

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

**CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

SEPTEMBER 30, 2016 AND 2015

(With Independent Accountants' Review Report Thereon)

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REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

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, 2016 and 2015, 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 ended September 30, 2016 and 2015. 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\$50,929,865 thousand and NT\$70,450,360 thousand, representing 10.36% and 13.05% of the related consolidated total assets as of September 30, 2016 and 2015, respectively, and net sales of NT\$9,810,385 thousand, NT\$15,471,647 thousand, NT\$32,124,445 thousand, and NT\$40,549,425 thousand, representing 3.10%, 5.00%, 4.03%, and 5.06% of the related consolidated total net sales for the three months ended September 30, 2016 and 2015, and for the nine months ended September 30, 2016 and 2015, respectively. Those statements were reviewed by other accountants whose reports have been furnished to us, and our review, insofar as it relates to the amounts included for certain consolidated subsidiaries, are based solely on the reports of the other accountants.

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, 2016 and 2015, which were not reviewed by independent accountants. The total assets of these subsidiaries amounted to NT\$47,977,794 thousand and NT\$62,624,981 thousand, representing 9.76% and 11.60% of the related consolidated total assets and the total liabilities amounted to NT\$14,011,025 thousand and NT\$17,516,962 thousand, representing 4.44% and 4.95% of the related consolidated liabilities as of September 30, 2016 and 2015, respectively. The comprehensive income of these subsidiaries amounted to NT\$368,200 thousand, NT\$1,055,381 thousand, NT\$1,043,044 thousand and NT\$5,097 thousand, representing 17.72%, 9.37%, 13.40% and



0.02% of the related consolidated comprehensive income for the three months and the nine months ended September 30, 2016 and 2015, 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\$73,652 thousand and NT\$61,289 thousand as of September 30, 2016 and 2015, respectively, and the related investment gain (loss) amounted to NT\$3,259 thousand, NT\$(4,363) thousand, NT\$294 thousand and NT\$(12,912) thousand for the three months and the nine months ended September 30, 2016 and 2015, 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 preceding paragraphs, we are not aware of any material modifications that should be made to the condensed interim consolidated financial statements referred to in 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 by the Financial Supervisory Commission in the Republic of China (R.O.C.).

CPA: Tim Tzang
Securities and Futures Commission,
Ministry of Finance, R.O.C. regulation
Tai-Tsai-Jung (6) No. 0920122026

November 10, 2016

Notes to Readers

The accompanying interim condensed consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with “Regulation Governing Auditing and Certification of Financial Statements by Certified Public Accountants” and IAS 34 as endorsed by the FSC and not those of any other jurisdictions. The standards, procedures and practices to review such interim condensed consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the independent accountants’ review report and the accompanying interim condensed consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the independent accountants’ review report and financial statements in Chinese-language shall prevail.

(English Translation of Financial Report Originally Issued in Chinese)
 PEGATRON CORPORATION AND ITS SUBSIDIARIES
 CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS
 SEPTEMBER 30, 2016, DECEMBER 31, 2015, AND SEPTEMBER 30, 2015
 (All Amounts Expressed in Thousands of New Taiwan Dollars)

	September 30, 2016		December 31, 2015		September 30, 2015	
	Amount	%	Amount	%	Amount	%
ASSETS						
Current Assets:						
Cash and cash equivalents (Note 6(1))	\$ 97,374,731	20	102,561,346	22	101,960,541	19
Financial assets at fair value through profit or loss—current (Note 6(2))	4,159,181	1	4,732,661	1	4,870,368	1
Available-for-sale financial assets—current (Note 6(2))	262,351	-	857,820	-	842,565	-
Notes and accounts receivable, net (Notes 6(3) and 6(28))	139,304,233	28	120,030,355	25	151,500,681	28
Other receivables, net (Notes 6(3) and 6(28))	39,102,786	8	27,694,719	6	20,106,242	4
Inventories (Note 6(4))	122,013,410	25	118,165,460	25	158,120,549	29
Other financial assets—current (Notes 6(12) and 8)	480,190	-	785,779	-	471,340	-
Other current assets (Notes 6(5) and 6(12))	9,902,277	2	15,575,204	3	15,465,546	3
	<u>412,599,159</u>	<u>84</u>	<u>390,403,344</u>	<u>82</u>	<u>453,337,832</u>	<u>84</u>
Non-current assets:						
Available-for-sale financial assets—noncurrent (Note 6(2))	799,882	-	961,584	-	980,840	-
Financial assets carried at cost—noncurrent (Note 6(2))	371,082	-	468,750	-	588,331	-
Investments accounted for using equity method (Note 6(6))	295,149	-	424,191	-	455,656	-
Property, plant and equipment (Notes 6(9) and 8)	65,980,475	13	71,037,778	15	71,439,405	13
Investment property, net (Note 6(10))	58,624	-	704,131	-	640,968	-
Intangible assets (Note 6(11))	1,296,411	-	1,555,087	-	1,562,572	-
Deferred tax assets	2,603,325	1	2,852,506	1	2,585,870	1
Prepayments on purchase of equipment	3,232,915	1	2,914,417	1	3,367,720	1
Other financial assets—noncurrent (Notes 6(12) and 8)	351,759	-	357,503	-	353,938	-
Long-term prepaid rentals (Note 6(17))	3,891,657	1	4,348,476	1	4,456,556	1
Other noncurrent assets (Note 6(12))	47,065	-	58,896	-	54,913	-
	<u>78,928,344</u>	<u>16</u>	<u>85,683,319</u>	<u>18</u>	<u>86,486,769</u>	<u>16</u>
TOTAL ASSETS	\$ 491,527,503	100	476,086,663	100	539,824,601	100

The accompanying notes are an integral part of the consolidated financial statements.

(English Translation of Financial Report Originally Issued in Chinese)
 PEGATRON CORPORATION AND ITS SUBSIDIARIES
 CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS (CONT'D)
 SEPTEMBER 30, 2016, DECEMBER 31, 2015, AND SEPTEMBER 30, 2015
 (All Amounts Expressed in Thousands of New Taiwan Dollars)

	September 30, 2016		December 31, 2015		September 30, 2015	
	Amount	%	Amount	%	Amount	%
LIABILITIES						
Current Liabilities:						
Short-term loans (Note 6(13))	\$ 46,383,931	9	45,467,083	9	62,334,303	12
Notes and accounts payable (Note 7)	203,698,122	42	161,147,309	34	217,167,587	40
Accrued expenses	24,220,733	5	27,606,075	6	25,511,888	5
Other payables	4,957,515	1	6,792,896	1	8,179,855	2
Current income tax liabilities	3,423,853	1	7,847,931	2	3,959,598	1
Provisions—current (Note 6(16))	176,251	-	425,401	-	395,740	-
Deferred revenue	730,997	-	1,391,051	-	1,536,886	-
Long-term loans payable—current portion (Note 6(14))	2,403,514	-	2,604,140	1	4,926,175	1
Other current liabilities	16,176,378	3	14,425,611	3	13,017,288	2
	<u>302,171,294</u>	<u>61</u>	<u>267,707,497</u>	<u>56</u>	<u>337,029,320</u>	<u>63</u>
Non-current liabilities:						
Long-term loans (Note 6(14))	9,098,206	2	12,306,749	3	12,518,727	2
Deferred tax liabilities	1,599,283	-	2,578,981	1	3,331,750	1
Other noncurrent liabilities	2,729,713	1	1,154,911	-	1,206,602	-
	<u>13,427,202</u>	<u>3</u>	<u>16,040,641</u>	<u>4</u>	<u>17,057,079</u>	<u>3</u>
Total Liabilities	<u>315,598,496</u>	<u>64</u>	<u>283,748,138</u>	<u>60</u>	<u>354,086,399</u>	<u>66</u>
Equity Attributable to Owners of the Parent Company (Note 6(20))						
Share capital	25,756,275	5	26,030,205	5	26,032,293	5
Capital surplus:						
Capital surplus, premium on capital stock	73,308,810	15	73,471,235	15	73,250,717	14
Capital surplus, others	4,899,757	1	5,501,139	1	5,671,551	1
	<u>78,208,567</u>	<u>16</u>	<u>78,972,374</u>	<u>16</u>	<u>78,922,268</u>	<u>15</u>
Retained earnings:						
Legal reserve	7,260,543	2	4,879,380	1	4,879,380	1
Unappropriated retained earnings	34,977,552	7	37,775,792	8	30,986,542	5
	<u>42,238,095</u>	<u>9</u>	<u>42,655,172</u>	<u>9</u>	<u>35,865,922</u>	<u>6</u>
Other equity interest:						
Exchange differences on translation of foreign financial statements	(2,940,491)	(1)	3,752,117	1	5,509,122	1
Unrealized gains on available-for-sale financial assets	191,154	-	211,234	-	210,496	-
Deferred compensation cost arising from issuance of restricted stock (Note 6(21))	(588,816)	-	(1,238,377)	-	(1,518,425)	-
	<u>(3,338,153)</u>	<u>(1)</u>	<u>2,724,974</u>	<u>1</u>	<u>4,201,193</u>	<u>1</u>
Treasury stock	<u>(4,580)</u>	<u>-</u>	<u>(2,590)</u>	<u>-</u>	<u>(2,089)</u>	<u>-</u>
Equity attributable to the Parent Company	142,860,204	29	150,380,135	31	145,019,587	27
Non-controlling interests	<u>33,068,803</u>	<u>7</u>	<u>41,958,390</u>	<u>9</u>	<u>40,718,615</u>	<u>7</u>
Total Equity	<u>175,929,007</u>	<u>36</u>	<u>192,338,525</u>	<u>40</u>	<u>185,738,202</u>	<u>34</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 491,527,503</u>	<u>100</u>	<u>476,086,663</u>	<u>100</u>	<u>539,824,601</u>	<u>100</u>

The accompanying notes are an integral part of the consolidated financial statements.

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)

	For the Three Months ended September 30				For the Nine Months ended September 30			
	2016		2015		2016		2015	
	Amount	%	Amount	%	Amount	%	Amount	%
Operating revenues (Note 6(24))	\$ 317,340,701	100	311,841,605	101	802,550,524	101	805,241,655	100
Less: Sales returns and allowances	1,147,414	-	2,303,924	1	5,324,556	1	3,512,652	-
Net sales	316,193,287	100	309,537,681	100	797,225,968	100	801,729,003	100
Cost of sales (Notes 6(4), 6(18) and 7)	301,089,204	95	288,668,048	93	751,289,132	94	749,879,922	94
Gross profit	15,104,083	5	20,869,633	7	45,936,836	6	51,849,081	6
Operating expenses (Notes 6(18) and 7)								
Selling expenses	1,193,373	-	2,398,569	1	4,422,905	-	6,925,366	1
General and administrative expenses	2,660,944	1	2,791,878	1	7,581,608	1	7,909,817	1
Research and development expenses	3,434,599	1	3,861,296	1	10,545,633	2	10,566,414	1
	7,288,916	2	9,051,743	3	22,550,146	3	25,401,597	3
Results from operating activities	7,815,167	3	11,817,890	4	23,386,690	3	26,447,484	3
Non-operating income and expenses								
Other income (Note 6(26))	730,979	-	753,041	-	2,287,063	-	2,707,227	-
Other gains and losses (Notes 6(5), 6(7), 6(15) and 6(26))	(1,669,128)	(1)	(1,487,297)	-	(4,523,485)	-	(1,047,703)	-
Financial costs (Notes 6(15) and 6(26))	(197,173)	-	(269,157)	-	(789,368)	-	(614,683)	-
Share of loss of associates and joint ventures accounted for under equity method (Note 6(6))	(5,903)	-	(19,092)	-	(18,048)	-	(43,001)	-
Other losses	(68,365)	-	(163,957)	-	(257,474)	-	(207,627)	-
	(1,209,590)	(1)	(1,186,462)	-	(3,301,312)	-	794,213	-
Profit before tax	6,605,577	2	10,631,428	4	20,085,378	3	27,241,697	3
Income tax expense (Note 6(19))	598,600	-	3,119,065	1	4,587,230	1	6,781,921	1
Profit for the period	6,006,977	2	7,512,363	3	15,498,148	2	20,459,776	2
Other comprehensive income (Notes 6(6), 6(20) and 6(27))								
Items which may be reclassified to profit and loss in subsequent periods								
Foreign currency translation differences—foreign operations	(3,995,728)	(1)	3,971,280	1	(7,927,424)	(1)	871,281	-
Unrealized (loss) gain on available-for-sale financial assets	(5,996)	-	(276,477)	-	131,725	-	(128,062)	-
Share of other comprehensive income of associates and joint ventures accounted for under equity method	6,171	-	(15,707)	-	(20,601)	-	(15,451)	-
Income tax relating to components that may be reclassified to profit and loss in subsequent periods	(65,882)	-	(67,661)	-	(103,261)	-	(53,566)	-
Other comprehensive income for the period, net of tax	(3,929,671)	(1)	3,746,757	1	(7,713,039)	(1)	781,334	-
Total comprehensive income for the period	\$ 2,077,306	1	11,259,120	4	7,785,109	1	21,241,110	2
Profit attributable to								
Owners of the parent company	\$ 5,380,426	2	6,013,775	2	13,473,869	2	16,997,338	2
Non-controlling interests	626,551	-	1,498,588	1	2,024,279	-	3,462,438	-
	\$ 6,006,977	2	7,512,363	3	15,498,148	2	20,459,776	2
Comprehensive income attributable to								
Owners of the parent company	\$ 1,952,705	1	9,217,876	3	6,761,181	1	17,751,088	2
Non-controlling interests	124,601	-	2,041,244	1	1,023,928	-	3,490,022	-
	\$ 2,077,306	1	11,259,120	4	7,785,109	1	21,241,110	2
Earnings per share, net of tax (Note 6(23))								
Basic earnings per share	\$ 2.09		2.31		5.22		6.60	
Diluted earnings per share	\$ 2.08		2.28		5.17		6.53	

The accompanying notes are an integral part of the consolidated financial statements.

