ACER INCORPORATED AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

KPMG

Independent Auditors' Report

The Board of Directors
Acer Incorporated:

We have audited the accompanying consolidated balance sheets of Acer Incorporated (the "Company") subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Acer Incorporated and subsidiaries as of December 31, 2012 and 2011, and the results of their consolidated operations and their consolidated cash flows for the years then ended, in conformity with the accounting principles generally accepted in the Republic of China.

The consolidated financial statements as of and for the year ended December 31, 2012, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation, and in our opinion, the consolidated financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(32) to the consolidated financial statements.

KPMG

Taipei, Taiwan (the Republic of China)
March 28, 2013

Note to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with 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.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2012 and 2011
(in thousands of New Taiwan dollars and US dollars)

Assets	2012 NT$	2012 US$	2011 NT$
Current assets:			
Cash and cash equivalents (note 4(1))	50,612,564	1,737,114	58,092,581
Available-for-sale financial assets－current (notes 4(2) and (24))	169,017	5,801	109,721
Financial assets at fair value through profit or loss－current (notes 4(3) and (24))	25,415	872	305,903
Derivative financial assets held for hedging－current (notes 4(4) and (24))	192,461	6,605	804,532
Notes and accounts receivable, net of allowance for impairment of NT$481,744 and NT$819,339 as of December 31, 2012 and 2011, respectively (note 4(5))	68,432,653	2,348,732	83,539,250
Notes and accounts receivables from related parties (note 5)	41,283	1,417	88,625
Other receivables (note 4(6))	4,266,145	146,422	6,196,493
Other receivables from related parties (note 5)	17	1	15,359
Inventories (note 4(7))	43,336,949	1,487,402	39,993,644
Prepayments and other current assets	1,948,656	66,881	2,552,496
Noncurrent assets held for sale (note 4(8))	-	-	1,827,855
Deferred income tax assets－current (note 4(19))	1,796,111	61,646	2,174,144
Restricted deposits－current (note 6)	18,785	645	29,142
Total current assets	170,840,056	5,863,538	195,729,745
Long-term investments:			
Equity-method investments (note 4(10))	190,229	6,529	1,861,987
Available-for-sale financial assets－noncurrent (notes 4(11) and (24))	2,635,952	90,470	775,702
Financial assets carried at cost－noncurrent (notes 4(9) and (24))	623,530	21,401	1,157,773
Total long-term investments	3,449,711	118,400	3,795,462
Property, plant and equipment:			
Land	1,366,614	46,905	1,400,953
Buildings and improvements	3,816,075	130,974	3,944,459
Computer equipment and machinery	4,307,903	147,855	4,173,738
Other equipment	3,246,820	111,437	2,735,283
Construction in progress and advance payments for purchases of equipment	41,772	1,434	435,917
	12,779,184	438,605	12,690,350
Less: accumulated depreciation	(5,407,002)	(185,578)	(4,922,515)
accumulated impairment	(799,834)	(27,452)	(828,937)
Net property, plant and equipment	6,572,348	225,575	6,938,898
Intangible assets (note 4(13))			
Trademark and trade names	5,958,242	204,498	9,882,666
Goodwill	24,926,884	855,535	20,710,372
Other intangible assets	8,431,712	289,392	4,811,161
Total intangible assets	39,316,838	1,349,425	35,404,199
Other financial assets－noncurrent (notes 4(14), (24) and 6)	1,179,517	40,483	1,632,327
Property not used in operation (note 4(12))	3,028,574	103,946	3,343,193
Deferred income tax assets－noncurrent (note 4(19))	1,056,169	36,250	312,243
Deferred charges and other assets (note 4(18))	1,215,781	41,728	1,151,661
Total assets	226,658,994	7,779,345	248,307,728

Liabilities and Stockholders' Equity	2012 NT$	2012 US$	2011 NT$
Current liabilities:			
Short-term borrowings (note 4(15))	349,974	12,012	358,120
Financial liabilities at fair value through profit or loss－current (notes 4(3), (16) and (24))	411,313	14,117	56,212
Derivative financial liabilities held for hedging－current (notes 4(4) and (24))	1,149,400	39,449	179,685
Notes and accounts payable	71,638,728	2,458,770	77,096,776
Notes and accounts payable to related parties (note 5)	-	-	7,256,885
Other payables to related parties (note 5)	1,914	66	184,975
Royalties payable	8,635,716	296,393	10,266,709
Accrued expenses and other current liabilities (notes 4(19) and 5)	46,938,587	1,611,017	50,640,287
Current portion of bonds payable (notes 4(16) and (24))	4,892,805	167,930	-
Current portion of long-term debt (notes 4(17) and (24))	9,000,000	308,896	-
Total current liabilities	143,018,437	4,908,650	146,039,649
Long-term liabilities:			
Financial liabilities at fair value through profit or loss－noncurrent (notes 4(16) and (24))	653,583	22,432	1,216,586
Bonds payable (notes 4(16) and (24))	4,101,617	140,775	14,064,997
Long-term debt, excluding current portion (notes 4(17) and (24))	-	-	9,000,000
Other liabilities (note 4(18))	1,074,891	36,892	455,151
Deferred income tax liabilities－noncurrent (note 4(19))	2,778,315	95,357	1,779,730
Total long-term liabilities	8,608,406	295,456	26,516,464
Total liabilities	151,626,843	5,204,106	172,556,113
Stockholders' equity and minority interest:			
Common stock (note 4(20))	28,347,268	972,929	27,098,915
Capital surplus (notes 4(10), (16), (20) and (21))	44,096,498	1,513,471	40,219,518
Retained earnings (note 4(20)):			
Legal reserve	12,607,933	432,727	12,607,933
Special reserve	6,126,774	210,282	4,659,275
Unappropriated earnings (accumulated deficit)	(2,595,765)	(89,091)	1,782,060
Other equity components:			
Foreign currency translation adjustment	(5,655,033)	(194,091)	(3,580,136)
Minimum pension liability adjustment	(331,754)	(11,386)	(16,993)
Unrealized losses on financial instruments (notes 4(2), (4) and (11))	(904,176)	(31,033)	(630,621)
Treasury stock (note 4(20)):	(6,662,028)	(228,653)	(6,390,846)
Total stockholders' equity	75,029,717	2,575,155	75,749,105
Minority interest	2,434	84	2,510
Total stockholders' equity and minority interest	75,032,151	2,575,239	75,751,615
Commitments and contingencies (note 7)			
Total liabilities and stockholders' equity	226,658,994	7,779,345	248,307,728

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Operations

For the years ended December 31, 2012 and 2011

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

	2012		2011
	NT$	US$	NT$
Net sales (note 5)	429,510,913	14,741,588	475,258,118
Cost of sales (notes 4(7) and 5)	(386,315,169)	(13,259,032)	(436,735,393)
Gross profit	43,195,744	1,482,556	38,522,725
Operating expenses (notes 4(13), (18), (20), (21), 5 and 10):			
Selling	(33,479,889)	(1,149,090)	(36,330,189)
Administrative	(5,822,937)	(199,854)	(7,508,053)
Research and development	(2,868,212)	(98,442)	(1,164,555)
Total operating expenses	(42,171,038)	(1,447,386)	(45,002,797)
Operating income (loss)	1,024,706	35,170	(6,480,072)
Non-operating income and gains:			
Interest income	503,021	17,264	449,826
Investment gain recognized using equity method, net (note 4(10))	67,076	2,302	-
Foreign currency exchange gain and valuation gain on financial instruments, net (notes 4(3), (4), (16) and (24))	-	-	247,352
Gain on disposal of property and equipment, net (note 4(8))	775,222	26,607	-
Gain on disposal of investments, net (notes 4(2) and (11))	7,752	266	345,836
Other income (note 4(16))	631,423	21,672	523,416
	1,984,494	68,111	1,566,430
Non-operating expenses and loss:			
Interest expense (note 4(16))	(821,704)	(28,202)	(997,761)
Foreign currency exchange loss and valuation loss on financial instruments, net (notes 4(3), (4), (16) and (24))	(796,210)	(27,328)	-
Investment loss recognized using equity method, net (note 4(10))	-	-	(5,284)
Other investment loss, net	(10,604)	(364)	(38,138)
Restructuring cost (note 4(22))	(171,867)	(5,899)	(1,247,653)
Impairment loss on intangible assets (note 4(13))	(3,496,114)	(119,993)	-
Other loss	(346,405)	(11,889)	(221,852)
	(5,642,904)	(193,675)	(2,510,688)
Loss before income taxes	(2,633,704)	(90,394)	(7,424,330)
Income tax benefit (expense) (note 4(19))	(276,485)	(9,489)	822,423
Consolidated net loss	**(2,910,189)**	**(99,883)**	**(6,601,907)**
Net loss attributable to:			
Shareholders of the Company	(2,910,326)	(99,888)	(6,601,968)
Minority interest	137	5	61
	(2,910,189)	**(99,883)**	**(6,601,907)**
Earnings per common share (in New Taiwan dollars) (note 4(23)):			
	NT$	**US$**	**NT$**
Basic earnings per common share	**(1.07)**	**(0.04)**	**(2.52)**

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders’ Equity

For the years ended December 31, 2012 and 2011
(Expressed in thousands of New Taiwan dollars and US dollars)

	Common stock NT$	Common stock subscription NT$	Capital surplus NT$	Retained earnings: Legal reserve NT$	Retained earnings: Special reserve NT$	Retained earnings: Unappropriated earnings (accumulated deficit) NT$	Foreign currency translation adjustment NT$	Minimum pension liability adjustment NT$	Unrealized gains (losses) on financial instruments	Treasury stock NT$	Total stockholders’ equity NT$	Minority interest NT$	Total stockholders’ equity and minority interest NT$
Balance at January 1, 2011	27,001,793	21,656	39,578,915	11,096,134	-	24,233,146	(5,095,919)	(23,957)	460,600	(3,522,598)	93,749,770	358,604	94,108,374
Appropriation approved by the stockholders (note):													
Legal reserve	-	-	-	1,511,799	-	(1,511,799)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	4,659,275	(4,659,275)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	(9,678,044)	-	-	-	-	(9,678,044)	-	(9,678,044)
Common stock subscription under option plans	97,122	(21,656)	122,081	-	-	-	-	-	-	-	197,547	-	197,547
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(2,868,248)	(2,868,248)	-	(2,868,248)
Cash dividends distributed to subsidiaries	-	-	140,358	-	-	-	-	-	-	-	140,358	-	140,358
Stock-based compensation cost	-	-	400,044	-	-	-	-	-	-	-	400,044	-	400,044
Unrealized valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(1,357,501)	-	(1,357,501)	-	(1,357,501)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	-	-	-	268,353	-	268,353	-	268,353
Minimum pension liability adjustment	-	-	-	-	-	-	-	6,964	-	-	6,964	-	6,964
Foreign currency translation adjustment	-	-	-	-	-	-	1,515,783	-	-	-	1,515,783	-	1,515,783
Adjustments from equity-method investments	-	-	(21,880)	-	-	-	-	-	(2,073)	-	(23,953)	-	(23,953)
Proceeds from capital return of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(8,678)	(8,678)
Distribution in-kind to minority interest	-	-	-	-	-	-	-	-	-	-	-	(347,477)	(347,477)
2011 consolidated net loss	-	-	-	-	-	(6,601,968)	-	-	-	-	(6,601,968)	61	(6,601,907)
Balance at December 31, 2011	27,098,915	-	40,219,518	12,607,933	4,659,275	1,782,060	(3,580,136)	(16,993)	(630,621)	(6,390,846)	75,749,105	2,510	75,751,615
Appropriation approved by the stockholders:													
Special reserve	-	-	-	-	1,467,499	(1,467,499)	-	-	-	-	-	-	-
Issuance of common shares for acquisition of a subsidiary	1,221,782	-	3,686,118	-	-	-	-	-	-	-	4,907,900	-	4,907,900
Common stock subscription under option plans	26,571	-	74,309	-	-	-	-	-	-	-	100,880	-	100,880
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(271,182)	(271,182)	-	(271,182)
Stock-based compensation cost	-	-	203,315	-	-	-	-	-	-	-	203,315	-	203,315
Unrealized valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	361,457	-	361,457	-	361,457
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	-	-	-	(637,375)	-	(637,375)	-	(637,375)
Minimum pension liability adjustment	-	-	-	-	-	-	-	(314,761)	-	-	(314,761)	-	(314,761)
Foreign currency translation adjustment	-	-	-	-	-	-	(2,074,897)	-	-	-	(2,074,897)	(213)	(2,075,110)
Adjustments from equity-method investments	-	-	(86,762)	-	-	-	-	-	2,363	-	(84,399)	-	(84,399)
2012 consolidated net loss	-	-	-	-	-	(2,910,326)	-	-	-	-	(2,910,326)	137	(2,910,189)
Balance at December 31, 2012	28,347,268	-	44,096,498	12,607,933	6,126,774	(2,595,765)	(5,655,033)	(331,754)	(904,176)	(6,662,028)	75,029,717	2,434	75,032,151
Balance at December 31, 2012 (in US$)	972,929	-	1,513,471	432,727	210,282	(89,091)	(194,091)	(11,386)	(31,033)	(228,653)	2,575,155	84	2,575,239

Note: Directors’ and supervisors’ remuneration of $89,469 and employee bonuses of $1,500,000 for 2010 have been deducted in the 2010 net income.

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2012 and 2011
(in thousands of New Taiwan dollars and US dollars)

	2012 NT$	2012 US$	2011 NT$
Cash flows from operating activities:			
Consolidated net loss	(2,910,189)	(99,883)	(6,601,907)
Adjustments to reconcile net loss to cash provided by operating activities:			
Depreciation	877,841	30,129	725,562
Amortization	2,431,366	83,449	2,145,100
Impairment loss on intangible assets	3,496,114	119,993	-
Stock-based compensation cost	475,708	16,327	400,044
Valuation loss (gain) on financial assets and liabilities	1,362,775	46,773	(1,659,720)
Investment gain recognized using equity method, net	(97,891)	(3,360)	(29,201)
Cash dividends received from equity method investments	126,094	4,328	175,418
Gain on disposal of investments, net	(7,752)	(266)	(345,836)
Other investment loss, net	10,604	364	38,138
Amortization of bonds payable discount and transaction costs	377,890	12,970	426,830
Unrealized exchange (gain) loss on bonds payable	(423,025)	(14,519)	534,280
Gain on purchase of bonds payable	(88,105)	(3,024)	-
Loss (gain) on disposal of property and equipment, net	(775,222)	(26,607)	4,569
Deferred income tax benefit	(1,208,343)	(41,473)	(2,838,402)
Changes in operating assets and liabilities:			
Notes and accounts receivable	15,106,597	518,486	18,191,638
Receivables from related parties	47,342	1,625	630,399
Inventories	(3,426,365)	(117,599)	1,142,931
Other receivable, prepayments and other current assets	2,903,500	99,653	785,101
Noncurrent receivable (under other financial assets－noncurrent)	31,943	1,096	32,546
Notes and accounts payable	(5,458,048)	(187,330)	(7,137,849)
Payables to related parties	(7,439,946)	(255,352)	(861,505)
Royalties payable, accrued expenses and other current liabilities	(5,441,643)	(186,767)	289,157
Other liabilities	619,740	21,271	2,556
Cash provided by operating activities	590,985	20,284	6,049,849
Cash flows from investing activities:			
Purchase of long-term investments	(5,577)	(191)	(119,261)
Proceeds from disposal of investments	7,752	266	950,101
Proceeds from capital return or liquidation of investees	491,118	16,856	204,021
Acquisition of property, plant and equipment	(812,619)	(27,891)	(947,390)
Proceeds from disposal of property, plant and equipment, noncurrent assets held for sales, and property not used in operation	2,981,558	102,332	113,316
Decrease in advances to related parties	15,342	527	31,555
Decrease (increase) in restricted deposits	10,357	355	(4,945)
Additions to intangible assets	(180,353)	(6,190)	(282,003)
Acquisition of business, net of cash acquired	(4,464,660)	(153,235)	-
Decrease (increase) in refundable deposits and other assets	337,594	11,587	(1,192,268)
Cash used in investing activities	(1,619,488)	(55,584)	(1,246,874)
Cash flows from financing activities:			
Decrease in short-term borrowings	(8,146)	(280)	(1,293,510)
Proceeds from long-term debt	-	-	9,000,000
Repayment of long-term debt	-	-	(12,200,000)
Purchase of bonds payable	(5,283,113)	(181,326)	-
Distribution of cash dividends	-	-	(9,537,686)
Proceeds from exercise of employee stock option	100,880	3,462	197,547
Purchase of treasury stock	(271,182)	(9,307)	(2,868,248)
Decrease in minority interests	-	-	(8,678)
Cash used in financing activities	(5,461,561)	(187,451)	(16,710,575)
Effects of exchange rate changes	(989,953)	(33,977)	1,543,795
Net decrease in cash and cash equivalents	(7,480,017)	(256,728)	(10,363,805)
Cash and cash equivalents at beginning of year	58,092,581	1,993,842	68,456,386
Cash and cash equivalents at end of year	50,612,564	1,737,114	58,092,581
Supplemental disclosures of cash flow information:			
Interest paid	417,297	14,322	609,593
Income taxes paid	1,426,806	48,971	2,338,433
Supplementary disclosures of non-cash investing and financing activities:			
Current portion of long-term debt	9,000,000	308,896	-
Current portion of bonds payable	4,892,805	167,930	-
Net change in unrealized valuation loss on financial instruments	273,555	9,389	1,091,221
Decrease in valuation allowance of deferred income tax assets against goodwill	88,347	3,032	563,871
Distribution in-kind to minority interest	-	-	347,477
Cash acquired from acquisition of a subsidiary:			
Cash consideration	4,520,020	155,135	
Issuance of common shares	4,907,900	168,448	
Non-cash assets acquired	(6,497,979)	(223,022)	
Liabilities assumed	2,149,400	73,771	
Goodwill	(5,023,981)	(172,432)	
Cash acquired from acquisition	55,360	1,900	

See accompanying notes to consolidated financial statements.

