

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

**PEGATRON CORPORATION
AND ITS SUBSIDIARIES**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**September 30, 2017 and 2016
(With Independent Accountants' Review Report Thereon)**

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The auditors' report and the accompanying condensed interim 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' report and condensed interim consolidated financial statements, the Chinese version shall prevail.

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Independent Accountants' Review Report

To the Board of Directors of
Pegatron Corporation

We have reviewed the accompanying condensed interim consolidated balance sheets of Pegatron Corporation and its subsidiaries (the "Group") as of September 30, 2017 and 2016, and the related consolidated statements of comprehensive income for the three month and the nine month periods then ended, and changes in equity and cash flows for the nine months then ended. These condensed interim consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these interim consolidated financial statements based on our reviews. We did not review the financial statements of certain consolidated subsidiaries, with total assets of NT\$55,163,797 thousand and NT\$50,929,865 thousand, representing 10.01% and 10.36% of the related consolidated total assets as of September 30, 2017 and 2016, and net sales of NT\$9,634,740 thousand, NT\$9,810,385 thousand, NT\$25,277,236 thousand and NT\$32,124,445 thousand, representing 2.86%, 3.10%, 3.10% and 4.03% of the related consolidated total net sales for the three months and nine months ended September 30, 2017 and 2016, 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 these consolidated subsidiaries, are based solely on the reports of the other accountants.

We conducted our reviews in accordance with Statement of Auditing Standards No. 36 "Engagements to Review Financial Statements." A review consists principally of inquiries of the Group's management and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The consolidated financial statements of certain subsidiaries were consolidated based on their financial statements as of and for the nine months ended September 30, 2017 and 2016, which were not reviewed by independent accountants. The total assets of these subsidiaries amounted to NT\$79,835,034 thousand and NT\$47,977,794 thousand, representing 14.48% and 9.76% of the related consolidated total assets and the total liabilities amounted to NT\$41,831,448 thousand and NT\$14,011,025 thousand, representing 11.16% and 4.44% of the related consolidated liabilities as of September 30, 2017 and 2016, respectively. The comprehensive income of these subsidiaries amounted to NT\$602,052 thousand, NT\$368,200 thousand, NT\$748,164 thousand and NT\$1,043,044 thousand, representing 12.79%, 17.72%, 10.17% and 13.40% of the related consolidated comprehensive income for the three months and nine months ended September 30, 2017 and 2016, respectively. Also, the financial statements of certain equity-accounted investees were not reviewed by independent accountants. Long-term investments in these investee companies amounted to NT\$81,195 thousand and NT\$73,652 thousand as of September 30, 2017 and 2016, respectively, and the related investment (loss) gain amounted to NT\$3,992 thousand, NT\$3,259 thousand, NT\$7,241 thousand and NT\$294 thousand for the three months and nine months ended September 30, 2017 and 2016, respectively.

Based on our reviews and the reports of other accountants, except for the effects of such adjustments, if any, as might have been determined to be necessary had the financial statements of some consolidated subsidiaries and some equity-accounted investees been reviewed by independent accountants as described in the third paragraph, we are not aware of any material modifications that should be made to the condensed interim consolidated financial statements referred to the first paragraph for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards No. 34 “Interim Financial Reporting” which are endorsed and made effective by the Financial Supervisory Commission in the Republic of China (R.O.C.).

KPMG

Taipei, Taiwan (Republic of China)
November 9, 2017

Notes to Readers

The accompanying condensed interim consolidated financial statements are intended only to present the consolidated statements of financial position, financial performance and its cash flows in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards No.34 “Interim Financial Reporting” which are endorsed and made effective by the Financial Supervisory Commission in the Republic of China (R.O.C). The standards, procedures and practices to review such condensed interim consolidated financial statements are those generally accepted and applied in the Republic of China.

The auditors’ report and the accompanying condensed interim 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’ report and condensed interim consolidated financial statements, the Chinese version shall prevail.

(English Translation of Condensed Interim Consolidated Financial Statements and Report Originally Issued in Chinese)
AS OF SEPTEMBER 30, 2017 AND 2016 REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH THE
GENERALLY ACCEPTED AUDITING STANDARDS

PEGATRON CORPORATION AND ITS SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2017, December 31, 2016, and September 30, 2016

(Expressed in Thousands of New Taiwan Dollars)

		<u>September 30, 2017</u>		<u>December 31, 2016</u>		<u>September 30, 2016</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Assets							
Current assets:							
1100	Cash and cash equivalents (Note 6(a))	\$ 113,809,249	21	108,713,312	24	97,374,731	20
1110	Current financial assets at fair value through profit or loss (Note 6(b))	2,501,318	-	4,367,847	1	4,159,181	1
1125	Current available-for-sale financial assets (Note 6(b))	390,370	-	266,523	-	262,351	-
1170	Notes and accounts receivable, net (Note 6(c))	191,989,147	35	93,315,940	21	139,304,233	28
1200	Other receivables, net (Note 6(c))	1,850,191	-	42,590,627	10	39,102,786	8
130X	Inventories (Note 6(d))	140,428,553	26	107,319,402	24	122,013,410	25
1476	Other current financial assets (Notes 6(k) and 8)	1,222,710	-	479,510	-	480,190	-
1479	Other current assets (Note 6(k))	<u>7,481,338</u>	<u>1</u>	<u>7,172,425</u>	<u>2</u>	<u>9,902,277</u>	<u>2</u>
		<u>459,672,876</u>	<u>83</u>	<u>364,225,586</u>	<u>82</u>	<u>412,599,159</u>	<u>84</u>
Non-current assets:							
1523	Non-current available-for-sale financial assets (Note 6(b))	1,112,488	-	789,622	-	799,882	-
1543	Non-current financial assets carried at cost (Note 6(b))	469,082	-	371,082	-	371,082	-
1550	Investments accounted for using equity method (Note 6(e))	346,529	-	362,909	-	295,149	-
1600	Property, plant and equipment (Notes 6(h) and 8)	74,847,586	14	66,860,809	15	65,980,475	13
1760	Investment property, net (Note 6(i))	53,725	-	57,221	-	58,624	-
1780	Intangible assets (Note 6(j))	1,494,478	-	1,439,186	-	1,296,411	-
1840	Deferred tax assets	3,295,461	1	2,347,933	1	2,603,325	1
1915	Prepayments on purchase of equipment	5,950,851	1	3,003,023	1	3,232,915	1
1980	Other non-current financial assets (Notes 6(k) and 8)	280,244	-	427,655	-	351,759	-
1985	Long-term prepaid rentals (Note 6(p))	3,706,401	1	4,014,064	1	3,891,657	1
1990	Other non-current assets (Note 6(k))	<u>43,699</u>	<u>-</u>	<u>46,143</u>	<u>-</u>	<u>47,065</u>	<u>-</u>
		<u>91,600,544</u>	<u>17</u>	<u>79,719,647</u>	<u>18</u>	<u>78,928,344</u>	<u>16</u>
Total assets		<u>\$ 551,273,420</u>	<u>100</u>	<u>443,945,233</u>	<u>100</u>	<u>491,527,503</u>	<u>100</u>

See accompanying notes to financial statements.

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AS OF SEPTEMBER 30, 2017 AND 2016 REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH THE
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PEGATRON CORPORATION AND ITS SUBSIDIARIES

Consolidated Balance Sheets (CONT'D)

September 30, 2017, December 31, 2016, and September 30, 2016

(Expressed in Thousands of New Taiwan Dollars)

		<u>September 30, 2017</u>		<u>December 31, 2016</u>		<u>September 30, 2016</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Liabilities and Equity							
Current liabilities:							
2100	Short-term loans (Note 6(l))	\$ 59,038,613	11	31,148,468	7	46,383,931	9
2150	Notes and accounts payable (Note 7)	240,965,390	44	171,265,693	39	203,698,122	42
2209	Accrued expenses (Note 6(q))	27,817,707	5	25,179,749	6	24,220,733	5
2219	Other payables	9,623,200	2	5,480,741	1	4,957,515	1
2230	Current tax liabilities	1,991,259	-	4,538,439	1	3,423,853	1
2250	Current provisions (Note 6(o))	178,901	-	160,064	-	176,251	-
2313	Deferred revenue	899,207	-	1,040,615	-	730,997	-
2322	Long-term loans payable, current portion (Note 6(m))	568,408	-	536,257	-	2,403,514	-
2399	Other current liabilities	<u>15,963,502</u>	<u>3</u>	<u>14,886,797</u>	<u>3</u>	<u>16,176,378</u>	<u>3</u>
		<u>357,046,187</u>	<u>65</u>	<u>254,236,823</u>	<u>57</u>	<u>302,171,294</u>	<u>61</u>
Non-Current liabilities:							
2530	Bonds payable (Note 6(n))	6,992,191	1	-	-	-	-
2540	Long-term loans (Note 6(m))	7,219,413	2	4,522,890	1	9,098,206	2
2570	Deferred tax liabilities	1,968,208	-	1,803,244	1	1,599,283	-
2670	Other non-current liabilities	<u>1,554,421</u>	<u>-</u>	<u>1,360,075</u>	<u>-</u>	<u>2,729,713</u>	<u>1</u>
		<u>17,734,233</u>	<u>3</u>	<u>7,686,209</u>	<u>2</u>	<u>13,427,202</u>	<u>3</u>
	Total liabilities	<u>374,780,420</u>	<u>68</u>	<u>261,923,032</u>	<u>59</u>	<u>315,598,496</u>	<u>64</u>
Equity Attributable to Owners of the Parent Company (Note 6(s)):							
3100	Share capital	<u>26,123,391</u>	<u>5</u>	<u>25,751,695</u>	<u>6</u>	<u>25,756,275</u>	<u>5</u>
Capital surplus:							
3210	Capital surplus, premium on capital stock	74,281,463	13	73,312,256	16	73,308,810	15
3280	Capital surplus, others (Note 6(t))	<u>5,632,754</u>	<u>1</u>	<u>4,902,003</u>	<u>1</u>	<u>4,899,757</u>	<u>1</u>
		<u>79,914,217</u>	<u>14</u>	<u>78,214,259</u>	<u>17</u>	<u>78,208,567</u>	<u>16</u>
Retained earnings:							
3310	Legal reserve	9,194,524	2	7,260,543	2	7,260,543	2
3320	Special reserve	3,368,986	1	-	-	-	-
3350	Unappropriated retained earnings	<u>33,684,117</u>	<u>6</u>	<u>40,844,207</u>	<u>9</u>	<u>34,977,552</u>	<u>7</u>
		<u>46,247,627</u>	<u>9</u>	<u>48,104,750</u>	<u>11</u>	<u>42,238,095</u>	<u>9</u>
Other equity interest:							
3410	Exchange differences on translation of foreign financial statements	(8,333,648)	(2)	(3,552,939)	(1)	(2,940,491)	(1)
3425	Unrealized gains on available-for-sale financial assets	659,238	-	183,953	-	191,154	-
3491	Deferred compensation cost arising from issuance restricted stock (Note 6(t))	<u>(1,535,688)</u>	<u>-</u>	<u>(429,882)</u>	<u>-</u>	<u>(588,816)</u>	<u>-</u>
		<u>(9,210,098)</u>	<u>(2)</u>	<u>(3,798,868)</u>	<u>(1)</u>	<u>(3,338,153)</u>	<u>(1)</u>
3500	Treasury stock	<u>(4,406)</u>	<u>-</u>	<u>(2,246)</u>	<u>-</u>	<u>(4,580)</u>	<u>-</u>
	Equity attributable to the parent company	<u>143,070,731</u>	<u>26</u>	<u>148,269,590</u>	<u>33</u>	<u>142,860,204</u>	<u>29</u>
36xx	Non-controlling interests	<u>33,422,269</u>	<u>6</u>	<u>33,752,611</u>	<u>8</u>	<u>33,068,803</u>	<u>7</u>
	Total equity	<u>176,493,000</u>	<u>32</u>	<u>182,022,201</u>	<u>41</u>	<u>175,929,007</u>	<u>36</u>
	Total liabilities and equity	<u>\$ 551,273,420</u>	<u>100</u>	<u>443,945,233</u>	<u>100</u>	<u>491,527,503</u>	<u>100</u>

See accompanying notes to financial statements.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the nine months ended September 30, 2017 and 2016

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

	For the three months ended September 30				For the nine months ended September 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
4110 Sales revenue (Note 6(w))	\$ 337,570,615	100	317,340,701	100	819,046,250	100	802,550,524	101
4170 Less: Sales returns and allowances	<u>702,830</u>	-	<u>1,147,414</u>	-	<u>2,798,735</u>	-	<u>5,324,556</u>	<u>1</u>
Operating revenue, net	336,867,785	100	316,193,287	100	816,247,515	100	797,225,968	100
5000 Cost of sales (Notes 6(d), 6(q), 6(x), and 7)	<u>325,310,558</u>	<u>97</u>	<u>301,089,204</u>	<u>95</u>	<u>781,624,852</u>	<u>96</u>	<u>751,289,132</u>	<u>94</u>
Gross profit from operations	11,557,227	3	15,104,083	5	34,622,663	4	45,936,836	6
6000 Operating expenses (Notes 6(q) and 6(x)):								
6100 Selling expenses	1,257,330	-	1,193,373	-	3,534,060	-	4,422,905	-
6200 General and administrative expenses	2,435,280	1	2,660,944	1	6,896,436	1	7,581,608	1
6300 Research and development expenses	<u>3,476,942</u>	<u>1</u>	<u>3,434,599</u>	<u>1</u>	<u>9,841,393</u>	<u>1</u>	<u>10,545,633</u>	<u>2</u>
Total operating expenses	7,169,552	2	7,288,916	2	20,271,889	2	22,550,146	3
Results from operating activities	4,387,675	1	7,815,167	3	14,350,774	2	23,386,690	3
Non-operating income and expenses:								
7010 Other income (Note 6(y))	1,131,818	-	730,979	-	2,721,425	-	2,287,063	-
7020 Other gains and losses (Notes 6(i) and 6(y))	(304,122)	-	(1,669,128)	(1)	(1,441,665)	-	(4,523,485)	-
7050 Finance costs (Note 6(y))	(255,869)	-	(197,173)	-	(646,471)	-	(789,368)	-
7060 Share of loss of associates and joint ventures accounted for using equity method (Note 6(e))	(466)	-	(5,903)	-	(5,984)	-	(18,048)	-
7590 Miscellaneous disbursements	<u>(15,959)</u>	-	<u>(68,365)</u>	-	<u>(62,165)</u>	-	<u>(257,474)</u>	-
Profit from continuing operations before tax	4,943,077	1	6,605,577	2	14,915,914	2	20,085,378	3
7950 Less: Tax expense (Note 6(r))	<u>741,749</u>	-	<u>598,600</u>	-	<u>2,875,699</u>	-	<u>4,587,230</u>	<u>1</u>
Profit for the period	4,201,328	1	6,006,977	2	12,040,215	2	15,498,148	2
8300 Other comprehensive income:								
8360 Other components of other comprehensive income that may be reclassified to profit or loss								
8361 Exchange differences on translation of foreign financial statements	262,975	-	(3,995,728)	(1)	(5,148,955)	(1)	(7,927,424)	(1)
8362 Unrealized gains (losses) on valuation of available-for-sale financial assets (Note 6(z))	242,762	-	(5,996)	-	475,285	-	131,725	-
8370 Share of other comprehensive income of associates and joint ventures accounted for using equity method (Note 6(e))	2,870	-	6,171	-	7,322	-	(20,601)	-
8399 Income tax related to components of other comprehensive income that may be reclassified to profit or loss	<u>2,217</u>	-	<u>(65,882)</u>	-	<u>20,678</u>	-	<u>(103,261)</u>	-
8300 Other comprehensive income for the period, net of tax	506,390	-	(3,929,671)	(1)	(4,687,026)	(1)	(7,713,039)	(1)
8500 Total comprehensive income for the period	\$ 4,707,718	1	2,077,306	1	7,353,189	1	7,785,109	1
Profit attributable to:								
8610 Owners of the parent company	\$ 3,639,438	1	5,380,426	2	10,958,447	2	13,473,869	2
8620 Non-controlling interests	<u>561,890</u>	-	<u>626,551</u>	-	<u>1,081,768</u>	-	<u>2,024,279</u>	-
	\$ 4,201,328	1	6,006,977	2	12,040,215	2	15,498,148	2
Comprehensive income attributable to:								
8710 Owners of the parent company	\$ 3,952,390	1	1,952,705	1	6,653,023	1	6,761,181	1
8720 Non-controlling interests	<u>755,328</u>	-	<u>124,601</u>	-	<u>700,166</u>	-	<u>1,023,928</u>	-
	\$ 4,707,718	1	2,077,306	1	7,353,189	1	7,785,109	1
Earnings per share, net of tax (Note 6(v))								
9750 Basic earnings per share	\$ 1.40		2.09		4.24		5.22	
9850 Diluted earnings per share	\$ 1.40		2.08		4.22		5.17	

