

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

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

**With Independent Accountants' Review Report
For the Three Months Ended March 31, 2018 and 2017**

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

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Independent Accountants' Review Report

To the Board of Directors of Pegatron Corporation:

Introduction

We have reviewed the accompanying consolidated balance sheets of the Pegatron Corporation and its subsidiaries of March 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2018 and 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards ("IASs") 34, "Interim Financial Reporting" endorsed by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our review.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 4(c), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent accountants. These financial statements reflect total assets amounting to \$31,908,950 thousand and \$34,825,600 thousand, constituting 6.58% and 8.95% of consolidated total assets as of March 31, 2018 and 2017, respectively, total liabilities amounting to \$9,439,811 thousand and \$11,856,731 thousand, constituting 3.15% and 5.67% of consolidated total liabilities as of March 31, 2018 and 2017, respectively, and total comprehensive (loss) income amounting to \$(406,136) thousand and \$562,610 thousand, constituting (44.77)% and (23.90)% of consolidated total comprehensive income (loss) for the three months ended March 31, 2018 and 2017, respectively.

Furthermore, as stated in Note 6(i), the other equity accounted investments of the Pegatron Corporation and its subsidiaries in its investee companies of \$285,983 thousand and \$73,327 thousand as of March 31, 2018 and 2017, respectively, and its equity in net earnings (loss) on these investee companies of \$48,448 thousand and \$(626) thousand for the three months months ended March 31, 2018 and 2017, respectively, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent accountants.

Qualified Conclusion

Based on our reviews and the review reports of other accountants (please refer to Other Matter paragraph), except for the effects of the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent accountants, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Pegatron Corporation and its subsidiaries as of March 31, 2018 and 2017, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, “Interim Financial Reporting” endorsed by the Financial Supervisory Commission of the Republic of China.

Other Matter

We did not review the financial statements of certain consolidated subsidiaries, with total assets of \$53,602,268 thousand and \$50,272,465 thousand, representing 11.06% and 12.92% of the related consolidated total assets as of March 31, 2018 and 2017, and net sales of \$8,653,435 thousand and \$7,819,217 thousand, representing 3.08% and 3.27% of the related consolidated total net sales for the three months ended March 31, 2018 and 2017, respectively. Those financial statements were reviewed by other accountants whose reports have been furnished to us, and our review, insofar as it relates to the amounts included for certain consolidated subsidiaries, are based solely on the reports of the other accountants.

The engagement partners on the review resulting in this independent auditors’ report are Kuo-Yang Tseng and Chi-Lung Yu.

KPMG

Taipei, Taiwan (Republic of China)
May 10, 2018

Notes to Readers

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

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

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REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH THE GENERALLY ACCEPTED AUDITING STANDARDS
AS OF MARCH 31, 2018 AND 2017

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2018, December 31, 2017, and March 31, 2017

(Expressed in Thousands of New Taiwan Dollars)

	March 31, 2018		December 31, 2017		March 31, 2017	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100	Cash and cash equivalents (Note 6(a))	\$ 131,851,916	27	107,444,124	22	108,698,296 28
1110	Current financial assets at fair value through profit or loss (Note 6(b))	3,593,919	1	2,824,913	1	3,511,565 1
1125	Current available-for-sale financial assets (Note 6(d))	-	-	384,782	-	307,289 -
1170	Notes and accounts receivable, net (Note 6(f))	123,123,210	25	149,414,212	31	63,793,395 16
1200	Other receivables, net (Note 6(g))	1,576,916	-	1,490,873	-	38,524,950 10
130X	Inventories (Note 6(h))	116,294,930	24	123,874,993	25	88,619,897 22
1476	Other current financial assets (Notes 6(n) and 8)	4,057,804	1	1,222,740	-	1,824,464 1
1479	Other current assets (Note 6(n))	9,082,013	2	8,741,935	2	6,148,612 2
		<u>389,580,708</u>	<u>80</u>	<u>395,398,572</u>	<u>81</u>	<u>311,428,468 80</u>
Non-current assets:						
1510	Non-current financial assets at fair value through profit or loss (Note 6(b))	300,265	-	-	-	-
1517	Non-current financial assets at fair value through other comprehensive income (Note 6(c))	1,000,963	-	-	-	-
1523	Non-current available-for-sale financial assets (Note 6(d))	-	-	1,158,831	-	863,154 -
1543	Non-current financial assets carried at cost (Note 6(e))	-	-	350,509	-	371,082 -
1550	Investments accounted for using equity method, net (Note 6(i))	432,443	-	503,718	-	342,274 -
1600	Property, plant and equipment (Notes 6(k) and 8)	80,415,889	17	78,075,271	16	64,545,578 17
1760	Investment property, net (Note 6(l))	52,920	-	52,870	-	53,339 -
1780	Intangible assets (Note 6(m))	1,452,078	-	1,497,234	-	1,369,215 -
1840	Deferred tax assets	3,363,223	1	3,345,992	1	2,498,547 1
1915	Prepayments on purchase of equipment	3,086,507	1	3,717,374	1	3,404,398 1
1980	Other non-current financial assets (Notes 6(n) and 8)	570,223	-	300,700	-	297,853 -
1985	Long-term prepaid rentals (Note 6(s))	3,761,213	1	3,783,164	1	3,742,096 1
1990	Other non-current assets (Note 6(n))	620,218	-	51,384	-	42,801 -
		<u>95,055,942</u>	<u>20</u>	<u>92,837,047</u>	<u>19</u>	<u>77,530,337 20</u>
Total assets		<u>\$ 484,636,650</u>	<u>100</u>	<u>488,235,619</u>	<u>100</u>	<u>388,958,805 100</u>

See accompanying notes to financial statements.

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AS OF MARCH 31, 2018 AND 2017

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets (CONT'D)

March 31, 2018, December 31, 2017, and March 31, 2017

(Expressed in Thousands of New Taiwan Dollars)

	<u>March 31, 2018</u>		<u>December 31, 2017</u>		<u>March 31, 2017</u>	
	Amount	%	Amount	%	Amount	%
Liabilities and Equity						
Current liabilities:						
2100	\$ 74,193,498	15	46,058,620	10	31,840,327	8
2130	1,089,844	-	-	-	-	-
2150	146,890,295	30	186,896,307	38	119,137,757	31
2209	22,498,115	5	27,121,355	6	20,700,469	5
2219	8,285,443	2	11,432,493	2	5,347,234	2
2230	2,503,952	1	3,132,941	1	4,551,125	1
2250	-	-	186,802	-	129,491	-
2313	-	-	902,193	-	938,740	-
2322	2,201,250	-	1,107,312	-	563,864	-
2399	16,633,992	4	14,489,124	3	14,197,709	4
	<u>274,296,389</u>	<u>57</u>	<u>291,327,147</u>	<u>60</u>	<u>197,406,716</u>	<u>51</u>
Non-Current liabilities:						
2527	719,823	-	-	-	-	-
2530	14,985,048	3	6,992,476	2	-	-
2540	7,463,484	2	6,954,800	1	8,565,032	2
2570	1,633,696	-	1,601,481	-	1,773,727	1
2670	868,236	-	1,635,905	-	1,345,186	-
	<u>25,670,287</u>	<u>5</u>	<u>17,184,662</u>	<u>3</u>	<u>11,683,945</u>	<u>3</u>
	<u>299,966,676</u>	<u>62</u>	<u>308,511,809</u>	<u>63</u>	<u>209,090,661</u>	<u>54</u>
Total liabilities						
Equity Attributable to Owners of the Parent Company (Note 6(v)):						
3100	26,138,964	5	26,140,906	5	25,749,449	7
Capital surplus:						
3210	74,283,735	15	74,283,165	15	73,312,425	19
3280	5,786,681	1	5,614,586	1	4,904,116	1
	<u>80,070,416</u>	<u>16</u>	<u>79,897,751</u>	<u>16</u>	<u>78,216,541</u>	<u>20</u>
Retained earnings:						
3310	9,194,524	2	9,194,524	2	7,260,543	2
3320	3,368,986	1	3,368,986	1	-	-
3350	40,523,793	8	37,412,958	8	44,725,738	11
	<u>53,087,303</u>	<u>11</u>	<u>49,976,468</u>	<u>11</u>	<u>51,986,281</u>	<u>13</u>
Other equity interest:						
3410	(10,911,507)	(2)	(9,698,374)	(2)	(9,353,966)	(2)
3420	(175,714)	-	-	-	-	-
3425	-	-	883,161	-	325,122	-
3491	(908,776)	-	(1,222,232)	-	(270,949)	-
	<u>(11,995,997)</u>	<u>(2)</u>	<u>(10,037,445)</u>	<u>(2)</u>	<u>(9,299,793)</u>	<u>(2)</u>
3500	(6,786)	-	(1,942)	-	(2,113)	-
	<u>147,293,900</u>	<u>30</u>	<u>145,975,738</u>	<u>30</u>	<u>146,650,365</u>	<u>38</u>
Equity attributable to the parent company						
36xx	37,376,074	8	33,748,072	7	33,217,779	8
	<u>184,669,974</u>	<u>38</u>	<u>179,723,810</u>	<u>37</u>	<u>179,868,144</u>	<u>46</u>
Total equity						
Total liabilities and equity						
	<u>\$ 484,636,650</u>	<u>100</u>	<u>488,235,619</u>	<u>100</u>	<u>388,958,805</u>	<u>100</u>

See accompanying notes to financial statements.

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PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

		For the three months ended March 31			
		2018		2017	
		Amount	%	Amount	%
4110	Sales revenue (Notes 6(z) and 6(aa))	\$ 281,573,892	100	239,974,008	100
4170	Less: Sales returns and allowances	680,555	-	974,719	-
	Operating revenue, net	<u>280,893,337</u>	100	<u>238,999,289</u>	100
5000	Cost of sales (Notes 6(h), 6(t), 6(ab) and 7)	<u>271,692,255</u>	97	<u>227,038,185</u>	95
	Gross profit from operations	<u>9,201,082</u>	3	<u>11,961,104</u>	5
6000	Operating expenses (Notes 6(t) and 6(ab)):				
6100	Selling expenses	1,179,517	-	1,100,285	1
6200	General and administrative expenses	2,440,024	1	2,117,485	1
6300	Research and development expenses	<u>3,431,350</u>	1	<u>3,166,127</u>	1
	Total operating expenses	<u>7,050,891</u>	2	<u>6,383,897</u>	3
	Net operating income	<u>2,150,191</u>	1	<u>5,577,207</u>	2
	Non-operating income and expenses:				
7010	Other income (Notes 6(l) and 6(ac))	1,001,720	-	769,732	-
7020	Other gains and losses (Notes 6(l) and 6(ac))	(437,034)	-	(1,018,030)	-
7050	Finance costs (Note 6(ac))	(448,655)	-	(192,152)	-
7060	Share of profit (loss) of associates and joint ventures accounted for using equity method (Note 6(i))	42,757	-	(5,082)	-
7590	Miscellaneous disbursements	<u>(21,793)</u>	-	<u>(23,947)</u>	-
		<u>136,995</u>	-	<u>(469,479)</u>	-
	Profit from continuing operations before tax	2,287,186	1	5,107,728	2
7950	Less: Tax expense (Note 6(u))	<u>326,361</u>	-	<u>954,431</u>	-
	Profit for the period	<u>1,960,825</u>	1	<u>4,153,297</u>	2
8300	Other comprehensive income:				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8316	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	(14,666)	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
		<u>(14,666)</u>	-	-	-
8360	Components of other comprehensive income that will be reclassified to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(1,047,581)	-	(6,630,020)	(3)
8362	Unrealized gains on valuation of available-for-sale financial assets	-	-	141,169	-
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss (Note 6(i))	7,689	-	1,540	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	<u>(959)</u>	-	<u>19,650</u>	-
	Total components of other comprehensive income that will be reclassified to profit or loss	<u>(1,038,933)</u>	-	<u>(6,506,961)</u>	(3)
8300	Other comprehensive income for the period, net of tax	<u>(1,053,599)</u>	-	<u>(6,506,961)</u>	(3)
8500	Total comprehensive income for the period	<u>\$ 907,226</u>	-	<u>(2,353,664)</u>	(1)
	Profit attributable to:				
8610	Owners of the parent company	\$ 2,079,197	1	3,881,531	2
8620	Non-controlling interests	<u>(118,372)</u>	-	<u>271,766</u>	-
		<u>\$ 1,960,825</u>	1	<u>4,153,297</u>	2
	Comprehensive income attributable to:				
8710	Owners of the parent company	\$ 840,175	-	(1,778,327)	(1)
8720	Non-controlling interests	67,051	-	(575,337)	-
		<u>\$ 907,226</u>	-	<u>(2,353,664)</u>	(1)
	Earnings per share, net of tax (Note 6(y))				
9750	Basic earnings per share	<u>\$ 0.80</u>		<u>1.51</u>	
9850	Diluted earnings per share	<u>\$ 0.79</u>		<u>1.50</u>	

See accompanying notes to financial statements.

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PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent																
	Share capital						Total other equity interest								Non-controlling interests	Total equity	
	Retained earnings						Unrealized gains (losses) on financial assets		Unrealized gains (losses) on available-for-sale financial assets		Deferred compensation cost		Total other equity interest				Total equity attributable to owners of parent
Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	measured at fair value through other comprehensive income	Deferred compensation cost	Total other equity interest	Treasury stock	Total equity attributable to owners of parent	Total equity attributable to owners of parent	Total equity				
Balance at January 1, 2017	\$ 25,751,695	78,214,259	7,260,543	-	40,844,207	48,104,750	(3,552,939)	-	183,953	(429,882)	(3,798,868)	(2,246)	148,269,590	33,752,611	182,022,201		
Profit for the period	-	-	-	-	3,881,531	3,881,531	-	-	-	-	-	-	3,881,531	271,766	4,153,297		
Other comprehensive income for the period	-	-	-	-	-	-	(5,801,027)	-	141,169	-	(5,659,858)	-	(5,659,858)	(847,103)	(6,506,961)		
Total comprehensive income for the period	-	-	-	-	3,881,531	3,881,531	(5,801,027)	-	141,169	-	(5,659,858)	-	(1,778,327)	(575,337)	(2,353,664)		
Expiration of restricted shares of stock issued to employees	(2,246)	2,113	-	-	-	-	-	-	-	-	-	133	-	-	-		
Compensation cost arising from restricted shares of stock	-	169	-	-	-	-	-	-	-	158,933	158,933	-	159,102	-	159,102		
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	40,505	40,505		
Balance at March 31, 2017	\$ 25,749,449	78,216,541	7,260,543	-	44,725,738	51,986,281	(9,353,966)	-	325,122	(270,949)	(9,299,793)	(2,113)	146,650,365	33,217,779	179,868,144		
Balance at January 1, 2018	\$ 26,140,906	79,897,751	9,194,524	3,368,986	37,412,958	49,976,468	(9,698,374)	-	883,161	(1,222,232)	(10,037,445)	(1,942)	145,975,738	33,748,072	179,723,810		
Effects of retrospective application	-	-	-	-	1,031,638	1,031,638	11,223	(161,048)	(883,161)	-	(1,032,986)	-	(1,348)	-	(1,348)		
Balance at January 1, 2018 after adjustments	26,140,906	79,897,751	9,194,524	3,368,986	38,444,596	51,008,106	(9,687,151)	(161,048)	-	(1,222,232)	(11,070,431)	(1,942)	145,974,390	33,748,072	179,722,462		
Profit for the period	-	-	-	-	2,079,197	2,079,197	-	-	-	-	-	-	2,079,197	(118,372)	1,960,825		
Other comprehensive income for the period	-	-	-	-	-	-	(1,224,356)	(14,666)	-	-	(1,239,022)	-	(1,239,022)	185,423	(1,053,599)		
Total comprehensive income for the period	-	-	-	-	2,079,197	2,079,197	(1,224,356)	(14,666)	-	-	(1,239,022)	-	840,175	67,051	907,226		
Changes in ownership interests in subsidiaries	-	165,309	-	-	-	-	-	-	-	-	-	-	165,309	(165,309)	-		
Expiration of restricted shares of stock issued to employees	(1,942)	6,786	-	-	-	-	-	-	-	-	-	(4,844)	-	-	-		
Compensation cost arising from restricted shares of stock	-	570	-	-	-	-	-	-	-	313,456	313,456	-	314,026	-	314,026		
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	3,726,260	3,726,260		
Balance at March 31, 2018	\$ 26,138,964	80,070,416	9,194,524	3,368,986	40,523,793	53,087,303	(10,911,507)	(175,714)	-	(908,776)	(11,995,997)	(6,786)	147,293,900	37,376,074	184,669,974		

See accompanying notes to financial statements.

