

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

**ACER INCORPORATED
AND ITS SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

**December 31, 2016 and 2015
(With Independent Auditors' Report Thereon)**

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Representation Letter	3
4. Independent Auditors' Report	4
5. Consolidated Balance Sheets	5
6. Consolidated Statements of Comprehensive Income (Loss)	6
7. Consolidated Statements of Changes in Equity	7
8. Consolidated Statements of Cash Flows	8
9. Notes to the Consolidated Financial Statements	
(1) Organization and business	9
(2) Authorization of the Consolidated Financial Statements	9
(3) Application of New and Revised Accounting Standards and Interpretations	9~12
(4) Summary of significant accounting policies	12~35
(5) Critical Accounting Judgments and Key Sources of Estimation Uncertainty	36
(6) Significant account disclosures	37~80
(7) Related-party Transactions	80~81
(8) Pledged assets	82
(9) Significant commitments and contingencies	82
(10) Significant loss from Casualty	82
(11) Significant subsequent events	82
(12) Other	83
(13) Additional disclosures	
(a) Information on significant transactions	83、87~98
(b) Information on investees	83、99~100
(c) Information on investment in Mainland China	83~84、101
(14) Segment information	84~86

Representation Letter

The entities that are required to be included in the combined financial statements of Acer Incorporated as of and for the year ended December 31, 2016 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 "Consolidated Financial Statements" endorsed by the Financial Supervisory Commission. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Acer Incorporated and its subsidiaries do not prepare a separate set of combined financial statements.

Hereby declare

Acer Incorporated
George Huang
Chairman
March 30, 2017

**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, 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

To the Board of Directors

Acer Incorporated:

Opinion

We have audited the consolidated financial statements of Acer Incorporated and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards, International Accounting Standards, interpretations as well as related guidance endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were significant in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2016 are stated as follows:

1. Revenue recognition

Refer to Note 4(q) "Revenue recognition" for the significant accounting policies on recognizing revenue, and Note 5(a) "Critical accounting judgments and key sources of estimation uncertainty" for estimation uncertainty of sales returns and allowances.

Description of key audit matter:

The Group engaged primarily in the sale of brand-name IT products. Revenue is recognized depending on the various trade terms agreed with customers. This exposes the Group to the risk that the sales transactions made close to the balance sheet date are not recorded in the appropriate period. Furthermore, the accrual of sales allowances and returns based on business practice is subject to management's judgment, which involves significant uncertainty. Consequently, the revenue recognition and accrual of sales allowances and returns have been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matters above, we have performed certain audit procedures including, among others, testing the design and operating effectiveness of the Group's internal controls over the timing of revenue recognition; performing a sample test of sales transactions taking place before and after the balance sheet date to ensure that revenue was recognized in the appropriate period; assessing the methodology used by management in calculating the level of accrual of sales allowances and returns, including the reasonableness of key assumptions; and inspecting the historical payments of sales allowances and returns to evaluate the reasonableness of the sales allowances and returns estimated by management.

2. Valuation of inventories

Refer to Note 4(h) "Inventories" for the significant inventory accounting policies, Note 5(b) "Critical accounting judgments and key sources of estimation uncertainty" for estimation uncertainty of inventory valuation and Note 6(g) "Inventories" for the related disclosures.

Description of key audit matter:

Inventories are measured at the lower of cost and net realizable value. Due to the rapid development of technology and fierce market competition, the Group's product price may fluctuate rapidly. Furthermore, the stocks for products and components may exceed customers' demands thus becoming obsolete. These factors expose the Group to significant level of uncertainty particularly in the area of estimating net realizable value, which is subject to management's judgments. Therefore, the valuation of inventories has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, we have performed certain audit procedures including, among others, evaluating whether valuation of inventories was accounted for in accordance with the Group's accounting policies; obtaining the inventory aging report, analyzing the fluctuation of inventory aging and selecting samples to verify the accuracy of inventory aging classification; and testing the net realizable value of inventories to evaluate the reasonableness of inventory provisions.

3. Impairment of goodwill

Refer to Note 4(n) "Impairment of non-financial assets" for the significant accounting policies on goodwill impairment, Note 5(c) "Critical accounting judgments and key sources of estimation uncertainty" for estimation uncertainty of goodwill impairment and Note 6(k) "Intangible assets" for the related disclosures.

Description of key audit matter:

Goodwill arising from past acquisition of subsidiaries are subject to impairment test annually or at the time there are indications that goodwill may have been impaired. The assessment of the recoverable amount of goodwill involves management's judgment and estimation with respect to the future cash flows and key assumptions which are complex and involve significant uncertainty. Accordingly, the assessment of impairment of goodwill has been identified as one of the key audit matters.

How the matter was addressed in our audit:

In relation to the key audit matter above, we have performed certain audit procedures including, among others, assessing the basis used by management for identifying the cash-generating units and for properly allocating the assets to the respective cash-generating units; assessing the appropriateness of the valuation model and key assumptions (in particular projected sales growth rate and weighted-average cost of capital) used by the management in measuring the recoverable amount; assessing the historical reasonableness of management's estimates of business forecasts, and performing a sensitivity analysis of key assumptions. In addition to the above audit procedures, we have also involved a valuation specialist to evaluate the appropriateness of the weighted-average cost of capital used and its underlying assumptions; and assessing the adequacy of the Group's disclosures of its policy on impairment of non-financial assets (including goodwill) and other related disclosures.

Other Matter

Acer Incorporated has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unmodified audit opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, interpretation as well as related guidance endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (inclusive of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercised professional judgment and maintained professional skepticism throughout the audit. We also:

1. Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remained solely responsible for our audit opinion.

We communicated with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determined that a matter should not be consolidated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Huei-Chen Chang and Tzu-Chieh Tang.

KPMG

Taipei, Taiwan (Republic of China)
March 30, 2017

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

ACER INCORPORATED AND ITS SUBSIDIARIES**Consolidated Balance Sheets****December 31, 2016 and 2015****(Expressed in Thousands of New Taiwan Dollars)**

Assets		December 31, 2016		December 31, 2015	
		Amount	%	Amount	%
Current assets:					
1100	Cash and cash equivalents (note 6(a) & (y))	\$ 44,289,673	27	44,621,527	26
1110	Financial assets at fair value through profit or loss—current (note 6(b) & (y))	1,577,442	1	791,575	-
1125	Available-for-sale financial assets—current (note 6(c) & (y))	100,025	-	93,313	-
1147	Investments in debt instrument without an active market—current (note 6(d) & (y))	32,279	-	-	-
1170	Notes and accounts receivable, net (note 6(e) & (y))	44,230,305	27	48,173,027	28
1180	Accounts receivable from related parties (note 6(e) & (y) and 7)	81,975	-	52,749	-
1200	Other receivables (note 6(f) & (y))	738,719	-	1,309,972	1
1210	Other receivables from related parties (note 6(y) and 7)	6,737	-	276	-
1220	Current income tax assets	587,864	-	818,938	-
130X	Inventories (note 6(g))	39,095,487	24	34,043,598	20
1470	Other current assets	<u>3,122,630</u>	<u>2</u>	<u>3,044,802</u>	<u>2</u>
	Total current assets	<u>133,863,136</u>	<u>81</u>	<u>132,949,777</u>	<u>77</u>
Non-current assets:					
1510	Financial assets at fair value through profit or loss—non-current (note 6(b) & (y))	70,340	-	-	-
1523	Available-for-sale financial assets—non-current (note 6(c) & (y))	4,272,766	3	3,159,771	2
1546	Investments in debt instrument without an active market—non-current (note 6(d) & (y))	178,238	-	-	-
1550	Investments accounted for using equity method (note 6(h))	416,343	-	155,992	-
1600	Property, plant and equipment (note 6(i))	4,321,152	3	4,827,412	3
1760	Investment property (note 6(j))	1,180,317	1	1,192,699	1
1780	Intangible assets (note 6(k))	18,595,922	11	26,609,427	15
1840	Deferred income tax assets (note 6(q))	662,277	-	838,146	-
1900	Other non-current assets (note 6(p))	1,152,928	1	1,065,370	1
1980	Other financial assets—non-current (note 6(y) and 8)	<u>960,643</u>	<u>-</u>	<u>943,609</u>	<u>1</u>
	Total non-current assets	<u>31,810,926</u>	<u>19</u>	<u>38,792,426</u>	<u>23</u>
	Total assets	<u>\$ 165,674,062</u>	<u>100</u>	<u>171,742,203</u>	<u>100</u>

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

ACER INCORPORATED AND ITS SUBSIDIARIES**Consolidated Balance Sheets****December 31, 2016 and 2015****(Expressed in Thousands of New Taiwan Dollars)**

		December 31, 2016		December 31, 2015	
		Amount	%	Amount	%
Liabilities and Equity					
Current liabilities:					
2100	Short-term borrowings (note 6(l), (y) & (z))	\$ 103,000	-	2,584,377	2
2120	Financial liabilities at fair value through profit or loss — current (note 6(b), (y) & (z))	112,606	-	318,934	-
2170	Notes and accounts payable (note 6(y) & (z))	52,866,900	32	42,736,897	25
2180	Accounts payable to related parties (note 6(y) & (z) and 7)	3,514	-	10,285	-
2200	Other payables (note 6(v), (y) & (z) and 7)	37,104,994	22	38,795,055	23
2250	Provisions — current (note 6(n) and 9)	6,476,306	4	6,979,705	4
2321	Current portion of bonds payable (note 6(m), (y) & (z))	-	-	5,966,431	3
2322	Current portion of long-term debt (note 6(m), (y) & (z))	6,000,000	4	1,800,000	1
2399	Other current liabilities	<u>2,754,355</u>	<u>2</u>	<u>3,384,408</u>	<u>2</u>
	Total current liabilities	<u>105,421,675</u>	<u>64</u>	<u>102,576,092</u>	<u>60</u>
Non-current liabilities:					
2550	Provisions — non-current (note 6(n) and 9)	60,520	-	94,946	-
2570	Deferred income tax liabilities (note 6(q))	692,713	-	1,437,179	1
2600	Other non-current liabilities (note 6(p))	<u>1,820,676</u>	<u>1</u>	<u>1,778,885</u>	<u>1</u>
	Total non-current liabilities	<u>2,573,909</u>	<u>1</u>	<u>3,311,010</u>	<u>2</u>
	Total liabilities	<u>107,995,584</u>	<u>65</u>	<u>105,887,102</u>	<u>62</u>
Equity (note 6(r)):					
3110	Common stock	30,807,328	19	30,854,428	18
3200	Capital surplus	34,743,105	21	36,232,755	21
	Retained earnings:				
3310	Legal reserve	145,190	-	93,166	-
3320	Special reserve	1,306,709	1	838,498	1
3351	Unappropriated earnings (accumulated deficit)	(4,900,296)	(3)	520,235	-
3400	Other equity	(1,512,785)	(1)	228,505	-
3500	Treasury stock	<u>(2,914,856)</u>	<u>(2)</u>	<u>(2,914,856)</u>	<u>(2)</u>
	Equity attributable to shareholders of the Company	<u>57,674,395</u>	<u>35</u>	<u>65,852,731</u>	<u>38</u>
36XX	Non-controlling interests	<u>4,083</u>	<u>-</u>	<u>2,370</u>	<u>-</u>
	Total equity	<u>57,678,478</u>	<u>35</u>	<u>65,855,101</u>	<u>38</u>
	Total liabilities and equity	<u>\$ 165,674,062</u>	<u>100</u>	<u>171,742,203</u>	<u>100</u>

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

ACER INCORPORATED AND ITS SUBSIDIARIES**Consolidated Statements of Comprehensive Income (Loss)****For the years ended December 31, 2016 and 2015****(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Share)**

		2016		2015	
		Amount	%	Amount	%
4000	Revenue (note 6(n) & (u), 7 and 14)	\$ 232,724,161	100	263,775,202	100
5000	Cost of revenue (note 6(g), (k), (n) & (o), 7 and 12)	<u>209,511,703</u>	<u>90</u>	<u>238,891,080</u>	<u>91</u>
	Gross profit	<u>23,212,458</u>	<u>10</u>	<u>24,884,122</u>	<u>9</u>
	Operating expenses(note 6(e), (i), (j), (k), (n), (o), (p), (s) & (v), 7 and (12))				
6100	Selling expenses	16,097,142	7	17,701,583	7
6200	Administrative expenses	4,153,928	1	4,431,082	1
6300	Research and development expenses	<u>2,048,469</u>	<u>1</u>	<u>2,089,306</u>	<u>1</u>
	Total operating expenses	<u>22,299,539</u>	<u>9</u>	<u>24,221,971</u>	<u>9</u>
6500	Other operating income and loss— net (note 6(o) & (w))	<u>279,594</u>	<u>-</u>	<u>276,457</u>	<u>-</u>
	Operating income	<u>1,192,513</u>	<u>1</u>	<u>938,608</u>	<u>-</u>
	Non-operating income and loss:				
7010	Other income (note 6(x))	435,145	-	476,684	-
7020	Other gains and losses— net (note 6(m), (x) and (y))	280,488	-	(228,810)	-
7050	Finance costs (note 6(m) & (x))	(250,257)	-	(340,454)	-
7060	Share of profits (losses) of associates and joint ventures (note 6(h))	(17,970)	-	529	-
7675	Loss on impairment of intangible assets (note 6(k))	<u>(6,364,244)</u>	<u>(3)</u>	<u>-</u>	<u>-</u>
	Total non-operating income and loss	<u>(5,916,838)</u>	<u>(3)</u>	<u>(92,051)</u>	<u>-</u>
7900	Income (loss) before taxes	<u>(4,724,325)</u>	<u>(2)</u>	<u>846,557</u>	<u>-</u>
7950	Income tax expense (note 6(q))	<u>176,415</u>	<u>-</u>	<u>242,762</u>	<u>-</u>
	Net income (loss)	<u>(4,900,740)</u>	<u>(2)</u>	<u>603,795</u>	<u>-</u>
	Other comprehensive income (loss):				
8310	Items that will not be reclassified subsequently to profit or loss (note 6(p), (q) & (r)) :				
8311	Remeasurements of defined benefit plans	(42,601)	-	(104,521)	-
8349	Income tax benefit related to items that will not be reclassified subsequently to profit or loss	<u>29,720</u>	<u>-</u>	<u>12,130</u>	<u>-</u>
		<u>(12,881)</u>	<u>-</u>	<u>(92,391)</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss (note 6(q), (r) & (y)) :				
8361	Exchange differences on translation of foreign operations	(2,496,623)	(1)	252,979	-
8362	Change in fair value of available-for-sale financial assets	756,795	-	(990,360)	-
8399	Income tax benefit related to items that may be reclassified subsequently to profit or loss	<u>353</u>	<u>-</u>	<u>623</u>	<u>-</u>
		<u>(1,739,475)</u>	<u>(1)</u>	<u>(736,758)</u>	<u>-</u>
	Other comprehensive income (loss) for the year, net of taxes	<u>(1,752,356)</u>	<u>(1)</u>	<u>(829,149)</u>	<u>-</u>
	Total comprehensive income (loss) for the year	<u>\$ (6,653,096)</u>	<u>(3)</u>	<u>(225,354)</u>	<u>-</u>
	Net income (loss) attributable to:				
8610	Shareholders of the Company	\$ (4,900,296)	(2)	603,680	-
8620	Non-controlling interests	<u>(444)</u>	<u>-</u>	<u>115</u>	<u>-</u>
		<u>\$ (4,900,740)</u>	<u>(2)</u>	<u>603,795</u>	<u>-</u>
	Total comprehensive income (loss) attributable to:				
8710	Shareholders of the Company	\$ (6,654,809)	(3)	(225,467)	-
8720	Non-controlling interests	<u>1,713</u>	<u>-</u>	<u>113</u>	<u>-</u>
		<u>\$ (6,653,096)</u>	<u>(3)</u>	<u>(225,354)</u>	<u>-</u>
	Earnings (loss) per share (in New Taiwan dollars) (note 6(t)) :				
9750	Basic earnings (loss) per share	\$ <u>(1.62)</u>		<u>0.20</u>	
9850	Diluted earnings (loss) per share	\$ <u>(1.62)</u>		<u>0.20</u>	

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

ACER INCORPORATED AND ITS SUBSIDIARIES**Consolidated Statements of Changes in Equity****For the years ended December 31, 2016 and 2015****(Expressed in Thousands of New Taiwan Dollars)**

	Attributable to shareholders of the Company														
	Retained earnings						Other equity								
	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, 2015	\$ 27,965,678	34,098,396	-	-	903,649	903,649	1,183,808	(114,205)	28,015	(251,710)	845,908	(3,186,038)	60,627,593	2,257	60,629,850
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 associates	-	(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 (loss) in 2015	-	-	-	-	-	-	253,604	(990,360)	(92,391)	-	(829,147)	-	(829,147)	(2)	(829,149)
Total comprehensive income (loss) 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>
Appropriation approved by the stockholders:															
Legal reserve	-	-	52,024	-	(52,024)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	468,211	(468,211)	-	-	-	-	-	-	-	-	-	-
Other changes in capital surplus:															
Cash distributed from capital surplus	-	(1,517,007)	-	-	-	-	-	-	-	-	-	-	(1,517,007)	-	(1,517,007)
Change in equity of investments in associates	-	(19,743)	-	-	-	-	-	-	-	-	-	-	(19,743)	-	(19,743)
Compensation cost arising from restricted shares of stock issued to employees	-	-	-	-	-	-	-	-	-	13,223	13,223	-	13,223	-	13,223
Retirement of restricted shares of stock issued to employees	(47,100)	47,100	-	-	-	-	-	-	-	-	-	-	-	-	-
Net loss in 2016	-	-	-	-	(4,900,296)	(4,900,296)	-	-	-	-	-	-	(4,900,296)	(444)	(4,900,740)
Other comprehensive income (loss) in 2016	-	-	-	-	-	-	(2,498,427)	756,795	(12,881)	-	(1,754,513)	-	(1,754,513)	2,157	(1,752,356)
Total comprehensive income (loss) in 2016	-	-	-	-	(4,900,296)	(4,900,296)	(2,498,427)	756,795	(12,881)	-	(1,754,513)	-	(6,654,809)	1,713	(6,653,096)
Balance at December 31, 2016	<u>\$ 30,807,328</u>	<u>34,743,105</u>	<u>145,190</u>	<u>1,306,709</u>	<u>(4,900,296)</u>	<u>(3,448,397)</u>	<u>(1,061,015)</u>	<u>(347,770)</u>	<u>(77,257)</u>	<u>(26,743)</u>	<u>(1,512,785)</u>	<u>(2,914,856)</u>	<u>57,674,395</u>	<u>4,083</u>	<u>57,678,478</u>

