

2015  
**ANNUAL  
REPORT**

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***This English version of the Pegatron Annual Report is a concise translation of the Mandarin version. This document is created for the sole purpose of the convenience for its non-Mandarin readers and is not an official document to represent the financial status of the Company per Taiwan laws.***

*Pegatron Corporation does not assure the accuracy of this translated document. Readers wishing to view the official audited version of Pegatron's financial reports can obtain a copy of the Pegatron Annual Report (Mandarin version) on the Pegatron Corporation website ([www.pegatroncorp.com](http://www.pegatroncorp.com)).*

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## **1. Letter to Shareholders**

Dear Shareholders,

In 2015, despite global economy supporting by gradual recovery in the United States and the Euro zone, it was negatively impacted by emerging markets due to declining global commodity price and tightening U.S. monetary policy. Global economic uncertainty persists as a result of growth slowdown in emerging markets and developing economies as well as continuation of political turbulence in the Middle East, while the benefit from rising US interest rate is still yet to be seen. In the past year, electronics industry continued operating in a challenging environment where the growth of portable and mobile devices is slowing down and gradually approaching its maturity, whilst launch of Windows 10 has not started stimulating the demand of traditional PC. Pegatron, being at the forefront of the industry, successfully mastered the industry trend; carefully deployed manufacturing resources backed by diversified product strategy and ultimately uplifted overall capacity utilization. In 2015, Pegatron again reached another record high in consolidated revenue after achieving one trillion New Taiwan dollars in 2014.

### **Financial Performance**

The consolidated revenue of 2015 reached NT\$1,213.7 billion, grew by 19.0% from NT\$1,019.7 billion in 2014 with gross margin of 6.2%. Profit attributable to owners of the parent increased to NT\$23.8 billion, grew by NT\$9.1 billion from NT\$14.7 billion in the previous year. Consequently earning per share reached NT\$9.23 in 2015. Growth in revenue and profitability was mainly driven by better scale of economy and continuous improvement in product mix and operating efficiency. In 2015, revenue contributed by Communication segment outgrew that of Computing and Consumer Electronics segments.

### **Technical Capability and Operating Highlights**

Global internet infrastructure is a sound foundation for the development of IoT related technologies. Therefore, demand for smart connectivity devices has gradually taken off. Pegatron has the competitive edge to be in this upward trend with our capabilities in research and development in core technologies such as computing, communication, video, optics, etc. In addition, with Pegatron's global footprint, we are able to offer our core competence and one-stop DMS (design, manufacturing, services) service to customers at various locations and create more value-add to our customers. Apart from cultivating existing product lines and given growing demand for smart connectivity devices, Pegatron is actively searching for opportunities to expand into this new area. As labor cost continued escalating and manufacturing scale increasing, Pegatron will maximize its lean strategy on efficiency improvement, quality control and business management, while investment in automation will continue in order to reduce its reliance on labors.

## **Awards and Social Responsibility**

Pegatron is fully committed in incorporating corporate sustainability in its business operation and enhancing its competitive edge built on corporate social responsibility (“CSR”). “Pegatron Corporation Corporate Social Responsibility Practice Principles” was promulgated and approved by the board of directors in 2015 and has been disclosed on the corporate website to present Pegatron’s philosophy and determination in CSR. In order to cultivate the essence of CSR into the supply chain, prior to engaging in commercial dealings, Pegatron would carefully assess suppliers’ CSR compliance. All suppliers are required to sign “Pegatron’s Supplier Code of Conduct”, while regular audits are carried out to ensure the compliance of relevant CSR codes by suppliers in its business operation.

With increasing attention on environmental issues, Pegatron actively takes actions through eco-design and green manufacturing process to reduce the greenhouse gas emissions and mitigate the impact of climate change on company’s operation. CSR report is continually released annually and the management strategy and performance in economic, environmental and social aspects are disclosed publically. In 2015, Pegatron’s effort in continuous improvement on corporate sustainability was recognized in “2015 Channel News Asia Sustainability Raking”. Going forward, we will keep tracking the development of CSR standards and changes of business environment so as to achieve corporate sustainability.

## **Outlook**

Looking forward to 2016, Pegatron will continue implementing its long term strategy in product diversification. The three major product segments, Computing, Consumer Electronics and Communication, remain the key operational focus and provide a solid foundation for future growth. Pegatron will keep on allocating resources and engineering effort in areas including IoT, automation technology, manufacturing efficiency, automotive infotainment systems, etc. For people development, we will continue providing opportunities and offering multiple training channels to our employees to enhance their skillset, accumulate experiences by collaborating with senior professionals and inspire them to excel alongside the Company. Looking ahead in 2016, we are working hard to surpass the performance of the previous year and generate higher value to our shareholders.

On behalf of all employees of Pegatron, we would like to express our appreciation for continuous support from our shareholders. With your unwavering trust and confidence in Pegatron, we will strive for better performance and share the fruitful result with all our shareholders, customers and employees.

Chairman                    T.H. Tung  
President and CEO        Jason Cheng





## 2. Company Profile

### 2.1 Date of Incorporation: June 27<sup>th</sup>, 2007

### 2.2 Company Milestones

June 2007	<ul style="list-style-type: none"><li>● Pegatron Corporation (“the Company”) was incorporated with a paid-in capital of NT\$1 million.</li></ul>
Nov 2007	<ul style="list-style-type: none"><li>● Increased paid-in capital to NT\$50 million by capital injection</li></ul>
Jan 2008	<ul style="list-style-type: none"><li>● Increased paid-in capital to NT\$16,050 million by issuing 1,600,000,000 shares to inherit the DMS (design and manufacturing services) unit from Asustek Computer Inc (“Asustek”).</li></ul>
Apr 2008	<ul style="list-style-type: none"><li>● Merged 100% owned subsidiary, Asusalpha Computer Inc., in order to streamline corporate resources.</li></ul>
Jun 2008	<ul style="list-style-type: none"><li>● Became the member of EICC (Electronic Industry Code of Conduct)</li><li>● Increased paid-in capital to NT\$18,846 million by issuing 279,628,141 shares in exchange for 100% ownership of Unihan Corporation with Asustek. After the share exchange, Unihan became the Company’s wholly owned subsidiary.</li></ul>
Dec 2008	<ul style="list-style-type: none"><li>● The Company was awarded the world’s first Energy using Product (EuP) certificate by DNV (DET NORSKE VERITAS).</li></ul>
Feb 2009	<ul style="list-style-type: none"><li>● Acquired Top Quark Limited for US\$6.04 million in order to provide more comprehensive services of communication products to customers.</li></ul>
Apr 2009	<ul style="list-style-type: none"><li>● Completed the world’s first Product Category Rule for Notebook PC products, which can be served as the key reference for Environmental Product Declaration (EPD) as officially announced on the website of Global TYPE III Environmental Product Declaration Network (GEDnet).</li></ul>
Jul 2009	<ul style="list-style-type: none"><li>● Acquired 100% shareholding of Powtek (Shanghai) Co., Ltd so as to conduct business in mainland China and expand the market share in China.</li></ul>
Oct 2009	<ul style="list-style-type: none"><li>● Assisted key customers received the world’s first TYPE III Environmental Product Declaration for N51V series Notebook PC awarded by Environment and Development Foundation (EDF).</li><li>● Assisted key customers received the world first Carbon Footprint Certificate for N51V series Notebook PC awarded by DNV (DET NORSKE VERITAS).</li></ul>
Nov 2009	<ul style="list-style-type: none"><li>● Increased NT\$4,014 million through capitalization of profits and the paid-in capital amounted to NT\$22,861 million.</li></ul>
Dec 2009	<ul style="list-style-type: none"><li>● In order to streamline organization structure and reduce management cost, a key subsidiary, Protek (Shanghai) Limited, merged with another key subsidiary, North Tec Asia (Shanghai) Limited, and the former one is the surviving company.</li><li>● In order to expand business, a key subsidiary, Maintek Computer (Suzhou) Co., Ltd, increased capital of US\$34 million.</li><li>● Assisted customers achieving key environmental certifications such as EPEAT, EU Flower and Taiwan Green Market. For more than 55 products.</li></ul>
Jan 2010	<ul style="list-style-type: none"><li>● The Company’s Board of Directors, acting on behalf of the Company’s AGM pursuant to the Company Law, approved the merger with Pegatron International. Upon the completion of the merger, the Company is the surviving company.</li></ul>
Mar 2010	<ul style="list-style-type: none"><li>● The Company’s application for being a public company was approved.</li></ul>

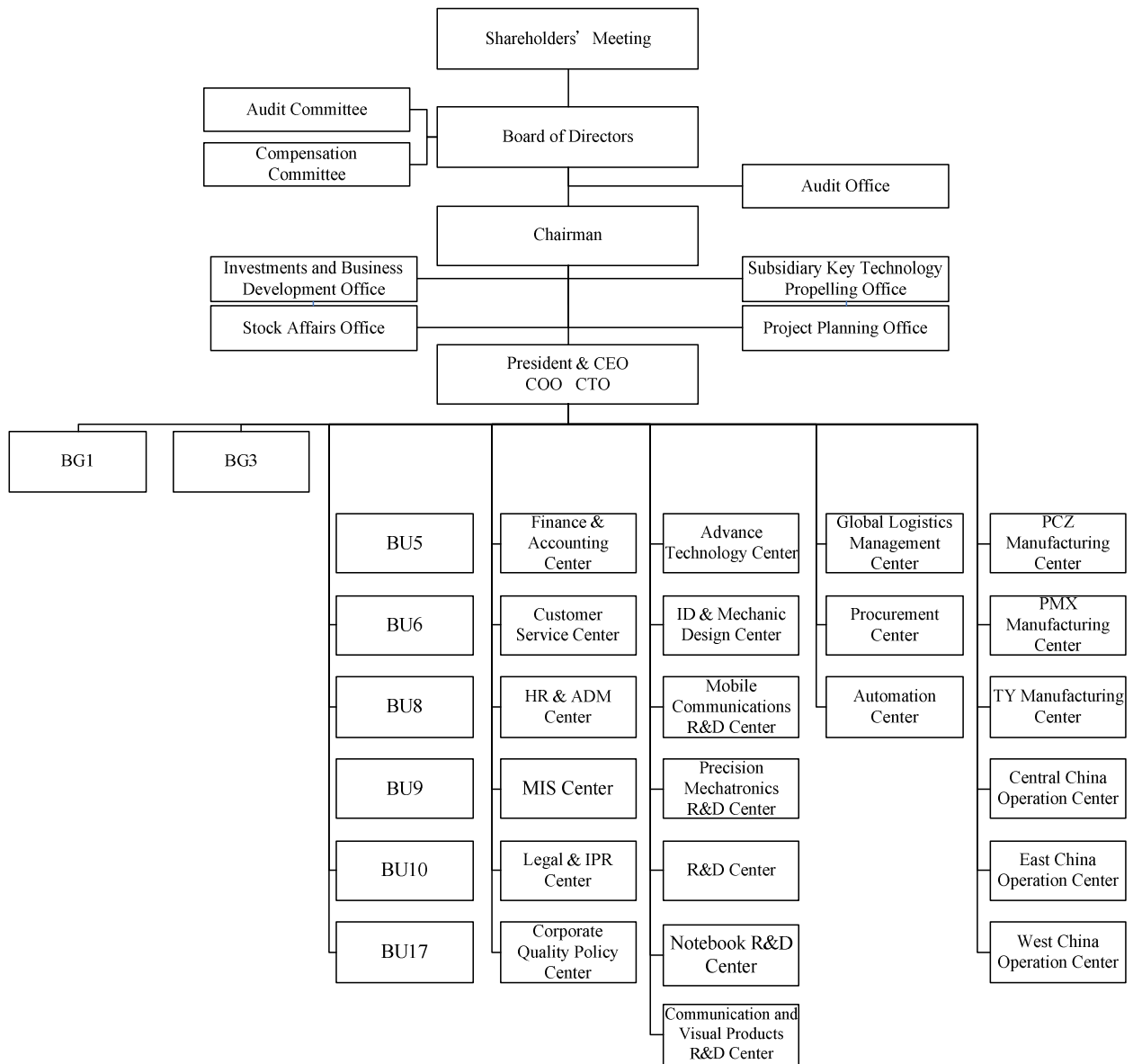
Jun 2010	<ul style="list-style-type: none"> <li>Approved the merger with Pegatron International by issuing 2,286,064 thousands shares after cancelling 2,286,054 thousands shares previously issued by Pegatron International. The paid-in capital amounted to NT\$22,861 million.</li> <li>The Company was officially listed on the Taiwan Stock Exchange.</li> </ul>
Aug 2010	<ul style="list-style-type: none"> <li>The Company issued GDRs on Luxemburg Stock Exchange</li> </ul>
Sep 2010	<ul style="list-style-type: none"> <li>DNV (DET NORSKE VERITA) awarded the Company with A+ certification for the 2009 CSR Report based on Global Reporting Initiative G3 format.</li> <li>The Company received ISO 14064-1 Greenhouse Gases Inventory Verification.</li> </ul>
Nov 2010	<ul style="list-style-type: none"> <li>The Company's Board of Directors approved the cancellation of 29,697,000 shares of treasury stock. Subsequently, the paid-in capital reduced to NT\$22,563,669 thousand dollars.</li> <li>Assisted key customers received the world first PAS 2050 and ISO 14067-1 Carbon Footprint Certificate awarded by DNV (DET NORSKE VERITA).</li> </ul>
Nov 2011	<ul style="list-style-type: none"> <li>The Company was awarded for top 100 companies in Taiwan by 2011 Taiwan Companies Innovation Survey organized by Industrial Development Bureau, Ministry of Economic Affairs and cosponsored by Business Next Magazine.</li> </ul>
Feb 2012	<ul style="list-style-type: none"> <li>The Company issued the Euro Convertible Bonds of US\$300 million on Singapore Stock Exchange.</li> </ul>
Oct 2012	<ul style="list-style-type: none"> <li>The Company, being the first of its peers in the DMS (design, manufacturing &amp; service) industry, was awarded the 2011 National Sustainable Development Award by National Council for Sustainable Development, Executive Yuan.</li> </ul>
Jan 2013	<ul style="list-style-type: none"> <li>Issuance of 33,938,000 shares for Employee Restricted Stock Award and paid-in capital increased to NT\$22,903 million.</li> <li>The Company's subsidiary "Casetek Holdings Limited" listed on Taiwan Stock Exchange.</li> </ul>
Oct 2013	<ul style="list-style-type: none"> <li>Issuance of 6,062,000 shares for Employee Restricted Stock Award and paid-in capital increased to NT\$23,161 million.</li> </ul>
Dec 2013	<ul style="list-style-type: none"> <li>The Company was awarded the 2013 Industrial Sustainable Excellence Award – Enterprise Class by Industrial Development Bureau, Ministry of Economic Affairs.</li> <li>Merged 100% owned subsidiary, Unihan Corporation, in order to consolidate corporate resources, reduce operation cost and enhance operation efficiency.</li> </ul>
Feb 2015	<ul style="list-style-type: none"> <li>The Company's Euro Convertible Bonds of US\$300 million were fully converted to 232,406,616 shares.</li> </ul>
Sep 2015	<ul style="list-style-type: none"> <li>Issuance of 39,678,000 shares for Employee Restricted Stock Award and paid-in capital increased to NT\$26,033 million.</li> </ul>

### 3. Corporate Governance

#### 3.1 Organization Structure

##### 3.1.1 Organization Chart

As of 02/29/2016



### 3.1.2 Department Functions

<b>Department</b>	<b>Main Responsibilities</b>
Board of Directors	Establishing corporate business guiding principles and goals
Audit Office	Auditing and evaluating the compliance of internal policies, procedures and operations based on governing regulations
President and CEO	Board resolutions execution and general corporate affairs
COO	Managing and coordinating manufacturing and resource planning
CTO	Managing research & development resource and technology planning & integration
Investments & Business Development Office	Long term corporate investment planning and industry analysis
Stock Affairs Office	Coordinating board meetings, shareholders' meetings and stock affairs
Project Planning Office	Assisting project planning and execution
Subsidiary Key Technology Propelling Office	Assisting subsidiaries developing key technology, and setting up internal policies, procedures and resource
Central China Operation Center	Central China operation planning and management
East China Operation Center	East China operation planning and management
West China Operation Center	West China operation planning and management
TY Manufacturing Center	Planning and management of manufacturing, QA, and engineering
PCZ Manufacturing Center	Operation planning and management in Europe
PMX Manufacturing Center	Operation planning and management in America
Procurement Center	Management of raw material and facility procurement, cost plan, procurement system plan for resource coordination
Corporate Quality Policy Center	Quality control and management in accordance to internal policies and customer requests
Global Logistics Management Center	Global logistics planning and management
Automation Center	Improving and implementing of automation system, automation equipment for manufacture
Customer Service Center	Global customer service operation and providing the most comprehensive and prompt support to local customers via support network
R&D Center	Conducting simulations and developing technology shared among each business unit

<b>Department</b>	<b>Main Responsibilities</b>
ID & Mechanic Design Center	Developing mechanical and industrial design and providing support to each business unit for technology needed for each project
Advance Technology R&D Center	Focusing on development of advanced technologies and providing support to business units for relevant technology development
Notebook R&D Center	Developing technologies for NB products and providing support to business units for relevant technology development
Mobile Communications R&D Center	Developing technologies for handheld devices and providing support to business units for relevant technology development
Communication and Visual Products R&D Center	Developing technologies for communication and visual products and providing support to business units for relevant technology development
Precision Mechatronics R&D Center	Developing technology for precision mechatronics, automation, optics and acoustics and providing support to business units for relevant technology development
HR & ADM Center	Corporate human resource administration, construction and maintenance, labor safety and health planning and execution
Finance & Accounting Center	Corporate finance, accounting and tax planning and execution
Legal & IPR Center	Corporate legal affairs, legal counseling, litigation, patents, licensing and other intellectual property management
MIS Center	Internal & external network system planning, integration and design
Business Group 1	Design, manufacturing and services of Notebook PCs
Business Group 3	Design, manufacturing and services of handheld devices and multimedia players
Business Unit 5	Design, manufacturing and services of main boards and systems for large size customers
Business Unit 6	Design, manufacturing and services of communication and visual products
Business Unit 8	Design, manufacturing and services of main boards and systems for small and medium size customers
Business Unit 9	Design, manufacturing and services of metal casings and mold for products
Business Unit 10	Design, manufacturing and services of industrial PCs
Business Unit 17	Design, manufacturing and services of server products

### 3.2 Board of Directors and Management Team

#### 3.2.1 Introduction of Board of Directors

As of 02/29/2016

Title / Name	Nationality	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
					Shares	%	Shares	%	Shares	%	Shares	%		
Chairman T.H. Tung	R.O.C	05/18/2010	3	06/19/2013	91,717,309	4.00	92,817,309	3.57	6,074,490	0.23	-	-	<p>Chairman of Pegatron Corp.                      Director of Kinsus Interconnect Technology Corp.                      Director of Asrock Incorporation                      Director of Ability Enterprise Co., Ltd.                      Chairman of Lumens Digital Optics Inc.                      Chairman of Asus Investment Co., Ltd.                      Chairman of Asustek Investment Co., Ltd.                      Chairman of Pegavision Corp.                      Director of Casetek Holdings Ltd.                      Director of AMA Holdings Ltd.                      Director of Asuspover Investment Co., Ltd.                      Director of Magnificent Brightness Ltd.                      Chairman of Casetek Holdings Limited (Cayman)                      Director of Protek Global Holdings Ltd.                      Director of The Eslite Corporation                      Director of EZHi Technologies, Inc.                      Director of AzureWave Technologies, Inc.                      Director of Eslite Spectrum Corp.                      Director of Taiwan Public Television Service                      Chairman of Taipei Computer Association                      Chairman of Ri-Kuan Metal Corporation                      Director of Grand Upright Technology Limited                      Director of National Performing Arts Center                      Director of Chinese Television System Inc.                      Director of Aslink Precision Co., Ltd.                      Deputy Chairman of Pegatron Corp.                      Chairman of Asrock Incorporation                      Chairman of Asuspover Investment Co., Ltd.                      Chairman of AzureWave Technologies, Inc.                      Chairman of eBizprise Inc.                      Director of Asuspover Corp.                      Chairman of Asiarock Technology Ltd.                      Director of Advantech Co. Ltd                      Director of ASMedia Technology Inc.                      Director of Medicus Tek Inc.                      Director of Pegavision Corp.</p>	<p>Master degree in Computer and Communication Engineering,                      National Taipei University of Technology                      Honorary Ph.D in Engineering,                      National Taipei University of Technology                      Vice Chairman of Asustek Computer Inc. ("Asus")</p>
Director Ted Hsu	R.O.C	05/18/2010	3	06/19/2013	56,153,713	2.45	56,603,713	2.17	13,146,829	0.51	-	-	<p>EMBA , National Chiao Tung University                      Deputy General Manager of Asus</p>	<p>Deputy Chairman of Pegatron Corp.                      Chairman of Asrock Incorporation                      Chairman of Asuspover Investment Co., Ltd.                      Chairman of AzureWave Technologies, Inc.                      Chairman of eBizprise Inc.                      Director of Asuspover Corp.                      Chairman of Asiarock Technology Ltd.                      Director of Advantech Co. Ltd                      Director of ASMedia Technology Inc.                      Director of Medicus Tek Inc.                      Director of Pegavision Corp.</p>

Title / Name	Nationality	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
					Shares	%	Shares	%	Shares	%	Shares	%		
Director Jason Cheng	R.O.C	05/18/2010	3	06/19/2013	2,054,773	0.09	4,178,773	0.16	13,524	0.00	-	-	Master degree in Electrical Engineering, University of Southern California Deputy General Manager of Asus	Director and CEO of Pegatron Corp. Director of Alcor Micro Corp. Director of Asus Investment Ltd. Director of Asustek Investment Ltd. Director of AzureWave Technologies, Inc. Director of Pegatron Czech s.r.o. Chairman of Pegatron USA Director of Pegatron Logistic Service Inc.
Director K.C. Liu	R.O.C.	05/18/2010	3	06/19/2013	161,490	0.01	161,490	0.01	-	-	-	-	Bachelor degree in Communication Engineering, National Chiao Tung University Founder of Advantech Corp	Chairman of Advantech Co. Ltd Chairman of Advantech foundation Chairman of Yan Hua Xing Ye Electronic(SHHQ) Chairman of Advantech Investment Fund - A Co., Ltd. (Advantech Fund - A) Chairman of Advanix Corporation Chairman of Advantech Technology (China) Company Ltd. (AKMC) Chairman of Shanghai Advantech Intelligent Services Co., Ltd. (AINS) Chairman of Xi'an Advantech Software Ltd. (AXA) Chairman of Advantech Intelligent Service (AIST) Chairman of ACA Digital Corporation Chairman of Advantech Japan Co. Ltd.(AJP) Director of AIDC Investment Corp. Chairman of K and M Investment Co., Ltd. Director of Advantech Europe B.V.(AEU) Director of Advantech Technology Co., Ltd.(ATC) Director of HK Advantech Technology Co., Ltd.(HK) ATC) Director of Advantech Automation Corp.(BVI)(AAC(BVI)) Managing Director of Spring Foundation of NCTU Director of B+B Smartworx Inc.

