptog	-	Available-for-sale financial assets - Non Current	6,429	16,533	18.90%	16,533	6,429	18.90%	
AWI	Stock: Acer Inc.	Parent/Subsidiary	Treasury stock	12,730	522,237	0.41%	154,032	12,730	0.41%	
AWI	GDR: Acer Inc.	Parent/Subsidiary	Treasury stock	4,987	1,969,617	0.81%	280,356	4,987	0.81%	
CCI	Stock: China Development Financial Holding Co.	-	Available-for-sale financial assets - Current	5,049	41,558	0.03%	41,558	5,049	0.03%	
CCI	Stock: Acer Inc.	Parent/Subsidiary	Available-for-sale financial assets - Non Current	4,774	57,762	0.15%	57,762	4,774	0.15%	
ETEN	Stock: RoyalTek	-	Available-for-sale financial assets - Non Current	1,015	23,457	2.01%	23,457	1,015	2.01%	
ETEN	Stock: Acer Inc.	Parent/Subsidiary	Available-for-sale financial assets - Non Current	4,305	52,095	0.14%	52,095	4,305	0.14%	
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	-	17.23%	-	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, 2015

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: Boardwalk	Investment accounted for using equity method	Note 2	Subsidiary	1,208,432	30,178,680	55,000	1,739,000	-	-	-	-	1,263,432	32,117,718
Boardwalk	Stock: ATB	Investment accounted for using equity method	Note 2	Subsidiary	95,459	194,676	154,006	1,580,040	-	-	-	-	249,465	926,939

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.