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of and for the years ended December 31, 2012 and 2011
(amounts expressed in thousands of New Taiwan dollars and US dollars, except for earnings per share information and unless otherwise noted)

1. Organization and Business

Acer Sertek Inc. (the "Company") was incorporated on August 1, 1976, as a company limited by shares under the laws of the Republic of China ("ROC"). On March 27, 2002, the Company merged with Acer Incorporated, with the Company as the surviving entity from the merger but renaming itself as Acer Incorporated. After the merger, the Company's principal activities are aimed at globally marketing its brand-name IT products, and promoting E-commerce solutions to clients.

On October 15, 2007, the Company completed its acquisition of 100% equity ownership of Gateway, Inc. (including eMachines brand), a personal computer company in the U.S., through its indirectly wholly owned subsidiary. The Company also acquired the 100% equity ownership of Packard Bell B.V., a personal computer company in Europe, through its indirectly wholly owned subsidiary on March 14, 2008 and June 30, 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 smart phone 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, regional sales and marketing channels of Founder Technology Group Corporation, through its indirectly wholly owned subsidiary. On January 12, 2012, the Company acquired the 100% equity ownership of iGware Inc. for the development of a unique AcerCloud system in order to enhance Acer brand positioning and increase brand value.

The reporting entities of the consolidated financial statements include the Company and its subsidiaries (hereinafter referred to collectively as the "Consolidated Companies"). On December 31, 2012 and 2011, the Consolidated Companies had hired 7,967 and 7,894 employees, respectively.

2. Summary of Significant Accounting Policies

(1) Accounting principles and consolidation policy

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the ROC. These consolidated financial statements are not intended to present the financial position and the related results of operations and cash flows of the Consolidated Companies based on the accounting principles and practices generally accepted in countries and jurisdictions other than the ROC.

(Continued)

The consolidated financial statements include the accounts of the Company and subsidiaries in which the Company is able to exercise control over the subsidiary's operations and financial policies. The operating activity of the subsidiary is included in the consolidated statements of operations from the date that control commences until the date that control ceases. All significant inter-company balances and transactions are eliminated in consolidation. The Consolidated Companies consisted of the following:

			Percentage of Ownership At December 31,	
Investor	**Investee**	**Main business**	**2012**	**2011**
The Company	Acer Greater China (B.V.I.) Corp. ("AGC", British Virgin Islands)	Investing and holding company	100.00	100.00
AGC	Acer Market Services Limited ("AMS", Hong Kong)	Investing and holding company	100.00	100.00
AGC	Acer Computer (Far East) Limited ("AFE", Hong Kong)	Sale of brand-name information technology products	100.00	100.00
AGC	Acer Intellectual (Chongqing) Limited ("AICQ", China)	Research and design of smart hand held and touchpad products	100.00	100.00
AGC	Acer Information Technology R&D (Shanghai) Co., Ltd. ("ARD", China)	Research and design of smart hand held products	100.00	100.00
AMS	Acer Information (Zhong Shan) Co., Ltd. ("AIZS", China)	Sale of brand-name information technology products	100.00	100.00
AMS	Beijing Acer Information Co., Ltd. ("BJAI", China)	Sale of brand-name information technology products	100.00	100.00
AMS	Acer Computer (Shanghai) Ltd. ("ACCN", China)	Sale of brand-name information technology products	100.00	100.00
AMS	Acer (Chongqing) Ltd. ("ACCQ", China)	Sale of brand-name information technology products	100.00	100.00
The Company	Acer European Holdings B.V. ("AEH", Cyprus)	Investing and holding company	100.00	100.00
AEH	Acer Europe B.V. ("AHN", the Netherlands)	Investing and holding company	100.00	100.00
AEH	Acer Computer B.V. ("ACH", the Netherlands)	Sale of brand-name information technology products	100.00	100.00
AEH	Acer CIS Incorporated ("ACR", British Virgin Islands)	Sale of brand-name information technology products	100.00	100.00
AEH	Acer BSEC Inc. ("AUA", British Virgin Islands)	Sale of brand-name information technology products	100.00	100.00
AEH	Acer Computer (M.E.) Ltd. ("AME", British Virgin Islands)	Sale of brand-name information technology products	100.00	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Investor	Investee	Main business	Percentage of Ownership At December 31, 2012	2011
AEH	Acer Africa (Proprietary) Limited (“AAF”, South Africa)	Sale of brand-name information technology products	100.00	100.00
AEH	AGP Insurance (Guernsey) Limited. (“AGU”, British Guernsey Island)	Financial company	100.00	100.00
AHN	Acer Computer France S.A.S.U. (“ACF”, France)	Sale of brand-name information technology products	100.00	100.00
AHN	Acer U.K. Limited (“AUK”, the United Kingdom)	Sale of brand-name information technology products	100.00	100.00
AHN	Acer Italy S.R.L. (“AIT”, Italy)	Sale of brand-name information technology products	100.00	100.00
AHN	Acer Computer GmbH (“ACG”, Germany)	Sale of brand-name information technology products	100.00	100.00
AHN	Acer Austria GmbH (“ACV”, Austria)	Sale of brand-name information technology products	100.00	100.00
AHN	Acer Europe Services S.R.L. (“AES”, Italy)	Sale of brand-name information technology products	100.00	100.00
AHN	Acer Europe SA (“AEG”, Switzerland)	Sale of brand-name information technology products	100.00	100.00
AHN	Acer Czech Republic S.R.O. (“ACZ”, Czech Republic)	Sale of brand-name information technology products	100.00	100.00
AHN	Esplex Limited (“AEX”, the United Kingdom)	Repair and maintenance of information technology products	100.00	100.00
AHN	Acer Computer Iberica, S.A. (“AIB”, Spain)	Sale of brand-name information technology products	100.00	100.00
AHN	Acer Computer (Switzerland) AG (“ASZ”, Switzerland)	Sale of brand-name information technology products	100.00	100.00
AHN	Acer Slovakia s.r.o. (“ASK”, Slovakia)	Sale of brand-name information technology products	100.00	100.00
AHN	Acer International Services GmbH (“AIS”, Switzerland)	Sale of brand-name information technology products	-	100.00
AHN	Asplex Sp. z.o.o. (“APX”, Poland)	Repair and maintenance of information technology products	100.00	100.00
AHN	Acer Marketing Services LLC (“ARU”, Russia)	Sale of brand-name information technology products	100.00	100.00

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Investor	Investee	Main business	Percentage of Ownership At December 31, 2012	2011
AHN	Acer Hellas Limited Liability Company of Marketing and Sales Services ("AGR", Greece)	Sale of brand-name information technology products	100.00	100.00
AHN	PB Holding Company S.A.R.L. ("PBLU", Luxembourg)	Investing and holding company	100.00	100.00
AHN	Acer Poland sp. z.o.o. ("APL", Poland)	Sale of brand-name information technology products	100.00	100.00
ACH	Acer Computer Norway AS ("ACN", Norway)	Sale of brand-name information technology products	100.00	100.00
ACH	Acer Computer Finland Oy ("AFN", Finland)	Sale of brand-name information technology products	100.00	100.00
ACH	Acer Computer Sweden AB ("ACW", Sweden)	Sale of brand-name information technology products	100.00	100.00
ACH	Acer Denmark A/S ("ACD", Denmark)	Sale of brand-name information technology products	100.00	100.00
PBLU	Packard Bell B.V. ("PBHO", the Netherlands)	Investing and holding company	100.00	100.00
PBHO	Packard Bell (UK) Ltd.("PBUK", the United Kingdom)	Sale of brand-name information technology products	-	100.00
PBHO	Packard Bell Belgium BVBA ("PBBE", Belgium)	Sale of brand-name information technology products	-	100.00
PBHO	NEC Computers South Africa (Pty) Ltd. ("PBZA", South Africa)	Sale of brand-name information technology products	50.81	50.81
The Company	Boardwalk Capital Holdings Limited ("Boardwalk", British Virgin Islands)	Investing and holding company	100.00	100.00
Boardwalk	Acer Computer Mexico, S.A. de C.V. ("AMEX", Mexico)	Sale of brand-name information technology products	99.92	99.92
Boardwalk	Acer American Holding Corp. ("AAH", USA)	Investing and holding company	100.00	100.00
Boardwalk	AGP Tecnologia em Informatica do Brasil Ltda. ("ATB", Brazil)	Sale of brand-name information technology products	100.00	100.00
Boardwalk	Boarkwalk Cooperatief Holding U.A ("BCH", the Netherlands)	Investing and holding company	100.00	100.00
AMEX	Aurion Tecnologia, S.A. de C.V. ("Aurion", Mexico)	Sale of brand-name information technology products	99.92	99.92
AAH	Acer Cloud Technology Inc. ("ACTI", U.S.A.)	Software research, development, design, trading and consultation	100.00	-

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Investor	Investee	Main business	Percentage of Ownership At December 31, 2012	2011
AAH	Gateway, Inc. (“GWI”, U.S.A.)	Sale of brand-name information technology products	100.00	100.00
GWI	Acer Latin America, Inc. (“ALA”, U.S.A.)	Sale of brand-name information technology products	100.00	100.00
GWI	Acer America Corporation. (“AAC”, U.S.A.)	Sale of brand-name information technology products	99.92	99.92
GWI	Acer Service Corporation (“ASC”, U.S.A.)	Repair and maintenance of information technology products	100.00	100.00
BCH	Boardwalk International BV (“BIB”, the Netherlands)	Investing and holding company	100.00	100.00
The Company	Acer Holdings International, Inc.(“AHI”, British Virgin Islands)	Investing and holding company	100.00	100.00
AHI	Acer Computer Co., Ltd. (“ATH”, Thailand)	Sale of brand-name information technology products	100.00	100.00
AHI	Acer Japan Corp. (“AJC”, Japan)	Sale of brand-name information technology products	100.00	100.00
AHI	Acer Computer Australia Pty. Limited (“ACA”, Australia)	Sale of brand-name information technology products	100.00	100.00
AHI	Acer Sales and Service Sdn Bhd (“ASSB”, Malaysia)	Sale of brand-name information technology products	100.00	100.00
AHI	Acer Asia Pacific Sdn Bhd (“AAPH, Malaysia”)	Sale of brand-name information technology products	100.00	100.00
AHI	Acer Computer (Singapore) Pte. Ltd. (“ACS”, Singapore)	Sale of brand-name information technology products	100.00	100.00
AHI	Acer Computer New Zealand Limited (“ACNZ”, New Zealand)	Sale of brand-name information technology products	100.00	100.00
AHI	PT Acer Indonesia (“AIN”, Indonesia)	Sale of brand-name information technology products	100.00	100.00
AIN	PT Acer Manufacturing Indonesia (“AMI”, Indonesia)	Assembling and sale of brand-name information technology products	100.00	-
AHI	Acer India Private Limited (“AIL”, India)	Sale of brand-name information technology products	100.00	100.00
AHI	Acer Vietnam Co., Ltd. (“AVN”, Vietnam)	Sale of brand-name information technology products	100.00	100.00

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Investor	Investee	Main business	Percentage of Ownership At December 31, 2012	2011
AHI	Acer Philippines, Inc. ("APHI", Philippines)	Sale of brand-name information technology products	100.00	100.00
ACA	Highpoint Australia Pty. Ltd. ("HPA", Australia)	Repair and maintenance of information technology products	100.00	100.00
ASSB	Highpoint Service Network Sdn Bhd ("HSN", Malaysia)	Repair and maintenance of information technology products	100.00	100.00
ASSB	Servex (Malaysia) Sdn Bhd ("SMA", Malaysia)	Sale of computers and communication products	100.00	100.00
ASSB	Megabuy Sdn Bhd ("MGB", Malaysia)	Sale of computers and communication products	100.00	100.00
ACS	Logistron Service Pte Ltd. (LGS, Singapore)	Assembling of brand-name information technology products	100.00	100.00
The Company	Acer Sales & Distribution Limited. ("ASD", Hong Kong)	Sale of brand-name information technology products	-	100.00
The Company	Weblink International Inc. ("WII", Taiwan)	Sale of computers and communication products	99.79	99.79
WII	Weblink (H.K.) International Ltd. ("WHI", Hong Kong)	Sale of computers and communication products	99.79	99.79
The Company	Acer Digital Service Co. ("ADSC", Taiwan)	Investing and holding company	100.00	100.00
ADSC	Multiventure Investment Inc. ("MVI", Taiwan)	Investing and holding company	-	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)	Investing and holding company	100.00	100.00
The Company	Cross Century Investment Limited ("CCI", Taiwan)	Investing and holding company	100.00	100.00
The Company	Acer Capital Corporation ("ACT", Taiwan)	Investing and holding company	-	100.00
The Company	Aspire Incubation Venture Capital ("AIVC", Taiwan)	Investing and holding company	-	100.00
The Company	Acer Digital Services (B.V.I.) Holding Corp. ("ADSBH", British Virgin Islands)	Investing and holding company	100.00	100.00
ADSBH	Acer Digital Services (Cayman Islands) Corp. ("ADSCC", Cayman Islands)	Investing and holding company	100.00	100.00
ADSCC	Longwick Enterprises Inc. ("LONG", Seychelles)	Investing and holding company	100.00	100.00
LONG	S. Excel. Co., Ltd. ("SURE", Samoa)	Investing and holding company	100.00	100.00
The Company	Acer SoftCapital Incorporated ("ASCBVI", British Virgin Islands)	Investing and holding company	100.00	100.00
ASCBVI	ASC Cayman, Limited ("ASCCAM", Cayman Islands)	Investing and holding company	100.00	100.00

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Investor	Investee	Main business	Percentage of Ownership At December 31, 2012	2011
ASCBVI	Acer Technology Venture Asia Pacific Ltd. ("ATVAP", Cayman Islands)	Investing and holding company	100.00	100.00
The Company	Acer EMEA Holdings B.V. (AHB, the Netherlands)	Investing and holding company	100.00	100.00
The Company	Eten Information System Co., Ltd. ("ETEN", Taiwan)	Research, design and sale of smart hand held products	100.00	100.00
The Company	Acer Cyber Center Services Ltd. ("ACCSI", Taiwan)	Electronic data supply, processing and storage services	100.00	100.00
The Company	Acer e-Enabling Service Business Inc. ("AEB", Taiwan)	Electronic data supply, processing and storage services	100.00	-
ACCSI	TWP International Inc. ("TWPBVI", British Virgin Islands)	Investing and holding company	100.00	100.00
TWPBVI	Acer Third Wave Software (Beijing) Co., Ltd. ("TWPBJ", China)	Software research, development, design, trading and consultation	100.00	100.00
The Company	Lottery Technology Service Corp. ("LTS", Taiwan)	Electronic data supply, processing and storage services	100.00	100.00
The Company	Minly Corp. ("MINLY", Taiwan)	Electronic data supply, processing and storage services	100.00	100.00

The Company established new subsidiaries namely ACTI, AMI and AEB in 2012.

In 2012, the subsidiaries namely AIS, ASD, PBUK and PBBE were liquidated, and were excluded from consolidation since the Company ceased control thereof. On November 1, 2012, the subsidiaries namely MVI, AIVC, and ACT had merged with ADSC and ADSC was the surviving entity from the merger.

(2) Use of estimates

The preparation of the accompanying consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting periods. Economic conditions and events could cause actual results to differ significantly from such estimates.

(3) Foreign currency transactions and translations

The Company's reporting currency is expressed in New Taiwan dollar. The Consolidated Companies record transactions in their respective local currencies of the primary economic environment in which these entities operate. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of operations. Non-monetary assets and liabilities denominated in foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are reported at the rate that was in effect when the fair values were determined. Subsequent adjustments to carrying values of such non-monetary assets and liabilities, including the effects of changes in exchange rates, are reported in profit or loss for the period, except that if movement in fair value of a non-monetary item is recognized directly in equity, any foreign exchange component of that adjustment is also recognized directly in equity.

In preparing the consolidated financial statements, the foreign subsidiaries' financial statements are initially remeasured into the functional currency and the remeasuring differences are accounted for as exchange gains or losses in the accompanying statements of operations. Translation adjustments resulting from the translation of foreign currency financial statements into the Company's reporting currency and a monetary item that forms part of the Company's net investment in a foreign operation are accounted for as cumulative translation adjustment, a separate component of stockholders' equity.

(4) Classification of current and non-current assets and liabilities

Cash or cash equivalents, and assets that are held primarily for the purpose of being traded or are expected to be realized within 12 months after the balance sheet date are classified as current assets; all other assets are classified as non-current.

Liabilities that are held primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities are classified as non-current.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, miscellaneous petty cash, and other highly liquid investments which do not have a significant level of market or credit risk from potential interest rate changes.

(6) Financial assets/liabilities at fair value through profit or loss

A financial asset/liability is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Derivatives that do not meet the criteria for hedge accounting are classified as financial assets or liabilities at fair value through profit or loss. Upon initial recognition, any directly attributable transaction costs are recognized in profit or loss as incurred. Financial assets/liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Trade date accounting is applied for the purchase or sale of such financial assets/liabilities.

(7) Available-for-sale financial assets

A financial instrument is classified as an available-for-sale financial asset when it is designated as such upon initial recognition. Available-for-sale financial assets are initially recognized at fair value plus transaction cost that are directly attributable to the acquisition. Subsequent changes in fair value therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized as a separate line item of stockholders' equity. When an available-for-sale financial asset is derecognized, the cumulative gain or loss recognized in equity is transferred to profit or loss. Trade date accounting is applied for the purchase or sale of such financial assets.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized in profit or loss. If, in a subsequent period, events or changes in circumstances indicate that the amount of impairment loss decreases, reversal of a previously recognized impairment loss for equity securities is charged to equity; while for debt securities, the reversal is allowed through profit or loss provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

(8) Hedging purpose derivative financial instruments and hedge accounting

Derivative financial assets/liabilities held for hedging are financial instruments that are intended to hedge the risk of changes in exchange rates resulting from transactions denominated in foreign currencies and conform to the criteria for hedge accounting.