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

ACER INCORPORATED AND ITS SUBSIDIARIES**Consolidated Statements of Cash Flows****For the years ended December 31, 2016 and 2015****(Expressed in Thousands of New Taiwan Dollars)**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Income (loss) before income taxes	\$ (4,724,325)	846,557
Adjustments for:		
Depreciation	613,178	684,885
Amortization	851,398	1,000,991
Interest expense	250,257	340,454
Interest income	(210,263)	(227,438)
Dividend income	(224,882)	(249,246)
Share-based compensation cost	13,223	131,912
Effects of exchange rate changes on investments in debt instrument with no active market	11,597	-
Effects of exchange rate changes on bonds payable	-	(103,634)
Share of profits (losses) of associates and joint venture	17,970	(529)
Loss on disposal of property, plant and equipment and investment property, net	7,800	12,045
Gain on disposal of intangible assets	-	(24,107)
Other investment loss (gain)	5,861	(23,613)
Impairment loss on non-financial assets	6,364,244	-
Gain on repurchase of bonds payable	-	(446,429)
Total profit and loss	<u>7,700,383</u>	<u>1,095,291</u>
Changes in operating assets and liabilities:		
Net changes in operating assets:		
Derivative financial assets and liabilities	(936,275)	1,303,264
Notes and accounts receivable	3,942,722	10,994,704
Receivables from related parties	(29,226)	(28,912)
Inventories	(5,072,154)	2,535,275
Other receivables and other current assets	498,796	(110,650)
Non-current accounts receivable	(33,429)	46,725
Net changes in operating assets	<u>(1,629,566)</u>	<u>14,740,406</u>
Net changes in operating liabilities:		
Notes and accounts payable	10,130,003	(12,087,515)
Payables to related parties	(7,856)	(3,379)
Other payables and other current liabilities	(2,364,099)	(3,354,855)
Provisions	(537,825)	(2,025,547)
Other non-current liabilities	(810)	75,062
Net changes in operating liabilities	<u>7,219,413</u>	<u>(17,396,234)</u>
Total changes in operating assets and liabilities	<u>5,589,847</u>	<u>(2,655,828)</u>
Cash provided by (used in) operations	8,565,905	(713,980)
Interest received	193,954	227,762
Income taxes paid	(488,234)	(379,349)
Net cash provided by (used in) operating activities	<u>8,271,625</u>	<u>(865,567)</u>

See accompanying notes to financial statements.

(English Translation of Financial Report Originally Issued in Chinese)

ACER INCORPORATED AND ITS SUBSIDIARIES (Continued)

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	2016	2015
Cash flows from investing activities:		
Purchase of available-for-sale financial assets	(429,439)	(345,581)
Proceeds from disposal of available-for-sale financial assets	16,884	52,261
Proceeds from capital return of available-for-sale financial assets	40,948	114,104
Purchase of investments in debt instrument without an active market	(332,094)	-
Increase in advances to related parties	(6,461)	(267)
Acquisition of investments accounted for using equity method	(295,056)	(30,552)
Additions to property, plant and equipment	(164,670)	(267,654)
Proceeds from disposal of property, plant and equipment and investment property	13,111	57,138
Additions to intangible assets	(5,070)	(62,930)
Proceeds from disposal of intangible assets	-	44,643
Decrease (increase) in other non-current financial assets and other non-current assets	(183,818)	1,439
Dividend received	224,882	250,150
Net cash used in investing activities	<u>(1,120,783)</u>	<u>(187,249)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	(2,481,377)	2,267,377
Repurchase of bonds payable	(6,000,000)	(3,677,046)
Increase in long-term debt	6,000,000	-
Repayment of long-term debt	(1,800,000)	(5,400,000)
Issuance of new shares for cash	-	5,400,000
Cash distributed from capital surplus	(1,517,007)	-
Interest paid	(208,722)	(194,790)
Net cash used in financing activities	<u>(6,007,106)</u>	<u>(1,604,459)</u>
Effects of foreign exchange rate changes	<u>(1,475,590)</u>	<u>(279,849)</u>
Net decrease in cash and cash equivalents	<u>(331,854)</u>	<u>(2,937,124)</u>
Cash and cash equivalents at beginning of year	<u>44,621,527</u>	<u>47,558,651</u>
Cash and cash equivalents at end of year	<u><u>\$ 44,289,673</u></u>	<u><u>44,621,527</u></u>

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

ACER INCORPORATED AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

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 Acer Cloud platform in order to enhance Acer brand positioning and increase its brand value, as well as transforming it into an enterprise who provides hardware, software and service to clients. The Company and its subsidiaries (collectively as the "Group") primarily engaged in marketing and sale of the aforementioned brand-name IT products, providing electronic information services to clients and developing BYOC (Build Your Own Cloud) platform related services.

2. Authorization of the Consolidated Financial Statements

These consolidated financial statements were authorized for issuance by the Board of Directors on March 30, 2017.

3. Application of New and Revised Accounting Standards and Interpretations

- (a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, commencing January 1, 2017, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016 and were endorsed by the FSC in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 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
Amendments to IAS 1 <i>Disclosure Initiative</i>	January 1, 2016
Amendments to IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortization</i>	January 1, 2016

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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
Annual improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016
IFRIC 21 <i>Levies</i>	January 1, 2014

The Group assessed that the initial application of the above IFRSs would not have any material impact on its consolidated financial statements.

- (b) Newly released or amended standards and interpretations not yet endorsed by the FSC

Below is a summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Group should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Group's financial statements were issued, the FSC has yet announced the effective dates of the other IFRSs.

New, Revised 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>	Effective date to be determined by IASB
IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2018
IFRS 16 <i>Leases</i>	January 1, 2019
Amendments to IFRS 2 <i>Clarifications of Classification and Measurement of Share-based Payment Transactions</i>	January 1, 2018
Amendments to IFRS 15 <i>Clarifications of IFRS 15</i>	January 1, 2018
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 IFRS 4 <i>Insurance Contracts (Applicable for IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts)</i>	January 1, 2018
Annual Improvements to IFRSs 2014-2016 cycle:	
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2017
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures</i>	January 1, 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	January 1, 2018
Amendments to IAS 40 <i>Investment Property</i>	January 1, 2018

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

The items disclosed below are considered to have significant impact on the Group's accounting policies:

Issuance / Release	Dates	Standards or Interpretations	Content of amendment
	May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	<p>IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 <i>Revenue</i>, IAS 11 <i>Construction Contracts</i>, and a number of revenue-related interpretations.</p> <p>Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property; and (iv) apply transition requirements.</p>
	November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	<p>The standard will replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i>, and the main amendments are as follows:</p> <ul style="list-style-type: none"> • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. The amount of change in the fair value of the financial liability designated as at fair value through profit or loss that is attributable to change in the credit risk of that liability is presented in other comprehensive income. • Impairment: IFRS 9 adds a new expected loss impairment model to measure the impairment of financial assets. • Hedge accounting: The change in hedge accounting reflects a broad articulation of a principle-based approach with a focus on the purpose of the entity's risk management activities, which includes the amendments to the achievement, as well as the continuation and discontinuation of hedge accounting. It also enhances various types of transactions eligible for hedge accounting.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense accrued on the lease liability separately from the depreciation charge on the right-of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

The Group is currently evaluating the impact on its financial position and financial performance of the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

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.

(a) 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 and issued into effect by the FSC (collectively as "Taiwan-IFRSs").

(b) Basis of preparation

(i) 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:

- 1) Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
- 2) Available-for-sale financial assets measured at fair value; and

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

- 3) 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(r).

(ii) 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.

(c) Basis of consolidation

(i) 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) in which the Company 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. All significant inter-company balances, transactions and resulting unrealized income and loss are eliminated on consolidation. Total comprehensive income (loss) of a subsidiary is attributed to the shareholders of the Company and 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 consideration paid or received is recognized in equity and attributed to the shareholders of the Company.

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 former subsidiary's assets (including goodwill), liabilities and non-controlling interest at the date when the Group loses control. 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) List of subsidiaries included 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	
			December 31, 2016	December 31, 2015
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 %
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 Incorporated (“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 %	100.00 %
AHN	Acer Computer France S.A.S.U. (“ACF”, France)	Sale of brand-name IT products	100.00 %	100.00 %
AHN	Acer U.K. Limited (“AUK”, the United Kingdom)	Sale of brand-name IT products	100.00 %	100.00 %
AHN	Acer Italy S.R.L. (“AIT”, Italy)	Sale of brand-name IT products	100.00 %	100.00 %
AHN	Acer Computer GmbH (“ACG”, Germany)	Sale of brand-name IT products	100.00 %	100.00 %
AHN	Acer Austria GmbH (“ACV”, Austria)	Sale of brand-name IT products	100.00 %	100.00 %
AHN	Acer Europe SA (“AEG”, Switzerland)	Sale of brand-name IT products	100.00 %	100.00 %
AHN	Acer Czech Republic S.R.O. (“ACZ”, Czech Republic)	Sale of brand-name IT products	100.00 %	100.00 %
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 %

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Name of Investor	Name of Investee	Main Business and Products	Percentage of Ownership	
			December 31, 2016	December 31, 2015
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 %
AHN	Acer Computer B.V. (“ACH”, the Netherlands)	Sale of brand-name IT products	100.00 %	100.00 %
AHN	Sertec 360 SA (“SER”, Switzerland)	Repair and maintenance of IT products	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	99.95 %	99.92 %
Boardwalk	Acer American Holdings Corp. (“AAH”, U.S.A.)	Investment and holding activity	100.00 %	100.00 %
Boardwalk	AGP Tecnologia em Informatica do Brasil Ltda. (“ATB”, Brazil)	Sale of brand-name IT products	100.00 %	100.00 %
AMEX	Aurion Tecnologia, S.A. de C.V. (“Aurion”, Mexico)	Sale of brand-name IT products	99.95 %	99.92 %
AAH	Acer Cloud Technology Inc. (“ACTI”, U.S.A.)	Investment and holding activity	100.00 %	100.00 %
ACTI	Acer Cloud Technology (US), Inc. (“ACTUS”, U.S.A.)	Cloud technology service and research, development, and design of IoT platform	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 %
GWI	Acer America Corporation. (“AAC”, U.S.A.)	Sale of brand-name IT products	100.00 %	99.99 %
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 %

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Name of Investor	Name of Investee	Main Business and Products	Percentage of Ownership	
			December 31, 2016	December 31, 2015
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 Services 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 %
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 %
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 %	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 %
The Company	Acer Worldwide Incorporated (“AWI”, British Virgin Islands)	Investment and holding activity	100.00 %	100.00 %
The Company	Cross Century Investment Limited (“CCI”, Taiwan)	Investment and holding activity	100.00 %	100.00 %
The Company	Acer Digital Services (B.V.I.) Holding Corp. (“ADSBH”, British Virgin Islands)	Investment and holding activity	100.00 %	100.00 %

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Name of Investor	Name of Investee	Main Business and Products	Percentage of Ownership	
			December 31, 2016	December 31, 2015
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	E-ten Information Systems Co., Ltd. ("ETEN", Taiwan)	Research, design and sale of smart handheld products	100.00 %	100.00 %
The Company	Acer BeingWare Holding Inc. ("ABH", Taiwan)	Investment and holding activity	100.00 %	-
ABH	Acer Cloud Technology (Taiwan) Inc. ("ACTTW", Taiwan)	Development of Internet of Beings and cloud technology, and integration of cloud technology, software and hardware	100.00 %	-
ABH	Acer Being Health Inc. ("ABHI", Taiwan)	Intelligent medical examination and data analysis, the medical big data, and exchange of health management and related information	100.00 %	-
ACTTW and ADSC	Acer Being Communication Inc. ("ABC", Taiwan)	Software design service	100.00 %	100.00 %
ABH and ADSC	MPS Energy Inc. ("MPS", Taiwan)	Research, development, and sale of batteries	100.00 %	100.00 %
The Company	Acer Cyber Center Services Inc. ("ACCSI", Taiwan)	Electronic data supply, processing and storage services	100.00 %	100.00 %
ABH and the Company	Acer e-Enabling Service Business Inc. ("AEB", Taiwan)	Cloud ticketing system, electronic book, online payment service, customized system development and integration services, and sale of commercial and cloud application software and technical services	100.00 %	100.00 %
ACTTW and the Company	Acer Cloud Technology (Chongqing) Ltd. ("ACTCQ", China)	Design, development, sale, and advisory of computer software and hardware	100.00 %	100.00 %
AEB	XPLOVA Inc. ("XPL", Taiwan)	Design, development and sale of smart bicycle speedometer and operating social platform for bicycle riding and sports	100.00 %	100.00 %

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Name of Investor	Name of Investee	Main Business and Products	Percentage of Ownership	
			December 31, 2016	December 31, 2015
AEB	Pawbo, Inc. ("PBC", Taiwan)	Pet interaction device and social networking service	100.00 %	-
AEB	Pklot Inc. ("PKL", Taiwan)	Integration of service platforms including parking lots searching, parking fee comparison, and GPS navigation	92.31 %	-
XPL	Xplover (Shanghai) Ltd. ("XPLSH", China)	Sale of smart bicycle speedometer and operating social platform for bicycle riding and sports	100.00 %	-
ACCSI	TWP International Inc. ("TWPBVI", British Virgin Islands)	Investment and holding activity	100.00 %	100.00 %
TWPBVI	Acer Third Wave Software (Beijing) Co. Ltd. ("TWPBJ", China)	Sale of commercial and cloud application software and technical service	100.00 %	100.00 %
ACTTW	Acer GrandPad International Inc. ("AGI", Taiwan)	Development of user-friendly IoT device	100.00 %	-

ABH, ACTTW, ABHI, AGI, ACTUS, XPLSH, PBC, and PKL were newly established subsidiaries or were acquired during 2016. ALA was merged into GWI in 2016. Formerly SER was a joint venture accounted for using equity method; the Group acquired all its remaining shares in the second quarter of 2016; accordingly, SER was included in the accompanying consolidated financial statements from the date that control commenced.

In 2016, the subsidiaries, ARD and PBHO, were liquidated and excluded from the accompanying consolidated financial statements since the date the control ceased.

(iii) List of subsidiaries which are not included in the consolidated financial statements: None.

(d) Foreign currency

(i) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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.

(ii) Foreign operations

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

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

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

(e) 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.

- (i) It is expected to be realized, or sold or consumed in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting date; or
- (iv) 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:

- (i) It is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting date; or

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

- (iv) 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.

(f) 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.

(g) Financial instruments

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

(i) 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.

1) 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:

- a) 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;
- b) Performance of the financial asset is evaluated on a fair value basis;
- c) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

2) 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, other receivables and investments in debt instrument with no active market. 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.

3) 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).

4) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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

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

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

5) **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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

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

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

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

2) 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:

- a) 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;
- b) Performance of the financial liabilities is evaluated on a fair value basis;
- c) A hybrid instrument contains one or more embedded derivatives.

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

3) 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.

4) 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.

5) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(iii) 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 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.

1) Fair value hedge

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

2) 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.

(h) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(i) Investments accounted for using equity method

Investments accounted for using the equity method include investments in associates and interests in joint venture.

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The operating results as well as assets and liabilities of associates and joint venture are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated balance sheet at cost, and adjusted thereafter, to recognize the Group's share of profit or loss and other comprehensive income (loss) of the associate and joint venture, as well as the distribution received. The Group also recognizes its share in the changes in the equities of associates and joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities, and contingent liabilities of an associate or a joint venture recognized at the date of acquisition, is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value, less, costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of 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. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate, is included in the determination of the gain or loss on disposal of the associate. In addition, the Group shall account for all amounts recognized in other comprehensive income in relation to that associate on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. If the Group's ownership interest in an associate is reduced as a result of disposal, with the investment continues to be an associate, the Group should reclassify only a proportionate amount of the gain or loss previously recognized in other comprehensive income to profit or loss.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

When the Group subscribes to additional shares in an associate or a joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the net assets of the associate or joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Group's ownership interest is reduced due to the additional subscription to the shares of associate or joint venture by other investors, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate or joint venture shall be reclassified to profit or loss on the same basis as would be required if the associate or joint venture had directly disposed of the related assets or liabilities.

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

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

(j) Property, plant and equipment

(i) 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.

(ii) 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.

(iii) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(iv) 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.

(k) 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.

(l) 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.

(i) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Contingent rents are recognized as income in the period when the lease adjustments are confirmed.

(ii) 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.