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REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2018	2017
Cash flows from operating activities:		
Profit before tax	\$ 2,287,186	5,107,728
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	3,782,934	3,080,359
Amortization expense	67,174	43,546
Expected credit gain / Reversal of provision for bad debt expense	(32,376)	(169,354)
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	14,628	(121,310)
Interest expense	445,301	168,886
Interest income	(512,132)	(318,541)
Compensation cost arising from employee stock options	404,256	159,607
Amortization of issuance costs on bonds payable	571	-
Share of (gain) loss of associates and joint ventures accounted for using equity method	(42,757)	5,082
(Gain) loss on disposal of property, plant and equipment	(21,918)	38,221
Property, plant and equipment charged to expenses	4	10,823
Loss on disposal of investments	2,013	5,418
(Reversal of) Impairment loss	6,687	(13,410)
Gain on foreign currency exchange on long-term loans	(125,678)	(66,004)
Long-term prepaid rent charged to expenses	22,763	46,476
Reversal of other current liabilities	(44,780)	-
Reversal of provisions	-	(15,667)
Total adjustments to reconcile profit	<u>3,966,690</u>	<u>2,854,132</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
(Increase) decrease in financial assets at fair value through profit or loss	(213,874)	977,592
Decrease in notes and accounts receivable	26,351,413	29,690,131
Decrease in other receivables	2,831	4,120,800
Decrease in inventories	7,580,063	18,699,505
Decrease in other current assets	109,571	991,630
Increase in other financial assets	(2,835,064)	(1,344,954)
Increase in other non-current assets	(568,834)	(2,835)
Total changes in operating assets	<u>30,426,106</u>	<u>53,131,869</u>
Changes in operating liabilities:		
Decrease in contract liabilities	(45,040)	-
Decrease in notes and accounts payable	(40,006,013)	(52,127,936)
Decrease in accrued expenses	(4,391,114)	(4,562,951)
Decrease in other payables	(4,526,062)	(415,538)
Decrease in provisions	-	(14,906)
Decrease in deferred revenue	-	(109,995)
Increase (decrease) in other current liabilities	2,118,113	(689,088)
Decrease in other non-current liabilities	(42,157)	(6,769)
Total changes in operating liabilities	<u>(46,892,273)</u>	<u>(57,927,183)</u>
Total changes in operating assets and liabilities	<u>(16,466,167)</u>	<u>(4,795,314)</u>
Total adjustments	<u>(12,499,477)</u>	<u>(1,941,182)</u>
Cash (outflow) inflow generated from operations	(10,212,291)	3,166,546
Interest received	416,279	308,767
Interest paid	(377,500)	(151,100)
Income taxes paid	(1,337,151)	(985,673)
Net cash flows (used in) from operating activities	<u>(11,510,663)</u>	<u>2,338,540</u>

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (CONT'D)

For the three months ended March 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2018	2017
Cash flows used in investing activities:		
Proceeds from disposal of available-for-sale financial assets	-	6,709
Proceeds from capital reduction of investments accounted for using equity method	113,889	-
Acquisition of property, plant and equipment	(2,349,992)	(2,157,337)
Proceeds from disposal of property, plant and equipment	110,265	245,083
Acquisition of intangible assets	(43,931)	(35,700)
(Increase) decrease in other financial assets	(269,523)	129,802
Increase in prepayments on purchase of equipment	(2,378,252)	(1,664,762)
Increase in long-term prepaid rentals	(29,830)	(5,106)
Net cash flows used in investing activities	(4,847,374)	(3,481,311)
Cash flows from financing activities:		
Increase in short-term loans	28,128,351	691,859
Proceeds from issuing bonds	7,992,000	-
Proceeds from long-term loans	1,860,050	4,246,200
Repayments of long-term loans	(131,750)	(111,647)
Redemption of restricted stock	-	(2,113)
Change in non-controlling interests	3,703,530	-
Net cash flows from financing activities	41,552,181	4,824,299
Effect of exchange rate fluctuations on cash held	(786,352)	(3,696,544)
Net increase (decrease) in cash and cash equivalents	24,407,792	(15,016)
Cash and cash equivalents, beginning of the period	107,444,124	108,713,312
Cash and cash equivalents, end of the period	\$ 131,851,916	108,698,296

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 31, 2018 and 2017

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

(1) Company history

PEGATRON CORPORATION (the “Company”) was established on June 27, 2007. The Company’s registered office address is located at 5F., No.76, Ligong St., Beitou District, Taipei City 112, Taiwan. In order to enhance competitiveness and boost productivity, the Company resolved to absorb the OEM business from ASUSTek Computer Inc. on January 1, 2008 as part of the Company’s business restructuring. On April 1, 2008, ASUSALPHA Computer Inc. was merged with the Company. The main activities of the Company are to produce, design and sell OEM business. In January 2010, pursuant to the resolutions of the respective board of directors, the Company merged with Pegatron International Investment Co., Ltd., effective June 10, 2010. As the surviving entity from this merger, the Company applied for initial public offering (IPO) to TSEC. The Company’s shares were listed on TSEC on June 24, 2010.

In accordance with Article 19 of the Business Mergers and Acquisitions Act, the Company merged with its subsidiary, UNIHAN CORPORATION, pursuant to the resolutions of the board of directors in November, 2013.

The consolidated financial statements of the Company as of and for the three months ended March 31, 2018 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates entities.

(2) Approval date and procedures of the consolidated financial statements:

The accompanying consolidated financial statements were authorized for issue by the Board of Directors on May 10, 2018 .

(3) Application of new standards, amendments and interpretations:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The Group has prepared its consolidated financial statements in conformity with the following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “Clarifications of Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IAS 7 “Statement of Cash Flows -Disclosure Initiative”	January 1, 2017

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IAS 12 “Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 “Revenue” and IAS 11 “Construction Contracts”. The Group applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Group recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The Group uses the practical expedients for completed contracts, which means it need not restate those contracts that have been completed on January 1, 2018.

The following are the nature and impacts on changing of accounting policies :

1) Sales of goods

For the sale of products, revenue was recognized when the goods are delivered to the *customers’ premises*, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

For certain contracts that permit a customer to return an item, revenue was recognized when a reasonable estimate of the returns can be made, provided that all other criteria for revenue recognition are met. Otherwise, a revenue recognition is deferred until the return period lapses or a reasonable estimate of returns can be made.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Under IFRS 15, revenue will be recognized for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. A refund liability and an asset for recovery will be recognized for these contracts and presented separately in the balance sheet.

2) Impacts on financial statements

The following tables summarize the impacts of adopting IFRS15 on the Group's consolidated financial statements :

Impacted line items on the consolidated balance sheet	March 31, 2018			January 1, 2018		
	Balances without adoption of IFRS 15	Impact of changes in accounting policies	Balance with adoption of IFRS 15	Balances without adoption of IFRS 15	Impact of changes in accounting policies	Balance with adoption of IFRS 15
Right to returned goods (under other current assets)	\$ -	82,088	82,088	-	111,809	111,809
Allowance for sales return and discounts (under contra account of accounts receivable)	(31,710)	<u>31,710</u>	-	(28,700)	<u>28,700</u>	-
Impact on assets		<u>113,798</u>			<u>140,509</u>	
Current provisions	\$ 142,968	(142,968)	-	186,802	(186,802)	-
Deferred revenue	862,387	(862,387)	-	902,193	(902,193)	-
Unearned sales revenue (under other current liabilities)	227,457	(227,457)	-	227,001	(227,001)	-
Current contract liabilities	-	1,089,844	1,089,844	-	1,129,194	1,129,194
Refund liabilities (under other current liabilities)	-	256,766	256,766	-	327,311	327,311
Non-current contract liabilities	-	719,823	719,823	-	725,513	725,513
Long-term deferred revenue (under other non-current liabilities)	719,823	<u>(719,823)</u>	-	725,513	<u>(725,513)</u>	-
Impact on liabilities		<u>113,798</u>			<u>140,509</u>	

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Impacted line items on the consolidated statement of cash flows</u>	<u>For the three months ended March 31, 2018</u>		
	<u>Balances without adoption of IFRS 15</u>	<u>Impact of changes in accounting policies</u>	<u>Balances with adoption of IFRS 15</u>
Cash flows from operating activities:			
Profit before tax	\$ 2,287,186	-	2,287,186
Adjustments:			
Decrease in accounts receivable	3,010	(3,010)	-
Reversal of provision	(44,780)	44,780	-
Reversal of other current liabilities	-	(44,780)	(44,780)
Decrease in contract liabilities	-	(45,040)	(45,040)
Decrease in deferred revenue	(39,806)	39,806	-
Increase in unearned sales revenue (under other current liabilities)	456	(456)	-
Increase in refund liabilities (under other current liabilities)	-	3,010	3,010
Decrease in long-term deferred revenue (under other non-current liabilities)	(5,690)	<u>5,690</u>	-
Impact on net cash flows from operating activities		<u><u>-</u></u>	

(ii) IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “Financial Instruments: Recognition and Measurement” which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group’s approach was to include the impairment of trade receivables in operating expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 “Financial Instruments: Disclosures” that are applied to disclosures about 2018 but generally have not been applied to comparative information.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The significant changes in accounting policies due to the application of IFRS 9 are as follows :

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. Please refer to Note 4(h) for an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9.

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities. Please refer to Note 4(g) for accounting policies applied to financial liabilities beginning January 1, 2018.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please refer to Note 4(h).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity interest as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as of January 1, 2018. (There is no change in both categories and carrying value of financial liabilities.)

	<u>IAS39</u>		<u>IFRS9</u>	
	<u>Measurement categories</u>	<u>Carrying Amount</u>	<u>Measurement categories</u>	<u>Carrying Amount</u>
Financial Assets				
Cash and equivalents	Loans and receivables	107,444,124	Amortized cost	107,444,124
Debt instruments	Designated as at FVTPL (Note 1)	2,473,128	Mandatorily at FVTPL	2,473,128
Equity instruments	Designated as at FVTPL (Note 2)	322,985	Mandatorily at FVTPL	322,985
	Available-for-sale (Note 3)	836,278	Mandatorily at FVTPL	836,278
	Designated as at FVTPL (Note 4)	28,800	FVOCI	28,800
	Available-for-sale (Note 4)	707,335	FVOCI	707,335
	Carried at cost (Note 5)	279,494	FVOCI	279,494
	Carried at cost (Note 6)	71,015	Mandatorily at FVTPL	71,015
Notes and accounts receivables	Loans and receivables (Note 7)	150,905,085	Amortized cost	150,905,085
Other financial assets	Loans and receivables	1,523,440	Amortized cost	1,523,440

Note 1: Under IAS 39, these debt securities were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

Note 2: Under IAS 39, these equity securities were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

Note 3: As permitted by IFRS 9, the Group has designated these equity investments at the date of initial application as mandatorily measured at FVTPL. Accordingly, an increase of \$606,270 in retained earnings, and a decrease of \$606,270 in other equity interest were recognized on January 1, 2018.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Note 4: Under IAS 39, these equity securities were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Accordingly, a decrease of \$5,850 in retained earnings, and an increase of \$5,850 in other equity interest were recognized on January 1, 2018.

Note 5: These equity securities (including financial assets carried at cost) represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Accordingly, a decrease of \$274,587 in other equity interest, as well as the increase of \$274,587 in retained earnings were recognized on January 1, 2018.

Note 6: Under IAS 39, these equity securities were measured at cost. As permitted by IFRS 9, the Group has classified these investments at the date of initial application as mandatorily measured at FVTPL.

Note 7: Notes receivables, accounts receivables and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. An increase of \$1,348 in the allowance for impairment was recognized in opening retained earnings upon transition to IFRS 9 on January 1, 2018. In addition to the changes detailed above, the Group recognized the amount of \$1,348 in opening retained earnings on January 1, 2018.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Retained earnings	2018.1.1 Other equity
Fair value through profit or loss						
Beginning balance of FVTPL (IAS 39)	\$ 2,824,913	-	-	-	-	-
Additions – equity instruments:						
From available-for-sale	-	836,278	-	-	606,270	(606,270)
From financial assets carried at cost	-	71,015	-	-	-	-
Subtraction – equity instruments:						
To FVOCI	-	(28,800)	-	-	-	-
Total	<u>\$ 2,824,913</u>	<u>878,493</u>	<u>-</u>	<u>3,703,406</u>	<u>606,270</u>	<u>(606,270)</u>
Fair value through other comprehensive income						
Beginning balance of available-for-sale (including carried at cost) (IAS 39)	\$ 1,894,122	-	-	-	-	-
Addition – equity instruments:						
From FVTPL	-	28,800	-	-	(5,850)	5,850
Subtraction – equity instruments:						
To FVTPL – required reclassification based on classification criteria	-	(907,293)	-	-	-	-
Total	<u>\$ 1,894,122</u>	<u>(878,493)</u>	<u>-</u>	<u>1,015,629</u>	<u>(5,850)</u>	<u>5,850</u>
Amortized cost						
Beginning balance of accounts receivables, and other financial asset (IAS 39)	\$ 152,428,525	-	-	-	-	-
Adjustments for allowance of impairment for financial assets measured at amortized cost	-	-	(1,348)	-	(1,348)	-
Total	<u>\$ 152,428,525</u>	<u>-</u>	<u>(1,348)</u>	<u>152,427,177</u>	<u>(1,348)</u>	<u>-</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Amendments to IAS 7 “Disclosure Initiative”

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities as Note 6(ah).

(b) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC :

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 16 “Leases”	January 1, 2019
IFRS 17 “Insurance Contracts”	January 1, 2021
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019

Those which may be relevant to the Group are set out below:

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(4) Summary of significant accounting policies:

The following significant accounting policies have been applied consistently to all periods presented in the consolidated financial statements unless otherwise specified.

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with the revised Regulations Governing the Preparation of Financial Reports by Securities Issuers in the Republic of China (hereinafter referred to the Regulations), International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed by the FSC (hereinafter referred to as “IFRS endorsed by the FSC”).

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;
- 2) Available-for-sale financial assets are measured at fair value (applicable before January 1, 2018) ;
- 3) Financial assets at fair value through other comprehensive income (applicable from January 1, 2018) ;
- 4) The net defined benefit liability is recognized as the present value of the defined benefit obligation less the fair value of plan assets.

(ii) Functional and presentation currency

The functional currency of each Group entities is determined based on the primary economic environment in which the entities operate. The consolidated financial statements are presented in New Taiwan Dollar, which is the Company’s functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized income arising from investment accounted for using equity method is eliminated against the Company invested in its subsidiaries. The accounting treatment for unrealized loss is the same as unrealized income only when there is no indication of impairment.

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

(ii) Acquisition of non-controlling interests

Acquisition of non-controlling interests is accounted for as an equity transaction with owners. Under the aforesaid transaction, goodwill is not recognized.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iv) Business combination under common control

The business combinations under common control often occur as the group activities are recognized in which the direct ownership of subsidiaries changes but the ultimate parent remains the same. These combinations are treated as the later of either the earliest comparative period in financial statements or the date of common control that requires the restatement of comparative information of prior period. Upon consolidation, assets and liabilities of the acquired entity are recognized at their carrying amount in the consolidated financial statements of owners of the Company. The equity of the consolidated entity is accounted for under the non-controlling interest, and related income and loss are directly recognized in profits attributable to non-controlling interest.

(v) Losing control

When the Group loses control of a subsidiary it derecognizes the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognized in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. Subsequently, the retained investment is recognized as either investments accounted for using equity method or financial instruments at FVOCI depending on the extent of its impact. (Recognized as available-for-sale financial assets before January 1, 2018)

(vi) List of subsidiaries included in the consolidated financial statements :

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2018	December 31, 2017	March 31, 2017	
THE COMPANY	UNIHAN HOLIDNG LTD. (UNIHAN HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Note 16
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDINGS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 16

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2018	December 31, 2017	March 31, 2017	
CASETEK HOLDINGS	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 16
CASETEK HOLDINGS	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 16
CASETEK HOLDINGS	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDINGS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 16
KAEDAR HOLDINGS	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00 %	100.00 %	100.00 %	Note 16
CASETEK HOLDINGS	KAEDAR TRADING LTD.	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 16
CASETEK HOLDINGS	CORE-TEK (SHANGHAI) LIMITED	Researching and producing spare parts for notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 16
CASETEK HOLDINGS	KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	Manufacturing, developing and inspecting computers and application systems, designing and manufacturing nonmetal and metal tooling, developing plastic and electronic component, selling self-manufactured products	100.00 %	100.00 %	100.00 %	Note 16
THE COMPANY, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	32.76 %	37.04 %	38.08 %	Notes 1 and 3
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00 %	100.00 %	100.00 %	Notes 1 and 16
AZURE WAVE	Azwave Holding (Samoa) Inc.(Azwave Samoa)	Investing activities	100.00 %	100.00 %	100.00 %	Note 1
AZURE WAVE	Azurewave Technologies (USA) Inc.	Market development activities	100.00 %	100.00 %	100.00 %	Notes 1 and 16
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00 %	100.00 %	100.00 %	Notes 1 and 16
Azwave Samoa	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and trading computer products	100.00 %	100.00 %	100.00 %	Notes 1 and 16
Azwave Samoa	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00 %	100.00 %	100.00 %	Note 1
Azwave Samoa	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00 %	100.00 %	100.00 %	Notes 1 and 16
THE COMPANY	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00 %	100.00 %	100.00 %	Note 16
AMA PRECISION	AMA Holdings Limited(AMA)	Investing activities	100.00 %	100.00 %	100.00 %	Note 16
AMA	EXTECH LTD.	Trading electronic parts	- %	- %	90.51 %	Notes 9 and 16

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2018	December 31, 2017	March 31, 2017	
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	- %	- %	100.00 %	Notes 10 and 16
AMA, MAINTEK COMPUTER (SUZHOU) CO., LTD.	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD.	Manufacturing and selling new electronic parts and premium hardware	100.00 %	100.00 %	100.00 %	Notes 11 and 16
THE COMPANY	PEGATRON HOLLAND HOLDING B.V.(PHH)	Investing activities	100.00 %	100.00 %	100.00 %	Note 16
PHH	PEGATRON Czech s.r.o.	Installing, repairing and selling electronic products	100.00 %	100.00 %	100.00 %	Note 16
PHH	Pegatron Service Holland B.V.	Sales and repair service center in Europe	- %	- %	100.00 %	Notes 12 and 16
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 16
POWTEK	POWTEK (SHANGHAI) LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 16
PEGATRON HOLDING - KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing activities	100.00 %	100.00 %	100.00 %	Note 14
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Note 14
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 14
PIOTEK HOLDING	PIOTEK(H.K.) TRADING LIMITED	Trading activities	100.00 %	100.00 %	100.00 %	Note 14
PEGATRON HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 16
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 16
ASLINK	PEGAGLOBE (KUNSHAN) CO.,LTD.	Manufacturing GPS, computer electronic devices, mobile phone, high-end server, disk drive, and other related components	100.00 %	100.00 %	100.00 %	
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 16
DIGITEK	DIGITEK (CHONGQING) LTD.	Manufacturing, developing, and selling GPS, electronic calculators, and aftersale service	100.00 %	100.00 %	100.00 %	

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2018	December 31, 2017	March 31, 2017	
DIGITEK (CHONGQING) LTD.	CHONGQING ZUANSHUO TRADING CO., LTD.	Computer software and hardware, computer parts, electronic products (excluding electronic publications), electric appliance, industrial communication device (excluding wireless transmitter and transmitter), communication equipment (excluding wireless transmitter and satellite ground receiving facilities), and providing related technical consulting services. Import and export of goods and technology. Packaging service, product design, marketing planning, business consulting	100.00 %	- %	- %	Notes 15 and 16
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 16
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00 %	100.00 %	100.00 %	
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 16
PROTEK	PROTEK (SHANGHAI) LTD.	Developing, manufacturing and selling GPS, new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	100.00 %	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED(COTEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 16
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 16
PEGATRON HOLDING	TOP QUARK LIMITED(TOP QUARK)	Investing activities	100.00 %	100.00 %	100.00 %	Note 16
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00 %	100.00 %	100.00 %	Note 16
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	100.00 %	
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	100.00 %	
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	100.00 %	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	55.87 %	55.87 %	58.65 %	Note 7