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The designated hedging instruments that conform to the criteria for hedge accounting are accounted for as follows:

(a) Fair value hedges

Changes in the fair value of a hedging instrument designated as a fair value hedge are recognized in profit or loss. The hedged item is also stated at fair value in respect of the risk being hedged, with any gain or loss thereon recognized in profit or loss.

(b) Cash flow hedges

Changes in the fair value of a hedging instrument designated as a cash flow hedge are recognized directly in equity. If a hedge of a forecasted transaction subsequently results in the recognition of an asset or a liability, then the amount recognized in equity is reclassified into profit or loss in the same period or periods in which the asset acquired or liability assumed affects profit or loss.

(9) Financial assets carried at cost

Equity investments in which the Consolidated Companies cannot exercise significant influence and whose fair value cannot be reliably measured are carried at original cost. If there is objective evidence which indicates that an equity investment is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

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(10) Notes and accounts receivable and other receivables

Receivables arising from sale of goods or rendering of services are classified as "notes and accounts receivable", and those arising from non-operating activities are classified as "other receivables". Accordingly, receivables arising from sale of goods or services rendered to related parties are classified as "accounts receivable from related parties", and those arising from loans or advances to related parties are classified as "other receivables from related parties."

(11) Impairment for receivables

Effective January 1, 2011, the Consolidated Companies adopted the third revision of Republic of China Statement of Financial Accounting Standards ("SFAS") No. 34 "Financial Instruments: Recognition and Measurement". Under this standard, the Consolidated Companies consider evidence of impairment for receivables at both individual and collective level. All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss.

(12) Inventories

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Inventories are measured individually at the lower of cost and net realizable value. Cost of inventory is recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less all estimated costs of completion and selling expenses at the balance sheet date.

(13) Non-current assets held for sale

Non-current assets and groups of assets and liabilities which comprise disposal groups are classified as held for sale when the assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups), and their sale within one year is highly probable. Non-current assets or disposal groups classified as held for sale are measured at the lower of their book value or fair value less costs to sell, and ceased to be depreciated or amortized. Non-current assets or disposal groups classified as held for sale are presented separately on the consolidated balance sheets. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are continued to be recognized until the related assets are disposed.

An impairment loss is recognized for any initial or subsequent write-down of the assets (or disposal groups) to fair value less costs to sell in the consolidated statements of operations. A gain from any subsequent increase in fair value less costs to sell of an asset (or a disposal group) is recognized, but not in excess of the cumulative impairment loss that has been recognized.

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(14) Equity-method investments

Long-term equity investments in which the Consolidated Companies, directly or indirectly, own 20% or more of the investee's voting shares, or less than 20% of the investee's voting shares but are able to exercise significant influence over the investee's operating and financial policies, are accounted for using the equity method, unless there are evidences that indicate the Consolidated Companies have no significant influence over the investees.

Effective January 1, 2006, under the amended ROC SFAS No. 5, "Long-term Investments under Equity Method," the difference between acquisition cost and carrying amount of net equity of the investee as of the acquisition date is allocated proportionately based on the excess of fair value over the carrying value of noncurrent assets on the investee's books. Allocated amounts are amortized based on the method used for the related assets. Any unallocated difference is treated as investor-level goodwill. If the allocation reduces non-current assets to zero value, the remaining excess over acquisition cost is recognized as an extraordinary gain. Prior to January 1, 2006, investor-level goodwill was amortized over five years on a straight-line basis. Commencing January 1, 2006, as required by the amended ROC SFAS No. 5, investor-level goodwill is no longer amortized but tested for impairment.

Upon the sale of equity-method investment, the difference between the selling price and carrying amount of the investment at the date of sale is recognized as a disposal gain or loss. In proportion to the percentage disposed of, capital surplus and other equity adjustment items arising from the long-term investment are debited against disposal gain or loss.

If an investee company issues new shares and the Consolidated Companies does not acquire new shares in proportion to its original ownership percentage, the Consolidated Companies' equity in the investee's net assets will be changed. The change in the equity interest is adjusted through the capital surplus and long-term investment accounts. If the Consolidated Companies' capital surplus is insufficient to offset the adjustment to long-term investment, the difference is charged as a reduction of retained earnings.

Unrealized inter-company profits and losses resulting from transactions between the Consolidated Companies and investees accounted for under the equity method are deferred to the extent of the Consolidated Companies' ownership. The profits and losses resulting from transactions relating to depreciable or amortizable assets are recognized over the estimated useful lives of such assets. Profits and losses arising from transactions relating to other assets are recognized when realized.

(15) Capital leases

For capital leases, where the Consolidated Companies act as the lessor, all periodic rental payments plus bargain purchase price or estimated residual value are accounted for as lease payment receivables. The present value of all lease payment receivables, discounted at the implicit interest rate, is recorded as revenue. The difference between the lease payment receivables and the revenue is the unearned interest, which is then recognized as realized interest income over the lease term using the effective interest method.

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(16) Property, plant and equipment, property leased to others, and property not in use

Property, plant and equipment are stated at acquisition cost. Interest expense related to the purchase and construction of property, plant and equipment is capitalized and included in the cost of the related asset. Significant renewals, improvements and replacements are capitalized. Maintenance and repair costs are charged to expense as incurred. Gains and losses on the disposal of property, plant and equipment are recorded in the non-operating section in the accompanying consolidated statements of operations.

Commencing from November 20, 2008, the Consolidated Companies capitalize retirement or recovery obligation for property and equipment in accordance with Interpretation (2008) 340 issued by the Accounting Research and Development Foundation. A component which is deemed significant in relation to the total cost of the property and equipment and for which a different depreciation method or rate is adopted is depreciated separately.

Depreciation is provided for property, plant and equipment, property leased to others, and property not in use over the estimated useful lives using the straight-line method. The range of the estimated useful lives of the respective classes of assets is as follows: buildings and improvements - 30 to 50 years; computer equipment and machinery - 3 to 10 years; and other equipment - 3 to 20 years.

Property leased to others and property not in use are classified to other assets, which are depreciated continuously and are subject to an impairment test.

The estimated useful lives, depreciation method and residual value are evaluated at the end of each year and any changes thereof are accounted for as changes in accounting estimates.

(17) Intangible assets

Goodwill is recognized when the purchase price exceeds the fair value of identifiable net assets acquired in a business combination. In accordance with the SFAS No. 25 “Accounting for Business Combinations”, goodwill is not amortized but is tested for impairment annually.

Other intangible assets are initially stated at cost. Intangible assets with finite useful lives are amortized over the following estimated useful life using the straight-line method from the date that the asset is made available for use: patents - 4 to 16 years; acquired software - 1 to 3 years; customer relationships - 7 to 10 years; developed technology - 10 years; channel resource - 8.8 years; trademarks and trade names - 7 to 20 years; and developing technology - 15 years.

The Gateway, Packard Bell and Eten trademarks and trade names are intangible assets with indefinite useful lives. Such intangible assets are not amortized, but are tested for impairment annually. The useful life of an intangible asset not subject to amortization is reviewed annually at each fiscal year-end to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. Any change in the useful life assessment from indefinite to finite is accounted for as a change in accounting estimate.

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(18) Impairment of non-financial assets

The Consolidated Companies assess at each balance sheet date whether there is any indication that an asset (an individual asset or cash-generating unit associated with the asset, other than goodwill) may have been impaired. If any such indication exists, the Consolidated Companies estimate the recoverable amount of the assets. An impairment loss is recognized for an asset whose carrying amount is higher than the recoverable amount. If there is any evidence that the accumulated impairment loss of an asset other than goodwill no longer exists or has decreased, the amount previously recognized as impairment is reversed and the carrying amount of the asset is increased to the recoverable amount. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized in prior periods.

Goodwill, assets that have an indefinite useful life and intangible assets 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. A subsequent reversal of the impairment loss on goodwill is prohibited.

(19) Deferred charges

Deferred charges are stated at cost and primarily consist of management fee of syndicated loan and others. These costs are amortized using the straight-line method over the duration of the loan or the estimated useful lives.

(20) Convertible bonds

Convertible bonds issued by the Company contain both a financial liability and an equity component. The equity component grants an option to the bondholder to convert a fixed number of bonds into a fixed number of the Company's common shares. On initial recognition, the fair value of the liability component is determined by reference to the fair value of a similar stand-alone debt instrument (including any embedded non-equity derivatives). The amount initially allocated to the equity component is the residual after deducting the fair value of the financial liability component from the fair value of the entire compound instrument. 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.

The difference between the initial carrying amount of the liability component and the redeemable amount that is payable on maturity is amortized and charged to interest expense using the effective interest rate method over the life of the bond. The embedded financial instruments (redemption options) are accounted for as financial liabilities at fair value through profit and loss and measured at fair value. The equity component of the convertible bonds is accounted for as capital surplus－conversion right on initial recognition and is not subject to valuation in subsequent periods.

When bonds are converted into common stock, the liability components are measured at fair value on the conversion date, and changes in fair value are recognized immediately in profit or loss. Shares of stock to be issued are recorded based on the adjusted carrying amount of the liability and equity components of convertible bonds. No gain or loss is recognized.

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When the Company redeems the bonds from market, the redemption payment is allocated to the liability and equity components using a method consistent with the method used initially to allocate the bond between its debt and equity components. The fair value of the liability component at redemption date is compared to its carrying amount, any gain or loss arising from redemption is recognized in profit or loss. The difference between the carrying amount of equity component and the redemption payment allocated to the equity component is accounted for as 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.

When the bondholders require the Company to redeem the bonds, the redemption payment is deemed to fully redeem the liability component. The difference between the carrying amount of the liability component and the redemption payment is recognized in profit or loss. The capital surplus of carrying amount of the equity component is transferred to other capital surplus item.

The liability component of the bonds is classified as a current liability where the bondholders have the right to require the Company to redeem the bonds within one year. It can be reclassified to long-term liability once the redemption option period expires and the liability component qualifies as a long-term liability.

(21) Treasury stock

Common stock repurchased by the Company that is treated as treasury stock is reported at acquisition cost. When treasury stock is sold, the sales proceeds in excess of cost are 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.

The Company’s common stock held by its subsidiaries is accounted for as treasury stock. Cash dividends paid by the Company to its consolidated subsidiaries that hold the treasury stock are accounted for as capital surplus－treasury stock.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(22) Revenue recognition

Revenue from sales of products is recognized at the time products are delivered and the significant risks and rewards of ownership are transferred to customers. Provisions for estimated sales returns and allowances are recorded in the year the related revenue is recognized, based on historical experiences and management's judgment. Revenue generated from service rendered is recognized when the service is provided and the amount becomes billable.

(23) Employee bonuses and directors' and supervisors' remuneration

Employee bonuses and remuneration to directors and supervisors which are appropriated from earnings are estimated and charged to operating expense according to Interpretation (2007) 052 issued by the Accounting Research and Development Foundation. Differences between the amounts of these bonuses and remuneration approved by the shareholders in the subsequent year and those recognized in the year when such earnings are incurred and services are rendered, if any, are accounted for as changes in accounting estimates and charged to profit or loss in the period during which stockholders' approval is obtained.

(24) Share-based payment transactions

The Consolidated Companies adopted SFAS No. 39 "Accounting for Share-based Payment" for share-based payment arrangements granted on or after January 1, 2008. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at grant date is expensed over the vesting period, with a corresponding increase in equity. The vesting period is the period during which all the specified vesting conditions of the share-based payment arrangement are satisfied. Vesting conditions include service conditions and performance conditions (including market conditions). When estimating the fair value of an equity-settled share-based award, only the effect of market conditions is considered.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognized at its current fair value determined at each balance sheet date and at the date of settlement, with any changes in the fair value recognized in profit or loss of the period.

Fair value of share-based award is measured using the Black-Scholes option-pricing model or the binomial option pricing-model, which considers management's best estimate of the exercise price, expected term, underlying share price, expected volatility, expected dividends, and risk-free interest rate.

(25) Administrative expenses

The Consolidated Companies' administrative expenses include direct expenses incurred for the business unit within the Consolidated Companies and expenses incurred for managing the investee companies. To reflect the operating income of the Consolidated Companies, administrative expenses are divided into two parts. The first part, representing the direct expenses incurred for the Consolidated Companies, is included as administrative expenses in the accompanying consolidated statements of operations. The second part, representing expenses incurred for managing the investee companies, is presented as a reduction of net investment income (loss) in the consolidated statements of operations.

(Continued)

(26) Retirement plans

(a) Defined benefit retirement plans

Pursuant to the ROC Labor Standards Law, the Company and subsidiaries located in the Republic of China established noncontributory defined benefit employee retirement plans (the "Plans") and retirement fund administration committees. These Plans provide for lump-sum retirement benefits to retiring employees based on length of service, age, and certain other factors. The funding of these retirement plans by the Company and subsidiaries located in the Republic of China is based on certain percentage of employees' total salaries. The funds are deposited with Bank of Taiwan or other banks.

For the defined benefit retirement plan, the Consolidated Companies recognize a minimum pension liability equal to the excess of the actuarial present value of the accumulated benefit obligation over the fair value of the retirement plan's assets. The Consolidated Companies also recognize the net periodic pension cost based on an actuarial calculation.

(b) Defined contribution retirement plans

Starting from July 1, 2005, pursuant to the ROC Labor Pension Act (the "New System"), employees who opted to participate in the New System or commenced working after July 1, 2005, are subject to a defined contribution plan under the New System. For the defined contribution plan, the Company and subsidiaries located in the Republic of China contribute monthly an amount equal to 6% of each employee's monthly salary to the employee's individual pension fund account at the ROC Bureau of Labor Insurance. Most of the Company's foreign subsidiaries adopt defined contribution retirement plans. These plans are funded in accordance with the regulations of their respective country of establishment.

Contributions for the defined contribution retirement plans are expensed during the year in which employees render services.

(27) Government grants

Government grants are recognized as other income or deduction of related costs or expenses when there is reasonable assurance that the conditions attached to the grants are met, and the grants will be received.

Government grants conforming to the conditions attached to the grants are recognized in profit or loss over the periods in which the related costs or expenses for which the grants are intended to compensate are incurred. Recognition of government grants in profit or loss on a receipt basis would be acceptable only if no basis existed for allocating a grant to periods other than one in which it was received.

(Continued)

(28) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax is determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the asset will not be realized, a valuation allowance is recognized accordingly. When a change in the tax rate is enacted, the Consolidated Companies recalculate the deferred tax assets and liabilities using the new tax rate in the year of change and any resulting variances are recognized as income tax expense or benefit accordingly.

Classification of the deferred income tax assets or liabilities as current or noncurrent is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of the asset or liability.

If a valuation allowance is recognized at the acquisition date for deferred tax assets acquired through business combination accounted for using the purchase method of accounting, the income tax benefit recognized as a result of the elimination of valuation allowance subsequent to the acquisition is to be applied first to reduce goodwill related to the acquisition. The remaining tax benefit, if any, is applied to reduce income tax expense.

According to the ROC Income Tax Act, undistributed earnings, if any, are subject to 10% retained earnings surtax. This surtax is charged to income tax expense in the following year when the stockholders decide not to distribute the earnings.

(29) Earnings per common share ("EPS")

Basic EPS are computed by dividing net income by the weighted-average number of common shares outstanding during the year. The Company's employee stock options, convertible bonds and employee stock bonuses to be appropriated in the following year are potentially dilutive common stock. In computing for the diluted EPS, the net income and weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common stock, assuming these potentially dilutive shares had been issued. The weighted-average outstanding shares are retroactively adjusted for the effects of stock dividends transferred from retained earnings and capital surplus to common stock and for those stock dividends issued for the period between the balance sheet date and the release date of financial statements.

(30) Business combination

Business combinations are accounted for in accordance with SFAS No. 25 "Business Combinations". Under SFAS No. 25, acquisition costs represent the amount of cash or cash equivalents paid and the fair value of the other purchase consideration given, plus any costs directly attributable to the acquisition. The excess of acquisition cost over the fair value of the net identifiable tangible and intangible assets acquired is recognized as goodwill.

(Continued)

(31) Operating segments

Effective January 1, 2011, the Consolidated Companies adopted SFAS No. 41, “Operating Segment.” Under this standard, an operating segment is defined as a component of the Consolidated Companies 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 Consolidated Companies). The segment’s operating results are reviewed regularly by the Company’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.

(32) Convenience translation into U.S. dollars

The consolidated financial statements are stated in New Taiwan dollars. Translation of the 2012 New Taiwan dollar amounts into U.S. dollar amounts, using the spot rate quoted by Bank of Taiwan on December 31, 2012, of NT$29.136 to US$1, is included solely for the convenience of the readers. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

3. Accounting Changes

Effective January 1, 2011, the Consolidated Companies adopted the third revision of SFAS No. 34 “Financial Instruments: Recognition and Measurement”. Under this revised standard, the Consolidated Companies consider evidence of impairment for receivables at both individual and collective level. Losses are recognized in profit or loss and reflected in an allowance account against receivables. The adoption of this revised standard did not have a significant effect on the Company’s consolidated financial statements as of and for the year ended December 31, 2011.

Effective January 1, 2011, the Consolidated Companies adopted SFAS No. 41 “Operating Segments”. In accordance with SFAS No. 41, information is disclosed to enable users of the Company’s consolidated financial statements to evaluate the nature and financial effects of the business activities in which they engage and the economic environment in which they operate. Accordingly, the Consolidated Companies determine and present operating segments based on the information that is internally provided to the chief operating decision maker. This new accounting standard superseded SFAS No. 20 “Segment Reporting”. The adoption of this accounting standard did not have any cumulative effect on the consolidated financial statements as of and for the year ended December 31, 2011.