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the nine months ended September 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of the parent company													
	Share capital	Retained earnings					Total other equity interest							
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Deferred compensation cost	Total other equity interest	Treasury stock	Owners of the parent company	Non-controlling interests	Total equity
Balance at January 1, 2016	\$ 26,030,205	78,972,374	4,879,380	-	37,775,792	42,655,172	3,752,117	211,234	(1,238,377)	2,724,974	(2,590)	150,380,135	41,958,390	192,338,525
Profit for the period	-	-	-	-	13,473,869	13,473,869	-	-	-	-	-	13,473,869	2,024,279	15,498,148
Other comprehensive income for the period	-	-	-	-	-	-	(6,692,608)	(20,080)	-	(6,712,688)	-	(6,712,688)	(1,000,351)	(7,713,039)
Total comprehensive income for the period	-	-	-	-	13,473,869	13,473,869	(6,692,608)	(20,080)	-	(6,712,688)	-	6,761,181	1,023,928	7,785,109
Appropriation and distribution of retained earnings:														
Legal reserve appropriated	-	-	2,381,163	-	(2,381,163)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(12,953,501)	(12,953,501)	-	-	-	-	-	(12,953,501)	-	(12,953,501)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	(2,068,328)	(2,068,328)	-	(2,068,328)
Retirement of treasury stock	(264,100)	(830,477)	-	-	(973,751)	(973,751)	-	-	-	-	2,068,328	-	-	-
Changes in ownership interests in subsidiaries	-	2,575	-	-	-	-	-	-	-	-	-	2,575	(2,575)	-
Expiration of restricted shares of stock issued to employees	(9,830)	11,820	-	-	-	-	-	-	-	-	(1,990)	-	-	-
Compensation cost arising from restricted shares of stock	-	52,275	-	-	36,306	36,306	-	-	649,561	649,561	-	738,142	-	738,142
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(9,910,940)	(9,910,940)
Balance at September 30, 2016	\$ 25,756,275	78,208,567	7,260,543	-	34,977,552	42,238,095	(2,940,491)	191,154	(588,816)	(3,338,153)	(4,580)	142,860,204	33,068,803	175,929,007
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	-	-	-	-	10,958,447	10,958,447	-	-	-	-	-	10,958,447	1,081,768	12,040,215
Other comprehensive income for the period	-	-	-	-	-	-	(4,780,709)	475,285	-	(4,305,424)	-	(4,305,424)	(381,602)	(4,687,026)
Total comprehensive income for the period	-	-	-	-	10,958,447	10,958,447	(4,780,709)	475,285	-	(4,305,424)	-	6,653,023	700,166	7,353,189
Appropriation and distribution of retained earnings:														
Legal reserve appropriated	-	-	1,933,981	-	(1,933,981)	-	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,368,986	(3,368,986)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(12,873,916)	(12,873,916)	-	-	-	-	-	(12,873,916)	-	(12,873,916)
Changes in ownership interests in subsidiaries	-	(167,089)	-	-	-	-	-	-	-	-	-	(167,089)	167,089	-
Share-based payment transactions	378,080	-	-	-	-	-	-	-	-	-	-	378,080	-	378,080
Expiration of restricted shares of stock issued to employees	(6,384)	8,544	-	-	58,346	58,346	-	-	-	-	(2,160)	58,346	-	58,346
Compensation cost arising from restricted shares of stock	-	1,858,503	-	-	-	-	-	-	(1,105,806)	(1,105,806)	-	752,697	-	752,697
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(1,197,597)	(1,197,597)
Balance at September 30, 2017	\$ 26,123,391	79,914,217	9,194,524	3,368,986	33,684,117	46,247,627	(8,333,648)	659,238	(1,535,688)	(9,210,098)	(4,406)	143,070,731	33,422,269	176,493,000

See accompanying notes to financial statements.

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2017	2016
Cash flows from operating activities:		
Profit before tax	\$ 14,915,914	20,085,378
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	9,348,288	9,716,758
Amortization expense	165,208	107,690
Reversal of allowance for uncollectable accounts	(140,925)	(154,006)
Net gain on financial assets or liabilities at fair value through profit or loss	(125,169)	(2,254)
Interest expense	583,821	701,803
Interest income	(1,089,017)	(773,991)
Dividends income	(37,897)	(16,671)
Compensation cost arising from employee stock options	964,476	744,905
Amortization of issuance costs on bonds payable	191	-
Share of loss of associates and joint ventures accounted for using equity method	5,984	18,048
Gain on foreign currency exchange on long-term loans	(68,409)	(92,178)
Loss on disposal of property, plant and equipment	103,419	221,646
Property, plant and equipment charged to expenses	58,229	29,176
Loss on disposal of investments	5,418	574,595
(Reversal of) Impairment loss	(6,280)	60,270
Long-term prepaid rent charged to expenses	137,987	72,470
Reversal of provisions	33,197	15,984
Other loss	482,496	-
Total adjustments to reconcile profit	<u>10,421,017</u>	<u>11,224,245</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease in financial assets at fair value through profit or loss	1,991,698	567,897
Increase in notes and accounts receivable	(98,533,108)	(20,586,323)
Decrease (increase) in other receivables	40,274,447	(11,383,284)
Increase in inventories	(33,109,151)	(5,184,410)
(Increase) decrease in other financial assets	(743,200)	149,358
(Increase) decrease in other current assets	(237,867)	5,810,688
(Increase) decrease in other non-current assets	(369)	13,346
Total changes in operating assets	<u>(90,357,550)</u>	<u>(30,612,728)</u>
Changes in operating liabilities:		
Increase in notes and accounts payable	69,699,697	44,508,894
Increase (decrease) in accrued expenses	2,360,171	(2,551,949)
Increase (decrease) in other payables	3,089,670	(1,573,474)
Decrease in provisions	(14,360)	(265,134)
Decrease in deferred revenue	(149,978)	(299,671)
Increase in other current liabilities	1,076,705	1,960,154
Increase in other non-current liabilities	202,916	1,539,674
Total changes in operating liabilities	<u>76,264,821</u>	<u>43,318,494</u>
Net changes in operating assets and liabilities	<u>(14,092,729)</u>	<u>12,705,766</u>
Net adjustments	<u>(3,671,712)</u>	<u>23,930,011</u>
Cash provided by operating activities	11,244,202	44,015,389
Interest received	1,090,176	816,996
Dividends received	37,897	16,671
Interest paid	(552,046)	(720,721)
Income taxes paid	(6,074,387)	(9,914,167)
Net cash flows from operating activities	<u>5,745,842</u>	<u>34,214,168</u>

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows (CONT'D)

For the nine months ended September 30, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2017	2016
Cash flows from investing activities:		
Proceeds from disposal of available-for-sale financial assets	\$ 6,709	-
Acquisition of financial assets carried at cost	(98,000)	-
Proceeds from disposal of financial assets carried at cost	-	656
Net cash outflow from disposal of subsidiaries	-	(3,674,323)
Proceeds from capital reduction of investments accounted for using equity method	-	71,654
Acquisition of property, plant and equipment	(15,267,688)	(9,874,869)
Proceeds from disposal of property, plant and equipment	530,134	351,647
Acquisition of intangible assets	(277,659)	(78,896)
Decrease (increase) in other financial assets	147,411	(34,403)
Increase in prepayments on purchase of equipment	(6,482,973)	(2,842,185)
Increase in long-term prepaid rentals	(15,283)	-
Net cash flows used in investing activities	<u>(21,457,349)</u>	<u>(16,080,719)</u>
Cash flows from financing activities:		
Increase in short-term loans	27,890,145	1,318,621
Proceeds from issuing bonds	6,992,000	-
Proceeds from long-term loans	5,718,296	3,500,000
Repayments of long-term loans	(2,921,213)	(6,820,591)
Cash dividends paid	(14,431,721)	(15,172,473)
Purchase of treasury stock	-	(2,068,328)
Issuance of restricted stock	471,670	-
Redemption of restricted stock	(8,544)	(12,811)
Change in non-controlling interests	230,911	125,000
Net cash flows from (used in) financing activities	<u>23,941,544</u>	<u>(19,130,582)</u>
Effect of exchange rate fluctuations on cash held	<u>(3,134,100)</u>	<u>(4,189,482)</u>
Net increase (decrease) in cash and cash equivalents	5,095,937	(5,186,615)
Cash and cash equivalents, beginning of the period	<u>108,713,312</u>	<u>102,561,346</u>
Cash and cash equivalents, end of the period	<u>\$ 113,809,249</u>	<u>97,374,731</u>

See accompanying notes to financial statements.

(English Translation of Condensed Interim Consolidated Financial Statements and Report Originally Issued in Chinese)
**AS OF SEPTEMBER 30, 2017 AND 2016 REVIEWED ONLY, NOT AUDITED IN
 ACCORDANCE WITH THE GENERALLY ACCEPTED AUDITING STANDARDS**

PEGATRON CORPORATION AND ITS SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements

September 30, 2017 and 2016

(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 interim consolidated financial statements of the Company as of and for the nine months ended September 30, 2017 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 condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 9, 2017.

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

- (a) Impact of adopting the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”).

The Group has prepared its interim consolidated financial statements in conformity with the new standards, interpretations and amendments of IFRS which have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017 as follows:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IAS 1 “Presentation of Financial Statements-Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendments to IAS 36 “ Impairment of Non-Financial Assets- Recoverable Amount Disclosures for Non Financial Assets”	January 1, 2014
Amendments to IAS 39 “ Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 2014 Cycle	January 1, 2016
IFRIC 21 “Levies”	January 1, 2014

Except for the following, the adoption of the above IFRSs did not have any material impact on the accompanying interim consolidated financial statements :

- (i) Amendments to IAS 36 “ Impairment of Non-Financial Assets-Recoverable Amount Disclosures for Non Financial Assets”

Under the amendments, the recoverable amount for non-financial assets is required to be disclosed only when an impairment loss has been recognized or reversed. In such cases, the amendments also require the disclosure of the following if the recoverable amount is based on fair value, less costs of disposal:

- 1) the level of fair value hierarchy within which the fair value measurement is categorized; and
- 2) the valuation technique(s) used for fair value measurements categorized within Levels 2 and 3 of the fair value hierarchy, and the key valuation assumptions made.

The Group has provided a broader disclosure of the recoverable amount for non-financial assets due to the aforementioned amendments.

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(b) Impact of yet to be adopted IFRS endorsed by FSC but are not yet effective

The following new standards, interpretations and amendments of IFRS have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 “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
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, the Group believes that the adoption of the above IFRSs would not have any material impact on its interim consolidated financial statements.

(i) 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. The actual impact of adopting IFRS 9 on the Group’s consolidated financial statements in 2018 can only be determined and reliably estimated depending on the financial instruments that the Group holds and economic conditions at that time, as well as the accounting elections and judgments that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments. However, the results of the Group's preliminary assessment disclosed that the adoption of IFRS 9 is not likely to have any material impact on its financial positions, particularly on trade receivables and investments in equity securities which are measured at fair value at September 30, 2017.

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. 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 standard eliminates the existing 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 assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its preliminary assessment, the Group does not believe that the new classification requirements, if applied at September 30, 2017, would have had a material impact on its accounting for trade receivables and investments in equity securities that are managed on a fair value basis. At September 30, 2017, the Group had equity investments classified as available-for-sale with a fair value of \$1,502,858 and financial assets measured at cost of \$469,082 that are held for long-term strategic purposes. If these investments continue to be held for the same purpose at initial application of IFRS 9, the Group may elect then to classify them as FVOCI or FVTPL. The Group has not yet made a decision in this regard. In the former case, all fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses would be reclassified to profit or loss on disposal. In the latter case, all fair value gains and losses would be recognized in profit or loss as they arise, increasing volatility in the Group's profits.

2) Impairment-Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

- lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's preliminary assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist 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.

(ii) 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 existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

1) Sales of goods

For the sale of products, revenue is currently 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. The Group has performed an initial comparison of the point in time at which the related risks and rewards of ownership transfer and the control transfers. Since these points in time are similar, the Group does not expect that there will be a significant impact on its consolidated financial statements.

For certain contracts that permit a customer to return an item, revenue is currently 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.

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. As a consequence, for those contracts for which the Group is unable to make a reasonable estimate of return, revenue is expected to be recognized sooner than when the return period lapses or a reasonable estimate can be made. A refund liability and an asset for recovery will be recognized for these contracts and presented separately in the statement of financial position.