(English Translations of Financial Statements Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
 (Expressed in Thousands of New Taiwan Dollars)

Attributable to Owners of the Parent Company

	Share capital			Capital surplus			Legal reserve			Retained earnings			Other adjustments to equity			Total equity
	Common stock	Advance receipts for share capital	Total	Legal reserve	Unappropriated	Total	Foreign currency translation differences	Unrealized gain (losses) on available-for-sale financial assets	Deferred compensation cost	Treasury stock	Owners of the parent company	Non-controlling interests	Total			
Balance, January 1, 2015	23,679,105	1,477,700	25,156,805	3,413,566	25,911,678	29,325,244	4,788,038	177,810	(61,523)	(8,183)	133,670,931	41,200,299	174,871,230			
Profit for the period	-	-	-	-	16,997,338	16,997,338	-	-	-	-	16,997,338	3,462,438	20,459,776			
Other comprehensive income for the period	-	-	-	-	-	-	721,064	32,686	-	-	753,750	22,584	781,334			
Total comprehensive income for the period	-	-	-	-	16,997,338	16,997,338	721,064	32,686	-	-	17,751,088	3,485,022	21,241,110			
Appropriation and distribution of retained earnings	-	-	-	-	(1,465,814)	(1,465,814)	-	-	-	-	-	-	-			
Legal reserve	-	-	-	1,465,814	-	-	-	-	-	-	-	-	-			
Cash dividends of ordinary share	-	-	-	-	(10,509,621)	(10,509,621)	-	-	-	-	(10,509,621)	-	(10,509,621)			
Conversion of convertible bonds	1,946,748	(1,472,500)	474,248	-	-	-	-	-	-	-	3,153,656	-	3,153,656			
Disposal of Company shares by subsidiaries treated as treasury share transactions	-	-	-	-	12,029	12,029	-	-	-	6,113	18,142	-	18,142			
Changes in ownership interest in subsidiaries	13,800	(5,200)	8,600	-	-	-	-	-	-	-	8,499	(8,499)	-			
Share-based payments	(4,140)	-	(4,140)	-	-	-	-	-	-	-	35,088	-	35,088			
Expiration of restricted shares of stock issued to employees	396,780	-	396,780	-	52,961	52,961	-	-	(1,453,302)	(19)	891,804	-	891,804			
Composition cost arising from restricted shares of stock	-	-	-	-	-	-	-	-	-	-	-	(3,565,207)	(3,565,207)			
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(2,000)	145,019,587	40,716,615	185,736,202			
Balance, September 30, 2015	26,032,293	-	26,032,293	4,879,286	30,896,542	35,865,922	5,509,122	210,496	(1,519,425)	4,201,193	145,019,587	40,716,615	185,736,202			
Balance, January 1, 2016	26,030,205	-	26,030,205	4,879,286	37,775,792	42,655,172	3,752,117	211,234	(1,238,377)	2,724,974	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	-	-	-	-	(2,381,163)	(2,381,163)	-	-	-	-	-	-	-			
Legal reserve	-	-	-	2,381,163	-	-	-	-	-	-	-	-	-			
Cash dividends of ordinary share	-	-	-	-	(12,953,501)	(12,953,501)	-	-	-	-	(12,953,501)	-	(12,953,501)			
Purchase of treasury stocks	(264,100)	-	(264,100)	-	-	-	-	-	(2,668,328)	-	(2,668,328)	-	(2,668,328)			
Retirement of treasury stocks	-	-	-	-	(973,751)	(973,751)	-	-	2,068,328	-	2,575	-	2,575			
Changes in ownership interest in subsidiaries	(9,810)	-	(9,810)	-	-	-	-	-	-	(1,990)	738,142	-	738,142			
Expiration of restricted shares of stock issued to employees	-	-	-	-	36,306	36,306	-	-	-	-	-	-	-			
Composition cost arising from restricted shares of stock	-	-	-	-	-	-	-	-	-	-	-	(9,910,940)	(9,910,940)			
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(688,816)	(4,580)	142,860,204	33,068,803	175,929,897			
Balance, September 30, 2016	25,766,275	-	25,766,275	7,269,543	34,977,552	42,238,995	(2,940,491)	191,154	(688,816)	(4,580)	142,860,204	33,068,803	175,929,897			

The accompanying notes are an integral part of the consolidated financial statements.

(English Translation of Financial Report Originally Issued in Chinese)
PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2016	2015
Cash flows from operating activities:		
Profit before tax	\$ 20,085,378	27,241,697
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	9,716,758	10,107,611
Amortization	107,690	162,102
Reversal of allowance for uncollectable accounts	(154,006)	(119,766)
Net loss on financial assets or liabilities at fair value through profit or loss	(2,254)	228,861
Interest expense	701,803	500,143
Interest income	(773,991)	(1,161,488)
Dividends income	(16,671)	(74,036)
Compensation cost arising from employee stock options	744,905	633,641
Gain on foreign currency exchange of bonds payable	-	(13,748)
Amortization of issuance costs on bonds payable	-	254
Share of loss of associates and joint ventures accounted for under equity method	18,048	43,001
Gain on foreign currency exchange on long-term loans	(92,178)	234,678
Loss on disposal of property, plant and equipment	221,646	127,061
Property, plant and equipment charged to expenses	29,176	1,735
Gains on disposal of non-current assets classified as held for sale	-	(396,161)
(Loss) gain on disposal of investments	574,595	(401,590)
(Reversal of) Impairment loss	60,270	(158,168)
Long-term prepaid rent charged to expenses	72,470	71,771
	<u>11,208,261</u>	<u>9,785,901</u>
Change in operating assets and liabilities		
Change in operating assets		
Decrease in financial assets reported at fair value through profit or loss	567,897	886,089
Increase in notes and accounts receivable	(20,586,323)	(21,518,321)
Increase in other receivables	(11,383,284)	(5,316,655)
Increase in inventories	(5,184,410)	(62,490,111)
Decrease in other financial assets	149,358	1,716,547
Decrease (increase) in other current assets	5,810,688	(3,408,356)
Decrease in other noncurrent assets	13,346	54,590
Total changes in operating assets	<u>(30,612,728)</u>	<u>(90,076,217)</u>
Change in operating liabilities		
Decrease in financial liabilities reported at fair value through profit or loss	-	(8,937)
Increase in notes and accounts payable	44,508,894	42,399,943
Increase (decrease) in accrued expenses	(2,551,949)	638,629
Increase (decrease) in other payables	(1,573,474)	1,418,820
Decrease in deferred revenue	(299,671)	(447,006)
Decrease in provisions—current	(249,150)	(125,714)
Increase in other current liabilities	1,960,154	1,328,514
Increase in other non-current liabilities	1,539,674	127,090
Total changes in operating liabilities	<u>43,334,478</u>	<u>45,331,339</u>
Net changes in operating assets and liabilities	<u>12,721,750</u>	<u>(44,744,878)</u>
Total changes in operating assets and liabilities	<u>23,930,011</u>	<u>(34,958,977)</u>
Cash provided by (used in) operating activities	<u>44,015,389</u>	<u>(7,717,280)</u>
Interest received	816,996	1,236,816
Dividend received	16,671	74,036
Interest paid	(720,721)	(631,117)
Income taxes paid	(9,914,167)	(7,147,376)
Net cash provided by (used in) operating activities	<u>34,214,168</u>	<u>(14,184,921)</u>

The accompanying notes are an integral part of the consolidated financial statements.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
 (All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Nine Months Ended September 30	
	2016	2015
Cash flows from investing activities		
Proceeds from disposal of available-for-sale financial assets	-	943,725
Acquisition of financial assets at cost	-	(138,731)
Proceeds from disposal of financial assets at cost	656	222,267
Acquisition of investments accounted for using equity method	-	(10,000)
Net cash outflow from disposal of subsidiaries	(3,674,323)	-
Proceeds from capital reduction of investments accounted for using equity method	71,654	161,307
Proceeds from disposal of non-current assets classified as held for sale	-	598,359
Acquisition of property, plant and equipment	(9,874,869)	(8,204,902)
Proceeds from disposal of property, plant and equipment	351,647	541,603
Acquisition of intangible assets	(78,896)	(86,279)
Decrease (increase) in other financial assets	(34,403)	257,983
Increase in prepayments on purchase of equipment	(2,842,185)	(3,282,649)
Increase in long-term prepaid rentals	-	(448,054)
Net cash used in investing activities	(16,080,719)	(9,445,371)
Cash flows from financing activities		
Increase in short-term loans	1,318,621	35,153,740
Proceeds from long-term loans	3,500,000	5,783,448
Repayments of long-term loans	(6,820,591)	(10,269,735)
Dividends paid	(15,172,473)	(12,840,060)
Employee stock options	-	39,794
Purchase of treasury shares	(2,068,328)	(32,895)
Proceeds from sale of treasury shares	-	46,521
Proceeds from issuance of restricted stock	-	396,780
Redemption of restricted stock	(12,811)	(21,752)
Change in non-controlling interests	125,000	(1,661,881)
Net cash provided by (used in) financing activities	(19,130,582)	16,593,960
Effect of exchange rate fluctuations on cash held	(4,189,482)	1,308,241
Net decrease in cash and cash equivalents	(5,186,615)	(5,728,091)
Cash and cash equivalents, beginning of the period	102,561,346	107,688,632
Cash and cash equivalents, end of the period	\$ 97,374,731	101,960,541

The accompanying notes are an integral part of the consolidated financial statements.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES
NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

(Amounts Expressed in Thousands of New Taiwan Dollars,
Except for Per Share Information and Unless Otherwise Stated)

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 Taiwan Stock Exchange Corporation (TSEC). The Company’s shares were listed on TSEC on June 24, 2010.

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

The consolidated financial statements of the Company as of and for the nine months ended September 30, 2016 and 2015 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates and jointly controlled entities.

2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements were authorized for issue by the Board of Directors on November 10, 2016.

3. APPLICATION OF NEW AND AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS

(1) Impact of the not yet adopted 2013 version of the International Financial Reporting Standard (“IFRS”) endorsed by the Financial Supervisory Commissions R.O.C. (“FSC”)

According to Ruling No.1050026834 issued by FSC on July 18, 2016, public companies should fully adopt commencing from 2017 the 2013 version of the IFRS issued by the IASB before January 1, 2016 and endorsed by the FSC (excluding IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers) in preparing the consolidated financial statements.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(CONT'D)

The new accounting standards and amendments of the 2013 version of IFRS issued by the International Accounting Standards Board (“IASB”) were as follows:

New standards and amendments	Effective date per IASB
· IFRS 10, IFRS 12 and amended IAS 28 “ <i>Investment Entities: Applying the Consolidation Exception</i> ”	January 1, 2016
· Amended IFRS 11 “ <i>Accounting for Acquisitions of Interests in Joint Operations</i> ”	January 1, 2016
· Amended IFRS 14 “ <i>Regulatory Deferral Accounts</i> ”	January 1, 2016
· Amended IAS 1 “ <i>Disclosure Initiative</i> ”	January 1, 2016
· IAS 16 and amended IAS 38 “ <i>Clarification of Acceptable Methods of Depreciation and Amortization</i> ”	January 1, 2016
· IAS 16 and amended IAS 41 “ <i>Agriculture: Bearer Plants</i> ”	January 1, 2016
· Amended IAS 19 “ <i>Defined Benefit Plans: Employee Contributions</i> ”	July 1, 2014
· Amended IAS 27 “ <i>Equity Method in Separate Financial Statements</i> ”	January 1, 2016
· Amended IAS 36 “ <i>Recoverable Amount Disclosures for Non-Financial Assets</i> ”	January 1, 2014
· Amended IAS 39 “ <i>Novation of Derivatives and Continuation of Hedge Accounting</i> ”	January 1, 2014
· Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle	July 1, 2014
· Annual Improvements to IFRSs 2012–2014 Cycle	January 1, 2016
· IFRIC 21 “ <i>Levies</i> ”	January 1, 2014

The Group has assessed the impact of the adoption of the above new version of the IFRS endorsed by the Financial Supervisory Commissions R.O.C. The results thereof disclosed that the adoption is not expected to have significant impact on the consolidated financial statements except for the following standards and amendments:

A. Amended IAS 36 “Disclosures for the Recoverable Amount of Non-Financial Assets”

This standard added a requirement to disclose the levels in the fair value hierarchy of the recoverable amount of impaired assets based on fair value less cost of disposal method and the key assumptions used in the fair value measurement for valuations that are categorized within Level 2 and Level 3.