4. Significant Account Disclosures

(1) Cash and cash equivalents

	December 31, 2012 NT$	December 31, 2012 US$	December 31, 2011 NT$
Cash on hand	14,434	495	16,469
Bank deposits	45,083,739	1,547,355	36,094,064
Time deposits	5,514,391	189,264	21,982,048
	50,612,564	**1,737,114**	**58,092,581**

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(2) Available-for-sale financial assets－current

	December 31, 2012 NT$	December 31, 2012 US$	December 31, 2011 NT$
Equity securities	169,017	5,801	109,721

In 2011, the Consolidated Companies disposed of portions of these investments and recognized gains on disposal thereof of NT$8,120. These gains were recorded as "gain on disposal of investments" in the accompanying consolidated statements of operations.

For the years ended December 31, 2012 and 2011, the unrealized gains (losses) resulting from the changes in fair value amounted to NT$59,296 and NT$(52,418), respectively, which were recognized as a separate component of stockholders' equity.

(3) Financial assets and liabilities at fair value through profit or loss－current

	December 31, 2012 NT$	December 31, 2012 US$	December 31, 2011 NT$
Financial assets at fair value through profit or loss－current:			
Foreign currency forward contracts	25,415	872	305,903

	December 31, 2012 NT$	December 31, 2012 US$	December 31, 2011 NT$
Financial liability at fair value through profit or loss－current:			
Foreign currency forward contracts	(265,385)	(9,108)	(56,212)
Redemption options of convertible bonds (note 4(16))	(145,928)	(5,009)	-
	(411,313)	(14,117)	(56,212)

For the years ended December 31, 2012 and 2011, unrealized gains (losses) resulting from the changes in fair value of these derivative contracts amounted to NT$(489,661) and NT$509,794, respectively (excluding the valuation loss from redemption options of convertible bonds).

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The Consolidated Companies entered into derivative contracts to manage foreign currency exchange risk arising from operating activities. As of December 31, 2012 and 2011, the derivative financial instruments that did not conform to the criteria for hedge accounting and were classified as financial assets and liabilities at fair value through profit or loss consisted of the following:

(a) Foreign currency forward contracts

			December 31,2012	
Buy	**Sell**	**Notional amount (in thousands)**		**Maturity period**
USD	/ EUR	EUR	129,700	2013/01~2013/02
USD	/ NTD	USD	1,036,000	2013/01
USD	/ IDR	USD	87,000	2013/01~2013/03
USD	/ THB	USD	13,500	2013/01
USD	/ MYR	USD	26,800	2013/01~2013/02
USD	/ SGD	USD	5,000	2013/01~2013/02
USD	/ CLP	USD	8,000	2013/01
USD	/ BRL	USD	28,000	2013/01~2013/02
EUR	/ PLN	EUR	2,600	2013/01

			December 31,2011	
Buy	**Sell**	**Notional amount (in thousands)**		**Maturity period**
USD	/ SGD	USD	6,000	2012/01
USD	/ MYR	USD	18,600	2012/01~2012/02
USD	/ THB	USD	32,000	2012/01~2012/02
USD	/ INR	USD	99,570	2012/01~2012/05
USD	/ JPY	USD	66,000	2012/01~2012/05
USD	/ RUB	USD	189,296	2012/01~2012/03
USD	/ EUR	EUR	46,140	2012/02

(4) Derivative financial assets and liabilities held for hedging－current

	December 31, 2012		December 31, 2011
	NT$	**US$**	**NT$**
Derivative financial assets held for hedging– current:			
Foreign currency forward contracts	192,461	6,605	804,532
Derivative financial liabilities held for hedging– current:			
Foreign currency forward contracts	(1,149,400)	(39,449)	(179,685)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The Consolidated Companies entered into derivative contracts to hedge foreign currency exchange risk associated with a recognized asset or liability or with a highly probable forecast transaction. As of December 31, 2012 and 2011, hedged items designated as fair value hedges and fair value of their respective hedging derivative financial instruments were as follows:

Hedged Items	Hedging instruments	Fair value of hedging instruments December 31, 2012 NT$	Fair value of hedging instruments December 31, 2011 NT$
Accounts receivable/ payable denominated in foreign currencies	Foreign currency forward contracts	(554,505)	389,906

For the years ended December 31, 2012 and 2011, the unrealized gains (losses) resulting from the changes in fair value of hedging instruments amounted to NT$(944,411) and NT$1,027,988, respectively.

As of December 31, 2012 and 2011, hedged items designated as cash flow hedges and the fair value of their respective hedging derivative financial instruments were as follows:

December 31, 2012

Hedged items	Hedging instruments	Fair value of hedging instruments NT$	Expected period of cash flow	Expected period of recognition in earnings
Accounts receivable/payable denominated in foreign currencies	Foreign currency forward contracts	$ (402,434)	January ~ June 2013	January ~ June 2013

December 31, 2011

Hedged items	Hedging instruments	Fair value of hedging instruments NT$	Expected period of cash flow	Expected period of recognition in earnings
Accounts receivable/payable denominated in foreign currencies	Foreign currency forward contracts	$ 234,941	January ~ May 2012	January ~ May 2012

For the years ended December 31, 2012 and 2011, unrealized gains (losses) on derivative financial instruments effective as cash flow hedges, amounted to NT$(637,375) and NT$268,353, respectively, which were accounted for as “unrealized gains (losses) on financial instruments”, a separate component of stockholder’s equity.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The details of outstanding hedging derivative financial instruments described above as of December 31, 2012 and 2011, were as follows:

Foreign currency forward contracts

December 31, 2012

Buy		Sell	Notional amount (in thousands)		Maturity period
AUD	/	NZD	AUD	1,250	2013/01~2013/03
USD	/	NZD	USD	5,900	2013/01~2013/03
EUR	/	SEK	EUR	9,880	2013/01~2013/04
EUR	/	CHF	EUR	4,556	2013/03~2013/04
EUR	/	USD	EUR	53,010	2013/01
USD	/	GBP	USD	133,738	2013/01~2013/04
USD	/	AUD	USD	64,000	2013/01~2013/03
USD	/	CAD	USD	70,663	2013/01~2013/03
USD	/	EUR	EUR	538,300	2013/01~2013/05
USD	/	CNY	USD	207,000	2013/01~2013/03
USD	/	JPY	USD	69,000	2013/01~2013/06
USD	/	MXN	USD	84,000	2013/01~2013/05
MXN	/	USD	USD	12,700	2013/01
USD	/	RUB	USD	286,189	2013/01~2013/05
DKK	/	EUR	EUR	6,439	2013/01
NOK	/	EUR	EUR	542	2013/01

December 31, 2011

Buy		Sell	Notional amount (in thousands)		Maturity period
AUD	/	NZD	AUD	3,750	2012/01~2012/03
CHF	/	EUR	EUR	8,631	2012/01
MXN	/	USD	USD	6,750	2012/01
EUR	/	SEK	EUR	13,520	2012/01~2012/02
EUR	/	CHF	EUR	11,458	2012/01~2012/03
EUR	/	PLN	EUR	16,314	2012/01~2012/02
USD	/	CAD	USD	53,049	2012/01
USD	/	AUD	USD	88,151	2012/01~2012/03
USD	/	NZD	USD	5,500	2012/01~2012/04
USD	/	NTD	USD	574,000	2012/01
USD	/	EUR	EUR	597,276	2012/01~2012/03
USD	/	GBP	USD	133,151	2012/01~2012/03
USD	/	CNY	USD	280,000	2012/01~2012/03
USD	/	MXN	USD	104,620	2012/01~2012/05

(Continued)

(5) Notes and accounts receivable

The Consolidated Companies entered into factoring contracts with several banks to sell part of their accounts receivable without recourse. As of December 31, 2012 and 2011, details of these contracts were as follows:

	December 31, 2012				
Underwriting bank	**Factoring credit limit NT$**	**Amount sold NT$**	**Derecognized NT$**	**Interest rate**	**Collateral**
China Trust Bank	950,000	215,809	215,809		note 7(6)
Taipei Fubon Bank	750,000	228,017	228,017		note 7(6)
Taishin Bank	150,000	20,837	20,837		Nil
Norden Finans Norge AS	1,691,321	1,222,364	1,222,364		Nil
	3,541,321	1,687,027	1,687,027	1.21%~2.69%	

	December 31, 2011				
Underwriting bank	**Factoring credit limit NT$**	**Amount sold NT$**	**Derecognized NT$**	**Interest rate**	**Collateral**
Ifitalia Factor S.p.A.	6,013,674	3,152,555	416,047		Nil
China Trust Bank	950,000	221,164	221,164		note 7(6)
Taipei Fubon Bank	750,000	341,192	341,192		note 7(6)
Commonwealth Bank	1,610,593	898,016	898,016		Nil
	9,324,267	4,612,927	1,876,419	1.02%~8.10%	

(6) Other receivable

	December 31, 2012		December 31, 2011
	NT$	**US$**	**NT$**
Refundable income tax and VAT	1,628,693	55,900	2,466,542
Receivables from reimbursement of advertising expense	674,291	23,143	1,529,548
Compensation receivables	327,780	11,250	-
Receivables from allocation of patent royalty to others	61,871	2,123	140,424
Receivables from purchase discount	196,801	6,755	409,858
Other receivables	1,376,709	47,251	1,650,121
	4,266,145	146,422	6,196,493

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(7) Inventories

	December 31, 2012 NT$	December 31, 2012 US$	December 31, 2011 NT$
Raw materials	19,285,726	661,921	15,091,720
Work in process	16,632	571	29,604
Finished goods and merchandise	13,666,949	469,074	11,949,818
Spare parts	2,184,221	74,966	2,317,458
Inventories in transit	8,183,421	280,870	10,605,044
	43,336,949	1,487,402	39,993,644

The details of inventory write-downs were as follows:

	2012 NT$	2012 US$	2011 NT$
Write-down of inventories to net realizable value	1,265,356	43,429	2,857,944
Net loss (gain) on physical inventory	35,779	1,228	(28,938)
Scrap loss	1,278,529	43,882	722,163
	2,579,664	88,539	3,551,169

(8) Non-current assets held for sale

In December 2010, the Company’s board of directors resolved to sell ETEN’s office building located in Taipei. As of December 31, 2011, the carrying value of the building was NT$1,827,855. This building was finally sold in January 2012 at a net proceeds of NT$2,448,508, resulting in a disposal gain of NT$620,653.

(9) Financial assets carried at cost－non-current

	December 31, 2012 NT$	December 31, 2012 US$	December 31, 2011 NT$
Investment in non-publicly traded equity securities:			
Dragon Investment Co. Ltd.	71,908	2,468	184,700
World Venture, Inc.	112,000	3,844	202,000
iD Reengineering Inc.	134,920	4,631	174,900
IP Fund III, L.P.	47,902	1,644	79,320
iD5 Fund, L.P.	62,694	2,152	65,177
IP Cathay One, L.P.	56,421	1,937	240,521
ID5 Annex I Fund	16,735	574	23,197
FuHu Inc.	32,310	1,109	71,480
Others	88,640	3,042	116,478
	623,530	21,401	1,157,773

(Continued)

In 2012, the Consolidated Companies increased equity investments in ID5 Annex I Fund by NT$5,577; in 2011, the Consolidated Companies increased its equity investments in IP Cathay One, L.P. by NT$4,370. In 2012, iD Reengineering Inc., W.I. Harper International Corp., IP Cathay One, L.P., World Venture, Inc., Dragon Investment Co. Ltd., returned capital in an aggregate amount of NT$390,063 to the Consolidated Companies; in 2011, World Venture, Inc., Dragon Investment Co. Ltd. and IP Cathay One, L.P., returned capital or liquidated and distributed the remaining net assets in an aggregate amount of NT$187,056 to the Consolidated Companies.

(10) Equity-method investments

	December 31, 2012			2012	
	Percentage of ownership	Carrying amount		Investment income (loss)	
	%	NT$	US$	NT$	US$
Wistron Corporation ("Wistron")	-	-	-	86,219	2,959
Aegis Semiconductor Technology Inc. ("Aegis")	44.04	64,180	2,203	-	-
ECOM Software Inc. ("ECOM")	33.93	21,834	749	3,795	130
Bluechip Infotech Pty Ltd.	34.05	89,694	3,079	4,810	165
Others		14,521	498	3,067	106
		190,229	6,529	97,891	3,360
Less: Allocation of corporate expenses				(30,815)	(1,058)
				67,076	2,302

	December 31, 2011		2011
	Percentage of ownership	Carrying amount	Investment income (loss)
	%	NT$	NT$
Wistron Corporation	2.57	1,602,334	233,950
E-Life Mall Corp.	-	-	17,140
Aegis Semiconductor Technology Inc.	44.04	165,235	-
ECOM Software Inc.	33.93	22,132	4,652
Bluechip Infotech Pty Ltd.	34.05	86,739	9,451
Fizzle Investment Limited	40.00	-	(238,828)
Others		(14,453)	2,836
		1,861,987	29,201
Less: Allocation of corporate expenses			(34,485)
			(5,284)

Commencing from June 21, 2012, the Consolidated Companies were unable to exercise significant influence over Wistron's operating and financial policies. Therefore, the investments in Wistron were reclassified as "available-for-sale financial assets—non-current".

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Commencing from April 1, 2011, the Consolidated Companies were unable to exercise significant influence over E-life's operating and financial policies. Therefore, the investments in E-life were reclassified as "available-for-sale financial assets—non-current".

In 2012, Aegis returned capital of NT$101,055 to the Consolidated Companies; in 2011, ECOM returned capital of NT$16,965 to the Consolidated Companies.

In the first quarter of 2011, the Consolidated Companies increased investments in Fizzle by NT$ 114,891. As the investments in Fizzle were assessed to be impaired, such investments were fully written off in the fourth quarter of 2011.

The Consolidated Companies' capital surplus was reduced by NT$86,762 and NT$21,880 in 2012 and 2011, respectively, as a result of proportional recognition of changes in investees' equity accounts and disposal of equity ownership of investees.

(11) Available-for-sale financial assets－non-current

	December 31, 2012		December 31, 2011
	NT$	US$	NT$
Investment in publicly traded equity securities:			
Wistron Corporation ("Wistron")	1,695,105	58,179	-
Qisda Corporation ("Qisda")	596,503	20,473	509,887
WPG Holdings Limited ("WPG")	165,695	5,687	152,177
RoyalTek Co., Ltd. ("RoyalTek")	21,122	725	22,645
Apacer Technology Inc. ("Apacer")	157,527	5,406	90,993
	2,635,952	90,470	775,702

In 2011, the Consolidated Companies sold portion of their investments in WPG and sold all their investments in E-Life and Quanta, and realized an aggregate disposal gain thereon of 337,716.

For the years ended December 31, 2012 and 2011, the unrealized gains (losses) resulting from the changes in fair value of available-for-sale financial assets held by the Consolidated Companies amounted to NT$302,161 and NT$(1,305,053); from the available-for-sale financial assets held by the equity-method investees amounted to NT$2,363 and NT$(2,073), respectively, which were recognized as a separate component of stockholders' equity.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(12) Property not used in operation

	December 31, 2012 NT$	December 31, 2012 US$	December 31, 2011 NT$
Leased assets—land	1,360,983	46,711	1,505,822
Leased assets—buildings	3,366,651	115,549	3,544,101
Property held for sale and development	960,842	32,978	1,060,754
Computer equipment and other equipment	1,199	41	21,309
Less: Accumulated depreciation	(814,975)	(27,971)	(878,885)
Accumulated impairment	(1,846,126)	(63,362)	(1,909,908)
	3,028,574	103,946	3,343,193

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.

(13) Intangible assets

	Trademarks and trade names NT$	Goodwill NT$	Others NT$	Total NT$
Balance at January 1, 2012	9,882,666	20,710,372	4,811,161	35,404,199
Additions / deductions	-	-	182,562	182,562
Acquisitions from business combination	-	5,023,981	5,481,087	10,505,068
Disposals	-	(86,859)	(2,661)	(89,520)
Reclassification	-	-	25,907	25,907
Effect of exchange rate changes	(55,824)	(720,610)	(135,346)	(911,780)
Amortization	(372,486)	-	(1,930,998)	(2,303,484)
Impairment	(3,496,114)	-	-	(3,496,114)
Balance at December 31, 2012	5,958,242	24,926,884	8,431,712	39,316,838
Balance at January 1, 2011	10,043,300	20,477,471	5,872,164	36,392,935
Additions	-	-	282,003	282,003
Adjustments made subsequent to business acquisition	-	(16,724)	-	(16,724)
Disposals / deductions	-	(563,871)	-	(563,871)
Reclassification	-	-	96,585	96,585
Effect of exchange rate changes	204,428	813,496	194,846	1,212,770
Amortization	(365,062)	-	(1,634,437)	(1,999,499)
Balance at December 31, 2011	9,882,666	20,710,372	4,811,161	35,404,199

(a) On December 6, 2007, the Consolidated Companies entered into a Basic Term Agreement with the International Olympic Committee regarding participation in the Olympic Partners Program (the "Top Programme"). Pursuant to such agreement, the Consolidated Companies have agreed to pay a certain amount of money in cash, merchandise and service to obtain marketing rights and become one of the partners in the "Top Programme" for the period from January 1, 2009 to December 31, 2012. Such expenditure on sponsorship was capitalized as "Intangible Assets" in the accompanying consolidated financial statements, and amortized using the straight-line method during the aforementioned four-year period.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) Acquisition of iGware Inc.

On January 12, 2012, the Company completed the acquisition of 100% equity ownership of iGware Inc. for a total purchase consideration of NT$9,428 million, of which US$150 million (approximately NT$4,520,020) was paid in cash and 122,178,242 shares of the Company's common stock (worth approximately US$170 million) were issued. Also, iGware Inc. was merged with Acer Cloud Technology Inc., a US subsidiary, on the same day. The said acquisition was accounted for in accordance with ROC SFAS No. 25 "Accounting for Business Combination", under which, the excess of the purchase and direct transaction costs over the fair value of net identifiable assets was recognized as goodwill.