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2018	December 31, 2017	March 31, 2017	
ASROCK	ASIROCK TECHNOLOGY LIMITED (ASIROCK)	Manufacturing and selling database storage and processing equipment	100.00 %	100.00 %	100.00 %	
ASIROCK	ASROCK EUROPE B.V.	Selling database service and trading electronic components	100.00 %	100.00 %	100.00 %	
ASIROCK	Calrock Holdings, LLC.	Office building leasing	100.00 %	100.00 %	100.00 %	Note 16
ASROCK	Leader Insight Holdings Limited (Leader)	Investing and holding activities	100.00 %	100.00 %	100.00 %	Note 16
Leader	First place International Limited (First place)	Investing and holding activities	100.00 %	100.00 %	100.00 %	Note 16
First place	ASRock America, Inc.	Selling database service and trading electronic components	100.00 %	100.00 %	100.00 %	
ASROCK	ASRock Rack Incorporation	Manufacturing and selling computer and related peripherals	65.97 %	65.97 %	69.40 %	Note 4
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00 %	100.00 %	100.00 %	Note 16
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, whole selling and retailing electronic components, and providing business management consultant service	39.00 %	39.00 %	39.04 %	Notes 13 and 14
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00 %	100.00 %	100.00 %	Notes 2, 14 and 16
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	54.87 %	54.87 %	54.87 %	Notes 2, 14 and 16
KINSUS INVESTMENT, ASUSTEK INVESTMENT AND ASUS INVESTMENT	FUYANG TECHNOLOGY CORPORATION	Manufacturing and wholesaling wires, cables, and electronic components	89.13 %	89.13 %	90.00 %	Notes 2, 5, 14 and 16
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00 %	100.00 %	100.00 %	Notes 14 and 16
PEGAVISION CORPORATION	PEGAVISION JAPAN INC.	Selling medical appliances	100.00 %	100.00 %	100.00 %	Notes 14 and 16
FUYANG TECHNOLOGY CORPORATION	FUYANG FLEX HOLDING LTD. (FUYANG HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Note 16
FUYANG HOLDING	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Researching, producing, inspecting, repairing and selling flexible multilayer model, computer digital signal process system and card; selling own produced products and providing related technical consulting service	100.00 %	100.00 %	100.00 %	Note 16

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2018	December 31, 2017	March 31, 2017	
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	100.00 %	100.00 %	100.00 %	Notes 14 and 16
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00 %	100.00 %	100.00 %	Notes 14 and 16
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00 %	100.00 %	100.00 %	Note 14
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED(KINSUS CAYMAN)	Investing activities	100.00 %	100.00 %	100.00 %	Note 14
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00 %	100.00 %	100.00 %	Note 14
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00 %	100.00 %	100.00 %	Note 14
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00 %	100.00 %	100.00 %	Note 16
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00 %	100.00 %	100.00 %	
THE COMPANY, ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED(CAYMAN) (CASETEK CAYMAN)	Investing activities	59.31 %	60.47 %	60.73 %	Note 8
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00 %	100.00 %	100.00 %	
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product.	100.00 %	100.00 %	100.00 %	
RIH LI	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2018	December 31, 2017	March 31, 2017	
RIH LI	KAI JIA COMPUTER ACCESSORY CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product	100.00 %	100.00 %	100.00 %	
RIH LI	RI KAI COMPUTER ACCESSORY CO., LTD.(RI KAI)	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	- %	Note 6
CASETEK CAYMAN	APEX SUN LIMITED	Investing activities	100.00 %	100.00 %	100.00 %	
CASETEK CAYMAN	RIH KUAN METAL CORPORATION	Selling iron and aluminum products	100.00 %	100.00 %	100.00 %	
CASETEK CAYMAN	APLUS PRECISION LIMITED(APLUS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	
APLUS	UNITED NEW LIMITED(UNITED)	Investing and trading activities	100.00 %	100.00 %	100.00 %	
UNITED	KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product	100.00 %	100.00 %	100.00 %	
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00 %	100.00 %	100.00 %	
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00 %	100.00 %	100.00 %	Note 16
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00 %	100.00 %	100.00 %	Note 16
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA. (PCBR)	Maintenance service	100.00 %	100.00 %	100.00 %	Note 16
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00 %	100.00 %	100.00 %	Note 16
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00 %	100.00 %	100.00 %	Note 16
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00 %	100.00 %	100.00 %	Note 16
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens Optics)	Developing, manufacturing and selling computer data projectors and related peripherals	56.52 %	56.52 %	56.52 %	Note 16
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00 %	100.00 %	100.00 %	Note 16
Lumens Optics	Lumens Digit Image Inc. (SAMOA)(Lumens)	Investing activities	100.00 %	100.00 %	100.00 %	Note 16
Lumens	Lumens (Suzhou) Digital Image Inc.	Developing, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 16
ASUSPOWER INVESTMENT	Pegatron Service Singapore Pte. Ltd.(PSG)	Sales and logistics center in Singapore	100.00 %	100.00 %	100.00 %	Note 16

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Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2018	December 31, 2017	March 31, 2017	
PSG	PEGATRON SERVICE KOREA LLC.	Sales and repair service center in Korea	100.00 %	100.00 %	100.00 %	Note 16
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00 %	100.00 %	100.00 %	Note 16
THE COMPANY	PEGATRON USA, INC.	Sales and repair service center in North America	100.00 %	100.00 %	100.00 %	Note 16

- Note 1 : AZURE WAVE TECHNOLOGY INC. was included in the consolidated financial statements even if the Group held 32.76% of their total issued shares because the Group has acquired more than 50% of voting shares of the entity and has the ability to excise control over its board of directors.
- Note 2 : On May 19, 2017, PEGAVISION INVESTMENT changed its name to KINSUS INVESTMENT CO., LTD.
- Note 3 : As AZURE WAVE TECHNOLOGY INC. issued employee restricted shares of stock on June 5, 2017, the Group's shareholding ratio in AZURE WAVE TECHNOLOGY INC. decreased from 38.08% to 37.04%. On March 20, 2018, AZURE WAVE TECHNOLOGY INC. issued common stocks for cash, and the Group's shareholding ratio in AZURE WAVE TECHNOLOGY INC. decreased to 32.76%.
- Note 4 : On May 19, 2017, ASRock Rack Incorporation launched its capital increase. As the Group did not increase its investment based on its shareholding ratio, the Group's shareholding ratio in ASRock Rack Incorporation decreased from 69.40% to 65.97%.
- Note 5 : On May 26, 2017, FUYANG TECHNOLOGY CORPORATION launched its capital increase. As the Group did not increase its investment based on its shareholding ratio, the Group's shareholding ratio in FUYANG TECHNOLOGY CORPORATION decreased from 90.00% to 89.13%.
- Note 6 : RIH LI has established and registered a company through capital increase on September 27, 2017.
- Note 7 : As ASROCK INCORPORATION issued employee restricted shares of stock on September 22, 2017, the Group's shareholding ratio in ASROCK INCORPORATION decreased from 58.65% to 55.87%.
- Note 8 : As CASETEK HOLDINGS LIMITED issued employee restricted shares of stock through capital increase on September 5, 2017, the Group's shareholding ratio in CASETEK HOLDINGS LIMITED decreased from 60.73% to 60.47%. On February 7, 2018, CASETEK HOLDINGS LIMITED issued common stocks for cash, and the Group's shareholding ratio in CASETEK HOLDINGS LIMITED decreased to 59.31%.
- Note 9 : It was liquidated in December 2017.
- Note 10 : It was liquidated in May 2017.
- Note 11 : In October 2017, the Group has restructured, so that the 100% equity ownership of TOPTEK PRECISION INDUSTRY (SUZHOU) CO., LTD. was held by AMA and MAINTEK COMPUTER (SUZHOU) CO., LTD.
- Note 12 : It was liquidated in December 2017.
- Note 13 : As transferred treasury stock to employees on September 22, 2017, the Group's shareholding ratio in KINSUS INTERCONNECT TECHNOLOGY CORP. decrease from 39.04% to 39.00%.

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PEGATRON CORPORATION AND SUBSIDIARIES
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Note 14 : Since the Group only held 39% of voting rights of KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS), with the remaining 61% shares belonging to different shareholders having no intention of exercising their votes collectively, and also, due to the fact that the Group's participation dominated the previous shareholders' meetings, resulting in the Group having a significant control over KINSUS, therefore, KINSUS has been included in the consolidated financial statements of the Group as of December 31, 2017.

Note 15 : DIGITEK (CHONGQING) LTD. established CHONGQING ZUANSHUO TRADING CO., LTD. by transferring retained earnings into capital. It was registered on January 12, 2018.

Note 16 : It is an insignificant subsidiary, and its financial statements have not been reviewed.

(vii) Subsidiaries excluded from consolidation : None.

(d) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period adjusted for the effective interest and payments during the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the following accounts which are recognized in other comprehensive income :

- 1) Available-for-sale equity investment (applicable before January 1, 2018) ;
- 2) Equity instruments at fair value through other comprehensive income (applicable from January 1, 2018) ;
- 3) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective ; or
- 4) Qualifying cash flow hedges to the extent the hedge is effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group's functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Group's functional currency at average rate. Foreign currency differences are recognized in other comprehensive income, and are presented in the exchange differences on translation of foreign financial statements in equity.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of any part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of investment in an associate or joint venture that includes a foreign operation while retaining significant or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income.

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

An asset is classified as current when :

- (i) It is expected to be realized the asset, or intended to be sold or consumed, during the normal operating cycle ;
- (ii) It is held primarily for the purpose of trading ;
- (iii) It is expected to be realized within twelve months after the reporting period ; or
- (iv) The asset is cash and cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when :

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

All other liabilities are classified as non-current.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(f) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are assets that are readily convertible to known amounts of cash, and are subject to an insignificant risk of changes in their fair value.

Time deposits are accounted under cash and cash equivalents if they are accord with the definition aforementioned, and are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose.

(g) Financial instruments (applicable before January 1, 2018)

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

(i) Financial assets

The Group classifies financial assets into the following categories : financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is held-for-trading or is designated as such on initial recognition. Financial assets classified as held-for-trading if it is acquired principally for the purpose of selling in the short term. The Group designates financial assets, other than ones classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations :

- a) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.
- b) Performance of the financial asset is evaluated on a fair value basis.
- c) Hybrid instrument contains one or more embedded derivatives.

At initial recognition, financial assets classified under this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend and interest income, are recognized in profit or loss, and included in statement of comprehensive income. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated available-for-sale or are not classified in any of the other categories of financial assets. At initial recognition, available-for-sale financial assets are recognized at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and unrealized gains (losses) on available-for-sale financial assets in equity. When an available-for-sale investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, under other income. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost, and are included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in other income of profit or loss.

Interest income from investment in bond security is recognized in profit or loss, under other income.

3) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. At initial recognition, these assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses, other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Loans and receivables include accounts receivables and other receivables. Interest income is recognized in profit or loss, under other income.

In accordance with Statement of International Accounting Standards No. 39 "Financial instruments Accounting for Transfers of Financial Assets and Extinguishments of Liabilities," a transfer of financial assets or a portion of a financial asset in which the transferor surrenders control over those financial assets is regarded as a sale to the extent that consideration in the transferred assets is received in exchange. The rights to accounts receivable are derecognized after deducting the estimated charges or losses in commercial dispute when all of the following conditions are met.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- a) The rights to accounts receivable have been isolated from the transferor as they are put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.
- b) Each transferee has the right to pledge or exchange the rights to the accounts receivable, and no condition prevents the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.
- c) The transferor does not maintain effective control over the rights to the accounts receivable claims through either :
 - i) An agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or
 - ii) The ability to unilaterally cause the holder to return specific rights to the accounts receivable.

Accounts receivable which are assigned but no receipt yet of cash advances are accounted for as other accounts receivable.

4) Impairment of financial assets

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a loss event) that occurred subsequent to the initial recognition of the asset and that a loss event (or events) has an impact on the future cash flows of the financial assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is accounted for as objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than the one suggested by historical trends.

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PEGATRON CORPORATION AND SUBSIDIARIES
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An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

The carrying amount of a financial asset is reduced for an impairment loss, except for trade receivables, in which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off against the allowance account. Any subsequent recovery from written off receivable is charged to the allowance account. Changes in the allowance accounts are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of impairment loss on a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost before the impairment loss was recognized at the reversal date.

Impairment losses recognized on available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in equity.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then impairment loss is reversed against profit or loss.

Impairment losses and recoveries are recognized in profit or loss, under "other gains and losses, net."

5) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the group transfers substantially all the risks and rewards of ownership of the financial assets.

On partial derecognition of a financial assets, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity account unrealized gains or losses from available for sale financial assets is reclassified to profit or loss, under "other gains and losses, net".

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PEGATRON CORPORATION AND SUBSIDIARIES
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The Group separates the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is charged to profit or loss.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity instruments

Debt or equity instruments issued by the Group are classified as financial liabilities or equity instruments in accordance with the substance of the contractual agreement.

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized based on amount of consideration received less the direct issuance cost.

Preference share is classified as equity if it is non-redeemable, or redeemable only at the Group's option. Preference share capital is classified as a financial liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary.

Compound financial instruments issued by the Group comprise convertible bonds payable that can be converted to share capital at the option of the holder, when the number of shares to be issued is fixed.

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

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss, under non-operating income and expense. On conversion, financial liability is reclassified to equity, without recognizing any gain or loss.

2) Other financial liabilities

At initial recognition, financial liabilities not classified as held-for-trading, or designated as at fair value through profit or loss, which comprise of loans and borrowings, and trade and other payables, are measured at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capital cost is recognized in non-operating income and expenses, under finance cost.

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PEGATRON CORPORATION AND SUBSIDIARIES
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3) Derecognition of financial liabilities

A financial liability is derecognized when its contractual obligation has been discharged or cancelled or expires. The difference between the carrying amount of a financial liability derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in “non-operating income and expenses.”

4) Offsetting of financial assets and liabilities

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

5) Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder of a loss it incurs because a specified debtor fails to pay on due date in accordance with the original or modified terms of a debt instrument.

At initial recognition, a financial guarantee contracts not classified as financial liabilities at fair value through profit or loss by the Group is recognized at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, they are measured at the higher of (a) the amount of contractual obligation determined in accordance with IAS 37 ; or (b) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18.

(iii) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate fluctuation exposures. At initial recognition, derivatives are recognized at fair value ; and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss, under “non-operating income and expenses.”

When a derivative is designated as a hedging instrument, the timing for recognizing gain or loss is determined based on the nature of the hedging relationship. When the result of the valuation at fair value of a derivative instrument is positive, it is classified as a financial asset ; otherwise, it is classified as a financial liability.

Derivatives linked to investments in equity instruments that do not have a quoted market price in an active market and must be settled by delivery of unquoted equity instruments, are classified as financial assets, which are measured at amortized cost. These derivatives are classified as financial liabilities measured at cost.

Embedded derivatives are separated from the host contract and are accounted for separately when the economic characteristics and risk of the host contract and the embedded derivatives are not closely related, and that the host contract is not measured at fair value through profit or loss.

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PEGATRON CORPORATION AND SUBSIDIARIES
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The Group designates its hedging instrument, including derivatives, embedded derivatives, and non-derivative instrument for a hedge of a foreign currency risk, as fair value hedge, cash flow hedge, or hedge of a net investment in a foreign operation. Foreign exchange risk of firm commitments are treated as a fair value hedge.

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, and whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk.

1) Fair value hedge

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

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

Hedged financial instruments using an effective interest rate is amortized to profit or loss when hedge accounting is discontinued over the period to maturity. The effective rate can discount the adjustment amount to zero at the maturity date.

2) Cash flow hedge

When a derivative is designated as a cash flow hedge, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in equity, under effective portion of cash flow hedge gain (loss). Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss, under “non-operating income and expenses.”

When the hedged item is recognized in profit or loss, the amount accumulated in equity and retained in other comprehensive income is reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss, and is presented in the same accounting caption with the hedged item recognized in the consolidated statement of comprehensive income.

For a cash flow hedge of a forecasted transaction recognized as a non-financial assets or liabilities, the amount accumulated in other equity – effective portion of cash flow hedge gain (loss) in other comprehensive income is reclassified to the initial cost of the non-financial asset or liability.

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PEGATRON CORPORATION AND SUBSIDIARIES
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(h) Financial assets (applicable from January 1, 2018)

(i) Financial assets

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL :

- a) it is held within a business model whose objective is to hold assets to collect contractual cash flows ; and
- b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost, less impairment losses, using the effective interest method. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL :

- a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ; and
- b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal amount outstanding.

Some accounts receivables are held within a business model whose objective is achieved by both collecting contractual cash flows and selling by the Group, therefore, those receivables are measured at FVOCI and presented as accounts receivable.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

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PEGATRON CORPORATION AND SUBSIDIARIES
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A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, derived from debt investments are recognized in profit or loss; whereas dividends derived from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the exdividend date.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Group may irrevocably designate a financial asset, which otherwise meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes :

- a) the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets ;
- b) the performance of the business model, and how the financial assets in the business model are evaluated and reported to the Group's management ;
- c) the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed ;

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PEGATRON CORPORATION AND SUBSIDIARIES
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- d) the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, and are consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

- 5) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial assets on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers :

- a) contingent events that would change the amount or timing of cash flows ;
- b) terms that may adjust the contractual coupon rate, including variable rate features ;
- c) prepayment and extension features ; and
- d) terms that limit the Group's claim to cash flows from specified assets (i.e. non-recourse features).

- 6) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, notes and accounts receivable, other receivables and other financial assets) and accounts receivable measured at FVOCI.

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL :

- a) debt securities that are determined to have low credit risk at the reporting date ; and
- b) other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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Loss allowance for accounts receivables is always measured at an amount equal to lifetime ECL.

Lifetime ECL is the ECL that result from all possible default events over the expected life of a financial instrument.

12-month ECL is the portion of ECL that result from default events that is possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available (without undue cost or effort). This includes both quantitative and qualitative information and analysis, based on the Group's historical experience, informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 180 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls. The difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data :

- a) significant financial difficulty of the borrower or issuer ;
- b) a breach of contract such as a default or being more than 180 days past due ;
- c) the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise ;
- d) it is probable that the borrower will enter bankruptcy or other financial reorganization ; or
- e) the disappearance of an active market for a security because of financial difficulties.

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PEGATRON CORPORATION AND SUBSIDIARIES
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Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income, and the amount of loss allowances (or reversal) is charged to profit or loss.

The gross carrying amount of a financial asset is written off either partially or in full to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

7) Derecognition of financial assets

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

On partial derecognition of a debt instrument in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in "other equity – unrealized gains or losses on fair value through other comprehensive income" in profit or loss is accounted for as non-operating income and expenses in the statement of comprehensive income.

The Group separates the part of debt instrument that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss.

