

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

PEGATRON CORPORATION

NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016
(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

To the Board of Directors of Pegatron Corporation:

Opinion

We have audited the non-consolidated financial statements of Pegatron Corporation (“the Company”), which comprises the non-consolidated statement of financial position as of December 31, 2017 and 2016, and the non-consolidated statement of comprehensive income, non-consolidated statement of changes in equity and non-consolidated statement of cash flows for the years then ended, and notes to the non-consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors (please refer to Other Matters paragraph), the accompanying financial statements present fairly, in all material respects, the non-consolidated financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

Based on our professional judgment, key audit matters pertain to the most important matters in the audit of non-consolidated financial statements for the year ended December 31, 2017 of Pegatron Corporation. Those matters have been addressed in our audit opinion on the said non-consolidated financial statements and during the formation of our auditing opinion. However, we does not express an opinion on these matters individually. The key audit matters that, in our professional judgment, should be communicated are as follows:

1. Revenue recognition

The accounting principles on the recognition of revenue and the related sales returns and allowances are discussed in Note 4(o) of the notes to non-consolidated financial statements.

(a) Key audit matters:

The timing for the recognition of revenue and the transfer of risk and reward is relatively complex because the transaction terms for each client differ so that warehouses are established overseas according to clients’ needs. These factors expose the Company to material risk of untimely recording of revenue.

Therefore, the test of sales and sales returns and allowances recognition was one of the key audit matters in the audit of non-consolidated financial reports for the years ended December 31, 2017 and 2016 of Pegatron Corporation.

(b) Auditing procedures performed:

- Review external documents with records on ledger to confirm whether or not the sales transaction really exists, valid and legitimate.
- Randomly select material sales contracts and review the transaction term in order to evaluate the propriety of the timing for the recognition of revenue.
- Conduct cut-off test for sales and sales returns and allowances on the periods before and after balance sheets date.

2. Inventory valuation

Please refer to notes 4(g), 5(b) and 6(d) of the notes to non-consolidated financial statement for the accounting policies on measuring inventory, assumptions used and uncertainties considered in determining net realizable value, allowances for impairment loss and obsolescence and balances of impairment loss and obsolescence, respectively.

(a) Key audit matters:

Inventories are measured at the lower of cost and net realizable value in the financial statements. However, the cost of inventory might exceed its net realizable value because the products change fast and the industry in which the Company operates is very competitive.

(b) Auditing procedures performed:

- Analyze the amount of obsolete inventory and inventory market price decline between 2017 and 2016 and understand reasons of the difference. Discuss and resolve those differences with management.
- Obtain an inventory aging analysis and randomly select items to verify the correctness for age of inventory.
- Obtain last selling price for finished goods and replacement cost for raw material, and recalculate net realizable value with selling expense rate to check whether or not the method of inventory measurement adopted by the Company is reasonable.

Other Matters

We did not audit the financial statements of certain equity-accounted investees. Those statements were audited by other accountants whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for certain equity-accounted investees, are based solely on the reports of the other accountants. The amount of long-term investments in these investee companies represented 3.15% and 3.55% of the related total assets as of December 31, 2017 and 2016, respectively, and the related investment gain represented 1.12% and 3.41% of profit before tax for the years ended December 31, 2017 and 2016, respectively.

Responsibilities of Management and Those Charged with Governance for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing Pegatron Corporation's financial reporting process.

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

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

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. Also, we:

1. Assess for purposes of identifying the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error, design and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pegatron Corporation's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Evaluate for purposes of determining the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Pegatron Corporation's ability to continue as a going concern. If we determine that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non-consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on Pegatron Corporation. We are responsible for the direction, supervision and performance of the audit.

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

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

For those matters that we have communicated with those charged with governance, we have considered those matters to be key audit matters as they were the most significant to the audit of the financial statements for the year ended December 31, 2017. We have included these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interests of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)
March 15, 2018

Notes to Readers

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

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

PEGATRON CORPORATION

Non-Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

Assets		December 31, 2017		December 31, 2016	
		Amount	%	Amount	%
Current assets:					
1100	Cash and cash equivalents (Note 6(a))	\$ 24,928,694	5	36,049,317	7
1170	Accounts receivable, net (Note 6(c))	129,732,764	26	68,813,703	14
1180	Accounts receivable due from related parties, net (Note 7)	190,257,570	37	199,196,892	40
1200	Other receivables, net (Notes 6(c) and 7)	112,286	-	39,635,390	8
130X	Inventories (Note 6(d))	35,260,719	7	28,671,953	6
1476	Other current financial assets (Note 6(i))	41,616	-	41,539	-
1479	Other current assets (Note 6(i))	<u>129,665</u>	<u>-</u>	<u>161,864</u>	<u>-</u>
		<u>380,463,314</u>	<u>75</u>	<u>372,570,658</u>	<u>75</u>
Non-current assets:					
1523	Non-current available-for-sale financial assets, net (Note 6(b))	659,392	-	556,673	-
1550	Investments accounted for using equity method (Note 6(e))	122,190,881	24	117,619,640	24
1600	Property, plant and equipment (Notes 6(g) and 7)	4,722,912	1	4,724,010	1
1780	Intangible assets (Note 6(h))	316,961	-	184,050	-
1840	Deferred tax assets (Note 6(p))	562,154	-	230,872	-
1980	Other non-current financial assets (Note 6(i))	33,349	-	35,383	-
1990	Other non-current assets (Note 6(i))	<u>4,230</u>	<u>-</u>	<u>10,606</u>	<u>-</u>
		<u>128,489,879</u>	<u>25</u>	<u>123,361,234</u>	<u>25</u>
Total assets		\$ <u>508,953,193</u>	<u>100</u>	<u>495,931,892</u>	<u>100</u>

See accompanying notes to financial statements.

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

PEGATRON CORPORATION**Non-Consolidated Balance Sheets(CONT'D)****December 31, 2017 and 2016****(Expressed in Thousands of New Taiwan Dollars)**

		<u>December 31, 2017</u>		<u>December 31, 2016</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Liabilities and Equity					
Current liabilities:					
2100	Short-term loans (Note 6(j))	\$ 22,034,400	4	15,689,400	3
2150	Notes and accounts payable	160,631,195	32	119,634,038	24
2180	Accounts payable to related parties (Note 7)	143,407,464	28	173,720,691	35
2219	Other payables (Notes 6(o)and 7)	14,865,485	3	19,490,731	4
2230	Current tax liabilities	349,340	-	1,360,928	-
2250	Current provisions (Note 6(m))	114,050	-	98,159	-
2313	Deferred revenue	638,618	-	496,399	-
2399	Other current liabilities (Note 7)	<u>13,893,442</u>	<u>3</u>	<u>14,206,182</u>	<u>3</u>
		<u>355,933,994</u>	<u>70</u>	<u>344,696,528</u>	<u>69</u>
Non-Current liabilities:					
2530	Bonds payable (Note 6(l))	6,992,476	1	-	-
2540	Long-term loans (Note 6(k))	-	-	2,692,000	1
2570	Deferred tax liabilities (Note 6(p))	-	-	225,261	-
2670	Other non-current liabilities (Note 6(o))	<u>50,985</u>	<u>-</u>	<u>48,513</u>	<u>-</u>
		<u>7,043,461</u>	<u>1</u>	<u>2,965,774</u>	<u>1</u>
	Total liabilities	<u>362,977,455</u>	<u>71</u>	<u>347,662,302</u>	<u>70</u>
Equity (Note 6(q)) :					
3100	Share capital	<u>26,140,906</u>	<u>5</u>	<u>25,751,695</u>	<u>5</u>
Capital surplus:					
3210	Capital surplus, premium on capital stock	74,283,165	15	73,312,256	15
3280	Capital surplus, others	<u>5,614,586</u>	<u>1</u>	<u>4,902,003</u>	<u>1</u>
		<u>79,897,751</u>	<u>16</u>	<u>78,214,259</u>	<u>16</u>
Retained earnings:					
3310	Legal reserve	9,194,524	2	7,260,543	2
3320	Special reserve	3,368,986	1	-	-
3350	Total unappropriated retained earnings (accumulated deficit)	<u>37,412,958</u>	<u>7</u>	<u>40,844,207</u>	<u>8</u>
		<u>49,976,468</u>	<u>10</u>	<u>48,104,750</u>	<u>10</u>
Other equity interest:					
3410	Exchange differences on translation of foreign financial statements (Note 6(w))	(9,698,374)	(2)	(3,552,939)	(1)
3425	Unrealized gains on available-for-sale financial assets (Note 6(w))	883,161	-	183,953	-
3491	Deferred compensation cost arising from issuance of restricted stock (Note 6(r))	<u>(1,222,232)</u>	<u>-</u>	<u>(429,882)</u>	<u>-</u>
		<u>(10,037,445)</u>	<u>(2)</u>	<u>(3,798,868)</u>	<u>(1)</u>
3500	Treasury stock	<u>(1,942)</u>	<u>-</u>	<u>(2,246)</u>	<u>-</u>
	Total equity	<u>145,975,738</u>	<u>29</u>	<u>148,269,590</u>	<u>30</u>
	Total liabilities and equity	<u>\$ 508,953,193</u>	<u>100</u>	<u>495,931,892</u>	<u>100</u>

See accompanying notes to financial statements.

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

Non-Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

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

		For the years ended December 31			
		2017		2016	
		Amount	%	Amount	%
4110	Operating revenue (Notes 6(t) and 7)	1,083,000,588	100	1,011,099,854	100
4170	Less: Sales returns and allowances	2,425,593	-	3,003,067	-
	Operating revenue, net	1,080,574,995	100	1,008,096,787	100
5000	Cost of sales (Notes 6(d), 6(n) and 7)	1,061,785,925	98	981,245,130	97
5900	Gross profit from operations	18,789,070	2	26,851,657	3
5920	Add: Realized profit from sales	(1,131)	-	17,314	-
5950	Gross profit from operations	18,787,939	2	26,868,971	3
6000	Operating expenses (Notes 6(n), 6(o) and 7):				
6100	Selling expenses	2,124,985	-	3,254,872	1
6200	General and administrative expenses	2,247,843	-	3,188,404	-
6300	Research and development expenses	8,111,032	1	8,304,326	1
6300	Total operating expenses	12,483,860	1	14,747,602	2
		6,304,079	1	12,121,369	1
	Non-operating income and expenses:				
7010	Total other income (Notes 6(v) and 7)	942,280	-	800,575	-
7020	Other gains and losses (Note 6(v))	(1,575,558)	-	(1,487,849)	-
7050	Finance costs (Notes 6(l) and 6(v))	(608,830)	-	(572,317)	-
7070	Share of profit of associates and joint ventures accounted for using equity method (Note 6(e))	10,140,629	1	11,092,941	1
7590	Miscellaneous disbursements (Note 7)	(2,153)	-	(57,335)	-
		8,896,368	1	9,776,015	1
	Profit from continuing operations before tax	15,200,447	2	21,897,384	2
7950	Less: Tax expense (Note 6(p))	517,459	-	2,557,569	-
	Profit for the year	14,682,988	2	19,339,815	2
8300	Other comprehensive income:				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Remeasurement effects on net defined benefit liability	6,922	-	(3,022)	-
8330	Share of other comprehensive (loss) income of subsidiaries, associates and joint ventures accounted for using equity method	(2,622)	-	3,731	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
		4,300	-	709	-
8360	Other components of other comprehensive income that may be reclassified to profit or loss				
8362	Unrealised gains on valuation of available-for-sale financial assets	102,719	-	4,983	-
8380	Share of other comprehensive loss of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(5,548,946)	(1)	(7,337,320)	(1)
8399	Income tax related to components of other comprehensive income that may be reclassified to profit or loss	-	-	-	-
		(5,446,227)	(1)	(7,332,337)	(1)
8300	Other comprehensive income for the year, net of tax	(5,441,927)	(1)	(7,331,628)	(1)
	Total comprehensive income for the year	\$ 9,241,061	1	\$ 12,008,187	1
	Earnings per share, net of tax (Note 6(s))				
	Basic earnings per share	\$ 5.66		\$ 7.50	
	Diluted earnings per share	\$ 5.63		\$ 7.42	

See accompanying notes to financial statements.