The assets, liabilities and goodwill arising from the purchase of iGware on January 12, 2012 were as follows:

	NT$	
Purchase cost:		
Cash	$ 4,520,020	
Issuance of the Company's common stock	4,907,900	9,427,920
Net identifiable assets acquired at fair value:		
Current assets	268,457	
Property and equipment	3,310	
Deferred compensation cost	797,418	
Other assets	3,067	
Intangible assets－customer relationships	2,474,829	
Intangible assets－developed technologies	471,396	
Intangible assets－developing technologies	2,533,753	
Intangible assets－others	1,109	
Current liabilities	(166,702)	
Deferred income tax liabilities	(1,917,989)	
Other liabilities	(64,709)	
	4,403,939	
Acquired percentage	100%	4,403,939
Goodwill		**5,023,981**

In order to retain the Restricted Stock Units issued by iGware Inc. to its employee shareholders, the Company paid cash of US$18,144 and issued its common stock of 11,517,053 shares to the employee shareholders of iGware Inc. pursuant to the terms of the purchase agreement. Such cash shall be vested and common shares shall be transferred without restrictions when the employee shareholders have rendered services for a vesting period of 5 to 45 months and achieved certain performance conditions. During the vesting period, the cash and common shares were deposited and held in an escrow account; however, the employee shareholders still have the rights to vote and earnings distribution. 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 NT$797,418 were recognized as deferred compensation costs in the accompanying balance sheet, and amortized over the vesting period into operating expense. In 2012, a total compensation cost of NT$272,393 was recognized accordingly.

Pro forma information

The following unaudited pro forma financial information of 2012 and 2011 presents the combined results of operations as if the acquisition of iGware Inc. occurred as of the beginning of 2011:

	2012 NT$	**2011 NT$**
Revenue	429,514,198	476,087,665
Loss from continuing operations before income tax	(2,645,129)	(7,224,298)
Loss from continuing operations after income tax	(2,866,714)	(6,463,728)
Basic earnings per common share (in New Taiwan dollars)	(1.05)	(2.35)

(c) Adjustment to goodwill

On October 8, 2010, the Consolidated Companies contracted with Founder Group, Founder Technology Group Corp., and their subsidiaries (collectively as “Founder”) to purchase Founder PC business and the related assets for NT$5,947,316, and to transfer the related employees of Founder Technology Group Corp. to Acer entities in China. In 2012, the purchased consideration was decreased by NT$16,724, with a corresponding decrease in goodwill.

In 2012 and 2011, the Consolidated Companies utilized the net operating loss carryforwards (NOLs) resulting from the acquisition of Gateway Inc., and consequently eliminated the valuation allowance of deferred tax assets related to NOLs recognized on the acquisition date against goodwill by NT$86,859 and NT$563,871, respectively.

(d) Impairment test

In 2012, the Consolidated Companies underwent an organizational structure change, under which the Smart Hand-Held Business Group (“SHBG”), previously an independent cash-generating unit (CGU), was divided and merged into other CGUs within the Consolidated Companies. The related intangible assets have been reallocated to the CGUs affected using a relative value approach.

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Notes to Consolidated Financial Statements (continued)

For the purpose of impairment testing, goodwill and trademarks and trade names with indefinite useful lives are allocated to the CGUs that are expected to benefit from the synergies of the business combination. The carrying amounts of significant goodwill and trademarks and trade names with indefinite useful lives and the respective CGUs to which they are allocated as of December 31, 2012 and 2011, were as follows:

	December 31, 2012						
	ITRO-EMEA NT$	ITRO-PA NT$	ITRO-AAP NT$	ITRO-China NT$	ITRO-TWN NT$	E-Ten NT$	Platform Service of Console Game NT$
Goodwill	12,120,038	4,773,036	3,549,056	2,855,314	1,020,576	221,423	342,126
Trademarks & trade names	2,309,672	1,207,395	601,239	23,629	32,879	152,900	-

	December 31, 2011						
	ITRO-EMEA NT$	ITRO-PA NT$	ITRO-AAP NT$	ITRO-China NT$	ITRO-TWN NT$	E-Ten NT$	SHBG NT$
Goodwill	9,980,226	3,859,892	2,065,225	2,322,250	560,765	221,424	1,682,869
Trademarks & trade names	3,341,867	2,331,711	1,161,109	45,632	63,495	450,900	-

Each CGU to which the goodwill is allocated represents the lowest level within the Consolidated Companies at which the goodwill is monitored for internal management purposes. Due to the challenges from the rapid developments in tablets and smart phones and the implementation of Windows 8 to PC industry, the Company changed its brand strategy by re-positioning each brand in the group and therefore reallocated the resources. This change triggered an impairment test of trademarks and trade names. The Consolidated Companies estimated the fair value of the "Gateway", "Packard Bell", "eMachines", and "E-ten" trademarks and trade names by calculating the present value of the royalties saved that would have been paid to a third party had the Consolidated Companies not owned the trademarks and trade names. As a result of this test, the Consolidated Companies recognized an impairment loss of NT$3,496,114 in 2012. In addition, based on the results of impairment tests conducted by the Company's management, there was no evidence of impairment of goodwill as of December 31, 2012 and 2011. The recoverable amount of a CGU was determined based on the value in use, and the related key assumptions were as follows:

(i) The cash flow projections were based on historical operating performance and future financial budgets, covering a period of 5 years, approved by management and estimated terminal values at the end of the 5-year period.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(ii) Discounting rates used to determine the value in use for each CGU were as follows:

	ITRO-EMEA	ITRO-PA	ITRO-AAP	ITRO-China	ITRO-TWN	E-Ten	SHBG	Platform Service of Console Game
2012	13.3%	10.4%	17.4%	20.8%	12.7%	19.3%	-	15.1%
2011	11.0%	14.0%	13.7%	17.9%	12.5%	14.1%	14.5%	-

(14) Other financial assets－non-current

	December 31, 2012		December 31, 2011
	NT$	US$	NT$
Refundable deposits	1,161,746	39,873	1,582,613
Non-current receivables	17,771	610	49,714
	1,179,517	40,483	1,632,327

(15) Short-term borrowings

	December 31, 2012		December 31, 2011
	NT$	US$	NT$
Unsecured bank loans	349,974	12,012	358,120

On December 31, 2012 and 2011, the interest rate on the above bank loans ranged from 1.13% to 1.18% and from 0.78% to 8.10%, respectively. As of December 31, 2012 and 2011, the unused credit facilities were NT$29,340,659 and NT$34,662,601, respectively.

(16) Bonds Payable

The movements of the liability and equity components of the convertible bonds were as follows:

	2012		2011
	NT$	US$	NT$
Bonds payable:			
Beginning balance	14,064,997	482,736	13,103,887
Redemption	(5,025,440)	(172,482)	-
Amortization of bonds discount and transaction cost (recognized as interest expense)	377,890	12,970	426,830
Unrealized exchange loss (gain) on bonds payable	(423,025)	(14,519)	534,280
	8,994,422	308,705	14,064,997
Less: current portion of bonds payable	(4,892,805)	(167,930)	-
Ending balance	4,101,617	140,775	14,064,997

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	2012 NT$	2012 US$	2011 NT$
Financial liabilities at fair value through profit and loss (redemption options of the convertible bonds):			
Beginning balance	1,216,586	41,756	1,338,524
Redemption	(345,778)	(11,868)	-
Evaluation gain	(71,297)	(2,447)	(121,938)
	799,511	27,441	1,216,586
Less: current portion	(145,928)	(5,009)	-
Ending balance	653,583	22,432	1,216,586

	December 31, 2012		December 31, 2011
Capital surplus—conversion right (note 4(20))	170,796	5,862	295,494

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

(a) The 2015 Bonds

i. Par value US$300,000
ii. Issue date August 10, 2010
iii. Maturity date August 10, 2015
iv. Coupon rate 0%
v. Conversion
Bondholders may convert bonds into the Company's common shares at any time starting the 41th day from the issue date until 10 days prior to the maturity date. As of December 31, 2012, the conversion price was NT$102.01 per common share, with a fixed exchange rate of NT$31.83 = US$ 1.00, subject to adjustment by the formula provided in the issue terms if the Company's outstanding common shares are increased.
vi. Redemption at the option of the bondholders
A. Bondholders shall have the right, at such holder's option, to require the Company to redeem, in whole or in part, the 2015 Bonds held by such holder at a redemption price of principal amount plus a gross yield of 0.43% per annum (calculated on a semi-annual basis) in US dollars on August 10, 2013.
B. In the event that the Company's common shares are officially delisted from the Taiwan Securities Exchange, each bondholder shall have the right, at such holder's option, to require the Company to redeem the 2015 Bonds, in whole or in part, at an amount equal to the principal amount plus a gross yield of 0.43% per annum (calculated on a semi-annual basis) at the relevant date (the "2015 Early Redemption Amount").

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Notes to Consolidated Financial Statements (continued)

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

vii. Redemption at the option of the Company
The Company shall redeem the 2015 Bonds, in whole or in part, at the 2015 Early Redemption Amount, in the following cases:
A. At any time on or after August 10, 2013 and prior to the maturity date, the closing price (translated into US dollars at the prevailing rate) of its common shares on the Taiwan Stock Exchange is at least 130% of the 2015 Early Redemption Amount for 20 consecutive trading days.
B. If more than 90% of 2015 Bond has been redeemed, repurchased and cancelled, or converted;
C. The change in the tax regulations of ROC causes the Company become obliged to pay additional amounts in respect of taxes or expenses.

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

(b) The 2017 Bonds

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

v. Conversion
Bondholders may convert bonds into the Company's common shares at any time starting the 41th day from the issue date until 10 days prior to the maturity date. On December 31, 2012, the conversion price was NT$104.96 per common share, with a fixed exchange rate of NT$31.83 = US$ 1.00, subject to adjustment by the formula provided in the issue terms if the Company's outstanding common shares are increased.

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

(Continued)

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

viii. Redemption Amount 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 2012, the Company purchased US$177,800 of the bonds payable from open market at a price of NT$5,283,113 (approximately US$176,980). The purchase price was allocated to liability and equity components and a gain on purchase of bonds payable of NT$88,105 (classified under non-operating income and gain－other income) and capital surplus－treasury stock of NT$124,698 were recognized thereof.

(17) Long-term debts

	December 31, 2012		December 31, 2011
	NT$	US$	NT$
Citibank syndicated loan	9,000,000	308,896	9,000,000
Less: current installments	(9,000,000)	(308,896)	-
	-	-	9,000,000

In November 2011, the Company entered into a syndicated loan agreement with Citibank (the managing bank of the syndicated loan). The terms of the loan agreements were as follows:

Type of Loan	Creditor	Credit Line	Term	December 31, 2012 NT$	December 31, 2012 US$	December 31, 2011 NT$
Unsecured loan	Citibank and other banks	Term tranche of NT$9 billion; five-year limit during which revolving credits disallowed	The loan is repayable in 5 semi-annual installments starting from November 2014.	9,000,000	308,896	9,000,000
		Revolving tranche of NT$6 billion; five-year limit	One-time repayment in full in November 2016. The credit facility was not used at the year-end.	-	-	-
Less: current installment				(9,000,000)	(308,896)	-
				-	-	9,000,000

(Continued)

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Notes to Consolidated Financial Statements (continued)

The above syndicated loan bore interest at an average rate of 1.59% in 2012 and 1.33% in 2011. According to the loan agreements, the Company is required to maintain certain financial ratios calculated based on its annual and semi-annual audited consolidated financial statements. As of December 31, 2012, the Company was not in compliance with some of financial covenants. As a result, the Company has reclassified NT$9,000,000 from long-term debt to the current portion of long-term debt. Nevertheless, on March 4, 2013, the Company has gained a waiver from the majority of syndicated banks, which exempted the Company from maintaining the required financial covenants. As of December 31, 2011, the Company was in compliance with all such financial covenants.

(18) Retirement plans

The following table sets forth the actuarial information related to the Consolidated Companies' defined benefit retirement plans:

(a) Reconciliation of funded status of the retirement plans to prepaid pension cost (accrued pension liabilities):

	December 31, 2012			
	Plan assets in excess of accumulated benefit obligation		Accumulated benefit obligation in excess of plan assets	
	NT$	US$	NT$	US$
Projected benefit obligation	(488,285)	(16,759)	(1,464,738)	(50,272)
Plan assets at fair value	343,741	11,798	830,143	28,492
Funded status	(144,544)	(4,961)	(634,595)	(21,780)
Unrecognized prior service cost	3,563	122	(61)	(2)
Unrecognized actuarial losses	35,167	1,207	782,219	26,847
Unrecognized transition obligation	76,766	2,635	1,498	51
Minimum pension liability adjustment	-	-	(328,956)	(11,290)
Accrued pension liabilities	**(29,048)**	**(997)**	**(179,895)**	**(6,174)**

	December 31, 2011	
	Plan assets in excess of accumulated benefit obligation	Accumulated benefit obligation in excess of plan assets
	NT$	NT$
Projected benefit obligation	(1,357,098)	(136,551)
Plan assets at fair value	901,649	48,158
Funded status	(455,449)	(88,393)
Unrecognized prior service cost	1	-
Unrecognized actuarial losses	771,005	60,597
Unrecognized transition obligation	4,697	2,578
Minimum pension liability adjustment	-	(13,638)
Prepaid pension cost (accrued pension liabilities)	**320,254**	**(38,856)**

(Continued)

Accrued pension liabilities are included in “other liabilities”, and prepaid pension cost is included in “deferred charges and other assets” in the accompanying consolidated balance sheets.

(b) The components of the net periodic pension cost were as follows:

	2012		2011
	NT$	US$	NT$
Service cost	173,341	5,949	59,484
Interest cost	42,244	1,450	30,015
Actual return on plan assets	(17,069)	(586)	(9,051)
Amortization and deferral	19,465	668	39,878
Effect of pension plan curtailments	-	-	(3,186)
Net periodic pension cost	217,981	7,481	117,140

(c) The principal actuarial assumptions used were as follows:

	December 31, 2012	December 31, 2011
Discount rate	1.75%~5.90%	2.00%~2.60%
Rate of increase in future compensation	3.00%~9.00%	3.50%~4.00%
Expected rate of return on plan assets	1.75%~4.10%	2.00%~4.10%

In 2012 and 2011, pension cost under the defined contribution retirement plans amounted to NT$446,499 and NT$530,013, respectively.

(19) Income taxes

(a) Income tax returns of the Consolidated Companies are filed individually by each entity and not on a combined basis. The Company and its subsidiaries incorporated in the ROC are subject to ROC income tax at a rate of 17% for the years 2012 and 2011. Additionally, an alternative minimum tax in accordance with the Income Basic Tax Act is calculated. AAPH has applied for a tax exemption of its income under Malaysian tax act. The tax exemption for the financial years 2008 to 2017 has been granted subject to the conditions of (1) AAPH shall invest certain amount on IT infrastructure and related IT costs; and (2) sales to the Malaysian market is limited to 20% of total annual sales of AAPH. Other foreign subsidiaries calculated income tax in accordance with the respective local tax law and regulations. The components of income tax expense (benefit) were as follows:

	2012		2011
	NT$	US$	NT$
Current income tax expense	1,484,828	50,962	2,015,979
Deferred income tax expense (benefit)	(1,208,343)	(41,473)	(2,838,402)
Income tax expense (benefit)	276,485	9,489	(822,423)

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) The income tax calculated on the pre-tax loss at the Company's statutory income tax rate was reconciled with the income tax expense (benefit) reported in the accompanying consolidated statements of operation as follows.

	2012		2011
	NT$	US$	NT$
Expected income tax	(447,730)	(15,367)	(1,262,136)
Income tax effect from non-ROC operations	359,497	12,339	(644,737)
Prior-year adjustments	111,250	3,818	183,248
Tax-exempt income	(282,362)	(9,691)	(279,717)
Change in valuation allowance	(96,490)	(3,312)	394,682
Adjustment on sales allowance	-	-	734,400
Impairment loss on trademarks and trade names	543,679	18,660	-
Taxable loss not qualified to be carry forwarded	90,284	3,099	-
Others	(1,643)	(57)	51,837
Income tax expense (benefit)	276,485	9,489	(822,423)

(c) The components of deferred income tax assets (liabilities) as of December 31, 2012 and 2011, were as follows:

	December 31, 2012		2011
	NT$	US$	NT$
Deferred income tax assets – current:			
Inventory provisions	709,312	24,345	987,324
Unrealized foreign exchange gain and unrealized gain on valuation of financial instruments	(129,130)	(4,432)	(106,927)
Accrued advertising expense	29,230	1,003	34,886
Adjustments on cost of sales	150,181	5,155	354,976
Warranty provisions	724,893	24,880	1,136,012
Allowance for doubtful accounts	30,256	1,038	76,781
Accrued sales allowance	160,552	5,510	465,583
Net operating loss carryforwards	419,077	14,384	144,730
Accrued vacation pay	32,713	1,123	23,657
Difference in inventory cost for tax and financial purposes	81,353	2,792	110,870
Provisions for the inventories held by manufacturers	227,765	7,817	-
Others	265,786	9,122	295,153
	2,701,988	92,737	3,523,045
Valuation allowance	(905,877)	(31,091)	(1,348,901)
	1,796,111	61,646	2,174,144
Deferred income tax liabilities – current (included in "accrued expenses and other current liabilities"):			
Others	3,720	128	3,037

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	December 31, 2012		2011
	NT$	US$	NT$
Deferred income tax assets – non-current:			
Unrealized investment loss under the equity method	32,987	1,132	65,166
Difference in depreciation for tax and financial purposes	(2,151)	(74)	444,665
Allowance for doubtful accounts	35,437	1,216	14,231
Inventory provisions	89,866	3,085	18,994
Investment tax credits	7,895	271	46,831
Net operating loss carryforwards	465,425	15,974	7,448,700
Difference in amortization of intangible assets for tax and financial purposes	290,662	9,976	224,749
Unrealized investment loss	26,870	922	211,198
Accrued sales allowance	150,015	5,149	-
Warranty provisions	388,046	13,319	14,318
Litigation provisions	-	-	45,414
Others	95,598	3,281	125,988
	1,580,650	54,251	8,660,254
Valuation allowance	(524,481)	(18,001)	(8,348,011)
	1,056,169	**36,250**	**312,243**

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

	December 31,		
	2012		2011
	NT$	US$	NT$
Deferred income tax liabilities – noncurrent:			
Unrealized loss from subsidiaries	343,194	11,779	333,622
Unremitted earnings from subsidiaries	(1,172,970)	(40,258)	(1,933,948)
Net operating loss carryforwards	6,641,602	227,952	-
Accumulated asset impairment loss	226,870	7,787	231,781
Difference in intangible assets for tax and financial purposes	(1,767,605)	(60,667)	-
Difference in depreciation for tax and financial purposes	415,410	14,258	-
Foreign currency translation adjustment	(92,813)	(3,186)	(75,765)
Litigation provisions	223,831	7,682	-
Unrealized investment loss	207,510	7,122	-
Others	75,858	2,603	9,271
	5,100,887	175,072	(1,435,039)
Valuation allowance	(7,879,202)	(270,429)	(344,691)
	(2,778,315)	**(95,357)**	**(1,779,730)**

(d) According to the Statue for Industrial Innovation, the Consolidated Companies incorporated in the ROC may apply for investment tax credits from research and development expenditures, which are deductible from income tax payable only in the year when these expenditures are incurred. The amount of the tax credit is limited to 30% of the income tax payable for that year. Additionally, according to the Statue for Upgrading Industries, which has been repealed on December 31, 2009, the Consolidated Companies incorporated in the ROC were granted investment tax credits for the purchase of automatic machinery and equipment, for research and development expenditures, and for employee training expenditures. These tax credits may be applied over a period of five years. The amount of the credit that may be applied in any year is limited to 50% of the income tax payable for that year, except for the final year when such tax credit expires.