(2) Impact of IFRS issued by the IASB but not yet endorsed by the FSC

The 2013 version of the IFRS issued by the IASB but not yet endorsed by the FSC were as follows:

New standards and amendments	Effective date per IASB
· IFRS 9 “ <i>Financial Instruments</i> ”	January 1, 2018
· Amended IAS 28 and IFRS 10 “ <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ”	Undecided

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(CONT'D)

New standards and amendments	Effective date per IASB
· IFRS 15 " <i>Revenue from Contracts with Customers</i> "	January 1, 2018
· IFRS 16 " <i>Leases</i> "	January 1, 2019
· Amended IAS 2 " <i>Classification and Measurement of Share-based Payment Transactions</i> "	January 1, 2018
· Amended IFRS 15 " <i>Clarification to IFRS 15 Revenue from Contracts with Customers</i> "	January 1, 2018
· Amended IAS 7 " <i>Disclosure Initiative</i> "	January 1, 2017
· Amended IAS 12 " <i>Recognition of Deferred Tax Assets for Unrealised Losses</i> "	January 1, 2017

Relevant standards applicable to the Group were as follows:

Issue date	New standards and amendments	Descriptions
Original issue date--May 28, 2014 Amendment issue date--April 12, 2016	IFRS 15 " <i>Revenue from Contracts with Customers</i> "	The new standard provides a single, principles based five-step model to determine the method, timing and amount of revenue recognition. It will replace IAS 18 " <i>Revenue</i> " and IAS 11 " <i>Construction Contracts</i> " and other revenue-related interpretation. Amendments to IFRS 15 was issued on April 12, 2016. The amendment sought to clarify the following: Identifying a performance obligation in a contract, determination of a principal or an agent, a license grant and transition.
Initial issue date--November 19, 2013 Final issue date--July 24, 2014	IFRS 9 " <i>Financial Instruments</i> "	This standard replaces IAS 39 " <i>Instruments: Recognition and Measurement</i> ". The differences between IFRS 9 and IAS 39 were as follows: · Classification and measurement: Financial instruments are identified by the contractual cash flow characteristics and the entity's operating mode for managing assets so that they are classified either as financial assets carried at amortized cost, or financial assets at fair value through other comprehensive income and profit or loss. In addition, gains and losses on financial liabilities at fair value through profit or loss caused by changes in credit risk are accounted for under other comprehensive income.

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(CONT'D)

Issue date	New standards and amendments	Descriptions
		<ul style="list-style-type: none">• Impairment: Expected loss impairment model will replace the current model which is based on incurred loss. Hedge accounting: Requires the use of more principle-based requirements that aligns the accounting treatment with risk management activities. This includes modifying or replacing some of the hedge accounting rules and allowing more hedging instruments and hedged items to qualify for hedge accounting.
January 13, 2016	IFRS 16 "Leases"	<ul style="list-style-type: none">• The standard requires lessees to recognize assets and liabilities for all leases if the recognition criteria are satisfied. Leasing expenses are calculated based on the depreciated amount of lease asset plus interest expense on lease liabilities.• Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

As the new accounting standards and amendments above have not been endorsed by the FSC, the Group is still in the process of assessing the impact on the financial position and the results of operations. Related impact will be disclosed following the completion of its assessments.

4. SIGNIFICANT ACCOUNTING POLICIES

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

(1) Statement of compliance

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

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(CONT'D)

(2) Basis of preparation

A. Basis of measurement

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

- (a) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;
- (b) Available-for-sale financial assets are measured at fair value;
- (c) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- (d) The net defined benefit liability (assets) 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.

B. 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 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.

(3) Basis of consolidation

A. Principle of preparation of the consolidated financial statements

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

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

B. 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.

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(CONT'D)

C. Subsidiaries

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

D. Business combination under common control

A business combination under common control is a transaction in which all of the combining entities are ultimately controlled by the same party, both before and after the combination, and the control is not transitory. These combinations often occur in re-organize group activities in which the direct ownership of subsidiaries changes but the ultimate parent remains the same. Business combinations under common control are accounted for in the consolidated accounts prospectively from the date the group obtains the ownership interest. Assets and liabilities are recognized upon consolidation at their carrying amount in the consolidated financial statements of owners of the Company.

E. Losing control

If 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.

F. List of subsidiaries included in the consolidated financial statements:

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2016.09.30	2015.12.31	2015.09.30	
THE COMPANY AND ASUSPOWER INVESTMENT	ABILITY ENTERPRISE CO., LTD. (Ability (TW))	Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products and leasing	11.73%	11.72%	11.72%	Note A
Ability (TW)	ABILITY ENTERPRISE (BVI) CO., LTD. (ABILITY)	Investing activities	100.00%	100.00%	100.00%	Note A
Ability (TW)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%	100.00%	Note A
Ability (TW)	VIEWQUEST TECHNOLOGIES INTERNATIONAL INC.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%	100.00%	Note A
Ability (TW)	VIEWQUEST TECHNOLOGIES (BVI) INC. (VQ(BVI))	Manufacturing and trading computer peripherals, digital cameras and electronic components	100.00%	100.00%	100.00%	Note A
Ability (TW)	Ability International Investment Co., Ltd.(ABILITY INVESTMENT)	Investing activities	100.00%	100.00%	100.00%	Note A
Ability (TW)	E-PIN OPTICAL INDUSTRY CO., LTD.(E-PIN)	Selling electronic components of optical products	53.01%	53.01%	53.01%	Note A

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2016.09.30	2015.12.31	2015.09.30	
ABILITY	Ability Technology (Dongguan) Co., Ltd.	Manufacturing and selling digital cameras	100.00%	100.00%	100.00%	Note A
ABILITY	Jiujiang Viewquest Electronics Inc.	Manufacturing and selling digital cameras	100.00%	100.00%	100.00%	Note A
VQ(BVI)	VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD.	Manufacturing and selling digital cameras	100.00%	100.00%	100.00%	Note A
E-PIN	E-PIN OPTICAL INDUSTRY CO., LTD.	Trading activities	100.00%	100.00%	100.00%	Note A
E-PIN	E-PIN OPTICAL INDUSTRY (M.) SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	100.00%	Note A
E-PIN	ALL VISION TECHNOLOGY SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	100.00%	Note A
E-PIN	ALL VISION HOLDING LTD. (AV)	Investing activities	100.00%	100.00%	100.00%	Note A
AV	EVERLIGHT DEVELOPMENT CORPORATION (ED)	Investing activities	100.00%	100.00%	100.00%	Note A
AV	E-SKY HOLDING LTD. (ES)	Investing activities	73.04%	73.04%	73.04%	Note A
ED	NANJING CHANGMING PHOTOELECTRIC TECHNOLOGY CO., LTD.	Manufacturing and developing precision optical lenses	55.45%	55.45%	55.45%	Note A
ES	ZHONGSHAN SANXIN PRECISION INDUSTRY CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	100.00%	100.00%	Note A
ES	NANJING E-PIN OPTOTECH CO., LTD.	Manufacturing and developing precision optical lenses	72.22%	72.22%	72.22%	Note A
THE COMPANY	UNIHAN HOLDING 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%	
UNIHAN HOLDING	FUYANG FLEX HOLDING LTD (FUYANG HOLDING)	Investing activities	100.00%	- %	- %	Note C
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%	

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2016.09.30	2015.12.31	2015.09.30	
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%	
FUYANG HOLDING	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Researching, producing, inspecting, repairing and selling flexible multilayer model, computer digital signal process system and card.	100.00%	- %	- %	Note C
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	38.08%	38.08%	38.08%	Notes B
AZURE WAVE	EMINENT STAR CO., LTD. (EMINENT)	Investing activities	- %	100.00%	100.00%	Notes B and G
EMINENT	JADE TECHNOLOGIES LIMITED (JADE)	Investing activities	- %	100.00%	100.00%	Notes B and D
EMINENT - JADE	AZUREWAVE TECHNOLOGY (SHENZHEN) CO., LTD.	Designing, researching and selling computer products	- %	- %	100.00%	Notes B and E
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00%	100.00%	100.00%	Note B
AZURE WAVE	AZWAVE HOLDING (SAMOA) INC. (AZWAVE SAMOA)	Investing activities	100.00%	100.00%	100.00%	Note B
AZURE WAVE	AZUREWAVE TECHNOLOGY (USA) INC.	Developing market	100.00%	100.00%	100.00%	Note B
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00%	100.00%	100.00%	Note B
AZWAVE SAMOA	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and selling computer products	100.00%	100.00%	100.00%	Note B
AZWAVE SAMOA	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00%	100.00%	100.00%	Note B
AZWAVE SAMOA	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00%	100.00%	100.00%	Note B
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%	

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NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(CONT'D)

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2016.09.30	2015.12.31	2015.09.30	
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	TOPTTEK 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) CO., 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%	
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing activities	100.00%	100.00%	100.00%	
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%	
PIOTEK HOLDING	PIOTEK (H.K.) TRADING LIMITED	Trading activities	100.00%	100.00%	100.00%	
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%	
DIGITEK	DIGITEK (CHONGQING) CO., LTD.	Manufacturing, developing, and selling GPS, computer electronic devices, and after-sales services	100.00%	100.00%	100.00%	
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%	100.00%	

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Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			2016.09.30	2015.12.31	2015.09.30	
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) CO., 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	58.65%	58.65%	58.65%	
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 Ltd. (Leader)	Investing and holding activities	100.00%	100.00%	100.00%	
Leader	Firstplace International Ltd. (Firstplace)	Investing and holding activities	100.00%	100.00%	100.00%	
Firstplace	ASROCK America., Inc.	Selling database service and trading electronic components	100.00%	100.00%	100.00%	

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			2016.09.30	2015.12.31	2015.09.30	
ASROCK	ASRock Rack Incorporation	Manufacturing and selling computer and related peripherals	69.40%	69.40%	69.40%	
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 B
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00%	100.00%	100.00%	Note B
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	54.87%	54.87%	54.87%	Note B
KINSUS INVESTMENT, ASUSTEK INVESTMENT AND ASUS INVESTMENT	FUYANG FLEX TECHNOLOGY CORPORATION	Manufacturing and wholesaling wires, cables, and electronic components	90.00%	- %	- %	Note C
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00%	100.00%	100.00%	Note B
PEGAVISION CORPORATION	PEGAVISION JAPAN INC.	Selling medical appliances	100.00%	100.00%	100.00%	Note B
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	100.00%	100.00%	100.00%	Note B
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 B
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	100.00%	Note B
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	100.00%	100.00%	Note B
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	100.00%	Note B
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00%	100.00%	100.00%	Note B
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION (STARLINK)	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	100.00%	100.00%	

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			2016.09.30	2015.12.31	2015.09.30	
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	60.73%	60.73%	60.73%	
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00%	100.00%	100.00%	
CASETEK CAYMAN	APEX SUN LIMITED	Investing activities	100.00%	- %	- %	Note F
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	Designing, manufacturing and selling electronic components and providing after-sales services, idle equipments leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	100.00%	
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Designing, manufacturing and selling electronic components and providing after-sales services, idle equipment leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	100.00%	
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Designing, manufacturing and selling electronic components and providing after-sales services, idle equipment leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	100.00%	
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Designing, manufacturing and selling electronic components and providing after-sales services, idle equipment leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	100.00%	
RIH LI	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, manufacturing and selling electronic components and providing after-sales services, idle equipment leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	100.00%	
RIH LI	KAI JIA COMPUTER ACCESSORY CO., LTD.	Designing, manufacturing and selling electronic components and providing after-sales services, idle equipment leasing, commission agency, trading services, relevant corresponding services, and surface processing for the aforementioned product.	100.00%	100.00%	100.00%	
CASETEK CAYMAN	RIH KUAN METAL CORPORATION (RIH KUAN)	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%	

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			2016.09.30	2015.12.31	2015.09.30	
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	100.00%	100.00%	
UNITED	KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD (KAI HE)	Designing, manufacturing and selling electronic components and providing after-sales service, idle equipment leasing, commission agency, trading services, relevant corresponding services, and surface processing for the aforementioned product.	100.00%	100.00%	100.00%	Note G
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 Digital 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%	
PSG	PEGATRON SERVICE KOREA LLC.	Sales and repair service center in Korea	100.00%	-	-	Note F
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%	

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Note A: On June 29, 2016, the shareholders of Ability Enterprise Co., Ltd. elected new set of directors during 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. Consequently, Ability Enterprise Co., Ltd. and its subsidiaries were no longer included in the consolidated financial statements from that date on.

Note B: As of September 30, 2016, 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 38.08% 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 exercise control over their respective board of directors.

Note C: It was established in the second quarter of 2016.

Note D: It was liquidated in May 2016.

Note E: It was liquidated in November 2015.

Note F: It was established in the first quarter of 2016.

Note G: It was liquidated in August 2016.

G. Subsidiaries excluded from consolidation: None.

(4) Foreign currency

A. 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:

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- Available-for-sale equity investment;
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- Qualifying cash flow hedges to the extent the hedge is effective.

B. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Group's reporting 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 reporting 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.

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.

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

An asset is classified as current when:

- A. It is expected to be realized the asset, or intended to be sold or consumed, during the normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. It is expected to be realized within twelve months after the reporting period; or
- D. 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.

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All other assets are classified as non-current.

A liability is classified as current when:

- A. It is expected to be settled within the Group's normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. The liability is due to be settled within twelve months after the reporting period; or
- D. 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.

(6) 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 have maturities within three months, and are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose, readily convertible to a known amount of cash and have an insignificant risk of change in value.

(7) Financial instruments

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

A. Financial assets

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

(a) 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:

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

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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.

(b) Available-for sale financial assets

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

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

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

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

(c) Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. At initial recognition, held-to-maturity financial assets are recognized at fair value, plus, any directly attributable

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transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

Interest income is recognized into 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.

(d) 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.

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.

- i. 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.
- ii. 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.
- iii. The transferor does not maintain effective control over the rights to the accounts receivable claims through either:

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- An agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or
- 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.

(e) 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 amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate.

Such impairment loss is not reversible in subsequent periods.

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

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

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

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

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

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

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

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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."

B. Financial liabilities and equity instruments

(a) Classification of debt or equity instruments

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

Equity instruments issued are recognized based on amount of consideration received less the direct issuance cost.

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

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

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

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

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

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

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- i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses thereon on different basis;
- ii. Performance of the financial liabilities is evaluated on a fair value basis;
- iii. Hybrid instrument contains one or more embedded derivatives.

Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, which takes into account any interest expense, are recognized in profit or loss, under "non-operating income and expenses."

Financial liabilities at fair value through profit or loss is measured at cost if it sells borrowed unquoted equity investment whose fair value cannot be reliably measured and if it is to be delivered to the obligator of the equity investment. This type of financial instrument is classified as financial liabilities measured at cost.