2) Transition

The Group plans to adopt the cumulative effect method in applying IFRS 15 with no restatement of the comparative periods presented. Under IFRS 15, the adjustment for the cumulative effect of initially applying this new accounting standard is required to be charged to the opening balance of retained earnings on January 1, 2018 when this said accounting standard becomes effective. Also, the Group plans to use the practical expedients for completed contracts. This would mean that completed contracts need not to be restated at the date of initial application of this new accounting standard on January 1, 2018 when the said standard becomes effective.

The Group is currently performing a detailed assessment of the impact resulting from the application of IFRS 15, which may result in an increase in contract assets and contract liabilities, as of September 30, 2017 and is expecting to disclose additional quantitative information before it adopts IFRS 15.

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to 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 intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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

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

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
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.

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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

(4) Summary of significant accounting policies:

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

(a) Statement of compliance

The accompanying interim 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) and International Accounting Standards No. 34 “Interim Financial Reporting” which are endorsed and made effective by the FSC.

(b) Basis of preparation

(i) Basis of measurement

The interim 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;
- 3) The net defined benefit liability is recognized as the present value of the defined benefit obligation less the fair value of plan assets and the effect of the asset ceiling.

(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 Group interim 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 interim 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 ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the interim 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 interim 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.

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

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2017	December 31, 2016	September 30, 2016	
THE COMPANY	UNIHAN HOLIDNG LTD. (UNIHAN HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDINGS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2017	December 31, 2016	September 30, 2016	
UNIHAN HOLDING	FUYANG FLEX HOLDING LTD. (FUYANG HOLDING)	Investing activities	- %	- %	100.00 %	Note 2
CASETEK HOLDINGS	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00 %	100.00 %	100.00 %	
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 %	
CASETEK HOLDINGS	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDINGS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	
KAEDAR HOLDINGS	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00 %	100.00 %	100.00 %	
CASETEK HOLDINGS	KAEDAR TRADING LTD.	Investing and trading activities	100.00 %	100.00 %	100.00 %	
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 %	
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 %	
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	37.04 %	38.08 %	38.08 %	Notes 1 and 4
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00 %	100.00 %	100.00 %	Note 1
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 %	Note 1
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00 %	100.00 %	100.00 %	Note 1
Azwave Samoa	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and trading computer products	100.00 %	100.00 %	100.00 %	Note 1
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 %	Note 1

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2017	December 31, 2016	September 30, 2016	
THE COMPANY	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00 %	100.00 %	100.00 %	
AMA PRECISION	AMA Holdings Limited(AMA)	Investing activities	100.00 %	100.00 %	100.00 %	
AMA	EXTECH LTD.	Trading electronic parts	90.51 %	90.51 %	90.51 %	
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	100.00 %	100.00 %	100.00 %	
AMA	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD.	Manufacturing and selling new electronic parts and premium hardware	100.00 %	100.00 %	100.00 %	
THE COMPANY	PEGATRON HOLLAND HOLDING B.V.(PHH)	Investing activities	100.00 %	100.00 %	100.00 %	
PHH	PEGATRON Czech s.r.o.	Installing, repairing and selling electronic products	100.00 %	100.00 %	100.00 %	
PHH	Pegatron Service Holland B.V.	Sales and repair service center in Europe	100.00 %	100.00 %	100.00 %	
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 %	
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 %	
PEGATRON HOLDING 、 KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing activities	100.00 %	100.00 %	100.00 %	Note 1
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Note 1
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 1
PIOTEK HOLDING	PIOTEK(H.K.) TRADING LIMITED	Trading activities	100.00 %	100.00 %	100.00 %	Note 1
PEGATRON HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Investing and trading activities	100.00 %	100.00 %	100.00 %	
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	
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 %	

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2017	December 31, 2016	September 30, 2016	
DIGITEK	DIGITEK (CHONGQING) LTD.	Manufacturing, developing, and selling GPS, electronic calculators, and aftersale service	100.00 %	100.00 %	100.00 %	
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00 %	100.00 %	100.00 %	
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 %	
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 %	
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 %	
PEGATRON HOLDING	TOP QUARK LIMITED(TOP QUARK)	Investing activities	100.00 %	100.00 %	100.00 %	
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 %	
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 %	58.65 %	58.65 %	Note 8
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Manufacturing and selling database storage and processing equipment	100.00 %	100.00 %	100.00 %	
ASIAROCK	ASROCK EUROPE B.V.	Selling database service and trading electronic components	100.00 %	100.00 %	100.00 %	
ASIAROCK	Calrock Holdings, LLC.	Office building leasing	100.00 %	100.00 %	100.00 %	
ASROCK	Leader Insight Holdings Limited (Leader)	Investing and holding activities	100.00 %	100.00 %	100.00 %	

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Notes to Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2017	December 31, 2016	September 30, 2016	
Leader	First place International Limited (First place)	Investing and holding activities	100.00 %	100.00 %	100.00 %	
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 %	69.40 %	69.40 %	Note 5
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 %	
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	39.04 %	39.04 %	39.04 %	Note 1
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00 %	100.00 %	100.00 %	Notes 1 and 3
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	54.87 %	54.87 %	54.87 %	Notes 1 and 3
KINSUS INVESTMENT, ASUSTEK INVESTMENT AND ASUS INVESTMENT	FUYANG TECHNOLOGY CORPORATION	Manufacturing and wholesaling wires, cables, and electronic components	89.13 %	90.00 %	90.00 %	Notes 3 and 6
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00 %	100.00 %	100.00 %	Note 1
PEGAVISION CORPORATION	PEGAVISION JAPAN INC.	Selling medical appliances	100.00 %	100.00 %	100.00 %	Note 1
FUYANG TECHNOLOGY CORPORATION	FUYANG FLEX HOLDING LTD. (FUYANG HOLDING)	Investing activities	100.00 %	100.00 %	- %	Note 2
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 %	
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	100.00 %	100.00 %	100.00 %	Note 1
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00 %	100.00 %	100.00 %	Note 1

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2017	December 31, 2016	September 30, 2016	
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00 %	100.00 %	100.00 %	Note 1
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED(KINSUS CAYMAN)	Investing activities	100.00 %	100.00 %	100.00 %	Note 1
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00 %	100.00 %	100.00 %	Note 1
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00 %	100.00 %	100.00 %	Note 1
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 %	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00 %	100.00 %	100.00 %	
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED(CAYMAN) (CASETEK CAYMAN)	Investing activities	60.47 %	60.73 %	60.73 %	Note 9
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED	Investing activities	100.00 %	100.00 %	100.00 %	
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	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 %	
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 %	

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2017	December 31, 2016	September 30, 2016	
RIH LI	RI KAI COMPUTER ACCESSOKY CO., LTD.(RI KAI)	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product.	100.00 %	- %	- %	Note 7
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 %	
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00 %	100.00 %	100.00 %	
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA. (PCBR)	Maintenance service	100.00 %	100.00 %	100.00 %	
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00 %	100.00 %	100.00 %	
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00 %	100.00 %	100.00 %	
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00 %	100.00 %	100.00 %	
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 %	
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00 %	100.00 %	100.00 %	
Lumens Optics	Lumens Digit Image Inc. (SAMOA)(Lumens)	Investing activities	100.00 %	100.00 %	100.00 %	
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 %	
ASUSPOWER INVESTMENT	Pegatron Service Singapore Pte. Ltd.(PSG)	Sales and logistics center in Singapore	100.00 %	100.00 %	100.00 %	

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			September 30, 2017	December 31, 2016	September 30, 2016	
PSG	PEGATRON SERVICE KOREA LLC.	Sales and repair service center in Korea	100.00 %	100.00 %	100.00 %	
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00 %	100.00 %	100.00 %	
THE COMPANY	PEGATRON USA, INC.	Sales and repair service center in North America	100.00 %	100.00 %	100.00 %	

Note 1: AZURE WAVE TECHNOLOGY CORP., ABILITY ENTERPRISE CO., LTD. and KINSUS INTERCONNECT TECHNOLOGY CORP., were included in the consolidated financial statements even if the Group held 37.04% and 39.04%, respectively, or less than 50% of their total issued shares because the Group has acquired more than 50% of voting shares of each of these entities and has the ability to excise control over their respective board of directors.

Note 2: In October 2016, the Group has restructured, so that the 100% equity ownership of FUYANG FLEX HOLDING was transferred from UNIHAN HOLDING to FUYANG TECHNOLOGY.

Note 3: On May 19, 2017, PEGAVISION INVESTMENT changed its name to KINSUS INVESTMENT CO., LTD.

Note 4: As AZURE WAVE TECHNOLOGY CORP. issued employee restricted shares of stock on June 5, 2017, the Group's shareholding ratio in AZURE WAVE TECHNOLOGY CORP. decreased from 38.08% to 37.04%.

Note 5: 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 6: 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 7: RI LI has established and registered a company through capital increase on September 27, 2017.

Note 8: As ASROCK INCORPORATION issued employee restricted shares of stock on September 22, 2017, the Group's shareholding ratio in ASROCK INCORPORATION decreased from to 58.65% to 55.87%.

Note 9: As CASETEK HOLDINGS LIMITED issued employee restricted shares of stock on September 5, 2017, the Group's shareholding ratio in CASETEK HOLDINGS LIMITED decreased from 60.73% to 60.47%.

(vii) Subsidiaries excluded from consolidation: None.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(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;
- 2) A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) 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.

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 of 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.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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, and presented in the translation reserve in equity.

(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.

(f) Cash and cash equivalents

Cash comprise cash balances and call deposits with maturities within three months. Cash equivalents are assets that are readily convertible into 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.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(g) Financial instruments

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

(i) Financial assets

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. 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.

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.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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. Loans and receivables comprise trade receivables and other receivables. 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.

- 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.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

- 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

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.

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 its estimated future cash flows discounted at the asset's original effective interest rate. 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.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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”.

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

An equity instrument represents the Group's residual interest at any contract after deducting its liabilities from assets. Equity instruments issued are recognized based on amount of consideration received less the direct issuance cost.

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

1) 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.

2) 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.”

3) 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.

4) 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 Company 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.

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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.

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.

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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.

(h) 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.

(i) 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.

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 interim 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.

(j) 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.

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

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.

(k) 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.

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.

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(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.

(l) 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.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(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.

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.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(m) 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 associated 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:

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(n) 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.

(o) 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.

The Group has adopted IFRIC 21 "Levies" which prescribes the initial application date effective January 1, 2017. According to the Interpretation, the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of a levy, as identified by the legislation.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(p) 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.

(q) Revenue

(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.

(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.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(r) 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.

(s) 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.

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(t) 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.

(u) 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 ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(v) 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 loss 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.

(w) 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.

(x) 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 interim 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 interim 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, 2016. For the related information, please refer to Note 5 of the consolidated financial statements for the year ended December 31, 2016.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to 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, 2016. Please refer to Note 6 of the consolidated financial statements for the year ended December 31, 2016.

(a) Cash and cash equivalents

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Cash on hand	\$ 13,803	16,143	13,691
Cash in banks	24,399,424	34,381,705	37,159,448
Time deposits	89,396,022	74,218,714	60,201,592
Cash equivalents-repurchase bonds	<u>-</u>	<u>96,750</u>	<u>-</u>
	<u>\$ 113,809,249</u>	<u>108,713,312</u>	<u>97,374,731</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(k) and 8 for details.
- (ii) Refer to Note 6(aa) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

(b) Investment in financial assets and liabilities

- (i) The components of financial assets and liabilities were as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Financial assets at fair value through profit or loss — current:			
Held-for-trading			
Shares of stock of listed companies	\$ 241,407	270,926	213,316
Beneficiary certificates	<u>2,259,911</u>	<u>4,096,921</u>	<u>3,945,865</u>
Total	<u>\$ 2,501,318</u>	<u>4,367,847</u>	<u>4,159,181</u>
Available-for-sale financial assets — current:			
Shares of stock of overseas listed companies	<u>\$ 390,370</u>	<u>266,523</u>	<u>262,351</u>

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

	September 30, 2017	December 31, 2016	September 30, 2016
Available-for-sale financial assets – noncurrent:			
Shares of stock of listed companies	\$ 770,488	610,702	595,042
Equity securities – common stock	342,000	178,920	204,840
Total	\$ 1,112,488	789,622	799,882
Financial assets carried at cost – noncurrent:			
Equity securities – common stock	\$ 263,450	165,450	165,450
Equity securities – preferred stock	205,632	205,632	205,632
Total	\$ 469,082	371,082	371,082

- 1) For the three months and nine months ended September 30, 2017 and 2016, the Group recognized a net (loss) gain on financial assets reported at fair value through profit or loss of \$(2,270), \$21,230, \$125,169 and \$2,254, respectively.
- 2) For the three months and nine months ended September 30, 2017 and 2016, the unrealized gain (loss) on available-for-sale financial assets amounted to \$242,762, \$(5,996), \$475,285 and \$131,725, respectively.
- 3) Equity securities that the Group held are measured at cost minus the amount of impairment at reporting date. Considering that the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined, the Group management believes the fair value cannot be measured reliably. Therefore, the aforementioned investments held by the Group are measured at amortized cost less impairment at each reporting date. The Group evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of \$0, \$0, \$0 and \$0 for the three and nine months ended September 30, 2017 and 2016, respectively. As of September 30, 2017, December 31, 2016, and September 30, 2016, the Group had accumulated impairment loss of \$254,811, respectively.
- 4) Refer to Note 6(y) for further discussion on gains and losses on disposal of investments.
- 5) Refer to Note 6(aa) for the Group's information on financial instruments risk management.
- 6) As of September 30, 2017, December 31, 2016, and September 30, 2016, the aforesaid financial assets were not pledged as collateral.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
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(ii) Fair value sensitivity analysis

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 nine months ended September 30			
	2017		2016	
	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%	\$ 45,086	75,040	31,867	124,775
Decrease 3%	\$ (45,086)	(75,040)	(31,867)	(124,775)

(iii) Foreign equity investments

Significant foreign equity investments at the end of each period were as follows:

(Unit: Foreign currency/NTD in Thousands)

	September 30, 2017			December 31, 2016			September 30, 2016		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
USD	\$ 10,992	30.260	332,618	10,992	32.250	354,492	10,992	31.360	344,709
CNY	85,621	4.5594	390,370	57,329	4.6490	266,523	55,865	4.6962	262,351

(iv) Derivative not used for hedging

Derivative financial instruments are used to hedge certain foreign exchange and interest risk the Group is exposed to, arising from its operating, investing and financial activities. As of September 30, 2017, December 31, 2016, and September 30, 2016, the Group did not have related transactions that do not qualify for hedge accounting presented as held-for-trading financial assets and financial liability.