As of December 31, 2012, investment tax credits available to the Consolidated Companies were as follows:

Expiration date	NT$	US$
December 31, 2013	**7,895**	**271**

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Notes to Consolidated Financial Statements (continued)

(e) The tax effects of net operating loss carryforwards available to the Consolidated Companies as of December 31, 2012, were as follows:

Expiration date	NT$	US$
December 31, 2013	16,128	554
December 31, 2014	152,918	5,249
December 31, 2015	58,600	2,011
December 31, 2016	114,416	3,927
Thereafter	7,184,042	246,569
	7,526,104	**258,310**

(f) Information about the integrated income tax system

Beginning in 1998, an integrated income tax system was implemented in the Republic of China. Under the tax system, the income tax paid at the corporate level can be used to offset Republic of China resident stockholders' individual income tax. The Company is required to establish an imputation credit account ("ICA") so that a record shall be maintained for corporate income taxes paid and imputation credit that can be allocated to each stockholder. The credit available to ROC resident stockholders is calculated by multiplying the dividend by the creditable ratio. The creditable ratio is calculated based on the balance of the ICA divided by earnings retained by the Company since January 1, 1998.

Information related to the ICA was as follows:

	December 31, 2012		December 31, 2011
	NT$	US$	NT$
Unappropriated earnings:			
Earned before January 1, 1998	6,776	233	6,776
Earned commencing from January 1, 1998	(2,602,541)	(89,324)	1,775,284
	(2,595,765)	**(89,091)**	**1,782,060**
Balance of ICA	**1,363,184**	**46,787**	**1,090,125**

As the Company had not made profits in 2012 and 2011, no creditable ratios were disclosed.

(g) The ROC income tax authorities have completed the examination of income tax returns of the Company for all fiscal years through 2010. However, the Company disagreed with the assessment by the tax authorities of its income tax return for 2010 and 2009 regarding the adjustments of certain expenses and investment credits and has filed a tax appeal for recheck with the tax authorities. Nevertheless, the Company has accrued additional liabilities related to the disallowed expenses and investment tax credits.

(Continued)

(20) Stockholders' equity

(a) Common stock

As of December 31, 2012 and 2011, the Company's authorized shares of common stock consisted of 3,500,000,000 shares, of which 2,834,726,828 shares and 2,709,891,497 shares, respectively, were issued and outstanding. The par value of the Company's common stock is NT$10 per share.

As of December 31, 2012 and 2011, the Company had issued 7,017 thousand units and 7,822 thousand units, respectively, of global depository receipts (GDRs). The GDRs were listed on the London Stock Exchange, and each GDR represents five common shares.

On January 12, 2012, the Company completed the acquisition of 100% equity ownership of iGware Inc. for a total purchase consideration of NT$9,428 million, of which US$150 million (approximately NT$4,520,020) was paid in cash and 122,178,242 shares of the Company's common stock (worth approximately US$170 million) were issued. The issuance of common shares has been authorized by and registered with the governmental authorities.

In 2012 and 2011, the Company issued 2,657 thousand and 9,712 thousand common shares, respectively, upon the exercise of employee stock options.

(b) Treasury stock

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

According to Article 28-2 of the Securities and Exchange Act, the Company purchased its own common shares of 55,619,000 shares for an aggregate amount of NT$ 2,868,248 from April to June 2011 in order to maintain its shareholders' equity. In addition, the Company's directors in a meeting on August 31, 2011, resolved to change the purpose of treasury stock from maintaining shareholders' equity to transferring to employees.

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.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

As of December 31, 2012 and 2011, 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 namely CCI and E-Ten were as follows (expressed in thousands of shares and New Taiwan dollars):

	December 31, 2012			December 31, 2011		
	Number of Shares	Carrying Amount NT$	Market Price NT$	Number of Shares	Carrying Amount NT$	Market Price NT$
Common stock	21,809	1,050,341	549,587	21,809	1,050,341	765,496
GDRs	4,987	2,472,257	620,493	4,987	2,472,257	858,078
		3,522,598	1,170,080		3,522,598	1,623,574

(c) Capital surplus

	December 31, 2012		December 31, 2011
	NT$	US$	NT$
Share premium:			
Paid-in capital in excess of par value	13,977,290	479,726	9,632,450
Surplus from mergers	22,781,719	781,909	22,781,719
Premium on common stock issued from conversion of convertible bonds	4,552,585	156,253	4,552,585
Forfeited interest from conversion of convertible bonds	1,006,210	34,535	1,006,210
Surplus related to treasury stock transactions and cash dividends	885,145	30,380	760,447
Others:			
Employee stock options	422,903	14,515	804,001
Conversion right of convertible bonds (note 4(16))	170,796	5,862	295,494
Surplus from equity-method investments	299,850	10,291	386,612
	44,096,498	1,513,471	40,219,518

Pursuant to the amended Company Law, which was announced in January 2012, 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 a resolution approved by the stockholders. Realized capital surplus includes the premium derived from the issuance of shares of stock in excess of par value and endowments received by the Company. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, distribution of stock dividend from capital surplus in any one year cannot exceed 10% of paid-in capital.

(Continued)

(d) Legal reserve, special reserve, unappropriated earnings, 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 authorized common stock. In addition, a special reserve shall be set aside in accordance with applicable laws and regulations. The remaining balance of annual net income, if any, can be distributed as follows:

- at least 5% as employee bonuses; employees entitled to stock bonus may include subsidiaries' employees that meet certain criteria set by the board of directors;
- 1% or lower as remuneration to directors and supervisors, the distribution is proposed by compensation committee and approved by board of directors.

The remaining balance together with unappropriated earnings from previous years, after retaining a certain portion for business considerations, as dividends to stockholders. The Company could not distribute earnings when there is no surplus except for the appropriation of earnings is from legal reserve or capital surplus.

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

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

Additionally, according to the amended Company Law, which was announced in January 2012, 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 cash for the portion in excess of 25% of the paid-in capital.

Pursuant to regulations promulgated by the Financial Supervisory Commission, and effective from the distribution of earnings for fiscal year 1999 onwards, a special reserve equivalent to the total amount of items that are accounted for as deductions to the stockholders' equity shall be set aside from current earnings, and not distributed. This special reserve shall be reverted to retained earnings and made available for distribution when the items that are accounted for as deductions to the stockholders' equity are reversed in subsequent periods. As of December 31, 2012, the Company appropriated a special reserve of NT$6,126,774, which is equal to the sum of foreign currency translation adjustment and other deduction items of shareholders' equity.

(Continued)

The appropriation of 2010 earnings was approved by the shareholders at the meeting on June 15, 2011. The approved appropriations for employee bonus and remuneration to directors and supervisors and dividends per share were as follows:

	2010 NT$
Dividends per share:	
Cash dividends	$ 3.654
Stock Dividends	-
	$ 3.654
Employee bonus – cash	$ 900,000
Remuneration to directors and supervisors	89,469
	$ 989,469

The employee bonus of NT$1,500,000 for the year ended December 31, 2010 was estimated and accrued based on the total amount of bonus expected to be distributed to employees. However, the actual amount of this bonus was reduced to NT$900,000 pursuant to the proposal raised by a special board meeting on June 1, 2011 and the resolution approved in the shareholder meeting on June 15, 2011. The difference of NT$600,000 was charged to profit and loss in 2011 considering that there was no significant impact to the 2010 consolidated financial statements. Additionally, the directors' and supervisors' remuneration of NT$89,469 for the year ended December 31, 2010 was estimated and accrued at the rate of 1% of the annual net income in accordance with the Company's articles of incorporation. However, the Company's directors and supervisors had voluntarily surrendered their 2010 remunerations of NT$53,682 in 2011. The difference was treated as a change in accounting estimate and charged to profit and loss in 2011.

Except for the remuneration to directors and supervisors of NT$29,950 recognized in 2012, which should be made regardless of operating profit or loss, no employee bonus and remuneration to directors and supervisors were accrued for the years ended December 31, 2012 and 2011, as a result of net losses in the both years.

(21) Stock-based compensation plans

Information on the employee stock option plans ("ESOPs") granted in 2011 was as follows:

Grant date	2011/06/15
Granted shares (in thousands)	10,000
Contractual life (in years)	3
Vesting period	2 years of service subsequent to grant date
Qualified employees	(note 1)

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

The Black-Scholes pricing model was used to value the stock options granted. The fair value of the option and main inputs to the valuation models were as follows:

Exercise price (NT$)	$ 28.22
Expected remaining contractual life (in years)	3
Fair market value for underlying securities－Acer common shares (NT$)	$ 51.30
Fair value of options granted (NT$)	$ 25.777
Expected volatility	34.46%
Expected dividend yield	note 2
Risk-free interest rate	1.345%

Note 2: According to the employee stock option plan, option prices are adjusted to take into account dividends paid on the underlying security. As a result, the expected dividend yield is excluded from the calculation.

Movements in number of ESOPs outstanding:

	2012			
	The Company's ESOPs		ETEN's ESOPs	
	Number of options (in thousands)	Weighted-average exercise price (NT$)	Number of options (in thousands)	Weighted-average exercise price (NT$)
Outstanding, beginning of year	27,890	34.62	2,683	38.30
Granted	-	-	-	-
Forfeited	(11,963)	-	(195)	-
Exercised	(1,927)	37.84	(730)	38.30
Outstanding, end of year	14,000	31.43	1,758	38.30
Exercisable, end of year	4,000	45.04	1,758	38.30

(Continued)

	2011			
	The Company's ESOPs		ETEN's ESOPs	
	Number of options (in thousands)	Weighted-average exercise price (NT$)	Number of options (in thousands)	Weighted-average exercise price (NT$)
Outstanding, beginning of year	26,634	36.51	2,983	41.30
Granted	10,000	25.99	-	-
Forfeited	(150)	-	(93)	-
Exercised	(8,594)	22.00	(207)	41.16
Outstanding, end of year	27,890	34.62	2,683	38.30
Exercisable, end of year	13,890	37.84	2,683	38.30

In 2012 and 2011, the compensation costs recognized from the ESOPs amounted to NT$203,315 and NT$400,044, respectively, which were accounted for under operating expenses. Compensation costs recognized related to the restricted stock issued to the employees of iGware Inc. for 2012 were NT$272,393. Refer to note 4(13) for further descriptions.

As of December 31, 2012, information on outstanding ESOPs was as follows:

Year of grant	Number outstanding (in thousands)	Weighted-average remaining contractual life (in years)	Weighted-average exercise price (NT$)	Number exercisable (in thousands)
2008	1,758	0.64	38.30	1,758
2010	4,000	0.83	45.04	4,000
2011	10,000	1.46	25.99	-
	15,758			5,758

(22) Restructuring cost

The Consolidated Companies recognized restructuring charges and relocation costs of NT$171,867 in 2012 as a result of integration of organization and personnel in EMEA. Due to the integration of PC business and management team in China and the implementation of a restructuring plan (mainly for the integration of personnel and operating information system) in EMEA, the Consolidated Companies recognized restructuring charges of NT$1,247,653 in 2011. Those expenses were accounted for under "restructuring cost" of non-operating expenses and losses in the accompanying statements of operation.

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(23) Earnings per common share ("EPS")

	2012				
	Amount (in thousands)		Weighted-average number of outstanding shares of common stock (in thousands)	EPS (in dollars)	
	NT$	US$		NT$	US$
Basic EPS					
Net loss attributable to common shareholders of parent company	(2,910,326)	(99,888)	2,722,601	(1.07)	(0.04)

	2011		
	Amount (in thousands)	Weighted-average number of outstanding shares of common stock (in thousands)	EPS (in dollars)
	NT$		NT$
Basic EPS			
Net loss attributable to common shareholders of parent company	(6,601,968)	2,624,535	(2.52)

As the Consolidated Companies incurred a net loss in 2012 and 2011, no diluted EPS was calculated.

(24) Disclosure of financial instruments

(a) Fair values of financial instruments

The book value of short-term financial instruments is deemed to approximate fair value because of the short-term maturity of these instruments. Such method is applied to cash and cash equivalents, notes and accounts receivable (including receivables from related parties), other receivables (including receivables from related parties), restricted deposits, short-term borrowings, notes and accounts payables (including payables to related parties), other payables to related parties and royalties payable.

(Continued)

The estimated fair values and carrying amounts of all other financial assets and liabilities as of December 31, 2012 and 2011, were as follows:

	December 31, 2012			December 31, 2011		
		Fair value			Fair value	
	Carrying amount NT$	Public quoted price NT$	Valuation amount NT$	Carrying amount NT$	Public quoted price NT$	Valuation amount NT$
Non-derivative financial instruments						
Financial assets:						
Available-for-sale financial assets－current	169,017	169,017	-	109,721	109,721	-
Available-for-sale financial assets－noncurrent	2,635,952	2,635,952	-	775,702	775,702	-
Financial assets carried at cost－noncurrent	623,530	-	see below (b)	1,157,773	-	see below (b)
Refundable deposits (classified as “other financial assets－noncurrent”)	1,161,746	-	1,161,746	1,582,613	-	1,582,613
Noncurrent receivables (classified as “other financial assets－noncurrent”)	17,771	-	17,771	49,714	-	49,714
Financial liabilities:						
Bonds payable (including current portion)	8,994,422	-	9,946,287	14,064,997	-	15,584,854
Long-term debt (including current portion)	9,000,000	-	9,000,000	9,000,000	-	9,000,000
Derivative financial instruments						
Financial assets:						
Foreign currency forward contracts	217,876	-	217,876	1,110,435	-	1,110,435
Financial liabilities:						
Foreign currency forward contracts	1,414,785	-	1,414,785	235,897	-	235,897
Redemption option of convertible bonds	799,511	-	799,511	1,216,586	-	1,216,586

(b) The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

(i) Available-for-sale financial assets

The fair value of publicly traded stocks is based on the closing price at the balance sheet date.

(ii) Financial assets carried at cost－noncurrent

Financial assets carried at cost represent investments in privately held stock. It is not practicable to estimate the fair value of privately held stock as it is not traded in an active public market.

(iii) Refundable deposits

The fair values of refundable deposits with no fixed maturities are based on carrying amounts.

(iv) Non-current receivables

The fair values of non-current receivables are their present value discounted at the market interest rate.

(v) Derivative financial instruments

The fair value is determined using a valuation technique, with estimates and assumptions consistent with those used by market participants and are readily available to the Consolidated Companies. The fair value of foreign currency forward contracts is computed individually based on the maturity date, the spot rate, and the swap points based on quotes provided by Bloomberg.

(vi) Long-term debt

The carrying value of long-term debt with floating interest rates approximates the market value.

(vii) Bonds payable

The fair value of convertible bonds payable is estimated based on the 2-Factor Quad Tree Approach, which considered the expected volatility and risk-free interest rate.

(c) For the years ended December 31, 2012 and 2011, gain (loss) on valuation financial assets and liabilities using a valuation technique amounted to NT$(1,362,775) and NT$1,659,720, respectively.

(d) Disclosure of financial risks

(i) Market risk

Publicly traded stocks held by the Consolidated Companies classified as “available-for-sale financial assets” are valued at fair value. Therefore, the Consolidated Companies were exposed to the risk of price fluctuation in the securities market.

The Consolidated Companies are engaged in purchase and sale transactions which are principally denominated in US dollars and Euros. The Consolidated Companies entered into foreign currency forward contracts and other derivate instrument contracts to manage the market exchange rate fluctuations of foreign-currency assets and liabilities. The length and amounts of aforementioned derivative transactions were in line with the settlement date of the Consolidated Companies’ recorded foreign currency assets and liabilities and future cash flows. Gains or losses from these financial derivatives are expected to substantially offset those from the hedged assets or liabilities.

(ii) Credit risk

The Consolidated Companies’ credit risk is mainly from potential breach of contract by the counter-party associated with cash, equity investment, and derivative transactions. In order to control the exposure to the credit risk of each financial institution, the Consolidated Companies maintain cash with various financial institutions and hold equity investments in the form of stocks issued by companies with high credit quality. Furthermore, the banks undertaking the derivative transactions are reputable financial institutions; therefore, the exposure related to the potential default by those counter-parties is not considered significant.

(Continued)

The Consolidated Companies primarily sell and market the multi-branded IT products through distributors in different geographic areas. As a result, management believes that there is no significant concentration of credit risk. Also, management of the Consolidated Companies continuously evaluates the credit quality of their customers and utilizes insurance in order to minimize credit risk.