(ii) Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures. Derivatives are recognized initially at fair value, and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss and are included in non-operating income and expenses in the statement of comprehensive income. When a derivative is designated as a hedging instrument, its timing of recognition in profit or loss is determined based on the nature of the hedging relationship. When the fair value of a derivative instrument is positive, it is classified as a financial asset, and when the fair value is negative, it is classified as a financial liability.

Embedded derivatives are separated from the host contract and accounted for separately when the economic characteristics and risk of the non-financial asset host contract and the embedded derivatives are not closely related, and such host contract is not measured at fair value through profit or loss.

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The Group designates its hedging instruments, including derivatives, embedded derivatives, and nonderivative instruments for a hedge of a foreign currency risk, as a fair value hedge, cash flow hedge, or hedge of a net investment in a foreign operation. Foreign exchange risks of firm commitments are treated as fair value hedge.

At initial designated hedging relationships, the Group documents the risk management objectives and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in the fair value or cash flows of the hedged items and hedging instrument are expected to offset each other.

The Group shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised.

1) Fair value hedges

The gain or loss on the hedging instrument shall be recognized in profit or loss. If the hedged item is an equity instrument that is measured at fair value through other comprehensive income.

The hedged item of not measured at fair value is attributable to the hedged risk with any changes in the fair value. The change in the fair value of the hedging instrument is recognized in profit or loss. The hedged item is a debt instrument that is measured at fair value through other comprehensive income, the hedging gains or losses on the hedged item shall be recognized in profit or loss. However, the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income, those amounts shall remain in other comprehensive income. The hedging gains or losses on the hedged item shall be recognized in other comprehensive income.

When it discontinues hedge accounting for a fair value hedge for which the hedged item is a financial instrument measured at amortized cost that is attributable to the changes in the fair value. Amortized to profit or loss is based on over the period to maturity when hedge accounting is discontinued.

2) Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in “other equity — hedging gains (losses)”. The effective portion of changes in the fair value of the derivative that is recognized in other comprehensive income is limited to the cumulative change in fair value of the hedged item, determined on a present value basis, from inception of the hedge. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss, and is accounted for as non-operating income and expenses in the statement of comprehensive income.

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The Group designates only the change in fair value of the spot element of the forward exchange contract as the hedging instrument in cash flow hedging relationships. The change in fair value of the forward element of the forward exchange contract is separately accounted for as a cost of hedging and accumulated in a separate component of equity as “other equity —hedging gains (losses)”.

When the hedged item is recognized in profit or loss, the amount accumulated in equity and retained in other comprehensive income is reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss, and is presented in the same accounting item with the hedged item recognized in the consolidated statement of comprehensive income. However, for a cash flow hedge of a forecast transaction recognized as a nonfinancial asset or liability, the amount accumulated in “other equity —hedging gains (losses)” and retained in other comprehensive income is reclassified as the initial cost of the nonfinancial asset or liability. In addition, if that amount is a loss and the Group expects that all or a portion of that loss will not be recovered in future periods, it shall immediately reclassify the amount into profit or loss.

When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedging reserve (and the cost of hedging reserve) remains in equity until, for a hedge of a transaction resulting in recognition of a non-financial item, it is included in the non-financial item’s cost on its initial recognition or, for other cash flow hedges, it is reclassified to profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss. However, if the hedged future cash flows are no longer expected to occur, the amount shall be immediately reclassified from the cash flow reserve (and the cost of hedging reserve) to profit or loss.

(i) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The replacement cost of raw material is its net realizable value.

(j) Investment in associates

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

Investments in associates are accounted for using the equity method and are recognized initially at cost. The cost of investment includes transaction costs. The carrying amount of investment in associates includes goodwill arising from the acquisition less any accumulated impairment losses.

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The Group's share of the profit or loss and other comprehensive income of investments accounted for using equity method are included, after adjustments to align the said investees' accounting policies with those of the Group, in the consolidated financial statements from the date that significant influence commences until the date that significant influence ceases.

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

When the Group's share of losses exceeds its interest in associates, the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(k) Investment property

Investment property is a property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognized in profit or loss.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, and any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalized borrowing costs.

Depreciation is provided over the estimated economic lives using the straight-line method. Land has an unlimited useful life and therefore is not depreciated. The estimated useful lives for the current and comparative years of significant items of investment properties are as follows :

Buildings	20 years
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When the use of an investment property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(l) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset. The cost of a self-constructed asset comprises material, labor, any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and any borrowing cost that eligible for capitalization. Cost also includes transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. The cost of the software is capitalized as part of the property, plant and equipment if the purchase of the software is necessary for the property, plant and equipment to be capable of operating.

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Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined based on the difference between the net disposal proceeds, if any, and the carrying amount of the item, and is recognized in profit or loss, under other gains and losses.

(ii) Reclassification to investment property

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

(iii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance is expensed as incurred.

(iv) Depreciation

Depreciation is calculated on the depreciable amount of an asset using the straight-line basis over its useful life. The depreciable amount of an asset is determined based on the cost less its residual value. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period is recognized in profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonably certainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows :

Buildings	1-50 years
Machinery	1-10 years
Instrument equipment	3-10 years
Office and other equipment	2-10 years
Miscellaneous equipment	1-25 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectation of useful life differs from the previous estimate, the change is accounted for as a change in an accounting estimate.

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(m) Leased assets

(i) Lessor

Leased asset under finance lease is recognized on a net basis as lease receivable. Initial direct costs incurred in negotiating and arranging an operating lease is added to the net investment of the leased asset. Finance income is allocated to each period during the lease term in order to produce a constant periodic rate of interest on the remaining balance of the receivable.

Lease income from operating lease is recognized in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

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

(ii) Lessee

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value and the present of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term in order to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are accounted for operating leases and the lease assets are not recognized in the Group's consolidated balance sheets.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Contingent rent is recognized as expense in the periods in which they are incurred.

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease, which involves the following two criteria :

- 1) The fulfillment of the arrangement is dependent on the use of a specific asset or assets ;
and
- 2) The arrangement contains a right to use the asset.

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PEGATRON CORPORATION AND SUBSIDIARIES
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At inception or on reassessment of the arrangement, if an arrangement contains a lease, that lease is classified as a finance lease or an operating lease. The Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payment reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Group's incremental borrowing rate. If the Group concludes for an operating lease that it is impracticable to separate the payment reliably, then treat all payments under the arrangement as lease payments, and disclose the situation accordingly.

Prepaid lease payments represent land use rights under long-term operating lease arrangement and are expensed equally over 38 to 67 years.

(n) Intangible assets

(i) Goodwill

1) Recognition

Goodwill arising from the acquisition of subsidiaries is recognized as intangible assets.

2) Measurement

Goodwill is measured at its cost less impairment losses. Investments in associates are accounted for using the equity method. The carrying amount of the investment in associates includes goodwill, which kind of investment of impairment losses are recognized as a part of the carrying amount of the investment, not allocated to goodwill and any other assets.

(ii) Other Intangible Assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

(iii) Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iv) Amortization

Depreciable amount of intangible asset is calculated based on the cost of an asset less its residual values.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill and intangible assets with indefinite useful life, from the date when they are made available for use. The estimated useful lives of intangible assets for the current and comparative periods are as follows :

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Computer software cost	0-10 years
Trademark rights	5 years
Intangible assets in development	3-10 years

The residual value, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Any change thereof is accounted for as a change in accounting estimate.

(o) Impairment – Non-financial assets

The Group assesses non-financial assets for impairment (except for inventories, deferred income tax assets and employee benefits) at every reporting date, and estimates its recoverable amount.

If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for individual asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Such is deemed as an impairment loss, which is recognized immediately in profit or loss.

The Group assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In this case, the carrying amount of the asset is increased to its recoverable amount by reversing an impairment loss.

Notwithstanding whether indicators exist, goodwill and intangible assets with indefinite useful lives or those not yet in use are required to be tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination, from the acquisition date, is allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or group of units.

If the carrying amount of the cash-generating units exceeds the recoverable amount of the unit, impairment loss is recognized and is allocated to reduce the carrying amount of each asset in the unit.

Reversal of an impairment loss for goodwill is prohibited.

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(p) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and an outflow of economic benefits is possibly required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Allowances for sales returns and allowances are applied in accordance with IFRS 15 beginning January 1, 2018. Please refer to Note 4(s) for details.

(q) Treasury stock

Repurchased shares are recognized as treasury shares (a contra-equity account) based on its repurchase price (including all directly accountable costs), net of tax. Gains on disposal of treasury shares are accounted for as Capital Reserve – Treasury Shares Transactions. Losses on disposal of treasury shares are offset against existing capital reserve arising from similar types of treasury shares. If the capital reserve is insufficient, such losses are charged to retained earnings. The carrying amount of treasury shares is calculated using the weighted average method for different types of repurchase.

If treasury shares are cancelled, Capital Reserve – Share Premiums and Share Capital are debited proportionately. Gains on cancellation of treasury shares are charged to capital reserves arising from similar types of treasury shares. Losses on cancellation of treasury shares are offset against existing capital reserves arising from similar types of treasury shares. If capital reserve is insufficient such losses are charged to retained earnings.

Company shares that are owned by the Company's subsidiaries are treated as treasury stock.

(r) Revenue (applicable before January 1, 2018)

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. Allowances for sales returns and allowances are estimated and recognized in provisions based on historical experiences when goods are sold.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

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(ii) Service

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. Only when the result of the transactions is difficult to estimate, revenues are recognized within the cost that are very possibly recovered.

(s) Revenue from contracts with customers (applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

(i) Sale of good

The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The Group grants its main customers the right to return the product within certain period. Therefore, the Group reduces its revenue by the amount of expected returns and discounts, and recognizes a refund liability and a right to the returned goods. Accumulated experience is used to estimate such returns and discounts at the time of sale. Also, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. At each reporting date, the Group reassesses the estimated amount of expected returns and discounts.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

(ii) Service

Revenue from providing services is recognized in the accounting period in which performance obligation is satisfied.

(iii) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

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(t) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(u) Share-based payment

The grant-date fair value of share-based payment awards granted to employee is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of award that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and settlement date. Any change in the fair value of the liability is recognized as personnel expenses in profit or loss.

The grant date of share-based payment is the record date of capital increase passed by shareholders' meeting.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Income Taxes

Tax expense in the interim financial statements is measured and disclosed according to paragraph B12 of IAS 34 “Interim Financial Reporting.”

Income tax expense for the period is best estimated by multiplying pretax income for the interim reporting period with the effective annual tax rate as forecasted by management. It is recognized fully as tax expense for the current period.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases are measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled and recognized directly in equity or other comprehensive income as tax expense.

(w) Business combination

Goodwill is measured at the consideration transferred less amounts of the identifiable assets acquired and the liabilities assumed (generally at fair value) at the acquisition date. If the amounts of net assets acquired or liabilities assumed exceeds the acquisition price, the Group shall re-assess whether it has correctly identified all of the assets acquired and liabilities assumed, and recognize a gain for the excess.

If the business combination achieved in batches, non-controlling equity interest is measured either at fair value at acquisition-date or at the share of the acquirer’s identifiable net assets in each acquisition.

In a business combination achieved in batches, the previously held equity interest in the acquiree at its acquisition-date fair value is re-measured and the resulting gain or loss, if any, is recognized in profit or loss.

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

All transaction costs relating to business combination are recognized immediately as expenses when incurred, except for the issuance of debt or equity instruments.

Business combinations under common control are accounted in the later date of the earliest period financial reports are expressed and the establishment date of common control. Assets and liabilities of the merged entities are recognized at their carrying amount in the non-consolidated financial statements.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(x) Government grant

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

The grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. If the grant is used for reimburse and expenses that have happened or for immediate financial aid for the Company and no future related cost, it can be recognized gain at the time the Company acquires.

A grant relating to assets is presented as deferred income. If a grant is related to depreciable assets, the grant is recognized over the useful life of the assets and for a grant related to a non-depreciable asset, the grant is credited to income over the same period over which the cost is charged to income.

(y) Earnings per share

Disclosures are made of basic and diluted earnings per share attributable to ordinary equity holders of the Company. The basic earnings per share is calculated based on the profit attributable to the ordinary shareholders of the Company divided by weighted average number of ordinary shares outstanding. The diluted earnings per share is calculated based on the profit attributable to ordinary shareholders of the Company, divided by weighted average number of ordinary shares outstanding after adjustment for the effects of all potentially dilutive ordinary shares, such as remuneration of employees and employee stock options.

(z) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may incur revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 "Interim Financial Reporting" and endorsed by the FSC) requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of the consolidated financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2017. For the related information, please refer to Note 5 of the consolidated financial statements for the year ended December 31, 2017.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(6) Explanation of significant accounts:

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2017. Please refer to Note 6 of the consolidated financial statements for the year ended December 31, 2017.

(a) Cash and cash equivalents

	March 31, 2018	December 31, 2017	March 31, 2017
Cash on hand	\$ 14,221	16,139	14,030
Cash in banks	20,979,792	23,429,025	20,687,725
Time deposits	<u>110,857,903</u>	<u>83,998,960</u>	<u>87,996,541</u>
	<u>\$ 131,851,916</u>	<u>107,444,124</u>	<u>108,698,296</u>

- (i) The above cash and cash equivalents were not pledged as collateral. Pledged time deposits were accounted for under other financial assets. Please refer to Notes 6(n) and 8 for details.
- (ii) Please refer to Note 6(ae) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

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

	March 31, 2018	December 31, 2017	March 31, 2017
Current mandatorily measured at fair value through profit or loss :			
Non-derivative financial assets			
Shares of stock of listed companies	\$ 710,947	-	-
Beneficiary certificates	2,479,584	-	-
Shares of stock of overseas listed companies (RMB 87,152 thousand dollars)	403,388	-	-
Non-current mandatorily measured at fair value through profit or loss :			
Non-derivative financial assets			
Shares of stock of listed companies	229,250	-	-
Shares of stock of overseas unlisted companies (USD 2,500 thousand dollars)	71,015	-	-
Financial assets held-for-trading :			
Non-derivative financial assets			
Shares of stock of listed companies	-	351,785	108,738
Beneficiary certificates	-	2,473,128	3,402,827
Total	<u>\$ 3,894,184</u>	<u>2,824,913</u>	<u>3,511,565</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (i) Please refer to Note 6(ac) for re-measurement at fair value recognized in profit or loss.
- (ii) Please refer to Note 6(ae) for credit risk and market risk.
- (iii) The aforesaid financial assets were not pledged as collateral.
- (c) Fair value through other comprehensive income

	March 31, 2018
Equity instruments at fair value through other comprehensive income :	
Shares of stock of listed companies	\$ 721,469
Shares of stock of unlisted companies	150,000
Shares of stock of overseas unlisted companies (USD8,492 thousand dollars)	129,494
Total	\$ 1,000,963

- (i) Equity instruments at fair value through other comprehensive income

The Group has applied IFRS 9 from January 1, 2018. The Group re-estimate and holds these equity instruments, which are not held for trading at designated fair value through other comprehensive income, for long-term strategic purposes. These investments were recognized as available-for-sale financial assets, financial assets carried at cost and financial assets at fair value through profit or loss on December 31, 2017, and March 31, 2017.

For the three months ended March 31, 2018 the Group has not recognized any dividend income from equity instruments designated at fair value through other comprehensive income.

No strategic investments were disposed as of March 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

- (ii) Please refer to Note 6(ae) for credit risk and market risk.
- (iii) The aforesaid financial assets were not pledged as collateral.
- (d) Available-for-sale financial assets

	December 31, 2017	March 31, 2017
Current available-for-sale financial assets		
Shares of stock of overseas listed companies	\$ 384,782	307,289
Non-current available-for-sale financial assets		
Shares of stock of overseas listed companies	\$ 721,071	684,954
Equity securities-common stock	437,760	178,200
Total	\$ 1,158,831	863,154

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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- (i) For the three months ended March 31, 2017, the unrealized gain on available-for-sale financial assets amounted to \$141,169.
 - (ii) The aforesaid investments were recognized as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income on March 31, 2018. Please refer to Notes 6(b) and (c) for details.
 - (iii) Please refer to Note 6(ae) for credit risk and market risk.
 - (iv) Please refer to Note 6(ac) for gain or loss arising from disposal of investments.
 - (v) The aforesaid financial assets were not pledged as collateral.
- (e) Financial assets carried at cost

	December 31, 2017	March 31, 2017
Non-current financial assets carried at cost		
Equity securities-common stock	\$ 152,853	165,450
Equity securities-preferred stock	197,656	205,632
Total	\$ 350,509	371,082

- (i) The aforementioned investments held by the Group were measured at cost less impairment as of December 31 and March 31, 2017, given the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined ; therefore, the Group management had determined that the fair value cannot be measured reliably and classified as financial assets measured at cost. These investments were classified as fair value through other comprehensive income and fair value through profit or loss as of March 31, 2018. Please refer to Notes 6(b) and (c) for further information.
- (ii) After evaluating the carrying value and recoverable amount of these investments, impairment loss of \$0 was recognized for the three months ended March 31, 2017. The accumulated impairment loss were \$275,384 and \$254,811 as of December 31, 2017 and March 31, 2017, respectively.
- (iii) Please refer to Note 6(ae) for credit risk and market risk.
- (iv) The aforesaid financial assets were not pledged as collateral.

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Notes to the Consolidated Financial Statements

(f) Notes and accounts receivable, net

(i) The components of notes and accounts receivables were as follows :

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Notes receivables from operating activities	\$ 35,878	52,010	21,201
Accounts receivables-measured as amortized cost	122,111,949	151,085,518	65,491,940
Accounts receivables-fair value through other comprehensive income	2,666,891	-	-
Less : Allowance for impairment	<u>1,691,508</u>	<u>1,723,316</u>	<u>1,719,746</u>
	<u>\$ 123,123,210</u>	<u>149,414,212</u>	<u>63,793,395</u>

The Group assesses its portion account receivables held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and therefore such assets are recognized as accounts receivables-fair value through other comprehensive income since January 1, 2018.

(ii) Credit loss

The Group applies the simplified approach to provide for the loss allowance used for expected credit losses, which permit the use of lifetime expected loss provision for all receivables on March 31, 2018. To measure the expected credit losses, notes and accounts receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporate forward looking information.