(c) Notes and accounts receivable and other receivables, net

	September 30, 2017	December 31, 2016	September 30, 2016
Notes receivable	\$ 55,502	96,170	87,445
Accounts receivable	193,679,555	95,115,492	140,994,969
Other receivables	1,864,256	42,605,518	39,116,818
Less: Allowance for impairment	(1,759,975)	(1,910,613)	(1,792,213)
	\$ 193,839,338	135,906,567	178,407,019

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
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- (i) Refer to Note 6(aa) for the Group's notes receivable, accounts receivable and other receivables exposure to credit risk and currency risk, and the impairment evaluation of notes receivable, accounts receivable and other receivables.
- (ii) Accounts receivable which are transferred in accordance with derecognition standards of IFRS are deemed as sale of accounts receivable. As of September 30, 2017, December 31, 2016, and September 30, 2016, the Company sold its accounts receivable without recourse as follows:

September 30, 2017						
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
ANZ (Note)	\$ -	USD <u>1,200,000,000</u>	USD -	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ -

December 31, 2016						
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
ANZ (Note)	\$ <u>38,700,000</u>	USD <u>1,200,000,000</u>	USD -	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>38,700,000</u>

September 30, 2016						
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
ANZ (Note)	\$ <u>37,632,000</u>	USD <u>1,200,000,000</u>	USD -	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>37,632,000</u>

Note: In 2016 and October 2015, the Company 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 and nine months ended September 30, 2017 and 2016, the Company recognized a fee and interest on bank advance payment of \$8,489, \$19,335, \$42,618 and \$48,868, respectively, from the factoring of accounts receivable, which was accounted under financial costs in the statement of comprehensive income. Also, the difference of \$0, \$38,700,000 and \$37,632,000 between the carrying value of factored accounts receivable and the amount advanced was accounted under other receivables as of September 30, 2017, December 31, 2016, and September 30, 2016, respectively.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
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- (iii) As of September 30, 2017, December 31, 2016, and September 30, 2016, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

September 30, 2017						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
Mega International Commercial Bank	\$ <u>295,986</u>	USD <u>30,000</u>	\$ <u>214,295</u>	None	The accounts receivable factoring is without recourse	\$ <u>295,986</u>

December 31, 2016						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
Mega International Commercial Bank	\$ <u>249,402</u>	USD <u>30,000</u>	\$ <u>49,298</u>	None	The accounts receivable factoring is without recourse	\$ <u>249,402</u>

September 30, 2016						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
Mega International Commercial Bank	\$ <u>351,837</u>	USD <u>30,000</u>	\$ <u>127</u>	None	The accounts receivable factoring is without recourse	\$ <u>351,837</u>

- (d) Inventories

	September 30, 2017	December 31, 2016	September 30, 2016
Merchandise	\$ 1,054,092	629,690	1,739,996
Finished goods	51,150,401	65,797,600	43,894,123
Work in process	37,307,470	17,624,217	33,934,428
Raw materials	<u>57,255,616</u>	<u>28,203,409</u>	<u>48,332,613</u>
Subtotal	146,767,579	112,254,916	127,901,160
Less: Allowance for inventory market decline and obsolescence	<u>(6,339,026)</u>	<u>(4,935,514)</u>	<u>(5,887,750)</u>
Total	<u>\$ 140,428,553</u>	<u>107,319,402</u>	<u>122,013,410</u>

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Notes to Consolidated Financial Statements

For the three months and nine months ended September 30, 2017 and 2016, the components of cost of goods sold were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Cost of goods sold	\$ 322,883,778	295,487,358	772,996,443	728,524,254
(Reversal of) Provision on inventory market price decline	908,604	7,117	1,403,512	(676,807)
Loss on disposal of inventory	1,272,968	5,264,453	6,389,763	22,351,475
Unallocated manufacturing overhead	241,678	302,933	818,412	1,046,935
Loss on physical inventory	3,530	27,343	16,722	43,275
	<u>\$ 325,310,558</u>	<u>301,089,204</u>	<u>781,624,852</u>	<u>751,289,132</u>

For the three months ended September 30, 2017 and 2016 and nine months ended September 30, 2017, the Group recognized a provision on inventory market price decline of \$908,604, \$7,117 and \$1,403,512, respectively, which was charged to profit or loss under cost of goods sold. The gain was recognized from the reversal of provision arising from destocking for the nine months ended September 30, 2016 of \$676,807. Such gain was deducted from cost of goods sold.

As of September 30, 2017, December 31, 2016, and September 30, 2016, the aforesaid inventories were not pledged as collateral.

(e) 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.

	September 30, 2017	December 31, 2016	September 30, 2016
Individually insignificant associates	\$ <u>346,529</u>	<u>362,909</u>	<u>295,149</u>

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
The Group's share of profit (loss) of the associates				
Loss for the period	\$ (466)	(5,903)	(5,984)	(18,048)
Other comprehensive income (loss)	2,870	6,171	7,322	(20,601)
Total comprehensive income (loss)	<u>\$ 2,404</u>	<u>268</u>	<u>1,338</u>	<u>(38,649)</u>

(ii) As of September 30, 2017, December 31, 2016, and September 30, 2016, the aforesaid investments accounted for using equity method were not pledged as collateral.

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(f) Loss of control of a subsidiary

On June 29, 2016, the shareholders of Ability Enterprise Co., Ltd. elected new set of directors during the shareholders' meeting, so that the Group lost its control over Ability Enterprise Co., Ltd. as the Group is unable to acquire more than half of the voting rights of the board of directors. This resulted in a disposal loss of \$561,251 which was charged to the statement of comprehensive income. The aforementioned loss was measured at the fair value of its equity ownership of 11.73% amounting to \$551,799 as of June 29, 2016.

The derecognized assets and liabilities of Ability as of June 29, 2016, were as follows:

Cash and cash equivalents	\$	3,674,323
Inventories		1,336,460
Accounts receivable and other receivables		1,544,508
Property, plant, and equipment		3,454,631
Investment property		633,185
Intangible assets		174,304
Other assets		2,025,903
Short-term loans		(399,487)
Accounts payable and other payables		(3,245,865)
Other liabilities		(624,136)
	\$	<u>8,573,826</u>

(g) Subsidiaries that have material non-controlling interest

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

<u>Subsidiaries</u>	<u>Country of registration</u>	<u>Equity Ownership of non-controlling interest</u>		
		<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
KINSUS and its subsidiaries	Taiwan	60.96 %	60.96 %	60.96 %
ABILITY and its subsidiaries	Taiwan	- %	- %	- %
ASROCK and its subsidiaries	Taiwan	44.13 %	41.35 %	41.35 %
CASETEK CAYMAN	Taiwan/ Cayman	39.53 %	39.27 %	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.

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Notes to Consolidated Financial Statements

(i) Information regarding KINSUS and its subsidiaries

	September 30, 2017	December 31, 2016	September 30, 2016
Current assets	\$ 20,204,049	21,615,555	21,290,421
Non-current assets	23,092,794	19,638,160	20,172,770
Current liabilities	(11,383,303)	(8,639,797)	(9,052,379)
Non-current liabilities	(2,004,872)	(1,599,149)	(1,792,719)
Net assets	\$ 29,908,668	31,014,769	30,618,093
Non-controlling interest	\$ 17,669,693	18,151,995	17,835,922
	For the three months ended September 30	For the nine months ended September 30	
	2017	2016	2017
	2016	2017	2016
Operating revenue	\$ 6,151,871	6,331,055	16,042,492
Net income for the period	\$ 216,081	619,416	340,778
Other comprehensive income (loss)	57,069	(135,969)	(88,983)
Comprehensive income	\$ 273,150	483,447	251,795
Net income attribute to non-controlling interest	\$ 199,005	398,623	380,879
Comprehensive income attribute to non-controlling interest	\$ 223,939	349,415	346,090
Cash flows from operating activities	\$ 256,450	941,282	4,151,636
Cash flows from investing activities	(2,251,407)	(1,230,986)	(4,910,207)
Cash flows from financing activities	1,481,591	(1,079,626)	510,376
Net decrease in cash and cash equivalents	\$ (513,366)	(1,369,330)	(248,195)
	(2,109,604)		

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(ii) Information regarding ABILITY and its subsidiaries

	September 30, 2017	December 31, 2016	September 30, 2016
Current assets	\$ -	-	-
Non-current assets	-	-	-
Current liabilities	-	-	-
Non-current liabilities	-	-	-
Net assets	<u>\$ -</u>	<u>-</u>	<u>-</u>
Non-controlling interest	<u>\$ -</u>	<u>-</u>	<u>-</u>
	For the three months ended September 30	For the nine months ended September 30	
	2017	2016	2017
			2016 (Note)
Operating revenue	<u>\$ -</u>	<u>-</u>	<u>-</u>
Net income for the period	<u>\$ -</u>	<u>-</u>	<u>48,287</u>
Other comprehensive income	<u>-</u>	<u>-</u>	<u>30,123</u>
Comprehensive income	<u>\$ -</u>	<u>-</u>	<u>78,410</u>
Net income attribute to non-controlling interest	<u>\$ -</u>	<u>-</u>	<u>48,655</u>
Comprehensive income attribute to non-controlling interest	<u>\$ -</u>	<u>-</u>	<u>74,224</u>
Cash flows from operating activities	\$ -	-	213,863
Cash flows from investing activities	-	-	(205,297)
Cash flows from financing activities	-	-	(11,498)
Net decrease in cash and cash equivalents	<u>\$ -</u>	<u>-</u>	<u>(2,932)</u>

Note: As disclosed in Note 6(f), the Group ceased control over Ability Enterprise Co., Ltd. on June 29, 2016, so only the financial information for the six months ended June 30, 2016 was disclosed above.

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(iii) Information regarding ASROCK and its subsidiaries

	September 30, 2017	December 31, 2016	September 30, 2016
Current assets	\$ 8,652,111	7,751,292	7,386,179
Non-current assets	343,132	330,798	310,902
Current liabilities	(3,381,411)	(2,438,731)	(2,163,649)
Non-current liabilities	<u>(16,808)</u>	<u>(15,879)</u>	<u>(23,005)</u>
Net assets	<u>\$ 5,597,024</u>	<u>5,627,480</u>	<u>5,510,427</u>
Non-controlling interest	<u>\$ 2,468,825</u>	<u>2,309,248</u>	<u>2,267,099</u>
	For the three months ended September 30	For the nine months ended September 30	
	2017	2016	2017
	2016	2016	2016
Operating revenue	<u>\$ 2,419,218</u>	<u>1,750,987</u>	<u>6,754,880</u>
Net income for the period	\$ 171,872	49,522	323,914
Other comprehensive loss	<u>(20,211)</u>	<u>(115,216)</u>	<u>(249,321)</u>
Comprehensive income (loss)	<u>\$ 151,661</u>	<u>(65,694)</u>	<u>74,593</u>
Net income attribute to non-controlling interest	<u>\$ 69,966</u>	<u>15,147</u>	<u>119,223</u>
Comprehensive income (loss) attribute to non-controlling interest	<u>\$ 61,887</u>	<u>(32,505)</u>	<u>16,388</u>
Cash flows from operating activities	\$ 251	455,867	295,695
Cash flows from investing activities	(718,890)	1,912	(726,084)
Cash flows from financing activities	<u>(173,194)</u>	<u>(287,604)</u>	<u>(83,819)</u>
Net (decrease) increase in cash and cash equivalents	<u>\$ (891,833)</u>	<u>170,175</u>	<u>(514,208)</u>

(iv) Information regarding CASETEK CAYMAN

	September 30, 2017	December 31, 2016	September 30, 2016
Current assets	\$ 25,409,112	28,863,585	24,061,628
Non-current assets	23,275,042	21,739,451	20,719,891
Current liabilities	(13,011,903)	(19,445,716)	(14,613,437)
Non-current liabilities	<u>(7,452,552)</u>	<u>(2,412,077)</u>	<u>(2,202,697)</u>
Net assets	<u>\$ 28,219,699</u>	<u>28,745,243</u>	<u>27,965,385</u>
Non-controlling interest	<u>\$ 11,156,626</u>	<u>11,287,107</u>	<u>10,980,888</u>

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	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Operating revenue	\$ <u>9,151,978</u>	<u>7,503,813</u>	<u>23,362,680</u>	<u>22,466,274</u>
Net income for the period	\$ 654,622	365,516	1,370,000	1,721,930
Other comprehensive income (loss)	<u>420,460</u>	<u>(980,139)</u>	<u>(552,656)</u>	<u>(2,040,463)</u>
Comprehensive income (loss)	\$ <u>1,075,082</u>	<u>(614,623)</u>	<u>817,344</u>	<u>(318,533)</u>
Net income attribute to non-controlling interest	\$ <u>258,071</u>	<u>143,524</u>	<u>538,971</u>	<u>676,133</u>
Comprehensive income (loss) attribute to non-controlling interest	\$ <u>422,060</u>	<u>(241,338)</u>	<u>321,128</u>	<u>(129,948)</u>
Cash flows from operating activities	\$ 2,069,587	1,434,711	4,179,491	3,946,118
Cash flows from investing activities	(1,494,235)	(929,223)	(4,511,684)	(4,741,138)
Cash flows from financing activities	<u>(1,413,616)</u>	<u>260,605</u>	<u>(2,558,650)</u>	<u>(110,887)</u>
Net (decrease) increase in cash and cash equivalents	\$ <u>(838,264)</u>	<u>766,093</u>	<u>(2,890,843)</u>	<u>(905,907)</u>

(h) Property, plant and equipment

The movements in the cost, depreciation, and impairment of the property, plant and equipment of the Group for the nine months ended September 30, 2017 and 2016 were as follows:

	Land	Buildings	Machinery and equipment	Instrument equipment	Other facilities	Construction in progress	Total
Cost or deemed cost:							
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	-	332,599	3,586,478	70,515	2,702,913	9,485,335	16,177,840
Disposals and obsolescence	-	(264,624)	(3,107,906)	(54,990)	(1,441,669)	-	(4,869,189)
Reclassifications	47,287	406,672	5,327,499	80,416	4,941,379	(7,106,244)	3,697,009
Effect of movement in exchange rate	<u>1,716</u>	<u>(1,516,573)</u>	<u>(1,376,870)</u>	<u>(67,920)</u>	<u>(911,069)</u>	<u>(82,057)</u>	<u>(3,952,773)</u>
Balance on September 30, 2017	\$ <u>4,369,457</u>	<u>40,939,262</u>	<u>60,021,765</u>	<u>1,499,442</u>	<u>27,958,265</u>	<u>8,437,342</u>	<u>143,225,533</u>
Balance on January 1, 2016	\$ 5,580,222	41,312,837	58,970,443	1,559,813	25,442,907	6,164,893	139,031,115
Additions	-	1,121,252	2,224,086	79,664	1,491,166	4,770,605	9,686,773
Disposals and obsolescence	-	(392,027)	(1,864,681)	(99,544)	(1,405,649)	-	(3,761,901)
Reclassifications	4,642	3,309,696	3,022,933	-	1,463,990	(5,382,885)	2,418,376
Effect of movement in exchange rate	(14,278)	(2,456,516)	(3,203,333)	(90,947)	(1,311,731)	(236,048)	(7,312,853)
Loss of control of a subsidiary	<u>(1,248,948)</u>	<u>(1,429,646)</u>	<u>(2,570,728)</u>	<u>-</u>	<u>(2,460,056)</u>	<u>(526,728)</u>	<u>(8,236,106)</u>
Balance on September 30, 2016	\$ <u>4,321,638</u>	<u>41,465,596</u>	<u>56,578,720</u>	<u>1,448,986</u>	<u>23,220,627</u>	<u>4,789,837</u>	<u>131,825,404</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, 2017	\$ -	13,531,902	35,312,005	1,189,276	15,278,654	-	65,311,837
Depreciation for the period	-	1,539,113	4,916,907	141,846	2,748,069	-	9,345,935
(Reversal of) Impairment loss	-	(4)	3,153	(7)	(9,422)	-	(6,280)
Reclassifications	-	(289,131)	(97,818)	60,250	444,652	-	117,953
Disposals and obsolescence	-	(257,481)	(2,681,356)	(53,148)	(1,243,651)	-	(4,235,636)
Effect of movement in exchange rate	-	(474,512)	(964,768)	(62,260)	(654,322)	-	(2,155,862)
Balance on September 30, 2017	<u>\$ -</u>	<u>14,049,887</u>	<u>36,488,123</u>	<u>1,275,957</u>	<u>16,563,980</u>	<u>-</u>	<u>68,377,947</u>
Balance on January 1, 2016	\$ -	13,083,979	36,019,984	1,145,084	17,744,290	-	67,993,337
Depreciation for the period	-	1,664,839	5,243,476	194,583	2,606,081	-	9,708,979
(Reversal of) Impairment loss	-	143	60,878	(51)	(700)	-	60,270
Disposals and obsolescence	-	(336,147)	(1,507,170)	(98,522)	(1,246,769)	-	(3,188,608)
Reclassifications	-	-	(2,489)	-	(8,276)	-	(10,765)
Effect of movement in exchange rate	-	(821,772)	(2,074,055)	(77,313)	(963,669)	-	(3,936,809)
Loss of control of a subsidiary	-	(499,879)	(1,933,444)	-	(2,348,152)	-	(4,781,475)
Balance on September 30, 2016	<u>\$ -</u>	<u>13,091,163</u>	<u>35,807,180</u>	<u>1,163,781</u>	<u>15,782,805</u>	<u>-</u>	<u>65,844,929</u>
Carrying amounts :							
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 September 30, 2017	<u>\$ 4,369,457</u>	<u>26,889,375</u>	<u>23,533,642</u>	<u>223,485</u>	<u>11,394,285</u>	<u>8,437,342</u>	<u>74,847,586</u>
Balance on January 1, 2016	<u>\$ 5,580,222</u>	<u>28,228,858</u>	<u>22,950,459</u>	<u>414,729</u>	<u>7,698,617</u>	<u>6,164,893</u>	<u>71,037,778</u>
Balance on September 30, 2016	<u>\$ 4,321,638</u>	<u>28,374,433</u>	<u>20,771,540</u>	<u>285,205</u>	<u>7,437,822</u>	<u>4,789,837</u>	<u>65,980,475</u>

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

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
(Reversal of) impairment loss	<u>\$ (5,606)</u>	<u>(17,641)</u>	<u>(6,280)</u>	<u>60,270</u>

- (ii) KINSUS INTERCONNECT TECHNOLOGY CORP. completed a series of farm land purchases covering a total land area of 36,287.15 square meters in the name of KINSUS' s chairman instead of KINSUS, due to the restriction imposed by the local government.
- (iii) For the nine months ended September 30, 2017 and 2016, an impairment loss on damaged equipment classified as held for sale of \$47,230 and \$36,116, respectively, was recognized by CASETEK CAYMAN and its subsidiaries. In addition, CASETEK CAYMAN and its subsidiaries sold damaged equipment at selling price exceeding their carrying amount by \$929 and \$3,003 which was recognized as a reversal gain for the nine months ended September 30, 2017 and 2016, respectively.
- (iv) Please refer to Note 6(y) for details of 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.

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(i) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost:			
Balance on January 1, 2017	\$ -	65,086	65,086
Effect of movement in exchange rate	-	(1,254)	(1,254)
Balance on September 30, 2017	<u>\$ -</u>	<u>63,832</u>	<u>63,832</u>
Balance on January 1, 2016	\$ 281,945	610,253	892,198
Effect of movement in exchange rate	-	(5,023)	(5,023)
Loss of control of a subsidiary	(281,945)	(539,483)	(821,428)
Balance on September 30, 2016	<u>\$ -</u>	<u>65,747</u>	<u>65,747</u>
Depreciation and impairment loss :			
Balance on January 1, 2017	\$ -	7,865	7,865
Depreciation for the period	-	2,353	2,353
Effect of movement in exchange rate	-	(111)	(111)
Balance on September 30, 2017	<u>\$ -</u>	<u>10,107</u>	<u>10,107</u>
Balance on January 1, 2016	\$ 9,617	178,450	188,067
Depreciation for the period	-	7,779	7,779
Effect of movement in exchange rate	-	(480)	(480)
Loss of control of a subsidiary	(9,617)	(178,626)	(188,243)
Balance on September 30, 2016	<u>\$ -</u>	<u>7,123</u>	<u>7,123</u>
Carrying amounts :			
Balance on January 1, 2017	<u>\$ -</u>	<u>57,221</u>	<u>57,221</u>
Balance on September 30, 2017	<u>\$ -</u>	<u>53,725</u>	<u>53,725</u>
Balance on January 1, 2016	<u>\$ 272,328</u>	<u>431,803</u>	<u>704,131</u>
Balance on September 30, 2016	<u>\$ -</u>	<u>58,624</u>	<u>58,624</u>

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

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Rental income	<u>\$ 65</u>	<u>660</u>	<u>1,360</u>	<u>17,404</u>
Direct operating expenses arising from investment property that generate rental income	<u>\$ 792</u>	<u>835</u>	<u>2,353</u>	<u>7,779</u>

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

- (ii) As of September 30, 2017, December 31, 2016, and September 30, 2016 the fair value of investment property of the Group was \$87,564, \$87,564 and \$79,224, respectively. The fair value of investment property was based on the market price evaluation of the buildings located in the area.
- (iii) As of September 30, 2017, December 31, 2016, and September 30, 2016, the aforesaid investment properties were not pledged as collateral.

(j) Intangible assets

The movements in the costs of intangible assets, amortization, and impairment loss of the Group for the nine months ended September 30, 2017 and 2016 were as follows:

	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Costs:			
Balance on January 1, 2017	\$ 1,799,633	1,090,054	2,889,687
Additions	-	277,659	277,659
Disposals	-	(29,455)	(29,455)
Reclassifications	-	14,800	14,800
Effect of movement in exchange rate	(69,500)	(37,921)	(107,421)
Balance on September 30, 2017	<u>\$ 1,730,133</u>	<u>1,315,137</u>	<u>3,045,270</u>
Balance on January 1, 2016	\$ 1,984,574	986,670	2,971,244
Additions	-	78,896	78,896
Disposals	-	(43,870)	(43,870)
Reclassifications	-	1,996	1,996
Effect of movement in exchange rate	(51,165)	(35,310)	(86,475)
Loss of control of a subsidiary	(164,859)	(53,025)	(217,884)
Balance on September 30, 2016	<u>\$ 1,768,550</u>	<u>935,357</u>	<u>2,703,907</u>
Amortization and Impairment Loss:			
Balance on January 1, 2017	\$ 671,792	778,709	1,450,501
Amortization for the period	-	165,208	165,208
Disposals	-	(29,455)	(29,455)
Effect of movement in exchange rate	-	(35,462)	(35,462)
Balance on September 30, 2017	<u>\$ 671,792</u>	<u>879,000</u>	<u>1,550,792</u>

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Balance on January 1, 2016	\$ 671,792	744,365	1,416,157
Amortization for the period	-	107,690	107,690
Disposals	-	(43,870)	(43,870)
Reclassifications	-	1,196	1,196
Effect of movement in exchange rate	-	(30,097)	(30,097)
Loss of control of a subsidiary	-	(43,580)	(43,580)
Balance on September 30, 2016	<u>\$ 671,792</u>	<u>735,704</u>	<u>1,407,496</u>
Carrying amounts:			
Balance on January 1, 2017	<u>\$ 1,127,841</u>	<u>311,345</u>	<u>1,439,186</u>
Balance on September 30, 2017	<u>\$ 1,058,341</u>	<u>436,137</u>	<u>1,494,478</u>
Balance on January 1, 2016	<u>\$ 1,312,782</u>	<u>242,305</u>	<u>1,555,087</u>
Balance on September 30, 2016	<u>\$ 1,096,758</u>	<u>199,653</u>	<u>1,296,411</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, 2016</u>	<u>December 31, 2015</u>
Mechanics	\$ 1,081,452	1,100,733
Consumer electronic	44,867	210,527
Others	1,522	1,522
	<u>\$ 1,127,841</u>	<u>1,312,782</u>

(k) Other financial assets and other assets

Other financial assets and other assets were as follows:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Other current financial assets	\$ 1,222,710	479,510	480,190
Other noncurrent financial assets	280,244	427,655	351,759
Other current assets	7,481,338	7,172,425	9,902,277
Other noncurrent assets	43,699	46,143	47,065
	<u>\$ 9,027,991</u>	<u>8,125,733</u>	<u>10,781,291</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.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

- (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.

(l) Short-term loans

	September 30, 2017	December 31, 2016	September 30, 2016
Unsecured bank loans	<u>\$ 59,038,613</u>	<u>31,148,468</u>	<u>46,383,931</u>
Interest rate	<u>0.5%~6.85%</u>	<u>0.51%~6.85%</u>	<u>0.51%~5.66%</u>

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

(m) Long-term loans

	September 30, 2017	December 31, 2016	September 30, 2016
Unsecured bank loans	\$ 7,672,071	4,896,147	11,307,442
Secured bank loans	<u>115,750</u>	<u>171,000</u>	<u>203,478</u>
	7,787,821	5,067,147	11,510,920
Less: current portion	(568,408)	(536,257)	(2,403,514)
Less: fees	<u>-</u>	<u>(8,000)</u>	<u>(9,200)</u>
Total	<u>\$ 7,219,413</u>	<u>4,522,890</u>	<u>9,098,206</u>
Interest rate	<u>1.022%~2.8%</u>	<u>1.02%~2.59%</u>	<u>1.02%~2.27%</u>

(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 \$2,921,213 and \$6,820,591 for the nine months ended September 30, 2017 and 2016. In addition, the Group obtained new long-term loans of \$5,718,296 and \$3,500,000 for the nine months ended September 30, 2017 and 2016, respectively. Please refer to Note 6(y) for interest expenses and refer to Note 6(n) of the consolidated financial statements for the year ended December 31, 2016 for other related information.

(ii) Securities for bank loans

- 1) Please refer to Note 8 for details of the related assets pledged as collateral.
- 2) CASETEK CAYMAN's subsidiaries obtained a long-term loan from Mega International Commercial Bank. CASETEK CAYMAN is the endorsement guarantee provider for such loan.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(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 30, 2015, CASETEK CAYMAN signed a USD 300,000 thousand worth of credit facility in the form of credit loan with multiple banks. 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 September 30, 2017, December 31, 2016, and September 30, 2016, the Group was in compliance with the above financial covenants. Please refer to Note 6(n) of the consolidated financial statements for the year ended December 31, 2016 for other related information.

(n) Bonds payable

	September 30, 2017	December 31, 2016	September 30, 2016
Unsecured ordinary corporate bonds	<u>\$ 6,992,191</u>	<u>-</u>	<u>-</u>

On May 9, 2017, the Company's Board of Directors approved to issue unsecured ordinary corporate bonds, which were approved and declared effective by the Taipei Exchange (TPEX) on July 4, 2017. The offering information and main rights and obligations were as follows:

Item	1st unsecured ordinary bonds issued in 2017
1. Issuing amount	The Bonds are issued at \$7,000,000, which comprise Tranche A, Tranche B and Tranche C. The issuing amount 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.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

<u>Item</u>	<u>1st unsecured ordinary bonds issued in 2017</u>
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 bears annual coupon rate of 0.91%, 1.06% and 1.2%, 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.

(o) Provisions

	<u>Warranties</u>	<u>Allowance for sales returns and discounts</u>	<u>Total</u>
Balance on January 1, 2017	\$ 83	159,981	160,064
Provisions made during the period	-	38,203	38,203
Provisions used during the period	-	(14,360)	(14,360)
Provisions reversed during the period	-	(4,238)	(4,238)
Effect of movement in exchange rate	(5)	(763)	(768)
Balance on September 30, 2017	<u>\$ 78</u>	<u>178,823</u>	<u>178,901</u>
Balance on January 1, 2016	\$ 233,443	191,958	425,401
Provisions made during the period	-	23,610	23,610
Provisions used during the period	-	(35,863)	(35,863)
Provisions reversed during the period	(3,409)	(1,594)	(5,003)
Effect of movement in exchange rate	(682)	(1,941)	(2,623)
Loss of control of a subsidiary	(229,271)	-	(229,271)
Balance on September 30, 2016	<u>\$ 81</u>	<u>176,170</u>	<u>176,251</u>

Please refer to Note 6(p) of the consolidated financial statements for the year ended December 31, 2016 for other related information.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(p) Operating leases

(i) Leasee

For the nine months ended September 30, 2017 and 2016, there were no significant new lease contracts. Please refer to Note 6(q) of the consolidated financial statements for the year ended December 31, 2016 for other related information.

(ii) Long-term prepaid rentals

	September 30, 2017	December 31, 2016	September 30, 2016
Long-term prepaid rentals	<u>\$ 3,706,401</u>	<u>4,014,064</u>	<u>3,891,657</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 September 30, 2017, December 31, 2016, and September 30, 2016, the aforesaid land use rights were not pledged as collateral.

(q) 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, 2016 and 2015.