Title / Name	Nationality	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
					Shares	%	Shares	%	Shares	%	Shares	%		
Director C.I. Chia	R.O.C	05/18/2010	3	06/19/2013	20,186	0.00	200,186	0.01	-	-	-	-	BBA, National Taiwan University MBA, University of Wisconsin-Madison Vice President, Citibank, N.A. Taipei Branch President, Individual Financial Services Group, Bank SinoPac	Director of Yangtze Associates Independent Director of Ardentec Corporation
Director C.V. Chen	R.O.C	05/18/2010	3	06/19/2013	-	-	-	-	-	-	-	-	LL.B., National Taiwan University LL.M., University of British Columbia LL.M., Harvard Law School S.J.D., Harvard Law School Vice Chairman & Secretary-general and Director of Straits Exchange Foundation (SEF) President of The Red Cross Society of The Republic of China	Chairman and Senior Partner of Lee and Li Attorneys-At-Law Adjunct Professor of Law at National Chengchi University Adjunct Professor of Law at Soochow University Director of Asia Cement Corporation Director of Novartis Taiwan
Independent Director C.B. Chang	R.O.C	05/18/2010	3	06/19/2013	-	-	-	-	-	-	-	-	B.S., Statistics, National Chengchi University Deputy General Manager of China Development Industrial Bank Manager of Far Eastern Textile Ltd.,	Director of Polytronic Technology Corp. Independent Director and Managing Director of Far Eastern International Bank Independent Director of Raydium Semiconductor Corp. Independent Director of Scientech Corp. Supervisor of Dynapack International Technology Corp.



Title / Name	Nationality	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
					Shares	%	Shares	%	Shares	%	Shares	%		
Independent Director C. Lin	R.O.C	05/18/2010	3	06/19/2013	-	-	-	-	-	-	-	-	<p>Master degree in Department of Public Finance, National Chengchi University Ph.D. Economics, University of Illinois Director General, Bureau of Finance, Taipei City Government Minister, Directorate General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. Minister of Finance of the R.O.C. Chairman of Vanguard International Semiconductor Corporation</p>	<p>Adjunct Professor of Economics at National Taiwan University Director of AIG Taiwan Insurance Co., Ltd. Director of TTY Biopharm Independent Director of Casetek Holdings Limited (Cayman). Independent Director of Inotera Memories, Inc. Director of PharmaEngine, Inc.</p>
Independent Director C.S. Yen	R.O.C.	05/18/2010	3	06/19/2013	-	-	-	-	-	-	-	-	<p>Group President of Landis Hotels and Resorts Director of NSFG Foundation Director of C. C. Social Welfare Foundation Director of Dwen An Social Welfare Foundation Director of Koo Foundation Sun Yat-Sen Cancer Center Director of Andrew T. Huang Medical Education Promotion Foundation Director of Lung Yingtai Cultural Foundation Director of Long Yen Foundation Director of T.T. Chao Cultural &amp; Educational Foundation, Independent Director of Shinkong Insurance Co., Ltd. Director of Wistro Foundation Chairman of The Alliance Cultural Foundation Director of Eslite Foundation for Culture and Arts Director of Kang Wen Culture &amp; Education Foundation Director of USI Education Foundation Chairman of Junyi School for Innovative Learning Director of WT Education Foundation</p>	<p>Provincial Keelung Senior High School Country Manager of American Express Inc. Taiwan General Manager of the Grand Hotel Chairman of Taiwan Visitors Association Pacific Asia Travel Association (PATA) Young Presidents' Organization (YPO) Asia Conference. Chairman for Asia Pacific region of The Leading Hotels of The World</p>

Note: Current shareholding included the employee restricted stocks, which are under the custody of the Trust.

### 3.2.2 Professional Qualifications and Independence Analysis of the Board Directors

As of 02/29/2016

Criteria	Met One of the Following Professional Qualification Requirements with at Least Five Years Work Experience						Independence Criteria(Note)						Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	
Name													
T.H. Tung	-	-	V	-	-	V	-	-	V	V	V	V	0
Ted Hsu	-	-	V	-	-	V	-	-	V	V	V	V	0
Jason Cheng	-	-	V	-	-	V	-	-	V	V	V	V	0
K.C. Liu	-	-	V	-	-	V	V	V	V	V	V	V	0
C.I. Chia	-	-	V	-	-	V	V	V	V	V	V	V	1
C.V. Chen	V	V	V	-	-	V	V	V	V	-	V	V	0
C.B. Chang	-	-	V	-	-	V	V	V	V	V	V	V	3
C. Lin	V	-	V	-	-	V	V	V	V	V	V	V	2
C.S. Yen	-	-	V	-	-	V	V	V	V	V	V	V	1

Note 1: The independence criteria corresponding boxes are ticked to indicate whether the directors or supervisors had met any of the following conditions during the two years prior to being elected or during the term of office:

- Not an employee of the Company or any of its affiliates.
- Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
- Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
- Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
- Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
- Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
- Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
- Not been a person of any conditions defined in Article 30 of the Company Law.
- Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

### 3.2.3 Introduction of the Management Team

As of 02/29/2016

Title / Name	Nationality	On-board Date	Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
			Shares	%	Shares	%	Shares	%		
Group CEO T.H. Tung	R.O.C.	01/01/2008	92,817,309	3.57	6,074,490	0.23	-	-	Master degree in Computer and Communication Engineering, National Taipei University of Technology Honorary Ph.D in Engineering, National Taipei University of Technology Vice Chairman of Asus	Refer to Introduction of Board of Directors
Deputy Group CEO Ted Hsu	R.O.C.	01/01/2008	56,603,713	2.17	13,146,829	0.51	-	-	EMBA , National Chiao Tung University Deputy General Manager of Asus	Refer to Introduction of Board of Directors
President and CEO Jason Cheng	R.O.C.	01/01/2008	4,178,773	0.16	13,524	0.00	-	-	Master degree in Electrical Engineering, University of Southern California Deputy General Manager of Asus	Refer to Introduction of Board of Directors
Senior Vice President and Chief Technology Officer Hsu-Tien Tung	R.O.C.	08/01/2008	410,000	0.02	-	-	-	-	Bachelor degree in Electrical Engineering National Taiwan University Associate Vice President of Asus	Director of Ability Enterprise Co., Ltd. Chairman of Top Quark Ltd. Director of Digttek (Chongqing) Ltd.
Senior Vice President and Chief Operating Officer Syh-Jang Liao	R.O.C.	11/02/2012	1,451,856	0.06	6,093	0.00	-	-	Bachelor degree in Industrial and Business Management, Tatung Institute of Technology Senior Vice President of Unihan Corp.	Vice Chairman of Ability Enterprise Co., Ltd. President of Pegatron Japan Inc. Director of AMA Precision Inc.
Vice President Yeann-Jen Shue	R.O.C.	08/01/2008	806,432	0.03	4,175	0.00	-	-	Ph.D. Electrical Engineering University of Florida Associate Vice President of Asus	Director and President of Kai Jia Computer Accessory Co., Ltd. President of Kai He Computer Accessory (Suzhou) Co., Ltd.

Title / Name	Nationality	On-board Date	Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience ( Education )	Selected Current Positions
			Shares	%	Shares	%	Shares	%		
Vice President Te-Tzu Yao	R.O.C.	08/01/2008	781,109	0.03	1,000	0.00	-	-	M.S. Psychology, National Taiwan University MBA in International Management, Thunderbird, The American Graduate School of International Management Chief Staff, CEO Office, Asus Vice President of Material Management, Wistron Corp General Auditor, Chief Logistic Officer, AVP of Global Operation, Acer Inc. None	None
Vice President Kuo-Yen Teng	R.O.C.	08/01/2008	629,309	0.02	-	-	-	-	College degree in Electronic Engineering National Taipei Institute of Technology Associate Vice President of Asus None	Director of Pegatron Technology Service Inc. Director of Pegatron Service Singapore Pte. Ltd. Director of Pegatron Service Korea Lic.
Vice President Tsung-Jen Ku Lai	R.O.C.	08/01/2008	686,278	0.03	6,991	0.00	-	-	Bachelor degree in Industrial Engineering Tunghai University Associate Vice President of Asus None	Director of Kaedar Trading Ltd. Director of Kaedar Holdings Ltd. Chairman of Silitek Holdings Ltd. Chairman of AMA Precision Inc. Supervisor of Ability Enterprise Co. Ltd. Director of Ri-Kuan Metal Corporation. Director of Casetek Holdings Limited (Cayman) Director of Ri Teng Computer Accessory (Shanghai) Co., Ltd. Director of Ri-Gui Precision Model(Shanghai)Co., Ltd. Director of Ri Ming Computer Accessory (Shanghai) Co., Ltd.
Vice President En-Bair Chang	R.O.C.	02/01/2008	521,213	0.02	-	-	-	-	Master degree in Industrial Design Pratt Institute Associate Vice President of Asus None	Director of Sheng Rui Electronic Technology (Shanghai) Co., Ltd. Director of Ri Pei Computer Accessory (Shanghai) Co. Ltd. Director of Indeed Holdings Ltd. Director of Wilson Holdings Ltd. Director of Kaedar Electronic (Kunshan) Co. Ltd. Director of United New Limited Director of Kai Chuan Electronic (Chongqing) Co. Ltd.

Title / Name	Nationality	On-board Date	Current Shareholding (Note)		Spouse & Minor Shareholdings		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
			Shares	%	Shares	%	Shares	%		
Vice President Shih-Chi Hsu	R.O.C.	08/01/2008	236,967	0.01	-	-	-	-	Bachelor degree in Mechanical Engineering National Taiwan Institute of Technology Associate Vice President of Asus	None
Vice President Ming-Tung Hsu	R.O.C.	08/01/2008	462,624	0.02	8,219	0.00	-	-	College degree in Industrial Engineering National Taipei Institute of Technology Associate Vice President of Asus	None
Vice President Kuang-Chih Cheng	R.O.C.	08/01/2008	201,946	0.01	5,324	0.00	-	-	Master degree in Computer Science and Information Engineering Tamkang University Associate Vice President of Asus	None
Vice President Tian-Bao Chang	R.O.C.	08/01/2008	693,101	0.03	-	-	-	-	College degree in Transportation Management Chungyu Institute of Technology Senior Manager of Asus	Director of Protek (Shanghai) Ltd. Director of Powtek (Shanghai) Co., Ltd. Director of Runtop (Shanghai) Co., Ltd. Director of Core-Tek (Shanghai) Ltd.
Vice President Chih-Hsiung Chen	R.O.C.	07/01/2010	796,609	0.03	-	-	-	-	Master in Electrical Engineering Tufts University Vice President of Asus	None
Vice President Pei-Chin Wang	R.O.C.	10/03/2011	627,949	0.02	-	-	-	-	Master degree in Electrical Engineering, National Taiwan University Vice President of Asus	None
Chief Financial Officer Chiu-Tan Lin	R.O.C.	02/01/2008	401,000	0.02	-	-	-	-	Master degree in Business Administration Tunghai University Deputy Chief Investment Officer of Asus	Chairman of Starlink Electronics Corp. Supervisor of Powtek (Shanghai) Co., Ltd. Supervisor of Digttek (Chongqing) Ltd. Supervisor of Speedtech Corp. Ltd
Vice President Hsi-Wen Lee	R.O.C.	08/01/2012	278,390	0.01	-	-	-	-	Master degree in Mechanical Engineering, National Taiwan University Senior Manager of Asus	None
Vice President Chung Yu Huang	R.O.C.	11/02/2012	595,630	0.02	-	-	-	-	Ph. D. Electrical Engineering, University of Southern California Associate Vice President of Asus	None
Vice President Chen-Yu Feng	R.O.C.	08/01/2014	587,795	0.02	30,000	0.00	-	-	Master degree in Computer Science, National Chiao Tung University Associate Vice President of Unihan Corp. Senior Director of Asus	None
Vice President Shaing-Shaing Wu	R.O.C.	07/01/2014	250,000	0.01	-	-	-	-	Master degree in Business Administration, University of St. Thomas Vice Chairman of OFCO Industrial Corp.	Director of Kinsus Interconnect Technology Corp. Director of Pegavision Investment Co., Ltd. Director of OFCO Industrial Corp.

Note: Current shareholding included the employee restricted stocks, which are under the custody of the Trust.

### 3.2.4 Remuneration and Compensation Paid to Directors, the President, and Vice President

#### 3.2.4.1 Remuneration Paid to Directors

Unit: NT\$ thousands; Shares

Title/ Name	Remuneration				Compensation Earned by a Director Who is an Employee of Pegatron or its Consolidated Entities						Total remuneration (A+B+C+D) as a % of net income		Total remuneration (A+B+C+D) as a % of net income		Compensation paid to directors from non-consolidated affiliates											
	Base Compensation(A)		Severance Pay and Pensions(B)		Compensation to Directors(C) (Note)		Allowances(D)		Total remuneration (A+B+C+D) as a % of net income		Base Compensation, Bonuses, and Allowances(E)		Severance Pay and Pensions (F)			Employee Compensation (G)		Exercisable Employee Stock Options (H)		Granted Employee Restricted Stocks(I)		Total remuneration (A+B+C+D) as a % of net income				
	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities		Cash	Stock	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	
Chairman T.H. Tung																										
Director Ted Hsu																										
Director Jason Cheng																										
Director K.C. Liu																										
Director C.I. Chia																										
Director C.V. Chen	0	1,240	0	0	171,650	191,457	3	0.72%	33,758	33,758	0	0	38,136	0	0	0	0	2,350,000	2,350,000	1.02%	1.11%	0				
Independent Director C.B. Chang																										
Independent Director C. Lin																										
Independent Director C.S. Yen																										

Note : Number of employee restricted stocks are the share under custody of the Trust.

Bracket	Name of Directors					
	Total of (A+B+C+D)			Total of (A+B+C+D+E+F+G)		
	The company	Companies in the financial report	The company	Companies in the financial report	The company	Companies in the financial report
Below NT\$ 2,000,000	-	-	-	-	-	-
NT\$2,000,000(Included) ~ NT\$5,000,000(Excluded)	-	-	-	-	-	-
NT\$5,000,000 (Included)~ NT\$10,000,000(Excluded)	-	-	-	-	-	-
NT\$10,000,000(Included) ~ NT\$15,000,000(Excluded)	K.C. Liu C.I. Chia C.V. Chen	K.C. Liu C.I. Chia C.V. Chen	K.C. Liu C.I. Chia C.V. Chen	K.C. Liu C.I. Chia C.V. Chen	K.C. Liu C.I. Chia C.V. Chen	K.C. Liu C.I. Chia C.V. Chen
NT\$15,000,000 (Included)~ NT\$30,000,000(Excluded)	C.B. Chang C. Lin C.S. Yen Ted Hsu Jason Cheng	C.B. Chang C. Lin C.S. Yen Jason Cheng Ted Hsu	C.B. Chang C. Lin C.S. Yen	C.B. Chang C. Lin C.S. Yen	C.B. Chang C. Lin C.S. Yen	C.B. Chang C. Lin C.S. Yen
NT\$30,000,000 (Included)~ NT\$50,000,000(Excluded)	T.H. Tung	-	Ted Hsu	Ted Hsu	Ted Hsu	Ted Hsu
NT\$50,000,000(Included) ~ NT\$100,000,000(Excluded)	-	T.H. Tung	T.H. Tung Jason Cheng	T.H. Tung Jason Cheng	T.H. Tung Jason Cheng	T.H. Tung Jason Cheng
Over NT\$100,000,000	-	-	-	-	-	-
Total	9	9	9	9	9	9

### 3.2.4.2 Compensation Paid to President and Vice President

Unit: NT\$ thousands; Shares

Title/Name	Salary(A)		Severance Pay and Pensions (B)		Bonuses and Allowances (C)		Employee Compensation (D)				Total remuneration (A+B+C+D) as a % of net income		Exercisable Employee Stock Options		Exercisable Restricted Stocks		Compensation paid to directors from non-consolidated affiliates
	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	Cash	Stock	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities		
Group CEO T.H. Tung																	
Deputy Group CEO Ted Hsu																	
President and CEO Jason Cheng																	
Senior Vice President and Chief Technology Officer Hsu-Tien Tung																	
Senior Vice President and Chief Operating Officer Syh-Jang Liao	78,209	84,573	0	0	52,077	52,128	122,766	0	122,766	0	1.06%	1.09%	0	0	7,588,000	7,588,000	240
Vice President Yean-Jen Shue																	
Vice President Te-Tzu Yao																	
Vice President Tsung-Jen Ku Lai																	
Vice President Kuo-Yen Teng																	
Vice President En-Bair Chang																	
Vice President Shih-Chi Hsu																	



Title/Name	Salary(A)		Severance Pay and Pensions (B)		Bonuses and Allowances (C)		Employee Compensation (D)			Total remuneration (A+B+C+D) as a % of net income		Exercisable Employee Stock Options		Exercisable Employee Restricted Stocks		Compensation paid to directors from non-consolidated affiliates
	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	Cash	Stock	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	
Vice President Kuang-Chi Cheng																
Vice President Tian-Bao Chang																
Vice President Ming-Tung Hsu																
Vice President Chih-Hsiung Chen	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above
Vice President Pei-Chin Wang																
Vice President Chung Yu Huang																
Vice President Hsi-Wen Lee																
Vice President Shaing-Shaing Wu																
Vice President Chen-Yu Feng																

Note : Number of employee restricted stocks are the shares under custody of the Trust.

Bracket	Name of President and Vice President	
	The company	Companies in the financial report
Below NT\$ 2,000,000	-	-
NT\$2,000,000(Included)~ NT\$5,000,000(Excluded)	-	-
NT\$5,000,000(Included) ~ NT\$10,000,000(Excluded)	Tsung-Jen Ku Lai, Kuang-Chi Cheng, Ming-Tung Hsu, En-Bair Chang, Tian-Bao Chang, Shih-Chi Hsu, His-Wen Lee, Chih-Hsiung Chen, Pei-Chin Wang, Shaing-Shaing Wu	Tsung-Jen Ku Lai, Kuang-Chi Cheng, Ming-Tung Hsu, En-Bair Chang, Tian-Bao Chang, Shih-Chi Hsu, His-Wen Lee, Chih-Hsiung Chen, Pei-Chin Wang, Shaing-Shaing Wu
NT\$10,000,000(Included) ~ NT\$15,000,000(Excluded)	T.H. Tung, Ted Hsu, Kuo-Yen Teng, Chen-Yu Feng, Hsu-Tien Tung, Chung-Yu Huang	T.H. Tung, Ted Hsu, Hsu-Tien Tung, Chen-Yu Feng, Chung-Yu Huang, Kuo-Yen Teng
NT\$15,000,000(Included) ~ NT\$30,000,000(Excluded)	Syh-Jang Liao, Yean-Jen Shue, Te-Tzu Yao	Syh-Jang Liao, Yean-Jen Shue, Te-Tzu Yao
NT\$30,000,000(Included) ~ NT\$50,000,000(Excluded)	Jason Cheng	Jason Cheng
NT\$50,000,000(Included)~NT\$100,000,000(Excluded)	-	-
Over NT\$100,000,000	-	-
Total	20	20

### 3.2.4.3 Employee Profit Sharing Granted to Management Team

Unit: NT\$ thousands

Title	Name	Stock (Fair Market Value)	Cash	Total	Ratio of Total Amount to Net Income (%)
Group CEO	T.H. Tung	0	127,806	127,806	0.54%
Deputy Group CEO	Ted Hsu				
President and CEO	Jason Cheng				
Senior Vice President and Chief Technology Officer	Hsu-Tien Tung				
Senior Vice President and Chief Operating Officer	Syh-Jang Liao				
Vice President	Chen-Yu Feng				
Vice President	Ming-Tung Hsu				
Vice President	Kuang-Chih Cheng				
Vice President	Kuo-Yen Teng				
Vice President	Tsung-Jen Ku Lai				
Vice President	Te-Tzu Yao				
Vice President	Shih-Chi Hsu				
Vice President	Yean-Jen Shue				
Vice President	En-Bair Chang				
Vice President	Tian-Bao Chang				
Vice President	Chih-Hsiung Chen				
Vice President	Shaing-Shaing Wu				
Vice President	Pei-Chin Wang				
Chief Financial Officer	Chiu-Tan Lin				
Vice President	Chung Yu Huang				
Vice President	Hsi-Wen Lee				

#### 3.2.4.4 Compare and state the ratio of total remuneration paid to the Company's Directors, President and Vice Presidents by the company and the companies in the consolidated financial statements to net income in the past two years. Please also describe the policy, criteria, packages and rules relating to the remuneration, as well as its relation to business performance and future risks.

Total remuneration paid by the Company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, presidents and vice presidents of the Company are as follows:  
Net Income of year 2014: NT\$14,658,138 thousand dollars  
Net Income of year 2015: NT\$23,811,625 thousand dollars

NT\$ thousands; %

Year	Total remuneration paid to directors, presidents and vice presidents		Ratio of total remuneration paid to directors, presidents and vice presidents to net income (%)	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
2014	273,575	291,084	1.87%	1.99%
2015	424,702	461,077	1.78%	1.94%

The ratio of remuneration paid to directors, presidents and vice presidents of the Company and the companies in the consolidated financial statements in the last two years to the net income was 1.87% and 1.99% in 2014 and 1.78% and 1.94% in 2015, respectively.

Pursuant to Article 14-6 of Securities and Exchange Act, our Board of Directors approved the establishment of Compensation Committee, appointment of committee members and related internal regulations on August 25, 2011. Before the establishment of Compensation Committee, remuneration to directors and supervisors was appropriated according to the Articles of Incorporation and the approval of shareholders at the annual shareholders' meeting after proposed by the Board of Directors. Remuneration to the president and vice presidents includes salary, bonus, employee profit sharing, etc., and is decided upon the responsibility of each individual role with reference to the salary level per industry average. Factors such as industry outlook and business performance of the company are also taken into consideration when determining remuneration amounts. Since the establishment of Compensation Committee, members of the committee shall exercise the utmost good faith and perform the following duties:

- a. Prescribe and periodically conduct performance review and remuneration policy, system, standards, and structure for directors, supervisors and managerial officers.
- b. Periodically evaluate and prescribe the remuneration of directors, supervisors, and managerial officers.

Remuneration and dividend distribution of directors, supervisors, and managerial officers shall be proposed by the Compensation committee to Board of Directors for resolution.

### 3.3 Implementation of Corporate Governance

#### 3.3.1 Board of Directors

A total of 6 (A) meetings of the Board of Directors were held in 2015. The directors' attendance status is as follows:

Title	Name	Attendance in person (B)	By Proxy	Attendance rate (%) <b>【B/A】</b>	Remarks
Chairman	T.H. Tung	6	0	100.0%	Pegatron's 3 <sup>rd</sup> session of Board of Directors was elected at 2013 Annual Shareholders' Meeting. All directors continue in office. Tenure of the session is from 19 <sup>th</sup> June, 2013 to 18 <sup>th</sup> June, 2016.
Director	Ted Hsu	5	0	83.3%	
Director	Jason Cheng	6	0	100.0%	
Director	K.C. Liu	5	0	83.3%	
Director	C.I. Chia	6	0	100.0%	
Director	C.V. Chen	5	0	83.3%	
Independent Director	C. Lin	6	1	100.0%	
Independent Director	C.S. Yen	5	0	83.3%	
Independent Director	C.B. Chang	6	0	100.0%	

Remarks:

1. There were no circumstances referred to Article 14-3 of Securities and Exchange Act, nor resolutions objected by independent directors in writing, on record or subject to qualified opinions in 2015.
2. There were no recusals of directors due to conflict of interest in 2015.
3. Measures taken to strengthen the functionality of the Board:  
The Board complies with the "Rules Governing the Conduct of Board Meetings" which has been established according to statutory regulations. Chief Internal Audit and Chief Financial Officer also report to the Board regarding the status of internal audit and finance and relevant reports are provided to the directors for their reference.