The loss allowance provision as of March 31, 2018 was determined as follows :

	<u>Gross carrying amount</u>	<u>Expected loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 121,871,810	0%~5%	(24,940)
Overdue 0 to 30 days	1,168,155	1%~30%	(46,005)
Overdue 31 to 120 days	177,403	5%~50%	(27,154)
Overdue 121 to 365 days	33,376	50%~100%	(29,435)
Over 365 days past due	<u>1,563,974</u>	100%	<u>(1,563,974)</u>
	<u>\$ 124,814,718</u>		<u>(1,691,508)</u>

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As of December 31, 2017 and March 31, 2017, the Group applies incurred loss model to consider the loss allowance provision of notes and accounts receivable. As of December 31, 2017 and March 31, 2017, the aging analysis of notes and accounts receivable which were past due but not impaired was as follows :

	December 31, 2017	March 31, 2017
Current	\$ 146,378,342	63,080,253
Overdue 0 to 30 days	2,328,665	515,333
Overdue 31 to 120 days	151,096	222,534
Overdue 121 to 365 days	282,471	118,102
Over 365 days past due	<u>1,996,954</u>	<u>1,576,919</u>
	<u>\$ 151,137,528</u>	<u>65,513,141</u>

The movement in the allowance for notes and accounts receivable was as follows :

	For the three months ended March 31		
	2017		
	2018	Individually assessed impairment	Collectively assessed impairment
Balance on January 1 (Under IAS 39)	\$ 1,723,316	57,571	1,838,151
Adjustment on initial application of IFRS 9	<u>1,348</u>		
Balance on January 1 (Under IFRS 9)	1,724,664		
Impairment losses recognized	10,729	-	3,240
Impairment losses reversed	(43,572)	-	(171,618)
Foreign exchange losses	<u>(313)</u>	<u>(3,427)</u>	<u>(4,171)</u>
Balance on March 31	<u>\$ 1,691,508</u>	<u>54,144</u>	<u>1,665,602</u>

The aforementioned notes and accounts receivable were not pledged as collateral.

- (iii) Please refer to Note 6(ae) for the Group's notes receivable and accounts receivable exposure to credit risk and currency risk.

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Notes to the Consolidated Financial Statements

(iv) Accounts receivable factoring

Accounts receivable which are transferred in accordance with derecognition standards of IFRS are deemed as sale of accounts receivable. As of March 31, 2018, December 31, 2017 and March 31, 2017, the Group sold its accounts receivable without recourse as follows :

March 31, 2018						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount (thousands)	Collateral	Significant Factoring Terms	Derecognition Amount
ANZ (Note)	\$ <u>1,455,250</u>	USD <u>1,200,000</u>	USD <u>50,000</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>1,455,250</u>
December 31, 2017						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount (thousands)	Collateral	Significant Factoring Terms	Derecognition Amount
ANZ (Note)	\$ <u>2,976,000</u>	USD <u>1,200,000</u>	USD <u>100,000</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>2,976,000</u>
March 31, 2017						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount (thousands)	Collateral	Significant Factoring Terms	Derecognition Amount
ANZ (Note)	\$ <u>36,396,000</u>	USD <u>1,200,000</u>	USD <u>-</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>36,396,000</u>

Note : In October 2016, the Group signed a one year joint accounts receivable factoring agreement with ANZ Bank and six other banks where each bank will factor on pro-rata basis.

For the three months ended March 31, 2018 and 2017, the Group recognized a fee and interest on bank advance payment of \$7,109 and \$17,594, respectively, from the factoring of accounts receivable, which was accounted under finance costs in the statement of comprehensive income. Also, the difference of \$0, \$0, and \$36,396,000 between the carrying value of factored accounts receivable and the amount advanced was accounted under other receivables as of March 31, 2018, December 31, 2017 and March 31, 2017, respectively.

As of March 31, 2018, December 31, 2017 and March 31, 2017, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows :

March 31, 2018						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
Mega International Commercial Bank	\$ <u>325,652</u>	USD <u>30,000</u>	\$ <u>183,567</u>	None	The accounts receivable factoring is without recourse	\$ <u>325,652</u>

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December 31, 2017						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
Mega International Commercial Bank	\$ <u>218,494</u>	USD <u>30,000</u>	\$ <u>89,303</u>	None	The accounts receivable factoring is without recourse	\$ <u>218,494</u>

March 31, 2017						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
Mega International Commercial Bank	\$ <u>225,458</u>	USD <u>30,000</u>	\$ <u>146,018</u>	None	The accounts receivable factoring is without recourse	\$ <u>225,458</u>

(g) Other receivables

	March 31, 2018	December 31, 2017	March 31, 2017
Other receivables	\$ 1,591,094	1,504,367	38,538,073
Less : Allowance for impairment	14,178	13,494	13,123
	\$ 1,576,916	1,490,873	38,524,950

As of December 31, 2017 and March 31, 2017, the aging analysis of other receivables which were past due but not impaired was as follows :

	December 31, 2017	March 31, 2017
Current	\$ 1,388,737	38,506,283
Overdue 0 to 30 days	100,739	14,182
Overdue 31 to 120 days	394	1,637
Overdue 121 to 365 days	1,020	2,963
Over 365 days past due	13,477	13,008
	\$ 1,504,367	38,538,073

The movement in the allowance for other receivables was as follows :

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2017	\$ 13,772	1,119	14,891
Reversal of impairment loss	(6)	(970)	(976)
Foreign exchange gain	(749)	(43)	(792)
Balance on March 31, 2017	\$ 13,017	106	13,123

Please refer to Note 6(ae) for credit risk.

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(h) Inventories

	March 31, 2018	December 31, 2017	March 31, 2017
Merchandise	\$ 414,764	882,380	490,722
Finished goods	67,059,069	79,536,751	51,993,509
Work in process	20,966,874	16,687,884	16,733,412
Raw materials	<u>34,530,666</u>	<u>33,666,478</u>	<u>23,972,709</u>
Subtotal	122,971,373	130,773,493	93,190,352
Less: Allowance for inventory market decline and obsolescence	<u>(6,676,443)</u>	<u>(6,898,500)</u>	<u>(4,570,455)</u>
Total	<u><u>\$ 116,294,930</u></u>	<u><u>123,874,993</u></u>	<u><u>88,619,897</u></u>

For the three months ended March 31, 2018 and 2017, the components of cost of goods sold were as follows :

	For the three months ended March 31	
	2018	2017
Cost of goods sold	\$ 270,163,656	223,799,556
Reversal of provision on inventory market price decline	(222,057)	(365,059)
Loss on disposal of inventory	1,144,624	3,305,834
Unallocated manufacturing overhead	603,953	287,678
Loss on physical inventory	<u>2,079</u>	<u>10,176</u>
	<u><u>\$ 271,692,255</u></u>	<u><u>227,038,185</u></u>

The gain was recognized from the reversal of provision arising from destocking for the three months ended March 31, 2018 and 2017 of \$222,057 and \$365,059, respectively. Such gain was deducted from cost of goods sold.

As of March 31, 2018, December 31, 2017 and March 31, 2017, the aforesaid inventories were not pledged as collateral.

(i) Investments accounted for using equity method

(i) The Group's financial information for investments in individually insignificant associates accounted for using equity method at reporting date was as follows. These financial information are included in the consolidated financial statements.

	March 31, 2018	December 31, 2017	March 31, 2017
Individually insignificant associates	<u><u>\$ 432,443</u></u>	<u><u>503,718</u></u>	<u><u>342,274</u></u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	For the three months ended March 31	
	2018	2017
The Group's share of profit (loss) of the associates		
Profit (loss) for the period	\$ 42,757	(5,082)
Other comprehensive income	7,689	1,540
Total comprehensive income (loss)	\$ 50,446	(3,542)

(ii) As of March 31, 2018, December 31, 2017 and March 31, 2017, the aforesaid investments accounted for using equity method were not pledged as collateral.

(iii) The unreviewed financial statements of investments accounted for using equity method.

Investments accounted for using equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have not been reviewed.

(j) Subsidiaries that have material non-controlling interest

Subsidiaries that have material non-controlling interest were as follows :

Subsidiaries	Country of registration	Equity ownership of non-controlling interest		
		March 31, 2018	December 31, 2017	March 31, 2017
KINSUS and its subsidiaries	Taiwan	61.00 %	61.00 %	60.96 %
ASROCK and its subsidiaries	Taiwan	44.13 %	44.13 %	41.35 %
CASETEK CAYMAN	Taiwan/ Cayman	40.69 %	39.53 %	39.27 %

The following information of the aforementioned subsidiaries have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers. Included in these information are the fair value adjustment made during the acquisition and relevant difference in accounting principles between the Company and its subsidiaries as at acquisition date. Intra-group transactions were not eliminated in this information.

(i) Information regarding KINSUS and its subsidiaries

	March 31, 2018	December 31, 2017	March 31, 2017
Current assets	\$ 18,109,236	18,774,402	20,533,702
Non-current assets	23,734,804	23,503,075	20,001,200
Current liabilities	(9,466,255)	(10,537,887)	(8,257,962)
Non-current liabilities	(2,438,129)	(1,824,592)	(1,409,291)
Net assets	\$ 29,939,656	29,914,998	30,867,649
Non-controlling interest	\$ 17,806,654	17,744,607	18,174,312

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PEGATRON CORPORATION AND SUBSIDIARIES
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	For the three months ended March 31	
	2018	2017
Operating revenue	\$ <u>5,251,757</u>	<u>4,970,344</u>
Net (loss) income for the period	\$ (18,077)	74,684
Other comprehensive income (loss)	<u>42,312</u>	<u>(221,804)</u>
Comprehensive income (loss)	\$ <u>24,235</u>	<u>(147,120)</u>
Net income attribute to non-controlling interest	\$ <u>44,689</u>	<u>114,106</u>
Comprehensive income attribute to non-controlling interest	\$ <u>61,789</u>	<u>22,318</u>
Cash flows from operating activities	\$ 781,994	2,138,273
Cash flows from investing activities	(1,179,008)	(1,055,406)
Cash flows from financing activities	<u>208,924</u>	<u>(491,229)</u>
Net (decrease) increase in cash and cash equivalents	\$ <u>(188,090)</u>	<u>591,638</u>

(ii) Information regarding ASROCK and its subsidiaries

	March 31,	December 31,	March 31,
	2018	2017	2017
Current assets	\$ 8,668,801	8,605,071	7,657,673
Non-current assets	633,904	362,132	320,926
Current liabilities	(3,446,189)	(3,252,207)	(2,488,088)
Non-current liabilities	<u>(24,628)</u>	<u>(23,003)</u>	<u>(16,173)</u>
Net assets	\$ <u>5,831,888</u>	<u>5,691,993</u>	<u>5,474,338</u>
Non-controlling interest	\$ <u>2,614,641</u>	<u>2,534,768</u>	<u>2,242,083</u>

	For the three months ended March 31	
	2018	2017
Operating revenue	\$ <u>2,636,382</u>	<u>1,958,064</u>
Net income for the period	178,448	87,917
Other comprehensive loss	<u>(81,251)</u>	<u>(241,059)</u>
Comprehensive income (loss)	\$ <u>97,197</u>	<u>(153,142)</u>
Net income attribute to non-controlling interest	\$ <u>73,031</u>	<u>32,533</u>
Comprehensive income (loss) attribute to non-controlling interest	\$ <u>37,176</u>	<u>(67,165)</u>
Cash flows from operating activities	\$ (196,263)	155,784
Cash flows from investing activities	(71,328)	1,559
Cash flows from financing activities	<u>(291)</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	\$ <u>(267,882)</u>	<u>157,343</u>

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Notes to the Consolidated Financial Statements

(iii) Information regarding CASETEK CAYMAN

	March 31, 2018	December 31, 2017	March 31, 2017
Current assets	\$ 27,329,765	24,532,609	25,281,664
Non-current assets	26,883,726	24,376,375	21,321,156
Current liabilities	(11,132,107)	(13,006,681)	(12,491,244)
Non-current liabilities	<u>(7,245,219)</u>	<u>(7,348,521)</u>	<u>(6,567,829)</u>
Net assets	<u>\$ 35,836,165</u>	<u>28,553,782</u>	<u>27,543,747</u>
Non-controlling interest	<u>\$ 14,568,221</u>	<u>11,325,194</u>	<u>10,815,328</u>

	For the three months ended March 31	
	2018	2017
Operating revenue	\$ <u>6,539,530</u>	<u>6,338,782</u>
Net (loss) income for the period	\$ (496,299)	341,612
Other comprehensive income (loss)	374,109	(1,543,108)
Comprehensive loss	<u>\$ (122,190)</u>	<u>(1,201,496)</u>
Net (loss) income attribute to non-controlling interest	<u>\$ (199,749)</u>	<u>134,137</u>
Comprehensive loss attribute to non-controlling interest	<u>\$ (2,889)</u>	<u>(471,779)</u>
Cash flows from operating activities	\$ 1,248,022	166,867
Cash flows from investing activities	(2,327,461)	(1,334,355)
Cash flows from financing activities	6,663,727	55,823
Net increase (decrease) in cash and cash equivalents	<u>\$ 5,584,288</u>	<u>(1,111,665)</u>

(k) Property, plant and equipment

The movements in the cost, depreciation, and impairment of the property, plant and equipment of the Group for the three months ended March 31, 2018 and 2017 were as follows :

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or deemed cost:							
Balance on January 1, 2018	\$ 4,361,929	43,769,325	64,583,011	1,453,182	27,394,560	6,528,226	148,090,233
Additions	-	122,501	884,364	9,612	375,085	2,247,358	3,638,920
Disposals and obsolescence	-	(32,290)	(436,947)	(5,960)	(442,780)	-	(917,977)
Reclassifications	-	449,592	2,083,101	90	820,480	(637,538)	2,715,725
Effect of movement in exchange rate	2,550	(322,152)	226,830	(21,281)	(245,903)	53,735	(306,221)
Balance on March 31, 2018	<u>\$ 4,364,479</u>	<u>43,986,976</u>	<u>67,340,359</u>	<u>1,435,643</u>	<u>27,901,442</u>	<u>8,191,781</u>	<u>153,220,680</u>
Balance on January 1, 2017	\$ 4,320,454	41,981,188	55,592,564	1,471,421	22,666,711	6,140,308	132,172,646
Additions	-	30,892	213,700	21,909	270,195	1,892,838	2,429,534
Disposals and obsolescence	-	(139,613)	(1,355,976)	(14,034)	(580,019)	-	(2,089,642)
Reclassifications	(1)	(228,293)	1,790,319	76,306	758,929	(1,014,602)	1,382,658
Effect of movement in exchange rate	(20)	(2,035,746)	(2,417,716)	(69,107)	(1,062,574)	(210,355)	(5,795,518)
Balance on March 31, 2017	<u>\$ 4,320,433</u>	<u>39,608,428</u>	<u>53,822,891</u>	<u>1,486,495</u>	<u>22,053,242</u>	<u>6,808,189</u>	<u>128,099,678</u>

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	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Construction in progress</u>	<u>Total</u>
Depreciation and impairment loss :							
Balance on January 1, 2018	\$ -	14,863,199	37,893,522	1,230,272	16,027,969	-	70,014,962
Depreciation for the period	-	552,503	2,088,108	32,792	1,108,726	-	3,782,129
(Reversal of) Impairment loss	-	-	6,352	(3)	338	-	6,687
Reclassifications	-	(346)	2,869	-	(35,585)	-	(33,062)
Disposals and obsolescence	-	(32,290)	(399,905)	(5,820)	(391,615)	-	(829,630)
Effect of movement in exchange rate	-	(105,988)	133,441	(21,025)	(142,723)	-	(136,295)
Balance on March 31, 2018	<u>\$ -</u>	<u>15,277,078</u>	<u>39,724,387</u>	<u>1,236,216</u>	<u>16,567,110</u>	<u>-</u>	<u>72,804,791</u>
Balance on January 1, 2017	\$ -	13,531,902	35,312,005	1,189,276	15,278,654	-	65,311,837
Depreciation for the period	-	521,447	1,604,795	51,058	902,269	-	3,079,569
Reversal of impairment loss	-	(3)	(9,774)	(3)	(3,630)	-	(13,410)
Reclassifications	-	(289,800)	(112,638)	60,390	438,591	-	96,543
Disposals and obsolescence	-	(139,576)	(1,180,145)	(13,248)	(473,369)	-	(1,806,338)
Effect of movement in exchange rate	-	(667,326)	(1,617,450)	(63,306)	(766,019)	-	(3,114,101)
Balance on March 31, 2017	<u>\$ -</u>	<u>12,956,644</u>	<u>33,996,793</u>	<u>1,224,167</u>	<u>15,376,496</u>	<u>-</u>	<u>63,554,100</u>
Carrying amounts :							
Balance on January 1, 2018	<u>\$ 4,361,929</u>	<u>28,906,126</u>	<u>26,689,489</u>	<u>222,910</u>	<u>11,366,591</u>	<u>6,528,226</u>	<u>78,075,271</u>
Balance on March 31, 2018	<u>\$ 4,364,479</u>	<u>28,709,898</u>	<u>27,615,972</u>	<u>199,427</u>	<u>11,334,332</u>	<u>8,191,781</u>	<u>80,415,889</u>
Balance on January 1, 2017	<u>\$ 4,320,454</u>	<u>28,449,286</u>	<u>20,280,559</u>	<u>282,145</u>	<u>7,388,057</u>	<u>6,140,308</u>	<u>66,860,809</u>
Balance on March 31, 2017	<u>\$ 4,320,433</u>	<u>26,651,784</u>	<u>19,826,098</u>	<u>262,328</u>	<u>6,676,746</u>	<u>6,808,189</u>	<u>64,545,578</u>

- (i) Based on the results of its evaluation of the recoverability of property, plant and equipment, the Group recognized impairment loss (reversal gain) as follows :

	<u>For the three months ended March 31</u>	
	<u>2018</u>	<u>2017</u>
Impairment loss (reversal gain)	<u>\$ 6,687</u>	<u>(13,410)</u>

- (ii) KINSUS INTERCONNECT TECHNOLOGY CORP. completed a series of farm land purchases covering a total land area of 36,115.24 square meters in the name of KINSUS' s chairman instead of KINSUS, due to the restriction imposed by the local government.
- (iii) For the three months ended March 31, 2018, KINSUS INTERCONNECT TECHNOLOGY CORP. and its subsidiaries had written the carrying amount of certain property, plant and equipment to their recoverable amount and recognized an impairment loss of \$11,551. For the three months ended March 31, 2017, KINSUS and its subsidiaries reassessed their impairment following certain changes to their plans. The recoverable amount exceeded its carrying amount by \$1,020, which was reversed. Such reversal gain was recognized under other income and losses in the consolidated statement of comprehensive income. The recoverable amount of CGU was estimated based on its value-in-use.
- (iv) Please refer to Note 6(ac) for gain and loss on disposal of property, plant and equipment.
- (v) Please refer to Note 8 for details of the property, plant and equipment pledged as collateral.