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PEGATRON CORPORATION

Non-Consolidated Statements of Changes in Equity
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	Share capital		Retained earnings				Total other equity interest					Total equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Deferred compensation cost	Total other equity interest	Treasury stock	
Balance at January 1, 2016	\$ 26,030,205	78,972,374	4,879,380	-	37,775,792	42,655,172	3,752,117	211,234	(1,238,377)	2,724,974	(2,590)	150,380,135
Profit for the year	-	-	-	-	19,339,815	19,339,815	-	-	-	-	-	19,339,815
Other comprehensive income for the year	-	-	-	-	709	709	(7,305,056)	(27,281)	-	(7,332,337)	-	(7,331,628)
Total comprehensive income for the year	-	-	-	-	19,340,524	19,340,524	(7,305,056)	(27,281)	-	(7,332,337)	-	12,008,187
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	2,381,163	-	(2,381,163)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(12,953,501)	(12,953,501)	-	-	-	-	-	(12,953,501)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	(2,068,328)	(2,068,328)
Retirement of treasury stock	(264,100)	(830,477)	-	-	(973,751)	(973,751)	-	-	-	-	2,068,328	-
Changes in ownership interests in subsidiaries	-	2,575	-	-	-	-	-	-	-	-	-	2,575
Expiration of restricted shares of stock issued to employees	(14,410)	14,066	-	-	-	-	-	-	-	-	344	-
Compensation cost arising from restricted shares of stock	-	55,721	-	-	36,306	36,306	-	-	808,495	808,495	-	900,522
Balance at December 31, 2016	25,751,695	78,214,259	7,260,543	-	40,844,207	48,104,750	(3,552,939)	183,953	(429,882)	(3,798,868)	(2,246)	148,269,590
Profit for the year	-	-	-	-	14,682,988	14,682,988	-	-	-	-	-	14,682,988
Other comprehensive income for the year	-	-	-	-	4,300	4,300	(6,145,435)	699,208	-	(5,446,227)	-	(5,441,927)
Total comprehensive income for the year	-	-	-	-	14,687,288	14,687,288	(6,145,435)	699,208	-	(5,446,227)	-	9,241,061
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	1,933,981	-	(1,933,981)	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,368,986	(3,368,986)	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(12,873,916)	(12,873,916)	-	-	-	-	-	(12,873,916)
Changes in ownership interests in subsidiaries	-	(165,279)	-	-	-	-	-	-	-	-	-	(165,279)
Share-based payment transactions	400,000	-	-	-	-	-	-	-	-	-	-	400,000
Expiration of restricted shares of stock issued to employees	(10,789)	10,485	-	-	-	-	-	-	-	-	304	-
Compensation cost arising from restricted shares of stock	-	1,838,286	-	-	58,346	58,346	-	-	(792,350)	(792,350)	-	1,104,282
Balance at December 31, 2017	\$ 26,140,906	79,897,751	9,194,524	3,368,986	37,412,958	49,976,468	(9,698,374)	883,161	(1,222,232)	(10,037,445)	(1,942)	145,975,738

Note: The Company's remuneration of directors of \$115,000 and \$166,000 and remuneration of employees of \$1,188,000 and \$1,734,000 for the years ended December 31, 2017 and 2016, had been deducted from statements of comprehensive income for the years ended December 31, 2017 and 2016, respectively.

See accompanying notes to financial statements.

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PEGATRON CORPORATION

Non-Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2017	2016
Cash flows from operating activities:		
Profit before tax	\$ 15,200,447	21,897,384
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	708,382	590,244
Amortization expense	131,407	34,687
Reversal of allowance for uncollectable accounts	(131,585)	(69,986)
Net gain on financial assets or liabilities at fair value through profit or loss	(24)	(1,298)
Interest expense	551,494	492,506
Interest income	(310,843)	(229,810)
Dividend income	(29,827)	-
Other loss	470,924	217,855
Compensation cost arising from employee stock options	1,221,618	900,522
Amortization of issuance costs on bonds payable	476	-
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	(10,140,629)	(11,092,941)
(Gain) loss on disposal of property, plant and equipment	(89)	55,708
Loss on disposal of investments accounted for using equity method	-	561,172
Unrealized (realized) profit (loss) from sales	1,131	(17,314)
Gain on foreign currency exchange	(455,860)	(338,865)
Increase (decrease) in provision	15,891	(19,390)
Total adjustments to reconcile profit (loss)	(7,967,534)	(8,916,910)
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease in financial assets reported at fair value through profit or loss	24	289,366
Increase in accounts receivable	(51,848,154)	(49,265,872)
Decrease (increase) in other receivables	39,050,565	(252,869)
Increase in inventories	(6,588,766)	(1,706,418)
Increase in other financial assets	(77)	(149)
Decrease (increase) in other current assets	32,199	(30,181)
Increase in other non-current assets	(229,695)	(534,155)
Total changes in operating assets	(19,583,904)	(51,500,278)
Changes in operating liabilities:		
Increase in accounts and notes payable	10,683,930	94,398,163
Decrease in other payable	(578,122)	(3,085,960)
Increase (decrease) in deferred revenue	142,219	(7,912)
(Decrease) increase in other current liabilities	(312,740)	841,720
Increase in other non-current liabilities	9,394	9,576
Total changes in operating liabilities	9,944,681	92,155,587
Net changes in operating assets and liabilities	(9,639,223)	40,655,309
Net adjustments	(17,606,757)	31,738,399
Cash (used in) provided by operating activities	(2,406,310)	53,635,783
Interest received	312,458	211,844
Dividends received	2,899,237	4,307,600
Interest paid	(511,606)	(482,029)
Income taxes paid	(1,832,123)	(3,021,423)
Net cash (used in) provided by operating activities	(1,538,344)	54,651,775

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

Non-Consolidated Statements of Cash Flows(CONT'D)

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2017	2016
Cash flows from investing activities:		
Acquisition of investments accounted for using equity method	(3,018,000)	(1,420,200)
Acquisition of property, plant and equipment	(677,464)	(278,873)
Proceeds from disposal of property, plant and equipment	2,510	1,726
Decrease (increase) in other financial assets	2,034	(4,964)
Acquisition of intangible assets	(264,318)	(151,161)
Net cash used in investing activities	(3,955,238)	(1,853,472)
Cash flows from financing activities:		
Increase (decrease) in short-term loans	6,706,810	(23,369,810)
Proceeds from issuing bonds	6,992,000	-
Proceeds from long-term loans	-	13,400,000
Repayments of long-term loans	(2,692,000)	(22,695,200)
Decrease in other payables to related parties	(4,149,450)	(967,800)
Cash dividends paid	(12,873,916)	(12,953,501)
Proceeds from issuance of restricted stock	400,000	-
Purchase of treasury stock	-	(2,068,328)
Redemption of restricted stock	(10,485)	(14,066)
Net cash used in financing activities	(5,627,041)	(48,668,705)
Net (decrease) increase in cash and cash equivalents	(11,120,623)	4,129,598
Cash and cash equivalents, beginning of the year	36,049,317	31,919,719
Cash and cash equivalents, end of the year	\$ 24,928,694	36,049,317

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements
For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

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

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

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

The non-consolidated financial statements for the year ended December 31, 2017 were authorized for issue by the Board of Directors on March 15, 2018.

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

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Presentation of Financial Statements-Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IAS 36 " Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014
Amendments to IAS 39 " Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements to IFRSs 2010–2012 Cycle and 2011–2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012–2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

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

(b) Impact of IFRS endorsed by FSC but not yet effective

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

(i) IFRS 9 "Financial Instruments"

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Company does not believe that the new classification requirements would have had a material impact on its accounting for trade receivables, investments in debt securities and investments in equity securities that are managed on a fair value basis. At December 31, 2017, the Company had equity investments classified as available-for-sale with a fair value of \$659,392 that are held for long-term strategic purposes. If these investments continue to be held for the same purpose at initial application of IFRS 9, the Company has designated them as measured at FVOCI. Therefore, all fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses would be reclassified to profit or loss on disposal. The Company estimated that there would be no effect for the application of IFRS 9's classification requirements on January 1, 2018.

At December 31, 2017, the Company had financial assets measured at cost of \$0 and cumulative impairment losses of \$150,000. At initial application of IFRS 9, the Company has designated these financial assets as measured at FVOCI. Consequently, all fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses would be reclassified to profit or loss on disposal. The Company estimated the application of IFRS 9's classification requirements on January 1, 2018 resulting in a decrease of \$150,000 in other equity interest, as well as the increase of \$150,000 in retained earnings, respectively.

At initial application of IFRS 9, the Company's equity-accounted subsidiaries have designated their financial assets as measured at FVTPL or FVOCI. The Company estimated the application of IFRS 9's classification requirements on January 1, 2018 resulting in an increase of \$882,986 in retained earnings, as well as the decrease of \$882,986 in other equity interest, respectively.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

2) Impairment-Financial assets and contract assets

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

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

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

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

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

The Company believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Company estimated the application of IFRS 9’s impairment requirements on January 1, 2018 resulting in the increase of \$1,348 in the allowance for impairment, as well as the decrease of \$1,348 in retained earnings.

3) Disclosures

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

4) Transition

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

- The Company plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and other equity interest as at January 1, 2018.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

1) Sales of goods

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

Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The Company has performed an initial comparison of the point in time at which the related risks and rewards of ownership transfer and the control transfers. Since these points in time are similar, the Company does not expect that there will be a significant impact on its non-consolidated financial statements.

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

Under IFRS 15, revenue will be recognized for these contracts to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. As a consequence, for those contracts for which the Company is unable to make a reasonable estimate of return, revenue is expected to be recognized sooner than when the return period lapses or a reasonable estimate can be made. A refund liability and an asset for recovery will be recognized for these contracts and presented separately in the balance sheet.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

2) Transition

The Company plans to adopt the cumulative effect method in applying IFRS 15 with no restatement of the comparative periods presented. Under IFRS 15, the adjustment for the cumulative effect of initially applying this new accounting standard is required to be charged to the opening balance of retained earnings on January 1, 2018 when this said accounting standard becomes effective.