### 3.3.2 Audit Committee

A total of 5 (A) meetings of the audit committee were held in 2015. The independent directors' attendance status is as follows:

Title	Name	Attendance in person (B)	By Proxy	Attendance rate (%) 【B/A】	Remarks
Independent Director	C. Lin	5	0	100%	Pegatron's 2013 Annual Shareholders' Meeting approved to establish Audit Committee to replace Supervisors.
Independent Director	C.B. Chang	5	0	100%	
Independent Director	C.S. Yen	4	0	80%	

Remarks:

1. There were no circumstances referred to in Article 14-5 of Securities and Exchange Act, nor agendas which were not approved by the Audit Committee but otherwise resolved by two thirds or more of all directors in 2015.
2. There were no recusals of independent directors due to conflicts of interests in 2015.
3. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2015:
  - (1) The head of internal audit attended every Audit Committee and presented the findings and materials to committee members where necessary.
  - (2) The Company's independent auditors have presented their findings and reviewed on the Company's financial result of the 2<sup>nd</sup> and 4<sup>th</sup> quarter. The communication channel among the Audit Committee, internal auditors and independent auditors functioned well.

### 3.3.3 Status of Compensation Committee:

Pursuant to Article 14-6 of Securities and Exchange Act, listed companies shall establish a compensation committee. In 2013, after the election of new session of directors, the Compensation Committee was comprised of three independent directors, Dr. C. Lin, Mr. C. B. Chang and Mr. C.S. Yen. Dr. C. Lin is the Chairman of the Compensation Committee. The Compensation Committee Charter is available on Market Observation Post System of Taiwan Stock Exchange.

Title	Criteria	Met One of the Following Professional Qualification Requirements with at Least Five Years Work Experience			Independence Criteria(Note 1)							Number of Other Public Companies in Which the Individual is Concurrently Serving a Member of Compensation Committee	Remarks (Note 2)	
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7			8
Independent Director	C. Lin	V	-	V	V	V	V	V	V	V	V	V	2	-
Independent Director	C. B. Chang	-	-	V	V	V	V	V	V	V	V	V	3	-
Independent Director	C.S. Yen	-	-	V	V	V	V	V	V	V	V	V	0	-

Note 1: The independence criteria corresponding boxes are ticked to indicate whether the directors or supervisors had met any of the following conditions during the two years prior to being elected or during the term of office:

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. The same does not apply, however, in cases where the person is an independent director of the Company, its parent company, or any subsidiary in which the Company holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Article 30 of Company Act shall not apply.

Note 2: If members of the committee are also serving as Board directors, please specify if the Company complies with Item 5, Article 6 of "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is listed on the Stock Exchange or Traded over the Counter".

Tenure of the second session of Compensation committee is from 20<sup>th</sup> June, 2013 to 18<sup>th</sup> June, 2016.

A total of 4 (A) meetings of the Compensation Committee were held in 2015. The status of attendance is as follows:

1. The Compensation Committee comprised of 3 members.
2. The tenure of office is from 2013/06/20 to 2016/6/18.

<b>Title</b>	<b>Position</b>	<b>Name</b>	<b>Attendance in person (B)</b>	<b>By Proxy</b>	<b>Attendance rate (%) (B/A)</b>	<b>Remarks</b>
Chairman	Independent Director	C. Lin	4	0	100%	Members of the second session of compensation committee. Period of the post will be the same as that of the third session of the Board of Directors.
Member	Independent Director	C. B. Chang	4	0	100%	
Member	Independent Director	C.S. Yen	3	0	75%	

Other Information to be disclosed:

1. If Board of Directors did not adopt or revise the proposal made by the Compensation Committee, please specify the date, session, agendas and resolutions of the Board of Directors meeting and how the Company handled the proposal made by the Compensation Committee (If amount of the compensation approved by the Board of Directors is higher than that proposed by the Compensation Committee, please specify the reasons and differences in proposals.)  
None.
2. If any members of the Compensation Committee were against or reserved their opinions towards the resolutions, please specify the date, session, agendas, opinions of all members and how the opinions were handled.  
None.



**3.3.4 Corporate Governance Implementation Status and Deviations from “Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies”**

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
1. If the Company established and disclosed Corporate Governance Principles in accordance with Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies?	V		The Company established Corporate Governance Principles and disclosed them on the corporate website and Market Observation Post System.	None
2. Shareholding Structure & Shareholders' Rights (1) If the Company established internal procedures to handle shareholder suggestions, proposals, complaints and litigation and execute accordingly?	V		The Company established internal procedures and assigned designated departments to handle shareholder suggestions, proposals, complaints and disputes. Shall there be any legal issue, our legal department and outside counsel will involve and handle the issues.	None
(2) If the Company maintained of a list of major shareholders and a list of ultimate owners of these major shareholders?	V		The Company maintains a good relationship with major shareholders and keeps an updated list of the major shareholders.	
(3) If risk management mechanism and “firewall” between the Company and its affiliates are in place?	V		The Company established appropriate internal policies and assigned designated personnel to handle risk management mechanism and “firewall” between the Company and its affiliates.	
(4) If the Company established internal policies that forbid insiders from trading based on non-disclosed information?	V		The Company established Ethical Corporate Management Policy and Codes of Ethical Conduct and disclosed both policies on the corporate website.	

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
3. Structure of Board of Directors and its responsibility (1) If the Board consisted of members from diverse background?	V		None
(2) If the Company established any other functional committee in addition to Compensation Committee, Audit Committee as required by law?	V		The Company established Compensation Committee and Audit Committee and its policies and procedures. Apart from the above mentioned committees, the Company has not established any other functional committee.
(3) If the Company established methods and procedures to assess the performance of the Board and conduct assessment on annual basis?	V		The Company's Compensation Committee takes all factors such as participation in the operation of the Company, etc. into consideration when conducting evaluation on each Board member. The evaluation is usually carried out in the second half of each year.
(4) If the Company assess the independence of CPA periodically?	V		Each year, the Company evaluates the independence of CPA based on KPMG's Statement of Independence and items stated in Article 46 & 47 of Certified Public Accountant Act.

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
4. If the Company established communication channel with stakeholders and disclosed key corporate social responsibility issues frequently enquired by stakeholders on the designated area of the corporate website?	V		None
5. If the Company engaged professional transfer agent to host annual general shareholders' meeting?	V		None
6. Information Disclosure (1) If the Company set up a corporate website to disclose information regarding the Company's finance, business and corporate governance?  (2) If the Company adopted any other information disclosure channels (e.g., maintaining an English-language website, appointing designated personnel to handle information collection and disclosure, appointing spokespersons, webcasting investors conference, etc)?	V		None
7. If the Company had other important information to facilitate better understanding of the Company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk	V		None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?			also purchases insurance coverage for its directors and arranges professional training courses for Directors.	
8. If the Company implemented a self-evaluation on corporate governance or authorized any other professional organization to conduct such evaluation (if yes, please state if the Board of Directors provided any comment and what was the evaluation result along with its major deficiencies, suggestions and improvement plan)?	V		The Company reported to the Board of Directors in January 2016 regarding the result of self-evaluation and its improvement plans to rectify non-compliance items.	None

### 3.3.5 Implementation of Corporate Social Responsibility

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
<p>1. Exercising Corporate Governance (1) If the Company established corporate social responsibility ("CSR") policy or system and reviewed its implementation and effectiveness?</p>	V	<p>PureCSR management system has been established to oversee the Company's corporate social responsibility, environmental and occupational health, and implementation of safety measures. Based on the management system, CSR, environmental, safety, and health issues can be monitored and addressed. The Company not only sets up CSR objectives and targets, but also performs internal &amp; external audits. After each audit, proposals containing corrective and preventive actions are reviewed by the management to ensure compliance.</p> <p>PureCSR Policy is as follows:</p> <ol style="list-style-type: none"> <li>1. Abide by all environmental protection, labor, safety and health laws.</li> <li>2. Conserve natural resources, and actively prevent pollution.</li> <li>3. Reduce environmental impact and safety risks.</li> <li>4. Fulfill customer requirements and become a green enterprise.</li> <li>5. Enable company-wide promotion of corporate social responsibility.</li> <li>6. Encourage full participation from employees and conduct continuous improvement.</li> </ol> <p>The policy is disclosed on the Company's intranet and corporate website. <a href="http://pegatroncorp.com/sustainability/policyorTarget.php">http://pegatroncorp.com/sustainability/policyorTarget.php</a></p>	None

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
(2) If the Company conducted CSR related trainings?	V		None
(3) If the Company set up a unit exclusively or concurrently to execute CSR policies and if the Board appointed member(s) of management team to supervise and report its implementation status to the Board?	V		None
(4) If the Company adopted appropriate remuneration policies, integrated employee performance appraisal with CSR policies, and established a clear and effective incentive and discipline system	V		None
2. Fostering a Sustainable Environment (1) If the Company endeavored to utilize resources more efficiently and utilized renewable materials which have	V		None

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
a lower impact on the environment?			
(2) If the Company established proper environment management system based on the characteristics of the industry where the Company belongs to?	V		An international environmental management system, ISO 14001, is in place and certified by a third party periodically.
(3) If the Company monitored the impact of climate change on the Company's business operations, checked greenhouse gas inventory and established corporate strategies on energy conservation and reduction on carbon and greenhouse gas emission?	V		The risk of global climate change is addressed and the impacts on the business operations are evaluated. The Company actively takes steps to reduce the emissions of greenhouse gas (GHG) by performing GHG inventory, and conducting internal and external verification every year. The target is to reduce greenhouse gas emissions by 21% and electricity consumption by 24% in year 2020 per million revenue compared to that of year 2009.
3. Preserving Public Welfare (1) If the Company followed relevant labor laws, and internationally recognized human rights principal, and established appropriate management policies and procedures?	V		As a corporate citizen and one of Electronic Industry Citizenship Coalition (EICC) members, the Company complies with EICC Code of Conduct, including international human right, labor standards, environmental & safety laws, ethics and confidentiality requirements. The internal CSR management system and audit process are implemented to ensure compliance.

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
(2) If the Company established grievance channel for employees and handled complaints appropriately?	V		One of the employee communication channels, i-PEGA BOX, is available and dedicated personnel are assigned to handle and follow up the progress. Opinion boxes and other grievance mechanism are also in place at our global plants to effectively solve employees' problems.	None
(3) If the Company provided safe and healthy working environment to employees and conducted relevant training on safety and health management to employees periodically?	V		An international occupational safety and health management system, OHSAS 18001, is in place and certified by a third party periodically. A safe and healthy work environment has been established through the implementation of daily inspections and audits. Besides, annual training programs were arranged according to legal requirements.	None
(4) If the Company established a periodical communication mechanism to employees and notified employees of significant changes that may impact the Company's operation in a proper manner?	V		We have set up multiple communication channels including i-PEGA BOX and employee hotlines. There are also Opinion mailboxes and grievance mechanism are also in place in our global plants to effectively solve employees' problems. Employees can choose different channels depending on their needs. In order to ensure our employees knowing the company's operating status and directions, "CEO cafe", an easy party host by our CEO, Jason Cheng, is held regularly every year. This will help our employees to have in-depth understandings of the company's decision making processes.	None



Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
(5) If the Company provided career planning, relevant training and skill development for employees?	V		None
(6) If the Company established any consumer protection measures with regard to the process of research and development, procurement, production, operations and services and its grievance channels?	V		None
(7) If the Company followed relevant laws and regulations and international guidelines on marketing and labeling of products and services?	V		None
(8) Prior to engaging commercial dealings, if the Company assessed whether the supplier had track record o negative impact on the environment and	V		None

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
society?			chain to ensure our suppliers to be responsible for the society and environment. Prior to engaging in commercial dealings, the Company makes assessment on suppliers' environmental and social performance, and avoids to engage with supplier which violates its corporate social responsibility policy. All suppliers are required to sign Pegatron's Supplier Code of Conduct and commit that their operations are in accordance with PureCSR policy. Besides, we have also put CSR related contents, including environmental protection and international human right into supplier self-evaluation checklist.
(9) If the contracts with major suppliers stipulated a clause that allowed the Company to terminate or rescind the contract at any time shall the suppliers violate CSR policies and cause significant impact to the environment and society?	V		Compliance with CSR regulations and EICC Code of Conduct are included in the contract. If suppliers violate CSR regulations leading to penalty by authority or causing significant impact to the environment and society, they have to accept the Company's CSR audits and provide its improvement report within deadline. The Company may terminate or rescind the contract if suppliers fail in the Company's CSR audits ultimately.
4. Enhancing Information Disclosure If the Company disclosed CSR report and other relevant information on its corporate website and Market Observation Post System?	V		CSR report is published on annual basis with the chapters of corporate governance, social, economic and environmental performances. It is disclosed on corporate website and Market Observation Post System by the request from the Authority. ( <a href="http://www.pegatroncorp.com/sustainability/csrReport.p hp">http://www.pegatroncorp.com/sustainability/csrReport.p hp</a> )
5. If the Company established any guideline of corporate social responsibility in accordance with "Corporate Social Responsibility Best-Practice Principles for The company has issued and posted the "Corporate Social Responsibility Best-Practice Principles" on its corporate website. The implementation status is consistent with the principle.			None

Item	Implementation Status		Non-implementation and its reason(s)
	Y	N	
6. Other material information that helps to understand the operation of corporate social responsibility: There is a specific CSR section on the corporate website containing CSR policy, target and management procedures. ( <a href="http://www.pegatroncorp.com">http://www.pegatroncorp.com</a> )			
7. Please provide further description for company product or corporate social responsibility report which is certified by relevant organization: The 2015 CSR report of the Company is verified by the 3rd party (SGS Taiwan Ltd.) with the international verification standard of AA 1000. The verification statement will be attached in the CSR report after the verification is completed.			

### 3.3.6 Implementation of Ethical Corporate Management Best Practice Principles:

Items	Implementation Status		Non-implementation and its reason(s)
	Y	N	
<p>1. Ethical Corporate Management Policy</p> <p>(1) If the Company clearly specified ethical corporate management and process in its internal policies and external document? If the Board of Directors and the management team committed to enforce such policies rigorously and thoroughly?</p> <p>(2) If the Company established any measures to prevent unethical conduct and clearly prescribed the specific ethical management practice including operational procedures, guiding principles, penalties and grievance channels? Please describe the status of execution.</p> <p>(3) If the Company adopted any preventive measures against business activities specified in the second paragraph of Article 7 of Ethical Corporate Management Best Practice Principles for TWSE/GTSE Listed Companies or in other business activities within the business scope which are possibly at a higher risk of being involved in an unethical conduct?</p>	V	<p>The Board of Directors approved Ethical Corporate Management Policy and Codes of Ethical Conduct on Nov 10, 2014. Both policy and code of conduct include:</p> <p>(1) Ethical Corporate Management Policy is clearly stated in the internal policy and external documents. Board of Directors and management team are fully committed to implement such policies rigorously and thoroughly on internal management and external business dealings.</p> <p>(2) The Company established and stipulated preventive measures of unethical conduct, penalties in the Code of Business Ethics and Business Gifts and Entertainment Policy. All employees shall follow these guiding principles with integrity, confidentiality and respect.</p> <p>(3) The Company adopted preventive measures against business activities within the business scope which are possibly at higher risks of being involved in an unethical conduct.</p>	None
<p>2. Implementation of Ethical Corporate Management</p> <p>(1) If the Company checked whether the respective counterparty holds any record of unethical misconduct and if the contract terms required the compliance of</p>	V	<p>Prior any business engagement, the Company checks the counterparty's legitimacy and record of unethical conduct. All vendors are required to sign "Statement of Integrity"</p>	None

Items	Implementation Status		Non-implementation and its reason(s)
	Y	N	
<p>ethical corporate management policy?</p> <p>(2) If the Company set up a unit, under the direct supervision of the Board of Directors, to handle the implementation of ethical corporate management and reported to the Board of Directors periodically?</p>	V	<p>which stipulated the contractual liability for violation of ethical conduct.</p> <p>The Company values the great significance of integrity and ethical business conduct. Therefore HR&amp;ADM Center, Legal &amp; IPR Center, Audit Office, Stock Affairs Office and relevant departments have been assigned to establish Ethical Corporate Management Policy and its prevention system, which requires the procurement center and all other employees follow ethical policies under any business engagement. Designated personnel report to the Board of Directors the implementation and compliance of the policy.</p>	
<p>(3) If the Company established a policy on prevention of conflict of interests, provided appropriate reporting channel and executed rigorously and thoroughly?.</p>	V	<p>The Company established measures to prevent conflict of interests and an appropriate reporting channel is provided to report any potential risks of conflict of interest.</p>	
<p>(4) If the Company established an effective accounting system and internal control system and if internal auditing department or external accounting firm conducted periodic auditing?</p>	V	<p>The Company established an accounting system and internal control system to evaluate business activities within the business scope which are possibly at a higher risk of being involved in an unethical conduct. Internal Audit would plan its annual audit scope based on the assessment of risks and report to the Board of Directors.</p>	
<p>(5) If the Company organized training and awareness programs on ethical corporate management to internal</p>	V	<p>The Company organizes training on ethical corporate management each year.</p>	

Items	Implementation Status		Non-implementation and its reason(s)
	Y	N	
and external parties?			
3. Implementation of whistleblowing system (1) If the Company established a whistleblowing and reward system? Upon receiving a reported case, is there a dedicated personnel handling the reported case?	V		None
(2) If the Company established standard operational procedures and relevant information confidentiality policy for investigation of reported cases?	V		The Company set forth penalties for violation of ethical conduct and set up Honest_Box@pegatroncorp.com and reporting hotline on the "Stakeholders Communication Area" of the corporate website for reporting of any violations. Internal Audit will be handling any reported cases.  The Company established operational procedures for handling reported cases and the identity of the whistleblower as well as the content of the reported case are handled in confidentiality. Furthermore, the Company will investigate every claim, take appropriate measures and issue penalties for any violation found.
(3) If the Company established any measures for protecting whistleblowers from inappropriate disciplinary actions?	V		The Company provides protection to whistleblower and personnel involved in the investigation against any unfair treatment or retaliation.
4. Information Disclosure (1) If the Company disclosed ethical corporate management policy and its status of implementation via corporate website or Market Observation Post System?	V		None
			Ethical corporate management policy was disclosed on the corporate website and Market Observation Post System. The Company also set up a designated area on the corporate website to promote ethical business conduct and implement measures such as declarations of ethical business conduct made by management team and the emphasis on disciplines and honor. The content of the website is updated from time to time.

Items	Implementation Status		Non-implementation and its reason(s)
	Y	N	
5. If the Company established any guideline of ethical business conduct in accordance with "Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies" and please state the implementation status of the guideline and any reasons for non-implementation? None.			
6. If any other information that helped to understand the operation of ethical business conduct and its implementation. (ie. Declarations, trainings and conventions held with vender to promote ethical business conduct)? None.			

**3.3.7 Corporate Governance Guideline and Regulations:**

Pegatron has established corporate governance guideline and relevant regulations and disclosed on the corporate website and Market Observation Post System.

**3.3.8 Other Important Information Regarding Corporate Governance: None**

**3.3.9 Internal Control System:**

- **Declaration of internal control:** Please refer to page 43.
- **If the Company is requested by the SEC to retain CPA's service for examining internal control system, the Independent Auditor's Report must be disclosed:** None



**Pegatron Corporation**  
**Statement of Internal Control System**

Date: March 17, 2016

Based on the findings of self-assessment, Pegatron Corporation states the following with regard to its internal control system in 2015:

1. Pegatron is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and management. The aim of the internal control system is to provide reasonable assurance to effectiveness and efficiency of operations (including profitability, performance and safeguarding of assets), reliability, timeliness, transparency and regulatory compliance of financial reporting and compliance with of applicable laws, regulations and bylaws.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishing the aforementioned three objectives. Moreover, the effectiveness of an internal control system may be subject to changes of environmental or circumstances. Nevertheless, the internal control system of Pegatron contains self-monitoring mechanism and Pegatron takes corrective actions whenever a deficiency is identified.
3. Pegatron evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control System by Public Companies (herein below, the "Regulations"). The criteria adopted by the Regulations identify five constituent elements of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communications, and (5) monitoring activities. Each component further contains several items. Please refer to the Regulations for details.
4. Pegatron has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the self-assessment mentioned in the preceding paragraph, Pegatron believes that, as of December 31, 2015, its internal control system (including its supervision and management of subsidiaries), as well as understanding the degree of achievement of its objectives concerning operational effectiveness and efficiency, reliability, timeliness, transparency and regulatory compliance of financial reporting, and compliance with the applicable laws, regulations and bylaws, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will be integral part of Pegatron's Annual Report for the year 2015 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Law.
7. This Statement has been passed by the Board of Directors in their meeting held on March 17, 2016 with zero of nine attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Pegatron Corporation

H.T. Tung  
Chairman



Jason Cheng  
President and Chief Executive Officer



**3.3.10 The penalties delivered to the Company and the staffs of the Company, or the penalties delivered by the Company to the staffs for violations of internal control system, the major nonconformity, and the corrective action in the most recent years and up to the date of the annual report:** In 2015 and as of the date of this annual report, one staff is subject to internal disciplinary action and legal actions.

**3.3.11 Major Resolutions of Shareholders' Meeting and Board Meetings**

**3.3.11.1 Major Resolutions of Shareholders' Meeting and its Implementation Status:**

Pegatron's 2015 Annual General Shareholder Meeting was held in Taipei on June 15, 2015. At the meeting, shareholders presented in person or by proxy approved the following agendas:

- (1) The 2014 Business Report and Financial Statements
- (2) The proposal of 2014 Earning Distribution

Implementation status : Ex-dividend record date was on August 10, 2015. Cash dividend date was distributed on August 28, 2015 and cash dividends per share was NT\$ 4.03741766.

**3.3.11.2 Major Resolutions of Board Meetings**

Date	Major resolutions
03.23.2015	<ul style="list-style-type: none"> <li>● Approved 2014 business report and financial statements</li> <li>● Approved earnings distribution of year 2014</li> <li>● Approved the scheduling of 2015 Annual General Shareholders' Meeting</li> </ul>
05.07.2015	<ul style="list-style-type: none"> <li>● Approved the 1<sup>st</sup> quarter 2015 consolidated financial report</li> <li>● Approved to extend the period of credit line for factoring AR from Client 1</li> <li>● Approved the list of employees eligible for employee restricted stock award of 40,000,000 shares</li> </ul>
08.10.2015	<ul style="list-style-type: none"> <li>● Approved the 2<sup>nd</sup> quarter 2015 consolidated financial report</li> <li>● Approved an indirect USD20,000,000 investment to Cotek Electronics (Suzhou) Co., Ltd.</li> </ul>
11.09.2015	<ul style="list-style-type: none"> <li>● Approved the 3<sup>rd</sup> quarter 2015 consolidated financial report</li> <li>● Approved the evaluation for ability of financial statements compilation</li> <li>● Approved to extend the period of credit line for factoring AR</li> <li>● Approved Pegatron's "Procedures for halt and resumption applications"</li> <li>● Approved Pegatron's " Corporate Social Responsibility Best Practice Principles "</li> </ul>
01.21.2016	<ul style="list-style-type: none"> <li>● Approved the endorsement for the credit line of Boardtek Computer (Suzhou) CO., LTD. with bank</li> <li>● Approved the amendment to the Company's Article of Incorporation.</li> <li>● Approved the share buy-back plan for share cancellation.</li> </ul>
03.03.2016	<ul style="list-style-type: none"> <li>● Approved the amendment to the Company's Article of Incorporation.</li> <li>● Approved the scheduling of 2016 First Extraordinary Shareholders' Meeting.</li> </ul>
03.17.2016	<ul style="list-style-type: none"> <li>● Approved the appropriated remuneration of employees and directors in 2015Y.</li> <li>● Approved 2015 business report and financial statements.</li> <li>● Approved earnings distribution of year 2015</li> <li>● Approved the change of accountants due to the internal job rotation of the CPA firm</li> <li>● Approved to hold the election for the fourth session of Board of Directors</li> </ul>

- (including Independent Directors)
- Approved the proposal for releasing the prohibition on directors from participation in competitive business
- Approved the scheduling of 2016 Annual Shareholders' Meeting.
- Approved the proposal to issue 40,000,000 shares as employee restricted stock award to motivate employees in 2016

**3.3.12 Major Issues of Record or Written Statement Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors in 2015 and to the date of the annual report:** None.