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, 2015

Table 5

(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 Notes/Accounts Receivable or (Payable)	
The Company	AEG	Parent/Subsidiary	(Sales)	(70,554,158)	(35.98)%	OA60	-	-	25,696	0.14%	
The Company	AAC	Parent/Subsidiary	(Sales)	(52,694,830)	(26.87)%	OA90	-	-	6,186,801	34.40%	
The Company	AAPH	Parent/Subsidiary	(Sales)	(38,155,282)	(19.46)%	OA60	-	-	5,645,694	31.39%	
The Company	ACCN	Parent/Subsidiary	(Sales)	(4,180,288)	(2.13)%	OA45	-	-	3,608	0.02%	
The Company	ACCQ	Parent/Subsidiary	(Sales)	(15,603,931)	(7.96)%	OA60	-	-	2,031,508	11.29%	
The Company	WLII	Parent/Subsidiary	(Sales)	(1,895,696)	(0.97)%	EM45	-	-	31,865	0.18%	
The Company	AFE	Parent/Subsidiary	(Sales)	(776,308)	(0.40)%	OA60	-	-	152,057	0.85%	
The Company	APX	Parent/Subsidiary	(Sales)	(296,210)	(0.15)%	OA60	-	-	30,604	0.17%	
The Company	ACCSI	Parent/Subsidiary	Purchases	550,329	0.30%	OA60	-	-	(49,643)	(0.14)%	
The Company	WLII	Parent/Subsidiary	Purchases	311,096	0.17%	EM45	-	-	(72,396)	(0.21)%	
The Company	ACTI	Parent/Subsidiary	Purchases	354,589	0.19%	OA60	-	-	(99,167)	(0.29)%	
ACCSI	The Company	Parent/Subsidiary	(Sales)	(550,329)	(54.51)%	OA60	-	-	49,643	32.84%	
WLII	The Company	Parent/Subsidiary	(Sales)	(311,096)	(3.31)%	EM45	-	-	72,396	4.83%	
WLII	The Company	Parent/Subsidiary	Purchases	1,895,696	21.08%	EM45	-	-	(31,865)	(2.69)%	
AAC	AMEX	Fellow subsidiary	(Sales)	(6,435,752)	(10.60)%	OA60	-	-	2,693,013	35.00%	
AAC	ASC	Fellow subsidiary	(Sales)	(234,418)	(0.39)%	OA60	-	-	40,457	0.53%	
AAC	The Company	Parent/Subsidiary	Purchases	52,694,830	93.11%	OA90	-	-	(6,186,801)	(86.27)%	
AAF	AME	Fellow subsidiary	(Sales)	(127,825)	(70.36)%	OA60	-	-	9,740	45.14%	
AAPH	ATH	Fellow subsidiary	(Sales)	(5,906,538)	(15.15)%	OA60	-	-	1,056,658	9.84%	
AAPH	AIL	Fellow subsidiary	(Sales)	(8,022,232)	(20.58)%	OA60	-	-	4,624,004	43.06%	
AAPH	AIN	Fellow subsidiary	(Sales)	(4,916,412)	(12.61)%	OA60	-	-	476,850	4.44%	
AAPH	ACA	Fellow subsidiary	(Sales)	(4,854,504)	(12.46)%	OA60	-	-	1,528,442	14.23%	
AAPH	ASSB	Fellow subsidiary	(Sales)	(4,339,043)	(11.13)%	OA60	-	-	435,078	4.05%	
AAPH	AJC	Fellow subsidiary	(Sales)	(1,693,202)	(4.34)%	OA60	-	-	1,078,802	10.05%	
AAPH	ACS	Fellow subsidiary	(Sales)	(2,116,978)	(5.43)%	OA60	-	-	187,936	1.75%	
AAPH	ACNZ	Fellow subsidiary	(Sales)	(884,761)	(2.27)%	OA60	-	-	284,385	2.65%	
AAPH	APHI	Fellow subsidiary	(Sales)	(843,980)	(2.17)%	OA60	-	-	73,352	0.68%	
AAPH	AMI	Fellow subsidiary	(Sales)	(242,173)	(0.62)%	OA60	-	-	24,712	0.23%	
AAPH	The Company	Parent/Subsidiary	Purchases	38,155,282	98.65%	OA60	-	-	(5,645,694)	(99.78)%	
AAPH	APHI	Fellow subsidiary	Purchases	101,272	0.26%	OA60	-	-	(26,050)	(0.46)%	
ACA	ACNZ	Fellow subsidiary	(Sales)	(140,912)	(2.13)%	OA60	-	-	7,256	0.67%	
ACA	Bluechip	Other related party	(Sales)	(224,198)	(3.39)%	OA60	-	-	48,685	4.52%	
ACA	AAPH	Fellow subsidiary	Purchases	4,854,504	77.75%	OA60	-	-	(1,528,442)	(92.59)%	
ACCN	The Company	Parent/Subsidiary	Purchases	4,180,288	18.63%	OA45	-	-	(3,608)	(0.08)%	
ACCN	ACCQ	Fellow subsidiary	Purchases	17,836,188	79.49%	OA60	-	-	(4,616,769)	(96.97)%	
ACCQ	ACCN	Fellow subsidiary	(Sales)	(17,836,188)	(88.41)%	OA60	-	-	4,616,769	100.00%	
ACCQ	The Company	Parent/Subsidiary	Purchases	15,603,931	79.45%	OA60	-	-	(2,031,508)	(64.58)%	
ACF	AEG	Fellow subsidiary	(Sales)	(367,214)	(2.94)%	OA60	-	-	530,761	15.40%	
ACF	AEG	Fellow subsidiary	Purchases	11,091,837	89.24%	OA60	-	-	(962,167)	(93.71)%	
ACF	APX	Fellow subsidiary	Purchases	195,435	1.57%	OA60	-	-	(14,914)	(1.45)%	
ACG	AEG	Fellow subsidiary	(Sales)	(729,648)	(2.93)%	OA60	-	-	1,359,396	22.15%	
ACG	APX	Fellow subsidiary	(Sales)	(203,940)	(0.82)%	OA60	-	-	36,009	0.59%	