The Company estimates the adoption of IFRS 15, resulting in the increase of \$638,618, \$111,809 and \$225,859 in contract liabilities, right to the returned goods (recognized under other current assets) and refund liabilities (recognized under other current liabilities), respectively; and a decrease of \$638,618 and \$114,050 in unearned revenue and current provisions, respectively, on January 1, 2018.

(iii) Amendments to IAS 7 "Disclosure Initiative"

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

To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

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

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

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

(4) Summary of significant accounting policies:

The following significant accounting policies have been applied consistently to all periods presented in the non-consolidated financial statements.

(a) Statement of compliance

The non-consolidated financial statements are prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Available-for-sale financial assets are measured at fair value; and
- 2) The net defined benefit liability is recognized as the present value of the defined benefit less the fair value of plan assets.

(ii) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the Company operates. The non-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.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(c) Foreign currency

(i) Foreign currency transaction

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

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

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

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

(ii) Foreign operations

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

(e) Cash and cash equivalents

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

Time deposits are accounted under cash and cash equivalents if they conform to the definition aforementioned, 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.

(f) Financial instruments

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

(i) Financial assets

The Company classifies financial assets into the following categories: loans and receivables, and available for-sale financial assets.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

1) Available-for sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction costs. 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 presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and included in the non-operating income and expenses. 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 included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date when the Company’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 the non-operating income and expenses.

Interest income from investment in bond security is recognized in profit or loss, under other income of non-operating income and expenses.

2) 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 (“ IAS 39”) Accounting for Transfers of Financial Assets and Extinguishments of Liabilities,” a transfer of financial assets or a portion of a financial asset in which the transferor surrenders control over those financial assets is regarded as a sale to the extent that consideration in the transferred assets is received in exchange. The rights to accounts receivable are derecognized after deducting the estimated charges or losses in commercial dispute when all of the following conditions are met.

- a) The rights to accounts receivable have been isolated from the transferor as they are put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

3) Impairment of financial assets

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

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company 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 Company 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.

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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.

Reclassify the gains and impairment losses which were previously recognized in other comprehensive income to profit or loss when an impairment incurred.

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

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

4) Derecognition of financial assets

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

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity instruments

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

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

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

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

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

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

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

2) Other financial liabilities

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

3) Derecognition of financial liabilities

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

4) Offsetting of financial assets and liabilities

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

5) Financial guarantee contract

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

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

(iii) Derivative financial instruments, including hedge accounting

The Company 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.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

1) Fair value hedge

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

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

Hedged financial instruments using an effective interest rate is amortized to profit or loss when hedge accounting is discontinued over the period to maturity.

2) Cash flow hedge

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

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

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

(g) 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.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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.

(h) Subsidiaries

The subsidiaries in which the Company holds controlling interest are accounted for under equity method in the non-consolidated financial statements. Under equity method, the net income, other comprehensive income and equity in the non-consolidated financial statement are the same as those attributable to the owners of parent in the consolidated financial statements.

The changes in ownership of the subsidiaries are recognized as equity transaction.

(i) Property, plant and equipment

(i) Recognition and measurement

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

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

(ii) Subsequent cost

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

(iii) 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.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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	3-50 years
Machine	5-6 years
Instrument equipment	3-5 years
Miscellaneous equipment	1-6 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(s) is accounted for as a change in an accounting estimate.

(j) Leased assets

(i) Lessor

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

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

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

(ii) Lessee

Leases in which the Company 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.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

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

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

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

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

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 Company 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 Company 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 Company's incremental borrowing rate.

If the Company 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.

(k) Intangible assets

(i) Other Intangible Assets

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

(ii) 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.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(iii) Amortization

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

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

Computer software cost 0-5 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.

(l) Impairment – Non-financial assets

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

If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Company 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 dispose 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 Company assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset 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 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.

(m) Provisions

A provision is recognized if, as a result of a past event, the Company 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.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(n) 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.

(o) Revenue

(i) Goods sold

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

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For sales of timber and paper products, transfer usually occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the port. Generally, the customer has no right of return for such products. For sales of livestock, transfers occur upon receipt by the customer.

(ii) Service

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(p) Employee benefits

(i) Defined contribution plans

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

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted from the aforesaid discounted present value. The discount rate is the yield at the reporting date on (market yields of high quality corporate bonds or government bonds) bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss immediately.

Re-measurement of net defined benefit liability (asset) (including actuarial gains, losses and the return on plan asset and changes in the effect of the asset ceiling, excluding any amounts included in net interest) is recognized in other comprehensive income (loss). The effect of re-measurement of the defined benefit plan is charged to retained earnings.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets and change in the present value of defined benefit obligation.

(iii) Short-term employee benefits

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

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company 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.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(q) Share-based payment

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

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

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

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

(r) Income Taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses that are related to business combinations, expenses recognized in equity or other comprehensive income directly, and other related expenses, all current and deferred taxes are recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes are not recognized for the following:

- (i) Assets and liabilities that are initially recognized from non-business combination transactions, with no effect on net income or taxable gains (losses).
- (ii) Temporary differences arising from equity investments on subsidiaries or joint ventures, where there is a high probability that such temporary differences will not reverse.

Deferred taxes are measured based on the statutory tax rate on the reporting date or the actual legislative tax rate during the year of expected asset realization or debt liquidation.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (i) if the entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - 1) levied by the same taxing authority; or

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- 2) levied by different taxing authorities, but where each such authority intend to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation; or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset is recognized for unused tax losses available for carry-forward, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits and deductible temporary differences are also re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits and deductible temporary differences can be utilized.

(s) **Business combination**

Business combinations of the Company are accounted for using the acquisition method. 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, an assessment is made whether all of the assets acquired and liabilities assumed are correctly identified, and a gain is recognized for the excess.

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 Company'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.

At the acquisition date, components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. Other non-controlling interest is measured at fair value at the acquisition date or other valuation techniques acceptable under the IFRS as endorsed by the FSC.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

Business combinations under common control are accounted for in the non-consolidated accounts prospectively from the date the Company acquires the ownership interest. Assets and liabilities of the merged entities are recognized at their carrying amount in the non-consolidated financial statements.

(t) Earnings per share

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

(u) Operating segments

Please refer to the consolidated financial report of Pegatron Corporation for the years ended December 31, 2017 and 2016 for operating segments information.

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

The preparation of the financial statements in conformity with the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

(a) Judgment regarding control of subsidiaries

Due to significant judgments involved and material impact on recognized amounts for consolidated financial report, please refer to Note 6(f) for details.

(b) Valuation of inventories

Regarding assumptions and estimation uncertainties, valuation of inventories has a significant risk of resulting in a material adjustment within the next financial year. As inventories are stated at the lower of cost or net realizable value, the Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. Refer to Note 6(d) for further description of the valuation of inventories.

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Notes to the Non-Consolidated Financial Statements

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	\$ 180	180
Cash in banks	7,431,026	14,400,062
Time deposits	<u>17,497,488</u>	<u>21,649,075</u>
	<u>\$ 24,928,694</u>	<u>36,049,317</u>

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

(b) Investment in financial assets and liabilities

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

	December 31, 2017	December 31, 2016
Available-for-sale financial assets – noncurrent:		
Shares of stock of listed companies	<u>\$ 659,392</u>	<u>556,673</u>
Financial assets carried at cost – noncurrent:		
Equity securities – common stock	<u>\$ -</u>	<u>-</u>

- (ii) For the years ended December 31, 2017 and 2016, the Company recognized a net gain on financial assets at fair value through profit or loss of \$24 and \$1,298, respectively.
- (iii) For the years ended December 31, 2017 and 2016, the Company recognized unrealized gain on available-for-sale financial asset amounted to \$102,719 and 4,983, respectively.
- (iv) The aforementioned investments held by the Company are measured at amortized cost at each reporting date given the range of reasonable fair value estimates is large and the probability for each estimate of fair value cannot be reasonably determined, therefore, the Company management determines the fair value cannot be measured reliably. As of December 31, 2017 and 2016, the Company had accumulated impairment loss thereon of \$150,000.
- (v) Please refer to Note 6(v) for further discussion on gains and losses on disposal of investments.
- (vi) Please refer to Note 6(x) for the Company's credibility, currency, and risk exposure related with financial instruments.
- (vii) As of December 31, 2017 and 2016, the aforesaid financial assets were not pledged as collateral.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- (viii) If the stock price changes at the reporting date, the changes in other comprehensive income of the Company are estimated as follows: (The analysis was made on the same basis for both periods, assuming that all other variables remain constant and any impact to forecasted sales and purchases was ignored):

	For the years ended December 31			
	2017		2016	
	Comprehensive Income (Loss) (net of tax)	Net Income (Loss) (net of tax)	Comprehensive Income (Loss) (net of tax)	Net Income (Loss) (net of tax)
Increase 3%	\$ 19,782	-	16,700	-
Decrease 3%	\$ (19,782)	-	(16,700)	-

- (c) Accounts and other receivable, net

	December 31, 2017	December 31, 2016
Accounts receivable	\$ 131,243,680	70,456,204
Other receivables	112,286	39,635,390
Less: Allowance for impairment	(1,510,916)	(1,642,501)
	\$ 129,845,050	108,449,093

- (i) Please refer to Note 6(x) for the Company's accounts receivable and other receivables exposure to credit risk and currency risk, and the impairment evaluation of accounts receivable.
- (ii) Accounts receivables which are transferred in accordance with derecognition standards of IFRS are deemed as sale of accounts receivables. As of December 31, 2017 and 2016, the Company sold its accounts receivable without recourse as follows:

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

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

December 31, 2016

<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>
ANZ(Note)	<u>\$ 38,700,000</u>	<u>USD 1,200,000,000</u>	<u>USD -</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	<u>\$ 38,700,000</u>

Note: In October 2016, 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 years ended December 31, 2017 and 2016, the Company recognized a loss of \$67,933 and \$66,988, respectively, from the factoring of accounts receivable, which was accounted under financial costs in the statement of comprehensive income. Also, the difference of \$ 0 and \$38,700,000 between the carrying value of factored accounts receivable and the amount advanced was accounted under other receivables as of December 31, 2017 and 2016, respectively.