**3.3.13 Resignation or Dismissal of Personnel Involved in the Company :** None

### 3.4 CPA Fees

CPA Firm	CPA		Auditing Period	Note
KPMG	Ulyos K.J. Maa	Charlotte W.W. Lin	Jan 1, 2015 ~ Dec 31, 2015	

Unit: NT\$ thousands

Items of CPAs fee		Auditing Fees	Non-Auditing Fees	Total
Amount Bracket				
1	Below 2,000 thousand		v	
2	2,000 thousand (included) ~ 4,000 thousand(excluded)			
3	4,000 thousand (included) ~ 6,000 thousand(excluded)			
4	6,000 thousand (included) ~ 8,000 thousand(excluded)			
5	8,000 thousand (included) ~ 10,000 thousand(excluded)	v		
6	Over 10,000 thousand (included)			v

### Service Items included in the CPA fees

Unit: NT\$ thousands

CPA Firm	CPA	Fees	Non-Auditing Fees					Auditing Period	Note
			System Design	Industrial and commercial registration	HR	Others	Total		
KPMG	Ulyos K.J. Maa	9,360	0	237	0	747	984	2015/1/1~2015/12/31	Non-auditing services include R&D investment tax credit and tax consultant.
	Charlotte W.W. Lin								

**3.5 Information on Change of CPA: None**

**3.6 If the chairman, president, and financial or accounting manager of the Company who had worked for the independent auditor or the related party in the most recent year, the name, title, and the term with the independent auditor or the related party must be disclosed:**  
None.

**3.7 Information on Net Change in Shareholding and Net Change in Shares Pledged by Directors, Department Heads and Shareholders of 10% Shareholding or More:**

**3.7.1 Information on Net Change in Shareholding**

Unit: Share

Title	2015		01/01/2016-03/22/2016	
	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman and Group CEO T.H. Tung	600,000	-	-	-
Director and Deputy Group CEO Ted Hsu	250,000	-	-	-
Director and President and CEO Jason Cheng	1,424,000	-	-	-
Director K.C. Liu	-	-	-	-
Director C.I. Chia	54,000	-	56,000	-
Director C.V. Chen	-	-	-	-
Independent Director C.B. Chang	-	-	-	-
Independent Director C. Lin	-	-	-	-
Independent Director C.S. Yen	-	-	-	-
Shareholder of 10% shareholding or more Asustek Computer Inc.	-	-	-	-

Note1: Net changes in shareholding included the employee restricted stocks

**3.7.2 Information of Shares Transferred: None**

**3.7.3 Information of Equity Pledged: None**

### 3.8 The Relations of the Top Ten Shareholders as Defined in the Finance Standard Article 6:

As of 03/22/2016

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders		Remarks %
	Shares	%	Shares	%	Shares	%	Name	Relation	
Asustek Computer Inc. (Representative: Jonney Shih)	448,506,484	17.23	-	-	-	-	Jonney Shih	Chairman of Asustek Computer Inc.	-
T.H. Tung	92,217,309	3.54	6,074,490	0.23					
Jonney Shih	67,032,290	2.58	-	-	-	-	Asustek Computer Inc.	Chairman	-
Ted Hsu	56,353,713	2.17	13,146,829	0.51	-	-	-	-	-
Cathay Life Insurance Co., Ltd	46,120,000	1.77			-	-	-	-	-
Citi (Taiwan) Bank in Custody for Government of Singapore Investment Corporation	42,005,610	1.61	-	-	-	-	-	-	-
CTBC Bank in Custody for Pegatron Corporation	40,969,902	1.57	-	-	-	-	-	-	-
Infinity Grow International Limited	38,505,000	1.48	-	-	-	-	-	-	-
Morgan Stanley & Co. International Plc.	30,891,573	1.19	-	-	-	-	-	-	-
JPMorgan Chase Bank N.A. Taipei Branch in Custody for ABU DHABI Investment Authority	30,194,137	1.16	-	-	-	-	-	-	-

### 3.9 Long-Term Investment Ownership

Unit: thousand shares; %; As of 12/31/2015

Long-Term Investment	Ownership by Pegatron (1)		Direct/Indirect Ownership by Directors and Management (2)		Total Ownership (1)+(2)	
	Shares	%	Shares	%	Shares	%
Asustek Investment Co., Ltd.	946,278	100.00	-	0	946,278	100.00
Asuspower Investment Co., Ltd.	932,845	100.00	-	0	932,845	100.00
Asus Investment Co., Ltd.	979,255	100.00	-	0	979,255	100.00
AMA Precision Inc.	33,500	100.00	-	0	33,500	100.00
Pegatron USA, Inc.	50	100.00	-	0	50	100.00
Pegatron Holland Holding B.V.	-	100.00	-	0	-	100.00
Pegatron Holding Ltd.	816,906	100.00	-	0	816,906	100.00
Unihan Holding Ltd.	199,110	100.00	-	0	199,110	100.00
AzureWave Technologies, Inc.	35,750	27.53	13,697	10.55	49,447	38.08
Ability Enterprise Co., Ltd	33,135	11.72	7	0	33,142	11.72

#### 4. Capital and Shares

##### 4.1 Capital and Shares

##### 4.1.1 Type of Stock

As of 03/22/2016

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Share	2,602,761,469	397,238,531	3,000,000,000	Listed

##### 4.1.2 Share Capital

As of 03/22/2016

Month/ Year	Par Value (NTD)	Authorized Capital		Paid-in Capital		Remark		
		Shares (1,000)	Amount (NT\$1,000)	Shares (1,000)	Amount (NT\$1,000)	Sources of Capital	Capital Increased by Assets Other than Cash	Date of Approval and Document No.
03/2015	10	3,000,000	30,000,000	2,515,474	25,154,736	Cancelling employee restricted stocks of NT\$2,070 thousand, issuing Employee Stock Option of NT\$5,200 thousand and issuing new shares for conversion of Euro Convertible bond of NT\$1,472,501 thousand	-	Note 1
06/2015	10	3,000,000	30,000,000	2,563,647	25,636,473	Cancelling employee restricted stocks of NT\$1,110 thousand, issuing Employee Stock Option NT\$8,600 thousand and issuing new shares for conversion of Euro Convertible bond of NT\$474,247 thousand	-	Note 2
08/2015	10	3,000,000	30,000,000	2,603,325	26,033,253	Issuing employee restricted stocks of NT\$396,780 thousand	-	Note 3
09/2015	10	3,000,000	30,000,000	2,603,229	26,032,293	Cancelling employee restricted stocks of NT\$960 thousand	-	Note 4
12/2015	10	3,000,000	30,000,000	2,603,020	26,030,205	Cancelling employee restricted stocks of NT\$2,088 thousand	-	Note 5
03/2016	10	3,000,000	30,000,000	2,602,761	26,027,615	Cancelling employee restricted stocks of NT\$2,590 thousand	-	Note 6

Note 1: 03/09/2015 Jin So Son Tzi No. 10401035960

Note 2: 06/05/2015 Jin So Son Tzi No. 10401103260

Note 3: 08/10/2015 Jin So Son Tzi No. 10401149740

Note 4: 09/07/2015 Jin So Son Tzi No. 10401186530

Note 5: 12/08/2015 Jin So Son Tzi No. 10401252120

Note 6: 03/10/2016 Jin So Son Tzi No. 10501040500

**4.1.3 Information for Shelf Registration: None****4.1.4 Composition of Shareholders**

As of 03/22/2016; Units: share

Item	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	6	16	361	111,329	1,346	113,058
Shareholding (shares)	4,617,010	63,604,791	622,182,938	568,892,979	1,343,463,751	2,602,761,469
Percentage	0.18	2.44	23.91	21.85	51.62	100.00

**4.1.5 Shareholding Distribution Status****Common Share (The par value for each share is NT\$10)**

As of 03/22/2016

Class of Shareholding (Unit : Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	66,851	18,739,434	0.72
1,000 ~ 5,000	37,619	74,961,723	2.88
5,001 ~ 10,000	4,238	31,478,840	1.21
10,001 ~ 15,000	1,230	15,180,481	0.58
15,001 ~ 20,000	636	11,403,208	0.44
20,001 ~ 30,000	637	15,743,119	0.60
30,001 ~ 50,000	444	17,502,785	0.67
50,001 ~ 100,000	421	30,209,049	1.16
100,001 ~ 200,000	251	35,848,670	1.38
200,001 ~ 400,000	214	59,870,586	2.30
400,001 ~ 600,000	119	58,703,475	2.26
600,001 ~ 800,000	74	52,501,406	2.02
800,001 ~ 1,000,000	41	37,139,725	1.43
over 1,000,001	283	2,143,478,968	82.35
Total	113,058	2,602,761,469	100.00

**Preferred Share:** The Company did not issue any preferred share.

#### 4.1.6 List of Major Shareholder

As of 03/22/2016

Shareholder's Name	Shareholding	
	Shares	Percentage
Asustek Computer Inc. (Representative: Jonney Shih)	448,506,484	17.23
T.H.Tung	92,217,309	3.54
Jonney Shih	67,032,290	2.58
Ted Hsu	56,353,713	2.17
Cathay Life Insurance Co., Ltd.	46,120,000	1.77
Citi (Taiwan) Bank in Custody for Government of Singapore Investment Corporation	42,005,610	1.61
CTBC Bank in Custody for Pegatron Corporation	40,969,902	1.57
Infinity Grow International Limited	38,505,000	1.48
Morgan Stanley & Co. International Plc	30,891,573	1.19
JPMorgan Chase Bank N.A. Taipei Branch in custody for ABU DHABI Investment Authority	30,194,137	1.16

#### 4.1.7 Market Price, Net Worth, Earnings and Dividends Per Common Share

Unit: NT\$, except for weighted average shares and return on investment ratios

Item	2014	2015	01/01/2016- 03/22/2016
<b>Market Price per Share (Note 1)</b>			
Highest Market Price	75.30	98.40	81.8
Lowest Market Price	37.80	71.20	63.9
Average Market Price	54.43	85.32	75.02
<b>Net Worth per Share (Note 2)</b>			
Before Distribution	56.45	57.77	-
After Distribution	52.01	Undistributed	-
<b>Earnings per Share</b>			
Weighted Average Shares (thousand shares)	2,348,719	2,581,005	-
Diluted Earnings Per Share (Note 3)	6.24	9.23	-
<b>Dividends per Share</b>			
Cash Dividends	4.10	Undistributed	-
Stock Dividend			
• Dividends from Retained Earnings	-	-	-
• Dividends from Capital Surplus	-	-	-
Accumulated Undistributed Dividends (Note 4)	-	-	-
<b>Return on Investment</b>			
Price / Earnings Ratio (Note 5)	8.72	9.24	-
Price / Dividend Ratio (Note 6)	13.27	Undistributed	-
Cash Dividend Yield Rate (Note 7)	7.53%	Undistributed	-

Note 1: Listed the highest and the lowest market price per share in every year and the average market price were



- calculated based on the trading amount and volume.
- Note 2: Based on the shares issued for the year end and resolution for stock distribution in the shareholders' meeting the next year.
- Note 3: If the stock dividend is to be adjusted retroactively, earning per share before and after the adjustment shall be listed.
- Note 4: Pursuant to regulations of security issuance, the undistributed dividend can be accumulated till the year with retained earnings. However, the accumulated undistributed dividend shall be disclosed.
- Note 5: Price / Earnings Ratio = Average Market Price / Earnings per Share
- Note 6: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share
- Note 7: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

#### **4.1.8 Divided Policy and Execution Status**

##### **4.1.8.1 Dividend Policy Stipulated in the Company's Articles of Incorporation**

Article 28 of the Company' Articles of Incorporation provides that when it is determined that the Company has earnings for a fiscal year, the earnings shall be appropriated to profit-seeking enterprise tax payable first, and make up the losses of previous years. Then, the Company shall provide 10% of the remaining earnings as the Legal Reserve, unless such Legal Reserve has amounted to the total capital, and then set aside the special reserve in accordance with the requirements under the laws and regulations or of the competent authorities.

Should there be any residual, it shall be distributed according to the following sequences:

- At least 10% of the remaining earnings shall be allocated as employee bonus, which may be paid in cash or in the form of shares. Where the employee bonus is distributed in the form of shares, qualified employees of the subordinate companies may be included. The qualification shall be determined by the Board of Directors.
- At most 1% of the remaining earnings shall be allocated as directors' remuneration.
- Any remaining earnings, together with any accumulated undistributed earnings of previous years, may then be distributed or kept in accordance with a proposal for the distribution of earnings made by the Board of Directors and duly approved by a resolution at a shareholders' meeting.

The dividend distribution of the Company will be coordinated with the surplus of that year based on the principle of stabilization. Due to rapid change of the industry where the Company is in and considering the future financing requirement as well as the long term business plan, the Company adopts a balanced dividend policy. If the Company would set aside cash dividend, it would be at least ten percent (10%) of the total dividend in the shareholders bonus to be distributed under Article 28 of the Company' Articles of Incorporation.

Moreover, in accordance with the amendments of Company Acts, Pegatron plans to amend articles related to employees' and directors' remuneration and earnings distribution in its 2016 shareholders' meeting. The amended Articles of Incorporation will be effective after obtaining approval from 2016 shareholders' meeting.

The dividend policy in new Articles of Incorporation is stated as below:

Article 28: When it is determined that the Company has earnings for a fiscal year, the earnings shall firstly be appropriated to profit-seeking enterprise tax payable, and make up the losses of previous years. Then, the Company shall provide 10% of the remaining earnings as the legal reserve if there is any remaining amount, unless such legal reserve has amounted to the total capital, and then set aside the special reserve in accordance with the requirements under the laws and regulations or of the competent authorities.

The remaining and the accumulated undistributed earnings of previous years may then be distributed or kept after the board of directors has made proposal of earnings distribution, and the shareholders' meeting has resolved accordingly.

Article 28-1: The distribution of the dividends of the Company will be coordinated with the surplus of that year based on the principle of stabilization. Considering rapid changes occurring in the industry where the Company operates and potential funding needs to support long term business strategy, the Company established a balanced dividend policy. If the Company would set aside cash dividend, it would be at least ten percent (10%) of the total dividend under Article 28.

#### 4.1.8.2 Proposed Dividend Distribution

The Board approved the proposal for 2015 dividend distribution at its meeting on March 17, 2016. The proposal will become effective according to the relevant regulations, upon the approval of shareholders at the Annual General Shareholders' Meeting on June 21, 2016.

Unit: NT\$

Items	Amount	
	Subtotal	Total
Beginning Retained Earnings (IFRS)		13,936,242,977
Add: Other Comprehensive Income for the Period		434,256
Compensation Cost Arising from Employee Restricted Stock Award		27,489,648
Net Profit After Tax		23,811,625,189
Distributable Net Profit		37,775,792,070
Minus: 10% Legal Reserve		(2,381,162,519)
Minus: Cash Dividend		(12,953,501,345)
Unappropriated Retained Earnings		22,441,128,206

#### 4.1.9 Impact to 2015 Business Performance and EPS resulting from Stock Dividend

**Distribution:** Not Applicable.

#### 4.1.10 Compensation to Employees and Remuneration to Directors:

##### 4.1.10.1 Compensation to employees and remuneration to directors stipulated in the Company's Articles of Incorporation

Article 28 of the Company's Articles of Incorporation provides that when it is determined that the Company has earnings for a fiscal year, the earnings shall be appropriated to profit-seeking enterprise tax payable first, and make up the losses of previous years. Then, the Company shall provide 10% of the remaining earnings as the Legal Reserve, unless such Legal Reserve has amounted to the total capital, and then set aside the special reserve in accordance with the requirements under the laws and regulations or of the competent authorities.

Should there be any residual, it shall be distributed according to the following sequences:

- At least 10% of the remaining earnings shall be allocated as employee bonus, which may be paid in cash or in the form of shares. Where the employee bonus is distributed in the form of shares, qualified employees of the subordinate companies may be included. The qualification shall be determined by the Board of Directors.
- At most 1% of the remaining earnings shall be allocated as directors' remuneration.

Moreover, in accordance with the amendments of Company Acts, Pegatron plans to amend articles related to employees' and directors' remuneration and earnings distribution in its 2016 shareholders' meeting. The amended Articles of Incorporation will be effective

after obtaining approval from 2016 shareholders' meeting. The new article regarding employees' and directors' remuneration is stated as below:

Article 26-1: When it is determined that the Company has profit for a fiscal year, the Company shall appropriate the employees' and directors' remuneration according to the following sequence. But, in the case that the Company still has retained losses, the Company should appropriate sufficient amount for making up the losses of previous year and then appropriate according to the following sequence:

1. At least 7% of the profit shall be allocated as the bonus of employees, which may be paid in cash or in the form of shares. Where the employee compensation is distributed in the form of shares, qualified employees of the subordinate companies may be included. The qualification shall be determined by the board of directors.

2. At most 7% of the profit shall be allocated as directors' remuneration.

In this article, the "profit" means the net profit before tax, employees' compensation and directors' remuneration.

**4.1.10.2 Accounting treatment applied to the difference between actual and estimated compensation to employees and remuneration to directors**

Shall there be any difference between the actual amount of compensation and remuneration approved by Annual Shareholders' Meeting and that of the estimation, it will be deemed as the changes in accounting estimates and will be recognized in the profit and loss account of the distributing year.

**4.1.10.3 Remuneration distribution to employees in 2015 resolved by the Board of Directors**

**a. Proposed remuneration to employees and remuneration to directors.**

	<b>Amount (NT\$)</b>
Remuneration to Employees	2,072,000,000
Remuneration to Directors	203,000,000

**b. Proposed stock based remuneration to employees as a percentage of total employee remuneration and of net income from standalone financial report:**

No stock based remuneration was distributed in 2015.

**4.1.10.4 Distribution of remuneration to employees and directors and supervisors in 2014 resolved by the Annual Shareholders Meeting on Jun. 15, 2015.**

	<b>Amount (NT\$)</b>
Employees' Cash Bonus	1,325,000,000
Compensation to Directors & Supervisors	131,000,000

Above cash bonus and compensation, being approved by the Board, has been expensed under the Company's 2014 income statements. There is no difference between the amounts approved in the shareholders' meeting and those of the estimation recognized in the financial statements.

#### 4.1.11 Buyback of Common Stock

As of 03/22/2016

Treasury stocks in Batches	2 <sup>nd</sup> Batch
Purpose of Buy-back	For shareholders' interest
Timeframe of Buy-back	01/22/2016 ~ 03/21/2016
Price range	NT\$46.3 ~ 80 <sup>[note]</sup>
Class, quantity of shares bought back	Common shares 26,410,000 shares
Value in NT\$ of bought-back shares	NT\$2,070,808,559
Shares sold/transferred	0
Accumulated number of company shares held	26,410,000 shares
Percentage of total company shares held (%)	1.01%

Note: Repurchase price range is NTD 46.30~80.00 per share. If the market price falls below the lowest range, the Company is still authorized to purchase the shares.

**4.2 Issuance of Corporate Bond:** None.

**4.3 Preferred Shares (with stock option):** None.

#### 4.4 Issuance of Global Depository Receipts:

As of 03/22/2016

<b>Date of Issuance</b>		<b>August 9, 2010</b>	
<b>Item</b>			
Date of issuance (Process)	08/09/2010		
Location and Issuance and Trade	Luxemburg Stock Exchange		
Total Amount	Non applicable		
Unit Price (in NT\$ per GDS)	NT\$37.70		
Total Issuance	12,163,804		
Source of Common Stock Registration	One GDS stands to five common share of Pegatron		
Total Marketable Security Shares Recognized	Stands for 60,819,020 common shares of Pegatron		
Rights and Obligations of GDR Holders	Same as those of common share holders (See Deposit Agreement and Custody Agreement for Details)		
Trustee	Non applicable		
GDR Institute	Citibank N.A.		
Depository Institute	Citibank Taiwan Limited		
Outstanding GDSs (as of December 31, 2015)	5,993,727 GDSs		
Issuance and Expense Amortization throughout the Issuance Period	Annual listing fees and accountant fees were borne by Pegatron		
GDR Agreement and Depository Agreement	See Deposit Agreement and Custody Agreement for Details		
Market Price per unit (US\$)	2015	Max.	US\$15.40
		Min.	US\$10.95
		Average	US\$13.45
	As of March 22, 2016	Max.	US\$12.60
		Min.	US\$9.64
		Average	US\$11.36

**4.5 Employee Stock Option: None**  
**4.6 Employee Restricted Stocks**  
**4.6.1 Issuance of Employee Restricted Stocks**

Type of Restricted Shares	1 <sup>st</sup> Grant of 2012	2 <sup>nd</sup> Grant of 2012	Grant of 2014
Approval Date by the Authority	2012/12/20	2012/10/19	2014/12/09
Grant Date	2012/12/20	2013/09/12	2015/07/01
Number of Employee Restricted Stock Granted	33,938,000	6,062,000	39,678,000
Price of Issuance	NT\$ 10	NT\$ 10	NT\$10
Percentage of Employee Restricted Stocks to Outstanding Common Shares	1.30%	0.23%	1.52%
Conditions for Exercise of Employee Restricted Stocks	<p>a. Upon the first anniversary of receiving the restricted stocks, employees can exercise 40% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct.</p> <p>b. Upon the second anniversary of receiving the restricted stocks, employees can exercise 30% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct.</p> <p>c. Upon the third anniversary of receiving the restricted stocks, employees can exercise the remaining 30% of the restricted stocks, provided the employees fulfill the requirements</p>		
	<p>a. Upon the first anniversary of receiving the restricted stocks, employees can exercise 20% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct.</p> <p>b. Upon the second anniversary of receiving the restricted stocks, employees can exercise 40% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct.</p> <p>c. Upon the third anniversary of receiving the restricted stocks, employees can exercise the remaining 40% of the restricted stocks, provided the employees fulfill the</p>		

	specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct.	requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct.
Limitations to the Rights of Employee Restricted Stocks	<p>a. Before fulfilling the vesting conditions, the restricted shares under the custody shall not be sold, pledged, transferred, and gave as gifts to others or any other means of disposal.</p> <p>b. Voting rights: To be conducted by the Trust in accordance with the relevant laws and regulations.</p>	
Custody of Employee Restricted Stocks	A total of 137,700 shares delivered to the Trust	A total of 39,179,200 shares delivered to the Trust
Procedures for Non-Compliance of the Conditions	The Company can buy back and cancel all restricted stocks from any employee whom received restricted stocks but fail to comply with the conditions.	
Number of Employee Restricted Stocks Bought Back	2,903,470 (Note 1)	485,894 (Note 1)
Number of Employee Restricted Stocks Free from Custody	30,896,830	12,906
Number of Employee Restricted Stocks under Custody	137,700	39,179,200
Number of Employee Restricted Stocks under Custody to Outstanding Common Shares (%)	0.01%	1.51%
Impact on Shareholders' Equity	<p>A. Potential expense: The number of restricted stocks proposed at 2012 Annual General Shareholders' Meeting is 40,000,000 shares at NT\$10 as issuance price. The Company shall evaluate the fair value of the stocks on the issuance date and accrue relevant cost over the issuance period. The potential expense incurred is estimated at NT\$828,536 thousands. In accordance with the conditions for exercising restricted stocks set forth in the preceding paragraph, the annually expensed amount was NT\$65,091 thousands.</p>	<p>A. Potential expense: The number of restricted stocks proposed at 2014 Annual General Shareholders' Meeting is 40,000,000 shares at NT\$10 as issuance price. The Company shall evaluate the fair value of the stocks on the issuance date and accrue relevant cost over the issuance period. The potential expense incurred is estimated at NT\$2,028,897 thousands. In accordance with the conditions for exercising restricted stocks set forth in the preceding paragraph, the annually expensed amount was</p>



	<p>NT\$431,274 thousands, NT\$230,097 thousands and NT\$96,229 thousands in 2012, 2013, 2014 and 2015 respectively. The annually expensed amount is estimated at NT\$5,845 thousands in 2016.</p> <p>B. Potential impact to dilution of earnings per share (EPS) and other factors that may affect shareholder's equity: Potential dilution of EPS based on the existing outstanding ordinary shares of 2,590,700,269 shares, is estimated at NT\$0.03, NT\$0.17, NT\$0.09, NT\$0.04 and NT\$0 in 2012, 2013, 2014, 2015, and 2016 respectively. Since the potential impact to EPS is limited, we do not expect any material impact to shareholders' equity.</p>	<p>NT\$796,363 thousands in 2015. The annually expensed amount is estimated at NT\$802,652 thousands, NT\$357,225 thousands and NT\$72,657 thousands in 2016, 2017 and 2018 respectively.</p> <p>Potential impact to dilution of earnings per share (EPS) and other factors that may affect shareholder's equity: Potential dilution of EPS based on the existing outstanding ordinary shares of 2,590,700,269 shares, is estimated at NT\$0.31, NT\$0.31, NT\$0.14 and NT\$0.03 in 2015, 2016, 2017 and 2018 respectively. Since the potential impact to EPS is limited, we do not expect any material impact to shareholders' equity.</p>
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Note 1 : Public filings made regarding shares bought back from employees.