(m) Intangible assets

(i) Goodwill

Goodwill arising from acquisitions of subsidiaries is accounted for as intangible assets. Refer to note 4(u) 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.

(ii) 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 are 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.

(iii) 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.

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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(n) Impairment of non-financial assets

(i) 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.

(ii) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(o) 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.

(i) 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.

(ii) 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.

(iii) 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.

(p) 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.

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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(q) 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.

(i) 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.

(ii) Services

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

(iii) 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.

(iv) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(r) Employee benefits

(i) Defined contribution plans

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

(ii) 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) are recognized in other comprehensive income and then transferred to other equity.

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.

(iii) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(s) 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.

(t) 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:

- (i) 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;
- (ii) Temporary differences arising from investments in subsidiaries and joint ventures 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
- (iii) Temporary differences arising from initial recognition of goodwill.

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.

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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(u) Business combinations

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.

(v) 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.

(w) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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:

(a) Revenue recognition (accrual of sales return and allowance)

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.

(b) Valuation of inventory

Inventories are measured 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.

(c) Impairment of goodwill

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(k) for further description of the impairment of goodwill. Any changes in these estimates based on changed economic conditions or business strategies could result in significant adjustments in future years.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

6. Significant account disclosures

(a) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand	\$ 5,495	5,625
Bank deposits	28,740,195	29,919,118
Time deposits	<u>15,543,983</u>	<u>14,696,784</u>
	<u>\$ 44,289,673</u>	<u>44,621,527</u>

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

	December 31, 2016	December 31, 2015
Financial assets held for trading — current:		
Derivatives — Foreign currency forward contracts	\$ 1,573,876	783,900
Derivatives — Foreign currency options	<u>3,566</u>	<u>7,675</u>
	<u>\$ 1,577,442</u>	<u>791,575</u>
Financial assets at fair value through profit or loss — non-current:		
Conversion rights of investments in convertible bonds	<u>\$ 70,340</u>	<u>-</u>
Financial liabilities held for trading — current:		
Derivatives — Foreign currency forward contracts	<u>\$ (112,606)</u>	<u>(318,934)</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:

(i) Foreign currency forward contracts

December 31, 2016			
Contract amount (in thousands)		Currency	Maturity period
USD 66,330		AUD / USD	2017/01~2017/04
USD 10,667		EUR / CHF	2017/01~2017/05
USD 6,330		EUR / NOK	2017/01~2017/05
USD 8,941		EUR / SEK	2017/01~2017/05
USD 463,689		EUR / USD	2017/01~2017/05
USD 72,055		GBP / USD	2017/01~2017/06
USD 8,644		NZD / USD	2017/01~2017/04
USD 70,371		USD / CAD	2017/01~2017/05
USD 15,000		USD / CLP	2017/01~2017/05
USD 84,000		USD / CNY	2017/01~2017/03
USD 18,600		USD / IDR	2017/01~2017/02

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

December 31, 2016			
Contract amount (in thousands)		Currency	Maturity period
USD 134,457		USD / INR	2017/01~2017/08
USD 29,000		USD / JPY	2017/01~2017/06
USD 38,300		USD / MXN	2017/01~2017/04
USD 30,100		USD / MYR	2017/01~2017/04
USD 627,440		USD / NTD	2017/01
USD 8,400		USD / PHP	2017/01~2017/03
USD 46,144		USD / RUB	2017/01~2017/05
USD 5,000		USD / SGD	2017/01~2017/02
USD 47,000		USD / THB	2017/01~2017/04

December 31, 2015			
Contract amount (in thousands)		Currency	Maturity period
USD 50,880		AUD / USD	2016/01~2016/04
USD 3,404		EUR / CHF	2016/01~2016/04
USD 1,580		EUR / NOK	2016/01~2016/03
USD 9,959		EUR / SEK	2016/01~2016/04
USD 176,825		EUR / USD	2016/01~2016/07
USD 86,616		GBP / USD	2016/01~2016/04
USD 10,213		NZD / USD	2016/01~2016/04
USD 23,319		USD / CAD	2016/01~2016/02
USD 96,800		USD / CNY	2016/01~2016/03
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 549,800		USD / NTD	2016/01~2016/02
USD 6,989		USD / PHP	2016/01~2016/05
USD 2,424		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

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) Foreign currency option contracts

December 31, 2016			
	Contract amount		Maturity period
	(in thousands)		
USD / INR	USD	3,000	2017/05
USD / CNY	USD	6,000	2017/03~2017/04
December 31, 2015			
	Contract amount		Maturity period
	(in thousands)		
USD / INR	USD	23,000	2016/01~2016/06
USD / CNY	USD	5,000	2016/01
EUR / USD	USD	31,700	2016/01

(c) Available-for-sale financial assets

	December 31, 2016	December 31, 2015
Domestic listed stock	\$ 3,119,549	2,305,026
Unlisted stock	1,253,242	948,058
	\$ 4,372,791	3,253,084
Current	\$ 100,025	93,313
Non-current	4,272,766	3,159,771
	\$ 4,372,791	3,253,084

As of December 31, 2016 and 2015, the available-for-sale financial assets were not pledged as collateral for loans and borrowings.

(d) Investments in debt instrument without an active market

	December 31, 2016	December 31, 2015
Convertible bond and convertible notes	\$ 210,517	-
Current	\$ 32,279	-
Non-current	178,238	-
	\$ 210,517	-

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(e) Notes and accounts receivable, net

	December 31, 2016	December 31, 2015
Notes receivable	\$ 730,648	1,103,681
Accounts receivable	43,615,762	47,213,296
Less: allowance for doubtful receivables	<u>(116,105)</u>	<u>(143,950)</u>
	44,230,305	48,173,027
Notes and accounts receivable – related parties	<u>81,975</u>	<u>52,749</u>
	<u>\$ 44,312,280</u>	<u>48,225,776</u>

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

	December 31, 2016	December 31, 2015
Past due 1-30 days	\$ 4,843,595	5,494,233
Past due 31-60 days	700,342	703,809
Past due 61-90 days	286,700	132,573
Past due 91 days or over	<u>250,375</u>	<u>200,642</u>
	<u>\$ 6,081,012</u>	<u>6,531,257</u>

For the years ended December 31, 2016 and 2015, movements of the allowance for doubtful receivables were as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2016	\$ 135,800	8,150	143,950
Impairment loss recognized (reversed)	(29,201)	4,498	(24,703)
Write-off	(19,143)	-	(19,143)
Effect of exchange rate changes	<u>16,001</u>	<u>-</u>	<u>16,001</u>
Balance at December 31, 2016	<u>\$ 103,457</u>	<u>12,648</u>	<u>116,105</u>
	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2015	\$ 192,248	5,027	197,275
Impairment loss recognized	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>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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, 2016					
Underwriting bank	Factoring credit limit	Receivables sold	Receivables derecognized	Interest rate	Collateral
Taishin International Bank	<u>\$ 170,000</u>	<u>9,049</u>	<u>9,049</u>	-	Nil
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

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, 2016 and 2015, the notes and accounts receivable were not pledged as collateral for loans and borrowings.

(f) Other receivables

	December 31, 2016	December 31, 2015
Receivables from reimbursement of advertising expense	\$ -	190,030
Receivables from purchase discount	451,171	677,179
Other receivables	<u>287,548</u>	<u>442,763</u>
	<u>\$ 738,719</u>	<u>1,309,972</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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(g) Inventories

	December 31, 2016	December 31, 2015
Raw materials	\$ 12,332,166	8,158,604
Work in process	2,871	2,313
Finished goods and merchandise	17,867,421	17,907,866
Spare parts	1,151,600	1,398,905
Inventories in transit	<u>7,741,429</u>	<u>6,575,910</u>
	<u>\$ 39,095,487</u>	<u>34,043,598</u>

For the years ended December 31, 2016 and 2015, the amounts of inventories recognized as cost of revenue were as follows :

	2016	2015
Cost of inventories sold	<u>\$ 176,468,933</u>	<u>202,112,665</u>
(Reversal of) write-down of inventories	<u>\$ 1,441,257</u>	<u>(3,527,826)</u>

The reversal of write-down of inventories arose from the increase in the net realizable value or use of raw materials or sale of inventories.

As of December 31, 2016 and 2015, the inventories were not pledged as collateral.

(h) Investments accounted for using equity method

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

Name of Associates and joint ventures	December 31, 2016		December 31, 2015	
	Percentage of ownership	Carrying amount	Percentage of ownership	Carrying amount
Associates :				
Aegis Semiconductor Technology Inc. ("Aegis")	44.04 %	\$ 15,776	44.04 %	15,778
GrandPAD Inc., DE	41.03 %	227,343	-	-
ECOM Software Inc. ("ECOM")	33.93 %	27,415	33.93 %	24,385
Bluechip Infotech Pty Ltd. ("Bluechip")	29.98 %	67,262	29.26 %	68,459
Innovation and Commercialization Accelerator Inc. ("ICA")	30.00 %	25,700	30.00 %	30,464
Others	-	19,800	-	16,906
Joint Ventures:				
Acer Starbreeze Corporation	50.00 %	<u>33,047</u>	-	<u>-</u>
		<u>\$ 416,343</u>		<u>155,992</u>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Aggregated financial information on associates and joint ventures that were not individually material to the Group was summarized as follows, which was included in the Group's consolidated financial statements.

	<u>2016</u>	<u>2015</u>
Attributable to the Group:		
Net income (loss)	\$ (17,970)	529
Other comprehensive income	<u>(2,875)</u>	<u>(3,664)</u>
Total comprehensive income	<u><u>\$ (20,845)</u></u>	<u><u>(3,135)</u></u>

As of December 31, 2016 and 2015, the investments accounted for using equity method were not pledged as collateral.

(i) Property, plant and equipment

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

	<u>Land</u>	<u>Buildings</u>	<u>Computer and communication equipment</u>	<u>Other equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or deemed cost:						
Balance at January 1, 2016	\$ 1,528,566	3,755,664	4,371,018	3,157,734	1,533	12,814,515
Additions	-	16,769	67,416	77,488	2,997	164,670
Disposals	(3,007)	-	(128,394)	(228,407)	(3,503)	(363,311)
Reclassification to investment property	-	(482)	-	-	-	(482)
Other reclassification and effect of exchange rate changes	<u>(17,070)</u>	<u>(46,170)</u>	<u>746</u>	<u>(135,963)</u>	<u>(57)</u>	<u>(198,514)</u>
Balance at December 31, 2016	<u><u>\$ 1,508,489</u></u>	<u><u>3,725,781</u></u>	<u><u>4,310,786</u></u>	<u><u>2,870,852</u></u>	<u><u>970</u></u>	<u><u>12,416,878</u></u>
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><u>\$ 1,528,566</u></u>	<u><u>3,755,664</u></u>	<u><u>4,371,018</u></u>	<u><u>3,157,734</u></u>	<u><u>1,533</u></u>	<u><u>12,814,515</u></u>
Accumulated depreciation and impairment loss:						
Balance at January 1, 2016	\$ 160,490	2,444,758	3,149,217	2,232,638	-	7,987,103
Depreciation	-	94,606	299,304	206,404	-	600,314
Disposals	-	-	(127,623)	(214,777)	-	(342,400)
Other reclassification and effect of exchange rate changes	<u>(808)</u>	<u>(35,012)</u>	<u>(16,974)</u>	<u>(96,497)</u>	<u>-</u>	<u>(149,291)</u>
Balance at December 31, 2016	<u><u>\$ 159,682</u></u>	<u><u>2,504,352</u></u>	<u><u>3,303,924</u></u>	<u><u>2,127,768</u></u>	<u><u>-</u></u>	<u><u>8,095,726</u></u>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

	Land	Buildings	Computer and communication equipment	Other equipment	Construction in progress	Total
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>
Carrying amounts:						
Balance at December 31, 2016	<u>\$ 1,348,807</u>	<u>1,221,429</u>	<u>1,006,862</u>	<u>743,084</u>	<u>970</u>	<u>4,321,152</u>
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>

As of December 31, 2016 and 2015, property, plant and equipment was not pledged as collateral.

(j) Investment property

	Land	Buildings	Total
Cost or deemed cost:			
Balance at January 1, 2016	\$ 1,195,613	3,233,929	4,429,542
Reclassification from property, plant and equipment	-	482	482
Balance at December 31, 2016	<u>\$ 1,195,613</u>	<u>3,234,411</u>	<u>4,430,024</u>
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>
Accumulated depreciation and impairment loss:			
Balance at January 1, 2016	\$ 443,724	2,793,119	3,236,843
Depreciation	-	12,864	12,864
Balance at December 31, 2016	<u>\$ 443,724</u>	<u>2,805,983</u>	<u>3,249,707</u>
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>
Carrying amounts:			
Balance at December 31, 2016	<u>\$ 751,889</u>	<u>428,428</u>	<u>1,180,317</u>
Balance at December 31, 2015	<u>\$ 751,889</u>	<u>440,810</u>	<u>1,192,699</u>
Fair value:			
Balance at December 31, 2016			<u>\$ 1,628,750</u>
Balance at December 31, 2015			<u>\$ 1,638,690</u>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

The fair value of the investment property is determined by referring to the market price of similar real estate transaction, the valuation (the inputs used in the fair value measurement 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, 2016 and 2015, the estimated discount rates used for calculating the present value of the future cash flows were 3.78% and 4.51%, 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, 2016 and 2015, investment property was not pledged as collateral.

(k) Intangible assets

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

	Goodwill	Trademarks and trade names	Others	Total
Balance at January 1, 2016				
Cost	\$ 27,276,201	10,566,908	12,762,694	50,605,803
Accumulated amortization and impairment loss	(4,802,337)	(10,385,722)	(8,808,317)	(23,996,376)
Balance at January 1, 2016	\$ 22,473,864	181,186	3,954,377	26,609,427
Additions	-	-	5,070	5,070
Reclassification	-	-	3,367	3,367
Amortization	-	(17,068)	(777,544)	(794,612)
Impairment loss	(4,145,685)	(149,641)	(2,068,918)	(6,364,244)
Effect of exchange rate changes	(718,474)	(1,982)	(142,630)	(863,086)
Balance at December 31, 2016	<u>\$ 17,609,705</u>	<u>12,495</u>	<u>973,722</u>	<u>18,595,922</u>
Balance at December 31, 2016				
Cost	\$ 26,488,199	10,339,474	12,362,876	49,190,549
Accumulated amortization and impairment loss	(8,878,494)	(10,326,979)	(11,389,154)	(30,594,627)
Carrying amount	<u>\$ 17,609,705</u>	<u>12,495</u>	<u>973,722</u>	<u>18,595,922</u>
Balance at January 1, 2015				
Cost	\$ 26,473,881	10,576,769	12,722,740	49,773,390
Accumulated amortization and impairment loss	(4,635,184)	(10,377,540)	(8,033,119)	(23,045,843)
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	635,167	(241)	102,701	737,627
Balance at December 31, 2015	<u>\$ 22,473,864</u>	<u>181,186</u>	<u>3,954,377</u>	<u>26,609,427</u>
Balance at December 31, 2015				
Cost	\$ 27,276,201	10,566,908	12,762,694	50,605,803
Accumulated amortization and impairment loss	(4,802,337)	(10,385,722)	(8,808,317)	(23,996,376)
Carrying amount	<u>\$ 22,473,864</u>	<u>181,186</u>	<u>3,954,377</u>	<u>26,609,427</u>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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

	<u>2016</u>	<u>2015</u>
Cost of revenue	\$ 1,453	1,752
Operating expenses	<u>793,159</u>	<u>910,731</u>
	<u><u>\$ 794,612</u></u>	<u><u>912,483</u></u>

(ii) Impairment test on goodwill and other intangible assets

The carrying amounts of goodwill arising from a business combination and the respective CGUs to which the goodwill was allocated for impairment test purpose as of December 31, 2016 and 2015 were as follows:

	<u>RO-EMEA</u>	<u>RO-PA</u>	<u>RO-PAP</u>	<u>BYOC</u>	<u>Multiple CGUs without significant goodwill</u>	<u>Total</u>
Balance at January 1, 2016	\$ 12,340,616	2,009,719	8,105,807	-	17,722	22,473,864
Reallocation	(1,869,631)	(322,383)	(2,098,755)	4,290,769	-	-
Impairment loss	-	-	-	(4,145,685)	-	(4,145,685)
Effect of exchange rate changes	<u>(265,003)</u>	<u>(37,576)</u>	<u>(270,811)</u>	<u>(145,084)</u>	<u>-</u>	<u>(718,474)</u>
Balance at December 31, 2016	<u><u>\$ 10,205,982</u></u>	<u><u>1,649,760</u></u>	<u><u>5,736,241</u></u>	<u><u>-</u></u>	<u><u>17,722</u></u>	<u><u>17,609,705</u></u>
Balance at January 1, 2015	\$ 11,977,977	1,931,403	7,911,595	-	17,722	21,838,697
Effect of exchange rate changes	<u>362,639</u>	<u>78,316</u>	<u>194,212</u>	<u>-</u>	<u>-</u>	<u>635,167</u>
Balance at December 31, 2015	<u><u>\$ 12,340,616</u></u>	<u><u>2,009,719</u></u>	<u><u>8,105,807</u></u>	<u><u>-</u></u>	<u><u>17,722</u></u>	<u><u>22,473,864</u></u>

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

The Group activated an organizational restructuring with respect to its new business and core business in 2016. In the fourth quarter of 2016, the new organization structure was ascertained and the new companies had been set up. Consequently, the Group re-defined its CGU and its BYOC was identified as an individual CGU.