(d) Inventories

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Merchandise	\$ 35,556,778	28,768,896
Finished goods	61,332	97,746
Work in process	145,566	79,938
Raw materials	<u>556,758</u>	<u>357,904</u>
Subtotal	36,320,434	29,304,484
Less: Allowance for inventory market decline and obsolescence	<u>(1,059,715)</u>	<u>(632,531)</u>
Total	<u>\$ 35,260,719</u>	<u>28,671,953</u>

For the years ended December 31, 2017 and 2016, the components of cost of goods sold were as follows:

	<u>For the years ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Cost of goods sold	\$ 1,061,233,131	981,071,606
Provision on inventory market price decline	427,184	126,604
Loss on physical inventory	87,952	9,000
Unamortized manufacturing expenses	<u>37,658</u>	<u>37,920</u>
	<u>\$ 1,061,785,925</u>	<u>981,245,130</u>

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- (i) For the years ended December 31, 2017 and 2016, cost of goods sold and expenses amounting to \$1,061,785,925 and \$981,245,130 were recognized, respectively. For the years ended December 31, 2017 and 2016, the Company recognized a provision on inventory market price decline of \$427,184 and \$126,604, respectively, which was charged to cost of goods sold because of adjusting inventory value to net realize value.
- (ii) As of December 31, 2017 and 2016, the aforesaid inventories were not pledged as collateral.
- (e) Investments accounted for using equity method

	December 31, 2017	December 31, 2016
Subsidiary	<u>\$ 122,190,881</u>	<u>117,619,640</u>

- (i) Subsidiaries
- Please refer to the consolidated financial statement for the years ended December 31, 2017 and 2016.
- (ii) For the years ended December 31, 2017 and 2016, the Company had participated in the capital increase of PEGATRON HOLDING LTD., and invested USD100,000 thousand (approximately NTD3,018,000) and USD45,000 thousand (approximately NTD1,420,200), respectively.
- (iii) For the years ended December 31, 2017 and 2016, the Company received cash dividend of \$2,869,410 and \$4,307,600, respectively, from its investee companies accounted for under equity method.
- (iv) As of December 31, 2017 and 2016, the investments in aforesaid equity-accounted investees were not pledged as collateral.
- (f) Loss of control of a subsidiary
- On June 29, 2016, the shareholders of Ability Enterprise Co., Ltd. elected new set of directors during the shareholders' meeting, so that the Group lost its control over Ability Enterprise Co., Ltd. as the Group is unable to acquire more than half of the voting rights of the board of directors. This resulted in a disposal loss of \$561,172, which was charged to the statement of comprehensive income. The aforementioned loss was measured at the fair value of its equity ownership of 11.73% amounting to \$551,690 as of June 29, 2016.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

The derecognition amount of Ability's assets and liabilities as of June 29, 2016, were as follows:

Cash and cash equivalents	\$ 2,391,285
Inventories	2,690
Accounts receivable and other receivables	1,157,301
Property, plant, and equipment	1,885,526
Investment property	628,235
Intangible assets	8,713
Other assets	6,081,931
Accounts payable and other payables	(2,974,857)
Other liabilities	<u>(962,463)</u>
	<u>\$ 8,218,361</u>

(g) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2017 and 2016 were as follows:

	<u>Land</u>	<u>Building and construction</u>	<u>Machinery and equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or deemed cost:							
Balance on January 1, 2017	\$ 2,358,521	2,151,229	38,282	291,538	743,617	219,062	5,802,249
Additions	-	4,155	6,573	77,109	41,500	344,297	473,634
Disposals and obsolescence	-	(22,423)	(3,070)	(98,286)	(548,724)	-	(672,503)
Reclassifications	-	717	-	8,944	227,637	(1,227)	236,071
Balance on December 31, 2017	<u>\$ 2,358,521</u>	<u>2,133,678</u>	<u>41,785</u>	<u>279,305</u>	<u>464,030</u>	<u>562,132</u>	<u>5,839,451</u>
Balance on January 1, 2016	\$ 2,358,521	2,237,189	43,223	268,005	601,458	11,823	5,520,219
Additions	-	11,973	682	105,994	75,095	219,062	412,806
Disposals and obsolescence	-	(97,933)	(5,623)	(93,899)	(468,309)	-	(665,764)
Reclassifications	-	-	-	11,438	535,373	(11,823)	534,988
Balance on December 31, 2016	<u>\$ 2,358,521</u>	<u>2,151,229</u>	<u>38,282</u>	<u>291,538</u>	<u>743,617</u>	<u>219,062</u>	<u>5,802,249</u>
Depreciation and impairment loss :							
Balance on January 1, 2017	\$ -	724,915	25,475	126,292	201,557	-	1,078,239
Depreciation for the year	-	55,355	6,004	99,540	547,483	-	708,382
Disposals and obsolescence	-	(22,423)	(3,018)	(97,927)	(546,714)	-	(670,082)
Balance on December 31, 2017	<u>\$ -</u>	<u>757,847</u>	<u>28,461</u>	<u>127,905</u>	<u>202,326</u>	<u>-</u>	<u>1,116,539</u>
Balance on January 1, 2016	\$ -	715,206	25,660	133,098	222,361	-	1,096,325
Depreciation for the year	-	51,909	5,438	87,093	445,804	-	590,244
Disposals and obsolescence	-	(42,200)	(5,623)	(93,899)	(466,608)	-	(608,330)
Balance on December 31, 2016	<u>\$ -</u>	<u>724,915</u>	<u>25,475</u>	<u>126,292</u>	<u>201,557</u>	<u>-</u>	<u>1,078,239</u>

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

Carrying amounts :	<u>Land</u>	<u>Building and construction</u>	<u>Machinery and equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Construction in progress</u>	<u>Total</u>
Balance on December 31, 2017	\$ <u>2,358,521</u>	<u>1,375,831</u>	<u>13,324</u>	<u>151,400</u>	<u>261,704</u>	<u>562,132</u>	<u>4,722,912</u>
Balance on December 31, 2016	\$ <u>2,358,521</u>	<u>1,426,314</u>	<u>12,807</u>	<u>165,246</u>	<u>542,060</u>	<u>219,062</u>	<u>4,724,010</u>

- (i) As of December 31, 2017 and 2016, the property, plant and equipment were not pledged as collateral.
- (ii) The Company has started construction of new buildings. Please refer to Note 9(a) for the total cost and expenditure thereof.

(h) Intangible assets

The intangible assets of the Company consisted of computer software and golf certificate. The components of the costs of intangible assets, amortization, and impairment loss thereon of the years ended December 31, 2017 and 2016 were as follows:

Costs:

Balance on January 1, 2017	\$ 232,034
Additions	264,318
Disposals	<u>(31,660)</u>
Balance on December 31, 2017	<u>\$ 464,692</u>
Balance on January 1, 2016	\$ 96,357
Additions	151,161
Disposals	<u>(15,484)</u>
Balance on December 31, 2016	<u>\$ 232,034</u>

Amortization and Impairment Loss:

Balance on January 1, 2017	\$ 47,984
Amortization for the year	131,407
Disposals	<u>(31,660)</u>
Balance on December 31, 2017	<u>\$ 147,731</u>
Balance on January 1, 2016	\$ 28,781
Amortization for the year	34,687
Disposals	<u>(15,484)</u>
Balance on December 31, 2016	<u>\$ 47,984</u>

Carrying amounts:

Balance on December 31, 2017	<u>\$ 316,961</u>
Balance on December 31, 2016	<u>\$ 184,050</u>

- (i) The amortization of intangible assets and impairment losses are respectively included in the statement of comprehensive income. Please refer to Note 12 for details.
- (ii) As of December 31, 2017 and 2016, the intangible assets were not pledged as collateral.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(i) Other financial assets and other assets

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Other financial assets – current	\$ 41,616	41,539
Other financial assets – noncurrent	33,349	35,383
Other current assets	129,665	161,864
Other noncurrent assets	<u>4,230</u>	<u>10,606</u>
	<u>\$ 208,860</u>	<u>249,392</u>

(i) Other financial assets consist of restricted time deposits and guarantee deposit paid. Please refer to Note 8 for details.

(ii) Other current assets consisted of prepayments, temporary payments and others.

(iii) Other noncurrent assets consisted of prepayments for business facilities.

(j) Short-term loans

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Unsecured bank loans	<u>\$ 22,034,400</u>	<u>15,689,400</u>
Interest rate	<u>0.50%~6.85%</u>	<u>0.51%~6.85%</u>

(i) Collateral for short-term borrowings

The Company's assets were not pledged as guarantee for the Company's credit loan facility.

(k) Long -term loans

	<u>December 31, 2016</u>			
	<u>Currency</u>	<u>Interest rate</u>	<u>Expiration</u>	<u>Amount</u>
Unsecured bank loans	NTD	1.5789%	2018.9	\$ 2,700,000
Less : Arrangement fee				<u>(8,000)</u>
Total				<u>\$ 2,692,000</u>

(i) Securities for bank loans

The Company's assets were not pledged as guarantee for the Company's credit loan facility.

(ii) Loan covenants

On August 1, 2013, the Company signed a syndicated loan agreement with a total credit line of \$12,000,000. According to the agreement with the banks, the Company must comply with the following financial covenants:

1) Current ratio (current assets/current liabilities): should not be less than 100%.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

- 2) Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 80%.
- 3) Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.
- 4) Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

The compliance of 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 and consolidated financial statements of the Company.

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.

The Company was in compliance with the above financial covenants as of December 31, 2017 and 2016.

(l) Bonds payable

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

	December 31, 2017	December 31, 2016
Ordinary corporate bonds issued	\$ 7,000,000	-
Unamortized discount on bonds payable	(7,524)	-
Bonds payable, end of the year	\$ 6,992,476	-
	For the years ended December 31 2017	2016
Interest expense	\$ 34,164	-

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

Item	1st unsecured ordinary bonds issued in 2017
1. Issuing amount	The Bonds are issued at \$7,000,000, which comprise Tranche A, Tranche B and Tranche C. The issuing amounts of Tranche A, Tranche B and Tranche C are \$3,000,000, \$2,000,000 and \$2,000,000, respectively.
2. Par value	Each unit is valued at \$1,000.
3. Offering price	The Bonds are issued by par value at the issuance date.

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PEGATRON CORPORATION
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<u>Item</u>	<u>1st unsecured ordinary bonds issued in 2017</u>
4. Issuance period	Each of Tranche A, Tranche B and Tranche C has 3-year term, 5-year term and 7-year term, respectively. The issuance period of Tranche A commences from July 13, 2017 and matures on July 13, 2020. The issuance period of Tranche B commences from July 13, 2017 and matures on July 13, 2022. The issuance period of Tranche C commences from July 13, 2017 and matures on July 13, 2024.
5. Coupon rate	Tranche A, B and C bear annual coupon rates of 0.91%, 1.06% and 1.2%, respectively.
6. Repayment	Tranche A, Tranche B and Tranche C are repayable on maturity.
7. Interest payment	Interests are payable annually at coupon rate from the issuance date. The payment of each bond is rounded to the nearest dollar. If the repayment date and interest payment date are bank closing days, principal and interest shall be paid without extra interest on the next business day. If bondholders receive principal and interest past due the repayment date and interest payment date, there will no calculation of extra interest.
8. Guarantee	The Bonds are unsecured ordinary corporate bonds.