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 Notes/Accounts Receivable or (Payable)	
ACG	AEG	Fellow subsidiary	Purchases	22,604,781	93.50%	OA60	-	-	(2,025,750)	(95.62)%	
ACG	APX	Fellow subsidiary	Purchases	471,283	1.95%	OA45	-	-	(75,203)	(3.55)%	
ACH	AEG	Fellow subsidiary	(Sales)	(277,985)	(4.54)%	OA60	-	-	413,516	27.13%	
ACH	AEG	Fellow subsidiary	Purchases	5,354,420	89.90%	OA60	-	-	(519,514)	(95.06)%	
ACH	APX	Fellow subsidiary	Purchases	162,011	2.72%	OA60	-	-	(26,764)	(4.90)%	
ACNZ	AAPH	Fellow subsidiary	Purchases	884,761	81.55%	OA60	-	-	(284,385)	(95.04)%	
ACNZ	ACA	Fellow subsidiary	Purchases	140,912	12.99%	OA60	-	-	(7,256)	(2.42)%	
ACR	AEG	Fellow subsidiary	Purchases	890,404	60.93%	OA60	-	-	-	-	
ACR	APX	Fellow subsidiary	Purchases	152,197	10.41%	OA60	-	-	(20,385)	(27.42)%	
ACS	AAPH	Fellow subsidiary	Purchases	2,116,978	96.61%	OA60	-	-	(187,936)	(95.27)%	
ACTI	The Company	Parent/Subsidiary	(Sales)	(354,589)	(98.52)%	OA60	-	-	99,167	100.00%	
ACZ	AEG	Fellow subsidiary	(Sales)	(277,727)	(49.95)%	OA60	-	-	-	-	
ACZ	APX	Fellow subsidiary	Purchases	192,641	39.38%	OA90	-	-	(26,755)	(86.28)%	
AEG	ACG	Fellow subsidiary	(Sales)	(22,604,781)	(26.41)%	OA60	-	-	2,025,750	13.40%	
AEG	ACF	Fellow subsidiary	(Sales)	(11,091,837)	(12.96)%	OA60	-	-	962,167	6.37%	
AEG	ACR	Fellow subsidiary	(Sales)	(890,404)	(1.04)%	OA60	-	-	-	-	
AEG	AUK	Fellow subsidiary	(Sales)	(10,169,609)	(11.88)%	OA60	-	-	2,256,962	14.93%	
AEG	AME	Fellow subsidiary	(Sales)	(7,792,970)	(9.10)%	OA60	-	-	1,763,804	11.67%	
AEG	ASK	Fellow subsidiary	(Sales)	(9,198,717)	(10.75)%	OA60	-	-	817,550	5.41%	
AEG	AIB	Fellow subsidiary	(Sales)	(6,612,673)	(7.73)%	OA60	-	-	965,696	6.39%	
AEG	ACH	Fellow subsidiary	(Sales)	(5,354,420)	(6.26)%	OA60	-	-	519,514	3.44%	
AEG	AIT	Fellow subsidiary	(Sales)	(5,761,204)	(6.73)%	OA60	-	-	1,468,502	9.72%	
AEG	APX	Fellow subsidiary	(Sales)	(247,418)	(0.29)%	OA60	-	-	9,453	0.06%	