The Group's pension expenses recognized in profit or loss for the three and nine months ended September 30, 2017 and 2016 were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Operating cost	\$ 145	172	433	659
Operating expense	1,881	1,628	5,647	6,546
	<u>\$ 2,026</u>	<u>1,800</u>	<u>6,080</u>	<u>7,205</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 September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Operating cost	\$ 1,200,115	1,184,852	3,256,846	3,641,312
Operating expense	217,838	208,802	629,213	665,954
	<u>\$ 1,417,953</u>	<u>1,393,654</u>	<u>3,886,059</u>	<u>4,307,266</u>

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(iii) Short-term employee benefits

As of September 30, 2017, December 31, 2016, and September 30, 2016 the Group's short-term employee benefits liabilities were \$286,904, \$333,344 and \$269,270, respectively.

(r) 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) The income tax expense for the three and nine months ended September 30, 2017 and 2016 was calculated as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Current income tax expense				
Current period incurred	\$ 741,360	1,086,592	3,018,640	4,633,416
Prior years income tax adjustment	389	(487,992)	(142,941)	(46,186)
Income tax expense	<u>\$ 741,749</u>	<u>598,600</u>	<u>2,875,699</u>	<u>4,587,230</u>

(iii) The amount of income tax recognized in other comprehensive income (loss) for the three and nine months ended September 30, 2017 and 2016 was as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Items that may be reclassified subsequently to profit or loss :				
Exchange differences on translation of foreign financial statements	\$ <u>2,217</u>	<u>(65,882)</u>	<u>20,678</u>	<u>(103,261)</u>

(iv) Status of approval of income tax

1) The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to 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>
2013	KINSUS INTERCONNECT TECHNOLOGY CORP.
2014	LUMENS OPTICS and AZURE WAVE
2015	AZURE LIGHTING TECHNOLOGIES, INC., EZWAVE, AMA PRECISION, ASUSPOWER INVESTMENT, ASUS INVESTMENT CO., LTD., ASUSTEK INVESTMENT, PEGAVISION CORPORATION, KINSUS INVESTMENT CO., LTD., STARLINK, ASFLY TRAVEL SERVICE LTD., HUA-YUAN INVESTMENT LTD., ASROCK INCORPORATION (whose 2014 income tax return has not been approved yet), ASROCK RACK, INC., PEGA INTERNATIONAL LIMITED, and RIH KUAN METAL

- (v) Stockholders' imputation tax credit account and tax rate:

	September	December	September
	30, 2017	31, 2016	30, 2016
Stockholders' imputation tax credit account	<u>\$ 3,342,650</u>	<u>4,779,126</u>	<u>3,088,423</u>
		2016 (Actual)	2015 (Actual)
Tax deduction ratio for earnings distributable to R.O.C. residents		<u>14.70 %</u>	<u>13.61 %</u>

All of the Company's earnings generated for the period up to December 31, 1997 have been appropriated.

The aforesaid imputation tax related information was prepared in accordance with Decree No.10204562810 issued by Taxation Administration, Ministry of Finance, R.O.C. on October 17, 2013.

- (s) Capital and reserves

Except for the following, there were no significant changes in capital and reserves for the nine months ended September 30, 2017 and 2016. Please refer to Note 6(t) of the consolidated financial statements for the year ended December 31, 2016 for other related information.

- (i) Nominal ordinary shares

The Company issued restricted shares of stock totaling 37,808 thousand shares to employees for the nine months ended September 30, 2017.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

For the nine months ended September 30, 2017 and 2016, the Company had retired 638 and 983 thousand shares, respectively, of restricted stock to employees. Likewise, the Company retired treasury stock totaling 26,410 thousand shares for the purpose of maintaining the Company's good credit status and shareholders' equity for the nine months ended September 30, 2016. 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 2,612,339, 2,575,169, and 2,575,627 thousand common shares of stock, as of September 30, 2017, December 31, 2016, and September 30, 2016, respectively.

As of September 30, 2017, December 31, 2016, and September 30, 2016, the restricted Company shares of stock issued to employees have expired, of which 441, 225 and 458 thousand shares, respectively, have not been retired.

(ii) Global depositary receipts

As of September 30, 2017, December 31, 2016, and September 30, 2016, the Company has listed, in total, 10,190, 6,250 and 6,713 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 50,950, 31,251 and 33,565 thousand shares of stock, respectively.

(iii) Capital surplus

The components of the capital surplus were as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
From issuance of share capital	\$ 63,207,800	62,238,593	62,235,147
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	574,223	741,312	741,312
Employee stock options	1,304	1,304	1,304
Restricted stock to employees	2,240,640	1,342,800	1,340,554
Other	409,917	409,917	409,917
	<u>\$ 79,914,217</u>	<u>78,214,259</u>	<u>78,208,567</u>

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(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 cash less 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.

2) Special reserve

In accordance with Permit No. 1010012865 as issued by the Financial Supervisory Commission on 6 April 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 June 20, 2017 and June 21, 2016, the Company's shareholders' meeting resolved to appropriate the 2016 and 2015 earnings. These earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

	<u>2016</u>	<u>2015</u>
Common stock dividends per share (dollars)		
– Cash	\$ <u>5.00</u>	<u>5.00</u>

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(v) Other equity accounts (net of tax)

	Exchange differences on translation of foreign financial statements	Available -for-sale investments	Deferred compensation arising from issuance of restricted stock	Total
Balance on January 1, 2017	\$ (3,552,939)	183,953	(429,882)	(3,798,868)
Exchange differences on foreign operation	(4,788,031)	-	-	(4,788,031)
Exchange differences on associates accounted for using equity method	7,322	-	-	7,322
Unrealized gain on available-for-sale financial assets	-	475,285	-	475,285
Deferred compensation cost	-	-	(1,105,806)	(1,105,806)
Balance on September 30, 2017	<u>\$ (8,333,648)</u>	<u>659,238</u>	<u>(1,535,688)</u>	<u>(9,210,098)</u>
Balance on January 1, 2016	\$ 3,752,117	211,234	(1,238,377)	2,724,974
Exchange differences on foreign operation	(6,678,255)	-	-	(6,678,255)
Exchange differences on associates accounted for using equity method	(20,601)	-	-	(20,601)
Unrealized loss on available-for-sale financial assets	-	(7,224)	-	(7,224)
Deferred compensation cost	-	-	649,561	649,561
Disposal of subsidiaries	6,248	(12,856)	-	(6,608)
Balance on September 30, 2016	<u>\$ (2,940,491)</u>	<u>191,154</u>	<u>(588,816)</u>	<u>(3,338,153)</u>

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

	For the nine months ended September 30	
	2017	2016
Balance on January 1	\$ 33,752,611	41,958,390
Profit attributable to non-controlling interests	1,081,768	2,024,279
Other comprehensive income attributable to non-controlling interests		
Exchange difference on foreign operation	(381,602)	(1,152,156)
Unrealized gain on available-for-sale financial assets	-	151,805
Disposal of subsidiaries	-	(7,454,156)
Changes in ownership interest in subsidiaries	167,089	(2,575)
Changes in non-controlling interests	(1,197,597)	(2,456,784)
Balance on September 30	<u>\$ 33,422,269</u>	<u>33,068,803</u>

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
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(t) Share-based payment

For the nine months ended September 30, 2017 and 2016, 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, 2016 for other related information).

(i) Restricted stock to employee

On June 21, 2016, the shareholders approved a resolution passed during their meeting to award 40,000 thousand new restricted shares of stock to those full-time employees who meet certain requirement of the Company. The restricted stock has been declared effective by the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C. On May 9, 2017, the board of directors approved to issue 38,191 thousand shares of restricted shares of stock with fair value of NT\$89.7 each at grant date. The record date for the capital increase through issuance of restricted shares of stock was July 11, 2017. The actual issuance number for the capital increase was 37,808 thousand shares. On July 27, 2017, the registration procedures were completed. On September 15, 2017, board of directors of the Company approved to issue secondary new restricted shares of stock totaling 2,192 thousand shares. The record date for the capital increase through issuance of restricted shares of stock was October 19, 2017.

Employees with restricted stock awards are entitled to purchase the Company's shares at the price of NT\$ 10 per share provided that these employees continue to work for the Company for the following three years. 20%, 40% and 40% of the restricted shares of stock is vested in year 1, 2 and 3, respectively. The restricted stock is kept by a trust, which is appointed by the Company, before it is vested. These shares of stock shall not be sold, pledged, transferred, gifted or by any other means of disposal to third parties during the custody period. These shares of stock are entitled to the right as the holders of common shares once issued, except for those shares kept by a trust or shares that do not meet the vesting condition. If the shares remain unvested after the vesting period, the Company will repurchase all the unvested shares at the issue price, and cancel the shares thereafter.

For the nine months ended September 30, 2017 and 2016, 854 and 1,182 thousand shares of restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$8,544 and \$11,820, respectively. As of September 30, 2017, December 31, 2016, and September 30, 2016, the Company has deferred compensation cost arising from issuance of restricted stock of \$1,535,688, \$429,882, and \$588,816, respectively.

(ii) Expenses resulting from share-based payments

The Company incurred expenses from share-based payments transactions for the three and nine months ended September 30, 2017 and 2016 were as follows:

	For the three months ended		For the nine months ended	
	September 30		September 30	
	2017	2016	2017	2016
Expenses resulting from issuance of restricted stock to employees	\$ <u>389,143</u>	<u>210,366</u>	<u>906,459</u>	<u>738,142</u>

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
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(u) Subsidiary's share-based payments

For the nine months ended September 30, 2017 and 2016, there were no significant changes in share-based payment of Ability (TW) except for the following. Please refer to Note 6(v) of the consolidated financial statements for the year ended December 31, 2016 for other related information.

(i) Information on share-based payment transactions of Ability (TW) were as follows:

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

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016 (Note)
	Equity-settled	\$ -	-	-

Note: As disclose in Note 6(f), the Group ceased control over Ability Enterprise Co., Ltd. on June 29, 2016, so only the financial information for the six months ended June 30, 2016 was disclosed above.

(ii) Restricted stock to employee of AZURE WAVE

On June 16, 2016, pursuant to the resolution of its shareholders during their meeting, AZURE WAVE will issue 5,000 thousand new restricted shares of stock to those full-time employees who meet certain requirements of AZURE WAVE. The restricted shares of stock has been registered with and approved by the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C. On March 13, 2017, board of directors approved to issue all restricted shares of stock with fair value of NT\$14.55 each at grant date. The record date for the capital increase through issuance of restricted shares of stock was May 25, 2017. On June 5, 2017, AZURE WAVE's board of directors approved to decrease issued shares to 3,655 thousand shares. Furthermore, the record date for the capital increase through issuance of restricted shares of stock was changed to June 5, 2017.

Employees with restricted stock awards are entitled to purchase shares at the price of \$10 per share provided that these employees continue to work for AZURE WAVE for the following three years. 20%, 40% and 40% of the restricted shares of stock is vested in year 1, 2 and 3, respectively. The restricted stock is kept by a trust, which is appointed by AZURE WAVE, before it is vested. These shares of stock shall not be sold, pledged, transferred, gifted, or by any other means of disposed to third parties during the custody period. These shares of stock are entitled to the same right as the holders of common stock once issued, except for those shares kept by a trust or shares that do not meet the vesting condition. If the shares remain unvested after the vesting period, AZURE WAVE will repurchase all the unvested shares at the issue price, and cancel the shares thereafter.

For the three and nine months ended September 30, 2017, AZURE WAVE recognized share-based compensation cost of \$1,789 and \$3,927, respectively. As of September 30, 2017, AZURE WAVE has deferred compensation cost arising from issuance of restricted stock of \$9,377.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
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(iii) Restricted stock to employee of ASROCK

On June 7, 2017, the shareholders of ASROCK approved a resolution passed during their meeting to award 60,000 thousand new restricted shares of stock to those full-time employees who meet certain requirement of ASROCK. The restricted shares of stock totaling 57,500 thousand shares have been registered with and approved by the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C. On September 22, 2017, 57,040 thousand shares were actually issued for such award with fair value of NT\$68.8 each at grant date.

Employees with restricted stock awards are entitled to purchase shares at the price of NT\$10 per share provided that these employees continue to work for ASROCK for the following three years. 40%, 30% and 30% of the restricted shares of stock is vested in year 1, 2 and 3, respectively. The restricted stock is kept by a trust, which is appointed by ASROCK, before it is vested. These shares of stock shall not be sold, pledged, transferred, gifted or by any other means of disposal to third parties during the custody period. These shares of stock are entitled to the same right as holders of common shares once issued, except for those shares kept by a trust or shares that do not meet the vesting condition.

On September 22, 2017, ASROCK issued restricted shares of stock to employees totaling 57,040 thousand shares, which was charged to capital surplus of \$245,372. As of September 30, 2017, ASROCK has deferred compensation cost arising from issuance of restricted stock of \$216,844.

1) Cancellation or amendment to share-based payment transactions

ASROCK did not made any cancellation or amendment to share-based payment transactions for the nine months ended September 30, 2017.

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

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Equity-settled	\$ 28,528	-	28,528	-

(iv) Restricted stock to employee of CASETEK CAYMAN

On June 22, 2017, pursuant to the resolution of its shareholders during their meeting, CASETEK CAYMAN will issue 1,500 thousand new restricted shares of stock to those full-time employees who meet certain requirement of CASETEK CAYMAN and its subsidiaries. The restricted shares of stock has been registered with and approved by the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C. On August 31, 2017, board of directors of CASETEK CAYMAN approved to issue all restricted shares of stock. The record date for the capital increase through issuance of restricted shares of stock was September 5, 2017.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
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Employees with restricted stock awards are entitled to obtain shares without consideration provided that these employees continue to work for CASETEK CAYMAN for at least six months. 50% of the restricted stock is vested in six months, and the remaining shares of stock is vested in year 1. The restricted stock is kept by a trust, which is appointed by CASETEK CAYMAN, before it is vested. These shares of stock shall not be sold, pledged, transferred, gifted, or by any other means of disposed to third parties during the custody period. The voting rights of these shareholders are executed by the custodian. If the shares remain unvested after the vesting period, CASETEK CAYMAN bears the right to retire the restricted shares of stock without any payment and to cancel all restricted shares of stock issued to any employee who fails to comply with the vesting condition without returning the distributed dividend.

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

	For the nine months ended September 30
(In thousands of shares)	2017
Outstanding as of January 1	-
Granted during the period	1,500
Outstanding as of September 30	1,500

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. As of September 30, 2017, CASETEK CAYMAN has deferred compensation cost arising from issuance of restricted shares of stock of \$134,060.

CASETEK CAYMAN incurred an expense of \$15,940 from the issuance of restricted stock to employees for the nine months ended September 30, 2017.