Based on the results of impairment tests conducted by the Group in the fourth quarter of 2016, the expected recoverable amount of CGU-BYOC was less than its carrying amount; as a result, the Group recognized an impairment loss on goodwill and developed & developing technology of \$4,145,685 and \$2,068,918, respectively.

Based on the results of 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 on December 31, 2015.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The Group adjusted its brand strategy and re-allocated its resources in the fourth quarter of 2016, under which the Group expected the future cash flow, arising from the trademarks of Gateway and Packard Bell, will be minimal considering that the related trade names, as well as their related maintenance costs, will only be used and promoted in specific areas. As a result, the Group recognized an impairment loss on trademarks of \$149,641 in 2016.

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

- 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:

	<u>RO-EMEA</u>	<u>RO-PA</u>	<u>RO-PAP</u>	<u>BYOC</u>
2016.12.31	0%	0%	0%	5.0 %
2015.12.31	0%~5%	0%~5%	0%~5%	-

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

	<u>RO-EMEA</u>	<u>RO-PA</u>	<u>RO-PAP</u>	<u>BYOC</u>
2016.12.31	18.7 %	12.1 %	19.4 %	14.5 %
2015.12.31	18.8 %	12.0 %	15.9 %	-

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

- Short-term borrowings

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Unsecured bank loans	\$ <u>103,000</u>	<u>2,584,377</u>
Unused credit facilities	\$ <u>30,647,073</u>	<u>32,392,859</u>
Interest rate	<u>1.00%~1.27%</u>	<u>1.13%~17.28%</u>

- Long-term debt and bonds payable

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Bank of Taiwan syndicated loan	\$ 6,000,000	-
Citibank syndicated loan	-	1,800,000
Domestic convertible bonds	-	5,966,431
Less: current portion of long-term debt	(6,000,000)	(1,800,000)
Less: current portion of bonds payable	-	(5,966,431)
	<u>\$ -</u>	<u>-</u>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(i) Bank loans

Type of Loan	Creditor	Credit Line	Term	December 31, 2016	December 31, 2015
Unsecured loan	Citibank and other banks	Term tranche of \$9 billion; five-year limit, during which, revolving credits are disallowed	The loan is repayable in 5 semi-annual installments starting November 2014. The amount of \$1.8 billion was repaid in advance in November 2015.	\$ -	1,800,000
Unsecured loan	Bank of Taiwan and other banks	Term tranche of \$6 billion; may be withdrawn separately within twelve months from the date of the initial withdrawal; three-year limit, during which, revolving credits are disallowed	The loan is repayable in 6 quarterly installments (\$0.9 billion for the first to the fifth installments, and \$1.5 billion for the sixth installment) starting February 2018.	6,000,000	-
		Revolving tranche of \$6 billion; three-year limit	One-time repayment in full when due. The credit facility has not been used.	-	-
Less: current portion of long-term debt				(6,000,000)	(1,800,000)
				<u>\$ -</u>	<u>-</u>
Unused credit facilities				<u>\$ 6,000,000</u>	<u>-</u>
Interest rate				<u>1.80%</u>	<u>1.59%</u>

The Company entered into a syndicated loan agreement with Citibank (the lead bank of the syndicated loan) and other banks in November 2011. According to the syndicated loan agreement, the Company is required to maintain certain financial ratios calculated based on its annual and semi-annual consolidated financial statements. In addition, according to the amendment of the syndicated loan agreement dated March 4, 2013, the non-compliance with financial covenants is not considered a default as long as the Company 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 Company fails to obtain a waiver from the syndicated banks within the grace period, then it will be considered an event of default under the syndicated loan agreement. On December 31, 2015, the Company was not in compliance with some of the financial covenants.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

The Company entered into a syndicated loan agreement with Bank of Taiwan (the lead bank of the syndicated loan) and other banks in April 2016. According to the syndicated loan agreements, the Company is required to maintain certain financial ratios calculated based on its annual and semi-annual consolidated financial statements. On December 31, 2016, the Company was not in compliance with some of the financial covenants. As a result, the Company has reclassified the amount of \$6,000,000 from long-term debt to the current portion of long-term debt. Nevertheless, on March 10, 2017, the Company obtained a waiver from the syndicated banks, which exempted the Company from complying with the required financial covenants.

(ii) Overseas convertible bonds

	<u>2016</u>	<u>2015</u>
Bonds payable:		
Beginning balance	\$ -	3,634,818
Redemption	-	(3,622,969)
Amortization of bond discount and transaction cost (recognized as interest expense)	-	91,785
Unrealized exchange loss (gain) on bonds payable	-	(103,634)
Ending balance	<u>\$ -</u>	<u>-</u>
Financial liabilities at fair value through profit or loss (redemption options of the convertible bonds):		
Beginning balance	\$ -	522,499
Redemption	-	(500,506)
Evaluation loss (gain)	-	(21,993)
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:

1) The 2015 Bonds

- a) Par value US\$300,000 thousand
- b) Issue date August 10, 2010
- c) Maturity date August 10, 2015
- d) Coupon rate 0%
- e) Conversion

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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.

- f) Redemption at the option of the bondholders
 - i) 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.
 - ii) 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").
 - iii) 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.

g) 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:

- i) 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.
 - ii) If more than 90% of the 2015 Bonds have been redeemed, repurchased and cancelled, or converted;
 - iii) A change in ROC tax regulations causes the Company to become obliged to pay additional amounts in respect of taxes or expenses.
- h) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

2) The 2017 Bonds

- a) Par value US\$200,000 thousand
- b) Issue date August 10, 2010
- c) Maturity date August 10, 2017
- d) Coupon rate 0%
- e) 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 \$103.50 (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.

f) Redemption at the option of the bondholders

- i) 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.
- ii) 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").
- iii) 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.

g) 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:

- i) 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.
- ii) If more than 90% of the 2017 Bonds have been redeemed, repurchased and cancelled, or converted;
- iii) A change in ROC tax regulations causes the Company to become obliged to pay additional amounts in respect of taxes or expenses.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

h) 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.

3) Domestic convertible bonds

	<u>2016</u>	<u>2015</u>
Bonds payable:		
Beginning balance	\$ 5,966,431	5,880,437
Amortization of bond discount (recognized as interest expense)	33,569	85,994
Redemption	<u>(6,000,000)</u>	<u>-</u>
Ending balance	<u>\$ -</u>	<u>5,966,431</u>
	December 31,	December 31,
	2016	2015
Capital surplus—conversion right (note 6(r))	<u>\$ -</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:

- a) Par value \$6,000,000
- b) Issue date May 14, 2013
- c) Maturity date May 14, 2016
- d) Coupon rate 0%
- e) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

f) 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.

g) Redemption at maturity

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

The Company redeemed the domestic convertible bonds at the redemption price of \$6,000,000 in 2016.

(n) Provisions

	Warranties	Litigation	Sales returns	Environmental protection and others	Total
Balance at January 1, 2016	\$ 5,410,999	360,927	1,074,649	228,076	7,074,651
Additions	5,693,275	271,248	4,312,681	105,584	10,382,788
Amount utilized and reversed	(6,053,369)	(317,347)	(4,175,225)	(97,734)	(10,643,675)
Effect of exchange rate changes	(220,475)	(25,668)	(25,778)	(5,017)	(276,938)
Balance at December 31, 2016	<u><u>\$ 4,830,430</u></u>	<u><u>289,160</u></u>	<u><u>1,186,327</u></u>	<u><u>230,909</u></u>	<u><u>6,536,826</u></u>
Current	\$ 4,830,430	286,098	1,186,327	173,451	6,476,306
Non-current	-	3,062	-	57,458	60,520
	<u><u>\$ 4,830,430</u></u>	<u><u>289,160</u></u>	<u><u>1,186,327</u></u>	<u><u>230,909</u></u>	<u><u>6,536,826</u></u>
Balance at January 1, 2015	\$ 6,615,333	773,811	1,320,922	390,132	9,100,198
Additions	6,162,486	167,887	3,410,695	101,534	9,842,602
Amount utilized and reversed	(7,120,409)	(568,809)	(3,702,519)	(257,538)	(11,649,275)
Effect of exchange rate changes	(246,411)	(11,962)	45,551	(6,052)	(218,874)
Balance at December 31, 2015	<u><u>\$ 5,410,999</u></u>	<u><u>360,927</u></u>	<u><u>1,074,649</u></u>	<u><u>228,076</u></u>	<u><u>7,074,651</u></u>
Current	\$ 5,410,999	358,564	1,074,649	135,493	6,979,705
Non-current	-	2,363	-	92,583	94,946
	<u><u>\$ 5,410,999</u></u>	<u><u>360,927</u></u>	<u><u>1,074,649</u></u>	<u><u>228,076</u></u>	<u><u>7,074,651</u></u>

(i) Warranties

The provision for warranties is made based on the number of units sold 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) 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.

(iii) Sales returns

Expected sales returns are estimated based on historical experience.

(iv) Environmental protection and others

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

(o) Operating lease

(i) Lessee

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

	December 31, 2016	December 31, 2015
Not later than 1 year	\$ 528,687	633,374
Later than 1 year but not later than 5 years	901,497	1,004,268
Later than 5 years	<u>373,000</u>	<u>493,379</u>
	<u>\$ 1,803,184</u>	<u>2,131,021</u>

For the years ended December 31, 2016 and 2015, rental expenses of \$870,037 and \$933,017, respectively, were recognized and included in the cost of revenue and operating expenses.

(ii) 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, 2016	December 31, 2015
Not later than 1 year	\$ 78,972	35,313
Later than 1 year but not later than 5 years	79,488	26,945
Latter than 5 years	<u>1,932</u>	<u>-</u>
	<u>\$ 160,392</u>	<u>62,258</u>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

In 2016 and 2015, the rental income from investment property amounted to \$83,538 and \$83,387, respectively, were recognized and included in other operating income and loss. Related repair and maintenance expenses recognized and included in cost of revenue and operating expense were as follows:

	<u>2016</u>	<u>2015</u>
Arising from investment property that generated rental income during the period	\$ 27,276	29,154
Arising from investment property that did not generate rental income during the period	<u>61,679</u>	<u>71,352</u>
	<u>\$ 88,955</u>	<u>100,506</u>

(p) Employee benefits

(i) 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:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Present value of benefit obligations	\$ 2,219,704	2,312,528
Fair value of plan assets	<u>(892,353)</u>	<u>(1,084,928)</u>
Net defined benefit liabilities (reported under other non-current liabilities)	<u>\$ 1,327,351</u>	<u>1,227,600</u>
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Present value of benefit obligations	\$ 40,483	34,629
Fair value of plan assets	<u>(72,804)</u>	<u>(72,292)</u>
Net defined benefit assets (reported under other non-current assets)	<u>\$ (32,321)</u>	<u>(37,663)</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, AMI, AIL, APHI, AEG, ASZ, AIT, ASIN and ACF, also have defined benefit pension plans based on their respective local laws and regulations.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

1) 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, 2016 and 2015, the Group’s fair value of plan assets, by major categories, was as follows:

	December 31, 2016	December 31, 2015
Cash	\$ 459,438	636,788
Equity instruments	269,283	287,899
Instruments with fixed return	79,018	121,803
Real estate	157,418	110,730
	<u>\$ 965,157</u>	<u>1,157,220</u>

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

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

2) Movements in present value of the defined benefit obligations

In 2016 and 2015, the movements in present value of the defined benefit obligations of the Group were as follows:

	2016	2015
Defined benefit obligations at January 1	\$ 2,347,157	2,088,677
Current service costs	221,691	270,851
Net interest expense	34,454	37,009
Remeasurement on the net defined benefit liabilities (assets) :		
Actuarial loss (gain) arising from experience adjustments	(35,063)	63,957
Actuarial loss (gain) arising from changes in population assumption	(28,970)	(2,850)
Actuarial loss (gain) arising from changes in financial assumption	90,888	34,922
Benefits paid by the Group and the plan	(363,699)	(229,919)
Settlement loss	2,166	7,929
Effect of exchange rate changes	(33,337)	48,509
Contributions by plan participants	24,900	28,072
Defined benefit obligations at December 31	<u><u>\$ 2,260,187</u></u>	<u><u>2,347,157</u></u>

3) Movements in fair value of plan assets

In 2016 and 2015, the movements in fair value of plan assets of the Group were as follows:

	2016	2015
Fair value of plan assets at January 1	\$ 1,157,220	1,122,150
Remeasurement on the net defined benefit liabilities (assets):		
Return on plan assets (excluding amounts included in net interest expense)	(15,746)	(8,492)
Benefits paid by the plan	(358,846)	(222,935)
Interest income	15,438	19,555
Contributions by plan participants	24,900	28,072
Contributions by the employer	145,320	188,624
Effect of exchange rate changes	(3,129)	30,246
Fair value of plan assets at December 31	<u><u>\$ 965,157</u></u>	<u><u>1,157,220</u></u>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

4) Changes in the effect of the asset ceiling

In 2016 and 2015, there was no effect of the asset ceiling.

5) Expenses recognized in profit or loss

In 2016 and 2015, the expenses recognized in profit or loss were as follows:

	<u>2016</u>	<u>2015</u>
Current service costs	\$ 221,691	270,851
Net interest expense	19,016	17,454
Settlement loss	<u>2,166</u>	<u>7,929</u>
	<u>\$ 242,873</u>	<u>296,234</u>
Classified under operating expense	<u>\$ 242,873</u>	<u>296,234</u>

6) Remeasurement of the net defined benefit liabilities (assets) recognized in other comprehensive income

In 2016 and 2015, the remeasurement of the net defined benefit liabilities (assets) recognized in other comprehensive income were as follows:

	<u>2016</u>	<u>2015</u>
Cumulative amount at January 1	(60,074)	44,447
Recognized during the period	<u>(42,601)</u>	<u>(104,521)</u>
Cumulative amount at December 31	<u>\$ (102,675)</u>	<u>(60,074)</u>

7) Actuarial assumptions

The principal assumptions of the actuarial valuation were as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Discount rate	0.30%~8.40%	0.80%~9.03%
Future salary increases rate	1.00%~6.50%	1.90%~6.00%

The weighted average duration of the defined benefit plans is ranged from 6 years to 29 years. The Group expects to make contribution of \$128,056 to the defined benefit plans in the year following December 31, 2016.

8) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

The following table summarizes the impact of a change in the assumptions on the present value of the defined benefit obligation on December 31, 2016 and 2015.

	December 31, 2016		December 31, 2015	
	0.25% Increase	0.25% Decrease	0.25% Increase	0.25% Decrease
Discount rate	\$ <u>(97,254)</u>	<u>109,766</u>	<u>(99,814)</u>	<u>112,284</u>
Future salary change	\$ <u>60,417</u>	<u>(58,388)</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.

(ii) 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, 2016 and 2015, the Group recognized pension expenses of \$368,239 and \$375,423, respectively, in relation to the defined contribution plans.

(q) Income taxes

- (i) 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 2016 and 2015. 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, 2016 and 2015 were as follows:

	2016	2015
Current income tax expense		
Current period	\$ 319,654	212,787
Adjustments for prior years	<u>402,930</u>	<u>(79,004)</u>
	<u>722,584</u>	<u>133,783</u>
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	(973,607)	68,152
Change in unrecognized deductible temporary differences and tax losses	<u>427,438</u>	<u>40,827</u>
	<u>(546,169)</u>	<u>108,979</u>
Income tax expense	<u>\$ 176,415</u>	<u>242,762</u>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

In 2016 and 2015, the components of income tax benefit recognized in other comprehensive income were as follows:

	<u>2016</u>	<u>2015</u>
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit plans	29,720	12,130
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	<u>353</u>	<u>623</u>
	<u>30,073</u>	<u>12,753</u>

Reconciliation between the expected income tax expense calculated based on the Company's statutory tax rate and the actual income tax expense reported in the consolidated statements of comprehensive income (loss) for 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Income (loss) before taxes	<u>\$ (4,724,325)</u>	<u>846,557</u>
Income tax using the Company's statutory tax rate	\$ (803,135)	143,915
Effect of different tax rates in foreign jurisdictions	(888,022)	(149,371)
Adjustments for prior-year income tax expense	402,930	(79,004)
Change in unrecognized temporary differences and tax losses	427,438	40,827
Loss on impairment of goodwill	1,450,990	-
Others	<u>(413,786)</u>	<u>286,395</u>
	<u>\$ 176,415</u>	<u>242,762</u>

(ii) Deferred income tax assets and liabilities

1) Unrecognized deferred income tax assets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Tax losses	\$ 7,144,728	7,606,851
Loss associated with investments in subsidiaries	2,741,033	1,935,217
Deductible temporary differences	<u>4,610,005</u>	<u>4,663,244</u>
	<u>\$ 14,495,766</u>	<u>14,205,312</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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

As of December 31, 2016, the unrecognized tax losses and the respective expiry years were as follows:

Tax effects of tax losses	Year of expiry
\$ 86,414	2017
147,346	2018
343,176	2019
102,405	2020
6,465,387	2021 and thereafter
\$ 7,144,728	

2) Unrecognized deferred income tax liabilities

	December 31, 2016	December 31, 2015
Net profits associated with investments in subsidiaries	\$ 4,241,957	4,378,941

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.