AEG	ASIN	Fellow subsidiary	(Sales)	(2,815,892)	(3.29)%	OA60	-	-	1,232,836	8.16%	
AEG	ASZ	Fellow subsidiary	(Sales)	(2,557,110)	(2.99)%	OA60	-	-	410,940	2.72%	
AEG	AUA	Fellow subsidiary	(Sales)	(399,667)	(0.47)%	OA60	-	-	437	0.00%	
AEG	The Company	Parent/Subsidiary	Purchases	70,554,158	85.20%	OA60	-	-	(25,696)	(0.31)%	
AEG	ACZ	Fellow subsidiary	Purchases	277,727	0.34%	OA60	-	-	-	-	
AEG	APX	Fellow subsidiary	Purchases	313,462	0.38%	OA60	-	-	-	-	
AEG	ACG	Fellow subsidiary	Purchases	729,648	0.88%	OA60	-	-	(1,359,396)	(16.35)%	
AEG	ACF	Fellow subsidiary	Purchases	367,214	0.44%	OA60	-	-	(530,761)	(6.38)%	
AEG	AIT	Fellow subsidiary	Purchases	330,566	0.40%	OA60	-	-	(352,083)	(4.23)%	
AEG	ACH	Fellow subsidiary	Purchases	277,985	0.34%	OA60	-	-	(413,516)	(4.97)%	
AEG	AIB	Fellow subsidiary	Purchases	291,525	0.35%	OA60	-	-	(435,998)	(5.24)%	
AEG	AUK	Fellow subsidiary	Purchases	139,771	0.17%	OA60	-	-	(686,575)	(8.26)%	
AFE	The Company	Parent/Subsidiary	Purchases	776,308	95.63%	OA60	-	-	(152,057)	(97.72)%	
AIB	AEG	Fellow subsidiary	(Sales)	(291,525)	(3.94)%	OA60	-	-	435,998	19.25%	
AIB	AEG	Fellow subsidiary	Purchases	6,612,673	92.41%	OA60	-	-	(965,696)	(96.71)%	
AIB	APX	Fellow subsidiary	Purchases	209,010	2.92%	OA60	-	-	(32,759)	(3.28)%	
AIL	AAPH	Fellow subsidiary	Purchases	8,022,232	70.00%	OA60	-	-	(4,624,004)	(94.31)%	
AIN	AMI	Parent/Subsidiary	(Sales)	(218,549)	(3.57)%	OA60	-	-	139,888	36.04%	
AIN	AMI	Parent/Subsidiary	Purchases	554,949	9.82%	OA90	-	-	(161,333)	(20.21)%	
AIN	AAPH	Fellow subsidiary	Purchases	4,916,412	87.01%	OA60	-	-	(476,850)	(59.73)%	
AIT	AEG	Fellow subsidiary	(Sales)	(330,566)	(5.09)%	OA60	-	-	352,083	12.03%	
AIT	AEG	Fellow subsidiary	Purchases	5,761,204	91.26%	OA60	-	-	(1,468,502)	(99.03)%	
AJC	AAPH	Fellow subsidiary	Purchases	1,693,202	91.48%	OA60	-	-	(1,078,802)	(97.41)%	
AME	AEG	Fellow subsidiary	Purchases	7,792,970	96.50%	OA60	-	-	(1,763,804)	(95.89)%	
AME	AAF	Fellow subsidiary	Purchases	127,825	1.58%	OA60	-	-	(9,740)	(0.53)%	