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(l) Investment property

	Buildings
Carrying amounts:	
Balance on January 1, 2018	\$ <u>52,870</u>
Balance on March 31, 2018	\$ <u>52,920</u>
Balance on January 1, 2017	\$ <u>57,221</u>
Balance on March 31, 2017	\$ <u>53,339</u>

- (i) Rental income and direct operating expenses arising from investment property that generate rental income were as follows :

	For the three months ended March 31	
	2018	2017
Rental income	\$ <u>636</u>	\$ <u>656</u>
Direct operating expenses arising from investment property that generate rental income	\$ <u>805</u>	\$ <u>790</u>

- (ii) As of March 31, 2018, December 31, 2017 and March 31, 2017, the fair value of investment property of the Group was \$86,145, \$86,145 and \$87,564, respectively. The fair value of investment property was based on the market price evaluation of the buildings located in the area.
- (iii) There were no significant additions, disposal, or recognition and reversal of impairment losses of investment property for the three months ended March 31, 2018 and 2017. Information on depreciation for the period is discussed in Note 12. Please refer to Note 6(i) of the consolidated financial statements for the year ended December 31, 2017 for the other related information.
- (iv) As of March 31, 2018, December 31, 2017 and March 31, 2017, the aforesaid investment properties were not pledged as collateral.

(m) Intangible assets

The movements in the costs of intangible assets, amortization, and impairment loss of the Group for the three months ended March 31, 2018 and 2017 were as follows :

	Goodwill	Others	Total
Costs:			
Balance on January 1, 2018	\$ 1,712,671	1,374,753	3,087,424
Additions	-	43,931	43,931
Disposals	-	(22,395)	(22,395)
Reclassifications	-	176	176
Effect of movement in exchange rate	(22,876)	(9,535)	(32,411)
Balance on March 31, 2018	\$ <u>1,689,795</u>	<u>1,386,930</u>	<u>3,076,725</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
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	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Balance on January 1, 2017	\$ 1,799,633	1,090,054	2,889,687
Additions	-	35,700	35,700
Disposals	-	(2,808)	(2,808)
Reclassifications	-	10,210	10,210
Effect of movement in exchange rate	<u>(67,055)</u>	<u>(42,964)</u>	<u>(110,019)</u>
Balance on March 31, 2017	<u>\$ 1,732,578</u>	<u>1,090,192</u>	<u>2,822,770</u>
Amortization and Impairment Loss:			
Balance on January 1, 2018	\$ 671,792	918,398	1,590,190
Amortization for the period	-	67,174	67,174
Disposals	-	(22,395)	(22,395)
Effect of movement in exchange rate	<u>-</u>	<u>(10,322)</u>	<u>(10,322)</u>
Balance on March 31, 2018	<u>\$ 671,792</u>	<u>952,855</u>	<u>1,624,647</u>
Balance on January 1, 2017	\$ 671,792	778,709	1,450,501
Amortization for the period	-	43,546	43,546
Disposals	-	(2,808)	(2,808)
Effect of movement in exchange rate	<u>-</u>	<u>(37,684)</u>	<u>(37,684)</u>
Balance on March 31, 2017	<u>\$ 671,792</u>	<u>781,763</u>	<u>1,453,555</u>
Carrying amounts:			
Balance on January 1, 2018	<u>\$ 1,040,879</u>	<u>456,355</u>	<u>1,497,234</u>
Balance on March 31, 2018	<u>\$ 1,018,003</u>	<u>434,075</u>	<u>1,452,078</u>
Balance on January 1, 2017	<u>\$ 1,127,841</u>	<u>311,345</u>	<u>1,439,186</u>
Balance on March 31, 2017	<u>\$ 1,060,786</u>	<u>308,429</u>	<u>1,369,215</u>

Goodwill impairment

For the purpose of impairment testing, goodwill was allocated to the Group's cash-generating units, such as mechanics, consumer electronic and others, as follows :

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Mechanics	\$ 997,954	1,081,452
Consumer electronic	41,403	44,867
Others	<u>1,522</u>	<u>1,522</u>
	<u>\$ 1,040,879</u>	<u>1,127,841</u>

For the three months ended March 31, 2018 and 2017, there were no significant addition, disposal, impairment loss, or reversal gain on goodwill. Please refer to Note 6(j) of the consolidated financial statements for the year ended December 31, 2017 for other related information.

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(n) Other financial assets and other assets

Other financial assets and other assets were as follows :

	March 31, 2018	December 31, 2017	March 31, 2017
Other financial assets-current	\$ 4,057,804	1,222,740	1,824,464
Other financial assets-noncurrent	570,223	300,700	297,853
Other current assets	9,082,013	8,741,935	6,148,612
Other noncurrent assets	<u>620,218</u>	<u>51,384</u>	<u>42,801</u>
	<u>\$ 14,330,258</u>	<u>10,316,759</u>	<u>8,313,730</u>

(i) Other financial assets are assets that do not qualify as cash and cash equivalents which consisted of time deposits, restricted time deposits and guarantee deposits. Please refer to Note 8 for details.

(ii) Other current assets consisted of prepayments, current tax asset and others.

(iii) Other noncurrent assets consisted of other long-term prepaid expenses and others.

(o) Short-term loans

	March 31, 2018	December 31, 2017	March 31, 2017
Unsecured bank loans	<u>\$ 74,193,498</u>	<u>46,058,620</u>	<u>31,840,327</u>
Interest rate	<u>0.51%~3.108%</u>	<u>0.5%~6.85%</u>	<u>1.03%~3.90%</u>

There were no pledged as collateral for short-term loans.

(p) Long-term loans

	March 31, 2018	December 31, 2017	March 31, 2017
Unsecured bank loans	\$ 9,378,484	7,961,112	8,987,946
Secured bank loans	<u>286,250</u>	<u>101,000</u>	<u>147,750</u>
	9,664,734	8,062,112	9,135,696
Less: current portion	(2,201,250)	(1,107,312)	(563,864)
Less: fees	<u>-</u>	<u>-</u>	<u>(6,800)</u>
Total	<u>\$ 7,463,484</u>	<u>6,954,800</u>	<u>8,565,032</u>
Interest rate	<u>1.073%~3.19%</u>	<u>1.02%~2.80%</u>	<u>1.076%~2.59%</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
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(i) Borrowing and repayment

In consideration of the operating situation and the terms of the loan agreement, the Group repaid the long-term loans of \$131,750 and \$111,647 for the three months ended March 31, 2018 and 2017. In addition, the Group proceeded from long-term loans of \$1,860,050 and \$4,246,200 for the three months ended March 31, 2018 and 2017, respectively. Please refer to Note 6(ac) for interest expenses. Please refer to Note 6(m) of the consolidated financial statements for the year ended December 31, 2017 for other related information.

(ii) Securities for bank loans

Please refer to Note 8 for details of the related assets pledged as collateral.

(iii) Loan covenants

- 1) On August 1, 2013, the Company signed a syndicated loan agreement with a total credit line of \$12,000,000. According to the agreement, the Company must comply with certain financial covenants, such as current ratio, debt ratio, tangible net assets, and interest coverage ratio. Compliance with the aforesaid financial covenants is determined on the reviewed quarterly consolidated financial statements (March 31, June 30 and September 30) and audited annual (December 31) stand alone financial statements of the Company and consolidated financial statements of the Group.

If the aforesaid covenants are breached, the syndicate banks will, depending on the circumstances, based on the majority decision of the syndicate banks to either suspend the subsequent credit usage or demand an immediate repayment.

- 2) On January 3, 2018 and January 30, 2015, CASETEK CAYMAN signed a USD360,000 and USD300,000 thousand worth of credit facility in the form of credit loan with multiple banks, respectively. According to the credit loan facility agreements, during the loan repayment periods, CASETEK CAYMAN must comply with certain financial covenants, such as current ratio, debt ratio, interest coverage ratio and tangible net assets, based on its audited annual consolidated financial statements (December 31).

The compliance with the aforesaid covenants will be examined annually based on the audited CASETEK CAYMAN annual consolidated financial statements.

As of March 31, 2018, December 31, 2017 and March 31, 2017, the Group was in compliance with the above financial covenants. Please refer to Note 6(m) of the consolidated financial statements for the year ended December 31, 2017 for other related information.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(q) Bonds payable

(i) The Group's unsecured ordinary corporate bonds were as follows :

	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>March 31,</u> <u>2017</u>
Ordinary corporate bonds issued	\$ 15,000,000	7,000,000	-
Unamortized discount on bonds payable	(14,952)	(7,524)	-
Bonds payable, end of the period	<u>\$ 14,985,048</u>	<u>6,992,476</u>	<u>-</u>

	<u>For the three months ended March 31</u>	
	<u>2018</u>	<u>2017</u>
Interest expense	<u>\$ 34,787</u>	<u>-</u>

On May 9, 2017, the Company's Board of Directors approved to issue unsecured ordinary corporate bonds amounting to no more than \$15,000,000, which were approved and declared effective by the Taipei Exchange (TPEX) on July 4, 2017 and December 29, 2017, respectively.

The offering information and main rights and obligations were as follows :

<u>Item</u>	<u>1st unsecured ordinary bonds issued in 2017</u>
1.Issuing amount	The Bonds are issued at \$7,000,000, which comprise Tranche A, Tranche B and Tranche C. The issuing amounts of Tranche A, Tranche B and Tranche C are \$3,000,000, \$2,000,000 and \$2,000,000, respectively.
2.Par value	Each unit is valued at \$1,000.
3.Offering price	The Bonds are issued by par value at the issuance date.
4.Issuance period	Each of Tranche A, Tranche B and Tranche C has 3-year term, 5-year term and 7-year term, respectively. The issuance period of Tranche A commences from July 13, 2017 and matures on July 13, 2020. The issuance period of Tranche B commences from July 13, 2017 and matures on July 13, 2022. The issuance period of Tranche C commences from July 13, 2017 and matures on July 13, 2024.
5.Coupon rate	Tranche A, B and C bear annual coupon rates of 0.91%, 1.06% and 1.20%, respectively.
6.Repayment	Tranche A, Tranche B and Tranche C are repayable on maturity.
7.Interest payment	Interests are payable annually at coupon rate from the issuance date. The payment of each bond is rounded to the nearest dollar. If the repayment date and interest payment date are bank closing days, principal and interest shall be paid without extra interest on the next business day. If bondholders receive principal and interest past due the repayment date and interest payment date, there will no calculation of extra interest.
8.Guarantee	The Bonds are unsecured ordinary corporate bonds.

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PEGATRON CORPORATION AND SUBSIDIARIES
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<u>Item</u>	<u>2nd unsecured ordinary bonds issued in 2017</u>
1. Issuing amount	The Bonds are issued at \$8,000,000, which comprise Tranche A, Tranche B and Tranche C. The issuing amounts of Tranche A, Tranche B and Tranche C are \$1,000,000, \$4,500,000 and \$2,500,000, respectively.
2. Par value	Each unit is valued at \$1,000.
3. Offering price	The Bonds are issued by par value at the issuance date.
4. Issuance period	Each of Tranche A, Tranche B and Tranche C has 3-year term, 5-year term and 7-year term, respectively. The issuance period of Tranche A commences from January 10, 2018 and matures on January 10, 2021. The issuance period of Tranche B commences from January 10, 2018 and matures on January 10, 2023. The issuance period of Tranche C commences from January 10, 2018 and matures on January 10, 2025.
5. Coupon rate	Tranche A, B and C bear annual coupon rates of 0.78%, 0.92% and 1.08%, respectively.
6. Repayment	Tranche A, Tranche B and Tranche C are repayable on maturity.
7. Interest payment	Interests are payable annually at coupon rate from the issuance date. The payment of each bond is rounded to the nearest dollar. If the repayment date and interest payment date are bank closing days, principal and interest shall be paid without extra interest on the next business day. If bondholders receive principal and interest past due the repayment date and interest payment date, there will no calculation of extra interest.
8. Guarantee	The Bonds are unsecured ordinary corporate bonds.

(r) Provisions

	<u>March 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>March 31,</u> <u>2017</u>
Warranties	\$ -	-	78
Allowance for sales returns and allowance	-	186,802	129,413
	<u>\$ -</u>	<u>186,802</u>	<u>129,491</u>

The Group has applied IFRS 15 beginning January 1, 2018. The Group reclassifies allowance for sales return and allowance as refund liabilities (under other current liabilities) and rights to the returned goods (under other current assets).

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Operating leases

(i) Lessee

For the three months ended March 31, 2018 and 2017, there were no significant new lease contracts. Please refer to Note 6(p) of the consolidated financial statements for the year ended December 31, 2017 for other related information.

(ii) Long-term prepaid rentals

	March 31, 2018	December 31, 2017	March 31, 2017
Long-term prepaid rentals	<u>\$ 3,761,213</u>	<u>3,783,164</u>	<u>3,742,096</u>

1) Long-term prepaid rentals represent land use rights under operating lease arrangement and is expensed equally over 38 to 67 years.

2) As of March 31, 2018, December 31, 2017 and March 31, 2017, the aforesaid land use rights were not pledged as collateral.

(t) Employee benefits

(i) Defined benefit plans

Management believes that there was no material market volatility, no material reimbursement and settlement or other material one-time events. As a result, the pension cost in the accompanying interim consolidated financial statements was measured and disclosed according to the actuarial report as of December 31, 2017 and 2016.

The Group's pension expenses recognized in profit or loss for the three months ended March 31, 2018 and 2017 were as follows :

	For the three months ended March 31	
	2018	2017
Operating cost	\$ 95	144
Operating expense	<u>1,886</u>	<u>2,904</u>
	<u>\$ 1,981</u>	<u>3,048</u>

(ii) Defined contribution plans

The contributions of the Group to the Bureau of the Labor Insurance and China Labor and Social Security Bureau for the employees' pension benefits were as follows :

	For the three months ended March 31	
	2018	2017
Operating cost	\$ 1,111,190	986,534
Operating expense	<u>216,562</u>	<u>203,205</u>
	<u>\$ 1,327,752</u>	<u>1,189,739</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Short-term employee benefits

As of March 31, 2018, December 31, 2017 and March 31, 2017, the Group's short-term employee benefits liabilities were \$342,255, \$330,441 and \$301,671, respectively.

(u) Income Tax

(i) Tax expense in the interim financial statements is measured and disclosed according to paragraph B12 of IAS 34 "Interim Financial Reporting."

(ii) According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, the corporate income tax rate increases from 17% to 20%. The impact on the deferred income tax arising from the change in tax rate amounting to \$59,725 was adjusted to the estimated annual effective income tax rate by the Group.

(iii) The income tax expense for the three months ended March 31, 2018 and 2017 was calculated as follows :

	<u>For the three months ended March 31</u>	
	<u>2018</u>	<u>2017</u>
Current income tax expense		
Current period incurred	\$ 307,470	938,537
Prior years income tax adjustment	<u>18,891</u>	<u>15,894</u>
Income tax expense	<u>\$ 326,361</u>	<u>954,431</u>

(iv) The amount of income tax recognized in other comprehensive income (loss) for the three months ended March 31, 2018 and 2017 was as follows :

	<u>For the three months ended March 31</u>	
	<u>2018</u>	<u>2017</u>
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign financial statements	<u>\$ (959)</u>	<u>19,650</u>

(v) Status of approval of income tax

1) The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 2) The Group have income tax returns approved by the Tax Authority were as follows :

<u>Years of Approval</u>	<u>Company Name</u>
2015	AZURE WAVE, EZWAVE TECHNOLOGIES, KINSUS INTERCONNECT TECHNOLOGY CORP. (whose 2014 income tax return has not been approved yet), PEGAVISION, ASROCK INCORPORATION (whose 2014 income tax return has not been approved yet), ASROCK RACK, INC., PEGA INTERNATIONAL LIMITED, LUMENS OPTICS and RIH KUAN METAL.
2016	AZURE LIGHTING, AMA, ASUS INVESTMENT, ASUSTEK INVESTMENT, ASUSPOWER INVESTMENT, KINSUS INVESTMENT, STARLINK, ASFLY TRAVEL SERVICE LTD., HUA-YUAN INVESTMENT LTD.,

- (v) Share capital and other interests

Except for the following, there were no significant changes in capital and reserves for the three months ended March 31, 2018 and 2017. Please refer to Note 6(s) of the consolidated financial statements for the year ended December 31, 2017 for other related information.

- (i) Nominal ordinary shares

For the three months ended March 31, 2018 and 2017, the Company had retired 194 and 225 thousand shares, respectively, of restricted stock to employees. Therefore, the authorized capital of the Company consisted of both 3,000,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,613,896, 2,614,090 and 2,574,945 thousand common shares of stock, as of March 31, 2018, December 31, 2017 and March 31, 2017, respectively.

As of March 31, 2018, December 31, 2017 and March 31, 2017, the restricted Company shares of stock issued to employees have expired, of which 679, 194 and 211 thousand shares, respectively, have not been retired.

- (ii) Global depositary receipts

As of March 31, 2018, December 31, 2017 and March 31, 2017, the Company has listed, in total, 10,210, 10,945 and 7,662 thousand units of GDR, respectively, on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed Company shares totaling 51,050, 54,724 and 38,312 thousand shares of stock, respectively.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Capital surplus

The components of the capital surplus were as follows :

	March 31, 2018	December 31, 2017	March 31, 2017
From issuance of share capital	\$ 63,210,072	63,209,502	62,238,762
From conversion of convertible bonds	11,073,663	11,073,663	11,073,663
From treasury stock transactions	23,614	23,614	23,614
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,383,056	2,383,056	2,383,056
Changes in ownership interest in subsidiaries	741,342	576,033	741,312
Employee stock options	1,304	1,304	1,304
Restricted stock to employees	2,227,448	2,220,662	1,344,913
Other	409,917	409,917	409,917
	<u>\$ 80,070,416</u>	<u>79,897,751</u>	<u>78,216,541</u>

(iv) Retained earnings

The Company's Articles of Incorporation require that after-tax earnings shall first be offset against any deficit, and 10% of the balance shall be set aside as legal reserve. The appropriation for legal reserve is discontinued when the balance of the legal reserve equals the total authorized capital. Aside from the aforesaid legal reserve, the Company may, under its Articles of Incorporation or as required by the government, appropriate for special reserve. The remaining balance of the earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

In order to bring about stability in the payment of dividends, the Company distributes dividends depending on the level of earnings of each year. The Company is facing a rapidly changing industrial environment. In consideration of the Company's long-term operating plan and funding needs, the Company adopts a stable dividends policy. Therefore, dividend distributions should not be less than 10% of distributable earnings. The Company distributes dividends of at least 10% of the aggregate dividends, if the distributions include cash dividends.