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

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(m) Provisions

	Allowance for sales returns and discounts
Balance on January 1, 2017	\$ 98,159
Provisions made during the year	15,891
Balance on December 31, 2017	\$ 114,050
Balance on January 1, 2016	\$ 117,549
Reversal of provisions during the year	(19,390)
Balance on December 31, 2016	\$ 98,159

Allowances for sales returns and discounts are estimated based on historical experience, managers' judgment, and other known reasons. Such allowances are recognized as a deduction of sales revenue in the same period in which sales are made.

(n) Operating leases

(i) Leasee

At the end of reporting period, the lease commitments were as follows:

	December 31, 2017	December 31, 2016
Less than one year	\$ 130,043	120,077
Between one and five years	81,820	159,335
	\$ 211,863	279,412

The Company leases a number of office, warehouse, and parking lots under operating leases. The leases typically run for a period of 1 to 5 years, with an option to renew the lease after that date.

For the years ended December 31, 2017 and 2016, expenses recognized in profit or losses in respect of operating leases were as follows:

	For the years ended December 31	
	2017	2016
Cost of sales	\$ 57,459	42,215
Operating expenses	120,037	123,106
	\$ 177,496	165,321

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(o) Employee benefits

(i) Defined benefit plans

The Company's defined benefit obligations and fair value of plan assets were as follows:

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	\$ 34,614	36,076
Fair value of plan assets	(9,984)	(9,363)
Net defined benefit liabilities	\$ 24,630	26,713

The Company makes defined benefit plans contributions to the pension fund account with Bank of Taiwan that provide pension benefits for employees upon retirement. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for six months prior to retirement.

1) Composition of plan assets

The Company sets aside pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. Under these regulations, the minimum earnings from these pension funds shall not be less than the earnings from two-year time deposits with the interest rates offered by local banks.

As of December 31, 2017, the Company's contributions to the pension funds which amounted to \$9,984 were deposited with Bank of Taiwan. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

The movements in the present value of the defined benefit obligations for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31	
	2017	2016
Defined benefit obligation, January 1	\$ 36,076	28,606
Current service costs and interest	5,533	4,543
Re-measurement of the net defined benefit liability		
— Actuarial (losses) gains arose from changes in demographic assumptions	(1,363)	483
— Actuarial gains arose from changes in financial assumption	1,641	1,666
— Experience adjustment	(7,273)	778
Defined benefit obligation, December 31	\$ 34,614	36,076

(Continued)

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Notes to the Non-Consolidated Financial Statements

3) Movements in the fair value of plan assets

The movements in the fair value of the defined benefit plan assets for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31	
	2017	2016
Fair value of plan assets, January 1	\$ 9,363	8,756
Interests revenue	169	175
Re-measurement of the net defined benefit liability		
— Experience adjustment	(73)	(95)
Benefits paid by the plan	525	527
Fair value of plan assets, December 31	\$ 9,984	9,363

4) Expenses recognized in profit or loss

The Company's pension expenses recognized in profit or loss for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31	
	2017	2016
Current service cost	\$ 4,883	3,971
Net interest on net defined benefit liability	481	397
	\$ 5,364	4,368
Operating expense	\$ 5,364	4,368

5) Re-measurement of net defined benefit liability recognized in other comprehensive income

The Company's net defined benefit liability recognized in other comprehensive income for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31	
	2017	2016
Cumulative amount, January 1	\$ 876	3,898
Recognized during the year	6,922	(3,022)
Cumulative amount, December 31	\$ 7,798	876

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

6) Actuarial assumptions

The following were the key actuarial assumptions at the reporting date:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Discount rate	1.60 %	1.80 %
Future salary increase rate	3.00 %	3.00 %

The Company is expected to make a contribution payment of \$525 to the defined benefit plans for the one year period after December 31, 2017.

The weighted-average duration of the defined benefit plans is 24 years.

7) Sensitivity Analysis

As of December 31, 2017 and 2016, the changes in the principal actuarial assumptions will impact on the present value of defined benefit obligation as follows:

	<u>Impact on the present value of defined benefit obligation</u>	
	<u>Increase by 0.50%</u>	<u>Decrease by 0.50%</u>
December 31, 2017		
Discount rate	(3,873)	4,404
Future salary increase rate	4,318	(3,841)
December 31, 2016		
Discount rate	(4,071)	4,639
Future salary increase rate	4,557	(4,045)

The sensitivity analysis assumed all other variables remain constant during the measurement. This may not be representative of the actual change in defined benefit obligation as some of the variables may be correlated in the actual situation. The model used in the sensitivity analysis is the same as the defined benefit obligation liability.

The analysis is performed on the same basis for prior year.

(ii) Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labour pension personal account at the Bureau of the Labour Insurance in accordance with the provisions of the Labour Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of the Labour Insurance without additional legal or constructive obligations.

The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2017 and 2016 amounted to \$317,321 and \$309,909, respectively.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(iii) Short-term employee benefits

The Company's short-term employee benefit liabilities amounted to \$117,635 and \$140,132 as of December 31, 2017 and 2016, respectively.

(p) Income tax

(i) The components of income tax expense for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31	
	2017	2016
Current income tax expense		
Current period incurred	\$ 1,087,229	1,590,239
Prior years income tax adjustment	(133,222)	56,553
10% surtax on undistributed earnings	119,995	850,489
Deferred tax expense		
The origination and reversal of temporary differences	(556,543)	60,288
Income tax expense	\$ 517,459	2,557,569

(ii) Income tax calculated on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2017 and 2016 as follows:

	For the years ended December 31	
	2017	2016
Profit before income tax	\$ 15,200,447	21,897,384
Income tax on pre-tax financial income calculated at the domestic rate	2,584,076	3,722,555
Permanents differences	(654,626)	(737,416)
Change of unrecognized temporary differences	(1,402,063)	(1,334,391)
Prior years income tax adjustment	(133,222)	56,553
10% surtax on undistributed earnings	119,995	850,489
Others	3,299	(221)
	\$ 517,459	2,557,569

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Notes to the Non-Consolidated Financial Statements

(iii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

As of December 31, 2017 and 2016, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax liabilities as the Company has the ability to control the reversal of these temporary differences which are not expected to reverse in the foreseeable future.

	December 31, 2017	December 31, 2016
The aggregate temporary differences associated with investments in subsidiaries	<u>\$ 38,016,169</u>	<u>29,768,739</u>
Unrecognized deferred tax liabilities	<u>\$ 6,462,749</u>	<u>5,060,686</u>

2) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2017 and 2016 were as follows:

	Gain on foreign investments	Others	Total
Deferred on tax liabilities:			
Balance on January 1, 2017	\$ 225,261	-	225,261
Recognized in profit	<u>(225,261)</u>	<u>-</u>	<u>(225,261)</u>
Balance on December 31, 2017	<u>\$ -</u>	<u>-</u>	<u>-</u>
Balance on January 1, 2016	\$ 225,261	-	225,261
Balance on December 31, 2016	<u>\$ 225,261</u>	<u>-</u>	<u>225,261</u>
Deferred tax assets:			
	Gain or loss on valuation of inventory	Others	Total
Balance on January 1, 2017	\$ 107,530	123,342	230,872
Recognized in profit	<u>72,621</u>	<u>258,661</u>	<u>331,282</u>
Balance on December 31, 2017	<u>\$ 180,151</u>	<u>382,003</u>	<u>562,154</u>
Balance on January 1, 2016	\$ 86,008	205,152	291,160
Recognized in profit (loss)	<u>21,522</u>	<u>(81,810)</u>	<u>(60,288)</u>
Balance on December 31, 2016	<u>\$ 107,530</u>	<u>123,342</u>	<u>230,872</u>

(iv) Status of approval of income tax

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

	December 31, 2017	December 31, 2016
Stockholders' imputation tax credit account	(Note)	\$ <u><u>4,779,126</u></u>
	2017	2016(Actual)
Tax deduction ratio for earnings distributable to R.O.C. residents	(Note)	<u><u>14.70%</u></u>

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

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

Note: According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective from January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

- (q) Share capital and other interests

As of December 31, 2017 and 2016, the authorized capital of the Company consisted of 3,000,000 thousand shares, with par value of \$10 per share. The outstanding shares consisted of 2,614,090 and 2,575,169 thousand common shares, respectively, and the capital that rose from the shares had all been retrieved.

- (i) Nominal ordinary shares

The movements in ordinary shares of stock outstanding for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31	
Ordinary Shares (In thousands of shares)	2017	2016
Beginning balance on January 1	2,575,169	2,603,020
Issuance of restricted shares of stock	40,000	-
Retirement of restricted shares of stock	(1,079)	(1,441)
Retirement of treasury stock	-	(26,410)
Ending balance on December 31	2,614,090	2,575,169

The Company issued restricted shares of stock totaling 40,000 thousand shares to employees for the year ended December 31, 2017.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

For the years ended December 31, 2017 and 2016, the Company had retired 1,079 and 1,441 thousand shares, respectively, of restricted stock to employees. Likewise, the Company retired treasury stock totaling 26,410 thousand shares in order to protect the Company's integrity and shareholders' equity for the year ended December 31, 2016. Therefore, the authorized capital of the Company consisted of both 3,000,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,614,090 and 2,575,169 thousand common shares of stock, as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the restricted Company shares of stock issued to employees have expired, of which 194 and 225 thousand shares, respectively, have not been retired.

(ii) Global depositary receipts

ASUSTeK GDRs holders who surrendered their ASUSTeK GDRs on or after the Effective Date of Spin-off and Merger in Taiwan will receive new ASUSTeK GDRs and the Company's entitlement. The Company's entitlement represents the rights to receive 60,819,026 of the Company's common shares in Taiwan.

The Company may issue new GDRs with no more than 60,819,020 of the Company's common shares and deliver them to ASUSTeK GDR holders pursuant to the "Guidelines for Offering and Issuing by Issuer of Overseas Securities". As of December 31, 2017 and 2016, the Company has listed, in total, 10,945 and 6,250 thousand units of GDRs, respectively, on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed Company shares totaling 54,724 and 31,251 thousand shares of stock, respectively. Major terms and conditions for GDRs were as follows:

1) Voting Rights

Holders of GDRs may exercise voting rights with respect to the common shares in the manner set out in "Terms and Conditions of the Global Depositary Shares – Voting Rights," as such provisions may be amended from time to time to comply with applicable ROC law.

2) Dividend Distributions, Pre-emptive Rights, and Other Rights

Holders of GDRs have same rights on dividend distribution and share distribution as the Company's existing common shareholders.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(iii) Capital surplus

The components of the capital surplus were as follows:

	December 31, 2017	December 31, 2016
From issuance of share capital	\$ 63,209,502	62,238,593
From conversion of convertible bonds	11,073,663	11,073,663
From treasury stock transactions	23,614	23,614
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,383,056	2,383,056
Changes in ownership interest in subsidiaries	576,033	741,312
Employee stock options	1,304	1,304
Restricted stock to employees	2,220,662	1,342,800
Other	409,917	409,917
	\$ 79,897,751	78,214,259

In accordance with Amended Companies Act 2012, realized capital reserves can only be capitalized or distributed as cash dividends after offsetting against losses. The aforementioned capital reserves include share premiums and donation gains. In accordance with Securities Offering and Issuance Guidelines, the amount of capital reserves that can be capitalized shall not exceed 10 percent of the actual share capital amount.