(v) Treasury stock transferred to employee of KINSUS

On September 22, 2017, KINSUS transferred its treasury stock to employees at the price of NT\$59.79 per share in accordance with the regulations governing secondary transfer of treasury stock to employees.

The stock option was measured at fair value at grant date.

Information on aforesaid share-based payment was as follows:

Grant date	Total shares issued	Exercise price per share
September 22, 2017	550,000	NT\$59.79

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
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Fair value of aforementioned share-based payment was measured by Black-Scholes valuation model. The assumptions adopted in this model were as follows:

	<u>Treasury stock transferred to employees</u>
Exercise price	NT\$59.79
Market price on measurement date (per share)	NT\$75.2
Estimated price volatility rate (%)	25.26%
Risk-free interest rate (%)	0.6%
Estimated dividend rate (%)	-%
Estimated duration	0.032877 year
Fair value	NT\$15.4

Related information on the transfer of treasury stock was as follows:

	<u>For the nine months ended September 30</u>	
	<u>2017</u>	
	<u>Outstanding number of options (In thousand units)</u>	<u>Weighted average exercise price per share</u>
Outstanding as of January 1	-	\$ -
Granted during the period	550	59.79
Exercise during the period	-	-
Outstanding as of September 30	<u>550</u>	<u>\$ 59.79</u>
Weighted-average fair value of the options granted		<u>\$ 15.4</u>

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

	<u>For the nine months ended September 30</u>	
	<u>2017</u>	
Equity-settled	<u>\$</u>	<u>8,470</u>

(vi) Employee stock option of FUYANG TECHNOLOGY CORPORATION

On April 28, 2017, board of directors of FUYANG TECHNOLOGY CORPORATION approved to award 10,000 thousand shares of employee stock option to those full-time employees who meet certain requirement of FUYANG TECHNOLOGY CORPORATION with fair value of NT\$1.66 and NT\$1.5 each at grant date.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

Employees with restricted stock awards are entitled to purchase shares at the price of \$10 per share. As of September 30, 2017, FUYANG TECHNOLOGY CORPORATION had four share-based payment arrangements aside from aforesaid restricted stock as follows:

	Equity-settled			
	Employee stock option			
Vesting period	2 years		3 years	
Original vested shares (In thousand shares)	5,000		5,000	
Estimated employee turnover rate	25.87%		36.17%	
Vested shares after considering employee turnover rate (In thousand shares)	3,707		3,192	
Fair value (NT)	1.66	1.5	1.66	1.5
Service costs	\$ 3,076	2,780	2,649	2,394

As of September 30, 2017, FUYANG TECHNOLOGY CORPORATION has deferred compensation cost arising from issuance of restricted stock of \$1,152.

(vii) Stock appreciation rights of FUYANG ELECTRONICS (SUZHOU) CO., LTD.

On April 28, 2017, board of directors of FUYANG ELECTRONICS (SUZHOU) CO., LTD. approved to issue 5,000 thousand units of stock appreciation rights to employees with fair value of NT\$10 each. As of September 30, 2017, FUYANG ELECTRONICS (SUZHOU) CO., LTD. had two share-based payment arrangements as follows:

	Stock appreciation rights (employee)	
	6 years	7 yrsrs
Vesting period		
Original vested units (In thousand units)	2,500	2,500
Estimated employee turnover rate	59.26%	64.92%
Vested units after considering employee turnover rate (In thousand units)	1,019	877
Fair value (NT)	2.23	2.23
Service costs	\$ 2,271	1,956

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
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(v) Earnings per share

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

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Basic earnings per share				
Profit attributable to ordinary shareholders	\$ <u>3,639,438</u>	<u>5,380,426</u>	<u>10,958,447</u>	<u>13,473,869</u>
Weighted-average number of ordinary shares	<u>2,596,467</u>	<u>2,575,627</u>	<u>2,581,616</u>	<u>2,581,572</u>
	\$ <u>1.40</u>	<u>2.09</u>	<u>4.24</u>	<u>5.22</u>
Diluted earnings per share				
Profit attributable to ordinary shareholders (diluted)	\$ <u>3,639,438</u>	<u>5,380,426</u>	<u>10,958,447</u>	<u>13,473,869</u>
Weighted-average number of ordinary shares	2,596,467	2,575,627	2,581,616	2,581,572
Effect of potentially dilutive ordinary shares				
Employee stock bonus	<u>11,614</u>	<u>15,149</u>	<u>17,017</u>	<u>22,391</u>
Weighted-average number of ordinary shares (diluted)	<u>2,608,081</u>	<u>2,590,776</u>	<u>2,598,633</u>	<u>2,603,963</u>
	\$ <u>1.40</u>	<u>2.08</u>	<u>4.22</u>	<u>5.17</u>

(w) Revenue

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Sale of goods	\$ 327,326,330	294,307,390	784,608,923	731,518,666
Others	<u>9,541,455</u>	<u>21,885,897</u>	<u>31,638,592</u>	<u>65,707,302</u>
	<u>\$ 336,867,785</u>	<u>316,193,287</u>	<u>816,247,515</u>	<u>797,225,968</u>

(x) 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.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

For the three and nine months ended September 30, 2017 and 2016, remuneration of employees of \$300,000, \$474,000, \$896,000 and \$1,221,000, respectively, and remuneration of directors of \$30,000, \$45,000, \$87,000 and \$119,000, 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 period. 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.

The Company accrued remuneration of employees and directors of \$1,734,000, \$2,072,000, \$166,000 and \$203,000 for the years ended December 31, 2016 and 2015, respectively. There was no difference between the amounts approved in Board of Directors meeting on March 14, 2017 and March 17, 2016. For further information, please refer to Market Observation Post System.

(y) Non-operating income and expenses

(i) Other income

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Interest income	\$ 380,902	283,292	1,089,017	773,991
Subsidy income	406,180	154,625	694,761	623,622
Rental income	59,325	56,659	158,338	190,114
Technical service income	77,954	60,344	210,627	183,347
Other income	207,457	176,059	568,682	515,989
	<u>\$ 1,131,818</u>	<u>730,979</u>	<u>2,721,425</u>	<u>2,287,063</u>

(ii) Other gains and losses

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Gain on reversal of uncollectable account	\$ 6,991	31,483	183,864	128,972
Gain (loss) on disposal of property, plant and equipment	4,808	(46,681)	(88,945)	(146,334)
Gain (loss) from disposal of investments	-	123	(5,418)	(574,595)
Foreign exchange loss	(32,797)	(1,692,924)	(1,180,119)	(3,873,512)
Reversal of (impairment loss)	5,606	17,641	6,280	(60,270)
Net (loss) gain on evaluation of financial assets measured at fair value through profit or loss	(2,270)	21,230	125,169	2,254
Other loss	(286,460)	-	(482,496)	-
	<u>\$ (304,122)</u>	<u>(1,669,128)</u>	<u>(1,441,665)</u>	<u>(4,523,485)</u>

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
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(iii) Finance costs

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Interest expenses	\$ 238,639	152,546	583,821	701,803
Finance expense – bank fees	17,230	44,627	62,650	87,565
	<u>\$ 255,869</u>	<u>197,173</u>	<u>646,471</u>	<u>789,368</u>

(z) Reclassification of other comprehensive income

	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Available-for-sale financial assets				
Net change in fair value	\$ 242,762	(5,996)	480,703	144,581
Loss on disposal of available-for-sale financial assets reclassified to profit or loss	-	-	(5,418)	-
Reclassification to profit or loss for losing control of subsidiaries	-	-	-	(12,856)
Net fair value change recognized in other comprehensive income	<u>\$ 242,762</u>	<u>(5,996)</u>	<u>475,285</u>	<u>131,725</u>
Cumulative adjustment				
Cumulative adjustment from current period	\$ 260,758	(3,929,846)	(5,169,633)	(7,830,411)
Share of other comprehensive income of associates accounted for using equity method	2,870	6,171	7,322	(20,601)
Reclassification to profit or loss for losing control of subsidiaries	-	-	-	6,248
Net fair value change recognized in other comprehensive income	<u>\$ 263,628</u>	<u>(3,923,675)</u>	<u>(5,162,311)</u>	<u>(7,844,764)</u>

(aa) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

2) Credit risk concentrations

As of September 30, 2017, December 31, 2016, and September 30, 2016, the accounts receivable from the Group's top three customers amounted to \$140,613,423, \$44,383,971 and \$96,104,939, representing 73%, 47% and 68% of accounts receivable, respectively, which exposes the Group to credit risk.

3) Impairment losses

Aging analysis of the receivables on the balance sheet date were as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
Not past due	\$ 192,856,121	133,275,190	175,923,423
Past due 0 - 30 days	866,623	2,478,288	1,706,857
Past due 31 - 120 days	168,761	286,556	362,402
Past due 121 - 365 days	123,924	86,671	526,903
Past due more than 1 year	<u>1,583,884</u>	<u>1,690,475</u>	<u>1,679,647</u>
	<u>\$ 195,599,313</u>	<u>137,817,180</u>	<u>180,199,232</u>

The movement in the allowance for impairment with respect to the receivables for the nine months ended September 30, 2017 and 2016 was as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2017	\$ 71,343	1,839,270	1,910,613
Recognition of loss from impairment	53,346	12,726	66,072
Reversal of impairment loss	(15)	(206,982)	(206,997)
Written off unrecoverable amount	-	(1,224)	(1,224)
Foreign exchange gain	<u>(4,269)</u>	<u>(4,220)</u>	<u>(8,489)</u>
Balance on September 30, 2017	<u>\$ 120,405</u>	<u>1,639,570</u>	<u>1,759,975</u>
Balance on January 1, 2016	\$ 73,559	2,054,366	2,127,925
(Reversal of) Impairment loss	126	(154,132)	(154,006)
Foreign exchange gain	(3,681)	(2,003)	(5,684)
Loss of control of a subsidiary	<u>-</u>	<u>(176,022)</u>	<u>(176,022)</u>
Balance on September 30, 2016	<u>\$ 70,004</u>	<u>1,722,209</u>	<u>1,792,213</u>

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(ii) Liquidity risk

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

	<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>
September 30, 2017					
Non-derivative financial liabilities					
Secured bank loans	\$ 115,750	115,750	59,000	32,750	24,000
Unsecured bank loans	66,710,684	66,710,684	59,548,021	644,450	6,518,213
Unsecured ordinary corporate bond	7,000,000	7,000,000	-	-	7,000,000
Non-interest bearing liabilities	<u>278,406,297</u>	<u>278,406,297</u>	<u>278,406,297</u>	<u>-</u>	<u>-</u>
	<u>\$ 352,232,731</u>	<u>352,232,731</u>	<u>338,013,318</u>	<u>677,200</u>	<u>13,542,213</u>
December 31, 2016					
Non-derivative financial liabilities					
Secured bank loans	\$ 171,000	171,000	56,000	46,625	68,375
Unsecured bank loans	36,044,615	36,044,615	31,628,725	3,180,575	1,235,315
Non-interest bearing liabilities	<u>201,926,183</u>	<u>201,926,183</u>	<u>201,926,183</u>	<u>-</u>	<u>-</u>
	<u>\$ 238,141,798</u>	<u>238,141,798</u>	<u>233,610,908</u>	<u>3,227,200</u>	<u>1,303,690</u>
September 30, 2016					
Non-derivative financial liabilities					
Secured bank loans	\$ 203,478	203,478	75,728	51,000	76,750
Unsecured bank loans	57,691,373	57,691,373	48,711,717	7,654,456	1,325,200
Non-interest bearing liabilities	<u>232,876,370</u>	<u>232,876,370</u>	<u>232,876,370</u>	<u>-</u>	<u>-</u>
	<u>\$ 290,771,221</u>	<u>290,771,221</u>	<u>281,663,815</u>	<u>7,705,456</u>	<u>1,401,950</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.

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(iii) Currency risk

1) Currency risk exposure

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)

	September 30, 2017			September 30, 2016		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 13,419,456	30.260	406,072,739	11,554,039	31.360	362,334,663
USD:CNY	356,520	6.6369	10,788,396	7,679,565	6.6778	240,831,158
USD:CZK	50,768	22.0066	1,536,240	47,386	24.2102	1,486,024
CNY:NTD	107,516	4.5594	490,208	122,131	4.6962	573,552
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	12,768,193	30.260	386,365,520	10,304,915	31.360	323,162,134
USD:CNY	304,797	6.6369	9,223,243	9,866,270	6.6778	309,406,227
USD:CZK	30,638	22.0066	927,106	27,351	24.2102	857,727
JPY:CNY	-	0.0590	-	2,293,569	0.0662	713,071
CNY:NTD	139,886	4.5594	637,796	717,065	4.6962	3,367,481
December 31, 2016						
	Foreign Currency	Exchange Rate	NTD			
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 10,433,545	32.250	336,481,826			
USD:CNY	8,227,417	6.9370	265,335,128			
USD:CZK	39,837	25.6342	1,284,759			
CNY:NTD	1,175,798	4.6490	5,466,285			
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	10,062,359	32.250	324,511,078			
USD:CNY	9,582,667	6.9370	390,042,094			
USD:CZK	21,448	25.6342	691,706			
CNY:NTD	729,450	4.6490	3,391,213			

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
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2) Sensitivity analysis

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, 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 September 30, 2017 and 2016 would have increased the before-tax net income for the nine months ended September 30, 2017 and 2016 by \$144,154 and \$699,063, respectively. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for both periods.

3) Gains or losses on monetary item

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the three and nine months ended September 30, 2017 and 2016, the foreign exchange losses, including both realized and unrealized, amounted to \$32,797, \$1,692,924, \$1,180,119 and \$3,873,512, respectively.

(iv) 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.

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 \$74,804 and \$52,811 for the nine months ended September 30, 2017 and 2016, respectively, assuming all other variable factors remain constant. This is mainly due to the Group's variable rate borrowing.