#### 4.6.2 Information on Name of Managers and Top 10 Employees obtaining Employee Restricted Stocks

As of 02/28/2016; Unit: Shares, %, NT\$

Position	Title	Name	Number of Employee Restricted Shares	Number of Employee Restricted Stocks to Outstanding Common Shares	Free from the Trust			Under the Trust							
					Number of Employee Restricted Stocks Free from Custody	Price of Issuance	Total Amount of Issuance	Number of Employee Restricted Stocks to Outstanding Common Shares (%)	Number of Employee Restricted Stocks under Custody	Price of Issuance	Total Amount of Issuance	Number of Employee Restricted Stocks to Outstanding Common Shares (%)			
Manager	Group CEO	T.H. Tung													
	Deputy Group CEO	Ted Hsu													
	President and CEO	Jason Cheng													
	Chief Financial Officer	Chiu-Tan Lin													
	Senior Vice President and Chief Technical Officer	Hsu-Tien Tung													
	Vice President	Yean-Jen Shue													
	Vice President	Te-Tzu Yao													
	Vice President	Kuo-Yen Teng													
	Vice President	Tsung-Jen Ku Lai													
	Vice President	En-Bair Chang													
	Vice President	Shih-Chi Hsu		13,540.00	0.52	5,643,000	10	56,430,000	0.22	7,897,000	10	78,970,000	0.30		
	Vice President	Kuang-Chih Cheng													
	Vice President	Tian-Bao Chang													
	Vice President	Ming-Tung Hsu													
	Vice President	Chen-Yu Feng													
	Vice President	Chih-Hsiung Chen													
Vice President	Pei-Chin Wang														
Vice President	His-Wen Lee														
Vice President	Chung-Yu Huang														
Senior Vice President and Chief Operation Officer	Shy-Jang Liao														
Vice President	Shaing-Shaing Wu														

Position	Title	Name	Number of Employee Restricted Shares	Number of Restricted Employee Shares to Outstanding Common Shares	Free from the Trust				Under the Trust				
					Number of Employee Restricted Stocks Free from Custody	Price of Issuance	Total Amount of Issuance	Number of Employee Restricted Stocks Free from Custody Common Shares (%)	Number of Employee Restricted Stocks under Custody	Price of Issuance	Total Amount of Issuance	Number of Employee Restricted Stocks under Custody Common Shares (%)	
	Associate Vice President	Wei-Pang Lee											
	Associate Vice President	Yi-Hsin Lee											
	Associate Vice President	Yu-Heng Lu											
	Associate Vice President	Ching-Ru Wu											
	Associate Vice President	Hsin-Cheng Chen											
	Associate Vice President	Chieh-Tsung Chen	4,600,000	0.18	2,104,000	10	21,040,000	0.08	2,496,000	10	24,960,000	0.10	
	Associate Vice President	Hsiang-Chieh Huang											
	Associate Vice President	Ting-Pang Huang											
	Associate Vice President	Li-Ling Chao											
	Associate Vice President	I-Sheng Tsai											
	Associate Vice President	Hsiu-Yu Pan											

Note 1: Top 10 employee obtaining employee restricted stocks based on the 1<sup>st</sup> and 2<sup>nd</sup> grant of 2012 and grant of 2014. Employees who granted the same number of options are being listed.

**4.7 Status of New Shares Issuance in connection with Mergers and Acquisitions:**

Not Applicable

**4.8 Financing Plan and Implementation**

**Up to the last quarter before the printing of the financial statements, outstanding equity issuance or marketable security subscription or the completed equity issuance or subscribed marketable security without success:** Not Applicable.

## 5. Overview of Business Operation

### 5.1 Business Activities

#### 5.1.1 Business Scope

##### 5.1.1.1 Operating Scope

The Company offers a wide range of electronics products in computing, communications and consumer electronics segments, including Notebook PCs, Desktop PCs, Tablets, Mobile Internet Devices (MID), Motherboards, VGA Cards, Cable Modems, Set-top Boxes, Smartphones, Game Consoles etc. The Company also engages in development, design and manufacturing of peripherals and components of the above-mentioned products. In addition to the well diversified product portfolio, the Company also places great emphasis on development of both software and hardware technologies to provide customers with total solutions and high value-added services.

##### 5.1.1.2 Breakdown of Sales by Major Products

Unit: NT\$ thousands; %

Year Major Product	2014		2015	
	Amount	%	Amount	%
3C Products	924,286,537	90.64	1,116,847,324	92.02
Other	95,452,296	9.36	96,865,652	7.98
Total	1,019,738,833	100.00	1,213,712,976	100.00

##### 5.1.1.3 Product Lines

###### Computing Product

- a. Notebook PCs
- b. DeskTop PCs
- c. Motherboards
- d. VGA Cards
- e. Mobile Internet Devices (MID)

###### Communication Product

- a. Cable Modems
- b. Set-top boxes
- c. Smartphones
- d. Switches
- e. Router

###### Consumer Electronics Product

- a. Tablets
- b. Game consoles

#### 5.1.1.4 Product (Service) Development

- a. Gateway: Developing a high-performance home gateway, embedded with Dosis3.1 high-speed Cable modem, Zigbee Pro, USB3.0, MoCA2.0, and also with 802.11ac Wave2 dual band WiFi networks integrated.
- b. 100G switch for use on SDN networks. Bundle ONIE for Bare Metal Market and ONL for verification.
- c. Small size video conferencing system for portability and small meeting rooms.
- d. Android conference IP Phone. Using 4 to 6 microphones with tweeters and woofers to create best echo cancellation.
- e. IoT communication devices within automation stations so that IoT devices can collect and transfer data to Cloud Systems, regardless of the control structure being a PC, PLC, or Microprocessor. Real time monitoring and abnormal notifications could optimize cross function processes and reduce 60% processing time. Could combine with PO, Production, Shipment Target, Power Management data, and IoT applications to do big data analysis and meet goals of Intelligent Plant and Production in the future,
- f. Multi-function cloud-based video conferencing system with IoT home hub controller functionality and VR HMD (head-mounted device) based collaboration.
- g. NVIDIA desktop graphics card market segment development and produce, from Performance level GP100 to Enthusiast level GTX 1080.
- h. Consumer systems (DT/AIO/laptops/2 in 1) will mainly use Skylake/Cherry Trail/Kaby Lake/Apollo Lake platforms along with customizations based on market trends and customers' requests.
- i. Commercial systems (DT/AIO/laptops) will mainly use the Intel Skylake platform. Most likely implement the next generation Intel platform Kaby Lake according to market demand in 2017.
- j. IPC MBs are most likely to use Intel Haswell platform PCH H81. In this field, the MB will be highly customized according to customers' needs in their specialties, which not only sharpen our design capability but also carve out more diverse and competitive MB market segmentations.
- k. Automotive Electronics (AE): Platforms for DIN dashboard IVI systems with media playing, navigation, reversing image display, BT connection, and Apple CarPlay support.
- l. AE: Telematics box can connect between in-car information and the cloud by 3G or LTE. During Air-Bag deployment, the box can automatically trigger events such as calling emergency centers for help. The driver or passenger can also manually press a button for e-call (Emergency call), i-call (Information call), or b-call (Breakdown call).

- m. AE: Based on ETSI and SAE 802.11p standards, ITS-C V2V telematics will be developed. RTK GPS functionality will be also integrated for V2V relative positioning.
- n. AE: Extendable connected car platform based on open in-vehicle-infotainment standard – GENIVI. To comply with OE requirements, providing software development kits for OEM, Tier 1 vendors, and 3rd parties to customize HMI.
- o. AE: Advanced Driver Assistance System (ADAS) products and technologies, including Forward Collision Warning System (FCWS), Lane Departure Warning System (LDWS), Pedestrian Detection Systems, Speed Limit Detection (SLD), Blind Spot Detection (BSD), Inclement Weather Processing, and Single Camera HDR.
- p. Drones: Integrated with Computer Vision, it can perform face recognition, object tracking, and taking photos triggered via gesture recognition.
- q. Machine Learning applications for best matching, anomaly detection, or pattern recognition to improve process and efficiency.

## **5.1.2 Industry Overview**

### **5.1.2.1 Progress and Development of the Industry**

#### **a. Computing Industry**

In 2015, a few research institutions previously expected the total PC volume (including notebook PCs and desktop PCs) shall rebound after launch of Windows 10. However, according to IDC, the total volume of PC declined on year-over-year (YoY) basis. The decline is attributable to continuous cannibalization from handheld devices like smartphones and tablet PCs, less demand from emerging markets due to decreasing commodity price and tightening U.S. monetary policy. In addition, Microsoft offered free upgrade of Windows 10, which also delayed the replacement demand from consumers. As a result, overall PC volume declined by 10.6% YoY.

Looking forward to 2016, since PC inventory is at a higher level, demand for PC is expected to be weak in the first half of 2016. That being said, with the free upgrade of Windows 10 in 2015, consumers may start replacing their hardware in the second half of 2016 due to increasing demand for better security and efficiency. Affecting by the weaker demand in the first half of 2016, overall PC volume in 2016 is likely to decline by 3.1% YoY, follow by a flattish volume in 2017 and potentially reverse the trend to 1% growth in 2018 and 2019 due to increasing demand from replacement cycle.

## **b. Communication Industry**

According to IDC, the worldwide volume of smartphone shipped in 2015 reached 1.4 billion units with 9.8% growth YoY. IDC further estimates that smartphone volume will continue growing in the next few years and likely to reach 1.86 billion units in 2019, with estimated compound annual growth rate of 7.4% from 2014 to 2019. Volume growth is mainly driven by growing demand in emerging market and Asia Pacific region, whereas demand in the developed countries will slow down. Average selling price of smartphone is likely to decline going forward as components prices are under pressure, higher volume of smartphones with average selling price under US\$150 per unit and slowing demand in high-end smartphones. IDC estimates that average selling price is likely to reduce from US\$292.64 to US\$239.81 per unit from 2015 to 2019, with compound annual growth rate of -4.3%.

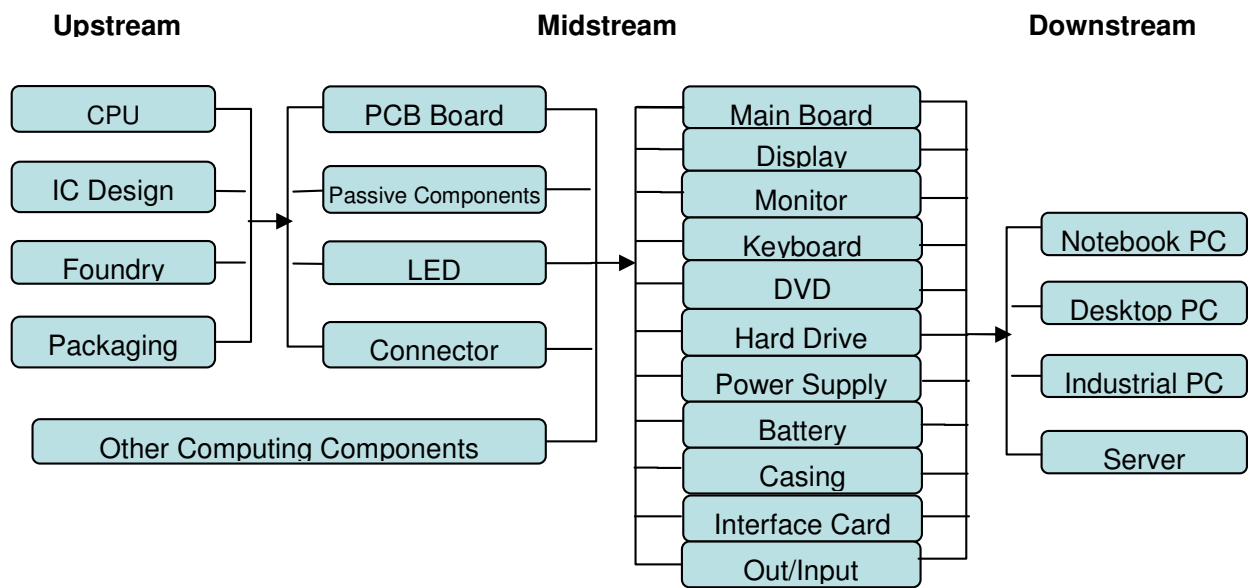
## **c. Consumer Electronics Industry**

Tablets and game consoles are the major revenue contributors in consumer electronics segment. According to IDC, despite growing demand in commercial tablets, consumer tablets segment has been cannibalized by larger size smartphones and since its product life cycle is also comparatively longer, the total volume of tablets shipped in 2015 was around 220 million units, YoY decline for the first time after a few years of upward trend. However, driven by increasing demand in high-end tablets, IDC estimates that global tablets volume is likely to resume its growth momentum to 230 million units with compound annual growth rate of 1% from 2014 to 2019. In the next few years, Windows based tablets is likely to gain its market share among major platforms of Android, iOS and Windows due to increasing popularity of commercial tablets and 2 in 1 models.

IDC predicts that the total volume of game consoles shipped in 2015 reached 34 million units, a 1.4% decline from a year ago. The decline is attributable to substantial slowdown in the seventh generation game console by 58.7% YoY, while the eighth generation game console grew by 16.2 % YoY to over 30 million units. IDC further estimates that volume of game console is likely to grow slightly to 2.3% YoY in 2016 and decline again in 2017 and 2018 since its life cycle is longer and the next generation of game console is likely to be launched by Sony and Microsoft in 2019.



### 5.1.2.2 Correlation of the Upper-stream, Mid-stream and Down-stream of the Industry



After decades of development of the computing industry in Taiwan, the relationships among upstream, midstream and downstream sectors have become highly correlated. While it is evident that bigger suppliers are expanding over the years, it has been difficult for smaller suppliers to survive in the industry.

### 5.1.2.3 Trends of Product Development

Consumers are paying more attention to the function of mobility. Among computing, communication or consumer electronics products, consumers are constantly looking for products lighter in weight and slimmer in size with longer battery life.

Global notebook PC market has been declining since 2012 and without innovative design and revolutionary breakthrough, the demand is likely to remain flattish despite market generally expects that replacement cycle of notebook PCs still exists. Nevertheless, free upgrade to Windows 10 is likely to drive replacement demand for hardware device.

In recent years, as the infrastructure of internet is becoming progressively better, the concept of Internet of Things (IoT) has become a trendsetter for mobile devices. While the three major platform providers, iOS, Android and Windows, are actively building their own eco systems, they also attempt to integrate technologies based on the framework of IoT and extend its application on new devices such as wearable devices, smart home connectivity and automobile electronics.

#### 5.1.2.4 Market Competition

As the functionality of computing, consumer electronics, and communication products continues integrated, the circumstances of the ODM/EMS market will also change in Taiwan. It has become crucial for ODM/EMS companies to obtain orders from international brand customers by providing value added services, enhancing capabilities in software and hardware design, progressing vertical integration, and providing total solution services.

The manufacturing of notebook PCs and desktop PCs is outsourced to ODM/EMS companies and a majority of these companies' resources are focused on global logistics as well as cost reduction. While economies of scale and comprehensive vertical integration are considered two important elements, DMS service (design, manufacturing and services) is also another key successful factor to secure customers' orders.

#### 5.1.3 Research and Development

##### 5.1.3.1 Research and Development Expense in Recent Year

Unit: NT\$ thousands; %

Items	2014	2015
R&D Expense (A)	12,335,198	14,673,367
Net Revenue (B)	1,019,738,833	1,213,712,976
(A)/(B) %	1.21	1.21

### 5.1.3.2 Research and Development Accomplishments in the Recent Year

Year	Achievement in Research and Development
2015	<ol style="list-style-type: none"> <li>1. Gateway: Developed next generation satellite gateway box with smart router features for home media centers; supports 4K2KP60 HEVC decoding, 4 720P H.264 video transcoding and Dual Band Concurrent AC1900 Wi-Fi.</li> <li>2. 32 port 40G High Speed Switch supports both Intel Rangeley and BCM XLP208 Processor.</li> <li>3. IP camera supports HD video and also bidirectional HD voice.</li> <li>4. Android desktop IP Phone using different sensor technologies and friendly user interface lets users have the best IP Phone experience.</li> <li>5. Automation Production and Industry 4.0 Implement using robots in production lines reduces operators' jobs, production cost, and increase the capacity and production output for more benefits.</li> <li>6. Automation Information Systems for machine breakdown, abnormality, and maintenance systems; engineers can quickly solve issues and perform maintenance.</li> <li>7. Special form factor IP Camera home hub controller and IP Camera with in-wall light switch form factor and light switch functionality different from conventional IP cameras in the market, providing end-users an innovative choice; also integrated with many sensors (power meter, ambient light, VOC air quality, relative humidity, temperature, voice, etc.), capable of sending sensor data to the cloud for big data analytics.</li> <li>8. NVIDIA desktop graphics cards from GTX950 to high-end GTX980TI OC versions.</li> <li>9. Main board designs following architectures of Intel and AMD chipsets. The major developed models are Intel Skylake, Haswell-U 15w, and Braswell Refresh platforms. Intel Skylake platform includes Skylake CPU and 100 series PCH; Haswell-U and Braswell Refresh Platform are SoC design (System-on-a-chip) for entry Desktop segments.</li> <li>10. MB with AMD Kaveri platforms using A78 FCH, which supports the new AMD CPU Godavari in the future. In 2016, the MB will be upgraded with A88 FCH.</li> <li>11. Narrow bezel 21.5inch all-in-one panel PC; 10.1inch tablet and integrated on traditional printer; Intel desktop chipset mini PC; Intel high-end NUC mini PC; Intel entry level mini PC; Implement IVI system with MTK platforms.</li> <li>12. Automotive Electronics (AE): Based on EU E-call standards, LTE E-call Telematics were developed with CAN bus data interfacing for monitoring. In addition, E2E car networking service can be provided for OEM with Microsoft Azure Server integration.</li> <li>13. Automotive Electronics (AE): DIN dashboard audio display systems with voice control, radio, Bluetooth streaming, audio/video playback, navigation, rear-view camera, and Apple CarPlay.</li> <li>14. Drone: Show the first generation drone in Computex. Building the relative key technologies and planning to provide the design and production service to customers.</li> <li>15. Internal Android GMS certification lab (3PL) to provide certification services to customers.</li> <li>16. Improving processes and efficiency by introducing scalable distributed computing platforms for big data storage/analysis, then using "statistical learning" and "machine learning" techniques to build models for data analysis, anomaly detection, and pattern recognition.</li> </ol>

## **5.1.4 Long Term and Short Term Business Development Plans**

### **5.1.4.1 Short Term Business Development Plan**

- a. To increase market competitiveness and pursue higher annual revenue growth by lean operation management and effective manufacturing process.
- b. To improve the efficiency of logistic management by reducing logistic cost and shortening product delivery time.
- c. Based on the product mix to approach different markets with different strategies. For mainstream products, the aim is to increase value-added services and versatility of the products with industrial design and new technologies, so as to become the market leader by developing leading products with innovative technology and expertise in the market. As for low cost products, the Company endeavors to provide products with lower manufacturing cost to fulfill consumers' needs.
- d. To strengthen the relationship with existing customers, provide total solutions to customers and increase DMS market shares.

### **5.1.4.2 Long Term Business Development Plan**

The Company intends to enhance product mix and strengthen the factors that drive revenue growth. The development plan includes the following strategies:

- a. Customer Service Strategy
  - To strengthen the customer relationship and provide services in product planning, research and development, and manufacturing.
  - To complete the deployment of global sales network and provide comprehensive after sales services to customers.
- b. Manufacturing Strategy
  - To continuously promote the LSS project and improve the quality and efficiency at all level
  - To enhance vertical as well as horizontal integration and streamline group resources in related components, products, and services.
- c. Product Development Strategy
  - To focus on talent development especially in R&D and industrial design sectors and to enhance the Company's R&D capabilities.
  - To proactively develop material and technologies that are environmentally friendly and that comply with green product and other relevant environmental protection regulations

## 5.2 Market and Sales Overview

### 5.2.1 Market Analysis

#### 5.2.1.1 Sales (Service) Regions

Unit: NT\$ thousands; %

		2014		2015	
		Amount	%	Amount	%
<b>Domestic</b>		224,249,202	21.99	185,605,468	15.29
<b>Export</b>	<b>Asia</b>	117,189,299	11.49	182,354,115	15.02
	<b>Europe</b>	255,592,297	25.06	510,430,274	42.06
	<b>America</b>	301,753,238	29.59	273,135,851	22.50
	<b>Others</b>	120,954,797	11.86	62,187,268	5.12
	<b>Subtotal</b>	795,489,631	78.01	1,028,107,508	84.71
<b>Total</b>		1,019,738,833	100.00	1,213,712,976	100.00

#### 5.2.1.2 Market Share

According to Digitimes, the top five notebook PC ODM/EMS companies accounted for 118 million units of notebook PCs in 2015, around 75% of total global shipment volume. This included 41.8 million units from Quanta, 39.3 million units from Compal, 18.8 million units from Wistron, 10 million units from Pegatron and 8.5 million units from Inventec.

#### 5.2.1.3 Market Demand, Supply and Growth

In order to expand market shares, customers depend more on suppliers to shorten the time to market for computing, consumer electronics and communication products, while suppliers are also developing and offering more service categories. Currently, more international brand customers outsource products to ODM/EMS companies, whom, apart from manufacturing, can also provide extended services for logistics and after sale services. With capabilities in cost control, advantages in manufacturing skills, production flexibility, and experience in logistics, innovative research, marketing and management, ODM/EMS companies in Taiwan have the competitive edge in the industry. In addition, with highly vertical integrated capabilities, efficient product design and production flexibilities, ODM/EMS companies in Taiwan can provide services to customers that differ from other EMS and OEM companies located elsewhere.