Financial guarantee contract and loan commitments are classified as financial liabilities at fair value through profit or loss, any gains and losses thereon are recognized in profit or loss.

(c) 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 profit or loss, under finance cost.

(d) 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."

(e) 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.

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(f) 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.

C. Derivative financial instruments, including hedge accounting

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

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

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

Embedded derivatives are separated from the host contract and are accounted for separately when the economic characteristics and risk of the host contract and the embedded derivatives are not closely related, and that the host contract is 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.

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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.

(a) 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.

(b) Cash flow hedge

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

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

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

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(8) 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.

(9) Non-current assets held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale or distribution rather than through continuing use, are reclassified as held-for-sale or distribution. Immediately before classification as held-for-sale or distribution, the assets, or components of a disposal group, are re-assessed for impairment in accordance with the Group's accounting policies. Thereafter, generally the assets or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then the remaining balance of impairment loss is apportioned to assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which are assessed for impairment in accordance with the Group's accounting policies. Impairment losses on initial classification of noncurrent assets held-for-sale or distribution and subsequent gains or losses on re-measurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Once classified as held-for-sale or distribution, intangible assets and property, plant and equipment are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

(10) Investment in associates

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

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

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

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

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and 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.

(11) Interests in Joint Ventures

Jointly controlled entity is an entity which is established as a result of a contractual arrangement between the Group and other joint venture partners to jointly control over its financial policy and operating policy. Consensus for all decisions must be obtained from both joint venture partners. The Group uses equity method to account for the interest in jointly controlled entity.

(12) Investment property

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

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

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

Buildings	20-60 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.

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(13) Property, plant and equipment

A. 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, unless the useful life and the depreciation method of the significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

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.

B. 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.

C. 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.

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D. 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	3-60 years
Machinery	1-20 years
Instrument equipment	1-10 years
Office and other equipment	2-20 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.

(14) Leased assets

A. 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.

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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.

B. 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.

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.

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.

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:

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

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

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

(15) Intangible assets

A. Goodwill

(a) Recognition

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

(b) 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.

B. Other Intangible Assets

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

C. 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.

D. Amortization

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

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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	1-10 years
Trademark rights	5 years
Customer relationship	3 years
Technology	3 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 annually at each financial year-end. Any change thereof is accounted for as a change in accounting estimate.

(16) Impairment – Non-derivative financial assets

The Group assesses non-derivative 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.

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An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Notwithstanding whether indicators exist, recoverability of 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.

(17) 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.

(18) 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.

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

(19) Revenue

A. 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.

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

B. 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.

(20) Employee benefits

A. 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.

B. 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.

C. Short-term employee benefits

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

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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.

(21) 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.

(22) 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.

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(23) 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 for in the non-consolidated accounts prospectively from the date the Group acquires the ownership interest. Assets and liabilities of the merged entities are recognized at their carrying amount in the non-consolidated financial statements.

(24) 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.

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.

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(25) 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 convertible notes and employee stock options.

(26) 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. MAJOR SOURCES OF SIGNIFICANT ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATION UNCERTAINTY

The consolidated quarterly financial statements are prepared in conformity with IFRSs (in accordance with IAS 34 "Interim financial reporting" and as endorsed by the FSC) which 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.

In preparation of the consolidated quarterly financial statements, the major sources of significant accounting judgments and estimation uncertainty are consistent with those disclosed in Note 5 of the consolidated financial statements for the years ended December 31, 2015 and 2014 prepared under IFRS (endorsed by the FSC).

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6. EXPLANATIONS TO SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	September 30, 2016	December 31, 2015	September 30, 2015
Cash on hand	\$ 13,691	37,507	48,039
Cash in banks	37,159,448	47,415,722	51,510,812
Time deposits	60,201,592	55,108,117	50,401,690
	<u>\$ 97,374,731</u>	<u>102,561,346</u>	<u>101,960,541</u>

A. 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(12) and 8 for details.

B. Refer to Note 6(28) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

(2) Investment in financial assets and liabilities

A. The components of financial assets and liabilities were as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
Financial assets at fair value through profit or loss — current:			
Held-for-trading			
Shares of stock of listed companies	\$ 213,316	246,679	132,116
Beneficiary certificates	3,945,865	4,485,982	4,738,252
	<u>\$ 4,159,181</u>	<u>4,732,661</u>	<u>4,870,368</u>
Available-for-sale financial assets — current:			
Shares of stock of overseas listed companies	\$ 262,351	857,820	842,565
Available-for-sale financial assets — noncurrent:			
Shares of stock of listed companies	\$ 595,042	765,744	769,880
Equity securities — common stock	204,840	195,840	210,960
	<u>\$ 799,882</u>	<u>961,584</u>	<u>980,840</u>
Financial assets carried at cost — noncurrent:			
Equity securities — common stock	\$ 165,450	263,118	382,699
Equity securities — preferred stock	205,632	205,632	205,632
	<u>\$ 371,082</u>	<u>468,750</u>	<u>588,331</u>

(a) For the three and the nine months ended September 30, 2016 and 2015, the Group recognized a net gain (loss) on financial assets and liabilities reported at fair value through profit or loss of \$21,230, \$(6,244), \$2,254 and \$(228,861), respectively.

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- (b) For the three and the nine months ended September 30, 2016 and 2015, the unrealized gain (loss) on available-for-sale financial assets amounted to \$(5,996), \$(276,477), \$131,725 and \$(128,062), respectively.
- (c) Considering the fact that the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined, the Group management believes that fair value cannot be measured reliably. Therefore, the investments in equity securities of non-listed company 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 these investments and recognized impairment loss of \$0 for the three and the nine months ended September 30, 2016 and 2015. As of September 30, 2016, December 31, 2015, and September 30, 2015, the Group had accumulated impairment loss of \$254,811, \$266,188 and \$254,941, respectively.
- (d) The convertible bond issued by the Group was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put option embedded in bonds payable were separated from bonds payable, and were recognized as "Financial liabilities at fair value through profit or loss." For the three and the nine months ended September 30, 2016 and 2015, the Group recognized a loss on financial liability reported at fair value through profit or loss of \$0, \$0, \$0 and \$238,997, respectively. Please refer to Note 6(15) for detail.
- (e) Refer to Note 6(26) for further discussion on gains and losses on disposal of investments.
- (f) Refer to Note 6(28) for the Group's information on financial instruments risk management.
- (g) As of September 30, 2016, December 31, 2015 and September 30, 2015, the aforesaid financial assets were not pledged as collateral.

B. Foreign equity investments

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

	September 30, 2016			December 31, 2015			September 30, 2015		
	Foreign	Exchange	NTD	Foreign	Exchange	NTD	Foreign	Exchange	NTD
	Currency	Rate		Currency	Rate		Currency	Rate	
USD \$	10,992	31.360	344,709	28,121	32.825	923,072	28,122	32.870	924,370
CNY	55,865	4.6962	262,351	58,849	5.0550	297,482	54,465	5.1672	281,432

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C. Derivative not used for hedging

The Group uses derivative financial instruments to hedge certain foreign exchange and interest risk the Group is exposed to, arising from its operating, investing and financing activities. Based on this policy, the Group holds derivative financial instruments for hedging purposes. Transactions that do not qualify for hedge accounting are presented as held-for-trading financial assets and financial liabilities:

Financial Assets

As of September 30, 2016, December 31, 2015 and September 30, 2015, there was no unsettled derivative financial asset.

Financial Liabilities

As of September 30, 2016, December 31, 2015 and September 30, 2015, there was no unsettled derivative financial liability.

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

	September 30, 2016	December 31, 2015	September 30, 2015
Notes receivable	\$ 87,445	170,001	166,388
Accounts receivable	140,994,969	121,973,316	153,409,022
Other receivables	39,116,818	27,709,682	20,121,538
Less: Allowance for impairment	(1,792,213)	(2,127,925)	(2,090,025)
	<u>\$ 178,407,019</u>	<u>147,725,074</u>	<u>171,606,923</u>

A. Refer to Note 6(28) for the Group's notes receivable, accounts receivable and other receivables exposure to credit risk and currency risk, and the impairment evaluation of accounts receivable.

B. As of September 30, 2016, December 31, 2015 and September 30, 2015, the Company sold its accounts receivable without recourse as follows:

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

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December 31, 2015

<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
SMBC	\$ <u>-</u>	USD <u>300,000,000</u>	USD <u>-</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>-</u>
ANZ (Note)	\$ <u>23,524,575</u>	USD <u>1,400,000,000</u>	USD <u>-</u>	None	"	\$ <u>23,524,575</u>

September 30, 2015

<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
SMBC	\$ <u>4,925,367</u>	USD <u>300,000,000</u>	USD <u>149,843,852</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ <u>4,925,367</u>
ANZ (Note)	\$ <u>43,211,369</u>	USD <u>1,700,000,000</u>	USD <u>776,000,000</u>	None	"	\$ <u>43,211,369</u>

Note: In October 2015 and 2014, 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 and the nine months ended September 30, 2016 and 2015, the Company recognized a loss of \$19,335, \$48,983, \$48,868 and \$99,004, respectively from the factoring of accounts receivable, which was accounted under financial costs in the statement of comprehensive income. Also, the difference of \$37,632,000, \$23,524,575 and \$17,704,249 between the carrying value of factored accounts receivable and the amount advanced was accounted under other receivable as of September 30, 2016, December 31, 2015, and September 30, 2015, respectively.

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C. As of September 30, 2016, December 31, 2015, and September 30, 2015, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

September 30, 2016						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
Mega International Commercial Bank	\$ 351,837	USD 30,000	\$ 127	None	The accounts receivable factoring is without recourse.	\$ 351,837
December 31, 2015						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
Mega International Commercial Bank	\$ 251,600	USD 30,000	\$ -	None	The accounts receivable factoring is without recourse.	\$ 251,600
September 30, 2015						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
Mega International Commercial Bank	\$ 395,495	USD 30,000	\$ 147,922	None	The accounts receivable factoring is without recourse.	\$ 395,495

(4) Inventories

	September 30, 2016	December 31, 2015	September 30, 2015
Merchandise	\$ 1,739,996	1,551,835	1,454,621
Finished goods	43,894,123	67,260,261	57,205,166
Work in process	33,934,428	20,917,494	48,203,332
Raw materials	48,332,613	35,083,914	56,727,211
Subtotal	127,901,160	124,813,504	163,590,330
Less: Allowance for inventory market decline and obsolescence	(5,887,750)	(6,648,044)	(5,469,781)
Total	\$ 122,013,410	118,165,460	158,120,549

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For the three and the nine months ended September 30, 2016 and 2015, the components of cost of goods sold were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Cost of goods sold	\$ 295,487,358	280,915,691	728,524,254	729,753,885
(Reversal of) provision on inventory market price decline	7,117	234,596	(676,807)	(315,081)
Loss on disposal of inventory	5,264,453	7,337,645	22,351,475	19,809,383
Unallocated manufacturing overhead	302,933	190,627	1,046,935	637,642
Loss (gain) on physical inventory	27,343	(10,511)	43,275	(5,907)
	<u>\$ 301,089,204</u>	<u>288,668,048</u>	<u>751,289,132</u>	<u>749,879,922</u>

As of September 30, 2016, December 31, 2015, and September 30, 2015, the aforesaid inventories were not pledged as collateral.

(5) Non-current assets classified as held for sale, net (recognized under "other current assets".)

	September 30, 2016	December 31, 2015	September 30, 2015
Property, plant, and equipment	\$ -	-	-

A. On February 26, 2015, Casetek Holdings sold its equity ownership in Indeed Holdings Limited for \$427,089 to non-related parties. As of December 31, 2014, the investments in Indeed Holdings Limited were accounted under non-current assets classified as held for sale. The transfer of equity ownership was completed in May 2015. A disposal gain of \$330,530 has been recognized thereon.

B. In December 2014, Ability (TW) and its subsidiaries sold part of the land and property of E-PIN's office in Taipei for \$158,280 in a sale-lease back arrangement. In February 2015, the process for the transfer of title of ownership to these assets was completed, when the payment for the assets sold is received, as required under the sales contract. In December 2014, Ability (TW) also sold its E-PIN's equipment in Nanjing for \$16,529 to a non-related party. The process for the transfer of title of ownership to those non-current assets has been completed for the nine months ended September 30, 2015. A disposal gain of \$65,631 has been recognized thereon.

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(8) Subsidiaries that have material non-controlling interest

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

Subsidiaries	Country of registration	Equity Ownership of non-controlling interest		
		September 30, 2016	December 31, 2015	September 30, 2015
KINSUS and its Subsidiaries	Taiwan	60.96%	60.96%	60.96%
ABILITY and its Subsidiaries	Taiwan	- %	88.28%	88.28%
ASROCK and its Subsidiaries	Taiwan	41.35%	41.35%	41.35%
CASETEK CAYMAN	Taiwan/ Cayman	39.27%	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 subsidiary as at acquisition date. Intra-group transactions were not eliminated in this information.