(iv) Retained earnings

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

1) Legal reserve

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

2) Special reserve

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

3) Earnings Distribution

On June 20, 2017 and June 21, 2016, the Company's shareholders' meeting resolved to appropriate the 2016 and 2015 earnings. These earnings were appropriated or distributed as follows:

	2016	2015
Common stock dividends per share (dollars)		
—Cash	\$ 5.00	5.00

(v) Treasury stock

In 2016, in accordance with the Article 28-2 of the Securities and Exchange Act, the Company repurchased 26,410 shares as treasury shares in order to protect the Company's integrity and shareholders' equity. As of December 31, 2016, treasury stock totaling 26,410 shares were retired.

In accordance with the Securities and Exchange Act requirements as stated above, the number of shares repurchased should not exceed 10 percent of total issued shares. Also the value of the repurchased shares should not exceed the sum of the Company's retained earnings, share premium, and realized reserves.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(vi) Other equity accounts (net of tax)

	Exchange differences on translation of foreign financial statements	Available-for- sale investments	Deferred compensation arising from issuance of restricted stock	Total
Balance on January 1, 2017	\$ (3,552,939)	183,953	(429,882)	(3,798,868)
Exchange differences on subsidiaries and associates accounted for using equity method	(6,145,435)	-	-	(6,145,435)
Unrealized gains on available-for-sale financial assets	-	102,719	-	102,719
Unrealized gains on available-for-sale financial assets of subsidiaries and associates accounted for using equity method	-	596,489	-	596,489
Deferred compensation cost	-	-	(792,350)	(792,350)
Balance on December 31, 2017	<u>\$ (9,698,374)</u>	<u>883,161</u>	<u>(1,222,232)</u>	<u>(10,037,445)</u>
Balance on January 1, 2016	\$ 3,752,117	211,234	(1,238,377)	2,724,974
Exchange differences on subsidiaries and associates accounted for using equity method	(7,305,056)	-	-	(7,305,056)
Unrealized gains on available-for-sale financial assets	-	4,983	-	4,983
Unrealized losses on available-for-sale financial assets of subsidiaries and associates accounted for using equity method	-	(32,264)	-	(32,264)
Deferred compensation cost	-	-	808,495	808,495
Balance on December 31, 2016	<u>\$ (3,552,939)</u>	<u>183,953</u>	<u>(429,882)</u>	<u>(3,798,868)</u>

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(r) Share-based payment

Information on share-based payment transactions as of December 31, 2017 and 2016 were as follows:

	Equity-settled share-based payment		
	Restricted stock to employee		
	Issued in 2016	Issued in 2014	Issued in 2013
Thousand units granted	40,000	40,000	6,062
Contractual life	3 years	3 years	3 years
Vesting period	Note A	Note A	Note B
Actual turnover rate of employees	1.70%	7.11%	5.80%
Estimated future turnover rate for each or the three years of employees	7.66%、15.44% 、25.92%	10.48%、20.18% 、34.36%	10.94%、25.07% 、33.76%

Note A: Employees are entitled to receive 20%, 40%, and 40% of the restricted stock in the first, second and third year, respectively, of their service.

Note B: Employees are entitled to receive 40%, 30%, and 30% of the restricted stock in the first, second and third year, respectively, of their service.

On August 12, 2013, pursuant to the resolutions of its board of directors, the Company issued 6,062 thousand shares of restricted shares of stock to employees with par value of NT\$10 per share. These were unissued shares whose total number is limited to up to 40,000 thousand shares of stock approved by the Financial Supervisory Commission for purposes of issuing restricted Company shares of stock to employees on October 19, 2012. The effective date of this capital increase was September 12, 2013. The legal procedure for the change in the registration of capital stock has been completed. Unless the vesting conditions have lapsed, the restricted shares of stock may not be sold, pledged, transferred, hypothecated or otherwise disposed. Holders of restricted shares of stock are entitled to rights as the Company's existing common shareholders except for the fact that restricted shares of stock are held by the trust and have vesting conditions. Also, the Company bears the right to buy back the restricted shares of stock at the issuance price and to cancel all restricted shares of stock issued to any employee who fails to comply with the vesting condition without returning the distributed dividend.

On June 18, 2014, the shareholders approved a resolution passed during their meeting to award 40,000 thousand new restricted shares of stock to those full-time employees who meet certain requirement of the Company. The restricted stock has been 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\$91.9 each at grant date.

(Continued)

PEGATRON CORPORATION
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Employees with restricted stock awards are entitled to purchase the Company's shares at the price of NT\$10 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 retire the shares thereafter.

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

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

(i) Determining the fair value of equity instruments granted

The Company adopted the Black-Scholes model to calculate the fair value of the stock option at grant date, and the assumptions adopted in this valuation model were as follows:

	Equity-settled share-based payment			
	Restricted stock to employee			
	Issued in 2016	Issued in 2016	Issued in 2014	Issued in 2013
Fair value at grant date	09/15/2017	05/09/2017	05/07/2015	08/12/2013
Stock price at grant date	\$ 88.50	89.70	91.90	45.20
Exercise price	10.00	10.00	10.00	10.00
Expected life of the option	3 years	3 years	3 years	3 years
Current market price	88.50	89.70	91.90	45.20
Expected volatility	25.16%~31.95%	30.19%~32.92%	33.37%	32.68%
Expected dividend yield	-%	-%	-%	-%
Risk-free interest rate	(Note A)	(Note A)	(Note B)	(Note C)

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

Note A: The risk-free interest rate is 0.23% for the 1st year, 0.25% for the 2nd year, and 0.28% for the 3rd year.

Note B: The risk-free interest rate is 0.4902% for the 1st year, 0.6632% for the 2nd year, and 0.7992% for the 3rd year.

Note C: The risk-free interest rate is 0.5997% for the 1st year, 0.7167% for the 2nd year, and 0.8764% for the 3rd year.

(ii) Restricted stock to employee

For the year ended December 31, 2017, the Company issued restricted shares of stock to employees of 40,000 thousand shares, which resulted in a capital surplus — restricted employee stock of \$1,702,900. Also, for the years ended December 31, 2017 and 2016, 1,049 and 1,407 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$10,485 and \$14,066, respectively. As of December 31, 2017 and 2016, the Company has deferred compensation cost arising from issuance of restricted stock of \$1,222,232 and \$429,882, respectively.

For the years ended December 31, 2017 and 2016, the Company recognized salary cost of \$58,346 and \$36,306 from the distribution of cash dividends to estimated non-vesting restricted shares of stock distributed to employees from prior period earnings. Such salary cost was accounted under retained earnings as it remained to be unrealized.

(iii) Expenses resulting from share-based payments

The Company incurred expenses from share-based payment transactions for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31	
	2017	2016
Expenses resulting from issuance of restricted stock to employees	\$ 1,221,618	900,522

(s) Earnings per share

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

	For the years ended December 31	
	2017	2016
Basic earnings per share		
Profit attributable to ordinary shareholders	\$ 14,682,988	19,339,815
Weighted-average number of ordinary shares	2,592,882	2,579,930
	\$ 5.66	7.50

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

	For the years ended December 31	
	2017	2016
Diluted earnings per share		
Profit attributable to ordinary shareholders (diluted)	\$ 14,682,988	19,339,815
Weighted-average number of ordinary shares	2,592,882	2,579,930
Effect of potentially dilutive ordinary shares		
Employee stock bonus	16,663	27,941
Weighted-average number of ordinary shares (diluted)	2,609,545	2,607,871
	\$ 5.63	7.42
(t) Revenue		
	For the years ended December 31	
	2017	2016
Sale of goods	\$ 1,055,520,481	984,213,641
Others	25,054,514	23,883,146
	\$ 1,080,574,995	1,008,096,787
(u) Remuneration of employees and directors		

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

For the years ended December 31, 2017 and 2016, remuneration of employees of \$1,188,000 and \$1,734,000, respectively, and remuneration of directors of \$115,000 and \$166,000, respectively, were estimated on the basis of the Company's net profit before tax, excluding the remuneration of employees and directors of each period, multiplied by the percentage of remuneration of employees and directors as specified in the Company's Articles of Incorporation. Such amounts were recognized as operating cost or operating expense for the years ended December 31, 2017 and 2016. Management is expecting that the differences, if any, between the actual distributed amounts and estimated amounts will be treated as changes in accounting estimates and charged to profit or loss. The number of shares to be distributed were calculated based on the closing price of the Company's ordinary shares, one day prior to Board of Directors meeting. There was no difference between the amounts approved in Board of Directors meeting and recognized for the years ended December 31, 2017 and 2016. For further information, please refer to Market Observation Post System.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(v) Non-operation income and expenses

(i) Other income

	For the years ended December 31	
	2017	2016
Interest income	\$ 310,843	229,810
Rental income	104,959	84,450
Technical service income	269,096	204,469
Other income	<u>257,382</u>	<u>281,846</u>
	<u>\$ 942,280</u>	<u>800,575</u>

(ii) Other gains and losses

	For the years ended December 31	
	2017	2016
Gains on disposal of property, plant and equipment	\$ 89	25
Foreign exchange losses	(1,236,332)	(780,131)
Gain on reversal of uncollectable account	131,585	69,986
Net gains on evaluation of financial assets measured at fair value through profit or loss	24	1,298
Loss from disposal of long-term investment	-	(561,172)
Other loss	<u>(470,924)</u>	<u>(217,855)</u>
	<u>\$ (1,575,558)</u>	<u>(1,487,849)</u>

(iii) Finance costs

	For the years ended December 31	
	2017	2016
Interest expenses	\$ 551,494	492,506
Finance expense—bank fees	<u>57,336</u>	<u>79,811</u>
	<u>\$ 608,830</u>	<u>572,317</u>

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(w) Reclassification of other comprehensive income

The Company's reclassification of other comprehensive income were as follows:

	<u>For the years ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Available-for-sale financial assets		
Net change in fair value	\$ 102,719	4,983
Net gain (loss) from subsidiaries for using equity method	596,489	(39,573)
Reclassification to profit or loss for losing control of subsidiaries	<u>-</u>	<u>7,309</u>
Net fair value change recognized in other comprehensive income	<u>\$ 699,208</u>	<u>(27,281)</u>
	<u>For the years ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Cumulative adjustment		
Losses from subsidiaries for using equity method	\$ (6,145,435)	(7,295,693)
Reclassification to profit or loss for losing control of subsidiaries	<u>-</u>	<u>(9,363)</u>
Net fair value change recognized in other comprehensive income	<u>\$ (6,145,435)</u>	<u>(7,305,056)</u>

(x) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Credit risk concentrations

As of December 31, 2017 and 2016, the accounts receivable from the Company's top three customers amounted to \$222,360,639 and \$196,872,694, representing 69% and 73% of accounts receivable, respectively, which exposes the Company to credit risk.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

3) Impairment losses

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

	December 31, 2017	December 31, 2016
Not past due	\$ 317,688,277	303,232,218
Past due 0 - 30 days	1,694,515	4,213,105
Past due 31 - 120 days	47,612	172,845
Past due 121 - 365 days	240,202	55,137
Past due more than 1 year	<u>1,942,930</u>	<u>1,615,181</u>
	<u>\$ 321,613,536</u>	<u>309,288,486</u>

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

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2017	\$ -	1,642,501	1,642,501
Reversal of impairment loss	<u>-</u>	<u>(131,585)</u>	<u>(131,585)</u>
Balance on December 31, 2017	<u>\$ -</u>	<u>1,510,916</u>	<u>1,510,916</u>
Balance on January 1, 2016	\$ -	1,712,487	1,712,487
Reversal of impairment loss	<u>-</u>	<u>(69,986)</u>	<u>(69,986)</u>
Balance on December 31, 2016	<u>\$ -</u>	<u>1,642,501</u>	<u>1,642,501</u>

Based on historical default rates, the Company believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due. Also, the payment term of the receivables from related parties depend on the Company's capital movement, and there's no penalty interest due for late payment. The Company's management believes that there's no significant change on the credit quality of the aforesaid receivables which are past due but not impaired, thus they assess the receivables can be recovered. In addition, the Company does not hold any collateral and of other credit enhancement to mitigate the credit risk of the foresaid receivables.