In 2016, while global economy is full of uncertainties, the decline in PC market is expected to slow down due to deceleration of cannibalization from tablets, integration of functionality between tablets and notebook PCs and potential hardware replacement cycle boosted by software upgrade, followed by a reverse of trend to minor growth in 2017. For mobile devices, benefitting from lower average selling price,

emerging markets continue to drive the growth in this product segment despite softening demand in developed countries. As for tablets, its growth had also decelerated as its replacement cycle resembles that of the notebook PCs. However, tablets with specific features designed for niche markets may set a new trend for consumer electronics industry. Furthermore, as the infrastructure of internet is becoming progressively better, the concept of Internet of Things (IoT) also bring out the trends of wearable device, smart home device, etc. In addition, brand companies increase their resources and investment in R&D of mobile devices, which is also likely to bring new growth potential for ODM/EMS companies.

#### **5.2.1.4 Competitive Advantages**

##### **a. Experienced R&D Team**

In addition to the Perspective Technology Office within the Company, there are also designated research and development engineers in each business unit. As of the end of 2015, total research and development engineers reached 4,610, among which 95.39% are with university degree. The leading research and development engineers in each product development have more than 15 years of experience in the relevant fields.

##### **b. Comprehensive Manufacturing Locations**

Suzhou, Shanghai, Kunshan and Chongqing in China, Juarez in Mexico, Ostrava in the Czech Republic and Taoyuan in Taiwan to fulfill the needs of global customers at different regions.

##### **c. Diversified Product Portfolio and Customer Base**

The Company emphasizes on design capabilities, manufacturing excellence and service quality, and our major customers are well known global brand companies in the computing, communication and consumer electronics markets. In addition to our diversified product portfolio, the Company also has in-depth knowledge of the products to provide services to various types of customers.

##### **d. Global Logistics Capabilities**

The Company has manufacturing sites and service & repair stations across Europe, North America and Asia. One of the most important advantages of Pegatron is the effective management of global logistics based on the long-term experience providing prompt services across different time zones to meet customers' needs.

#### **e. Professional Management Team**

The management team consists of highly regarded senior professionals in the industry with more than 20 years of experience in the founding and managing of Asustek. One of the essential factors to the Company's sound development is the unspoken consensus and successful collaboration among the members of the management team after the long-term and stable working relationship.

#### **f. Innovation Capabilities**

With outstanding design capabilities and effective manufacturing capacity, the Company is able to design products based on customers' requirements and shorten products' time to market. The Company has in-depth study of special material and is able to offer various selections of material with a cost effective options. The industrial design team, after years of experience, has won numerous international awards. It is evident that the capability of producing innovative designs is one of the core competitive advantages of the Company.

#### **g. Comprehensive Vertical Integration**

We are dedicated in the development of vertical integration. With our capabilities and know-how in working with a wide range of materials, from traditional metal stamping and plastic injection to newer light metal technologies, we are able to fulfill our customers' diverse needs and product design requirements and enhance our ability to offer competitive one-stop-shopping solutions. Our focus on vertical integration will continue to translate into larger cost advantages and shorter time-to-market to help us win new manufacturing mandates from major OEM/brand customers.

### **5.2.1.5 Disadvantages and Responsive Strategies**

#### **Advantages**

##### **a. Strong marketing attraction for fully the developed computing industry in Taiwan**

The computing industry in Taiwan experienced numerous transformations and has fully developed over time. With the evenly developed industry and excellent collaboration among each supply chain, the computing industry in Taiwan is a strong marketing attraction and has become the global procurement center for computer peripherals.

##### **b. Matured computing components industry and stable supply of key components in Taiwan**

In the recent years, key components, such as chipset and PCB's, vendors for motherboards, CD-ROM drives and other electronic products have become more

industry is one of the key factors for the prosperity of the computing industry in Taiwan.

**c. Integration of software and hardware systems help create growth momentum in the computing industry**

In addition to the excellent capability in hardware design, the Company strives to provide integrated solutions to customers by continuously investing in research and development of key technologies in hardware and software design as well as its applicable operating systems. With the capabilities in software and hardware integration, the Company is able to tap into this trend and turn the opportunities into a growth momentum.

**d. Excellent capabilities in research & development and innovative industrial design**

The Company has an excellent research and development team, whom is fully dedicated to product development and innovative industrial design. As a result, the Company is able to launch new models before its peer companies. In addition to the corporate perspective technology office, there are also designated R&D units within each business unit, which helps shorten production cycle and keep the Company a step ahead of its peer companies in this competitive environment.

**e. Comprehensive after sales service network**

The Company provides consistent after sales services and quality assurance to global customers via service & repair stations across North America, Europe, Japan and China.

**Disadvantages**

**a. Declined gross margin due to severe pricing competition**

The competition in the computing industry is intense due to the low entry barrier that attracts a large number of competitors. Furthermore, with the products becoming more matured over time, product supply has been higher than its demand. Product differentiation has also gradually diminished, which may also lead to a decline of gross margin.

**b. Profit margin impact by fluctuation of foreign exchange rates**

Most of the Company's products are exported and is highly exposed to the fluctuation of foreign exchange rates which may have direct impact to the Company's profit margin.

**c. Increase of manufacturing costs by potential labor shortage and higher acquisition cost of land**

The Company has increased the usage of automation for majority of products in an effort to reduce the reliance on labors. However, certain manufacturing processes



are still conducted manually. As the issues of labor shortage gradually surfaced over recent years, labor compensation has increased dramatically, which increases the manufacturing cost and affects the Company's competitiveness in the global market.

### **Responsive Strategies**

- a. Enhance research and development capability and manufacture high value-added products.
- b. Enforce cost control and inventory management, and maximize production efficiency by increasing automation.
- c. Maximize the hedging effect by balancing the position in foreign and local currencies.
- d. Invest in automation equipment to reduce the reliance on labor and improve product quality.
- e. Allocate labors across manufacturing sites appropriately and minimize the impact of labor shortage.

## **5.2.2 Application of Major Products**

### **a. Computing Products**

Notebook PCs, desktop PCs and other information electronic products that are mainly used for word processing, information management, typesetting, industrial design, presentation, statistical analysis, multimedia application, etc.

### **b. Communication Products**

Communication products can be used for individual communication, internet communication, wire and wireless internet access.

### **c. Consumer Electronics Products**

Products that can be used for entertainment purposes, such as tablets, game consoles, LCD TV, e-readers, etc.

## **5.2.3 Supply of Major Material**

Major Raw Materials	Source of Supply	Supply Situation
Chipset	W Company 、 X Company 、 S Company	Stable
CPU	U Company 、 Z Company	Stable
System Module	X Company 、 Z Company	Stable
Mechanical Parts	X Company 、 V Company 、 T Company	Stable
Display	X Company 、 Z Company	Stable

Note: Partial major materials are purchased by major customers and resell to the Company for manufacturing and system assembly. Therefore, partial source of supply is from major customers.

## 5.2.4 Major Customers with over 10% Net Sales and Suppliers with over 10% Net Purchases of the Last Two Fiscal Years

### 5.2.4.1 Major Suppliers of the Last Two Fiscal Years

Unit: NT\$ thousands

Item	2014				2015			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	X Company (Note 1)	266,011,814	28.41	None	X Company (Note 1)	437,005,605	39.52	None
2	Z Company (Note 1)	95,286,965	10.18	Shareholder	Z Company (Note 1)	94,617,517	8.56	Shareholder
3	Y Company (Note 1)	46,302,035	4.94	None	S Company	50,114,279	4.53	None
	Others	528,751,014	56.47	-	Others	524,120,285	47.39	-
	Net Total Purchases	936,351,828	100.00	-	Net Total Purchases	1,105,857,686	100.00	-

Note 1: In 2014 and 2015, the Company purchased (raw) material via major customers.

Note 2: Increase and decrease of the amount was due to business demand.

### 5.2.4.2 Major Customers of the Last Two Fiscal Years

Unit: NT\$ thousands

Item	2014				2015			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	A Company	521,007,973	51.09	None	A Company	729,205,460	60.08	None
2	B Company	120,950,470	11.86	Shareholder	B Company	122,375,001	10.08	Shareholder
	Others	377,780,390	37.05	-	Others	362,132,515	29.84	
	Net Total Sales	1,019,738,833	100.00	-	Net Total Sales	1,213,712,976	100.00	

Note: Increase and decrease of the amount was due to business demand.

## 5.2.5 Production/Sales Quantities and Value over the Past Two Years

Unit: thousands; NT\$ thousands

Output Year	2014			2015		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
Major Products (or by departments)						
3C Products	399	354	126,780	280	298	150,522
Other	-	-	2,854,811	-	-	3,540,652
Total	399	354	2,981,591	280	298	3,691,174

Note: Based on Pegatron Corporation only. For information of other listed subsidiaries, please refer to their annual reports

## 5.2.6 Sales Quantities and Value of the Last Two Years

Unit: thousands; NT\$ thousands

Shipments Year & Sales Major Products	2014				2015			
	Domestic		Export		Domestic		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
3C Products	23,494	203,575,879	121,975	674,424,129	19,520	165,540,905	124,817	867,971,530
Others	-	6,896,761	-	13,066,819	-	5,878,006	-	14,045,381
Total	23,494	210,472,640	121,975	687,490,948	19,520	171,418,911	124,817	882,016,911

Note: Based on Pegatron Corporation only. For information of other listed subsidiaries, please refer to their annual reports.

## 5.3 Status of Employees

### Status of employees over the past two years and up to the date of the report

Year		2014	2015	As of 03/22/2016
Number of Employees	Others	2,533	2,776	2,739
	R&D	4,213	4,610	4,572
	Total	6,746	7,386	7,311
Average Age		34.3	34.2	34.8
Average Years of Service		5.3	5.5	5.7
Education	Ph.D.	0.27%	0.31%	0.30%
	Masters	38.62%	40.03%	40.60%
	Bachelor's Degree	55.67%	55.05%	54.99%
	Senior High School	4.18%	3.81%	3.34%
	Below Senior High School	1.26%	0.80%	0.78%

Note: Based on Pegatron Corporation only. For information of other listed subsidiaries, please refer to their annual report.

## 5.4 Expenditure on Environmental Protection

### Total amount of loss (including penalty) paid for environmental pollution and stated any responsive actions and potential expenditure

In 2015 and as of the date of this annual report, the Company was in accordance with environmental legislation and did not incur any loss or receive any penalty for major environmental pollution. Environmental aspects are identified and managed under an environmental management system externally certified to the international standard ISO14001. There are designated personnel within the company who are in charge of environmental protection in compliance with the legal requirements. Waste clearance and disposal, wastewater management, environmental measurement and chemicals management have been conducted and controlled by management procedures. Besides, we consign a 3<sup>rd</sup> party to measure the concentration of the emissions and discharges to

ensure minimum environmental pollution and its compliance with relevant legal regulations. Major expenditure on environmental protection includes the cost of waste disposal, environmental monitoring environmental management system certification and dedicated environmental professionals.

## 5.5 Employee Relations

### 5.5.1 Employee's Welfare and Benefit

#### a. Employee welfare and benefit

Employee welfare and benefit are provided by both the Company and Pegatron Employee Welfare Committee. Corporate benefit program offered to employees include group insurance, travel insurance on business trips, meal subsidies, year-end bonus, performance bonus, etc., while benefit from Pegatron Employee Welfare Committee includes social clubs, family outlining, company group outlining, bonuses for three major festivals and different subsidies such as marriage, funeral, scholarship, etc. The details of welfare and benefit will be announced through announcement, company website, and email.

#### b. Training program

We place great emphasis on career planning and talent development for employees by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competency and professional competency development to enhance employees' capabilities, while external training programs include seminars or conferences organized by external parties that provide excellent training opportunities for employees. We have around 107,000 training hours in 2015. The average training hour is above 16 per colleagues.

Resources of Learning	Description
New employee orientation	<ul style="list-style-type: none"> <li>Corporate introduction, corporate culture, and online orientation programs are included to help new employees know about Pegatron and adapt to the new work environment</li> <li>In order to help new employee be familiar with the environment and the internal procedures quickly, each new employee may have one mentor</li> </ul>
Core competency training	We plan trainings of each level's employees which are based on competencies.
Management training	We plan management trainings such as new manager orientation which is based on roles and responsibilities of supervisors.
Professional competency training	Each unit plans professional competency trainings which are based on needs of professional knowledge and skills.
Train the trainer training	In order to pass down the internal knowledge, train the trainer training is held regularly every year. And both of e-learning and classroom training's instructor are included.
General lectures	Art, life and management lectures are included.
Pega e-library	Offers employees over one thousand books to borrow and read.

c. Retirement system

Pegatron's retirement policy is in accordance with the provisions in the Labor Standards Law and Labor Pension Act of the Republic of China.

d. Employee rights

The Company always emphasizes employee benefits as well as harmonious labor relations, and we highly value employees' opinions and feedbacks, which can be submitted via employee mailbox, conferences and emails. Employees can fully express their opinions, raising any labor issues to promote and maintain a positive labor relationship.

e. Employees code of conduct

Pursuing sustainable corporate development and embracing integrity is our highest guiding principle, and the Company has established Business Ethic Guidelines. Based on the Business Ethic Guideline, employees are required to strictly follow the moral standards and advocate honesty, integrity and confidentiality to protect the rights of the Company and shareholders and enhance the Company's competitiveness.

**5.5.2 Any current or potential loss resulting from labor disputes and prevention actions for the past two years and as of the date of this annual report.**

There have not been any material losses resulting from major labor disputes for the past two years and as of the date of this annual report.

## 5.6 Important Contracts

As of 03/22/2016

Agreement	Counterparty	Period	Major Contents	Restrictions
Syndication Agreement	Citi Bank, Taipei Fubon Bank, Taiwan Corporative Bank, DBS Bank, Land Bank of Taiwan and Bank of Taiwan (lead banks) and other participating banks	10/25/2010 ~ 10/25/2015	Loan Amount: US\$450million. Period: 5 years	Restrictions to financial ratios: 1. Current ratio: no less than 100% 2. Debt ratio (interesting bearing debt to equity: no higher than 50%) 3. Interest coverage ratio (EBITDA): no less than 4 times 4. Tangible equity: no less than NT\$90billion
Appointment Agreement	ABeam Consulting Ltd	03/28/2008 ~ to date	SAP system development and migration	Should ABeam not complete the work specified in the contract, the Company is entitled to cancel the contract and request for punitive damage as well as other compensation, provided ABeam is solely responsible for not completing the work as scheduled.
Software Purchase Agreement	NEC Taiwan Ltd	03/07/2012 ~ to date	Purchase of SAP software	None
License Agreement	SAP Taiwan Co., Ltd.	03/07/2012 ~ to date	License of SAP software	None
Syndication Agreement	Bank of Taiwan, Chang Hwa Bank, Taiwan Cooperative Bank, Mega International Commercial Bank, E. Sun Bank, Hua Nan Bank, Agricultural Bank of Taiwan, CTBC Bank, China Development Industrial Bank	08/01/2013 ~ 2018	Loan Amount: NT\$12billion. Period: 5 years	Restrictions to financial ratios: 1. Current ratio: no less than 100%; 2. Debt ratio (interesting bearing debt to equity: no higher than 80%); 3. Interest coverage ratio (EBITDA): no less than 4 times; 4. Tangible equity: no less than NT\$90billion.
Lease Agreement	Fubon Life Insurance Co., Ltd.	06/01/2013 ~ 05/31/2016	Lease the building from Fubon as office. Period: 3 years	None.
Software Purchase Agreement	Acer Incorporated	12/1/2013 ~ 11/30/2016	Purchase of Microsoft Office system and the related software	None
License Agreement	Microsoft Operations Pte Ltd.	12/1/2013 ~ 11/30/2016	License of Microsoft Office system and the related software	None
Construction Engineering Agreement	Li Jing Engineering Co. Ltd.	2015/11/15 ~ 2018/4/2	Reconstruction of Li-de building	None

## 6. Financial Information

### 6.1 Five-Year Financial Summary

#### 6.1.1 Condensed Consolidated Balance Sheet – IFRS

Unit: NT\$ thousands

Year Item		Five-Year Financial Summary (Note)				
		2011	2012	2013	2014	2015
Current assets			308,250,538	326,934,979	369,602,726	390,403,344
Funds & Investments			1,607,697	1,187,753	490,372	424,191
Property, plant and equipment			73,179,119	73,916,654	72,898,284	71,037,778
Intangible assets			2,770,545	1,969,832	1,601,259	1,555,087
Other assets			9,546,840	11,886,306	12,500,500	12,666,263
Total assets			395,354,739	415,895,524	457,093,141	476,086,663
Current liabilities	Before Distribution		238,103,119	239,272,864	264,997,445	267,707,497
	After Distribution		241,538,576	245,770,081	275,507,067	Undistributed
Non-current liabilities			29,614,039	32,567,481	17,224,466	16,040,641
Total liabilities	Before Distribution		267,717,158	271,840,345	282,221,911	283,748,138
	After Distribution	NA	271,152,615	278,337,562	292,731,533	Undistributed
Equity			95,805,279	107,303,794	133,670,931	150,380,135
Share capital			22,903,049	23,211,555	25,156,805	26,030,205
Capital surplus			61,723,110	63,175,819	74,295,720	78,972,374
Retained earnings	Before Distribution		15,005,566	21,143,952	29,325,244	42,655,172
	After Distribution		11,570,109	14,646,735	18,815,622	Undistributed
Other equity interest			(3,807,652)	(210,136)	4,901,345	2,724,974
Treasury stock			(18,794)	(17,396)	(8,183)	(2,590)
Non-controlling interests			31,832,302	36,751,385	41,200,299	41,958,390
Total Equity	Before Distribution		127,637,581	144,055,179	174,871,230	192,338,525
	After Distribution		124,202,124	137,557,962	164,361,608	Undistributed

Note: Above financial information has been audited by CPA.

## 6.1.2 Condensed Consolidated Balance Sheet – TW GAAP

Unit: NT\$ thousands

Item	Year	Five-Year Financial Summary (Note)				
		2011	2012	2013	2014	2015
Current assets		215,893,661	306,149,515			
Funds & Investments		3,667,471	3,424,174			
Fixed assets		70,457,980	71,812,742			
Intangible assets		5,922,748	6,107,933			
Other assets		3,336,147	3,639,205			
Total assets		299,575,997	391,440,565			
Current liabilities	Before Distribution	151,491,046	233,976,744			
	After Distribution	151,491,046	237,412,201			
Long-term liabilities		29,178,917	27,861,052			
Other liabilities		709,305	1,575,537			
Total liabilities	Before Distribution	181,379,268	263,413,333			
	After Distribution	181,379,268	266,848,790	NA	NA	NA
Capital stock		22,563,669	22,903,049			
Capital surplus		63,465,496	64,560,268			
Retained earnings	Before Distribution	6,308,696	12,412,492			
	After Distribution	6,308,696	8,977,035			
Unrealized gain or loss on financial instruments		48,936	122,071			
Cumulative translation adjustments		(784,234)	(3,400,838)			
Net loss unrecognized as pension cost		440	(1,717)			
Total shareholders' equity	Before Distribution	118,196,729	128,027,232			
	After Distribution	118,196,729	124,591,775			

Note: Above financial information has been audited by CPA.



### 6.1.3 Condensed Consolidated Statement of Comprehensive Income – IFRS

Unit: NT\$ thousands

Item \ Year	Five-Year Financial Summary (Note)				
	2011	2012	2013	2014	2015
Operating revenues		881,197,415	949,752,028	1,019,738,833	1,213,712,976
Gross profit		37,032,384	45,516,719	59,455,442	75,274,993
Results from operating activities		12,211,588	15,576,752	28,320,585	39,674,544
Non-operating income and expenses		1,967,609	3,453,120	(2,058,498)	(488,530)
Profit before tax		14,179,197	19,029,872	26,262,087	39,186,014
Profit (loss) from continuing operations		10,336,181	14,247,247	18,927,613	28,871,859
Profit (loss) from discontinued operations		-	-	-	-
Profit (loss)		10,336,181	14,247,247	18,927,613	28,871,859
Other comprehensive income (after tax)		(2,977,627)	3,916,721	6,256,340	(1,339,618)
Comprehensive income	NA	7,358,554	18,163,968	25,183,953	27,532,241
Profit (loss), attributable to owners of parent		6,382,945	9,554,496	14,658,138	23,811,625
Profit (loss), attributable to non-controlling interests		3,953,236	4,692,751	4,269,475	5,060,234
Comprehensive income, attributable to owners of parent		3,819,274	12,903,831	19,604,022	22,809,542
Comprehensive income, attributable to non-controlling interests		3,539,280	5,260,137	5,579,931	4,722,699
Basic earnings per share		2.83	4.16	6.24	9.23

Note: Above financial information has been audited by CPA.

### 6.1.4 Condensed Consolidated Statement of Income – TW GAAP

Unit: NT\$ thousands

Item \ Year	Five-Year Financial Summary (Note)				
	2011	2012	2013	2014	2015
Operating revenue	599,942,706	881,895,384			
Gross profit	26,996,786	42,469,395			
Income from operations	913,108	11,160,525			
Non-operating income	5,371,569	5,242,466			
Non-operating expenses	1,557,285	2,600,433			
Income from operations of continued segments - before tax	4,727,392	13,802,558			
Income from operations of continued segments - after tax	3,305,162	9,977,633	NA	NA	NA
Income from discontinued departments	NA	NA			
Extraordinary gain or loss	NA	NA			
Cumulative effect of accounting principle changes	NA	NA			
Net income (loss)	3,305,162	9,977,633			
Basic earnings per share	0.05	2.71			

Note: Above financial information has been audited by CPA.

### 6.1.5 Condensed Individual Balance Sheet – IFRS

Unit: NT\$ thousands

Year Item		Five-Year Financial Summary (Note)				
		2011	2012	2013	2014	2015
Current assets			227,051,674	283,288,047	316,056,068	317,603,542
Funds & Investments			89,510,096	95,704,186	112,093,393	117,840,661
Property, plant and equipment			4,473,252	4,444,544	4,478,327	4,423,894
Intangible assets			93,514	58,990	48,713	67,576
Other assets			123,037	239,921	206,989	333,018
Total assets			321,251,573	383,735,688	432,883,490	440,268,691
Current liabilities	Before Distribution		207,361,516	251,086,153	286,989,503	279,015,180
	After Distribution		210,796,973	257,583,370	297,499,125	Undistributed
Non-current liabilities			18,084,778	25,345,741	12,223,056	10,873,376
Total liabilities	Before Distribution		225,446,294	276,431,894	229,212,559	289,888,556
	After Distribution		228,881,751	282,929,111	309,722,181	Undistributed
Equity			NA	NA	NA	NA
Share capital			22,903,049	23,211,555	25,156,805	26,030,205
Capital surplus			61,723,110	63,175,819	74,295,720	78,972,374
Retained earnings	Before Distribution		15,005,566	21,143,952	29,325,244	42,655,172
	After Distribution		11,570,109	14,646,735	18,815,622	Undistributed
Other equity interest			(3,807,652)	(210,136)	4,901,345	2,724,974
Treasury stock			(18,794)	(17,396)	(8,183)	(2,590)
Non-controlling interests			NA	NA	NA	NA
Total Equity	Before Distribution		95,805,279	107,303,794	133,670,931	150,380,135
	After Distribution		92,369,822	100,807,577	123,161,309	Undistributed

Note: Above financial information has been audited by CPA.