A. Information regarding KINSUS and its subsidiaries

	September 30 2016	December 31, 2015	September 30, 2015
Current assets	\$ 21,290,421	23,471,368	22,907,970
Non-current assets	20,172,770	19,167,364	18,555,059
Current liabilities	(9,052,379)	(10,318,448)	(10,333,842)
Non-current liabilities	(1,792,719)	(1,492,483)	(1,052,413)
Net assets	\$ 30,618,093	30,827,801	30,076,774
Non-controlling interest	\$ 17,835,922	17,777,750	17,249,084

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Operating revenue	\$ 6,331,055	5,987,813	17,477,474	16,766,699
Net income for the period	\$ 619,416	741,274	1,637,659	1,873,208
Other comprehensive income (loss)	(135,969)	110,515	(288,292)	(32,313)
Comprehensive income	\$ 483,447	851,789	1,349,367	1,840,895
Net income attribute to non-controlling interest	\$ 398,623	491,010	1,113,502	1,240,950
Comprehensive income attribute to non-controlling interest	\$ 349,415	530,799	1,008,535	1,238,655

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	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Cash flows from operating activities	\$ 941,282	2,499,552	3,983,168	4,685,588
Cash flows from investing activities	(1,230,986)	(1,188,166)	(4,277,348)	(3,526,462)
Cash flows from financing activities	(1,079,626)	(689,925)	(1,815,424)	(713,180)
Net increase (decrease) in cash and cash equivalents	\$ <u>(1,369,330)</u>	<u>621,461</u>	<u>(2,109,604)</u>	<u>445,946</u>

B. Information regarding ABILITY and its subsidiaries

	September 30, 2016	December 31, 2015	September 30, 2015
Current assets	\$ -	8,795,084	11,376,559
Non-current assets	-	5,222,319	5,295,027
Current liabilities	-	(5,180,123)	(7,860,889)
Non-current liabilities	-	(102,557)	(97,460)
Net assets	\$ -	<u>8,734,723</u>	<u>8,713,237</u>
Non-controlling interest	\$ -	<u>7,745,320</u>	<u>7,726,357</u>

	For the Three Months Ended September 30	For the Six Months Ended June 30 (Note)	For the Nine Months Ended September 30
	2015	2016	2015
Operating revenue	\$ <u>4,976,041</u>	<u>5,758,572</u>	<u>14,561,282</u>
Net income for the period	\$ 295,550	48,287	770,786
Other comprehensive income (loss)	104,023	30,123	(68,092)
Comprehensive income	\$ <u>399,573</u>	<u>78,410</u>	<u>702,694</u>
Net income attribute to non-controlling interest	\$ <u>261,536</u>	<u>48,655</u>	<u>703,026</u>
Comprehensive income attribute to non-controlling interest	\$ <u>353,400</u>	<u>74,224</u>	<u>643,220</u>
Cash flows from operating activities	\$ 320,238	213,863	458,041
Cash flows from investing activities	35,790	(205,297)	398,877
Cash flows from financing activities	616	(11,498)	(490,805)
Net increase (decrease) in cash and cash equivalents	\$ <u>356,644</u>	<u>(2,932)</u>	<u>366,113</u>

Note: As disclosed in Note 6(7), the Group lost its 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.

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C. Information regarding ASROCK and its Subsidiaries

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Current assets	\$ 7,386,179	7,812,156	8,152,557
Non-current assets	310,902	319,077	283,946
Current liabilities	(2,163,649)	(2,244,410)	(2,606,536)
Non-current liabilities	(23,005)	(30,284)	(20,222)
Net assets	<u>\$ 5,510,427</u>	<u>5,856,539</u>	<u>5,809,745</u>
Non-controlling interest	<u>\$ 2,267,099</u>	<u>2,425,260</u>	<u>2,407,766</u>

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Operating revenue	<u>\$ 1,750,987</u>	<u>1,873,994</u>	<u>5,206,536</u>	<u>5,206,711</u>
Net income for the period	\$ 49,522	49,667	125,021	151,874
Other comprehensive income (loss)	(115,216)	248,902	(183,529)	151,662
Comprehensive income	<u>\$ (65,694)</u>	<u>298,569</u>	<u>(58,508)</u>	<u>303,536</u>
Net income attributed to non-controlling interest	<u>\$ 15,147</u>	<u>12,834</u>	<u>36,693</u>	<u>44,847</u>
Comprehensive income (loss) attributed to non-controlling interest	<u>\$ (32,505)</u>	<u>115,775</u>	<u>(39,212)</u>	<u>108,310</u>
Cash flows from operating activities	\$ 455,867	109,997	467,665	1,066,387
Cash flows from investing activities	1,912	2,607,533	8,304	1,988,441
Cash flows from financing activities	(287,604)	(521,438)	(288,526)	(119,084)
Net increase in cash and cash equivalents	<u>\$ 170,175</u>	<u>2,196,092</u>	<u>187,443</u>	<u>2,935,744</u>

D. Information regarding CASETEK CAYMAN

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Current assets	\$ 24,061,628	28,893,035	27,931,347
Non-current assets	20,719,891	19,927,861	19,853,947
Current liabilities	(14,613,437)	(15,581,629)	(16,105,429)
Non-current liabilities	(2,202,697)	(2,237,693)	(2,238,148)
Net assets	<u>\$ 27,965,385</u>	<u>31,001,574</u>	<u>29,441,717</u>
Non-controlling interest	<u>\$ 10,980,888</u>	<u>12,173,078</u>	<u>11,560,585</u>

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	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Operating revenue	\$ 7,503,813	10,101,593	22,466,274	26,287,879
Net income for the period	\$ 365,516	1,613,950	1,721,930	3,475,832
Other comprehensive income (loss)	(980,139)	748,802	(2,040,463)	62,249
Comprehensive income (loss)	\$ (614,623)	2,362,752	(318,533)	3,538,081
Net income attribute to non-controlling interest	\$ 143,524	633,733	676,133	1,364,820
Comprehensive income (loss) attributed to non-controlling interest	\$ (241,338)	925,415	(129,948)	1,389,261
Cash flows from operating activities	\$ 1,434,711	2,242,300	3,946,118	5,641,055
Cash flows from investing activities	(929,223)	(1,767,043)	(4,741,138)	(3,621,491)
Cash flows from financing activities	260,605	(929,764)	(110,887)	(1,384,884)
Net increase (decrease) in cash and cash equivalents	\$ 766,093	(454,507)	(905,907)	634,680

(9) Property, plant and equipment

The movements in the cost, depreciation, and impairment of the property, plant and equipment of the Group as of September 30, 2016 and 2015 were as follows:

	Land	Buildings	Machinery	Instrument equipment	Other facilities	Construction in progress	Total
			and equipment				
Cost or deemed cost:							
Balance as of 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 movements in exchange rates	(14,278)	(2,456,516)	(3,203,333)	(90,947)	(1,311,731)	(236,048)	(7,312,853)
Loss of control of a subsidiary	(1,248,948)	(1,429,646)	(2,570,728)	-	(2,460,056)	(526,728)	(8,236,106)
Balance as of September 30, 2016	\$ 4,321,638	41,465,596	56,578,720	1,448,986	23,220,627	4,789,837	131,825,404
Balance as of January 1, 2015	\$ 5,567,180	41,446,276	58,742,688	1,670,643	25,178,826	2,982,725	135,588,338
Additions	10,766	584,669	1,594,333	51,260	1,620,155	3,684,852	7,546,035
Disposals and obsolescence	(179,496)	(801,046)	(3,385,188)	(129,802)	(1,569,452)	-	(6,064,984)
Reclassifications	-	543,726	1,658,976	-	357,755	(745,976)	1,814,481
Effect of movements in exchange rates	(8,137)	(62,264)	11,194	(1,625)	(82,078)	(6,085)	(148,995)
Balance as of September 30, 2015	\$ 5,390,313	41,711,361	58,622,003	1,590,476	25,505,206	5,915,516	138,734,875

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	Land	Buildings	Machinery and equipment	Instrument equipment	Other facilities	Construction in progress	Total
Depreciation and impairment loss :							
Balance as of 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 movements in exchange rates	-	(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 as of September 30, 2016	\$ -	13,091,163	35,807,180	1,163,781	15,782,805	-	65,844,929
Balance as of January 1, 2015	\$ 50,054	11,823,017	33,554,418	1,026,774	16,235,791	-	62,690,054
Depreciation for the period	-	1,951,094	4,886,810	224,088	3,037,835	-	10,099,827
(Reversal of) Impairment loss	(50,054)	(2)	(109,199)	7	1,080	-	(158,168)
Disposals and obsolescence	-	(698,998)	(3,142,771)	(126,375)	(1,428,176)	-	(5,396,320)
Reclassifications	-	-	107,424	-	(148,000)	-	(40,576)
Effect of movements in exchange rates	-	979	127,370	1,161	(28,857)	-	100,653
Balance as of September 30, 2015	\$ -	13,076,090	35,424,052	1,125,655	17,669,673	-	67,295,470
Carrying amounts:							
Balance as of January 1, 2016	\$ 5,580,222	28,228,858	22,950,459	414,729	7,698,617	6,164,893	71,037,778
Balance as of September 30, 2016	\$ 4,321,638	28,374,433	20,771,540	282,205	7,437,822	4,789,837	65,980,475
Balance as of January 1, 2015	\$ 5,517,126	29,623,259	25,188,270	643,869	8,943,035	2,982,725	72,898,284
Balance as of September 30, 2015	\$ 5,390,313	28,635,271	23,197,951	464,821	7,835,533	5,915,516	71,439,405

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Impairment loss (reversal gain) \$	(17,641)	11,205	60,270	(158,168)

- B. 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 general manager instead of KINSUS, due to the restriction imposed by the local government.
- C. For the nine months ended September 30, 2016, an impairment losses on damaged equipment classified as held for sale of \$36,116 were recognized by CASETEK CAYMAN and its subsidiaries. CASETEK CAYMAN and its subsidiaries sold damaged equipment at selling price exceeding its carrying amount by \$3,003 which was recognized as a reversal

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gain for the nine months ended September 30, 2016. On June 30, 2015, CASETEK CAYMAN and its subsidiaries retested the impairment of the production line and the result thereof disclosed an excess of \$84,959 in the recoverable amount of the production line over its carrying value, which was recognized as reversal gain.

D. In September 2015, a fire accident occurred at RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD. The costs of equipment losts and the related repairs arising from this accident amounted to \$82,480.

E. Please refer to Note 6(26) for details of the capitalization of interest expenses and gain and loss on disposal of property, plant and equipment.

F. Please refer to Note 8 for details of the property, plant and equipment pledged as collateral.

(10) Investment property

	<u>Land</u>	<u>Building and construction</u>	<u>Total</u>
Cost or deemed cost:			
Balance as of January 1, 2016	\$ 281,945	610,253	892,198
Effect of movements in exchange rates	-	(5,023)	(5,023)
Loss of control of a subsidiary	(281,945)	(539,483)	(821,428)
Balance as of September 30, 2016	<u>\$ -</u>	<u>65,747</u>	<u>65,747</u>
Balance as of January 1, 2015	<u>\$ 281,945</u>	<u>539,483</u>	<u>821,428</u>
Balance as of September 30, 2015	<u>\$ 281,945</u>	<u>539,483</u>	<u>821,428</u>
Depreciation and impairment loss:			
Balance as of January 1, 2016	\$ 9,617	178,450	188,067
Depreciation	-	7,779	7,779
Effect of movements in exchange rates	-	(480)	(480)
Loss of control of a subsidiary	(9,617)	(178,626)	(188,243)
Balance as of September 30, 2016	<u>\$ -</u>	<u>7,123</u>	<u>7,123</u>
Balance as of January 1, 2015	9,617	163,059	172,676
Depreciation	-	7,784	7,784
Balance as of September 30 2015	<u>\$ 9,617</u>	<u>170,843</u>	<u>180,460</u>
Carrying amount:			
Balance as of January 1, 2016	<u>\$ 272,328</u>	<u>431,803</u>	<u>704,131</u>
Balance as of September 30, 2016	<u>\$ -</u>	<u>58,624</u>	<u>58,624</u>
Balance as of January 1, 2015	<u>\$ 272,328</u>	<u>376,424</u>	<u>648,752</u>
Balance as of September 30, 2015	<u>\$ 272,328</u>	<u>368,640</u>	<u>640,968</u>

A. Rental income and direct operating expenses arising from investment property that generate rental income were as follows:

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	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Rental revenues from investment property	\$ 660	7,642	17,404	22,905
Direct operating expenses arising from investment property that generate rental income	\$ 835	2,595	7,779	7,784

B. As of September 30, 2016, December 31, 2015, and September 30, 2015, the fair value of investment property of the Group was \$79,224, \$1,166,415 and \$1,038,007, respectively. The fair value of investment property was evaluated based on the recent market transaction on arm's length terms.

C. As of September 30, 2016, December 31, 2015, and September 30, 2015, the aforesaid investment properties were not pledged as collateral.

(11) Intangible assets

The movements in the costs of intangible assets, amortization, and impairment loss of the Group for the nine months ended September 30, 2016 and 2015 were as follows:

	Customer relationship				
	Goodwill	Technology	Others	Total	
Costs:					
Balance as of 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 as of September 30, 2016	\$ 1,768,550	-	-	935,357	2,703,907
Balance as of January 1, 2015	\$ 1,943,538	380,175	813,972	909,737	4,047,422
Additions	-	-	-	86,279	86,279
Disposals	-	-	-	(39,622)	(39,622)
Reclassifications	-	-	-	3,472	3,472
Effect of movement in exchange rate	42,608	14,654	31,376	21,241	109,879
Balance as of September 30, 2015	\$ 1,986,146	394,829	845,348	981,107	4,207,430
Amortization and Impairment Loss:					
Balance as of 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 rates	-	-	-	(30,097)	(30,097)
Loss of control of a subsidiary	-	-	-	(43,580)	(43,580)
Balance as of September 30, 2016	\$ 671,792	-	-	735,704	1,407,496

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	Customer				Total
	Goodwill	relationship	Technology	Others	
Balance as of January 1, 2015	\$ 671,792	380,175	813,972	580,224	2,446,163
Amortization for the period	-	-	-	162,102	162,102
Disposals	-	-	-	(39,622)	(39,622)
Reclassifications	-	-	-	10,767	10,767
Effect of movement in exchange rates	-	14,654	31,376	19,418	65,448
Balance as of September 30, 2015	\$ 671,792	394,829	845,348	732,889	2,644,858
Carrying value:					
Balance as of January 1, 2016	\$ 1,312,782	-	-	242,305	1,555,087
Balance as of September 30, 2016	\$ 1,096,758	-	-	199,653	1,296,411
Balance as of January 1, 2015	\$ 1,271,746	-	-	329,513	1,601,259
Balance as of September 30, 2015	\$ 1,314,354	-	-	248,218	1,562,572

A. 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:

	December 31, 2015	December 31, 2014
Mechanics	\$ 1,100,733	1,061,332
Consumer electronic	210,527	208,892
Others	1,522	1,522
	\$ 1,312,782	1,271,746

For the nine months ended September 30, 2016 and 2015, there were no significant addition, disposal, impairment loss, or reversal gain on goodwill. Please refer to Note 6(11) of the consolidated financial statements for the year ended December 31, 2015 for other related information.