1) Legal reserve

In accordance with the Amended Companies Act 2012, 10 percent of net income should be set aside as legal reserve, until it is equal to share capital. If the Company incurred profit for the year, the meeting of shareholders shall decide on the distribution of the statutory earnings reserve either by issuing new shares or by paying cash, of up to 25 percent of the actual share capital.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Special reserve

In accordance with Permit No. 1010012865 as issued by the Financial Supervisory Commission on April 6, 2012, a special reserve equal to the contra account of other shareholders' equity is appropriated from current and prior period earnings. When the debit balance of any of the contra accounts in the shareholders' equity is reversed, the related special reserve can be reversed. The subsequent reversals of the contra accounts in shareholders' equity shall qualify for additional distributions.

3) Earnings Distribution

On March 15, 2018, the Company's board of directors resolved to appropriate the 2017 earnings. On June 20, 2017, the shareholders' meeting resolved to distribute the 2016 earnings. These earnings were appropriated or distributed as follows :

		2017		2016	
Common stock dividends per share (dollars)					
— Cash		\$ 4.00		5.00	
 (v) Other equity accounts (net of tax)					
	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Available -for-sale investments	Deferred compensation arising from issuance of restricted stock	Total
Balance on January 1, 2018	\$ (9,698,374)	-	883,161	(1,222,232)	(10,037,445)
Effects of retrospective application	11,223	(161,048)	(883,161)	-	(1,032,986)
Balance on January 1, 2018 after adjustments	(9,687,151)	(161,048)	-	(1,222,232)	(11,070,431)
Exchange differences on foreign operations	(1,232,045)	-	-	-	(1,232,045)
Exchange differences on associates accounted for using equity method	7,689	-	-	-	7,689
Unrealized losses from financial assets measured at fair value through other comprehensive income	-	(14,666)	-	-	(14,666)
Deferred compensation cost arising from issuance of restricted stock	-	-	-	313,456	313,456
Balance on March 31, 2018	\$ (10,911,507)	(175,714)	-	(908,776)	(11,995,997)
Balance on January 1, 2017	\$ (3,552,939)	-	183,953	(429,882)	(3,798,868)
Exchange differences on foreign operations	(5,802,567)	-	-	-	(5,802,567)
Exchange differences on associates accounted for using equity method	1,540	-	-	-	1,540
Unrealized gain on available-for-sale financial assets	-	-	141,169	-	141,169
Deferred compensation cost arising from issuance of restricted stock	-	-	-	158,933	158,933
Balance on March 31, 2017	\$ (9,353,966)	-	325,122	(270,949)	(9,299,793)

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vi) Non-controlling interests (net of tax)

	For the three months ended March 31	
	2018	2017
Balance on January 1	\$ 33,748,072	33,752,611
(Loss) profit attributable to non-controlling interests	(118,372)	271,766
Other comprehensive income attributable to non-controlling interests		
Exchange differences on foreign operation	185,423	(847,103)
Changes in ownership interest in subsidiaries	(165,309)	-
Changes in non-controlling interests	<u>3,726,260</u>	<u>40,505</u>
Balance on March 31	<u><u>\$ 37,376,074</u></u>	<u><u>33,217,779</u></u>

(w) Share-based payment

For the three months ended March 31, 2018 and 2017, there were no significant changes in share-based payment except for the following: (Please refer to Note 6(t) of the consolidated financial statements for the year ended December 31, 2017 for other related information).

(i) Restricted stock to employee

For the three months ended March 31, 2018 and 2017, 679 and 211 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$6,786 and \$2,113, respectively. As of March 31, 2018, December 31, 2017, and March 31, 2017, the Company has deferred compensation cost arising from issuance of restricted stock of \$908,776, \$1,222,232, and \$270,949, respectively.

(ii) Expenses resulting from share-based payments

The Company incurred expenses from share-based payment transactions for the three months ended March 31, 2018 and 2017 were as follows :

	For the three months ended March 31	
	2018	2017
Expenses resulting from issuance of restricted stock to employees	<u>\$ 314,026</u>	<u>159,102</u>

(x) Subsidiary's share-based payments

For the three months ended March 31, 2018 and 2017, there were no significant changes in share-based payment except for the following. Please refer to Note 6(u) of the consolidated financial statements for the year ended December 31, 2017 for other related information.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Restricted stock to employee of AZURE WAVE

For the three months ended March 31, 2018 and 2017, AZURE WAVE recognized share-based compensation cost of \$1,750 and \$505, respectively. As of March 31, 2018 and 2017, AZURE WAVE has deferred compensation cost arising from issuance of restricted stock of \$5,839 and \$17,695, respectively.

(ii) Restricted stock to employee of ASROCK

On September 22, 2017, ASROCK issued restricted shares of stock to employees totaling 5,704 thousand shares, which was charged to capital surplus of \$245,372. As of March 31, 2018, ASROCK has deferred compensation cost arising from issuance of restricted stock of \$131,570.

1) Cancellation or amendment to share-based payment transactions

ASROCK did not made any cancellation or amendment to share-based payment transactions for the three months ended March 31, 2018.

2) The expenses resulting from the share-based payment transactions were as follows :

	For the three months ended March 31	
	2018	2017
Expense resulting from equity-settled share-based payment \$	<u>42,698</u>	<u>-</u>

(iii) Restricted stock to employee of CASETEK CAYMAN

Information on aforesaid restricted shares of stock to employee was as follows :

	For the three months ended March 31	
	2018	
(In thousands of shares)		
Outstanding as of January 1	\$	1,500
Vested during the period		(750)
Granted during the period		-
Outstanding as of March 31	<u>\$</u>	<u>750</u>

Capital surplus of \$135,000 was recognized from the measurement of aforesaid restricted employee stock, at fair value of NT\$100 per share based on the closing price of CASETEK CAYMAN shares at grant date. On March 5, 2018, half of the aforementioned restricted shares of stock to employees has met certain vesting requirements, and 750 thousand shares was issued in total. Capital surplus-restricted shares of stock amounting to \$67,500 was charged to capital surplus-premium on capital stock. As of March 31, 2018, CASETEK CAYMAN has deferred compensation cost arising from issuance of restricted shares of stock of \$32,260.

CASETEK CAYMAN and its subsidiaries incurred an expense of \$44,598 from the issuance of restricted stock to employees for the three months ended March 31, 2018.

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Notes to the Consolidated Financial Statements

(iv) Employee stock option of FUYANG TECHNOLOGY CORPORATION

1) Information on employee stock options was as follows :

	<u>For the three months ended March 31</u> <u>2018</u>	
	<u>Weighted- average exercise price</u>	<u>Units of stock option (In thousand units)</u>
Outstanding as of January 1, 2018	\$ 8.05	<u>10,000</u>
Outstanding as of March 31, 2018	8.05	<u>10,000</u>
Exercisable as of March 31, 2018		<u>-</u>

2) Expenses resulting from share-based payments

As of March 31, 2018, the expense resulting from the share-based payment transactions were as follows :

	<u>For the three months ended March 31</u> <u>2018</u>
Expenses resulting from employee stock option	<u>\$ 1,185</u>

(y) Earnings per share

The basic earnings per share and diluted earnings per shares were calculated as follows :

	<u>For the three months ended March 31</u>	
	<u>2018</u>	<u>2017</u>
Basic earnings per share		
Profit attributable to ordinary shareholders	<u>\$ 2,079,197</u>	<u>3,881,531</u>
Weighted-average number of ordinary shares	<u>2,613,600</u>	<u>2,574,825</u>
	<u>\$ 0.80</u>	<u>1.51</u>
Diluted earnings per share		
Profit attributable to ordinary shareholders (diluted)	<u>\$ 2,079,197</u>	<u>3,881,531</u>
Weighted-average number of ordinary shares	<u>2,613,600</u>	<u>2,574,825</u>
Effect of potentially dilutive ordinary shares		
Employee stock bonus	<u>14,673</u>	<u>20,807</u>
Weighted-average number of ordinary shares (diluted)	<u>2,628,273</u>	<u>2,595,632</u>
	<u>\$ 0.79</u>	<u>1.50</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(z) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended March 31, 2018		
	DMS	Strategic Investment Group	Total
<u>Primary geographical markets</u>			
Europe	\$ 123,079,844	965,252	124,045,096
U.S.A.	88,161,398	4,753,680	92,915,078
Taiwan	25,986,932	1,491,198	27,478,130
China	7,580,296	9,096,008	16,676,304
Japan	8,864,404	43,653	8,908,057
Other countries	10,616,432	254,240	10,870,672
	\$ 264,289,306	16,604,031	280,893,337

Please refer to Note 6(aa) for details on revenue for the three months ended December 31, 2017.

(ii) Contract balances

	March 31, 2018	January 1, 2018
Notes receivable	\$ 35,878	52,010
Accounts receivable	124,778,840	151,085,518
Less: Allowance for impairment	1,691,508	1,723,316
Total	\$ 123,123,210	149,414,212
Contract liabilities	\$ 1,809,667	1,854,707

Please refer to Note 6(f) for details on accounts receivable and allowance for impairment.

The amount of revenue recognized for the three months ended March 31, 2018 that was included in the contract liability balance at the beginning of the period was \$375,866.

The major change in the balance of contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received. There were no other significant changes for the three months ended March 31, 2018.

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(aa) Revenue

	For the three months ended March 31	
	2017	
Sale of goods	\$	226,814,136
Others		12,185,153
	\$	238,999,289

Please refer to Note 6(z) for details on revenue for the three months ended March 31, 2018.

(ab) Remuneration of employees and directors

Based on the amended Company's Articles of Incorporation, remuneration of employees and directors are appropriated at the rate of at least 7% and no more than 0.7% of profit before tax, respectively. Prior years' accumulated deficit is first offset before any appropriation of profit. Employees of subsidiaries may also be entitled to the employee remuneration of the Company, which can be settled in the form of cash or stock.

For the three months ended March 31, 2018 and 2017, remuneration of employees of \$139,000 and \$332,000, respectively, and remuneration of directors of \$13,000 and \$31,000, respectively, were estimated on the basis of the Company's net profit before tax, excluding the remuneration of employees and directors of each period, multiplied by the percentage of remuneration of employees and directors as specified in the Company's Articles of Incorporation. Such amounts were recognized as operating cost or operating expense for the three months ended March 31, 2018 and 2017. Management is expecting that the differences, if any, between the actual distributed amounts and estimated amounts will be treated as changes in accounting estimates and charged to profit or loss. The number of shares to be distributed were calculated based on the closing price of the Company's ordinary shares, one day prior to Board of Directors meeting.

For the years ended December 31, 2017 and 2016, the Company accrued remuneration of employees of \$1,188,000 and \$1,734,000, respectively, and remuneration of directors of \$115,000 and \$166,000, respectively. There was no difference between the amounts approved in Board of Directors meeting. For further information, please refer to Market Observation Post System.

(ac) Non-operating income and expenses

(i) Other income

	For the three months ended March 31	
	2018	2017
Interest income	\$ 512,132	318,541
Subsidy income	215,035	195,572
Rental income	60,195	46,440
Technical service income	89,291	71,613
Other income	125,067	137,566
	\$ 1,001,720	769,732

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PEGATRON CORPORATION AND SUBSIDIARIES
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(ii) Other gains and losses

	For the three months ended March 31	
	2018	2017
Expected credit gain /Reversal of provision for bad debt expense	\$ 37,701	170,576
Gain (loss) on disposal of property, plant and equipment	22,726	(36,945)
Loss from disposal of investments	(2,013)	(5,418)
Foreign exchange loss	(470,926)	(1,280,963)
Reversal of (Impairment loss)	(6,687)	13,410
Net (loss) gain on financial assets measured at fair value through profit or loss	(14,628)	121,310
Compensation losses	(3,207)	-
	<u>\$ (437,034)</u>	<u>(1,018,030)</u>

(iii) Finance costs

	For the three months ended March 31	
	2018	2017
Interest expenses	\$ 445,301	168,886
Finance expense – bank fees	3,354	23,266
	<u>\$ 448,655</u>	<u>192,152</u>

(ad) Reclassification of other comprehensive income

	For the three months ended March 31	
	2018	2017
Available-for-sale financial assets		
Net change in fair value	\$ -	146,587
Loss on disposal of available-for-sale financial assets reclassified to profit or loss	-	(5,418)
Net fair value change recognized in other comprehensive income	<u>\$ -</u>	<u>141,169</u>

(ae) Financial instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the Group's maximum credit exposure.

2) Credit risk concentrations

As of March 31, 2018, December 31, 2017, and March 31, 2017, the accounts receivable from the Group's top three customers amounted to \$79,114,572, \$92,809,599 and \$27,656,398, representing 63%, 61% and 42% of accounts receivable, respectively, which exposes the Group to credit risk.

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PEGATRON CORPORATION AND SUBSIDIARIES
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3) Accounts receivable of credit risk

Please refer to Note 6(f) for notes and accounts receivable of credit risk exposure. Please refer to Note 6(g) for the detail of other receivables and allowance for impairment during 2017.

All of these financial assets are considered to be low risk, and thus the impairment provision recognized during the period was limited to 12 months expected losses. (Please refer to Note 4(h) for the Group determines whether credit risk is to be low risk).

The loss allowance provision as of March 31, 2018 was determined as follows:

	Other receivables
Balance on January 1, 2018 (Under IAS39)	\$ 13,494
Adjustment on initial application of IFRS 9	-
Balance on January 1, 2018 (Under IAS39)	13,494
Impairment loss recognized	467
Foreign exchange loss	217
Balance on March 31, 2018	\$ 14,178

(ii) Liquidity risk

The following are the contractual maturities of financial liabilities, excluding estimated interest payment and the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	More than 2 years
March 31, 2018					
Non-derivative financial liabilities					
Secured bank loans	\$ 286,250	286,250	50,250	56,000	180,000
Unsecured bank loans	83,571,982	83,571,982	76,344,498	725,000	6,502,484
Unsecured ordinary corporate bond	15,000,000	15,000,000	-	-	15,000,000
Non-interest bearing liabilities	<u>177,673,853</u>	<u>177,673,853</u>	<u>177,673,853</u>	<u>-</u>	<u>-</u>
	\$ 276,532,085	276,532,085	254,068,601	781,000	21,682,484
December 31, 2017					
Non-derivative financial liabilities					
Secured bank loans	\$ 101,000	101,000	54,625	28,375	18,000
Unsecured bank loans	54,019,732	54,019,732	47,111,307	640,700	6,267,725
Unsecured ordinary corporate bond	7,000,000	7,000,000	-	-	7,000,000
Non-interest bearing liabilities	<u>225,450,155</u>	<u>225,450,155</u>	<u>225,450,155</u>	<u>-</u>	<u>-</u>
	\$ 286,570,887	286,570,887	272,616,087	669,075	13,285,725

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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
March 31, 2017					
Non-derivative financial liabilities					
Secured bank loans	\$ 147,750	147,750	61,500	50,250	36,000
Unsecured bank loans	40,828,273	40,828,273	32,342,691	7,701,239	784,343
Non-interest bearing liabilities	<u>145,185,460</u>	<u>145,185,460</u>	<u>145,185,460</u>	-	-
	<u>\$ 186,161,483</u>	<u>186,161,483</u>	<u>177,589,651</u>	<u>7,751,489</u>	<u>820,343</u>

The liquidity of the aforesaid bank loans does not include interest expense on cash outflow.

The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) Market risk

1) Currency risk

The Group's exposures to significant currency risk were those from its foreign currency denominated financial assets and liabilities as follows:

(Unit: Foreign currency / NTD in Thousands)

	<u>March 31, 2018</u>			<u>March 31, 2017</u>		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 9,931,425	29.105	289,054,125	7,325,472	30.33	222,181,566
USD:CNY	281,745	6.2881	8,200,216	317,743	6.8993	9,637,149
CNY:USD	1,914,154	0.1590	8,859,823	2,385,305	0.1449	10,486,035
<u>Non-monetary items</u>						
USD:NTD	10,992	29.105	319,922	10,992	30.330	333,387
CNY:USD	87,152	0.1590	403,392	69,900	0.1449	307,289
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	9,559,738	29.105	278,236,174	6,830,141	30.330	207,158,177
USD:CNY	249,085	6.2881	7,249,644	285,927	6.8993	8,672,170
CNY:USD	2,263,958	0.1590	10,478,920	1,740,411	0.1449	7,651,018

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	December 31, 2017		
	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 11,672,655	29.760	347,378,213
USD:CNY	339,735	6.5342	10,110,518
CNY:USD	1,223,321	0.1530	5,571,613
<u>Non-monetary items</u>			
USD:NTD	10,992	29.760	327,122
CNY:NTD	84,484	0.1530	384,782
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	11,389,063	29.760	338,938,515
USD:CNY	262,842	6.5342	7,822,182
CNY:USD	2,840,274	0.1530	12,936,022

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income (available-for-sale financial assets), loans, accounts payable and other payables that are denominated in foreign currency. A 1% of appreciation or depreciation of each major foreign currency against the Group's functional currency as of March 31, 2018 and 2017 would have increased (decreased) the before-tax net income for the three months ended March 31, 2018 and 2017 by \$110,105 and \$193,782, respectively, and increased (decreased) the after-tax other comprehensive income for the three months ended March 31, 2018 and 2017 by \$2,472 and \$3,073, respectively. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for both periods.

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the three months ended March 31, 2018 and 2017, the foreign exchange losses, including both realized and unrealized, amounted to \$470,926 and \$1,280,963, respectively.

2) Interest rate analysis

The interest risk exposure from financial assets and liabilities has been disclosed in the note of liquidity risk management.

The following sensitivity analysis is based on the risk exposure to interest rates on the derivative and non-derivative financial instruments at the reporting date.

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For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year at the reporting date. The Group's internal management reported the increases/decreases in the interest rates and the exposure to changes in interest rates of 1% is considered by management to be a reasonable change of interest rate.

If the interest rate increases / decreases by 1%, the Group's net income will decrease /increase by \$25,287 and \$23,437 for the three months ended March 31, 2018 and 2017, respectively, assuming all other variable factors remain constant. This is mainly due to the Group's variable rate borrowing.

3) Other market price risk

If the equity price changes, the impact of equity price change to other comprehensive income will be as follows, assuming the analysis is based on the same basis for both years and assuming that all other variables considered in the analysis remain the same :

	For the three months ended March 31			
	2018		2017	
	Comprehensive Income (Loss) (net of tax)	Net Income (Loss) (net of tax)	Comprehensive Income (Loss) (net of tax)	Net Income (Loss) (net of tax)
Increase 3%	\$ 30,029	42,438	35,113	3,262
Decrease 3%	\$ (30,029)	(42,438)	(35,113)	(3,262)

(iv) Fair value of financial instruments

The Group measured its financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income (available-for-sale financial assets) on a recurring basis.