Allowance for bad debts or accumulated impairment are the accounts used to record bad debt expense or impairment loss. If the Company believes the related receivables cannot be recovered, the carrying amount of the financial assets will be reduced through the allowance for bad debts accounts and accumulated impairment.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(ii) Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
December 31, 2017					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 22,034,400	22,034,400	22,034,400	-	-
Unsecured ordinary corporate bond	7,000,000	-	-	-	7,000,000
Non-interest bearing liabilities	<u>318,904,144</u>	<u>318,904,144</u>	<u>318,904,144</u>	<u>-</u>	<u>-</u>
	<u>\$ 347,938,544</u>	<u>340,938,544</u>	<u>340,938,544</u>	<u>-</u>	<u>7,000,000</u>
December 31, 2016					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 18,389,400	18,389,400	15,689,400	2,700,000	-
Non-interest bearing liabilities	<u>312,845,460</u>	<u>312,845,460</u>	<u>312,845,460</u>	<u>-</u>	<u>-</u>
	<u>\$ 331,234,860</u>	<u>331,234,860</u>	<u>328,534,860</u>	<u>2,700,000</u>	<u>-</u>

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

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

(iii) Currency risk

1) Currency risk exposure

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

(Unit: Foreign currency/NTD in Thousands)

	<u>December 31, 2017</u>			<u>December 31, 2016</u>		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$11,348,709	29.760	337,737,580	10,152,816	32.250	327,428,316
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	11,106,338	29.760	330,524,619	9,820,436	32.250	316,709,061

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

2) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, loans, accounts payable and other payables that are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Company's functional currency as of December 31, 2017 and 2016 would have increased or decreased the before-tax net income by \$72,130 and \$127,294, respectively. The analysis is performed on the same basis for both periods.

3) Gains or losses on monetary item

As the Company deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the years ended December 31, 2017 and 2016, the foreign exchange losses, including both realized and unrealized, amounted to \$1,236,332 and \$780,131, respectively.

(iv) Interest rate analysis

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

The Company'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.

The Company has financial assets and liabilities with fixed interest rates at the reporting date; this is mainly due to its time deposits and bank loans.

(v) Fair value of financial instruments

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

1) Categories of financial instruments

Financial Assets:

	December 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss		
Available-for-sale financial assets	\$ <u>659,392</u>	<u>556,673</u>
Financial assets carried at cost	<u>-</u>	<u>-</u>
Deposits and receivables		
Cash and cash equivalents	24,928,694	36,049,317
Accounts and other receivables	320,102,620	307,645,985
Other financial assets	<u>74,965</u>	<u>76,922</u>
Sub-total	<u>345,106,279</u>	<u>343,772,224</u>
Total	<u>\$ 345,765,671</u>	<u>344,328,897</u>

Financial liabilities:

	December 31, 2017	December 31, 2016
Financial liabilities carried at amortized cost		
Short-term loans	\$ 22,034,400	15,689,400
Notes, accounts and other payables	318,904,144	312,845,460
Bonds payable	6,992,476	-
Long-term loans (including current portion)	-	2,692,000
Guarantee deposit (recognized in other noncurrent liabilities)	<u>26,356</u>	<u>21,801</u>
Total	<u>\$ 347,957,376</u>	<u>331,248,661</u>

2) Fair value hierarchy

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

- a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- c) Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

(Continued)

PEGATRON CORPORATION
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		December 31, 2017			
		Fair Value			
Financial Assets:	Book Value	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets					
Listed stock	\$ <u>659,392</u>	<u>659,392</u>	<u>-</u>	<u>-</u>	<u>659,392</u>
		December 31, 2016			
		Fair Value			
Financial Assets:	Book Value	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets					
Listed stock	\$ <u>556,673</u>	<u>556,673</u>	<u>-</u>	<u>-</u>	<u>556,673</u>

There have been no transfers from each level for the years ended December 31, 2017 and 2016.

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

a) Non-derivative financial instruments

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

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

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

b) Derivative financial instruments

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

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(vi) Offsetting of financial assets and financial liabilities

The Company 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:

December 31, 2017						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross		Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		Net amounts (e)=(c)-(d)
	Gross Assets (a)	Liabilities Offset (b)		Financial Instruments (Note)	Cash collected as pledge	
Accounts Receivable and Payable	\$ <u>82,977,604</u>	<u>70,068,442</u>	<u>12,909,162</u>	<u>-</u>	<u>-</u>	<u>12,909,162</u>

December 31, 2017						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross		Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		Net amounts (e)=(c)-(d)
	Gross Liabilities (a)	Assets Offset (b)		Financial Instruments (Note)	Cash collected as pledge	
Accounts Receivable and Payable	\$ <u>70,068,442</u>	<u>70,068,442</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

December 31, 2016						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross		Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		Net amounts (e)=(c)-(d)
	Gross Assets (a)	Liabilities Offset (b)		Financial Instruments (Note)	Cash collected as pledge	
Accounts Receivable and Payable	\$ <u>66,360,118</u>	<u>59,499,028</u>	<u>6,861,090</u>	<u>-</u>	<u>-</u>	<u>6,861,090</u>

December 31, 2016						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross		Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		Net amounts (e)=(c)-(d)
	Gross Liabilities (a)	Assets Offset (b)		Financial Instruments (Note)	Cash collected as pledge	
Accounts Receivable and Payable	\$ <u>59,499,028</u>	<u>59,499,028</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

(y) Financial risk management

(i) Overview

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

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

(ii) Risk management framework

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, 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 Company's activities. The Company, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

(iii) Credit risk

Credit risk means the potential loss of the Company if the counterparty involved in that transaction defaults. The primary potential credit risk is from financial instruments like cash, equity securities, and accounts receivable. Also, the Company deposits cash in different financial institutions. The Company 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 Company transacted only with the approved third parties with good financial conditions and reputation. For those customers with poor financial situation, the Company would transfer the risk through acquiring guarantees or transacting by L/C. Therefore, the Company believes that there is no significant credit risk.

1) Accounts receivables and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company'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 Company 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.

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

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

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

2) Investment

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Company's finance department. As the Company 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 Company does not have compliance issues and no significant credit risk.

3) Guarantees

The Company's policies were prepared in accordance with Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies.

(iv) Liquidity risk

Liquidity risk is a risk that the Company is unable to meet the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation.

The Company has sufficient working capital to meet its funding requirements for its operation and when all its obligations become due and payable. It is not expecting any significant liquidity risk.

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

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

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(v) 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 Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Currency risk

The functional currency of the Company is the New Taiwan Dollars (NTD). The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency. The currencies used in these transactions are denominated in NTD, EUR, and USD.

The Company's foreign currency denominated purchases and sales are denominated mainly in US dollars. This exposes the Company 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 Company 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 Company. 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 Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

2) Interest rate risk

The Company'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.

3) Price floating risk on equity instruments

The equity securities held by the Company 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 Company is exposed to the market price fluctuation risk in the equity securities market.

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

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(z) Capital management

The Board's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, paid-in capital, retained earnings and non-controlling interests of the Company. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

The Company used the liability-to-equity ratio, debt-to-equity ratio and other financial ratio to maintain an optimal capital structure and raise returns on equity.

The Company's debt to equity ratios at the balance sheet date were as follows:

	December 31, 2017	December 31, 2016
Total liabilities	\$ 362,977,455	347,662,302
Less: cash and cash equivalents	<u>(24,928,694)</u>	<u>(36,049,317)</u>
Net debt	338,048,761	311,612,985
Total capital (Note)	<u>145,975,738</u>	<u>148,269,590</u>
Adjusted capital	<u>\$ 484,024,499</u>	<u>459,882,575</u>
Debt to equity ratio	<u>69.84%</u>	<u>67.76%</u>

Note: Total capital includes share capital, capital surplus, retained earnings, other equity and net debt.

Management believes that there were no changes in the Company's approach to capital management for the year ended December 31, 2017.

(7) Related-party transactions:

(a) The ultimate parent company

The Company is the ultimate parent company.

(b) Names and relationship with related parties

The following are entities that have had transactions with related parties and the Company's subsidiaries during the periods covered in the non-consolidated financial statements.