### 6.1.6 Condensed Individual Balance Sheet – TW GAAP

Unit: NT\$ thousands

Item	Year	Five-Year Financial Summary (Note)				
		2011	2012	2013	2014	2015
Current assets		128,013,989	227,027,536			
Funds & Investments		86,765,900	89,819,986			
Fixed assets		3,934,857	3,832,044			
Intangible assets		121,223	93,947			
Other assets		763,501	666,826			
Total assets		219,628,741	321,470,989			
Current liabilities	Before Distribution	115,532,544	207,240,143			
	After Distribution	115,532,544	210,675,600			
Long-term liabilities		12,120,232	17,713,495			
Other liabilities		391,756	438,518			
Total liabilities	Before Distribution	128,044,532	225,392,156			
	After Distribution	128,044,532	228,827,613	NA	NA	NA
Capital stock		22,563,669	22,903,049			
Capital surplus		63,465,496	64,560,268			
Retained earnings	Before Distribution	6,308,696	12,412,492			
	After Distribution	6,308,696	8,977,035			
Unrealized gain or loss on financial instruments		48,936	122,071			
Cumulative translation adjustments		(784,234)	(3,400,838)			
Net loss unrecognized as pension cost		440	(1,717)			
Total shareholders' equity	Before Distribution	91,584,209	96,078,833			
	After Distribution	91,584,209	92,643,376			

Note: Above financial information has been audited by CPA.

### 6.1.7 Condensed Individual Statement of Comprehensive Income – IFRS

Unit: NT\$ thousands

Year Item	Five-Year Financial Summary (Note1)				
	2011	2012	2013	2014	2015
Operating revenues		638,869,554	794,224,728	897,963,588	1,053,435,822
Gross profit (Note 2)		6,674,619	10,802,101	24,884,749	32,722,289
Results from operating activities		(916,249)	289,078	7,971,306	14,062,692
Non-operating income and expenses		7,735,386	9,257,322	8,467,161	12,674,865
Profit before tax		6,819,137	9,546,400	16,438,467	26,737,557
Profit (loss) from continuing operations		6,382,945	9,554,496	14,658,138	23,811,625
Profit (loss) from discontinued operations		-	-	-	-
Profit (loss)		6,382,945	9,554,496	14,658,138	23,811,625
Other comprehensive income (after tax)		(2,563,671)	3,349,335	4,945,884	(1,002,083)
Comprehensive income	NA	3,819,274	12,903,831	19,604,022	22,809,542
Profit (loss), attributable to owners of parent		NA	NA	NA	NA
Profit (loss), attributable to non-controlling interests		NA	NA	NA	NA
Comprehensive income, attributable to owners of parent		NA	NA	NA	NA
Comprehensive income, attributable to non-controlling interests		NA	NA	NA	NA
Basic earnings per share		2.83	4.16	6.24	9.23

Note 1: Above financial information has been audited by CPA.

Note 2: Gross profit included realized (unrealized) profits from affiliated companies.

### 6.1.8 Condensed Individual Statement of Income – TW GAAP

Unit: NT\$ thousands

Item \ Year	Five-Year Financial Summary (Note 1)				
	2011	2012	2013	2014	2015
Operating revenue	371,712,663	638,698,954	NA	NA	NA
Gross profit (Note 2)	5,299,704	6,814,120			
Income from operations	(1,823,495)	(1,720,235)			
Non-operating income	2,677,282	9,252,726			
Non-operating expenses	795,273	991,138			
Income from operations of continued segments - before tax	58,514	6,541,353			
Income from operations of continued segments - after tax	111,365	6,103,796			
Income from discontinued departments	-	-			
Extraordinary gain or loss	-	-			
Cumulative effect of accounting principle changes	-	-			
Net income (loss)	111,365	6,103,796			
Basic earnings per share	0.05	2.71			

Note 1: Above financial information has been audited by CPA.

Note 2: Gross profit included realized (unrealized) profits from affiliated companies

### 6.1.9 Auditing by CPA from 2011 to 2015

Year	CPA Firm	CPA's Name	Auditing Opinion
2011	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2012	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2013	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2014	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2015	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified

## 6.2 Five-Year Financial Analysis

### 6.2.1 Consolidated Financial Analysis – IFRS

Year (Note1) Item (Note 2)		Five-Year Financial Analysis				
		2011	2012	2013	2014	2015
Capital structure (%)	Debt ratio		67.72	65.36	61.74	59.60
	Ratio of long-term capital to property, plant and equipment		210.83	233.73	259.02	288.08
Solvency	Current ratio (%)		129.46	136.64	139.47	145.83
	Quick ratio (%)		86.87	90.75	98.84	95.87
	Times interest earned (Times)		12.29	18.87	31.26	59.29
Operating ability	Accounts receivable turnover (Times)		8.46	8.28	8.56	9.55
	Average collection period		43.14	44.08	42.64	38.22
	Inventory turnover (Times)		10.03	8.71	9.11	10.07
	Accounts payable turnover (Times)		6.20	5.46	5.76	6.78
	Average days in sales		36.39	41.90	40.06	36.26
	Property, plant, and equipment turnover (Times)	NA	12.04	12.85	13.99	17.09
	Total assets turnover (Times)		2.23	2.28	2.23	2.55
Profitability	Return on total assets (%)		3.28	3.73	4.50	6.31
	Return on stockholders' equity (%)		8.42	10.49	11.87	15.72
	Pretax profit to paid-in capital (%)		61.91	81.98	104.39	150.54
	Net profit margin (%)		1.17	1.50	1.86	2.38
	Basic earnings per share (\$)		2.83	4.16	6.24	9.23
Cash flow	Cash flow ratio (%)		10.33	10.48	18.70	3.72
	Cash flow adequacy ratio (%)		57.24	67.58	84.98	75.44
	Cash reinvestment ratio (%)		10.93	8.39	15.58	(Note3)
Leverage	Operating leverage		2.07	1.89	1.49	1.35
	Financial leverage		1.11	1.07	1.03	1.02

Analysis of financial ratio change in the last two years.

1. Times interest earned ratio: The ratio increased in 2015 due to the increase in gross profit and profit before tax.
2. Property, plant, and equipment turnover: The ratio increased in 2015 due to the the increase in sales.
3. Return on total assets: The ratio increased in 2015 due to the increase in gross profit and net income.
4. Return on stockholders' equity: The ratio increased in 2015 due to the increase in net income.
5. Pretax profit to paid-in capital: The ratio increased in 2015 due to the increase in gross profit and profit before tax.
6. Net profit margin: The ratio increased in 2015 due to the increase in net income.
7. Earnings per share: The ratio increased in 2015 due to the increase in net income.
8. Cash flow ratio: The ratio decreased in 2015 due to the decrease in net cash inflow from operating activity.
9. Cash reinvestment ratio: The ratio decreased in 2015 due to the increase of cash dividends paid and the decrease in net cash inflow from operating activity.

Note 1: Financial report of each year has been audited by CPA firm.

Note 2: Equations:

1. Capital Structure

(1) Debt ratio = Total liability / Total assets

(2) Ratio of long-term capital to property, plant and equipment = (Net shareholders' equity + Long-term liability) / Net

property, plant and equipment

2. Solvency

(1) Current ratio: Current assets / current liability

(2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability

(3) Times interest earned = Net income before tax and interest expense / Interest expense of the year

3. Operating ability

(1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)

(2) Days sales in accounts receivable = 365 / Account receivable turnover

(3) Inventory turnover = Cost of goods sold / Average inventory amount

(4) Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)

(5) Average days in sales = 365 / Inventory turnover

(6) Fixed assets turnover = Net sales / Net fixed assets

(7) Total assets turnover = Net sales / Total assets

4. Profitability

(1) Return on assets = (Net income (loss) + interest expense x (1-tax rate)) / Average total assets

(2) Return on shareholders' equity = Net income (loss) / Net average shareholders' equity

(3) Return to issued capital stock = Net income before tax / Issued capital stock

(4) Profit ratio = Net income (loss) / Net sales

(5) Basic earnings per share = (Net income – preferred stock dividend) / Weighted average stock shares issued

5. Cash flow

(1) Cash flow ratio = Net cash flow from operating activity / Current liability

(2) Cash flow adequacy ratio = Net cash flow from operating activity in the past 5 years / (Capital expenditure + Inventory interest + Cash dividend) in the past 5 years

(3) Cash + reinvestment ratio = (Net cash flow from operating activity – Cash dividend) / (Fixed assets + Long term investment + Other assets + Working capital)

6. Balance

(1) Degree of operating leverage = (Net operating income – Variable operating cost and expense) / Operating income (note 6)

(2) Degree of financial leverage = Operating income / (Operating income – interest expense)

Note 3: The analysis of negative cash flow from operating activities is meaningless.



## 6.2.2 Consolidated Financial Analysis – TW GAAP

Item (Note 2)		Year (Note 1)		Five-Year Financial Analysis			
		2011	2012	2013	2014	2015	
Capital structure (%)	Debt ratio	60.55	67.29	NA	NA	NA	
	Ratio of long-term capital to fixed assets	209.17	217.08				
Solvency	Current ratio (%)	142.51	130.85				
	Quick ratio (%)	95.81	88.07				
	Times interest earned (Times)	8.84	13.96				
Operating ability	Accounts receivable turnover (Times)	10.03	9.13				
	Average collection period	36.39	39.98				
	Inventory turnover (Times)	9.89	9.97				
	Accounts payable turnover (Times)	7.39	6.16				
	Average days in sales	36.89	36.62				
	Fixed assets turnover (Times)	8.51	12.28				
	Total assets turnover (Times)	2.00	2.25				
Profitability	Return on total assets (%)	1.48	3.14				
	Return on stockholders' equity (%)	2.82	8.10				
	Ratio to issued capital (%)	Operating Income	4.05				48.73
		Pre-tax Income	20.95				60.27
	Net profit margin (%)	0.55	1.13				
	Basic earnings per share(\$)	0.05	2.71				
Cash flow	Cash flow ratio (%)	4.38	10.37				
	Cash flow adequacy ratio (%)	33.70	38.49				
	Cash reinvestment ratio (%)	0.42	11.48				
Leverage	Operating leverage	13.01	2.18				
	Financial leverage	2.94	1.11				

Note 1: Financial report of each year has been audited by CPA firm.

Note 2: Equations:

### 1. Capital Structure

(1) Debt ratio = Total liability / Total assets

(2) Ratio of long-term capital to fixed assets = (Net shareholders' equity + Long-term liability) / Net fixed assets

### 2. Solvency

(1) Current ratio: Current assets / current liability

(2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability

(3) Times interest earned = Net income before tax and interest expense / Interest expense of the year

### 3. Operating ability

(1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)

(2) Days sales in accounts receivable = 365 / Account receivable turnover

(3) Inventory turnover = Cost of goods sold / Average inventory amount

(4) Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)

(5) Average days in sales = 365 / Inventory turnover

(6) Fixed assets turnover = Net sales / Net fixed assets

(7) Total assets turnover = Net sales / Total assets

### 4. Profitability

- (1) Return on assets =  $(\text{Net income (loss)} + \text{interest expense} \times (1 - \text{tax rate})) / \text{Average total assets}$
- (2) Return on shareholders' equity =  $\text{Net income (loss)} / \text{Net average shareholders' equity}$
- (3) Return to issued capital stock =  $\text{Net income before tax} / \text{Issued capital stock}$
- (4) Profit ratio =  $\text{Net income (loss)} / \text{Net sales}$
- (5) Basic earnings per share =  $(\text{Net income} - \text{preferred stock dividend}) / \text{Weighted average stock shares issued}$
- 5. Cash flow
  - (1) Cash flow ratio =  $\text{Net cash flow from operating activity} / \text{Current liability}$
  - (2) Cash flow adequacy ratio =  $\text{Net cash flow from operating activity in the past 5 years} / (\text{Capital expenditure} + \text{Inventory interest} + \text{Cash dividend}) \text{ in the past 5 years}$
  - (3) Cash + reinvestment ratio =  $(\text{Net cash flow from operating activity} - \text{Cash dividend}) / (\text{Fixed assets} + \text{Long term investment} + \text{Other assets} + \text{Working capital})$
- 6. Balance
  - (1) Degree of operating leverage =  $(\text{Net operating income} - \text{Variable operating cost and expense}) / \text{Operating income (note 6)}$
  - (2) Degree of financial leverage =  $\text{Operating income} / (\text{Operating income} - \text{interest expense})$

### 6.2.3 Individual Financial Analysis – IFRS

Year (Note1) Item (Note 2)		Five-Year Financial Analysis				
		2011	2012	2013	2014	2015
Capital structure (%)	Debt ratio		70.18	72.04	69.12	65.84
	Ratio of long-term capital to property, plant and equipment		2,520.63	2,973.68	3,252.40	3,639.15
Solvency	Current ratio (%)		109.50	112.83	110.13	113.83
	Quick ratio (%)		103.57	104.02	103.69	104.12
	Times interest earned (Times)		12.03	14.82	34.79	66.32
Operating ability	Accounts receivable turnover (Times)		4.21	3.87	5.34	9.18
	Average collection period		86.70	94.32	68.35	39.76
	Inventory turnover (Times)		57.95	44.95	42.07	43.97
	Accounts payable turnover (Times)		4.49	4.13	4.12	4.82
	Average days in sales		6.30	8.12	8.68	8.30
	Property, plant, and equipment turnover (Times)	NA	142.82	178.70	200.51	238.12
	Total assets turnover (Times)		1.99	2.07	2.07	2.39
Profitability	Return on total assets (%)		2.55	2.87	3.69	5.53
	Return on stockholders' equity (%)		6.82	9.41	12.17	16.77
	Pretax Profit to paid-in capital (%)		29.77	41.13	65.34	102.72
	Net profit margin (%)		1.00	1.20	1.63	2.26
	Basic earnings per share (\$)		2.83	4.16	6.24	9.23
Cash flow	Cash flow ratio (%)		(Note3)	(Note3)	7.10	0.18
	Cash flow adequacy ratio (%)		(Note3)	(Note3)	44.82	12.15
	Cash reinvestment ratio (%)		(Note3)	(Note3)	9.45	(Note3)
Leverage	Operating leverage		0.30	3.16	1.08	1.05
	Financial leverage		0.60	-	1.07	1.03

Analysis of financial ratio change in the last two years.

1. Times interest earned ratio: The ratio increased in 2015 due to the increase in profit.
2. Accounts receivable turnover: The ratio increased in 2015 due to the increase in sales.
3. Average collection period: The ratio decreased in 2015 due to the increase in accounts receivable turnover.
4. Return on total assets: The ratio increased in 2015 due to the increase in gross margin and net income.
5. Return on stockholders' equity: The ratio increased in 2015 due to the increase in gross margin and net income.
6. Pretax Profit to paid-in capital: The ratio increased in 2015 due to the increase in gross margin and profit before tax.
7. Net profit margin: The ratio increased in 2015 due to the increase in net income.
8. Earnings per share: The ratio increased in 2015 due to the increase in net income
9. Cash flow ratio: The ratio decreased in 2015 due to the decrease in net cash inflow from operating activity.
10. Cash flow adequacy ratio: The ratio decreased in 2015 due to the decrease in net cash inflow from operating activity.
11. Cash reinvestment ratio: The ratio decreased in 2015 due to the increase of cash dividends paid and the decrease in net cash inflow from operating activity.

Note 1: Financial report of each year has been audited by CPA firm.

Note 2: Equations:

1. Capital Structure

(1) Debt ratio = Total liability / Total assets

(2) Ratio of long-term capital to property, plant and equipment = (Net shareholders' equity + Long-term liability) / Net property, plant and equipment

2. Solvency

(1) Current ratio: Current assets / current liability

(2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability

- (3) Times interest earned = Net income before tax and interest expense / Interest expense of the year
3. Operating ability
- (1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)
  - (2) Days sales in accounts receivable = 365 / Account receivable turnover
  - (3) Inventory turnover = Cost of goods sold / Average inventory amount
  - (4) Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)
  - (5) Average days in sales = 365 / Inventory turnover
  - (6) Fixed assets turnover = Net sales / Net fixed assets
  - (7) Total assets turnover = Net sales / Total assets
4. Profitability
- (1) Return on assets = (Net income (loss) + interest expense x (1-tax rate)) / Average total assets
  - (2) Return on shareholders' equity = Net income (loss) / Net average shareholders' equity
  - (3) Return to issued capital stock = Net income before tax / Issued capital stock
  - (4) Profit ratio = Net income (loss) / Net sales
  - (5) Basic earnings per share = (Net income – preferred stock dividend) / Weighted average stock shares issued
5. Cash flow
- (1) Cash flow ratio = Net cash flow from operating activity / Current liability
  - (2) Cash flow adequacy ratio = Net cash flow from operating activity in the past 5 years / (Capital expenditure + Inventory interest + Cash dividend) in the past 5 years
  - (3) Cash + reinvestment ratio = (Net cash flow from operating activity – Cash dividend) / (Fixed assets + Long term investment + Other assets + Working capital)
6. Balance
- (1) Degree of operating leverage = (Net operating income – Variable operating cost and expense) / Operating income (note 6)
  - (2) Degree of financial leverage = Operating income / (Operating income – interest expense)

Note 3: The analysis of negative cash flow from operating activities is meaningless.

## 6.2.4 Individual Financial Analysis – TW GAAP

Item (Note 2)		Year (Note 1)		Five-Year Financial Analysis			
		2011	2012	2013	2014	2015	
Capital structure (%)	Debt ratio	58.30	70.11	NA	NA	NA	
	Ratio of long-term capital to fixed assets	2,597.67	2,969.49				
Solvency	Current ratio (%)	110.80	109.55				
	Quick ratio (%)	102.68	103.62				
	Times interest earned ratio (Times)	1.28	15.47				
Operating ability	Accounts receivable turnover (Times)	4.82	4.21				
	Average collection period	75.73	86.70				
	Inventory turnover (Times)	42.75	57.94				
	Accounts payable turnover (Times)	5.44	4.49				
	Average days in sales	8.54	6.30				
	Fixed assets turnover (Times)	93.12	166.67				
	Total assets turnover (Times)	1.69	1.99				
Profitability	Return on total assets (%)	0.16	2.39				
	Return on stockholders' equity (%)	0.12	6.51				
	Ratio to issued capital (%)	Operating Income	-8.08				-7.51
		Pre-tax Income	0.26				28.56
	Profit ratio (%)	0.03	0.96				
	Basic earnings per share(\$)	0.05	2.71				
Cash flow	Cash flow ratio (%)	-	(Note3)				
	Cash flow adequacy ratio (%)	51.91	(Note3)				
	Cash reinvestment ratio (%)	-	(Note3)				
Leverage	Operating leverage	0.61	0.60				
	Financial leverage	0.90	0.79				

Note 1: Financial report of each year has been audited by CPA firm.

Note 2: Equations:

### 1. Capital Structure

(1) Debt ratio = Total liability / Total assets

(2) Ratio of long-term capital to fixed assets = (Net shareholders' equity + Long-term liability) / Net fixed assets

### 2. Solvency

(1) Current ratio: Current assets / current liability

(2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability

(3) Times interest earned = Net income before tax and interest expense / Interest expense of the year

### 3. Operating ability

(1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)

(2) Days sales in accounts receivable = 365 / Account receivable turnover

(3) Inventory turnover = Cost of goods sold / Average inventory amount

(4) Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)

(5) Average days in sales = 365 / Inventory turnover

(6) Fixed assets turnover = Net sales / Net fixed assets

(7) Total assets turnover = Net sales / Total assets

4. Profitability

- (1) Return on assets =  $(\text{Net income (loss)} + \text{interest expense} \times (1 - \text{tax rate})) / \text{Average total assets}$
- (2) Return on shareholders' equity =  $\text{Net income (loss)} / \text{Net average shareholders' equity}$
- (3) Return to issued capital stock =  $\text{Net income before tax} / \text{Issued capital stock}$
- (4) Profit ratio =  $\text{Net income (loss)} / \text{Net sales}$
- (5) Basic earnings per share =  $(\text{Net income} - \text{preferred stock dividend}) / \text{Weighted average stock shares issued}$

5. Cash flow

- (1) Cash flow ratio =  $\text{Net cash flow from operating activity} / \text{Current liability}$
- (2) Cash flow adequacy ratio =  $\text{Net cash flow from operating activity in the past 5 years} / (\text{Capital expenditure} + \text{Inventory interest} + \text{Cash dividend}) \text{ in the past 5 years}$
- (3) Cash + reinvestment ratio =  $(\text{Net cash flow from operating activity} - \text{Cash dividend}) / (\text{Fixed assets} + \text{Long term investment} + \text{Other assets} + \text{Working capital})$

6. Balance

- (1) Degree of operating leverage =  $(\text{Net operating income} - \text{Variable operating cost and expense}) / \text{Operating income (note 6)}$
- (2) Degree of financial leverage =  $\text{Operating income} / (\text{Operating income} - \text{interest expense})$

Note 3: The analysis of negative cash flow from operating activities is meaningless.

# Pegatron Corporation

## Audit Committee's Review Report

Date: May 10, 2016

The Board of Directors has prepared the Pegatron Corporation's ("the Company") 2015 Business Report, financial statements, and proposal for earning distribution. The CPA firm of KPMG was retained to audit the Company's financial statements and has issued an audit report relating to the financial statements. The above Business Report, financial statements, and earning distribution proposal have been examined and determined to be correct and accurate by the Audit Committee members of Pegatron Corporation. According to Article 14-4 of Securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

Pegatron Corporation

Chairman of the Audit Committee: Mr. Chun Lin



**6.4 Consolidated Financial Statements of the Parent Company and Subsidiary in the Most Recent Year:**

Please refer to Attachment I.

**6.5 Non-Consolidated Financial Statements of the Most Recent Year:**

Please refer to Attachment II.

**6.6 Financial Difficulties Encountered By the Company and the Related Party in the Most Recent Year and Up to the Date of the Annual Report: None.**



## 7. Review of Financial Position, Management Performance and Risk Management

### 7.1 Analysis of Financial Status – Consolidated

Unit: NT\$ thousands; %

Item	Year		Difference	
	2015	2014	Amount	%
Current Assets	390,403,344	369,602,726	20,800,618	5.63%
Funds & Investments	424,191	490,372	(66,181)	(13.50%)
Property, plant and equipment	71,037,778	72,898,284	(1,860,506)	(2.55%)
Intangible Assets	1,555,087	1,601,259	(46,172)	(2.88%)
Other Assets	12,666,263	12,500,500	165,763	1.33%
<b>Total Assets</b>	<b>476,086,663</b>	<b>457,093,141</b>	<b>18,993,522</b>	<b>4.16%</b>
Current Liabilities	267,707,497	264,997,445	2,710,052	1.02%
Long-term Liabilities	12,306,749	13,949,222	(1,642,473)	(11.77%)
Other Liabilities	3,733,892	3,275,244	458,648	14.00%
<b>Total Liabilities</b>	<b>283,748,138</b>	<b>282,221,911</b>	<b>1,526,227</b>	<b>0.54%</b>
Capital stock	26,030,205	25,156,805	873,400	3.47%
Capital surplus	78,972,374	74,295,720	4,676,654	6.29%
Retained Earnings	42,655,172	29,325,244	13,329,928	45.46%
Other Adjustments	44,680,774	46,093,461	(1,412,687)	(3.06%)
<b>Total Stockholders' Equity</b>	<b>192,338,525</b>	<b>174,871,230</b>	<b>17,467,295</b>	<b>9.99%</b>
Analysis of changes in financial ratios:				
1. Retained Earnings: The increase is due to the increase in net income for the year 2015.				

- **Effect of change on financial condition:**

No significant changes on the Company's financial condition.

- **Future response actions:** Not applicable.