The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required :

1) Categories of financial instruments and fair value hierarchy

	March 31, 2018				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	\$ 3,894,184	3,823,169	-	71,015	3,894,184

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	March 31, 2018				
	Book Value	Fair Value			Total
	Level 1	Level 2	Level 3	Total	
Financial assets at fair value through other comprehensive income					
Receivables-Financial assets at fair value through other comprehensive income	2,666,891	2,666,891	-	-	2,666,891
Stock of listed companies	721,469	721,469	-	-	721,469
Stock of unlisted companies	150,000	-	-	150,000	150,000
Stock of overseas unlisted companies	129,494	-	-	129,494	129,494
Subtotal	<u>3,667,854</u>	<u>3,388,360</u>	<u>-</u>	<u>279,494</u>	<u>3,667,854</u>
Measured at amortized cost					
Cash and cash equivalents	131,851,916	-	-	-	-
Notes and accounts receivable	120,456,319	-	-	-	-
Other receivables	1,576,916	-	-	-	-
Other financial assets	4,628,027	-	-	-	-
Subtotal	<u>258,513,178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities at amortized cost					
Bank loans	83,858,232	-	-	-	-
Non-interest bearing liabilities	177,673,853	-	-	-	-
Unsecured ordinary corporate bond	14,985,048	-	-	-	-
Subtotal	<u>276,517,133</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
December 31, 2017					
	Book Value	Fair Value			Total
	Level 1	Level 2	Level 3	Total	
Financial assets designated as at fair value through profit or loss					
Held-for-trading non-derivative financial assets	\$ 2,824,913	2,824,913	-	-	2,824,913
Financial assets carried at cost	71,015	-	-	71,015	71,015
Subtotal	<u>2,895,928</u>	<u>2,824,913</u>	<u>-</u>	<u>71,015</u>	<u>2,895,928</u>
Available-for-sale financial assets					
Stock of listed companies	721,071	721,071	-	-	721,071
Equity securities – common stock	437,760	-	437,760	-	437,760
Stock of overseas listed companies	384,782	384,782	-	-	384,782
Financial assets carried at cost	279,494	-	-	279,494	279,494
Subtotal	<u>1,823,107</u>	<u>1,105,853</u>	<u>437,760</u>	<u>279,494</u>	<u>1,823,107</u>
Deposits and receivables					
Cash and cash equivalents	107,444,124	-	-	-	-
Notes and accounts receivable	149,414,212	-	-	-	-
Other receivables	1,490,873	-	-	-	-
Other financial assets	1,523,440	-	-	-	-
Subtotal	<u>259,872,649</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Continued)

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Notes to the Consolidated Financial Statements

	December 31, 2017				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial liabilities at amortized cost					
Bank loans	\$ 54,120,732	-	-	-	-
Non-interest bearing liabilities	225,450,155	-	-	-	-
Unsecured ordinary corporate bond	<u>6,992,476</u>	-	-	-	-
Subtotal	<u>286,563,363</u>	-	-	-	-
	March 31, 2017				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets designated as at fair value through profit or loss					
Held-for-trading non-derivative financial assets	\$ 3,511,565	3,511,565	-	-	3,511,565
Financial assets carried at cost	<u>71,015</u>	-	-	<u>71,015</u>	<u>71,015</u>
Subtotal	<u>3,582,580</u>	<u>3,511,565</u>	-	<u>71,015</u>	<u>3,582,580</u>
Available-for-sale financial assets					
Stock of listed companies	684,954	684,954	-	-	684,954
Equity securities—common stock	178,200	-	178,200	-	178,200
Stock of overseas listed companies	307,289	307,289	-	-	307,289
Financial assets carried at cost	<u>300,067</u>	-	-	<u>300,067</u>	<u>300,067</u>
Subtotal	<u>1,470,510</u>	<u>992,243</u>	<u>178,200</u>	<u>300,067</u>	<u>1,470,510</u>
Deposits and receivables					
Cash and cash equivalents	108,698,296	-	-	-	-
Notes and accounts receivable	63,793,395	-	-	-	-
Other receivables	38,524,950	-	-	-	-
Other financial assets	<u>2,122,317</u>	-	-	-	-
Subtotal	<u>213,138,958</u>	-	-	-	-
Financial liabilities at amortized cost					
Bank loans	\$ 40,969,223	-	-	-	-
Non-interest bearing liabilities	<u>145,185,460</u>	-	-	-	-
Subtotal	<u>186,154,683</u>	-	-	-	-

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PEGATRON CORPORATION AND SUBSIDIARIES
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2) Valuation techniques for financial instruments not measured at fair value :

The assumptions and methods used in valuing financial instruments that are not measured at fair value are as follows :

a) Financial assets and liabilities measured at amortized cost

Fair value measurement for financial assets and liabilities is based on the latest quoted price and agreed-upon price if these prices are available in active market. When market value is unavailable, fair value of financial assets and liabilities are evaluated based on the discounted cash flow of the financial assets and liabilities.

3) Valuation techniques for financial instruments measured at fair value :

a) Non-derivative financial instruments

Financial instruments trade in active markets is based on quoted market prices.

If quoted price of a financial instrument can be obtained in time and often from exchanges, brokers, underwriters, industrial union, pricing institute, or authorities and such price can reflect those actual trading and frequently happen in the market, then the financial instrument is considered to have quoted price in active market. If a financial instrument does not accord with the definition aforementioned, then it is considered to be without quoted price in active market. In general, market with low trading volume or high bid-ask spreads is an indication of non-active market.

Measurements of fair value of financial instruments without active market are based on valuation technique or quoted price from competitor. Fair value measured by valuation technique can be extrapolated from similar financial instruments, discounted cash flow method or other valuation technique which include model calculating with observable market data at the balance sheet date.

b) Derivative financial instruments

It is based on the valuation model accepted by the most market users, ex: Discount rate and option pricing model. Forward exchange agreement is usually based on the current forward rate.

Fair value of structured financial instruments is based on appropriated valuation model, ex: Black-Scholes model, or other valuation model, ex: Monte Carlo simulation.

4) Transfers between Level 1 and Level 2

There have been no transfers from each level for the three months ended March 31, 2018 and 2017.

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- 5) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Group's financial instruments that use Level 3 inputs to measure fair value include "financial assets measured at fair value through profit or loss – equity investments" and "financial assets measured at fair value through other comprehensive income(available-for-sale financial assets) – equity investments".

Most of the Group's financial assets in Level 3 have only one significant unobservable input, while its financial assets at fair value through other comprehensive income-equity investments without an active market have more than one significant unobservable inputs. The significant unobservable inputs of financial assets at fair value through other comprehensive income-equity investments without an active market are individually independent, and there is no correlation between them.

Quantified information of significant unobservable inputs was as follows :

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Fair value through profit or loss-equity investments without an active market	Market Approach	<ul style="list-style-type: none"> • The multiplier of price-to-book ratio (As of March 31, 2018 and December 31, 2017, were 0.9) • Market illiquidity discount (As of March 31, 2018 and December 31, 2017, were 80%) 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> • the multiplier were higher (lower) • the market illiquidity discount were lower (higher).
Fair value through other comprehensive income (Availableforsale financial assets)-equity investments without an active market	Market Approach	<ul style="list-style-type: none"> • The multiplier of price-to-book ratio (As of March 31, 2018 and December 31, 2017, were 1.8~6.1) • Market illiquidity discount (As of March 31, 2018 and December 31, 2017, were 80%) 	"

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- 6) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

The Group's measurement on the fair value of financial instruments is deemed reasonable despite different valuation models or assumptions may lead to different results.

For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on profit or loss and other comprehensive income :

	Inputs	Fluctuation in inputs	Profit or loss		Other comprehensive income	
			Favour- able	Unfavour- -able	Favour- able	Unfavour- -able
March 31, 2018						
Financial assets at fair value through profit or loss						
Equity investments without an active market	Multiplier of price-to-earnings ratio	1%	710	(710)	-	-
Equity investments without an active market	Market illiquidity discount	1%	710	(710)	-	-
Financial assets at fair value through other comprehensive income						
Equity investments without an active market	Multiplier of price-to-earnings ratio	1%	-	-	2,795	(2,795)
Equity investments without an active market	Market illiquidity discount	1%	-	-	2,795	(2,795)
December 31, 2017						
Financial assets carried at cost						
Equity investments without an active market	Multiplier of price-to-earnings ratio	1%	-	(3,505)	-	-
Equity investments without an active market	Market illiquidity discount	1%	-	(3,505)	-	-

The favourable and unfavourable effects represent the changes in fair value, and fair value is based on a variety of unobservable inputs calculated using a valuation technique. The analysis above only reflects the effects of changes in a single input, and it does not include the interrelationships with another input.

- (v) Offsetting of financial assets and financial liabilities

The Group has financial assets and liabilities which are subject to the guidance concerning financial instrument transactions under paragraph 42 of IAS 32 as endorsed by the Financial Supervisory Commission. These financial assets and liabilities are presented on a net basis in balance sheet.

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The following table presents the recognized financial instruments that are subject to offsetting agreement or contract and have legally enforceable right to set off :

March 31, 2018						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Amounts not offset (d)					
	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 15,870,960	12,462,560	3,408,400	-	-	3,408,400
March 31, 2018						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Amounts not offset (d)					
	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 12,462,560	12,462,560	-	-	-	-
December 31, 2017						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Amounts not offset (d)					
	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 31,766,866	22,767,959	8,998,907	-	-	8,998,907
December 31, 2017						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Amounts not offset (d)					
	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 22,767,959	22,767,959	-	-	-	-
March 31, 2017						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Amounts not offset (d)					
	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Financial Instruments	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 22,185,848	19,356,549	2,829,299	-	-	2,829,299
March 31, 2017						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Amounts not offset (d)					
	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Financial Instruments	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 19,356,549	19,356,549	-	-	-	-

Note : The master netting arrangement and non-cash collateral were included.

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PEGATRON CORPORATION AND SUBSIDIARIES
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(af) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in Note 6(ab) of the consolidated financial statements for the year ended December 31, 2017.

(ag) Capital management

Management believes that there were no changes in the Group's approach to the targets, policies and procedures in capital management as disclosed in the consolidated financial statements for the year ended December 31, 2017. Also, they believe that for the three months ended March 31, 2018, there were also no changes in the Group's capital management information. Please refer to Note 6(ac) of the consolidated financial statements for the year ended December 31, 2017 for other related information.

(ah) Financing activities not affecting current cash flow

The Group's financing activities which did not affect the current cash flow in the three months ended March 31, 2018 and 2017, were as follows :

Reconciliation of liabilities arising from financing activities were as follows :

	January 1, 2018	Cash flows	Non-cash changes		March 31, 2018
			Foreign exchange movement	Other	
Long-term loans	\$ 8,062,112	1,728,300	(125,678)	-	9,664,734
Short-term loans	46,058,620	28,128,351	-	6,527	74,193,498
Bonds payable	6,992,476	7,992,000	-	572	14,985,048
Non-controlling interests	<u>33,748,072</u>	<u>3,703,530</u>	<u>185,423</u>	<u>(260,951)</u>	<u>37,376,074</u>
Total liabilities from financing activities	<u>\$ 94,861,280</u>	<u>41,552,181</u>	<u>59,745</u>	<u>(253,852)</u>	<u>136,219,354</u>

(7) Related-party transactions:

(a) Names and relationship with related parties

The following are entities that have had transactions with related parties and the Group during the periods covered in the consolidated financial statements.

<u>Name of related party</u>	<u>Relationship with the Group</u>
GREEN PACKING LIMITED	Other related party
HONGJIE (SUZHOU) PACKING LIMITED	Other related party

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PEGATRON CORPORATION AND SUBSIDIARIES
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(b) Significant transactions with related parties

(i) Purchase of Goods from Related Parties

The amounts of significant purchase transactions and outstanding balances between the Group and related parties were as follows :

	<u>Purchases</u>		<u>Payables to Related Parties</u>		
	<u>For the three months ended March 31</u>		<u>March 31,</u>	<u>December 31,</u>	<u>March 31,</u>
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2017</u>
Other related parties	\$ -	88	14	14	122

There were no significant differences between the terms and pricing of purchase transactions with related enterprises and those carried out with other normal vendors. The average payment period for notes and accounts payable pertaining to such purchase transactions ranged from one to four months, which is similar to that of other normal vendors.

(c) Key management personnel compensation :

	<u>For the three months ended March 31</u>	
	<u>2018</u>	<u>2017</u>
Short-term employee benefits	\$ 102,617	117,471
Post-employment benefits	850	841
Share-based payments	87,797	29,378
	<u>\$ 191,264</u>	<u>147,690</u>

Please refer to Notes 6(w) and 6(x) for further explanations related to share-based payment transactions.

(8) Pledged assets:

As of March 31, 2018, December 31, 2017 and March 31, 2017, pledged assets were as follows :

<u>Asset</u>	<u>Purpose of pledge</u>	<u>March 31,</u>	<u>December</u>	<u>March 31,</u>
		<u>2018</u>	<u>31, 2017</u>	<u>2017</u>
Other financial asset-restricted deposit	Post-release duty deposits, customs duty, rental deposits, travel agency guarantee, etc.	\$ 47,695	73,297	482,516
Property, plant and equipment	Bank loans	500,765	143,554	230,356
Other financial asset-guarantee deposits	Customs duty guarantee, rental deposits, and deposits for performance guarantee	34,867	35,348	67,285
		<u>\$ 583,327</u>	<u>252,199</u>	<u>780,157</u>

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(9) Significant commitments and contingencies:

(a) Significant commitments and contingencies were as follows :

(i) Unused standby letters of credit

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
EUR	\$ 2,589	2,589	2,583
JPY	1,403,065	2,968,349	3,214,649
USD	9,347	5,853	17,306
CNY	-	-	2,757

(ii) Promissory notes and certificates of deposit obtained for business purpose were as follows :

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
NTD	<u>\$ 73,813</u>	<u>78,998</u>	<u>81,169</u>

(iii) As of March 31, 2018 December 31, 2017, and March 31, 2017, the significant contracts for purchase of properties by the Group amounted to \$23,998,030, \$24,033,496 and \$13,036,921, of which \$6,981,644, \$10,860,011 and \$4,715,205, respectively, were unpaid.

(iv) As of March 31, 2018 December 31, 2017, and March 31, 2017, the Group provided endorsement guarantee for bank loans obtained by the related parties, including Group entities, amounting to \$3,550,811, \$3,779,520 and \$7,110,808, respectively.

(v) As of March 31, 2018 December 31, 2017, and March 31, 2017, the Group issued a tariff guarantee of \$1,419,657, \$1,689,442 and \$463,227, respectively, to the bank for the purpose of importing goods.

(b) Significant contingent liability:

In May 2017, QUALCOMM INCORPORATED filed a lawsuit against the Group for royalty payment under the license agreement in the U.S. District Court for the Southern District of California. In July 2017, the Group counterclaimed. The outcome of this lawsuit depends on court proceedings and is not expected to have a material effect on the Group's operation.

(10) Losses due to major disasters: None.

(11) Subsequent events: None

(Continued)

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(12) Other:

The nature of employee benefits, depreciation and amortization expenses categorized by function, were as follows :

By function	For the three months ended March 31					
	2018			2017		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 11,319,831	3,641,142	14,960,973	8,992,718	3,493,786	12,486,504
Health and labor insurance	1,017,355	242,181	1,259,536	903,229	239,598	1,142,827
Pension	1,111,285	218,448	1,329,733	986,678	206,109	1,192,787
Others	350,595	213,279	563,874	352,876	187,664	540,540
Depreciation	3,323,310	458,819	3,782,129	2,697,348	382,221	3,079,569
Amortization	28,788	38,386	67,174	21,521	22,025	43,546

Above depreciations did not include depreciation in investment property which was accounted under non-operating expense as follows :

	For the three months ended March 31	
	2018	2017
Depreciation in investment property	<u>\$ 805</u>	<u>790</u>

(13) Segment information:**(a) General Information**

The Group's operating segments required to be disclosed are categorized as DMS (Design, Manufacturing and Service) and Strategic Investment Group. DMS's main operating activities are designing and manufacturing computer, communication and consumer electronics' end products, and providing after-sales service. Strategic Investment Group is DMS's upstream and downstream supply chain, strategic investments and other related investments arms. The chief operating decision maker's main responsibility is to integrate strategy that creates operating synergy throughout the supply chain and to allocate the profit from the operating result. The Group assesses performance of the segments based on the segments' profit, and report the amounts of revenues based on the financial information used to prepare the consolidated interim financial report.

(Continued)

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- (b) Reportable segment profit or loss, segment assets, segment liabilities, and their measurement and reconciliations

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes profit before taxation, excluding any extraordinary activity and foreign exchange gain or losses, because taxation, extraordinary activity and foreign exchange gains or losses are managed on a group basis, and hence they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that in the report used by the chief operating decision maker.

The operating segment accounting policies are similar to the ones described in Note 4 “Significant accounting policies” except for the recognition and measurement of pension cost, which is on a cash basis. The Group treated intersegment sales and transfers as third-party transactions. They are measured at market price.

Please refer to Note 6(z) for information on revenue for the three months ended March 31, 2018. The Group’s operating segment information and reconciliation were as follows :

	<u>DMS</u>	<u>Strategic Investment Group</u>	<u>Adjustment and eliminations</u>	<u>Total</u>
For the three months ended March 31, 2018				
Reportable segment profit or loss	\$ 2,401,973	2,390,092	(2,504,879)	2,287,186
For the three months ended March 31, 2017				
Revenue :				
Revenue from external customers	\$ 224,250,700	14,748,589	-	238,999,289
Intersegment revenues	501,877	573,452	(1,075,329)	-
Total revenue	<u>\$ 224,752,577</u>	<u>15,322,041</u>	<u>(1,075,329)</u>	<u>238,999,289</u>
Reportable segment profit or loss	\$ 4,575,919	3,215,810	(2,684,001)	5,107,728
Reportable segment assets				
March 31, 2018	<u>\$ 408,206,365</u>	<u>221,223,684</u>	<u>(144,793,399)</u>	<u>484,636,650</u>
December 31, 2017	<u>\$ 411,234,014</u>	<u>216,441,900</u>	<u>(139,440,295)</u>	<u>488,235,619</u>
March 31, 2017	<u>\$ 322,458,673</u>	<u>181,713,418</u>	<u>(115,213,286)</u>	<u>388,958,805</u>