Name of related party	Relationship with the Company
CASETEK COMPUTER (SUZHOU) CO., LTD.	The Company's subsidiary
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	The Company's subsidiary
CORE-TEK (SHANGHAI) LIMITED	The Company's subsidiary
KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	The Company's subsidiary
AZURE WAVE TECHNOLOGIES, INC.	The Company's subsidiary
EZWAVE TECHNOLOGIES, INC.	The Company's subsidiary

(Continued)

PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

<u>Name of related party</u>	<u>Relationship with the Company</u>
AZURE LIGHTING TECHNOLOGIES, INC.	The Company's subsidiary
AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	The Company's subsidiary
AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	The Company's subsidiary
AIGALE CORPORATION (SHANGHAI)	The Company's subsidiary
AMA PRECISION INC.	The Company's subsidiary
TOPTEK PRECISION INDUSTRY (SUZHOU) CO., LTD.	The Company's subsidiary
POWTEK (SHANGHAI) LTD.	The Company's subsidiary
PIOTEK COMPUTER (SUZHOU) CO., LTD.	The Company's subsidiary
PEGAGLOBE (KUNSHAN) CO., LTD.	The Company's subsidiary
DIGITEK (CHONGQING) LTD.	The Company's subsidiary
MAINTEK COMPUTER (SUZHOU) CO., LTD.	The Company's subsidiary
PROTEK (SHANGHAI) LTD.	The Company's subsidiary
COTEK ELECTRONICS (SUZHOU) CO., LTD.	The Company's subsidiary
RUNTOP (SHANGHAI) CO., LTD.	The Company's subsidiary
ASUSPOWER INVESTMENT CO., LTD.	The Company's subsidiary
ASUS INVESTMENT CO., LTD.	The Company's subsidiary
ASUSTEK INVESTMENT CO., LTD.	The Company's subsidiary
ASROCK INCORPORATION	The Company's subsidiary
ASRock Rack Incorporation	The Company's subsidiary
KINSUS INTERCONNECT TECHNOLOGY CORP.	The Company's subsidiary
KINSUS INVESTMENT CO., LTD.	The Company's subsidiary
PEGAVISION CORPORATION	The Company's subsidiary
FUYANG TECHNOLOGY CORPORATION	The Company's subsidiary
FUYANG ELECTRONICS (SUZHOU) CO., LTD.	The Company's subsidiary
PEGAVISION (SHANGHAI) LIMITED	The Company's subsidiary
KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	The Company's subsidiary
KINSUS TRADING (SUZHOU) CORP.	The Company's subsidiary
STARLINK ELECTRONICS CORPORATION	The Company's subsidiary
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	The Company's subsidiary
RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	The Company's subsidiary
RI-MING (SHANGHAI) CO., LTD.	The Company's subsidiary
SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	The Company's subsidiary
RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	The Company's subsidiary
KAI JIA COMPUTER ACCESSORY CO., LTD.	The Company's subsidiary
RI KAI COMPUTER ACCESSORY CO., LTD.	The Company's subsidiary

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

Name of related party	Relationship with the Company
RIH KUAN METAL CORPORATION	The Company's subsidiary
KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD.	The Company's subsidiary
ASFLY TRAVEL SERVICE LIMITED	The Company's subsidiary
PEGA INTERNATIONAL LIMITED	The Company's subsidiary
Lumens Digital Optics Inc. (Lumens Optics)	The Company's subsidiary
Lumens (Suzhou) Digital Image Inc.	The Company's subsidiary
HUA-YUAN INVESTMENT LIMITED	The Company's subsidiary
HONGJIE (SUZHOU) PACKING LIMITED	Other related party
AMA Holdings Limited	The Company's subsidiary
APEX SUN LIMITED	The Company's subsidiary
APLUS PRECISION LIMITED	The Company's subsidiary
ASIAROCK TECHNOLOGY LIMITED	The Company's subsidiary
ASLINK PRECISION CO., LTD.	The Company's subsidiary
ASRock America, Inc.	The Company's subsidiary
ASROCK EUROPE B.V.	The Company's subsidiary
ASUSPOWER CORPORATION	The Company's subsidiary
Azurewave Technologies (USA) Inc.	The Company's subsidiary
Azwave Holding (Samoa) Inc.	The Company's subsidiary
Calrock Holdings, LLC.	The Company's subsidiary
CASETEK HOLDINGS LIMITED (CAYMAN)	The Company's subsidiary
CASETEK HOLDINGS LIMITED	The Company's subsidiary
COTEK HOLDINGS LIMITED	The Company's subsidiary
DIGITEK GLOBAL HOLDINGS LIMITED	The Company's subsidiary
First place International Limited	The Company's subsidiary
FUYANG FLEX HOLDING LTD.	The Company's subsidiary
GRAND UPRIGHT TECHNOLOGY LIMITED	The Company's subsidiary
KAEDAR HOLDINGS LIMITED	The Company's subsidiary
KAEDAR TRADING LTD.	The Company's subsidiary
KINSUS CORP. (USA)	The Company's subsidiary
KINSUS HOLDING (CAYMAN) LIMITED	The Company's subsidiary
KINSUS HOLDING (SAMOA) LIMITED	The Company's subsidiary
Leader Insight Holdings Limited	The Company's subsidiary
Lumens Digit Image Inc.	The Company's subsidiary
Lumens Integration Inc.	The Company's subsidiary
MAGNIFICENT BRIGHTNESS LIMITED	The Company's subsidiary

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

<u>Name of related party</u>	<u>Relationship with the Company</u>
MEGA MERIT LIMITED	The Company's subsidiary
PEGATRON Czech s.r.o.	The Company's subsidiary
PEGATRON HOLDING LTD.	The Company's subsidiary
PEGATRON HOLLAND HOLDING B.V.	The Company's subsidiary
PEGATRON JAPAN INC.	The Company's subsidiary
PEGATRON LOGISTIC SERVICE INC.	The Company's subsidiary
PEGATRON Mexico, S.A. de C.V.	The Company's subsidiary
Pegatron Service Holland B.V.	The Company's subsidiary
PEGATRON SERVICE KOREA LLC	The Company's subsidiary
Pegatron Service Singapore Pte. Ltd.	The Company's subsidiary
PEGATRON SERVICOS DE INFORMATICA LTDA.	The Company's subsidiary
PEGATRON TECHNOLOGY SERVICE INC.	The Company's subsidiary
PEGATRON USA, Inc.	The Company's subsidiary
PEGAVISION HOLDINGS CORPORATION	The Company's subsidiary
PEGAVISION JAPAN Inc.	The Company's subsidiary
PIOTEK HOLDING LIMITED	The Company's subsidiary
PIOTEK HOLDINGS LTD. (CAYMAN)	The Company's subsidiary
PIOTEK(H.K.) TRADING LIMITED	The Company's subsidiary
POWTEK HOLDINGS LIMITED	The Company's subsidiary
PROTEK GLOBAL HOLDINGS LTD.	The Company's subsidiary
RIH LI INTERNATIONAL LIMITED	The Company's subsidiary
SLITEK HOLDINGS LIMITED	The Company's subsidiary
TOP QUARK LIMITED	The Company's subsidiary
UNIHAN HOLIDNG LTD.	The Company's subsidiary
UNITED NEW LIMITED	The Company's subsidiary
GREEN PACKING LIMITED	Other related party

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(c) Significant Transactions with related parties

(i) Sale of Goods to Related Parties

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

	<u>Sales</u>		<u>Receivables from related parties</u>	
	<u>For the years ended December 31</u>		<u>December 31,</u>	<u>December 31,</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Subsidiaries	<u>\$ 6,035,026</u>	<u>5,793,802</u>	<u>190,257,570</u>	<u>199,196,892</u>

Prices charged for sales transactions with associates were not significantly different from those of non-related parties. The average sales term for notes and accounts receivables pertaining to such sales 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 based on the result of management's evaluation.

(ii) Purchase of Goods from Related Parties

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

	<u>Purchases</u>		<u>Payables to Related Parties</u>	
	<u>For the years ended December 31</u>		<u>December 31,</u>	<u>December 31,</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Subsidiaries	\$ 98,828,391	125,153,433	143,407,464	173,716,300
Other related parties	88	40,827	-	4,391
	<u>\$ 98,828,585</u>	<u>125,194,365</u>	<u>143,407,570</u>	<u>173,720,796</u>

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.

(iii) Warranty repair expense paid to Related Parties

	<u>For the years ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Subsidiaries	<u>\$ 39,760</u>	<u>61,820</u>

(iv) Other income and losses from Related Parties

	<u>For the years ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Subsidiaries	<u>\$ 14,668</u>	<u>12,202</u>

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(v) Rental revenue

For the years ended December 31, 2017 and 2016, the Company incurred other related party transactions of \$89,498 and \$68,240, respectively, which were accounted for as rental revenue. Lease terms with associates were not significantly different from those of non-related parties.

(vi) Other related party transactions recorded as expenses

For the years ended December 31, 2017 and 2016, the Company incurred other related party transactions recorded as expenses such as rental expense, royalty payment, storage expense, and professional service fee, etc, aggregating to \$1,312,025 and \$1,348,447, respectively.

(vii) Purchase and sales of real estate property and other assets

For the years ended December 31, 2017 and 2016, molds purchased from other related parties amounted to \$2,299 and \$3,986, respectively.

(viii) Other related party transactions accounted for as assets and liabilities in the balance sheet

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Other receivables		
Subsidiaries	\$ <u>7,865</u>	<u>7,811</u>
Other payables		
Subsidiaries	\$ <u>766,336</u>	<u>1,088,747</u>
Other current liabilities		
Subsidiaries	\$ <u>162,198</u>	<u>111,013</u>
Other non-current liabilities		
Subsidiaries	\$ <u>10,570</u>	<u>10,570</u>

(ix) Borrowings from related parties

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Subsidiaries	\$ <u>4,464,000</u>	<u>8,707,500</u>
Interest rate	<u>0.6646%~1.3041%</u>	<u>0.6646%~0.6741%</u>
Interest expense	\$ <u>51,492</u>	<u>46,920</u>

(x) As of December 31, 2017, please refer to Note 13 for endorsements and guarantees for related party.

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(d) Key management personnel compensation

	For the years ended December 31	
	2017	2016
Short-term employee benefits	\$ 146,786	166,925
Post-employment benefits	2,052	2,133
Share-based payments	239,917	158,956
	<u>\$ 388,755</u>	<u>328,014</u>

Please refer to Note 6(r) for further explanations related to share-based payment transactions.

(8) Pledged assets:

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

Asset	Purpose of pledge	December 31, 2017	December 31, 2016
Other financial asset-restricted deposit	Deposits for customs duties	\$ 41,616	41,539
Other financial asset-refundable deposits	Deposits for performance guarantee	33,349	35,383
		<u>\$ 74,965</u>	<u>76,922</u>

(9) Significant commitments and contingencies:

(a) Significant commitments and contingencies were as follows:

(i) Unused standby letters of credit

	December 31, 2017	December 31, 2016
EUR	<u>\$ 2,540</u>	<u>2,540</u>

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

	December 31, 2017	December 31, 2016
NTD	<u>\$ 78,998</u>	<u>87,869</u>

(iii) As of December 31, 2017 and 2016, the Company signed significant contract for purchase of properties amounting to \$878,800 and \$878,800, of which \$335,362 and \$662,895 was unpaid.

(b) Significant contingent liability:

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

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PEGATRON CORPORATION
Notes to the Non-Consolidated Financial Statements

(10) Losses due to major disasters: None.

(11) Subsequent events:

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the FY 2018 corporate income tax return. This increase does not affect the amounts of the current and deferred income taxes recognized on December 31, 2017. However, it will increase the Group's current and deferred tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences and unused tax losses recognized on December 31, 2017, the deferred tax assets would increase by \$99,203.

(12) Other:

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

By function By item	For the year ended December 31, 2017			For the year ended December 31, 2016		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit						
Salary	\$ 1,288,187	8,520,666	9,808,853	1,286,093	9,527,939	10,814,032
Health and labor insurance	88,854	495,992	584,846	95,485	480,194	575,679
Pension	44,274	278,411	322,685	46,527	267,750	314,277
Others	98,800	467,389	566,189	100,013	425,821	525,834
Depreciation	422,642	285,740	708,382	394,890	195,354	590,244
Amortization	100,148	31,259	131,407	30,523	4,164	34,687

In 2017 and 2016, the Company has 7,159 and 7,398 employees, respectively.

(13) Segment information:

Please refer to the consolidated financial statements for the years ended December 31, 2017 and 2016 for disclosure of segment information for disclosures on segment information.