B. Impairment

For the nine months ended September 30, 2016 and 2015, there was no significant addition, disposal, impairment loss, or reversal gain on intangible assets other than goodwill. Please refer to Note 12 for the details of amortization and refer to Note 6(11) of the consolidated financial statements for the year ended December 31, 2015 for other related information.

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(12) Other financial assets and other assets

Other current assets noncurrent assets were as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
Other financial assets—current	\$ 480,190	785,779	471,340
Other financial assets—noncurrent	351,759	357,503	353,938
Other current assets	9,902,277	15,575,204	15,465,546
Other noncurrent assets	47,065	58,896	54,913
	<u>\$ 10,781,291</u>	<u>16,777,382</u>	<u>16,345,737</u>

- A. Other financial assets are assets that do not qualify as cash and cash equivalents which consisted of time deposits, restricted time deposits and guarantee deposit paid. Please refer to Note 8 for details.
- B. Other current assets consisted of temporary payments, current tax asset and others.
- C. Other noncurrent assets consisted of long-term prepaid expenses and others.

(13) Short-term loans

	September 30, 2016	December 31, 2015	September 30, 2015
Letter of credit	\$ -	-	6,572,574
Unsecured bank loans	46,383,931	45,467,083	55,761,729
Total	<u>\$ 46,383,931</u>	<u>45,467,083</u>	<u>62,334,303</u>
Interest rate	<u>0.51%~5.66%</u>	<u>0.70%~2.03%</u>	<u>0.45%~2.03%</u>

A. Borrowing and repayment

In consideration of the operating situation and the terms of the loan agreement, the Group borrowed and repaid its short-term loans by \$1,318,621 and \$35,153,740 for the nine months ended September 30, 2016 and 2015, respectively. Please refer to Note 6(26) for the details of interest expenses and refer to Note 6(13) of the consolidated financial statements for the year ended December 31, 2015 for other related information.

B. Securities for bank loans

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

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(14) Long-term loans

	September 30, 2016	December 31, 2015	September 30, 2015
Unsecured bank loans	\$ 11,307,442	14,618,655	17,107,787
Secured bank loans	203,478	305,034	351,115
	11,510,920	14,923,689	17,458,902
Less: current portion	(2,403,514)	(2,604,140)	(4,926,175)
Less: fees	(9,200)	(12,800)	(14,000)
Total	\$ 9,098,206	12,306,749	12,518,727
Interest rate	1.02%~2.27%	1.02%~2.19%	0.89%~1.75%

A. Borrowing and repayment

In consideration of the operating situation and the terms of the loan agreement, the Group repaid the long-term loans of \$6,820,591 and \$10,269,735 for the nine months ended September 30, 2016 and 2015. In addition, the Group obtained new long-term loans of \$3,500,000 and \$5,783,448 for the nine months ended September 30, 2016 and 2015, respectively. Please refer to Note 6(26) for interest expenses and refer to Note 6(14) of the consolidated financial statements for the year ended December 31, 2015 for other related information.

B. Securities for bank loans

- (a) The Group's promissory notes were pledged as a guarantee for the Group's credit loan facility. Please refer to Note 8 for details of the related assets pledged as collateral.
- (b) CASETEK CAYMAN's subsidiaries obtained a long-term loan from DBS and Mega International Commercial Bank. CASETEK CAYMAN is the endorsement guarantee provider for the long-term loan obtained from Mega International Commercial Bank.

C. Loan covenants

- (a) On October 25, 2010, the Company signed a syndicated loan agreement with a total credit line of USD 400,000 thousand. According to the Company's credit loan facility agreement with the banks, during the loan repayment periods, the Company must comply with certain financial covenants based on its audited annual and reviewed semi-annual consolidated financial statements (June 30 and December 31), such as current ratio, debt ratio, interest coverage ratio, and tangible net assets. 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.

This syndicated loan agreement was due in November, 2015.

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- (b) 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.

- (c) 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, 2016, December 31, 2015, and September 30, 2015, the Group was in compliance with the above financial covenants. Please refer to Note 6(14) of the consolidated financial statements for the year ended December 31, 2015 for other related information.

(15) Bonds payable

The Company's overseas unsecured convertible bonds were as follows:

	September 30, 2016	December 31, 2015	September 30, 2015	
Convertible bonds issued	\$ -	8,874,000	8,874,000	
Accumulated amount of converted bonds	-	(8,874,000)	(8,874,000)	
Bonds payable, net	\$ -	-	-	
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Embedded derivative –conversion options (accounted under other gains and losses)	\$ -	-	-	238,997
Interest expense	\$ -	-	-	(65,389)

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For the nine months ended September 30, 2016 and 2015, there was no significant issuance, repurchase, or repayment of bonds payable. Please refer to Note 6(15) of the consolidated financial statements for the year ended December 31, 2015 for related information on issuance of convertible bonds in 2012.

As of February 28, 2015, all of the convertible bonds issued in 2012 have been converted into shares. Please refer to Note 6(20) for the information on capital surplus – conversion of convertible bonds generated from the conversion.

(16) Provisions

	Warranties	Allowance for sales returns and discounts	Total
Balance as of 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 movements in exchange rates	(682)	(1,941)	(2,623)
Loss of control of a subsidiary	(229,271)	-	(229,271)
Balance as of September 30, 2016	<u>\$ 81</u>	<u>176,170</u>	<u>176,251</u>
Balance as of January 1, 2015	\$ 235,959	285,495	521,454
Provisions made during the period	178	41,323	41,501
Provisions used during the period	-	(41,686)	(41,686)
Provisions reversed during the period	-	(124,561)	(124,561)
Effect of movements in exchange rates	1,151	(2,119)	(968)
Balance as of September, 2015	<u>\$ 237,288</u>	<u>158,452</u>	<u>395,740</u>

Please refer to Note 6(16) of the consolidated financial statements for the year ended December 31, 2015 for other related information.

(17) Operating leases

A. Lease

For the nine months ended September 30, 2016 and 2015, there were no significant new lease contracts. Please refer to Note 6(17) of the consolidated financial statements for the year ended December 31, 2015 for other related information.

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B. Long-term prepaid rents

	September 30, 2016	December 31, 2015	September 30, 2015
Long-term prepaid rents	\$ 3,891,657	4,348,476	4,456,556

Long-term prepaid rentals represent payment for land use rights under operating lease arrangement which are amortized and expensed using straight-line method over 38 to 67 years.

(18) Employee benefits

A. 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, 2015 and 2014.

The Group's pension expenses recognized in profit or loss for the three and the nine months ended September 30, 2016 and 2015 were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Cost of sales	\$ 172	238	659	712
Operating expense	1,628	2,480	6,546	7,373
	\$ 1,800	2,718	7,205	8,085

B. 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	
	2016	2015	2016	2015
Cost of sales	\$ 1,184,852	1,353,219	3,641,312	3,615,638
Operating expense	208,802	247,162	665,954	638,160
	\$ 1,393,654	1,600,381	4,307,266	4,253,798

C. As of September 30, 2016, December 31, 2015 and September 30, 2015, the Group's short-term debts from the employees annual leave benefits amounted to \$269,270, \$282,590 and \$264,917, respectively.

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(19) Income Tax

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

B. The components of income tax expense for the three and the nine months ended September 30, 2016 and 2015 were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Current income tax	\$ 1,086,592	3,119,908	4,633,416	7,097,443
Prior years income tax adjustment	(487,992)	(843)	(46,186)	(315,522)
	<u>\$ 598,600</u>	<u>3,119,065</u>	<u>4,587,230</u>	<u>6,781,921</u>

C. Status of approval of income tax

(a) The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority, except for the income tax return for 2012, which is still under review by the Tax Authority.

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

<u>Years of Approval</u>	<u>Company Name</u>
2014	HUA-YUAN INVESTMENT LTD., ASFLY TRAVEL SERVICE LTD., EZWAVE, AZURE LIGHTING TECHNOLOGIES, INC., ASUSPOWER INVESTMENT, ASUS INVESTMENT CO., LTD., PEGA INTERNATIONAL LIMITED, ASUSTEK INVESTMENT, ASROCK RACK, INC, LUMENS OPTICS, RIH KUAN METAL, AMA PRECISION, STARLINK, PEGAVISION, PEGAVISION INVESTMENT
2013	UNIHAN, KINSUS INTERCONNECT TECHNOLOGY CORP., ASROCK INCORPORATION, AZURE WAVE

D. Stockholders' imputation tax credit account and tax rate:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Stockholders' imputation tax credit account	\$ <u>3,088,423</u>	<u>3,296,778</u>	<u>1,742,365</u>

	<u>2015 (Actual)</u>	<u>2014 (Actual)</u>
Tax deduction ratio for earnings distributable to R.O.C. residents	<u>13.61%</u>	<u>12.49%</u>

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

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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.

(20) Capital and reserves

Except for the following, there were no significant changes in capital and reserves for the nine months ended September 30, 2016 and 2015. Please refer to Note 6(20) of the consolidated financial statements for the year ended December 31, 2015 for other related information.

A. Issuance and retirement of nominal ordinary shares

The movements in nominal ordinary shares of the Company as of September 30, 2016 and 2015 were as follows:

	<u>For the Nine Months Ended September 30</u>	
	<u>2016</u>	<u>2015</u>
Balance, January 1	2,603,020	2,367,911
Restricted stock to employees	(983)	39,264
Exercise of Employee share options	-	1,380
Conversion of convertible bonds	-	194,674
Retirement of treasury stocks	(26,410)	-
Balance, September 30	<u>2,575,627</u>	<u>2,603,229</u>

For the nine months ended September 30, 2015, the Company issued 39,678 thousand shares of employee restricted stock. New common shares of stock totaling 860 and 47,425 thousand shares, respectively, were issued from the exercise of employee stock options and conversion of convertible bonds. For the nine months ended September 30, 2016 and 2015, the Company had retired 983 and 414 thousand shares, respectively, of restricted stock to employees. And the Company retired treasury stocks totaling 26,410 thousands shares for the purpose of maintaining company credit and stable equity. 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 2,575,627 and 2,603,229 thousand shares of common stock, as of September 30, 2016 and 2015, respectively.

As of September 30, 2016, December 31, 2015 and September 30, 2015, the restricted Company shares of stock issued to employees have expired, of which 458, 259 and 209 thousand shares, respectively, have not been retired.

B. Global depositary receipts

As of September 30, 2016, December 31, 2015 and September 30, 2015, the Company has listed, in total, 6,713, 5,994 and 6,053 thousand units of GDR, respectively, on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5

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common shares of the Company, the Company has listed Company shares totaling 33,565, 29,969 and 30,266 thousand shares of stock, respectively.

C. Capital surplus

The components of the capital surplus were as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
From issuance of share capital	\$ 62,235,147	62,284,056	62,063,538
From conversion of convertible bonds	11,073,663	11,187,179	11,187,179
From treasury stock-transactions	23,614	108,582	108,582
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,383,056	2,383,056	2,383,056
Changes in ownership interest in subsidiaries	741,312	738,737	738,351
Employee share options	1,304	1,304	1,304
Restricted stock to employees	1,340,554	1,859,543	2,030,341
Other	409,917	409,917	409,917
	<u>\$ 78,208,567</u>	<u>78,972,374</u>	<u>78,922,268</u>

D. Retained earnings

The Company's Articles of Incorporation approved by a provisional stockholders' meeting 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, the Company distributes cash dividends of at least 10% of the aggregate dividends, if the distributions include cash dividends.

(a) Legal reserve

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

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(b) 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.

(c) Earnings Distribution

On June 21, 2016 and June 15, 2015, the shareholders' meetings resolved to distribute the 2015 and 2014 earnings, respectively. These earnings were appropriated or distributed as follows:

	<u>2015</u>	<u>2014</u>
Common stock dividends per share (dollars)		
— Cash	\$ <u>5.00</u>	<u>4.10</u>

E. Treasury shares

For the nine months ended September 30, 2016, the Company purchased treasury shares totaling 26,410 thousand shares, which were retired as of September 30, 2016, in accordance with the Article 28-2 of the Securities and Exchange Act for maintaining the Company's credit and stockholders' interests.

Based on aforesaid Securities and Exchange Act, the proportionate purchase of treasury shares cannot exceed 10% of total issued shares. Total purchase amount of treasury shares shall not exceed the sum of retained earnings, premium from issued shares and realized capital surplus.