3) Recognized deferred income tax assets and liabilities

Changes in the amount of deferred income tax assets and liabilities for 2016 and 2015 were as follows:

Deferred income tax assets:

	Inventory	Accrued expenses and provisions	Unused tax loss carryforwards	Others	Total
Balance at January 1, 2016	\$ 169,811	377,754	252,066	38,515	838,146
Recognized in profit or loss	(9,020)	(111,232)	(135,094)	57,049	(198,297)
Recognized in other comprehensive income (loss)	-	-	-	30,073	30,073
Effect of exchange rate changes	-	-	-	(7,645)	(7,645)
Balance at December 31, 2016	\$ 160,791	266,522	116,972	117,992	662,277
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 (loss)	-	-	-	15,188	15,188
Effect of exchange rate changes	-	-	-	(124,087)	(124,087)
Balance at December 31, 2015	\$ 169,811	377,754	252,066	38,515	838,146

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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, 2016	\$ 560,770	7,865	854,281	14,263	1,437,179
Recognized in profit or loss	3,849	252	(748,155)	(412)	(744,466)
Balance at December 31, 2016	\$ 564,619	8,117	106,126	13,851	692,713
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	\$ 560,770	7,865	854,281	14,263	1,437,179

- (iii) Except for 2012, the Company's income tax returns for the years through 2014 were examined and approved by the R.O.C. income tax authorities.
- (iv) Information about the integrated income tax system

	December 31, 2016	December 31, 2015
Unappropriated earnings earned (accumulated deficit) commencing from January 1, 1998	\$ (4,900,296)	520,235
Balance of imputation credit account	\$ 1,821,486	1,918,373
	2016 (estimated)	2015 (actual)
Creditable ratio for distribution of earnings to R.O.C. residents	- %	20.48%

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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(r) Capital and other equity

(i) Common stock

The Board of Directors approved a resolution to issue a total of 300,000,000 common shares 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 was January 11, 2015, and the related registration process has been completed.

The Company had issued 17,460,000 shares of restricted stock to its employees on August 26, 2014. In 2016 and 2015, the Company recalled 4,710,000 and 1,125,000 shares, respectively, of restricted stock due to the resignation and retirement of certain employees, as well as failing to meet certain vesting conditions. On May 12, 2016, August 11, 2016 and August 6, 2015, the Board of Directors approved a resolution to retire 4,440,000 , 270,000 and 1,125,000 shares, respectively, of restricted stock for which the effective date of the retirement was May 20, 2016, August 18, 2016 and August 31, 2015, respectively. The related registration process has been completed.

As of December 31, 2016 and 2015, the Company had issued 6,591 thousand units and 6,833 thousand units, respectively, of global depository receipts (GDRs). The GDRs were listed on the London Stock Exchange, and each GDR represents five common shares.

As of December 31, 2016 and 2015, the Company's authorized shares of common stock consisted of 3,500,000,000 shares, of which 3,080,732,828 shares and 3,085,442,828 shares, respectively, were issued. The par value of the Company's common stock is \$10 per share. All issued shares were paid up upon issuance.

Certain shares of common stock were not outstanding as they were held by the Company's subsidiaries or were non-vested restricted stock. The movements in outstanding shares of common stock in 2016 and 2015 were as follows (in thousands of shares):

	<u>2016</u>	<u>2015</u>
Balance at January 1	3,026,277	2,722,362
Issuance of new shares for cash	-	300,000
Vested restricted stock	-	3,915
Balance at December 31	<u>3,026,277</u>	<u>3,026,277</u>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) Capital surplus

	December 31, 2016	December 31, 2015
Share premium:		
Paid-in capital in excess of par value	\$ 14,711,477	16,251,978
Surplus from mergers	19,475,618	19,475,618
Surplus related to treasury stock transactions and cash dividend	284,494	-
Others:		
Employee share options	90,000	90,000
Surplus from equity-method investments	143,269	163,012
Conversion right of convertible bonds (note 6(m))	-	261,000
Restricted stock issued to employees	38,247	(8,853)
	<u>\$ 34,743,105</u>	<u>36,232,755</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 or distributed by cash based on the original shareholding ratio. 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.

(iii) 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, together with the unappropriated earnings from the previous years, after retaining a certain portion of it for business considerations, can be distributed as dividends to stockholders. Except for the distribution of capital surplus and legal reserve in accordance with applicable laws and regulations, the Company cannot distribute any earnings when there are no retained earnings.

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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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.

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 period.

The balance of 2015 net income was reduced to zero, after offsetting the deficit of \$83,446 arising from the retirement of treasury stock and adoption 2013 Taiwan-IFRSs, and the appropriation of legal reserve and special reserve of \$52,024 and \$468,211, respectively. Therefore, the Company's shareholders resolved not to distribute any dividend during their meeting held on June 24, 2016. Nevertheless, the Company's shareholders decided to distribute cash from capital surplus of \$1,540,501 (\$0.5 dollars per share), of which \$23,494 was distributed to the subsidiaries holding the Company's common shares of stock.

The balance of 2014 net income was reduced to zero, after offsetting the deficit 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. Therefore, the Company's shareholders resolved not to distribute any dividend during their meeting held on June 23, 2015. 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.

(iv) 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.

On August 6, 2015, the Board of Directors approved a resolution to retire the aforementioned 10,000,000 shares of treasury stock for which the effective date of the retirement was August 31, 2015. The related registration process has been completed.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

As of December 31, 2016 and 2015, 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, 2016			
	Number of shares	Carrying amount	Market value
Common stock	21,809	\$ 945,239	285,698
GDRs	24,937	1,969,617	321,980
		\$ 2,914,856	607,678
December 31, 2015			
	Number of shares	Carrying amount	Market value
Common stock	21,809	\$ 945,239	263,889
GDRs	24,937	1,969,617	280,356
		\$ 2,914,856	544,245

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.

(v) Other equity items (net after tax)

1) Foreign currency translation differences:

	2016	2015
Balance at January 1	\$ 1,437,412	1,183,808
Foreign exchange differences arising from translation of foreign operations	(2,498,427)	253,604
Balance at December 31	\$ (1,061,015)	1,437,412

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

	2016	2015
Balance at January 1	\$ (1,104,565)	(114,205)
Changes in fair value of available-for-sale financial assets	755,555	(955,117)
Net loss (gain) on disposal of available-for-sale financial assets reclassified to profit or loss	1,240	(35,243)
Balance at December 31	\$ (347,770)	(1,104,565)

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

3) Remeasurement of defined benefit plans:

	2016	2015
Balance at January 1	\$ (64,376)	28,015
Change in the period	<u>(12,881)</u>	<u>(92,391)</u>
Balance at December 31	<u><u>\$ (77,257)</u></u>	<u><u>(64,376)</u></u>

4) Unearned compensation cost:

	2016	2015
Balance at January 1	\$ (39,966)	(251,710)
Change in the period	<u>13,223</u>	<u>211,744</u>
Balance at December 31	<u><u>\$ (26,743)</u></u>	<u><u>(39,966)</u></u>

(s) Share-based payment

During their meeting on June 18, 2014, the Company's shareholders approved a resolution to issue 50,000,000 shares of restricted stock to full-time employees who conformed to certain requirements. The Company has filed an effective registration with the Securities and Futures Bureau of the FSC for the issuance.

On August 26, 2014, the Company issued 17,460,000 shares of restricted stock to its employees, and the effective date of capital increase was set on the same date. The employees who were granted restricted stock are entitled to purchase the shares of restricted stock at the exercise price of \$0. The vesting period of the restricted 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 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 stock from employees and retire those shares when the vesting conditions cannot be met.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

The movements in number of restricted shares of stock issued (in thousands) in 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Balance at January 1	16,062	17,220
Forfeited during the period	<u>(4,647)</u>	<u>(1,158)</u>
Balance at December 31	11,415	16,062
Accumulated vested shares	<u>(3,915)</u>	<u>(3,915)</u>
Unvested shares	<u>7,500</u>	<u>12,147</u>

The fair value of the restricted 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, 2016 and 2015, the compensation cost for the restricted stock amounted to \$13,223 and \$55,267, respectively, which was reported in the 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 thousand and issued 11,517,053 shares of its common stock to the employee shareholders of iGware Inc. pursuant to the terms of the share purchase agreement. Such cash payment 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, 2016 and 2015, the related compensation costs recognized amounted to \$0 and \$76,645, respectively.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(t) Earnings (loss) per share (“EPS”)

(i) Basic earnings (loss) per share

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

	<u>2016</u>	<u>2015</u>
Net income (loss) attributable to the shareholders of the Company	\$ <u>(4,900,296)</u>	<u>603,680</u>
Weighted-average number of ordinary shares outstanding (in thousands)	<u>3,026,277</u>	<u>3,014,625</u>
Basic earnings (loss) per share (in New Taiwan dollars)	<u><u>\$ (1.62)</u></u>	<u><u>0.20</u></u>

(ii) Diluted earnings (loss) per share

	<u>2016</u>	<u>2015</u>
Net income (loss) attributable to the shareholders of the Company (including effect of dilutive potential common stock)	\$ <u><u>(4,900,296)</u></u>	<u><u>603,680</u></u>
Weighted-average number of ordinary shares outstanding (in thousands)	3,026,277	3,014,625
Effect of dilutive potential common stock:		
Restricted stock issued to employees	-	15,487
Compensation to employees	<u>-</u>	<u>2,331</u>
Weighted-average shares of common stock outstanding (including effect of dilutive potential common stock)	<u><u>3,026,277</u></u>	<u><u>3,032,443</u></u>
Diluted earnings (loss) per share (in New Taiwan dollars)	<u><u>\$ (1.62)</u></u>	<u><u>0.20</u></u>

When the dilutive potential common shares including domestic convertible bonds, restricted stock issued to employees and compensation to employees have an anti-dilutive effect, they are not included in the calculation of diluted EPS.

(u) Revenue

	<u>2016</u>	<u>2015</u>
Revenue from sale of goods	\$ 225,735,406	257,922,031
Revenue from services rendered	4,442,001	4,450,038
Others	<u>2,546,754</u>	<u>1,403,133</u>
	<u><u>\$ 232,724,161</u></u>	<u><u>263,775,202</u></u>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(v) Remuneration to employees and directors

The Company's Articles of Incorporation require that earning shall first be offset against any deficit, then, a minimum of 4% will be distributed as employee remuneration and a maximum of 0.8% will be allocated as directors' remuneration. Employees who are entitled to receive the above mentioned employee remuneration, in share or cash, include the employees of subsidiaries of the Company who meet certain specific requirement.

For the year ended December 31, 2015, the Company accrued its remuneration to employees and directors amounting to \$28,200 and \$5,640, respectively, which were calculated by using the Company's pre-tax net profit for the current period before deducting the amount of the remuneration to employees and directors, multiplied by the distribution ratio of remuneration to employees and directors under the Company's Article of Incorporation, and recognized them as operating expenses. The aforementioned accrued remuneration to employees was same as the amount approved by the Board of Directors on March 24, 2016, and was paid in cash. Meanwhile, the Company's directors voluntarily renounced their entitlement for remuneration in 2015. The difference of \$5,640 is treated as change in accounting estimate and charged to profit and loss in 2016. For the year ended December 31, 2016, the Company did not accrue any remuneration to its employees and directors as it incurred a net loss in 2016.

Furthermore, according to the Company's Article of Incorporation, regardless of whether there is net income 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 industry-wide standard and practice. The amount is proposed by the remuneration committee and approved by the Board of Directors. For the years ended December 31, 2016 and 2015, the remuneration for directors of \$12,500 and \$10,000, respectively, were recognized regardless of whether there were earnings in the said years. Related information is available on the Market Observation Post System website of the Taiwan Stock Exchange.

(w) Other operating income and loss – net

	2016	2015
Rental income (note 6(o))	\$ 105,726	123,006
Government grants	<u>173,868</u>	<u>153,451</u>
	<u>\$ 279,594</u>	<u>276,457</u>

(x) Non-operating income and loss

(i) Other income

	2016	2015
Interest income from bank deposits	\$ 193,113	227,438
Interest income from corporate bonds	17,150	-
Dividend income	<u>224,882</u>	<u>249,246</u>
	<u>\$ 435,145</u>	<u>476,684</u>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(ii) Other gains and losses

	2016	2015
Foreign currency exchange loss	\$ (809,380)	(2,096,215)
Gain on financial assets and liabilities at fair value through profit or loss	897,333	1,338,861
Loss on disposal of property, plant and equipment and investment property, net	(7,800)	(12,045)
Gain on disposal of intangible assets	-	24,107
Gain on redemption of bonds payable	-	446,429
Other investment gain (loss)	(5,861)	23,613
Others	206,196	46,440
	\$ 280,488	(228,810)

(iii) Finance costs

	2016	2016
Interest expense from convertible bonds (note 6(m))	\$ 33,569	177,779
Interest expense from bank loans	189,988	162,675
Others	26,700	-
	\$ 250,257	340,454

(y) Financial instruments and fair value information

(i) Categories of financial instruments

1) Financial assets

	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss	\$ 1,647,782	791,575
Available-for-sale financial assets	4,372,791	3,253,084
Loans and receivables:		
Cash and cash equivalents	44,289,673	44,621,527
Notes and accounts receivable and other receivables (including receivables from related parties)	45,057,736	49,536,024
Investments in debt instrument with no active market	210,517	-
Other financial assets – non-current	960,643	943,609
	\$ 96,539,142	99,145,819

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

2) Financial liabilities

	December 31, 2016	December 31, 2015
Financial liabilities at fair value through profit or loss	\$ 112,606	318,934
Financial liabilities measured at amortized cost:		
Short-term borrowings	103,000	2,584,377
Notes and accounts payable (including payables to related parties)	52,870,414	42,747,182
Other payables (including payables to related parties)	33,719,995	35,328,745
Bonds payable (including current portion)	-	5,966,431
Long-term debt (including current portion)	<u>6,000,000</u>	<u>1,800,000</u>
	<u>\$ 92,806,015</u>	<u>88,745,669</u>

(ii) Fair value information — financial instruments not measured at fair value

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

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Investments in debt instrument without an active market	\$ 210,517	214,453	-	-
Financial liabilities:				
Bonds payable (including current portion)	-	-	5,966,431	5,976,600

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

	December 31, 2016			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in debt instrument without an active market	<u>\$ -</u>	<u>214,453</u>	<u>-</u>	<u>214,453</u>
	December 31, 2015			
	Fair value			
	Level 1	Level 2	Level 3	Total
Bonds payable (including current portion)	<u>\$ -</u>	<u>5,976,600</u>	<u>-</u>	<u>5,976,600</u>

The above-mentioned fair value of bonds payable is estimated based on the Binominal Tree Approach; fair value of investments in debt instrument without an active market is based on Multifactor Evaluation Model.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(iii) Fair value information - Financial instruments measured at fair value

1) 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:

- a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- b) 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).
- c) Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

December 31, 2016				
Fair value				
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss:				
Foreign currency forward contracts	\$ -	1,573,876	-	1,573,876
Foreign currency option contracts	-	3,566	-	3,566
Conversion right of investments in convertible bonds	-	70,340	-	70,340
	<u>\$ -</u>	<u>1,647,782</u>	<u>-</u>	<u>1,647,782</u>
Available-for-sale financial assets:				
Domestic listed stock	\$ 3,119,549	-	-	3,119,549
Unlisted stock	-	-	1,253,242	1,253,242
	<u>\$ 3,119,549</u>	<u>-</u>	<u>1,253,242</u>	<u>4,372,791</u>
Financial liabilities at fair value through profit or loss:				
Foreign currency forward contracts	<u>\$ -</u>	<u>(112,606)</u>	<u>-</u>	<u>(112,606)</u>
December 31, 2015				
Fair value				
	Level 1	Level 2	Level 3	Total
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	<u>\$ -</u>	<u>(318,934)</u>	<u>-</u>	<u>(318,934)</u>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

There were no transfers among fair value hierarchies for the years ended December 31, 2016 and 2015.

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

	<u>2016</u>	<u>2015</u>
Balance at January 1	\$ 948,058	742,283
Total gains or losses:		
Recognized in gains and losses	1,240	(36,601)
Recognized in other comprehensive income	(58,968)	(36,503)
Additions	429,439	345,581
Disposal	(57,148)	(81,565)
Effect of exchange rate changes	<u>(9,379)</u>	<u>14,863</u>
Balance at December 31	<u><u>\$ 1,253,242</u></u>	<u><u>948,058</u></u>

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 financial assets held on December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
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”)	(58,968)	23,980

- 3) Valuation techniques and inputs used for financial instruments measured at fair value
- a) 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).
 - b) The fair value of derivative financial instruments is determined using a valuation technique, with estimates and assumptions consistent with those used by market participants 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.
 - c) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

4) Offsetting of financial assets and liabilities

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

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

December 31, 2016						
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>78,455,722</u>	<u>34,225,417</u>	<u>44,230,305</u>	-	-	<u>44,230,305</u>
December 31, 2016						
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>87,092,317</u>	<u>34,225,417</u>	<u>52,866,900</u>	-	-	<u>52,866,900</u>
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>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>42,736,897</u>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(z) 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.

(i) 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.

(ii) 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, 2016 and 2015, the Group had unused credit facilities of \$36,647,073 and \$32,392,859, respectively.

(Continued)

ACER INCORPORATED AND ITS 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.