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 Notes/Accounts Receivable or (Payable)	
AMEX	AAC	Fellow subsidiary	Purchases	6,435,752	100.00%	OA60	-	-	(2,693,013)	(99.49)%	
AMI	AIN	Parent/Subsidiary	(Sales)	(554,949)	(99.90)%	OA90	-	-	161,333	100.00%	
AMI	AIN	Parent/Subsidiary	Purchases	218,549	96.72%	OA60	-	-	(139,888)	(80.94)%	
AMI	AAPH	Fellow subsidiary	Purchases	242,173	100.00%	OA60	-	-	(24,712)	(14.30)%	
APHI	AAPH	Fellow subsidiary	(Sales)	(101,272)	(8.59)%	OA60	-	-	26,050	44.12%	
APHI	AAPH	Fellow subsidiary	Purchases	843,980	90.32%	OA60	-	-	(73,352)	(73.09)%	
APX	ACG	Fellow subsidiary	(Sales)	(471,283)	(21.14)%	OA45	-	-	75,203	32.76%	
APX	AEG	Fellow subsidiary	(Sales)	(313,462)	(14.06)%	OA60	-	-	-	-	
APX	ACF	Fellow subsidiary	(Sales)	(195,435)	(8.77)%	OA60	-	-	14,914	6.50%	
APX	ACR	Fellow subsidiary	(Sales)	(152,197)	(6.83)%	OA60	-	-	20,385	8.88%	
APX	ACZ	Fellow subsidiary	(Sales)	(192,641)	(8.64)%	OA90	-	-	26,755	11.66%	
APX	ACH	Fellow subsidiary	(Sales)	(162,011)	(7.27)%	OA60	-	-	26,764	11.66%	
APX	AIB	Fellow subsidiary	(Sales)	(209,010)	(9.38)%	OA60	-	-	32,759	14.27%	
APX	AUK	Fellow subsidiary	(Sales)	(140,510)	(6.30)%	OA60	-	-	17,762	7.74%	
APX	The Company	Parent/Subsidiary	Purchases	296,210	16.73%	OA60	-	-	(30,604)	(15.19)%	
APX	ACG	Fellow subsidiary	Purchases	203,940	11.52%	OA60	-	-	(36,009)	(17.88)%	
APX	AEG	Fellow subsidiary	Purchases	247,418	13.98%	OA60	-	-	(9,453)	(4.69)%	
ASC	AAC	Fellow subsidiary	Purchases	234,418	100.00%	OA60	-	-	(40,457)	(34.41)%	
ASIN	AEG	Fellow subsidiary	Purchases	2,815,892	100.00%	OA60	-	-	(1,232,836)	(100.00)%	
ASK	AEG	Fellow subsidiary	Purchases	9,198,717	100.00%	OA60	-	-	(817,550)	(99.08)%	
ASSB	SMA	Parent/Subsidiary	(Sales)	(404,981)	(9.30)%	OA60	-	-	24,023	7.43%	
ASSB	AAPH	Fellow subsidiary	Purchases	4,339,043	100.00%	OA60	-	-	(435,078)	(97.31)%	
ASZ	AEG	Fellow subsidiary	Purchases	2,557,110	92.42%	OA60	-	-	(410,940)	(98.66)%	
ATH	AAPH	Fellow subsidiary	Purchases	5,906,538	87.74%	OA60	-	-	(1,056,658)	(91.09)%	
AUA	AEG	Fellow subsidiary	Purchases	399,667	84.60%	OA60	-	-	(437)	(10.56)%	
AUK	AEG	Fellow subsidiary	(Sales)	(139,771)	(1.25)%	OA60	-	-	686,575	16.69%	
AUK	AEG	Fellow subsidiary	Purchases	10,169,609	94.62%	OA60	-	-	(2,256,962)	(99.87)%	
AUK	APX	Fellow subsidiary	Purchases	140,510	1.31%	OA60	-	-	(17,762)	(0.78)%	
SMA	ASSB	Parent/Subsidiary	Purchases	404,981	9.17%	OA60	-	-	(24,023)	(17.30)%	