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F. 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, 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 gains on available-for-sale financial assets of subsidiaries accounted for using equity method	-	(7,224)	-	(7,224)
Deferred compensation cost	-	-	649,561	649,561
Disposal of subsidiaries	6,248	(12,856)	-	(6,608)
Balance, September 30, 2016	<u>\$ (2,940,491)</u>	<u>191,154</u>	<u>(588,816)</u>	<u>(3,338,153)</u>
Balance, January 1, 2015	\$ 4,788,058	177,810	(64,523)	4,901,345
Exchange differences on foreign operation	736,515	-	-	736,515
Exchange differences on associates accounted for using equity method	(15,451)	-	-	(15,451)
Unrealized gains on available-for-sale financial assets of subsidiaries accounted for using equity method	-	32,686	-	32,686
Deferred compensation cost	-	-	(1,453,902)	(1,453,902)
Balance, September 30, 2015	<u>\$ 5,509,122</u>	<u>210,496</u>	<u>(1,518,425)</u>	<u>4,201,193</u>

G. Non-controlling interests (net of tax)

	For the Nine Months Ended	
	September 30	
	2016	2015
Balance, January 1	\$ 41,958,390	41,200,299
Profit attributable to non-controlling interests	2,024,279	3,462,438
Comprehensive income attributable to non-controlling interests		
Foreign currency translation differences — foreign operations	(1,152,156)	188,332
Unrealized (loss) gain on available-for-sale financial assets	151,805	(160,748)
Disposal of subsidiaries	(7,454,156)	-
Changes in ownership interest in subsidiaries	(2,575)	(8,499)
Changes in non-controlling interests	(2,456,784)	(3,963,207)
Balance, September 30	<u>\$ 33,068,803</u>	<u>40,718,615</u>

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(21) Share-based payment

For the nine months ended September 30, 2016 and 2015, there were no significant changes in share-based payment except for the following: (Please refer to Note 6(21) of the consolidated financial statements for the year ended December 31, 2015 for other related information).

A. Restricted stock to employee

On June 18, 2014, the shareholders approved a resolution passed during their meeting to award 40,000 thousand Pegatron new restricted shares of stock to those full-time employees who meet certain requirement of the Company. The restricted stock has been registered with and approved by the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C. On May 7, 2015, the board of directors issued 39,678 thousand restricted shares with fair value of NT\$91.90 each at grant date.

Employees with restricted stock awards are entitled to purchase the Company's shares at the price of NT\$ 10 per share with the condition 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, 2016 and 2015, 1,182 and 416 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$11,820 and \$4,159, respectively. As of September 30, 2016 and 2015, the Company has deferred compensation cost arising from issuance of restricted stock of \$588,816 and \$1,518,425, respectively. For the nine months ended September 30, 2016 and 2015, the Company recognized salary cost of \$36,306 and \$52,961, respectively, from the cash dividends on restricted shares of stock. As those shares of stock did not eventually vest, such salary cost was charged to retained earnings.

On June 21, 2016, pursuant to the resolutions of its shareholders' meeting, the Company planned to issue 40,000 thousand shares of restricted shares of stock to employees with par value of \$10 per share. Vesting conditions are in accordance with the offering information.

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B. Employee stock options

For the nine months ended September 30, 2015, the related information for employee stock options was as follows:

	Issued in 2012	
	Number of Exercisable Thousand Shares	Weighted-average Exercise Price
Balance, beginning of the period	872	\$ 40.80
Granted	-	-
Exercised	(860)	40.80
Forfeited	-	-
Expired	12	-
Balance, end of the period	-	-
Exercisable, end of the period	-	-
Weighted-average fair value of options granted	13.8	
Exercise price of share option outstanding, end of the period	-	
Remaining contractual life	-	
Expenses incurred on share-based payment transactions	-	

C. Expenses resulted from share-based payments

The Company incurred expenses from share-based payments transactions for the three and the nine months ended September 30, 2016 and 2015 as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Expenses resulting from issuance of restricted stock to employees	\$ 210,366	363,019	738,142	590,886

(22) Subsidiary's share-based payments

For the nine months ended September 30, 2016, there were no significant changes in share-based payment of Ability (TW) except for the following. Please refer to Note 6(22) of the consolidated financial statements for the year ended December 31, 2015 for other related information.

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A. Related information on share-based payment transactions

For the nine months ended September 30, 2015, share-based payment transactions were as follows:

Stock options	Issued in 2008	
	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	428	\$ 13.6
Granted	-	-
Exercised	(346)	13.6
Expired	-	-
Outstanding at the end of the period	<u>82</u>	13.6
Exercisable at the end of the period	<u>82</u>	13.6
Weighted-average fair value of options granted	-	
Exercise price of share option outstanding, end of the period	-	
Remaining contractual life	-	

B. For the nine months ended September 30, 2015, the weighted-average exercise price of stock option on the date of exercise amounted to \$15.62 per share.

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

	For the Three Months Ended September 30	For the Six Months Ended June 30 (Note)	For the Nine Months Ended September 30
	2015	2016	2015
Equity-settled	\$ <u>6,480</u>	<u>10,170</u>	<u>45,798</u>

D. For the nine months ended September 30, 2015, Ability (TW) repurchased 1,759 thousand shares of stock for \$17,593, at \$10 per share as certain employee resigned during the vesting period. As of December 31 and September 30, 2015, 153 and 61 thousand shares with total amount of \$1,533 and \$611, respectively, have not been retired.

Note: As disclosed in Note 6(7), the Group lost its 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.

(23) Earnings per share

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

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	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Basic earnings per share				
Profit attributable to ordinary shareholders	\$ 5,380,426	6,013,775	13,473,869	16,997,338
Weighted-average number of ordinary shares	2,575,627	2,603,052	2,581,572	2,573,625
	\$ 2.09	2.31	5.22	6.60
Diluted earnings per share				
Profit attributable to ordinary shareholders (diluted)	\$ 5,380,426	6,013,775	13,473,869	16,997,338
Weighted-average number of ordinary shares	2,575,627	2,603,052	2,581,572	2,573,625
Effect of potentially dilutive ordinary shares				
Employee stock bonus/ remuneration	15,149	28,893	22,391	28,893
Weighted-average number of ordinary shares (diluted)	2,590,776	2,631,945	2,603,963	2,602,518
	\$ 2.08	2.28	5.17	6.53

For the nine months ended September 30, 2016 and 2015, convertible bonds of \$0 and \$230,562, respectively, were not included in the calculation of weighted-average number of shares (diluted) as they were not dilutive.

(24) Revenue

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Sale of goods	\$ 294,307,390	290,923,643	731,518,666	760,559,945
Others	21,885,897	18,614,038	65,707,302	41,169,058
	\$ 316,193,287	309,537,681	797,225,968	801,729,003

(25) 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. The Company should offset prior years' accumulated deficit before any appropriation of profit. Employees of subsidiaries may also be entitled to these employee remuneration of the Company, which can be settled in the form of cash or stock.

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For the three and the nine months ended September 30, 2016, remuneration of employee of \$474,000 and \$1,221,000, and remuneration of directors and supervisors of \$45,000 and \$119,000, respectively, were estimated and recognized as current expense. These amounts were calculated using the Company's profit before tax before remuneration of employees and directors for the nine months ended September 30, 2016. For the three months and the nine months ended September 30, 2015, remuneration of employee of \$542,000 and \$1,534,000, and remuneration of directors and supervisors of \$54,000 and \$152,000, respectively, were estimated and recognized as current expense. These amounts were calculated using the Company's profit after tax for the nine months ended September 30, 2015. These benefits were charged to profit or loss under operating costs or operating expenses for the three months and the nine months ended September 30, 2016. Management is expecting that the differences, if any, between the amounts which are yet to be approved in the Board of Directors and those recognized in the financial statements will be treated as changes in accounting estimates and charged to profit or loss. The employee benefit expenses was calculated based on the closing price of the Company's common shares one day prior to Board of Directors meeting.

For the year ended December 31, 2015, remuneration of employees and directors of \$2,072,000 and \$203,000, respectively, were accrued. On March 17, 2016, the Company's board of directors approved a proposal as to the amounts of appropriations of 2015 earnings for the remunerations to employees and directors and the proposed amounts do not differ with those accrued in the financial statements for the year ended December 31, 2015. Related information of the actual distributions of remuneration to employees and directors can be accessed from the Market Observation Post System on the web site.

(26) Non-operating income and expenses

A. Other income

	For the Three Months		For the Nine Months	
	Ended September 30		Ended September 30	
	2016	2015	2016	2015
Interest income	\$ 283,292	307,314	773,991	1,161,488
Subsidy income	154,625	153,784	623,622	524,752
Rental income	56,659	96,028	190,114	221,103
Technical service income	60,344	85,530	183,347	207,285
Other income	176,059	110,385	515,989	592,599
	<u>\$ 730,979</u>	<u>753,041</u>	<u>2,287,063</u>	<u>2,707,227</u>

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B. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Gains (losses) on reversal of uncollectable account	\$ 31,483	(32,493)	128,972	163,322
Loss on disposal of property, plant and equipment	(46,681)	(20,566)	(146,334)	(86,561)
Gains on disposal of non-current assets classified as held for sale	-	3,257	-	396,161
Gains (losses) on disposals of investments	123	41,180	(574,595)	401,590
Foreign exchange losses	(1,692,924)	(1,461,226)	(3,873,512)	(1,851,522)
(Reversal of) Impairment loss recognized in profit or loss	17,641	(11,205)	(60,270)	158,168
Net gains (losses) on evaluation of financial assets (liabilities) measured at fair value through profit or loss	21,230	(6,244)	2,254	(228,861)
	<u>\$ (1,669,128)</u>	<u>(1,487,297)</u>	<u>(4,523,485)</u>	<u>(1,047,703)</u>

C. Finance costs

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Interest expenses	\$ 152,546	215,043	701,803	500,143
Interest expense capitalization	-	-	-	-
Finance expense - bank fees	44,627	54,114	87,565	114,540
	<u>\$ 197,173</u>	<u>269,157</u>	<u>789,368</u>	<u>614,683</u>

(27) Reclassification of other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Net fair value change in available-for-sale financial assets recognized in:				
Other comprehensive income (loss)	\$ (5,996)	(277,241)	144,581	(426,691)
Profit or loss	-	764	(12,856)	298,629
Net fair value change recognized in other comprehensive income (loss)	<u>\$ (5,996)</u>	<u>(276,477)</u>	<u>131,725</u>	<u>(128,062)</u>

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(28) Financial instruments

For the nine months ended September 30, 2016 and 2015, there were no significant changes in fair value of financial instrument and exposures to credit risk, liquidity risk and market risk, except for the following: (Please refer to Note 6(28) of the consolidated financial statements for the year ended December 31, 2015 for other related information).

A. Credit risk

(a) Exposure to credit risk

As of September 30, 2016, December 31, 2015 and September 30, 2015, the top three accounts receivable from the Group's customers amounted to \$96,104,939, \$72,039,287 and \$108,285,019, representing 68%, 59% and 71% of accounts receivable, respectively, which exposes the Group to credit risk.

(a) Impairment losses

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

	September 30, 2016	December 31, 2015	September 30, 2015
Current (not past due)	\$ 175,923,423	143,150,534	167,478,532
Past due 0 - 30 days	1,706,857	3,233,260	3,672,606
Past due 31 - 120 days	362,402	1,466,766	560,375
Past due 121 - 365 days	526,903	62,580	39,741
Past due more than 1 year	1,679,647	1,939,859	1,945,694
	<u>\$ 180,199,232</u>	<u>149,852,999</u>	<u>173,696,948</u>

The movement in the allowance for impairment with respect to the receivables during the period was as follows:

	Individually assessed impairment	Collectively assessed impairment	Total
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	-	(176,022)	(176,022)
Balance on September 30, 2016	<u>\$ 70,004</u>	<u>1,722,209</u>	<u>1,792,213</u>

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	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2015	\$ 72,020	2,136,108	2,208,128
Reversal of impairment loss	(214)	(119,552)	(119,766)
Written off unrecoverable amount	-	(583)	(583)
Foreign exchange loss	2,161	85	2,246
Balance on September 30, 2015	<u>\$ 73,967</u>	<u>2,016,058</u>	<u>2,090,025</u>

B. Liquidity risk

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

	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	More than 2 years
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	232,876,370	232,876,370	232,876,370	-	-
	<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>
December 31, 2015					
Non-derivative financial liabilities					
Secured bank loans	\$ 305,034	305,034	134,034	56,000	115,000
Unsecured bank loans	60,085,738	60,085,738	47,937,189	3,200,170	8,948,379
Non-interest bearing liabilities	195,546,280	195,546,280	195,546,280	-	-
	<u>\$ 255,937,052</u>	<u>255,937,052</u>	<u>243,617,503</u>	<u>3,256,170</u>	<u>9,063,379</u>
September 30, 2015					
Non-derivative financial liabilities					
Secured bank loans	\$ 351,115	351,115	147,078	76,287	127,750
Unsecured bank loans	79,442,090	79,442,090	67,113,400	3,257,368	9,071,322
Non-interest bearing liabilities	250,859,330	250,859,330	250,859,330	-	-
	<u>\$ 330,652,535</u>	<u>330,652,535</u>	<u>318,119,808</u>	<u>3,333,655</u>	<u>9,199,072</u>

The liquidity of the aforesaid bank loans does not consider cash outflow for interest expense. The Group is not expecting that cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

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C. Currency risk

(a) Currency risk exposure

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

	September 30, 2016			(Unit: Foreign currency/NTD in Thousands) September 30, 2015		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial assets						
Monetary items						
USD:NTD	\$ 11,554,039	31.360	362,334,663	11,162,442	32.87	366,909,469
USD:CNY	7,679,565	6.6778	240,831,158	7,524,161	6.3613	247,319,172
USD:CZK	47,386	24.2102	1,486,024	59,963	24.2676	1,970,984
CNY:NTD	122,131	4.6962	573,552	214,997	5.1672	1,110,932
Financial liabilities						
Monetary items						
USD:NTD	10,304,915	31.360	323,162,134	10,651,895	32.87	350,127,789
USD:CNY	9,866,270	6.6778	309,406,227	10,900,609	6.3613	358,303,018
USD:CZK	27,351	24.2102	857,727	26,668	24.2676	876,577
JPY:CNY	2,293,569	0.0662	713,071	451,519	0.0530	123,671
CNY:NTD	717,065	4.6962	3,367,481	139,533	5.1672	720,995
December 31, 2015						
	Foreign Currency	Exchange Rate	NTD			
Financial assets						
Monetary items						
USD:NTD	8,323,160	32.825	273,207,727			
USD:CNY	6,318,520	6.4936	207,405,419			
USD:CZK	55,187	24.8213	1,811,513			
CNY:NTD	399,849	5.0550	2,021,237			
Financial liabilities						
Monetary items						
USD:NTD	7,794,417	32.825	255,851,738			
USD:CNY	8,500,368	6.4936	279,024,580			
USD:CZK	28,825	24.8213	946,181			
JPY:CNY	627,991	0.0539	171,253			
CNY:NTD	139,291	5.0550	704,116			

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(b) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the foreign currency exchange gains and losses from the translations of foreign currency denominated cash and cash equivalents, accounts receivable, other receivables, loans, accounts payable, bonds payable and other payables that are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Group's functional currency as of September 30, 2016 and 2015 would have decreased the before-tax net income by \$699,063 and \$925,538, 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.