	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>
December 31, 2016				
Non-derivative financial liabilities:				
Short-term borrowings carrying floating interest rates \$	103,014	103,014	-	-
Long-term borrowings carrying floating interest rates	6,026,955	6,026,955	-	-
Accounts payable (including related parties)	52,870,414	52,866,331	1,361	2,722
Other payables (including related parties)	33,719,995	31,787,228	1,932,653	114
	<u><u>\$ 92,720,378</u></u>	<u><u>90,783,528</u></u>	<u><u>1,934,014</u></u>	<u><u>2,836</u></u>
Derivative financial instruments:				
Foreign currency forward contracts — settled in gross:				
Outflow	\$ 70,621,725	70,621,725	-	-
Inflow	(72,053,450)	(72,053,450)	-	-
	<u><u>\$ (1,431,725)</u></u>	<u><u>(1,431,725)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Foreign currency option contracts — settled in gross:				
Outflow	\$ 295,955	295,955	-	-
Inflow	(290,511)	(290,511)	-	-
	<u><u>\$ 5,444</u></u>	<u><u>5,444</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
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 parties)	42,747,182	42,747,182	-	-
Other payables (including related parties)	35,328,745	33,877,950	1,450,053	742
	<u><u>\$ 88,491,409</u></u>	<u><u>87,040,614</u></u>	<u><u>1,450,053</u></u>	<u><u>742</u></u>
Derivative financial instruments:				
Foreign currency forward contracts — settled in gross:				
Outflow	\$ 79,837,704	79,837,704	-	-
Inflow	(80,354,681)	(80,354,681)	-	-
	<u><u>\$ (516,977)</u></u>	<u><u>(516,977)</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Foreign currency option contracts — settled in gross:				
Outflow	2,196,439	2,196,439	-	-
Inflow	(2,138,130)	(2,138,130)	-	-
	<u><u>\$ 58,309</u></u>	<u><u>58,309</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

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

(iii) 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.

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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.

1) 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.

a) 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 receivables), notes and accounts payable (including related-party payables), investments in debt instrument with no active market, other receivables (including related-party receivables), other payables (including related-party payables), and overseas convertible bonds. 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 and their sensitivity analysis were as follows (including the monetary items that have been eliminated in the accompanying consolidated financial statements):

December 31, 2016					
	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	\$ 212,321	33.9478	7,207,831	1 %	72,078
USD	1,243,444	32.2790	40,137,129	1 %	401,371
<u>Financial liabilities</u>					
EUR	7,130	33.9478	242,048	1 %	2,420
USD	2,298,460	32.2790	74,191,990	1 %	741,920
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

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

With varieties of functional currencies within the consolidated entities of the Group, the Group disclosed net realized and unrealized foreign exchange gain (loss) on monetary items in aggregate. Please refer to note 6(x) for further information.

2) 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 income (loss) for the years ended December 31, 2016 and 2015 would have been \$61,030 and \$43,844, respectively, lower/higher, which mainly resulted from the borrowings with floating interest rates.

3) Other market price risk

The Group is exposed to the risk of price fluctuation in securities market resulting from its 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, in which the Group does not actively participate in their 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, 2016 and 2015, would have increased or decreased by \$218,640 and \$162,654, respectively.

(aa) Capital management

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

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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

	December 31, 2016	December 31, 2015
Total equity (excluding non-controlling interests)	<u><u>\$ 57,674,395</u></u>	<u><u>65,852,731</u></u>
Total assets	<u><u>\$ 165,674,062</u></u>	<u><u>171,742,203</u></u>
Equity ratio	<u><u>34.81 %</u></u>	<u><u>38.34 %</u></u>

As of December 31, 2016, there were no changes in the Group's approach to its capital management. The decline of equity ratio in 2016 was mainly from the net loss incurred in 2016.

7. Related-party Transactions

(a) 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.

(b) Significant related-party transactions

(i) Revenue

	2016	2015
Associates	\$ 297,379	224,817
Joint venture	17,989	5,011
Other related parties	<u>953</u>	<u>118</u>
	<u><u>\$ 316,321</u></u>	<u><u>229,946</u></u>

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

(ii) Purchases

	2016	2015
Associates	<u><u>\$ 49,797</u></u>	<u><u>71,337</u></u>

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

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(iii) Operating expenses

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

<u>Account</u>	<u>Related-party categories</u>	<u>2016</u>	<u>2015</u>
Operating expense	Associates	3,000	2,910
Operating expense	Other related parties	8,125	15,417
		<u>11,125</u>	<u>18,327</u>

(iv) Receivables

<u>Account</u>	<u>Related-party categories</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Notes and accounts receivable	Associates	\$ 80,321	48,819
Notes and accounts receivable	Joint ventures	1,644	3,770
Notes and accounts receivable	Other related parties	10	160
Other receivables	Associates	14	6
Other receivables	Joint ventures	6,714	-
Other receivables	Other related parties	9	270
		<u>\$ 88,712</u>	<u>53,025</u>

(v) Payables

<u>Account</u>	<u>Related party categories</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Accounts payable	Associates	\$ 3,514	9,525
Accounts payable	Other related parties	-	760
Other payables	Other related parties	-	1,085
		<u>\$ 3,514</u>	<u>11,370</u>

(c) Compensation for key management personnel

	<u>2016</u>	<u>2015</u>
Short-term employee benefits	\$ 272,994	349,479
Post-employment benefits	10,387	28,186
Other long-term benefits	-	6,559
Share-based payments	2,688	14,836
	<u>\$ 286,069</u>	<u>399,060</u>

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

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

8. Pledged assets

<u>Assets</u>	<u>Pledged to secure</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Other financial assets — non-current			
Cash in bank and time deposits	Contract bidding, security for letters of credit, project fulfillment, and lease guarantee	\$ <u>542,573</u>	<u>513,531</u>

9. Significant commitments and contingencies

- (a) The Company has entered into software and royalty license agreements with Microsoft, IBM, and other companies. The Company has fulfilled its obligations according to the contracts.
- (b) An American company has filed a lawsuit in California State Court against Acer for violating confidential agreement and trade secret. The Group had appointed outside counsel to handle the case. The case is still in progress. However, the Group has properly accrued its provisions based on the development of the aforesaid lawsuit. Therefore, the management foresees no immediate material adverse effect on the Group's business operations and finance.
- (c) In the ordinary course of its business, from time to time, the Group received notices from third parties asserting that Acer has infringed certain patents and demanded that Acer obtain certain patent licenses. Although the Group does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on the Group's business operations and finance, the 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.
- (d) The Group faces severe taxation challenges globally due to the rapid changes in international tax environment. The Group held different position with local tax authorities for certain tax audits and has properly provided the accruals for the cases that met the criteria for recognizing a provision. Nevertheless, the tax disputes are inherently complicated and may take years to be approved by the tax authorities. The ultimate result is unpredictable and could adversely affect the Group's operating results or cash flows in a particular period.
- (e) As of December 31, 2016 and 2015, the Group had outstanding stand-by letters of credit totaling \$52,778 and \$332,803, respectively, for purposes of bids and contracts.
- (f) As of December 31, 2016 and 2015, the Group had issued promissory notes amounting to \$45,159,050 and \$49,233,424, respectively, as collateral for obtaining credit facilities from financial institutions.

10. Significant loss from Casualty: None

11. Significant subsequent events: None

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

12. Other

	2016			2015		
	Cost of revenue	Operating expenses	Total	Cost of revenue	Operating expenses	Total
Employee benefits:						
Salaries	1,141,686	8,995,797	10,137,483	1,251,734	9,694,353	10,946,087
Insurance	153,163	1,020,922	1,174,085	155,960	1,093,429	1,249,389
Pension	21,473	589,639	611,112	21,587	650,070	671,657
Others	76,538	936,650	1,013,188	85,135	1,210,720	1,295,855
Depreciation	24,712	588,466	613,178	32,277	652,608	684,885
Amortization	1,453	849,945	851,398	1,752	999,239	1,000,991

13. Additional disclosures

- (a) Information on significant transactions:
- (i) Financing provided to other parties: Table 1 (attached)
 - (ii) Guarantees and endorsements provided to other parties: Table 2 (attached)
 - (iii) Marketable securities held at reporting date (excluding investments in subsidiaries, associates, and jointly controlled entities): Table 3 (attached)
 - (iv) 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)
 - (v) Acquisition of real estate which exceeds \$300 million or 20% of the paid-in capital: None
 - (vi) Disposal of real estate which exceeds \$300 million or 20% of the paid-in capital: None
 - (vii) Total purchases from and sales to related parties which exceed \$100 million or 20% of the paid-in capital: Table 5 (attached)
 - (viii) Receivables from related parties which exceed \$100 million or 20% of the paid-in capital: Table 6 (attached)
 - (ix) Information about derivative instruments transactions: Please refer to notes 6(b).
 - (i) Business relationships and significant intercompany transactions: Table 7 (attached)
- (b) Information on investees: Table 8 (attached)
- (c) Information on investment in Mainland China:
- (i) 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)

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

- (ii) 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, 2016, please refer to "Information on significant transactions" and "Business relationships and significant intercompany transactions" above.

14. Segment information

(a) General information

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

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:

	2016			
	IT Hardware Products	Others	Adjustments and eliminations	Total
Revenues from external customers	\$ 217,651,423	15,072,738	-	232,724,161
Intra-group revenue	1,929,107	259,724	(2,188,831)	-
Total revenues	<u>\$ 219,580,530</u>	<u>15,332,462</u>	<u>(2,188,831)</u>	<u>232,724,161</u>
Segment profit	<u>\$ 2,694,899</u>	<u>(764,695)</u>	<u>(737,691)</u>	<u>1,192,513</u>
Other material non-cash items:				
Loss on impairment of intangible assets	<u>\$ (149,641)</u>	<u>(6,214,603)</u>	<u>-</u>	<u>(6,364,244)</u>

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

	2015			
	IT Hardware Products	Others	Adjustments and eliminations	Total
Revenues from external customers	\$ 248,696,107	15,079,095	-	263,775,202
Intra-group revenue	1,941,263	309,669	(2,250,932)	-
Total revenues	\$ 250,637,370	15,388,764	(2,250,932)	263,775,202
Segment profit	\$ 882,920	(272,372)	328,060	938,608

(b) Product information

Revenues from external customers are detailed below:

Products	2016	2015
Personal computers	\$ 181,455,410	207,663,803
Peripherals and others	51,268,751	56,111,399
	\$ 232,724,161	263,775,202

(c) 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	2016	2015
Americas	\$ 51,467,767	54,948,732
Mainland China	15,791,910	27,517,743
Taiwan	21,646,029	22,095,249
Others	143,818,455	159,213,478
	\$ 232,724,161	263,775,202

Non-current assets:

Region	December 31, 2016	December 31, 2015
Americas	\$ 12,982,873	20,114,236
Taiwan	6,678,345	7,419,564
Mainland China	2,613,669	3,071,177
Others	2,909,682	3,052,268
	\$ 25,184,569	33,657,245

(Continued)

ACER INCORPORATED AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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

(d) Major customers' information

	2016	2015
Customer A	\$ <u>21,950,687</u>	<u>27,450,667</u>

Acer Incorporated and Subsidiaries
Financing provided to other parties
For the year ended December 31, 2016

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		
0	The Company	ACCQ	Other receivables from related parties	Yes	895,491	813,366	813,366	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
1	GWJ	AAC	Other receivables from related parties	Yes	487,925	435,767	187,218	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
2	ALA	ATB	Other receivables from related parties	Yes	1,006,135	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
2	ALA	AAC	Other receivables from related parties	Yes	919,828	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
3	AAH	AAC	Other receivables from related parties	Yes	5,215,750	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
3	AAH	AAC	Other receivables from related parties	Yes	1,872,182	1,872,182	1,872,182	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
4	ACTI	AAC	Other receivables from related parties	Yes	2,692,000	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
5	AGU	AEG	Other receivables from related parties	Yes	184,825	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
5	AGU	AEG	Other receivables from related parties	Yes	184,825	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
5	AGU	AEG	Other receivables from related parties	Yes	184,825	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
5	AGU	AEG	Other receivables from related parties	Yes	184,825	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
6	PBHO	AEG	Other receivables from related parties	Yes	184,825	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
7	AEB	XPL	Other receivables from related parties	Yes	10,000	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
7	AEB	PBC	Other receivables from related parties	Yes	5,000	5,000	-	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
8	ADSC	ABC	Other receivables from related parties	Yes	10,000	-	-	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
9	BJAI	ACCN	Other receivables from related parties	Yes	40,018	37,182	30,211	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960
10	AIZS	ACCN	Other receivables from related parties	Yes	225,098	209,151	209,151	0%~4%	2	-	Operating requirements	-	None	-	6,258,792	31,293,960

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, 2016), within which the short-term financing amount shall not exceed 20% of the most recent audited or reviewed net worth of the Company.

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

When a subsidiary 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, 2016

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	12,517,584	928,446	827,950	-	-	1.32%	62,587,921	Y		
0	The Company	ATH	3	12,517,584	178,345	171,079	90	-	0.27%	62,587,921	Y		
0	The Company	Acer Asia Pacific subsidiaries	3	12,517,584	4,542,750	4,357,665	228,411	-	6.96%	62,587,921	Y		
0	The Company	AGU	3	12,517,584	319,675	-	-	-	-	62,587,921	Y		
0	The Company	AEG	3	12,517,584	201,777	190,063	190,063	-	0.30%	62,587,921	Y		
0	The Company	Acer EMEA subsidiaries	3	12,517,584	4,374,500	4,196,270	289,113	-	6.70%	62,587,921	Y		
0	The Company	ACN/ACD/ACW/AFN	3	12,517,584	16,075	14,179	14,179	-	0.02%	62,587,921	Y		
0	The Company	ATB	3	12,517,584	2,187,351	1,613,950	819,270	-	2.58%	62,587,921	Y		
0	The Company	Acer Pan America subsidiaries	3	12,517,584	5,720,500	5,487,430	236,410	-	8.77%	62,587,921	Y		
0	The Company	AMEX	3	12,517,584	302,850	290,511	-	-	0.46%	62,587,921	Y		
0	The Company	Acer Greater China subsidiaries	3	12,517,584	1,850,750	1,775,345	30,487	-	2.84%	62,587,921	Y		Y
0	The Company	ACCSI	2	12,517,584	751,670	750,200	450,200	-	1.20%	62,587,921	Y		
0	The Company	AEB	3	12,517,584	800,000	800,000	-	-	1.28%	62,587,921	Y		
0	The Company	SMA	3	12,517,584	107,479	93,537	-	-	0.15%	62,587,921	Y		
0	The Company	ACA	3	12,517,584	362,181	347,856	347,856	-	0.56%	62,587,921	Y		
0	The Company	AIL	3	12,517,584	1,364,423	1,330,626	665,555	-	2.13%	62,587,921	Y		
0	The Company	ACCN	3	12,517,584	1,317,280	1,252,351	-	-	2.00%	62,587,921	Y		Y
0	The Company	AME	3	12,517,584	48,419	48,419	10,809	-	0.08%	62,587,921	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 shown above is based on the net worth as of September 30, 2016).

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

Acer Incorporated and Subsidiaries
Marketable securities held
(Excluding investments in subsidiaries, associates, and joint controlled entities)
December 31, 2016

Table 3

(Amounts in Thousands of New Taiwan Dollars / Shares)

Investing Company	Marketable Securities Type and Name	Relationship with the Securities Issuer	Financial Statement Account	Ending Balance				Maximum ownership during 2016		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	705	59,326	-	59,326	705	-	
The Company	Stock: Qisda	-	Available-for-sale financial assets - Non Current	81,713	1,229,776	4.15%	1,229,776	81,713	4.15%	
The Company	Stock: WPG Holdings	-	Available-for-sale financial assets - Non Current	4,360	165,695	0.25%	165,695	4,360	0.25%	
The Company	Stock: Wistron	-	Available-for-sale financial assets - Non Current	51,721	1,290,428	1.95%	1,290,428	51,721	1.95%	
The Company	Stock: InCOMM	-	Available-for-sale financial assets - Non Current	-	-	0.06%	-	-	0.06%	
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	46,084	19.35%	46,084	8,505	19.35%	
The Company	Stock: Dragon Investment Co. Ltd.	-	Available-for-sale financial assets - Non Current	13,459	21,787	19.94%	21,787	15,834	19.94%	
The Company	Stock: Venture Power	-	Available-for-sale financial assets - Non Current	15	326	4.15%	326	15	4.15%	
The Company	Convertible bonds: Starbreeze	-	Investments in debt instrument with no active market - Non Current	-	165,326	-	165,326	-	-	
ADSC	Stock: Wistron	-	Available-for-sale financial assets - Non Current	12,309	307,122	0.46%	307,122	12,309	0.46%	
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: IDSCBVI	-	Available-for-sale financial assets - Non Current	60	1,413	19.90%	1,413	60	19.90%	
ASCBVI	Stock: ID5 Fund L.P.	-	Available-for-sale financial assets - Non Current	3,800	267,003	19.39%	267,003	3,800	19.39%	
ASCBVI	Stock: IP Cathay One, L.P.	-	Available-for-sale financial assets - Non Current	5,442	37,853	8.00%	37,853	6,282	8.00%	
ASCBVI	Stock: ID5 Annex I Fund	-	Available-for-sale financial assets - Non Current	565	24,470	19.15%	24,470	957	19.15%	
ASCBVI	Stock: ATS	-	Available-for-sale financial assets - Non Current	2,833	48,418	13.93%	48,418	2,833	13.93%	
ASCBVI	Stock: Trutag	-	Available-for-sale financial assets - Non Current	1,346	96,853	1.94%	96,853	1,346	1.94%	
ASCBVI	Stock: Gorilla	-	Available-for-sale financial assets - Non Current	244	64,558	2.21%	64,558	244	2.21%	
ASCBVI	Stock: Jibo	-	Available-for-sale financial assets - Non Current	5,659	64,558	2.33%	64,558	5,659	2.33%	
ASCBVI	Stock: Revolve	-	Available-for-sale financial assets - Non Current	927	18,560	10.07%	18,560	927	10.07%	
ASCBVI	Stock: Apptog	-	Available-for-sale financial assets - Non Current	6,429	16,140	18.90%	16,140	6,429	18.90%	
ASCBVI	Stock: GCR	-	Available-for-sale financial assets - Non Current	600	38,735	10.00%	38,735	600	10.00%	
ASCBVI	Stock: Dragonfly	-	Available-for-sale financial assets - Non Current	1,000	48,419	6.47%	48,419	1,000	6.47%	
ASCBVI	Convertible notes: KDH	-	Investments in debt instrument with no active market - Current	-	32,279	-	32,279	-	-	
ASCBVI	Convertible notes: Revolve	-	Investments in debt instrument with no active market - Non Current	-	12,912	-	12,912	-	-	
AWI	Stock: Acer Inc.	Parent/Subsidiary	Treasury stock	12,730	522,237	0.41%	166,761	12,730	0.41%	
AWI	GDR: Acer Inc.	Parent/Subsidiary	Treasury stock	4,987	1,969,617	0.81%	321,980	4,987	0.81%	
CCI	Stock: China Development Financial Holding Co.	-	Available-for-sale financial assets - Current	5,049	40,699	0.03%	40,699	5,049	0.03%	
CCI	Stock: Acer Inc.	Parent/Subsidiary	Available-for-sale financial assets - Non Current	4,774	62,536	0.15%	62,536	4,774	0.15%	
ETEN	Stock: RoyalTek	-	Available-for-sale financial assets - Non Current	1,015	26,503	2.01%	26,503	1,015	2.01%	
ETEN	Stock: Acer Inc.	Parent/Subsidiary	Available-for-sale financial assets - Non Current	4,305	56,401	0.14%	56,401	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: Antung Trading Co.	-	Available-for-sale financial assets - Non Current	3,000	67,227	10.00%	67,227	3,000	10.00%	
ACTI	Stock: Physiosigns Inc., DE	-	Available-for-sale financial assets - Non Current	800	258,232	12.50%	258,232	800	12.50%	