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 preparing 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, 2015

Table 6

(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	AAC	Parent/Subsidiary	6,186,801	5.98	-	-	6,180,768	
The Company	AAPH	Parent/Subsidiary	5,645,694	8.06	-	-	5,645,694	
The Company	ACCQ	Parent/Subsidiary	3,152,632	8.95	41,042	Under collection	2,558,617	
The Company	AFE	Parent/Subsidiary	152,057	8.03	21,591	Under collection	130,456	
The Company	TWPBJ	Parent/Subsidiary	106,529	0.61	101,380	Under collection	5,149	
AAC	AMEX	Fellow subsidiary	2,693,733	2.94	-	-	2,457,659	
AAC	ASC	Fellow subsidiary	557,021	4.26	-	-	40,457	
AAH	AAC	Parent/Subsidiary	5,125,936	-	-	-	-	
AAPH	ATH	Fellow subsidiary	1,056,658	5.80	191,221	Under collection	727,452	
AAPH	AIL	Fellow subsidiary	4,624,004	2.13	-	-	2,199,321	
AAPH	AIN	Fellow subsidiary	476,850	11.42	-	-	315,188	
AAPH	ACA	Fellow subsidiary	1,528,442	3.43	-	-	893,322	
AAPH	ASSB	Fellow subsidiary	435,078	9.98	-	-	435,078	
AAPH	AJC	Fellow subsidiary	1,078,802	1.51	-	-	277,258	
AAPH	ACS	Fellow subsidiary	187,936	11.97	-	-	187,936	
AAPH	ACNZ	Fellow subsidiary	284,385	3.56	-	-	189,898	
ACCN	ACCQ	Fellow subsidiary	337,535	21.46	-	-	48,861	
ACCQ	ACCN	Fellow subsidiary	4,616,844	7.73	2,677	Under collection	3,234,165	
ACF	AEG	Fellow subsidiary	703,277	0.61	-	-	75,849	
ACG	AEG	Fellow subsidiary	1,471,501	0.55	-	-	138,845	
ACH	AEG	Fellow subsidiary	450,540	0.67	-	-	23,022	
ACR	AEG	Fellow subsidiary	207,566	-	-	-	-	
AEG	ACG	Fellow subsidiary	2,025,750	9.19	-	-	2,025,750	
AEG	ACF	Fellow subsidiary	962,167	8.96	-	-	962,167	
AEG	AUK	Fellow subsidiary	2,257,634	3.89	-	-	2,257,634	
AEG	AME	Fellow subsidiary	1,766,459	4.33	-	-	1,490,540	
AEG	ASK	Fellow subsidiary	817,579	10.31	318	Under collection	817,261	
AEG	AIB	Fellow subsidiary	965,711	4.41	-	-	963,541	
AEG	ACH	Fellow subsidiary	519,514	6.53	42,347	Under collection	477,167	
AEG	AIT	Fellow subsidiary	1,468,502	2.92	-	-	1,468,502	
AEG	ASIN	Fellow subsidiary	1,235,165	4.57	-	-	1,150,278	
AEG	ASZ	Fellow subsidiary	410,940	5.63	1,147	Under collection	409,792	
AGU	AEG	Fellow subsidiary	720,462	-	-	-	-	
AIB	AEG	Fellow subsidiary	475,523	0.61	-	-	-	
AIN	AMI	Parent/Subsidiary	139,888	2.69	-	-	139,888	
AIT	AEG	Fellow subsidiary	493,913	0.82	-	-	31,998	
ALA	AAC	Fellow subsidiary	903,864	-	-	-	-	
AME	AEG	Fellow subsidiary	223,331	-	-	-	22,682	
AMI	AIN	Parent/Subsidiary	161,333	6.73	-	-	161,321	
ASC	AAC	Fellow subsidiary	102,439	2.63	-	-	7	

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
ASIN	AEG	Fellow subsidiary	167,373	-	-	-	-	
ASCBVI	LONG	Parent/Subsidiary	330,661	-	-	-	-	
ASK	AEG	Fellow subsidiary	397,153	-	-	-	-	
ASZ	AEG	Fellow subsidiary	269,225	0.37	-	-	16,792	
AUK	AEG	Fellow subsidiary	831,755	0.19	-	-	33,738	
GWJ	AAC	Parent/Subsidiary	448,572	-	-	-	-	
LONG	SURE	Parent/Subsidiary	330,661	-	-	-	-	

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

Acer Incorporated and Subsidiaries
Intercompany relationships and significant intercompany transactions
For the year ended December 31, 2015

Table 7

(Amounts in Thousands of New Taiwan Dollars)

Intercompany relationships and significant intercompany transactions for the year ended December 31, 2015 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	Payment Terms	
0	The Company	AEG	1	Sales	70,554,158	OA60	26.75%
0	The Company	AAC	1	Sales	52,694,830	OA90	19.98%
0	The Company	AAPH	1	Sales	38,155,282	OA60	14.47%
0	The Company	ACCN	1	Sales	4,180,288	OA45	1.58%
0	The Company	ACCQ	1	Sales	15,603,931	OA60	5.92%
0	The Company	AAC	1	Accounts receivable	6,186,801	OA90	3.60%
0	The Company	AAPH	1	Accounts receivable	5,645,694	OA60	3.29%
0	The Company	ACCQ	1	Accounts receivable	2,031,508	OA60	1.18%