(c) 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 the nine months ended September 30, 2016 and 2015, the foreign exchange loss, including both realized and unrealized, amounted to \$1,692,924, \$1,461,226, \$3,873,512 and \$1,851,522, respectively.

D. 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 on the reporting date.

For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on 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 \$52,811 and \$60,896 for the nine months ended September 30, 2016 and 2015, respectively, assuming all other variable factors remain constant. This is mainly due to the Group's variable rate borrowing.

E. Other price risks

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:

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	For the Nine Months Ended			
	2016		2015	
	After-Tax Comprehensive Income	After-Tax Profit (Loss)	After-Tax Comprehensive Income	After-Tax Profit (Loss)
Increase by 3% \$	31,867	124,775	54,702	146,111
Decrease by 3% \$	(31,867)	(124,775)	(54,702)	(146,111)

F. 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) :

(a) Categories of financial instruments

<u>Financial Assets</u>	September 30, 2016	December 31, 2015	September 30, 2015
Financial assets at fair value through profit or loss			
Held-for-trading financial assets	\$ 4,159,181	4,732,661	4,870,368
Available-for-sale financial assets	1,062,233	1,819,404	1,823,405
Financial assets carried at cost	371,082	468,750	588,331
Deposits and receivables			
Cash and cash equivalents	97,374,731	102,561,346	101,960,541
Notes, accounts and other receivables	178,407,019	147,725,074	171,606,923
Other financial assets	831,949	1,143,282	825,278
Subtotal	276,613,699	251,429,702	274,392,742
	\$ 282,206,195	258,450,517	281,674,846
<u>Financial liabilities</u>			
Financial liabilities carried at amortized cost			
Short-term loans	\$ 46,383,931	45,467,083	62,334,303
Notes and accounts payable	232,876,370	195,546,280	250,859,330
Long-term borrowings (including current portion)	11,501,720	14,910,889	17,444,902
Guarantee deposit (recognized in other noncurrent liabilities)	492,548	519,337	561,854
	\$ 291,254,569	256,443,589	331,200,389

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(b) 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:

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

	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
September 30, 2016					
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
	<u>\$ 5,221,414</u>	<u>5,016,574</u>	<u>204,840</u>	<u>-</u>	<u>5,221,414</u>
December 31, 2015					
Financial assets designated as at fair value through profit or loss					
Held-for-trading non-derivative financial assets	\$ 4,732,661	4,732,661	-	-	4,732,661
Available-for-sale financial assets					
Stock of listed companies	765,744	765,744	-	-	765,744
Equity investment—common stock	195,840	-	195,840	-	195,840
Stock of overseas listed companies	857,820	857,820	-	-	857,820
	<u>\$ 6,552,065</u>	<u>6,356,225</u>	<u>195,840</u>	<u>-</u>	<u>6,552,065</u>
September 30, 2015					
Financial assets designated as at fair value through profit or loss					
Held-for-trading non-derivative financial assets	\$ 4,870,368	4,870,368	-	-	4,870,368
Available-for-sale financial assets					
Stock of listed companies	769,880	769,880	-	-	769,880
Equity investment—common stock	210,960	-	210,960	-	210,960
Stock of overseas listed companies	842,565	842,565	-	-	842,565
	<u>\$ 6,693,773</u>	<u>6,482,813</u>	<u>210,960</u>	<u>-</u>	<u>6,693,773</u>

There have been no transfers from each level for the nine months ended September 30, 2016 and 2015.

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(c) Valuation techniques for financial instruments which is not measured at fair value:

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

(i) 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.

(d) Valuation techniques for financial instruments measured at fair value:

(i) 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.

Measurement of the fair value of derivative instruments is based on the valuation techniques that are generally accepted by the market participants. For instance, discount method or option pricing models. Fair value of forward currency exchange is usually determined by the forward currency rate.

(ii) 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.

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G. 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:

2016.09.30						
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)		Net amounts (e)=(c)-(d)
				Financial Instruments (Note)	Cash collected as pledge	
Accounts Receivable and Payable	\$ 39,555,854	32,635,829	6,920,025	-	-	6,920,025
2016.09.30						
Financial liabilities 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)		Net amounts (e)=(c)-(d)
				Financial Instruments "	Cash collected as pledge	
Accounts Receivable and Payable	\$ 32,635,829	32,635,829	-	-	-	-
2015.12.31						
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)		Net amounts (e)=(c)-(d)
				Financial Instruments "	Cash collected as pledge	
Accounts Receivable and Payable	\$ 39,902,301	33,703,531	6,198,770	-	-	6,198,770
2015.12.31						
Financial liabilities 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)		Net amounts (e)=(c)-(d)
				Financial Instruments "	Cash collected as pledge	
Accounts Receivable and Payable	\$ 33,703,531	33,703,531	-	-	-	-

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2015.09.30						
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)		Net amounts (e)=(c)-(d)
				Financial Instruments "	Cash collected as pledge	
Accounts Receivable and Payable	\$ 34,098,773	30,711,143	3,387,630	-	-	3,387,630

2015.09.30						
Financial liabilities 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)		Net amounts (e)=(c)-(d)
				Financial Instruments "	Cash collected as pledge	
Accounts Receivable and Payable	\$ 30,711,143	30,711,143	-	-	-	-

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

(29) Financial risk management

A. 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 the notes to these financial statements.

B. 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.

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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.

C. Credit risk

Credit risk means the potential loss of the Group if the counterparty involved in that transaction defaults. Since the Group's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, management believes that there is no significant credit risk from these transactions.

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.

(a) 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.

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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.

(b) 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.

(c) 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, 2016, December 31, 2015 and September 30, 2015.

D. 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 have 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.

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. In the case of foreign currency swap contracts, management believes that the cash flow risk is not significant because contracted foreign currency exchange rates are fixed.

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

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E. Market risk

Market risk is a risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its 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.

(a) 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.

(b) 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.

(c) 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.

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

(30) 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, 2015. Also, they believe that for the nine months ended September 30, 2016, there were also no changes in the Group's capital management information. Please refer to Note 6(30) of the consolidated financial statements for the year ended December 31, 2015 for other related information.

(31) Non-cash transactions of financing activity

Convertible bonds payable converted into ordinary shares. Please refer to Note 6(15) for details.

7. RELATED PARTY TRANSACTIONS

(1) The ultimate parent company

The Company is the ultimate parent company of the Group.

(2) Significant Transactions with related parties

A. Sale of Goods to Related Parties

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

	Sales			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Others	\$ -	-	662	-
	Receivables from Related Parties			
	September 30, 2016	December 31, 2015	September 30, 2015	
Others	\$ -	-	-	

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.

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B. Purchase of Goods from Related Parties

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

	Purchase			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Others	\$ 12,715	18,158	37,245	49,458

	Payable from Related Parties		
	September 30, 2016	December 31, 2015	September 30, 2015
	Others	\$ 12,806	10,796

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

C. Warranty repair expense paid to Related Parties

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
	Others	\$ -	1	-

D. Other related party transactions accounted for as assets and liabilities in the balance sheet

	September 30, 2016	December 31, 2015	September 30, 2015
Other current liabilities			
Others	\$ -	-	3

(3) Key management personnel compensation:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
	Short-term employee benefits	\$ 136,057	172,800	379,527
Post-employment benefits	422	1,093	2,649	3,452
Share-based payments	28,918	65,335	131,816	106,648
	\$ 165,397	239,228	513,992	526,505

Please refer to Notes 6(21) and 6(22) for further explanations related to share-based payment transactions.

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8. Pledged Assets

As of September 30, 2016, December 31, 2015 and September 30, 2015, pledged assets were as follows:

<u>Asset</u>	<u>Purpose of pledge</u>	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Other financial asset	Customs duty guarantee, collateral, rental deposits, travel agency guarantee, etc.	\$ 44,664	44,533	44,519
Property, plant and equipment	Bank loans	576,053	1,616,838	1,834,929
Refundable deposits	Customs duty guarantee, rental deposits and deposits for performance guarantee	27,718	24,300	22,999
		<u>\$ 648,435</u>	<u>1,685,671</u>	<u>1,902,447</u>

9. Significant Commitments And Contingencies

(1) Major commitments and contingencies were as follows:

A. Unused standby letters of credit

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
EUR	\$ 2,772	3,010	2,622
JPY	2,169,095	3,262,883	3,017,756
USD	3,812	7,211	22,208

B. Promissory notes and certificates of deposit obtained for business purpose were as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
NTD	\$ 87,869	6,689	6,788

C. As of September 30, 2016, December 31, 2015, and September 30, 2015, the significant contracts for purchase of properties by the Group amounted to \$10,706,498, \$13,223,710 and \$10,679,292, of which \$3,446,866, \$6,258,950 and \$3,854,153, respectively, were unpaid.

D. As of September 30, 2016, December 31, 2015, and September 30, 2015, the Group provided endorsement guarantee for bank loans obtained by the related parties, including Group entities, amounting to \$9,861,089, \$9,841,287 and \$14,878,548, respectively.

E. As of September 30, 2016, the Group issued a tariff guarantee of \$631,086 to the bank for the purpose of importing goods.

(2) Significant contingent liability: None.

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10. LOSSES DUE TO MAJOR DISASTERS: None.

11. SUBSEQUENT EVENTS: None.

12. OTHER

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

By item	For the Three Months Ended September 30, 2016			For the Three Months Ended September 30, 2015		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 12,491,756	4,159,685	16,651,441	11,952,090	4,547,929	16,500,019
Health and labor insurance	1,456,396	195,977	1,652,373	1,200,534	247,980	1,448,514
Pension	1,185,024	210,430	1,395,454	1,353,457	249,642	1,603,099
Others	255,022	188,510	443,532	820,835	225,345	1,046,180
Depreciation	2,798,132	305,301	3,103,433	2,703,781	688,220	3,392,001
Amortization	9,519	22,369	31,888	8,001	48,650	56,651

By item	For the Nine Months Ended September 30, 2016			For the Nine Months Ended September 30, 2015		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 31,171,615	11,819,261	42,990,876	31,418,118	11,992,178	43,410,296
Health and labor insurance	3,335,358	690,235	4,025,593	3,339,718	698,671	4,038,389
Pension	3,641,971	672,500	4,314,471	3,616,350	645,533	4,261,883
Others	969,538	541,910	1,511,448	1,600,548	581,340	2,181,888
Depreciation	8,770,635	938,344	9,708,979	8,626,198	1,473,629	10,099,827
Amortization	26,125	81,565	107,690	22,812	139,290	162,102

Above depreciations did not include depreciation of 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	
	2016	2015	2016	2015
Depreciation— investment property	\$ 835	2,595	7,779	7,784

(2) Seasonality of activities: The Group's operation is neither affected by seasonality nor periodicity.

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13. SEGMENT INFORMATION

(1) 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 financial statements.

(2) 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 gain 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.

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

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	407,976	866,178	(1,274,154)	-
Total revenue	\$ 298,334,970	19,132,471	(1,274,154)	316,193,287
Reportable segment profit	\$ 5,742,766	3,192,321	(2,329,510)	6,605,577
For the Three Months Ended September 30, 2015				
Revenue :				
Revenue from external customers	\$ 283,330,445	26,207,236	-	309,537,681
Intersegment revenues	1,501,077	2,056,699	(3,557,776)	-
Total revenue	\$ 284,831,522	28,263,935	(3,557,776)	309,537,681
Reportable segment profit	\$ 8,103,485	5,045,266	(2,517,323)	10,631,428
For the Nine Months Ended September 30, 2016				
Revenue :				
Revenue from external customers	\$ 738,187,821	59,038,147	-	797,225,968
Intersegment revenues	1,109,281	2,120,067	(3,229,348)	-
Total revenue	\$ 739,297,102	61,158,214	(3,229,348)	797,225,968
Reportable segment profit	\$ 16,864,874	11,336,788	(8,116,284)	20,085,378
For the Nine Months Ended September 30, 2015				
Revenue :				
Revenue from external customers	\$ 730,920,167	70,808,836	-	801,729,003
Intersegment revenues	2,227,504	5,288,110	(7,515,614)	-
Total revenue	\$ 733,147,671	76,096,946	(7,515,614)	801,729,003
Reportable segment profit	\$ 21,523,122	14,851,332	(9,132,757)	27,241,697
Reportable segment assets				
September 30, 2016	\$ 425,561,786	200,070,277	(134,104,560)	491,527,503
December 31, 2015	\$ 392,071,442	220,643,421	(136,628,200)	476,086,663
September 30, 2015	\$ 453,828,109	224,486,745	(138,490,253)	539,824,601