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, 2016

Table 4

(Amounts in Thousands of New Taiwan Dollars/Shares)														
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)
Boardwalk	Stock: AMEX	Investment accounted for using equity method	Note 2	Subsidiary	943,541	(510,800)	430,300	817,500	-	-	-	-	1,373,841	392,371
GWJ	Stock: AAC	Investment accounted for using equity method	Note 2	Subsidiary	3,100	7,691,264	-	872,100	-	-	-	-	3,100	8,712,615
ACCN	China Merchants Bank CNY Financial Plan	Other financial asset	China Merchants Bank	-	-	-	2,920,000	14,329,437	2,920,000	14,345,370	14,329,437	16,248 (Note 3)	-	-
ACCN	Fubon Bank (China) CNY SDRMBC 16030000	Other financial asset	Fubon Bank (China) Co., Ltd	-	-	-	1,150,000	5,522,705	1,150,000	5,533,620	5,522,705	10,915	-	-
The Company	Stock: ABH	Investment accounted for using equity method	Note 4	Subsidiary	-	-	150,000	1,500,000	-	-	-	-	173,305 (Note 5)	1,479,013
ABH	Stock: ACTTW	Investment accounted for using equity method	Note 4	Subsidiary	-	-	60,000	600,000	-	-	-	-	60,000	408,889
ABH	Stock: AEB	Investment accounted for using equity method	Note 2	Subsidiary	-	-	35,000	350,000	-	-	-	-	60,000 (Note 5)	561,438

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.

Note 3: The amount includes the foreign currency exchange gain.

Note 4: Newly established subsidiary.

Note 5: The ending balance includes the shares acquired from the Company by issuing ABH's shares of common stock.

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, 2016

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	
The Company	AEG	Parent/Subsidiary	(Sales)	(64,159,225)	(36.56)%	OA60	-	-	6,142,876	22.66%	
The Company	AAC	Parent/Subsidiary	(Sales)	(50,471,074)	(28.76)%	OA90	-	-	8,779,630	32.39%	
The Company	AAPH	Parent/Subsidiary	(Sales)	(34,402,505)	(19.60)%	OA60	-	-	5,838,349	21.54%	
The Company	ACCQ	Parent/Subsidiary	(Sales)	(12,176,427)	(6.94)%	OA60	-	-	1,431,076	5.28%	
The Company	WLII	Parent/Subsidiary	(Sales)	(1,881,151)	(1.07)%	EM45	-	-	85,984	0.32%	
The Company	AFE	Parent/Subsidiary	(Sales)	(768,841)	(0.44)%	OA60	-	-	123,069	0.45%	
The Company	APX	Parent/Subsidiary	(Sales)	(222,262)	(0.13)%	OA60	-	-	38,330	0.14%	
The Company	ASC	Parent/Subsidiary	(Sales)	(101,397)	(0.06)%	OA60	-	-	3,742	0.01%	
The Company	ACCSI	Parent/Subsidiary	Purchases	492,155	0.29%	OA60	-	-	(87,317)	(0.20)%	
The Company	AEB	Parent/Subsidiary	Purchases	373,743	0.22%	EM60	-	-	(34,742)	(0.08)%	
The Company	WLII	Parent/Subsidiary	Purchases	240,272	0.14%	EM45	-	-	(39,726)	(0.09)%	
The Company	ACTI	Parent/Subsidiary	Purchases	332,444	0.19%	OA60	-	-	(5,567)	(0.01)%	
ACCSI	The Company	Parent/Subsidiary	(Sales)	(492,155)	(49.07)%	OA60	-	-	87,317	43.14%	
WLII	The Company	Parent/Subsidiary	(Sales)	(240,272)	(2.59)%	EM45	-	-	39,726	2.57%	
WLII	The Company	Parent/Subsidiary	Purchases	1,881,151	20.91%	EM45	-	-	(85,984)	(6.63)%	
AAC	AMEX	Fellow subsidiary	(Sales)	(3,615,693)	(6.63)%	OA60	-	-	977,924	14.13%	
AAC	ASC	Fellow subsidiary	(Sales)	(258,771)	(0.47)%	OA60	-	-	20,137	0.29%	
AAC	ATB	Fellow subsidiary	(Sales)	(269,632)	(0.49)%	OA60	-	-	189,756	2.74%	
AAC	The Company	Parent/Subsidiary	Purchases	50,471,074	100.00%	OA90	-	-	(8,779,630)	(91.47)%	
AAPH	ATH	Fellow subsidiary	(Sales)	(4,969,131)	(13.92)%	OA60	-	-	957,571	8.86%	
AAPH	AIL	Fellow subsidiary	(Sales)	(5,820,883)	(16.31)%	OA60	-	-	3,573,434	33.06%	
AAPH	AIN	Fellow subsidiary	(Sales)	(3,961,569)	(11.10)%	OA60	-	-	892,495	8.26%	
AAPH	ACA	Fellow subsidiary	(Sales)	(5,865,902)	(16.43)%	OA60	-	-	2,581,861	23.88%	

Company Name	Related Party	Name of Relationship	Transaction Details				Transactions with Terms Different from Others (Note 1)		Notes/Accounts Receivable or (Payable)		Note
			Purchases/(Sales)	Amount	% of Total Purchases/(Sales)	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
AAPH	ASSB	Fellow subsidiary	(Sales)	(3,315,547)	(9.29)%	OA60	-	-	481,066	4.45%	
AAPH	AJC	Fellow subsidiary	(Sales)	(1,699,692)	(4.76)%	OA60	-	-	874,414	8.09%	
AAPH	ACS	Fellow subsidiary	(Sales)	(2,205,726)	(6.18)%	OA60	-	-	217,892	2.02%	
AAPH	ACNZ	Fellow subsidiary	(Sales)	(848,891)	(2.38)%	OA60	-	-	200,675	1.86%	
AAPH	APHI	Fellow subsidiary	(Sales)	(1,162,375)	(3.26)%	OA60	-	-	346,644	3.21%	
AAPH	AMI	Fellow subsidiary	(Sales)	(180,046)	(0.50)%	OA60	-	-	20,109	0.19%	
AAPH	The Company	Parent/Subsidiary	Purchases	34,402,505	97.77%	OA60	-	-	(5,838,349)	(97.85)%	
AAPH	APHI	Fellow subsidiary	Purchases	104,041	0.30%	OA60	-	-	(18,733)	(0.31)%	
ACA	ACNZ	Fellow subsidiary	(Sales)	(134,514)	(1.84)%	OA60	-	-	18,702	1.32%	
ACA	Bluechip	Other related party	(Sales)	(290,730)	(3.97)%	OA60	-	-	73,685	5.21%	
ACA	AAPH	Fellow subsidiary	Purchases	5,865,902	100.00%	OA60	-	-	(2,581,861)	(98.13)%	
ACCN	ACCQ	Fellow subsidiary	(Sales)	(114,153)	(0.76)%	OA60	-	-	57	-	
ACCN	ACCQ	Fellow subsidiary	Purchases	13,697,844	92.10%	OA60	-	-	(3,178,084)	(100.00)%	
ACCQ	ACCN	Fellow subsidiary	(Sales)	(13,697,844)	(99.77)%	OA60	-	-	3,178,084	99.91%	
ACCQ	ACCN	Fellow subsidiary	Purchases	114,153	0.85%	OA60	-	-	(57)	-	
ACCQ	The Company	Parent/Subsidiary	Purchases	12,176,427	90.36%	OA60	-	-	(1,431,076)	(76.29)%	
ACF	AEG	Fellow subsidiary	(Sales)	(269,872)	(2.28)%	OA60	-	-	459,234	17.88%	
ACF	AEG	Fellow subsidiary	Purchases	10,626,806	89.91%	OA60	-	-	(327,903)	(84.24)%	
ACF	APX	Fellow subsidiary	Purchases	155,848	1.32%	OA60	-	-	(11,854)	(3.05)%	
ACG	AEG	Fellow subsidiary	(Sales)	(643,580)	(2.39)%	OA60	-	-	1,514,668	20.94%	
ACG	APX	Fellow subsidiary	(Sales)	(217,686)	(0.81)%	OA60	-	-	29,966	0.41%	
ACG	AEG	Fellow subsidiary	Purchases	24,522,479	85.11%	OA60	-	-	(5,269,011)	(99.22)%	
ACG	APX	Fellow subsidiary	Purchases	420,695	1.46%	OA45	-	-	(62,828)	(1.18)%	
ACH	AEG	Fellow subsidiary	(Sales)	(242,435)	(4.85)%	OA60	-	-	328,272	23.71%	
ACH	AEG	Fellow subsidiary	Purchases	4,338,624	92.17%	OA60	-	-	(508,171)	(96.51)%	
ACH	APX	Fellow subsidiary	Purchases	133,520	2.84%	OA60	-	-	(18,027)	(3.42)%	
ACNZ	AAPH	Fellow subsidiary	Purchases	848,891	100.00%	OA60	-	-	(200,675)	(87.74)%	
ACNZ	ACA	Fellow subsidiary	Purchases	134,514	66.92%	OA60	-	-	(18,702)	(8.18)%	
ACR	AEG	Fellow subsidiary	Purchases	499,074	88.61%	OA60	-	-	181.00	(17.39)%	

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	
ACS	AAPH	Fellow subsidiary	Purchases	2,205,726	99.31%	OA60	-	-	(217,892)	(97.19)%	
ACTI	The Company	Parent/Subsidiary	(Sales)	(332,444)	(100.00)%	OA60	-	-	5,567	100.00%	
ACZ	AEG	Fellow subsidiary	(Sales)	(223,416)	(39.12)%	OA60	-	-	-	-	
ACZ	APX	Fellow subsidiary	Purchases	198,455	38.93%	OA90	-	-	(36,558)	(91.22)%	
AEG	ACG	Fellow subsidiary	(Sales)	(24,522,479)	(31.06)%	OA60	-	-	5,269,011	36.12%	
AEG	ACF	Fellow subsidiary	(Sales)	(10,626,806)	(13.46)%	OA60	-	-	327,903	2.25%	
AEG	ACR	Fellow subsidiary	(Sales)	(499,074)	(0.63)%	OA60	-	-	(181)	-	
AEG	AUK	Fellow subsidiary	(Sales)	(8,087,346)	(10.24)%	OA60	-	-	1,580,809	10.84%	
AEG	AME	Fellow subsidiary	(Sales)	(5,753,527)	(7.29)%	OA60	-	-	1,644,261	11.27%	
AEG	AIB	Fellow subsidiary	(Sales)	(3,351,462)	(4.24)%	OA60	-	-	343,447	2.35%	
AEG	ACH	Fellow subsidiary	(Sales)	(4,338,624)	(5.49)%	OA60	-	-	508,171	3.48%	
AEG	AIT	Fellow subsidiary	(Sales)	(5,660,141)	(7.17)%	OA60	-	-	801,929	5.50%	
AEG	APX	Fellow subsidiary	(Sales)	(232,490)	(0.29)%	OA60	-	-	41,956	0.29%	
AEG	ASIN	Fellow subsidiary	(Sales)	(13,160,396)	(16.67)%	OA60	-	-	2,992,000	20.51%	
AEG	ASZ	Fellow subsidiary	(Sales)	(2,569,676)	(3.25)%	OA60	-	-	326,853	2.24%	
AEG	SER	Fellow subsidiary	(Sales)	(113,576)	(0.14)%	OA60	-	-	50,623	-	
AEG	The Company	Parent/Subsidiary	Purchases	64,159,225	84.16%	OA60	-	-	(6,142,876)	(44.09)%	
AEG	ACZ	Fellow subsidiary	Purchases	223,416	0.29%	OA60	-	-	-	-	
AEG	APX	Fellow subsidiary	Purchases	281,262	0.37%	OA60	-	-	(11,247)	(0.08)%	
AEG	ACG	Fellow subsidiary	Purchases	643,580	0.84%	OA60	-	-	(1,514,668)	(10.87)%	
AEG	ACF	Fellow subsidiary	Purchases	269,872	0.35%	OA60	-	-	(459,234)	(3.30)%	
AEG	AIT	Fellow subsidiary	Purchases	285,067	0.37%	OA60	-	-	(310,110)	(2.23)%	
AEG	ACH	Fellow subsidiary	Purchases	242,435	0.32%	OA60	-	-	(328,272)	(2.36)%	
AEG	AIB	Fellow subsidiary	Purchases	299,663	0.39%	OA60	-	-	(286,214)	(2.05)%	
AFE	The Company	Parent/Subsidiary	Purchases	768,841	94.71%	OA60	-	-	(123,069)	(95.52)%	
AIB	AEG	Fellow subsidiary	(Sales)	(299,663)	(7.25)%	OA60	-	-	286,214	20.51%	
AIB	AEG	Fellow subsidiary	Purchases	3,351,462	87.16%	OA60	-	-	(343,447)	(100.00)%	
AIB	APX	Fellow subsidiary	Purchases	212,512	5.53%	OA60	-	-	(33,769)	(10.19)%	
AIL	AAPH	Fellow subsidiary	Purchases	5,820,883	63.08%	OA60	-	-	(3,573,434)	(94.32)%	

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	
AIN	AMI	Parent/Subsidiary	(Sales)	(260,645)	(5.70)%	OA60	-	-	26,945	30.07%	
AIN	AMI	Parent/Subsidiary	Purchases	558,034	12.16%	OA90	-	-	(41,075)	(3.96)%	
AIN	AAPH	Fellow subsidiary	Purchases	3,961,569	86.31%	OA60	-	-	(892,495)	(86.13)%	
AIT	AEG	Fellow subsidiary	(Sales)	(285,067)	(4.46)%	OA60	-	-	310,110	14.86%	
AIT	AEG	Fellow subsidiary	Purchases	5,660,141	91.68%	OA60	-	-	(801,929)	(98.60)%	
AJC	AAPH	Fellow subsidiary	Purchases	1,699,692	86.50%	OA60	-	-	(874,414)	(98.52)%	
AME	AEG	Fellow subsidiary	Purchases	5,753,527	97.72%	OA60	-	-	(1,644,261)	(100.00)%	
AMEX	AAC	Fellow subsidiary	Purchases	3,615,693	97.79%	OA60	-	-	(977,924)	(100.00)%	
AMI	AIN	Parent/Subsidiary	(Sales)	(558,034)	(99.97)%	OA90	-	-	41,075	100.00%	
AMI	AIN	Parent/Subsidiary	Purchases	260,645	47.93%	OA60	-	-	(26,945)	(50.07)%	
AMI	AAPH	Fellow subsidiary	Purchases	180,046	33.11%	OA60	-	-	(20,109)	(37.36)%	
APHI	AAPH	Fellow subsidiary	(Sales)	(104,041)	(8.38)%	OA60	-	-	18,733	17.79%	
APHI	AAPH	Fellow subsidiary	Purchases	1,162,375	100.00%	OA60	-	-	(346,644)	(96.67)%	
APX	ACG	Fellow subsidiary	(Sales)	(420,695)	(21.58)%	OA45	-	-	62,828	22.79%	
APX	AEG	Fellow subsidiary	(Sales)	(281,262)	(14.43)%	OA60	-	-	11,247	4.08%	
APX	ACF	Fellow subsidiary	(Sales)	(155,848)	(7.99)%	OA60	-	-	11,854	4.30%	
APX	ACZ	Fellow subsidiary	(Sales)	(198,455)	(10.18)%	OA90	-	-	36,558	13.26%	
APX	ACH	Fellow subsidiary	(Sales)	(133,520)	(6.85)%	OA60	-	-	18,027	6.54%	
APX	AIB	Fellow subsidiary	(Sales)	(212,512)	(10.90)%	OA60	-	-	33,769	12.25%	
APX	The Company	Parent/Subsidiary	Purchases	222,262	14.13%	OA60	-	-	(38,330)	(14.96)%	
APX	ACG	Fellow subsidiary	Purchases	217,686	13.84%	OA60	-	-	(29,966)	(11.70)%	
APX	AEG	Fellow subsidiary	Purchases	232,490	14.78%	OA60	-	-	(41,956)	(16.38)%	
ARU	ASIN	Fellow subsidiary	(Sales)	(161,505)	(100.00)%	OA60	-	-	18,886	100.00%	
ASIN	ARU	Fellow subsidiary	Purchases	161,505	1.23%	OA60	-	-	(18,886)	(0.62)%	
ASC	The Company	Parent/Subsidiary	Purchases	101,397	15.56%	OA60	-	-	(3,742)	(4.00)%	
ASC	AAC	Fellow subsidiary	Purchases	258,771	39.71%	OA60	-	-	(20,137)	(21.53)%	
ASIN	AEG	Fellow subsidiary	Purchases	13,160,396	99.89%	OA60	-	-	(2,992,000)	(98.98)%	
ASSB	SMA	Parent/Subsidiary	(Sales)	(417,297)	(11.05)%	OA60	-	-	21,175	8.60%	
ASSB	AAPH	Fellow subsidiary	Purchases	3,315,547	93.87%	OA60	-	-	(481,066)	(97.33)%	