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, 2015

Table 8

(Amounts in Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balances as of December 31, 2015			Maximum ownership during 2015		Net Income (Loss) of the Investee	Share of profits/ losses of investee	Note
				December 31, 2015	December 31, 2014	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	1,746,549	128,282	100.00	1,728,741	128,282	100.00	20,891	20,891	Parent/Subsidiary
The Company	Boardwalk	British Virgin Islands	Investing and holding company	41,496,383	39,757,383	1,263,432	92.02	32,117,718	1,278,432	91.68	(1,005,808)	(922,709)	Parent/Subsidiary
The Company	AEH	Cyprus	Investing and holding company	2,464,262	2,464,262	10	100.00	18,031,376	10	100.00	(1,292,954)	(1,292,954)	Parent/Subsidiary
The Company	AHI	British Virgin Islands	Investing and holding company	1,130,566	1,130,566	33,550	100.00	9,108,114	33,550	100.00	229,709	229,709	Parent/Subsidiary
The Company	Bluechip	Australia	Sale of peripheral and software system	24,249	24,249	1,073	29.26	68,459	1,073	30.61	7,676	2,559	Associate
The Company	AWI	British Virgin Islands	Investing and holding company	4,069,764	4,069,764	1,326,193	100.00	273,166	1,326,193	100.00	1,064	1,064	Parent/Subsidiary
The Company	ASCBVI	British Virgin Islands	Investing and holding company	1,718,547	1,718,547	35,067	100.00	1,209,699	35,067	100.00	66,549	66,549	Parent/Subsidiary
The Company	CCI	Taiwan	Investing and holding company	1,299,817	1,299,817	-	100.00	1,149,127	-	100.00	8,281	8,281	Parent/Subsidiary
The Company	ADSBH	British Virgin Islands	Investing and holding company	1,175,933	1,175,933	2,246	100.00	(315,890)	2,246	100.00	(67,563)	(67,563)	Parent/Subsidiary
The Company	ACCSI	Taiwan	Electronic data supply, processing and storage services	2,943,044	2,943,044	187,092	100.00	1,896,883	187,092	100.00	103,100	103,100	Parent/Subsidiary
The Company	AGC	British Virgin Islands	Investing and holding company	4,941,292	4,941,292	160,989	100.00	5,872,557	160,989	100.00	125,998	125,998	Parent/Subsidiary
The Company	AEB	Taiwan	Electronic data supply, processing and storage services	250,000	250,000	25,000	100.00	234,539	25,000	100.00	(16,206)	(16,206)	Parent/Subsidiary
The Company	WLII	Taiwan	Sale of computers and communication products	1,115,474	1,115,474	70,088	99.79	1,254,240	70,088	99.79	42,532	42,442	Parent/Subsidiary
The Company	ATI	Taiwan	Integrated circuit test service	819,792	819,792	1,203	19.39	6,599	1,203	19.39	-	-	Associate
The Company	LTS	Taiwan	Electronic data supply, processing and storage services	-	-	-	-	-	100	100.00	(2)	(2)	Parent/Subsidiary
The Company	ETEN	Taiwan	Research, design and sale of smart hand held products	6,800,751	6,800,751	20,000	100.00	2,583,281	20,000	100.00	(128,236)	(128,236)	Parent/Subsidiary
ACCSI	TWPBVI	British Virgin Islands	Investing and holding company	32,298	32,298	11,068	100.00	2,975	11,068	100.00	(4,348)	(4,348)	Parent/Subsidiary
ADSC	ECOM	Taiwan	Business integration system	40,851	40,851	1,244	24.88	19,760	1,244	24.88	13,427	3,410	Associate
ADSC	APDI	Taiwan	Property development	29,577	29,577	2,958	100.00	103,010	2,958	100.00	986	986	Parent/Subsidiary
ADSC	ASDI	Taiwan	Property development	500,000	500,000	22,593	100.00	216,803	22,593	100.00	383	383	Parent/Subsidiary
ADSC	AOI	Taiwan	Software design services	30,000	30,000	3,000	100.00	26,534	3,000	100.00	(3,426)	(3,426)	Parent/Subsidiary
ADSC	YR Creative Cultural Art International	Taiwan	Cultural and creative industries	6,000	6,000	600	20.00	-	600	20.00	(9,180)	(1,836)	Associate
ADSC	MPS	Taiwan	Research, development, and sales of battery	100,000	-	10,000	100.00	99,470	10,000	100.00	(530)	(530)	Parent/Subsidiary
WLII	Provision International	Taiwan	Retail of information software	23,668	23,668	882	30.22	15,279	882	30.22	9,822	2,968	Associate