(v) Fair value of financial instruments

The fair value of financial assets and liabilities were as follows (including information on fair value hierarchy, but excluding measurements that have similarities to fair value but are not fair value and those fair value cannot be reliably measured or inputs are unobservable in active markets) :

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

1) Categories of financial instruments

Financial Assets:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Financial assets at fair value through profit or loss			
Held-for-trading non-derivative financial assets	\$ 2,501,318	4,367,847	4,159,181
Available-for-sale financial assets	<u>1,502,858</u>	<u>1,056,145</u>	<u>1,062,233</u>
Financial assets carried at cost	<u>469,082</u>	<u>371,082</u>	<u>371,082</u>
Deposits and receivables			
Cash and cash equivalents	113,809,249	108,713,312	97,374,731
Notes, accounts and other receivables	193,839,338	135,906,567	178,407,019
Other financial assets	<u>1,502,954</u>	<u>907,165</u>	<u>831,949</u>
Sub-total	<u>309,151,541</u>	<u>245,527,044</u>	<u>276,613,699</u>
Total	<u>\$313,624,799</u>	<u>251,322,118</u>	<u>282,206,195</u>

Financial liabilities:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Financial liabilities carried at amortized cost			
Short-term loans	\$ 59,038,613	31,148,468	46,383,931
Notes, accounts, other payables and accrued expenses	278,406,297	201,926,183	232,876,370
Bonds payable	6,992,191	-	-
Long-term loans (including current portion)	7,787,821	5,059,147	11,501,720
Guarantee deposit (recognized in other noncurrent liabilities)	<u>729,013</u>	<u>527,461</u>	<u>492,548</u>
Total	<u>\$352,953,935</u>	<u>238,661,259</u>	<u>291,254,569</u>

2) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by the levels in the fair value hierarchy. The different levels have been defined as follows:

- a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
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- b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- c) Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	September 30, 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	\$ 2,501,318	2,501,318	-	-	2,501,318
Available-for-sale financial assets					
Stock of listed companies	770,488	770,488	-	-	770,488
Equity investment—common stock	342,000	-	342,000	-	342,000
Stock of overseas listed companies	390,370	390,370	-	-	390,370
Total	\$ 4,004,176	3,662,176	342,000	-	4,004,176
	December 31, 2016				
	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	\$ 4,367,847	4,367,847	-	-	4,367,847
Available-for-sale financial assets					
Stock of listed companies	610,702	610,702	-	-	610,702
Equity investment—common stock	178,920	-	178,920	-	178,920
Stock of overseas listed companies	266,523	266,523	-	-	266,523
Total	\$ 5,423,992	5,245,072	178,920	-	5,423,992
	September 30, 2016				
	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	\$ 4,159,181	4,159,181	-	-	4,159,181
Available-for-sale financial assets					
Stock of listed companies	595,042	595,042	-	-	595,042
Equity investment—common stock	204,840	-	204,840	-	204,840
Stock of overseas listed companies	262,351	262,351	-	-	262,351
Total	\$ 5,221,414	5,016,574	204,840	-	5,221,414

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
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There have been no transfers from each level for the nine months ended September 30, 2017 and 2016.

3) 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 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.

4) 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.

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(vi) 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.

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

September 30, 2017						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 37,926,165	30,605,908	7,320,257	-	-	7,320,257
September 30, 2017						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 30,605,908	30,605,908	-	-	-	-
December 31, 2016						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 31,365,382	25,397,763	5,967,619	-	-	5,967,619
December 31, 2016						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 25,397,763	25,397,763	-	-	-	-
September 30, 2016						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 39,555,854	32,635,829	6,920,025	-	-	6,920,025

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

September 30, 2016						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Liabilities (a)	Gross Asstets Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d)		
				Financial Instruments	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	\$ 32,635,829	32,635,829	-	-	-	-

(ab) Financial risk management

(i) Overview

The nature and the extent of the Group's risks arising from financial instruments, which include credit risk, liquidity risk and market risk, are discussed below. Also, the Group's objectives, policies and procedures of measuring and managing risks are discussed below.

For more quantitative information about the financial instruments, please refer to the other related notes of consolidated interim financial reports.

(ii) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has deputized managements of core business departments for developing and monitoring the Group's risk management policies. Management reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Internal Audit Department oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures and exception management, the results of which are reported to the Board of Directors.

(iii) Credit risk

The primary potential credit risk is from financial instruments like cash, equity securities, and accounts receivable. Also, the Group deposits cash in different financial institutions. The Group manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk on cash and equity securities.

The Group transacted only with the approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Group would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Group believes that there is no significant credit risk.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

1) Accounts receivables and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the current deteriorating economic circumstances.

Under its customer credibility evaluation policies, the Group evaluates the customer's credibility and collectability of notes and account receivables regularly before doing business. Thus, management is not expecting any significant uncollectible accounts.

The major customers of the Group are concentrated in the high-tech computer industry. As the customers of the Group have good credits and profit records, the Group evaluates the financial conditions of these customers continually to reduce credit risk from accounts receivable. Moreover, the Group also periodically evaluates the customers' financial positions and the possibility of collecting trade receivables. Thus, management is not expecting any significant issue on credit risk.

The Group establishes an impairment allowance that represents its estimate of incurred losses in respect of trade receivables. The two components of this impairment allowance are specific loss component that relates to individually significant exposure and collective loss component which the loss was incurred but not identified. The collective component is based on historical payment experience of similar financial assets.

2) Investment

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Group's finance department. As the Group deals with the banks and other external parties with good credit standing and financial institutions, corporate organization and government agencies which are graded above investment level, management believes that the Group do not have compliance issues and no significant credit risk.

3) Guarantee

The Group's policies were prepared in accordance with Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies. Please refer to Note 9 for details of endorsements and guarantees provided by the Group as of September 30, 2017, December 31, 2016, and September 30, 2016.

(iv) Liquidity risk

Liquidity risk is a risk that the Group is unable to meet the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as much as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
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The capital and working funds of the Group are sufficient to meet its entire contractual obligations and non-hedging forward exchange contracts; therefore, management is not expecting any significant issue on liquidity risk.

The funds and marketable securities investments held by the Group have publicly quoted prices and could be sold at approximate market price.

Equity investments recorded as financial assets carried at cost do not have reliable market prices and are expected to have liquidity risk.

(v) Market risk

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

1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the New Taiwan Dollars (NTD), US Dollars (USD) and Chinese Yuan (CNY). The currencies used in these transactions are denominated in NTD, EUR, USD, and CNY.

The Group's foreign currency denominated purchases and sales are denominated mainly in US dollars. This exposes the Group to the current and future foreign exchange fluctuation risk that arises from cash flows of foreign currency assets and liabilities. However, the risks may be regarded as insignificant, because foreign currency losses from sales are subsequently offset by the foreign currency gain from purchases. In addition, the Group conducts foreign exchange activities on spot market in order to manage its foreign exchange risks.

The interest is denominated in the same currency as borrowings. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge without derivatives being entered into, and therefore, hedge accounting is not applied in these circumstances.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

2) Interest rate risk

The Group's interest rate risk arises from short-term and long-term loans bearing floating interest rates. Future cash flow will be affected by a change in market interest rate.

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
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3) Price floating risk on equity instruments

The equity securities held by the Group are classified as financial assets measured at fair value through profit or loss and available-for-sale financial assets. As these assets are measured at fair value, the Group is exposed to the market price fluctuation risk in the equity securities market.

The Group's investment portfolios of equity instruments are reviewed regularly by management, and significant investment decision is approved by the Board of Directors.

(ac) 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, 2016. Also, they believe that for the nine months ended September 30, 2017, there were also no changes in the Group's capital management information. Please refer to Note 6(ad) of the consolidated financial statements for the year ended December 31, 2016 for other related information.

(7) Related-party transactions:

(a) The ultimate parent company

The Company is the ultimate parent company of the Group.

(b) Names and relationship with related parties

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

(c) Significant transactions with related parties

(i) Sale of goods to related parties

The significant sales transactions and outstanding balances between the Group and related parties were as follows:

	<u>Sales</u>				<u>Receivables from related parties</u>		
	<u>For the three months ended September 30</u>		<u>For the nine months ended September 30</u>		<u>September 30,</u>	<u>December 31,</u>	<u>September 30,</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
Others	\$ -	-	-	662	-	-	-

There were no significant differences between the terms and pricing of sales transactions with related enterprises and those carried out with other normal vendors. The average collection period for notes and accounts receivable pertaining to such sale transactions ranged from one to three months. Receivables from related parties were not secured with collaterals, and did not require provisions for bad debt expenses.

(Continued)

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(ii) Purchase of goods from related parties

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

	Purchases				Payables to related parties		
	For the three months ended September 30		For the nine months ended September 30		September 30, 2017	December 31, 2016	September 30, 2016
	2017	2016	2017	2016			
Others	\$ -	12,715	88	37,245	14	4,472	12,806

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.

(d) Key management personnel compensation:

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Short-term employee benefits	\$ 119,870	136,057	360,475	379,527
Post-employment benefits	841	422	2,524	2,649
Share-based payments	68,083	28,918	193,107	131,816
	<u>\$ 188,794</u>	<u>165,397</u>	<u>556,106</u>	<u>513,992</u>

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

(8) Pledged assets:

As of September 30, 2017, December 31, 2016, and September 30, 2016, pledged assets were as follows:

Asset	Purpose of pledge	September 30, 2017	December 31, 2016	September 30, 2016
Other financial asset-restricted deposit	Post-release duty deposits, customs duty, rental deposits, travel agency guarantee, etc.	\$ 73,255	46,691	44,664
Property, plant and equipment	Bank loans	159,266	249,649	576,053
Other financial asset-guarantee deposits	Customs duty guarantee, rental deposits, and deposits for performance guarantee	36,414	37,382	27,718
		<u>\$ 268,935</u>	<u>333,722</u>	<u>648,435</u>

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(9) Significant commitments and contingencies:

(a) Significant commitments and contingencies were as follows:

(i) Unused standby letters of credit

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
EUR	\$ 2,589	2,655	2,772
JPY	8,374,192	1,454,932	2,169,095
USD	11,024	8,469	3,812
CNY	-	955	-

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

	<u>September 30, 2017</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
NTD	<u>\$ 80,398</u>	<u>87,869</u>	<u>87,869</u>

(iii) As of September 30, 2017, December 31, 2016, and September 30, 2016, the significant contracts for purchase of properties by the Group amounted to \$19,488,754, \$11,554,587, and \$10,706,498, of which \$8,467,163, \$2,830,075, and \$3,446,866, respectively, were unpaid.

(iv) As of September 30, 2017, December 31, 2016, and September 30, 2016, the Group provided endorsement guarantee for bank loans obtained by the related parties, including Group entities, amounting to \$4,976,196, \$8,850,948, and \$9,861,089, respectively.

(v) As of September 30, 2017, December 31, 2016, and September 30, 2016, the Group issued a tariff guarantee of \$882,444, \$662,165 and \$631,086, 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:

On November 2, 2017, board of directors of CASETEK CAYMAN approved a capital expenditure budget purposely to acquire equipments and plants. For further information, please refer to Market Observation Post System.

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(12) Other:

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

By item	For the three months ended September 30					
	2017			2016		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 15,864,336	3,805,298	19,669,634	12,491,756	4,159,685	16,651,441
Health and labor insurance	1,616,068	203,454	1,819,522	1,456,396	195,977	1,652,373
Pension	1,200,260	219,719	1,419,979	1,185,024	210,430	1,395,454
Others	503,834	224,239	728,073	255,022	188,510	443,532
Depreciation	2,870,924	370,409	3,241,333	2,798,132	305,301	3,103,433
Amortization	34,496	30,283	64,779	9,519	22,369	31,888

By item	For the nine months ended September 30					
	2017			2016		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 34,813,568	10,915,005	45,728,573	31,171,615	11,819,261	42,990,876
Health and labor insurance	3,568,948	668,789	4,237,737	3,335,358	690,235	4,025,593
Pension	3,257,279	634,860	3,892,139	3,641,971	672,500	4,314,471
Others	1,196,805	585,871	1,782,676	969,538	541,910	1,511,448
Depreciation	8,110,113	1,235,822	9,345,935	8,770,635	938,344	9,708,979
Amortization	86,351	78,857	165,208	26,125	81,565	107,690

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

	For the three months ended September 30		For the nine months ended September 30	
	2017	2016	2017	2016
Depreciation in investment property	\$ <u>792</u>	<u>835</u>	<u>2,353</u>	<u>7,779</u>

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

(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.

(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.

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

For the three months ended September 30,	DMS	Strategic Investment Group	Adjustment and eliminations	Total
2017				
Revenue :				
Revenue from external customers	\$ 313,933,777	22,934,008	-	336,867,785
Intersegment revenues	<u>177,170</u>	<u>1,424,111</u>	<u>(1,601,281)</u>	<u>-</u>
Total revenue	<u>\$ 314,110,947</u>	<u>24,358,119</u>	<u>(1,601,281)</u>	<u>336,867,785</u>
Reportable segment profit or loss	<u>\$ 3,922,523</u>	<u>3,661,660</u>	<u>(2,641,106)</u>	<u>4,943,077</u>

(Continued)

PEGATRON CORPORATION AND ITS SUBSIDIARIES
Notes to Consolidated Financial Statements

For the three months ended September 30, 2016	DMS	Strategic Investment Group	Adjustment and eliminations	Total
Revenue :				
Revenue from external customers	\$ 297,926,994	18,266,293	-	316,193,287
Intersegment revenues	<u>407,976</u>	<u>866,178</u>	<u>(1,274,154)</u>	<u>-</u>
Total revenue	<u>\$ 298,334,970</u>	<u>19,132,471</u>	<u>(1,274,154)</u>	<u>316,193,287</u>
Reportable segment profit or loss	<u>\$ 5,742,766</u>	<u>3,192,321</u>	<u>(2,329,510)</u>	<u>6,605,577</u>
For the nine months ended September 30, 2017				
Revenue :				
Revenue from external customers	\$ 762,229,124	54,018,391	-	816,247,515
Intersegment revenues	<u>374,919</u>	<u>3,722,713</u>	<u>(4,097,632)</u>	<u>-</u>
Total revenue	<u>\$ 762,604,043</u>	<u>57,741,104</u>	<u>(4,097,632)</u>	<u>816,247,515</u>
Reportable segment profit or loss	<u>\$ 12,869,101</u>	<u>9,900,414</u>	<u>(7,853,601)</u>	<u>14,915,914</u>
For the nine months ended September 30, 2016				
Revenue :				
Revenue from external customers	\$ 738,187,821	59,038,147	-	797,225,968
Intersegment revenues	<u>1,109,281</u>	<u>2,120,067</u>	<u>(3,229,348)</u>	<u>-</u>
Total revenue	<u>\$ 739,297,102</u>	<u>61,158,214</u>	<u>(3,229,348)</u>	<u>797,225,968</u>
Reportable segment profit or loss	<u>\$ 16,864,874</u>	<u>11,336,788</u>	<u>(8,116,284)</u>	<u>20,085,378</u>
Reportable segment assets				
September 30, 2017	<u>\$ 473,732,892</u>	<u>209,505,922</u>	<u>(131,965,394)</u>	<u>551,273,420</u>
December 31, 2016	<u>\$ 373,147,174</u>	<u>206,242,122</u>	<u>(135,444,063)</u>	<u>443,945,233</u>
September 30, 2016	<u>\$ 425,561,786</u>	<u>200,070,277</u>	<u>(134,104,560)</u>	<u>491,527,503</u>