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	
ASZ	AEG	Fellow subsidiary	Purchases	2,569,676	94.71%	OA60	-	-	(326,853)	(100.00)%	
ATB	AAC	Fellow subsidiary	Purchases	269,632	5.41%	OA60	-	-	(189,756)	(11.88)%	
ATH	AAPH	Fellow subsidiary	Purchases	4,969,131	91.60%	OA60	-	-	(957,571)	(90.65)%	
AUK	AEG	Fellow subsidiary	Purchases	8,087,346	86.49%	OA60	-	-	(1,580,809)	(99.71)%	
SMA	ASSB	Parent/Subsidiary	Purchases	417,297	9.56%	OA60	-	-	(21,175)	(20.02)%	
AEB	The Company	Parent/Subsidiary	(Sales)	(373,743)	(42.61)%	EM60	-	-	34,742	12.81%	
SER	AEG	Fellow subsidiary	Purchases	113,576	100.00%	OA60	-	-	(50,623)	(99.99)%	

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, 2016

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	8,779,630	6.74	1,100	Under collection	7,997,889	
The Company	AAPH	Parent/Subsidiary	5,838,349	5.99	829,435	Under collection	4,917,326	
The Company	ACCQ	Parent/Subsidiary	2,273,623	7.03	834,743	Under collection	1,411,134	
The Company	AEG	Parent/Subsidiary	6,142,881	20.80	323	Under collection	6,142,558	
The Company	AFE	Parent/Subsidiary	123,069	5.59	-		123,069	
The Company	TWPBJ	Parent/Subsidiary	102,773	0.41	98,813	Under collection	3,960	
AAC	AMEX	Fellow subsidiary	978,875	1.97	260,901	Under collection	717,974	
AAC	ASC	Fellow subsidiary	616,862	8.54	-		20,137	
AAC	ATB	Fellow subsidiary	189,756	2.83	23	Under collection	123,019	
AAH	AAC	Parent/Subsidiary	1,872,941	-	-		-	
AAPH	ATH	Fellow subsidiary	957,571	4.93	-		742,417	
AAPH	AIL	Fellow subsidiary	3,573,434	1.42	2,255,949	Under collection	530,993	
AAPH	AIN	Fellow subsidiary	892,495	5.79	-		691,306	
AAPH	ACA	Fellow subsidiary	2,581,861	2.85	16,516	Under collection	1,487,815	
AAPH	ASSB	Fellow subsidiary	481,068	7.24	1	Under collection	481,067	
AAPH	AJC	Fellow subsidiary	874,414	1.74	365,179	Under collection	284,416	
AAPH	ACS	Fellow subsidiary	217,892	10.87	-		217,892	
AAPH	ACNZ	Fellow subsidiary	200,675	3.50	-		186,886	
AAPH	APHI	Fellow subsidiary	346,644	5.54	-		200,747	
ACCQ	ACCN	Fellow subsidiary	3,178,084	3.51	-		2,805,469	
ACF	AEG	Fellow subsidiary	634,822	0.55	-		60,169	
ACG	AEG	Fellow subsidiary	1,777,409	0.45	-		114,510	

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
ACH	AEG	Fellow subsidiary	360,909	0.65	-		26,432	
AEG	ACG	Fellow subsidiary	5,269,011	6.72	-		5,230,878	
AEG	ACF	Fellow subsidiary	327,903	16.47	-		327,903	
AEG	AUK	Fellow subsidiary	1,580,809	4.21	-		1,572,225	
AEG	AME	Fellow subsidiary	1,646,157	3.38	-		815,088	
AEG	AIB	Fellow subsidiary	343,447	5.12	-		343,446	
AEG	ACH	Fellow subsidiary	508,171	8.44	-		508,171	
AEG	AIT	Fellow subsidiary	801,929	4.99	-		801,929	
AEG	ASIN	Fellow subsidiary	2,997,813	6.23	-		2,888,302	
AEG	ASZ	Fellow subsidiary	326,853	6.97	104	Under collection	326,749	
AIB	AEG	Fellow subsidiary	330,390	0.83	-		-	
AIT	AEG	Fellow subsidiary	403,290	0.86	-		-	
AIZS	ACCN	Fellow subsidiary	211,766	-	-		-	
AME	AEG	Fellow subsidiary	311,813	-	-		6,810	
ASC	AAC	Fellow subsidiary	134,390	8.41	-		15	
ASIN	AEG	Fellow subsidiary	397,656	-	-		-	
ASCBVI	LONG	Fellow subsidiary	322,791	-	-		-	
ASZ	AEG	Fellow subsidiary	292,824	0.30	-		12,859	
AUK	AEG	Fellow subsidiary	734,343	0.14	-		21,017	
GWI	AAC	Parent/Subsidiary	187,218	-	-		-	
LONG	SURE	Parent/Subsidiary	322,791	-	-		-	

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, 2016

Table 7

(Amounts in Thousands of New Taiwan Dollars)

Intercompany relationships and significant intercompany transactions for the year ended December 31, 2016 were as follows:

Number (Note 1)	Company Name	Counter Party	Nature of Relationship (Note 2)	Intercompany Transactions			Percentage of Consolidated Net Revenue or Total Assets
				Account	Amount	Transaction Terms	
0	The Company	AEG	1	Sales	64,159,225	OA60	27.57%
0	The Company	AAC	1	Sales	50,471,074	OA90	21.69%
0	The Company	AAPH	1	Sales	34,402,505	OA60	14.78%
0	The Company	ACCQ	1	Sales	12,176,427	OA60	5.23%
0	The Company	AAC	1	Accounts receivable	8,779,630	OA90	5.30%
0	The Company	AEG	1	Accounts receivable	6,142,876	OA60	3.71%
0	The Company	AAPH	1	Accounts receivable	5,838,349	OA60	3.52%

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, 2016

Table 8

(Amounts in Thousands of New Taiwan Dollars/Shares)

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balances as of December 31, 2016			Maximum ownership during 2016		Net Income (Loss) of the Investee	Share of profits/ losses of investee	Note
				December 31, 2016	December 31, 2015	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	1,792,129	128,282	100.00	(197)	(197)	Parent/Subsidiary
The Company	Boardwalk	British Virgin Islands	Investing and holding company	41,496,383	41,496,383	1,263,432	92.02	26,644,070	1,263,432	92.02	(5,240,210)	(4,800,609)	Parent/Subsidiary
The Company	AEH	Cyprus	Investing and holding company	2,464,262	2,464,262	150	100.00	16,615,454	150	100.00	(546,562)	(546,562)	Parent/Subsidiary
The Company	AHI	British Virgin Islands	Investing and holding company	1,130,566	1,130,566	33,550	100.00	8,814,102	33,550	100.00	28,290	28,290	Parent/Subsidiary
The Company	Bluechip	Australia	Sale of peripheral and software system	24,249	24,249	1,073	29.98	67,262	1,073	29.98	13,664	3,997	Associate
The Company	AWI	British Virgin Islands	Investing and holding company	4,069,764	4,069,764	1,326,193	100.00	284,735	1,326,193	100.00	(1,162)	(1,162)	Parent/Subsidiary
The Company	ASCBVI	British Virgin Islands	Investing and holding company	1,718,547	1,718,547	35,067	100.00	1,190,242	35,067	100.00	69,924	69,924	Parent/Subsidiary
The Company	CCI	Taiwan	Investing and holding company	1,299,817	1,299,817	-	100.00	528,310	-	100.00	(619,958)	(622,345)	Parent/Subsidiary
The Company	ADSBH	British Virgin Islands	Investing and holding company	1,175,933	1,175,933	2,246	100.00	(314,243)	2,246	100.00	(6,108)	(6,108)	Parent/Subsidiary
The Company	ACCSI	Taiwan	Electronic data supply, processing and storage services	2,943,044	2,943,044	187,092	100.00	1,893,531	187,092	100.00	93,561	93,561	Parent/Subsidiary
The Company	AGC	British Virgin Islands	Investing and holding company	4,941,292	4,941,292	160,989	100.00	5,030,605	160,989	100.00	(372,499)	(372,499)	Parent/Subsidiary
The Company	AEB	Taiwan	Cloud ticketing system, electronic book, online payment service, customized system development and integration services, and sale of commercial and cloud application software and technical services	-	250,000	-	-	-	25,000	100.00	(14,773)	(1,378)	Parent/Subsidiary
The Company	WLII	Taiwan	Sale of computers and communication products	1,115,474	1,115,474	70,088	99.79	1,253,912	70,088	99.79	50,976	50,869	Parent/Subsidiary
The Company	ATI	Taiwan	Integrated circuit test service	819,792	819,792	1,203	19.39	6,944	1,203	19.39	-	647,957	Associate
The Company	ETEN	Taiwan	Research, design and sale of smart handheld products	6,800,751	6,800,751	20,000	100.00	2,373,470	20,000	100.00	(170,474)	(172,626)	Parent/Subsidiary
The Company	ABH	Taiwan	Investing and holding company	1,500,000	-	173,305	100.00	1,479,013	173,305	100.00	(236,852)	(236,852)	Parent/Subsidiary
The Company	ASBZ	Taiwan	Manufacture of computer and peripheral equipment	32,000	-	3,200	50.00	33,047	3,200	50.00	2,094	1,047	Joint venture
ACCSI	TWPBVI	British Virgin Islands	Investing and holding company	32,298	32,298	11,068	100.00	(616)	11,068	100.00	(3,621)	(3,621)	Parent/Subsidiary
ADSC	ECOM	Taiwan	Business integration system	40,851	40,851	1,244	24.88	20,105	1,244	24.88	14,273	3,581	Associate
ADSC	APDI	Taiwan	Property development	29,577	29,577	2,958	100.00	101,780	2,958	100.00	(342)	(342)	Parent/Subsidiary
ADSC	ASDI	Taiwan	Property development	500,000	500,000	22,593	100.00	219,668	22,593	100.00	5,637	5,637	Parent/Subsidiary
ADSC	ABC	Taiwan	Software design service	-	30,000	-	-	-	3,000	100.00	(32,716)	(162)	Parent/Subsidiary
ADSC	YR Creative Cultural Art International Co.	Taiwan	Cultural and creative industries	6,000	6,000	600	20.00	-	600	20.00	-	-	Associate
ADSC	MPS	Taiwan	Research, development, and sale of batteries	-	100,000	-	-	-	10,000	100.00	(58,717)	(17,760)	Parent/Subsidiary

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balances as of December 31, 2016			Maximum ownership during 2016		Net Income (Loss) of the Investee	Share of profits/ losses of investee	Note
				December 31, 2016	December 31, 2015	Shares (in thousands)	Percentage of Ownership	Carrying Value	Shares (in thousands)	Percentage of Ownership			
WLII	Provision International	Taiwan	Retail of information software	23,668	23,668	882	30.22	14,509	882	30.22	6,394	1,932	Associate
WLII	WHI	Hong Kong	Sale of computers and communication products	55,895	55,895	12,872	100.00	19,468	12,872	100.00	(94)	(94)	Parent/Subsidiary
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	10,000	100.00	6,062	10,000	100.00	(3,938)	(3,938)	Parent/Subsidiary
AEH	Boardwalk	British Virgin Islands	Investing and holding company	3,333,032	3,333,032	109,639	7.98	2,316,047	109,639	7.98	(5,240,210)	(439,601)	Associate
AHN	Sertec 360	Switzerland	Repair and maintenance of IT products	44,259	14,462	1	100.00	29,783	1	100.00	522	176	Parent/Subsidiary
ACTI	GrandPAD	USA	Development of user-friendly IoT device	258,256	-	316	41.03	227,343	316	41.03	(88,805)	(30,934)	Associate
ABH	AEB	Taiwan	Cloud ticketing system, electronic book, online payment service, customized system development and integration services, and sale of commercial and cloud application software and technical services	583,046	-	60,000	100.00	561,438	60,000	100.00	(14,773)	(13,395)	Parent/Subsidiary
ABH	ACTTW	Taiwan	Development of Internet of Beings and cloud technology, and integration of cloud technology, software and hardware	600,000	-	60,000	100.00	408,889	60,000	100.00	(182,143)	(182,143)	Parent/Subsidiary
ABH	MPS	Taiwan	Research, development, and sale of batteries	81,711	-	10,000	100.00	40,752	10,000	100.00	(58,717)	(40,957)	Parent/Subsidiary
ABH	ABHI	Taiwan	Intelligent medical examination and data analysis, the medical big data, and exchange of health management and information	48,000	-	4,800	100.00	47,965	4,800	100.00	(35)	(35)	Parent/Subsidiary
AEB	XPL	Taiwan	Design, development and sale of smart bicycle speedometer and operating social platform for bicycle riding and sports	66,040	52,040	4,342	100.00	17,442	5,133	100.00	(25,305)	(25,305)	Parent/Subsidiary
AEB	PBC	Taiwan	Pet interaction device and social networking service	46,400	-	3,400	100.00	11,417	3,400	100.00	(16,453)	(16,453)	Parent/Subsidiary
AEB	PKL	Taiwan	Integration of service platforms including parking lots searching, parking fee comparison, and GPS navigation	24,000	-	24,000	92.31	13,119	24,000	92.31	(8,224)	(7,592)	Parent/Subsidiary
ACTTW	ABC	Taiwan	Software design service	76,371	-	8,000	100.00	43,818	8,000	100.00	(32,716)	(32,554)	Parent/Subsidiary
ACTTW	AGI	Taiwan	Development of user-friendly IoT device	29,000	-	2,900	100.00	27,502	2,900	100.00	(1,498)	(1,498)	Parent/Subsidiary

Acer Incorporated and Subsidiaries
Information on Investment in Mainland China
For the year ended December 31, 2016

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, 2016	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2016	Net Income (Losses) of Investee	% of Ownership of Direct or Indirect Investment	Maximum ownership during 2016		Share of profits/ losses of investee	Carrying Value as of December 31, 2016	Accumulated Inward Remittance of Earnings as of December 31, 2016
					Outflow	Inflow				Shares	Percentage of Ownership			
Acer Third Wave Software (Beijing) Co. Ltd.	Sale of commercial and cloud application software and technical service	96,837	2	96,837	-	-	96,837	(3,591)	100.00	-	100.00	(3,591)	(5,545)	-
Beijing Acer Information Co., Ltd.	Sale of brand-name IT product	58,102	2	-	-	-	-	(2,211)	100.00	-	100.00	(2,211)	37,274	-
Acer Information (Zhong Shan) Co., Ltd.	Sale of brand-name IT product	48,419	2	-	-	-	-	3,076	100.00	-	100.00	3,076	214,701	-
Acer Computer (Shanghai) Ltd.	Sale of brand-name IT product	64,558	2	64,558	-	-	64,558	(318,966)	100.00	-	100.00	(318,966)	913,393	-
Acer (Chongqing) Ltd.	Sale of brand-name IT product	4,841,850	2	4,970,966 (Note 2)	-	-	4,970,966	64,966	100.00	-	100.00	64,966	3,547,775	-
Acer Information Technology R&D (Shanghai) Co., Ltd	Research and design of smart handheld products	64,558	2	-	-	-	-	-	-	-	100.00	-	-	-
Acer Colud Technology (Chongqing) Ltd.	Design, development, sale, and advisory of computer software and hardware	161,395	1	161,395	-	-	161,395	(21,518)	100.00	-	100.00	(21,518)	123,800	-
Innovation and Commercialization Accelerator Inc.	Development, design, manufacturing, sale, and maintenance of intelligent terminal devices	27,887	1	(Note 3)	-	-	(Note 3)	(7,021)	30.00	-	30.00	(2,106)	25,700	-
Xplova (Shanghai) Ltd.	Sale of smart bicycle speedometer and operating social platform for bicycle riding and sports	9,703	1	-	9,703	-	9,703	(939)	100.00	-	100.00	(939)	8,359	-

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 \$ 129,116 (US \$4,000 thousand).

Note 3: Innovation and Commercialization Accelerator Inc. was reinvested by Acer Colud Technology(Chongqing) Ltd.

Investor Company Name	Accumulated Investment in Mainland China as of December 31, 2016	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
The Company and Subsidiaries	\$ 5,303,459 (US \$164,300,600)	\$ 7,076,360 (US \$219,224,886.5)	(Note 4)

The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1 = NT\$32.279 as of December 31, 2016.

Note 4: Since the Company has obtained the Certificate of Headquarter Operation, there is no upper limitation on investment in Mainland China.