(iii) Liquidity risk

The Consolidated Companies' capital, operating funds and unused credit facility of long-term debts are sufficient to fulfill their contract payment obligations. Therefore, management believes that there is no significant liquidity risk.

The available-for-sale equity securities held by the Consolidated Companies are publicly traded and can be liquidated quickly at a price close to the fair market value. In contrast, the financial assets carried at cost are not publicly traded and are exposed to liquidity risk.

Derivative financial instruments are intended to hedge the exchange rate risk resulting from assets and liabilities denominated in foreign currency and cash flows resulting from anticipated transactions in foreign currency. The length of the contracts is in line with the payment date of the Consolidated Companies' assets and liabilities denominated in foreign currency and the anticipated cash flows. At the maturity date of the derivative contract, the Consolidated Companies will settle these contracts using the foreign currencies arising from the hedged assets and liabilities denominated in foreign currency, and therefore, the liquidity risk is not significant.

(iv) Cash flow risk related to the fluctuation of interest rates

The Consolidated Companies' short-term borrowings and long-term debt carried floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rates and thereby influences the Consolidated Companies' future cash flow. If the market interest rate increases by 1%, cash outflows in respect of these interest payments would increase by approximately NT$93,500 per annum.

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

5. Transactions with Related Parties

(1) Names and relationships of related parties with the Consolidated Companies

Name	**Relationship with the Company**
Wistron Corporation ("Wistron")	Equity-method investee of the Company prior to June 21, 2012. Since June 21, 2012, Wistron was not a related party of the Consolidated Companies. The purchases from Wistron for 2012 disclosed in note 5(2) was for the period from January 1, 2012 to June 30, 2012.
Cowin Worldwide Corporation ("COWIN")	Subsidiary of Wistron
Bluechip Infotech Pty Ltd. ("Bluechip")	Equity-method investee of the Company
E-Life Mall Corp. ("E-Life")	Equity-method investee of the Company prior to April 1, 2011. Since April 1, 2011, E-Life was not a related party of the Consolidated Companies. The sales to E-Life for 2011 disclosed in note 5(2) is for the period from January 1, 2011 to March 31, 2011.
iDSoftCapital Inc.	Its chairman is one of the Company's supervisors
Fizzle Investment Limited ('Fizzle")	Equity-method investee of the Consolidated Companies
Circle Line Marketing & Communication S.R.L. ("Circle Line")	Subsidiary of Fizzle
Breakout S.R.L. ("Breakout")	Subsidiary of Fizzle
Prime Media LLC ("Prime Media")	Subsidiary of Fizzle
Directors, supervisors, chief executive officers and vice presidents	The Consolidated Companies' executive officers

(2) Significant transactions with related parties

(a) Net sales and related notes and accounts receivable

(i) Net sales to:

	2012		**2011**
	NT$	**US$**	**NT$**
Bluechip	480,026	16,475	619,907
E-Life	-	-	192,552
Other (less than 5%)	91,979	3,157	38,069
	572,005	**19,632**	**850,528**

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

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

(ii) Notes and accounts receivable from:

	December 31, 2012		December 31, 2011
	NT$	**US$**	**NT$**
Bluechip	41,159	1,413	70,361
Wistron	-	-	11,767
Others (less than 5%)	124	4	6,497
	41,283	1,417	88,625

(b) Purchases and related notes and accounts payable

(i) Purchases from:

	2012		2011
	NT$	**US$**	**NT$**
Wistron	8,633,016	296,301	21,948,884
Others	140,545	4,823	161,614
	8,773,561	301,124	22,110,498

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

The Consolidated Companies sold raw material to Wistron and its subsidiaries and purchased back the finished goods after being manufactured. To avoid double-counting, the revenues from sales of raw materials to Wistron and its subsidiaries amounting to NT$26,998,962 and NT$60,197,894 for the years ended December 31, 2012 and 2011, respectively, were excluded from the consolidated revenues and cost of goods sold. Having enforceable rights, the Consolidated Companies offset the outstanding receivables and payables resulting from the above-mentioned transactions. The offset resulted in a net payable balance.

(ii) Notes and accounts payable to:

	December 31, 2012		December 31, 2011
	NT$	**US$**	**NT$**
Wistron	-	-	7,229,227
Others (less than 5%)	-	-	27,658
	-	-	7,256,885

(Continued)

(c) Management service fee

The Consolidated Companies paid iDSoftCapital Inc. management service fees amounting to NT$25,417 and NT$30,000 for the years ended December 31, 2012 and 2011, respectively.

(d) Advertising and service fee

The Consolidated Companies paid Circle Line, Breakout and Prime Media advertising and service fee amounting to NT$1,517,633 for the year ended December 31, 2011. As of December 31, 2012 and 2011, the net payables (after deduction of related receivables) was NT$128,045 and NT$133,116, respectively, which was accounted for as “accrued expenses and other current liabilities” in the accompanying consolidated balance sheets.

(e) Advances to/from related parties

The Consolidated Companies paid certain expenses on behalf of related parties. Additionally, related parties paid non-recurring engineering and other operating expenses on behalf of the Consolidated Companies. As of December 31, 2012 and 2011, the Consolidated Companies had aggregate receivables from related parties of NT$17 and NT$15,359, respectively, and payables to related parties of NT$1,914 and NT$184,975, respectively, resulting from these transactions.

(3) Compensation to executive officers

For the years ended December 31, 2012 and 2011, compensation paid to the Consolidated Companies’ executive officers including directors, supervisors, president and vice-presidents was as follows:

	2012 Amount		**2011 Amount**
	NT$	**US$**	**NT$**
Salaries	279,870	9,606	1,438,268
Cash awards and special allowances	235,316	8,076	320,292
Business service charges	1,080	37	1,080
	516,266	**17,719**	**1,759,640**

The aforementioned compensation included the accruals for remuneration to directors and supervisors as discussed in note 4(20).

6. Pledged Assets

Pledged assets	Pledged to secure	Carrying amount at December 31, 2012 NT$	2012 US$	2011 NT$
Cash in bank and time deposits	Contract bidding, project fulfillment, security for letter of credit, and others	56,633	1,944	82,308

As of December 31, 2012 and 2011, the above pledged cash in bank and time deposits were classified as "restricted deposits" and "other financial assets－noncurrent" in the accompanying consolidated balance sheets.

7. Commitments and Contingencies

(1) Royalties

(a) The Consolidated Companies have entered into a patent cross license agreement with International Business Machines Corporation ("IBM"). According to the agreement, the Consolidated Companies make fixed payments periodically to IBM.

(b) The Consolidated Companies and Lucent Technologies Inc. ("Lucent") entered into a Patent Cross License agreement. This license agreement in essence authorizes both parties to use each other's worldwide computer-related patents for manufacturing and selling personal computer products. The Consolidated Companies agree to make fixed payments periodically to Lucent, and the Consolidated Companies will not have any additional obligation for the use of Lucent patents other than the agreed upon fixed amounts of payments.

(c) The Consolidated Companies have entered into software and royalty license agreements with Microsoft, MPEG-LA and other companies. The Consolidated Companies have fulfilled their obligations according to the contracts.

(2) Ericsson Inc. and Telefonaktiebolaget LM Ericsson filed patent infringement lawsuits against the Company and its US subsidiaries, Acer America Corporation and Gateway Inc., which are pending before the United States District Court for the Eastern District of Texas; and Telefonaktiebolaget LM Ericsson filed patent infringement lawsuits against the Company's subsidiary, Acer Computer GmbH, which are pending before the German Regional Court of Mannheim. US and German law firms have been retained to consult for and represent the Consolidated Companies on those matters. To-date, management foresees no immediate material adverse effect to the Consolidated Companies' business operations as they have indicated that the Consolidated Companies have received the support from related components supplier.

(Continued)

(3) In August 2012, the U.S. International Trade Commission (ITC) launched its investigations on alleged infringement of U.S. patents (US patent No. 5809336 that is involved in the latest case in August 2012) by numerous companies, including Acer. Technology Properties Limited LLC (TPL) singlehandedly filed a complaint with the US ITC as the first case and with the other two companies, Patriot Scientific Corporation (PTSC) and Phoenix Digital Solutions LLC (PDS) as the second one. While filing a complaint with the US ITC in 2012, TPL also filed a complaint at the same time for the related patents with the US District Court in the Eastern District of Texas. The alleged claim of infringement goes back to as early as 2007, when Acer filed a lawsuit against TPL as TPL's patents (i.e. including the alleged patent No.5809336 in the investigation in August 2012) are allegedly invalid. Subsequently, TPL formally filed a counter-claim against Acer with the ITC for the above lawsuit filed by Acer in 2007 on patent infringement. ITC's 2012 investigation is the continuation of the same patent dispute since 2007. According to the management of Acer, these disputes are being handled carefully and appropriate measures are now being undertaken. To-date, management foresees no immediate material adverse effect to the Consolidated Companies' business operations.

(4) As of December 31, 2012 and 2011, the Company had outstanding stand-by letters of credit totaling NT$145,281 and NT$144,683, respectively, for purposes of bids and contracts.

(5) The Consolidated Companies have entered into several operating lease agreements for warehouses and office buildings. Future minimum lease payments were as follows:

Year	NT$	US$
2013	682,863	23,437
2014	473,730	16,259
2015	266,141	9,134
2016	130,696	4,486
2017 and thereafter	612,434	21,020
	2,165,864	**74,336**

(6) As of December 31, 2012 and 2011, the Company had issued promissory notes amounting to NT$47,711,357 and NT$47,435,962, respectively, as collaterals for factored accounts receivable and for obtaining credit facilities from financial institutions.

8. Significant Loss from Casualty: None

9. Subsequent Events: None

(Continued)

10. Others

(1) Labor cost, depreciation and amortization categorized by function

	2012			2011		
	Operating expense	**Cost of sales**	**Total**	**Operating expense**	**Cost of sales**	**Total**
	NT$	**NT$**	**NT$**	**NT$**	**NT$**	**NT$**
Labor cost:						
Salaries	11,658,478	1,461,615	13,120,093	12,689,951	1,793,982	14,483,933
Insurance	1,258,914	165,644	1,424,558	1,281,016	178,317	1,459,333
Pension	629,271	35,209	664,480	620,642	26,511	647,153
Other	1,222,954	111,892	1,334,846	917,598	137,228	1,054,826
Depreciation	822,693	55,148	877,841	665,689	59,873	725,562
Amortization	2,417,482	13,884	2,431,366	1,982,823	162,277	2,145,100

(2) Reclassifications

Certain amounts in the 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation for comparison purpose. The reclassifications did not have significant impact on the financial statements.

(3) The significant financial assets and liabilities denominated in foreign currencies were as follows:

	2012.12.31			2011.12.31		
Financial assets	**Foreign Currency (in thousands)**	**Exchange Rate**	**New Taiwan dollars (in thousands)**	**Foreign Currency (in thousands)**	**Exchange Rate**	**New Taiwan dollars (in thousands)**
Monetary assets						
USD	$ 1,724,436	29.14	50,243,179	2,216,332	30.29	67,132,706
EUR	732,028	38.44	28,138,516	932,474	39.26	36,616,942
CNY	3,279,243	4.68	15,965,671	2,758,749	4.81	13,274,637
Non-monetary assets						
USD	11,401	29.14	332,193	46,851	30.29	1,419,115
Financial liabilities						
Monetary liabilities						
USD	2,609,602	29.14	76,033,361	3,107,031	30.29	94,111,982
EUR	92,085	38.44	3,539,652	224,257	39.26	8,919,687
CNY	154,099	4.68	1,007,646	115,150	4.81	554,085
Non-monetary assets						
USD	72,232	29.14	2,104,541	41,348	30.29	1,252,417

(4) According to the Rule No. 0990004943 issued by the Financial Supervisory Commission ("FSC") dated February 2, 2010, starting from 2013, companies with shares listed on the Taiwan Stock Exchange Corporation or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") translated by the Accounting Research and Development Foundation ("ARDF") and issued by FSC (hereinafter referred to collectively as the "IFRSs"). As a result, the Company has established a taskforce to monitor and execute the IFRSs adoption plan. Leading the implementation of this plan is Eva Ho, the chief financial officer. The main contents of the plan, schedule and status of execution are listed below.

Contents of plan	Responsible Division	Status of execution
1) Assessment phase (2010/1/1~2011/12/31)		
◎ Develop the IFRS implementation plan and set up a project team	Finance Division	Completed
◎ Compare and analyze the difference between R.O.C. GAAP and IFRSs	IFRS project team	Completed
◎ Evaluate the potential adjustments to the existing accounting polices	IFRS project team	Completed
◎ Evaluate the applicability of the IFRS 1 "First-time Adoption of International Financial Reporting Standards"	IFRS project team	Completed
◎ Evaluate the potential adjustments to the information technology systems and internal controls	IFRS project team	Completed
2) Preparation phase (2011/1/1~2012/12/31)		
◎ Determine how to adjust the existing accounting policies to conform with IFRSs	IFRS project team	Completed
◎ Determine how to apply the IFRS 1"First-time Adoption of International Financial Reporting Standards"	IFRS project team	Completed
◎ Modify the information technology systems and internal controls	IFRS project team	Completed
◎ Internal training for the employees within the group	IFRS project team	Completed
3) Implementation phase (2012/1/1~2013/12/31)		
◎ Test run the related adjusted information technology systems	IFRS project team	Completed
◎ Collect related information for the preparation of opening balance sheet and comparative financial statements in accordance with IFRSs	IFRS project team	Completed
◎ Prepare financial statements in accordance with IFRSs	Finance Division	In progress

(5) Based on the Company's assessment, the major differences between the Company's accounting policies under R.O.C. GAAP and IFRSs to be adopted by the Company are as follows:

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Reconciliation of consolidated balance sheet as of January 1, 2012:

		R.O.C. GAAP	Effect of Transition to IFRSs	IFRSs
Notes and accounts receivable, net of allowance for impairment (a)	$	83,539,250	71,916	83,611,166
Deferred income tax assets－current (b)		2,174,144	(2,174,144)	-
Prepayment and other current assets (g)		110,016,351	(11,036)	110,005,315
Equity-method investments (c)		1,861,987	(19,501)	1,842,486
Available-for-sale financial assets－noncurrent (d)		775,702	1,194,690	1,970,392
Financial assets carried at cost－noncurrent (d)		1,157,773	(1,157,773)	-
Net property, plant and equipment (e, f)		6,938,898	(222,524)	6,716,374
Intangible assets (g)		35,404,199	(2,648)	35,401,551
Other financial assts－noncurrent		1,632,327	-	1,632,327
Investment property (Formerly “Property not used in operation”) (e)		3,343,193	(489,717)	2,853,476
Deferred income tax assets－noncurrent (b, e~h)		312,243	2,594,676	2,906,919
Deferred charges and other assets (g)		1,151,661	(276,500)	875,161
Total assets	$	248,307,728	(492,561)	247,815,167
Accrued expenses and other current liabilities (a, g~h)	$	146,036,612	(166,195)	145,870,417
Deferred income tax liabilities－current (b)		3,037	(3,037)	-
Deferred income tax liabilities－noncurrent (b, j)		1,779,730	264,181	2,043,911
Bonds payable (i)		14,064,997	(516,294)	13,548,703
Other long-term liabilities (f, g)		10,671,737	661,250	11,332,987
Total liabilities	$	172,556,113	239,905	172,796,018
Common stock	$	27,098,915	-	27,098,915
Capital surplus (i)		40,219,518	(295,494)	39,924,024
Retained earnings (c, e~i, l)		19,049,268	(4,479,596)	14,569,672
Foreign currency translation adjustment (j, l)		(3,580,136)	3,391,042	(189,094)
Minimum pension liability adjustment (c, g)		(16,993)	16,993	-
Unrealized losses on financial instruments (c, d)		(630,621)	26,947	(603,674)
Treasury stocks (j)		(6,390,846)	607,743	(5,783,103)
Minority interest		2,510	(101)	2,409
Total stockholders’ equity and minority interest	$	75,751,615	(732,466)	75,019,149

(Continued)

ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Reconciliation of consolidated balance sheet as of December 31, 2012:

	R.O.C. GAAP	Effect of Transition to IFRSs	IFRSs
Notes and accounts receivable, net of allowance for impairment	$ 68,432,653	-	68,432,653
Deferred income tax assets－current (b)	1,796,111	(1,796,111)	-
Other current assets	100,611,292	(14,530)	100,596,762
Equity-method investments (c)	190,229	(392)	189,837
Available-for-sale financial assets－noncurrent (d)	2,635,952	717,137	3,353,089
Financial assets carried at cost－noncurrent (d)	623,530	(623,530)	-
Net property, plant and equipment (e, f)	6,572,348	(224,111)	6,348,237
Intangible assets (g, m, o)	39,316,838	(181,918)	39,134,920
Other financial assets－noncurrent	1,179,517	-	1,179,517
Investment property (Formerly “Property not used in operation”) (e)	3,028,574	(488,177)	2,540,397
Deferred income tax assets－noncurrent (b, e~h)	1,056,169	2,268,787	3,324,956
Deferred charges and other assets (g)	1,215,781	-	1,215,781
Total assets	$ 226,658,994	(342,845)	226,316,149
Accrued expenses and other current liabilities (g, h)	$ 129,121,912	(146,845)	128,975,067
Deferred income tax liabilities－current (b)	3,720	(3,720)	-
Current portion of long-term debt	9,000,000	-	9,000,000
Current portion of bonds payable (i)	4,892,805	(109,216)	4,783,589
Deferred income tax liabilities－noncurrent (b, j)	2,778,315	308,528	3,086,843
Bonds payable (i)	4,101,617	(153,113)	3,948,504
Other long-term liabilities (f, g)	1,728,474	589,651	2,318,125
Total liabilities	$ 151,626,843	485,285	152,112,128
Common stock	$ 28,347,268	-	28,347,268
Capital surplus (i, k, m)	44,096,498	(692,965)	43,403,533
Retained earnings (c~i, k, o)	16,138,942	(4,110,875)	12,028,067
Foreign currency translation adjustment (j, l)	(5,655,033)	3,424,068	(2,230,965)
Minimum pension liability adjustment (c, g)	(331,754)	331,754	-
Unrealized losses on financial instruments (c, d, k)	(904,176)	(387,755)	(1,291,931)
Treasury stocks (j)	(6,662,028)	607,743	(6,054,285)
Minority interest	2,434	(100)	2,334
Total stockholders’ equity and minority interest	$ 75,032,151	(828,130)	74,204,021

(Continued)

Reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2012:

	R.O.C. GAAP	Effect of Transition to IFRSs	IFRSs
Net sales	$ 429,510,913	-	429,510,913
Cost of sales (h, n)	(386,315,169)	(8,074,724)	(394,389,893)
Gross profit	43,195,744	(8,074,724)	35,121,020
Operating expenses (e~h, n, p)	(42,171,038)	4,302,108	(37,868,930)
Operating income (loss)	1,024,706	(3,772,616)	(2,747,910)
Net non-operating income (loss) (i~k, n)	(3,658,410)	4,135,421	477,011
Income (loss) before income taxes	(2,633,704)	362,805	(2,270,899)
Income tax expense (g, o)	(276,485)	86,426	(190,059)
Consolidated net loss	**$ (2,910,189)**	**449,231**	**(2,460,958)**
Net loss attributable to:			
Shareholder of the Company	$ (2,910,326)	449,227	(2,461,099)
Minority interest	137	4	141
	$ (2,910,189)	**449,231**	**(2,460,958)**

(a) Under ROC GAAP, the estimated sales allowance is recognized as a deduction of accounts receivable. Under IFRSs, the estimated sales allowance is deemed as a present obligation with uncertain timing and an obligation that arises from past events and is therefore reclassified as a liability (included in accrued expenses and other current liabilities). Under IFRS, the estimated sales allowance of NT$71,916 was reclassified as a liability as of January 1, 2012.