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balances as of December 31, 2015			Maximum ownership during 2015		Net Income (Loss) of the Investee	Share of profits/ losses of investee	Note
				December 31, 2015	December 31, 2014	Shares (in thousands)	Percentage of Ownership	Carrying Value	Shares (in thousands)	Percentage of Ownership			
WLII	WELL	Taiwan	Matchmaking of professional services, platform of client service and sale of products, and providing of professional seminars and courses	10,000	-	10,000	100.00	10,000	10,000	100.00	-	-	Parent/Subsidiary
AEH	Boardwalk	British Virgin Islands	Investing and holding company	3,333,032	3,333,032	109,639	7.98	2,814,051	109,639	8.32	(1,005,808)	(83,100)	Associate
AHN	Sertec 360	Switzerland	Holding company	14,462	14,462	1	51.00	1,126	1	51.00	(17,508)	(8,929)	Associate

Acer Incorporated and Subsidiaries
Information on Investment in Mainland China
For the year ended December 31, 2015

Table 9

(Amounts in Thousands of New Taiwan Dollars)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2015	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2015	Net Income (Losses) of Investee	% of Ownership of Direct or Indirect Investment	Maximum ownership during 2015		Share of profits/ losses of investee	Carrying Value as of December 31, 2015	Accumulated Inward Remittance of Earnings as of December 31, 2015
					Outflow	Inflow				Shares	Percentage of Ownership			
Acer Third Wave Software (Beijing) Co., Ltd.	Software research, development, design, trading and consultation	99,198	2	99,198	-	-	99,198	(4,383)	100.00	-	100.00	(4,383)	(2,141)	-
Beijing Acer Information Co., Ltd.	Sale of brand-name information technology product	59,519	2	-	-	-	-	(109)	100.00	-	100.00	(109)	43,259	-
Acer Information (Zhong Shan) Co., Ltd.	Sale of brand-name information technology product	49,599	2	-	-	-	-	920	100.00	-	100.00	920	231,850	-
Acer Computer (Shanghai) Ltd.	Sale of brand-name information technology product	66,132	2	66,132	-	-	66,132	(12,598)	100.00	-	100.00	(12,598)	1,350,140	-
Acer (Chongqing) Ltd.	Sale of brand-name information technology product	4,959,900	2	5,092,164 (Note 2)	-	-	5,092,164	245,973	100.00	-	100.00	245,973	3,815,674	-
Acer Information Technology R&D (Shanghai) Co., Ltd	Research and design of smart hand held products	66,132	2	-	-	-	-	(16)	100.00	-	100.00	(16)	3,725	-
Acer Colud Technology(Chongqing) Ltd.	Design, development, sales, and advisory of computer software and hardware	165,330	1	-	165,330	-	165,330	(301)	100.00	-	100.00	(301)	159,206	-
Innovation and Commercialization Accelerator Inc.	Development, design, manufacturing, sales, and maintenance of intelligent terminal devices	30,552	2	-	30,552	-	30,552	(294)	30.00	-	30.00	(88)	30,464	-

Note 1: Method of Investment:

Type 1: Direct investment in Mainland China.

Type 2: Indirect investment in Mainland China through a holding company established in other countries.

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 \$ 132,264 (US \$4,000 thousand).

Investor Company Name	Accumulated Investment in Mainland China as of December 31, 2015	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
The Company and Subsidiaries	\$ 5,453,376 (US \$164,923,972)	\$ 6,008,895 (US \$181,724,286.5)	(Note 3)

The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1 = NT\$33.066 as of December 31, 2015.

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