(b) Under R.O.C. GAAP, a deferred income tax asset or a deferred income tax liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. If a deferred income tax asset or liability is not related to an asset or liability, it is classified as current or noncurrent according to the expected period of realization or settlement. Under IFRSs, a deferred income tax asset and liability is classified as non-current asset or liability. Deferred tax assets and liabilities could be offset only when an entity has a legally enforceable right to offset the related current tax assets and related current tax liabilities and conforms to the other criteria for such offsetting.

In addition, under R.O.C. GAAP, valuation allowances are provided to the extent, if any, that it is more likely than not deferred income tax assets will not be realized. Under IFRSs, deferred income tax assets are only recognized to the extent that it is “probable” that the assets will be realized and no valuation allowance account is used.

Under IFRSs, as of January 1, 2012 and December 31, 2012, current deferred income tax assets of NT$2,174,144 and NT$1,796,111, respectively, were reclassified to noncurrent deferred income tax assets; also reclassified to noncurrent deferred income tax liabilities were current deferred income tax liabilities of NT$3,037 and NT$3,720, respectively. Moreover, as of January 1, 2012 and December 31, 2012, adjustments were made to increase the balance of deferred income tax

(Continued)

assets/liabilities by NT$336,910 and NT$386,671, respectively, in order to present the gross amount of deferred tax assets/liabilities.

(c) Under IFRSs, the equity-method associates have made certain adjustments after evaluating the significant differences between their current accounting policies and IFRSs. Corresponding adjustments were made by the Consolidated Companies so that, as of January 1, 2012, adjustments we made to decrease equity-method investments by NT$19,501; unrealized gain on financial instruments by NT$9,970; minimum pension liability by NT$4,586 and retained earnings by NT$14,117. Also, as of and for the year ended December 31, 2012, adjustments were made to decrease equity-method investments and the investment gain recognized using equity method by NT$392.

(d) According to the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” issued before July 7, 2011, the non-publicly traded stocks and stocks traded on Emerging Stock Market were measured at cost and classified under “financial assets carried at cost”. Under IFRSs, however, equity instrument that is not traded in active markets but its fair value could be reliably measured, is measured at its fair value and classified as “available-for-sale financial assets”. Under IFRSs, as of January 1, 2012, adjustments were made to increase financial assets carried at cost－noncurrent by NT$36,917 and financial assets carried at cost－noncurrent was reclassified to available-for-sale financial assets－noncurrent; also, an adjustment was made to increase unrealized gain on financial instruments by NT$36,917. In addition, as of December 31, 2012, adjustments were also made to increase the available-for-sale financial assets－noncurrent and unrealized gain on financial instruments by NT$56,690. Further adjustment was also made to increase the other non-operating income by NT$1,437 for the year ended December 31, 2012.

(e) Under R.O.C. GAAP, a component which is significant in relation to the total cost of PP&E acquired after November 2008 and for which a different depreciation method or rate is appropriate, is depreciated separately. Under IFRSs, when an item of PP&E comprises individual components for which different depreciation methods or useful lives are appropriate, each component is depreciated separately from the acquisition date. Under IFRSs, as of January 1, 2012, adjustments were made to decrease PP&E, investment property and retained earnings by NT$228,662, NT$489,717 and NT$665,728 (net of income tax effect of NT$52,651), respectively. Also, as of December 31, 2012, adjustments were made to increase PP&E and investment property by NT$120 and NT$1,540, respectively. Further adjustment was made to decrease depreciation expenses by NT$1,660 for the year ended December 31, 2012.

(f) Under R.O.C. GAAP, the estimated cost of dismantling and removing an item and restoring the site where it is located should be included in the cost of PP&E acquired after November 2008. Under IFRSs, all the significant decommission provision should be accounted for. Under IFRSs, as of January 1, 2012, adjustments were made to increase PP&E by NT$6,138; decommission provision by NT$13,369; deferred income tax by NT$2,578; and to decrease retaining earnings by NT$4,653. Moreover, as of December 31, 2012, adjustments were made to decrease PP&E by NT$1,707 (including effect of exchange rate changes); and to decrease depreciation expenses by NT$823 for the year ended December 31, 2012.

(g) Under R.O.C. GAAP, actuarial gains and losses from defined benefit plans are amortized over the expected average remaining working lives of the participating employees. At the date of

(Continued)

transition to IFRSs, the Consolidated Companies elected the exemption specified in the IFRS 1 "first-time adoption of International Financial Reporting Standards" and recognized the actuarial gains and losses directly to retaining earnings. Under IFRSs, as of January 1, 2012, adjustments were made to decrease retained earnings by NT$616,538 (net of income tax effect of NT$14,763); deferred pension cost (classified under intangible assets) by NT$2,648; prepaid pension cost (classified under prepayment and other current assets and deferred charges and other assets) by NT$287,536; accrued pension liabilities (classified under accrued expenses and other current liabilities) by NT$319,171; to increase defined benefit obligation by NT$647,881; and to decrease minimum pension liability by NT$12,407. Moreover, as of December 31, 2012, adjustments were also made to decrease prepaid pension cost by NT$3,494; to increase accrued expense by NT$64,678; to decrease defined benefit obligation by NT$71,599; to increase deferred pension cost by NT$405 and to decrease minimum pension liability by NT$314,779. Also, starting from 2012, the Company elects to recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income in accordance with IAS No. 19. Therefore, adjustments were made to decrease pension costs and income tax expenses by NT$42,667 and NT$1,522, respectively, for the year ended December 31, 2012. As of December 31, 2012, an adjustment was also made to recognize actuarial gains and losses which decreased other comprehensive income and retained earnings by NT$80,505 (net of adjustments of deferred income tax assets of NT$2,383 and deferred income tax liability of NT$11,267).

(h) Under IFRSs, an entity shall recognize the expected cost of accumulated compensated absences when employees render service that increases their entitlement to future compensated absences. Therefore, as of January 1, 2012, an adjustment was made to increase accrued expenses by NT$81,060 and to decrease retained earnings by NT$67,329 (net of income tax effect of NT$13,631). In addition, as of December 31, 2012, an adjustment was also made to increase accrued expenses by NT$31,988. Further adjustments were made to increase operating expenses and to decrease costs of sales by NT$32,033 and NT$116, respectively, for the year ended December 31, 2012.

(i) The bonds payable denominated in foreign currency grants an option to the bondholder to convert a fixed number of bonds into a fixed number of the Company's common shares, using a conversion price set at New Taiwan Dollars at a fixed exchange rate. Under ROC GAAP, the conversion option is accounted for as equity. Under IFRSs, the conversion option is accounted for as a derivative financial liability as the Company has a contractual obligation to deliver a fixed number of common shares in exchange for a variable amount of cash (fixed foreign currency but translated to variable amounts of the Company's functional currency). Under IFRSs, as of December 31, 2012, adjustments were made to decrease bonds payable and capital surplus by NT$516,294 and NT$295,494, respectively, and to increase retained earnings by NT$811,788. Also, as of December 31, 2012, an adjustment was made to increase bonds payable by NT$253,965. Further adjustments were made to increase interest expenses by NT$82,393; to decrease gain on purchase of bonds payable and unrealized exchange gain on bonds payable by NT$157,269 and NT$14,303, respectively, for the year ended December 31, 2012.

(j) According to Interpretation (2001) 135 issued by the Accounting Research and Development Foundation, the cost of the Company's common stock held by its subsidiaries is determined based on the carrying value of the common stock maintained on the subsidiaries' book at the effective date of the Interpretation. Under IFRSs, treasury stock is accounted for using the initial purchase cost. Under IFRSs, as of January 1, 2012, adjustments were made to decrease treasury stock,

(Continued)

foreign currency translation adjustment, and deferred tax liability by NT$607,743, NT$536,572, and NT$71,171, respectively. Additionally, as of December 31, 2012, adjustments were also made to increase foreign currency translation adjustment by NT$17,364 and to decrease deferred income tax liability by NT$17,364.

(k) Under R.O.C. GAAP, when an entity loses significant influence over an associate, the adoption of equity method is discontinued and the carrying amount of the investment is deemed as the new cost of the investment. If there is a balance on capital surplus or other equity items arising from the equity-method investment, it is debited against disposal gain or loss proportionally when the investment is disposed. Under IFRSs, when an entity loses significant influence over an associate, the fair value of the investment at the date when the investment ceases to be an associate shall be regarded as the fair value on initial recognition of such financial asset in accordance with IAS 39. The difference between the fair value and the carrying amount of the investment and other comprehensive income arising from the investment is recognized as profit or loss. Under IFRSs, as of December 31, 2012, adjustments were made to decrease capital surplus by NT$132,344; to increase foreign currency translation adjustment by NT$18,145; to increase minimum pension liability by NT$18; and to increase unrealized loss on financial instruments by NT$471,392. Also, adjustments were made to increase investment gain recognized using equity method and gain on disposal of investments by NT$10,869 and NT$475,312, respectively, for the year ended December 31, 2012. Further adjustment was made to recognize as other income, the cash dividends of NT$117,995 which were distributed by an equity-method associate and received after the date of loss of significant influence for the year ended December 31, 2012.

(l) Under IFRSs, the Consolidated Companies have elected the exemption specified in the IFRS1 to reset the foreign currency translation adjustment to zero at the date of transition to IFRSs. Under IFRSs, as of January 1, 2012, adjustments were made to decrease retained earnings and deferred income tax liability by NT$3,923,019 and NT$4,595 respectively. The gain or loss on any subsequent disposals of any foreign operations should exclude foreign currency translation adjustment that arose before the date of transition to IFRSs. Additionally, as of December 31, 2012, an adjustment was also made to decrease foreign currency translation adjustment by NT$2,483.

(m) Under R.O.C. GAAP, if the equity stock issued for acquisition of a business is traded in an open market, the fair value is determined by the market price during a reasonable period of time before and after the announcement of the business combination agreement. Under IFRSs, the aforementioned equity stock is measured at the fair value of the acquisition date (the date on which an entity obtains control of the acquiree). Under IFRSs, as of December 31, 2012, adjustments were made to decrease goodwill and capital surplus by NT$265,127.

(n) Under R.O.C. GAAP, after-sales warranty expenses are classified under operating expense while the impairment losses on intangible assets and restructuring costs are classified under non-operating loss. However, under IFRS, the after-sale warranty expenses are classified under cost of goods sold and impairment losses on intangible assets and restructuring costs are classified under operating expenses. Under IFRS, an adjustment was made to reclassify after-sales warranty expenses of NT$8,074,840 from operating expenses to cost of sales for the year ended December 31, 2012. Additionally, an adjustment was also made to reclassify impairment loss on intangible assets and restructuring cost of NT$3,784,165 from non-operating loss to operating expenses for the year ended December 31, 2012.

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(o) Under R.O.C. GAAP, if a valuation allowance is recognized at the acquisition date for deferred tax assets acquired through business combination accounted for using the purchase method of accounting, the income tax benefit recognized as a result of the elimination of valuation allowance subsequent to the acquisition is to be applied first to reduce goodwill related to the acquisition. The remaining tax benefit, if any, is applied to reduce income tax expense. Under IFRSs, the income tax benefit recognized as a result of the elimination of valuation allowance subsequent to the acquisition shall reduce income tax expense. Under IFRSs, as of December 31, 2012, an adjustment was made to increase goodwill by NT$85,452. Further adjustment was made to decrease income tax expense by NT$84,904 for the year ended December 31, 2012.

6. Under IFRS 1 "First-time Adoption of International Financial Reporting Standards", except for the optional exemptions and mandatory exceptions, an entity that adopts IFRSs for the first time should apply all IFRSs which are effective and approved by the FSC in preparing financial statements and should make adjustments retrospectively. The main optional exemptions that have been elected by the Consolidated Companies were as follows:

   (a) The Consolidated Companies have elected not to retrospectively adjust the transactions of business combination and acquisition of subsidiaries and associates occurred before January 1, 2012.

   (b) The Consolidated Companies have elected to recognize all cumulative actuarial gains and losses on employee benefits in retained earnings at the date of transition to IFRSs.

   (c) The Consolidated Companies have elected the exemption from the retrospective application of IFRS 2 "Share-based Payment" to all equity instruments that were granted and vested before January 1, 2012.

   (d) The Consolidated Companies have elected to reset the foreign currency translation adjustment to zero and adjust the retained earnings at the date of transition to IFRSs. The gain or loss on any subsequent disposals of any foreign operations should exclude foreign currency translation adjustment that arose before the date of transition to IFRSs.

7. The Consolidated Companies' aforementioned assessment is based on the 2010 version of IFRSs translated by ARDF and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers issued by the SFC. However, the current assessment may be impacted by different accounting policies adopted in the preparation of 2013 IFRS financial statements, and the different exemptions elected under IFRS 1 in case of changes in the economic conditions and events which may occur in the future.

8. Pursuant to Rule No. 100116 promulgated by the FSC dated January 3, 2000, the Company had appropriated a special reserve of NT$4,659,275 that is equal to the aggregate amount of debit balances of specified items of the stockholders' equity. As the Company has elected to reset the debit balance of foreign currency translation adjustment to zero, the special reserve will be reverted to retained earnings accordingly. The Company will reevaluate the impact of over-appropriated special reserve, if any, in 2013.

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11. Operating Segment information

(1) Industry financial information

The Consolidated Companies' reportable segments include the device business group (Device BG) and other business group. The Device BG engages mainly in the research, design, marketing and service activities of personal computers, IT products, smart hand held and tablet products. Other business group which does not meet the quantitative threshold mainly engages in the activities of E-commerce, distribution of IT products, and cloud services.

Strategic investment expenditures, such as global branding expenditures and the amortization of the capital expenditures for the strengthening of 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 segment and the accounting policies described in Note 2.

	2012			
	Device BG NT$	**Others NT$**	**Adjustments and eliminations NT$**	**Total NT$**
External revenue	416,050,381	14,244,981	(784,449)	429,510,913
Intra-group revenue	1,691,537	1,267,475	(2,959,012)	-
Total segment revenue	417,741,918	15,512,456	(3,743,461)	429,510,913
Segment profit	4,775,721	273,512	(4,024,527)	1,024,706
Other material non-cash items:				
Impairment loss on intangible assets	3,496,114	-	-	3,496,114
Segment assets	-	-	-	-

	2011			
	Device BG NT$	**Others NT$**	**Adjustments and eliminations NT$**	**Total NT$**
External revenue	464,565,678	15,282,358	(4,589,918)	475,258,118
Intra-group revenue	2,217,893	1,548,695	(3,766,588)	-
Total segment revenue	466,783,571	16,831,053	(8,356,506)	475,258,118
Segment profit (loss)	551,517	461,055	(7,492,644)	(6,480,072)
Segment assets	-	-	-	-

(note 1) On June 1, 2011, the Company's board of directors resolved to provide one-time sales allowance of NT$4,320,000 (approximately US$ 150,000) to EMEA distributors. This sales allowance was not allocated to the reportable segments.

(note 2) The information of segment assets is not provided to the chief operating decision maker. As a result, no disclosure was made.

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ACER INCORPORATED AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) General information

(a) Product information

Products	2012 NT$	2012 US$	2011 NT$
Personal computers	364,131,334	12,497,643	402,454,705
Peripherals and others	65,379,579	2,243,945	72,803,413
	429,510,913	**14,741,588**	**475,258,118**

(b) Geographic information

External sales

Region	2012 NT$	2012 US$	2011 NT$
Europe, Middle East and Africa	163,752,129	5,620,268	168,127,007
Pan America	103,220,570	3,542,716	123,540,109
Asia	139,304,907	4,781,195	157,276,477
Taiwan	23,233,307	797,409	26,314,525
	429,510,913	**14,741,588**	**475,258,118**

Non-current assets:

Region	December 31, 2012 NT$	December 31, 2012 US$	December 31, 2011 NT$
Europe, Middle East and Africa	2,661,968	91,364	3,086,714
Pan America	25,319,826	869,022	16,375,159
Asia	5,630,895	193,262	6,311,921
Taiwan	15,810,581	542,648	20,526,344
Others	189,653	6,509	261,111
	49,612,923	**1,702,805**	**46,561,249**

(c) Major customers' information

No sales to individual customers accounted for more than 10% of the consolidated revenues in 2012 and 2011.