## 7.2 Analysis of Operating Results - Consolidated

Unit: NT\$ thousands; %

Item	Year		Difference	
	2015	2014	Amount	%
Net Sales	1,213,712,976	1,019,738,833	193,974,143	19.02%
Cost of Sales	1,138,437,983	960,283,391	178,154,592	18.55%
Gross Profit	75,274,993	59,455,442	15,819,551	26.61%
Operating Expense	35,600,449	31,134,857	4,465,592	14.34%
Results from operating activities	39,674,544	28,320,585	11,353,959	40.09%
Non-operating Income and Expenses	(488,530)	(2,058,498)	1,569,968	(76.27%)
Profit Before Tax	39,186,014	26,262,087	12,923,927	49.21%
Income Tax Expense	10,314,155	7,334,474	2,979,681	40.63%
Profit for the year Income after Income Tax	28,871,859	18,927,613	9,944,246	52.54%
Other Comprehensive Income	(1,339,618)	6,256,340	(7,595,958)	(121.41%)
Total Comprehensive Income	27,532,241	25,183,953	2,348,288	9.32%

### Analysis of changes in financial ratios:

1. Gross Profit: The increase is due to the increase in sales.
2. Result from Operating Activities: The increase is due to the increase in gross profit.
3. Non-Operating Income and Expense: The increase is due to decrease in ECB net loss on evaluation of financial liabilities measured at fair value.
4. Profit Before Tax: The increase is due to the increase in gross profit and decrease in ECB net loss on evaluation of financial liabilities measured at fair value.
5. Income Tax Expense: The increase is due to the increase of profit before tax.
6. Profit for the year: The increase is due to the increase in gross profit and decrease in ECB net loss on evaluation of financial liabilities measured at fair value.
7. Other comprehensive income: The decrease is due to the decrease in fluctuation in FX rates and decrease in deferred compensation cost arising from issuance of restricted stock.

### 7.3 Analysis of Cash Flow

#### 7.3.1 Cash Flow Analysis for the Current Year – Consolidated

Unit: NT\$ thousands; %

Item \ Year	2015	2014	Difference	
			Amount	%
Cash flows from operating activities	9,971,785	49,565,981	(39,594,196)	(79.88)
Cash flows from investing activities	(12,753,288)	(9,317,505)	(3,435,783)	36.87
Cash flows from financing activities	(2,693,201)	(9,569,653)	6,876,452	(71.86)
Analysis of changes in financial ratios:				
1. Cash flows from operating activities: The decrease in cash flow was due to increased inventory and decreased accounts payable as compared to the previous year.				
2. Cash flows from investing activities: The decrease was due to increased acquisition of property, plant and equipment as compared to the previous year.				
3. Cash flows from financing activities: The increase was due to decreased repayment of long-term debt and increased short-term debt as compared to the previous year.				

#### 7.3.2 Remedy for Cash Deficit and Liquidity Analysis:

In light of positive cash flows, remedial actions are not required.

#### 7.3.3 Cash Flow Analysis for the Coming Year: Not applicable.

#### 7.4 Major Capital Expenditure Items: None.

#### 7.5 Investment Policy in Last year, Main Causes for Profits or Losses, Improvement Plans and the investment Plans for the Coming Year

The Company's long-term investment accounted under the equity method is mostly for strategic purposes. In 2015, the investment income under equity method reached NT\$11,521,055 thousand dollars, which decreased slightly as compared to the previous year. The decrease was due to order fluctuation from customers in 2015. For future investment, the Company will continue focusing on strategic purpose and carefully assessing the financial risks and its return in order to maximize the value for the Company.

#### 7.6 Analysis of Risk Management

##### 7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation of Corporate Finance, and Future Response Measures

###### (1) Interest Rate

The Company's interest rate risks mainly arise from the long-term and short-term loans made from banks and the short-term capital management for working capital needs. In order to reduce the risks of interest rates, especially relating to bank loans, the Company contacts banks on the regular basis, studies the trend of interest rate and negotiates for the best interest rate for the Company. As for short-term capital management, the Company mainly invests in financial instruments of fixed deposit, which not only secures the capital but also reduces associated risks.

## **(2) Foreign Exchange Rate**

The Company adopts a prudent approach towards foreign exchange strategy. Since the Company's sales and purchases are denominated mainly in US dollars, the risks are naturally hedged. However, significant changes in foreign exchange rate may cause adverse impact to the financial conditions of the Company (i.e. the depreciation of CNY), although such impact might be balanced off by the increase of gross margin, the responsive measures to potential foreign exchange risk are taken as follows:

- a. Collecting market information for analysis and risk evaluation, contacting banks on a regular basis to be fully aware of the trend of foreign exchange rate, and adjusting financial positions in foreign currency when necessary.
- b. Securing reasonable profits by taking foreign exchange into consideration when providing quotations for sales.

## **(3) Inflation**

According to the statistics released by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the consumer price index and wholesale price index decreased by 0.31% and decreased by 8.84% respectively in 2015, which represented a minor inflation and did not have material impact on the Company's financial conditions in 2015. The Company observes the changes of market price at all times and adjusts selling price or inventory levels when necessary.

## **7.6.2 Policies, Main Causes of Gain or Loss and Future Response Measures with Respect to High-Risk, High-Leverage Investment, Loaning or Endorsement Guarantees and Derivatives Transactions**

### **(1) High-Risk, High-Leverage Investment**

In 2015 and as of the date of this annual report, the Company has not conducted any high-risk and/or high-leverage investment.

### **(2) Loaning or Endorsement Guarantees**

The Company conducts loaning or endorsement guarantees according to the internal policy "Procedures for Loaning of Funds and Making of Endorsements / Guarantees". Procedures and risk evaluation are conducted in accordance with this policy.

### **(3) Derivatives Transactions**

The Company did not conduct any derivative transactions in 2015. Shall such needs arise due to business operation, the transaction will be processed in accordance with the Company's internal policy "Procedures for the Acquisition and Disposal of Assets". The derivative transactions conducted by the Company's subsidiaries are for hedging purpose. For non-hedging transactions, subsidiaries will handle cautiously.

### **7.6.3 Future Research & Development Projects and Corresponding Budget**

The Company focuses on the development of products that are integrated with high added value based on the Company's product roadmap. Going forward, it is estimated that around NT\$8.1 billion will be spent on product research and development and pursuing leading position in core business by controlling factors such as talent, capital, technology, etc.

### **7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Sales**

The Company complies with regulations associating with corporate governance, company law, security law and other important sources of regulations. In addition, the Company also monitors material changes in governing regulations and laws and be fully aware of the changes in the markets. In 2015 and as of the date of this annual report, there were no such risks to the Company.

### **7.6.5 Effects of and Response to Changes in Technology and in Industry Relating to Corporate Finance and Sales**

The Company pays attention to the changes in technologies and in industry at all time so as to be fully aware of the market trend and evaluate any potential impact on the operations of the Company. No material changes of technologies have brought any adverse impact to the financial conditions of the Company.

### **7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company's Response Measures**

Since the date of incorporation, the Company has been having a positive corporate image and complying with relevant laws and regulations. In 2015 and as of the date of this annual report, there were no such risks for the Company.

### **7.6.7 Expected Benefits and Risks Relating to and Response to Merger and Acquisition Plans**

In 2015 and as of the date of this annual report, the Company did not have any plans for mergers and acquisitions and there were no such risks for the Company.

### **7.6.8 Expected Benefits and Risks Relating to and Response to Factory Expansion Plans**

The Company takes factors such as global economy, industry outlook, market demand and customers' order forecast into consideration when planning factory and capacity expansion. In 2015 and as of the date of this annual report, the benefits of expansion

plan meet the Company's expectation.

#### **7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration**

The Company's core business is design, manufacturing and services of 3C products, and according to the industry practice, the Company tends to purchase raw material and sell the finished goods to the same party.

##### **a. Source of Purchase**

Per ODM/EMS industry practice, major customers, in order to control product quality and reduce cost of key components, will request the Company to purchase key components from specific supplier(s) and sell back to the customer after assembly. Therefore, purchase of material and sales of finished goods are concentrated to specific customer(s). The Company maintains more than two qualified raw material suppliers to ensure supply flexibility and pricing advantages so as to achieve cost reduction. In conclusion, The Company does not have risks associating with excessive concentration of supply.

##### **b. Sales of Products**

The Company continues engaging new customers, enhancing technologies and improving manufacturing process. In addition to existing customers, the Company endeavors to expand customer portfolio, develop new products to meet the versatile market demands and reduce concentration risks.

#### **7.6.10 Effects of Risks Relating to and Response to Large Share Transfer or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholding of over 10%**

The value of Pegatron shareholders' investment may be reduced by possible future sales of Pegatron shares by the major shareholders.

As of the date of this annual report, Asustek Computer Inc. owns around 17.23% of Pegatron total outstanding shares. Asustek has reiterated its intention to gradually and orderly reduce its equity interest in Pegatron. Pegatron will work closely with Asustek to complete their contemplated disposals of Pegatron shares in a way that would minimize the negative impact on the price of Pegatron shares and other shareholders.

#### **7.6.11 Effects of Risks Relating to and Response to Changes in Control over the Company**

By the end of 2009, the Company was owned 100% by Asustek and the shareholding reduced dramatically after the spin-off plan in 2010. The operation of the Company has become more transparent after the spin-off and acceptable by customers, which is

considered a positive factor in business development. In addition, the Company has formed a management team to manage the Company's operation and does not have risks associating with the changes in control over the Company.

#### **7.6.12 Litigation or Non-litigation Matters**

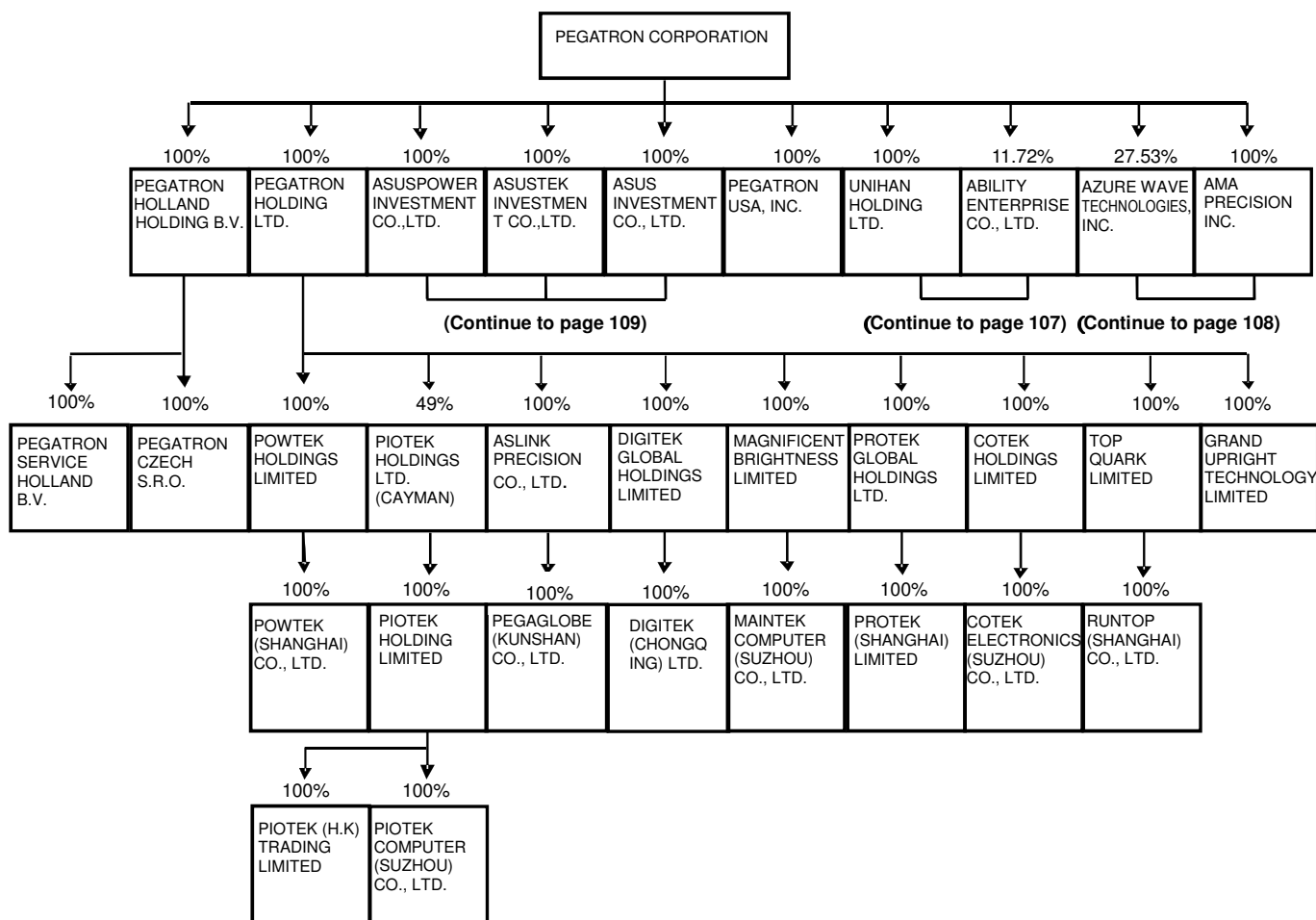
In 2015 and as of the date of this annual report, the Company did not engage in litigation or non-litigation matters that had significant impacts on shareholders' right or security prices. For litigation or non-litigation matter for major shareholder with 10% or more holding (as of the date of this annual report, Asustek Computer Inc. is the only shareholder with more than 10% of shareholding), please refer to the major shareholder's annual report.

#### **7.7 Other Major Risks**

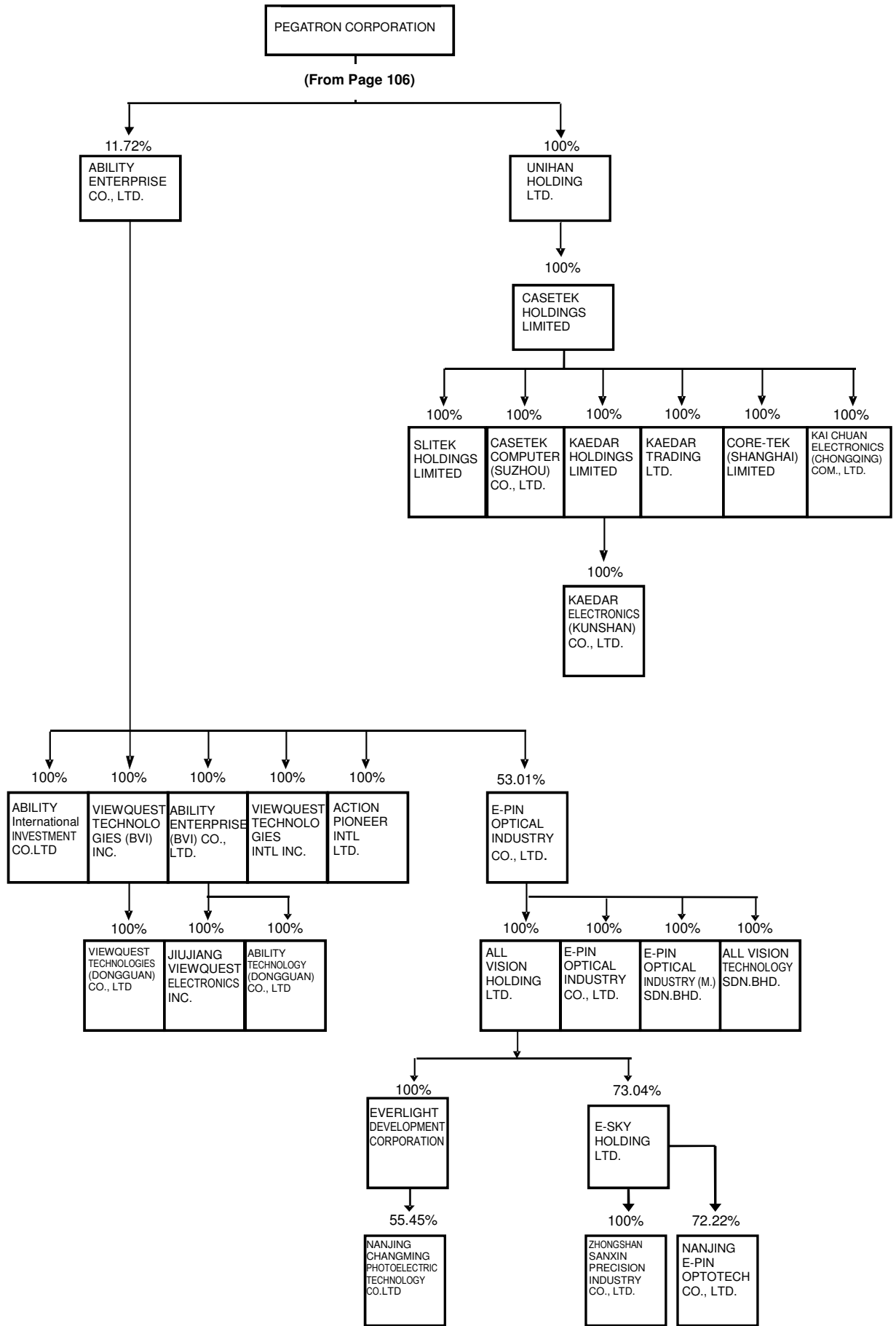
In 2015 and as of the date of this annual report, the Company did not have any other major risks.

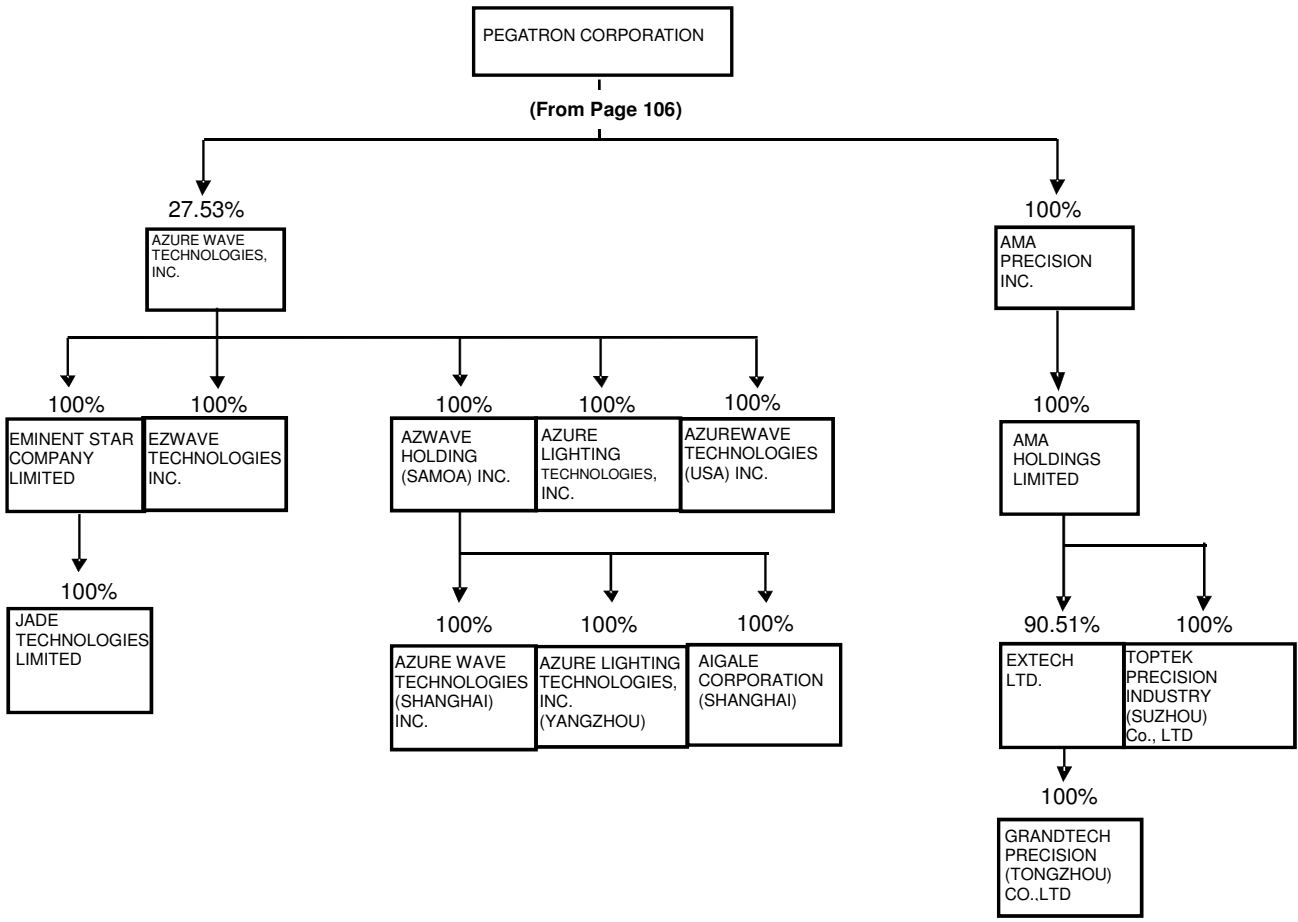
**8. Other Special Notes**  
**8.1 Summary of Affiliated Companies**  
**8.1.1 Affiliated Companies Chart**

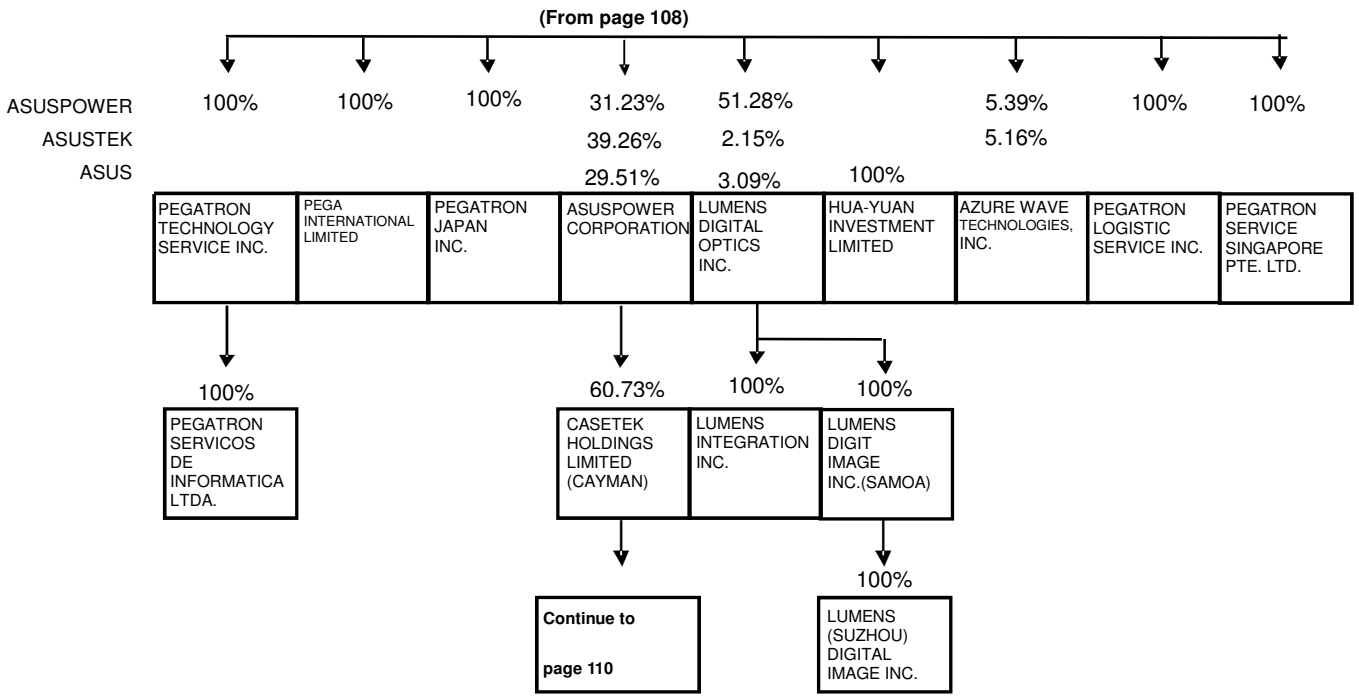
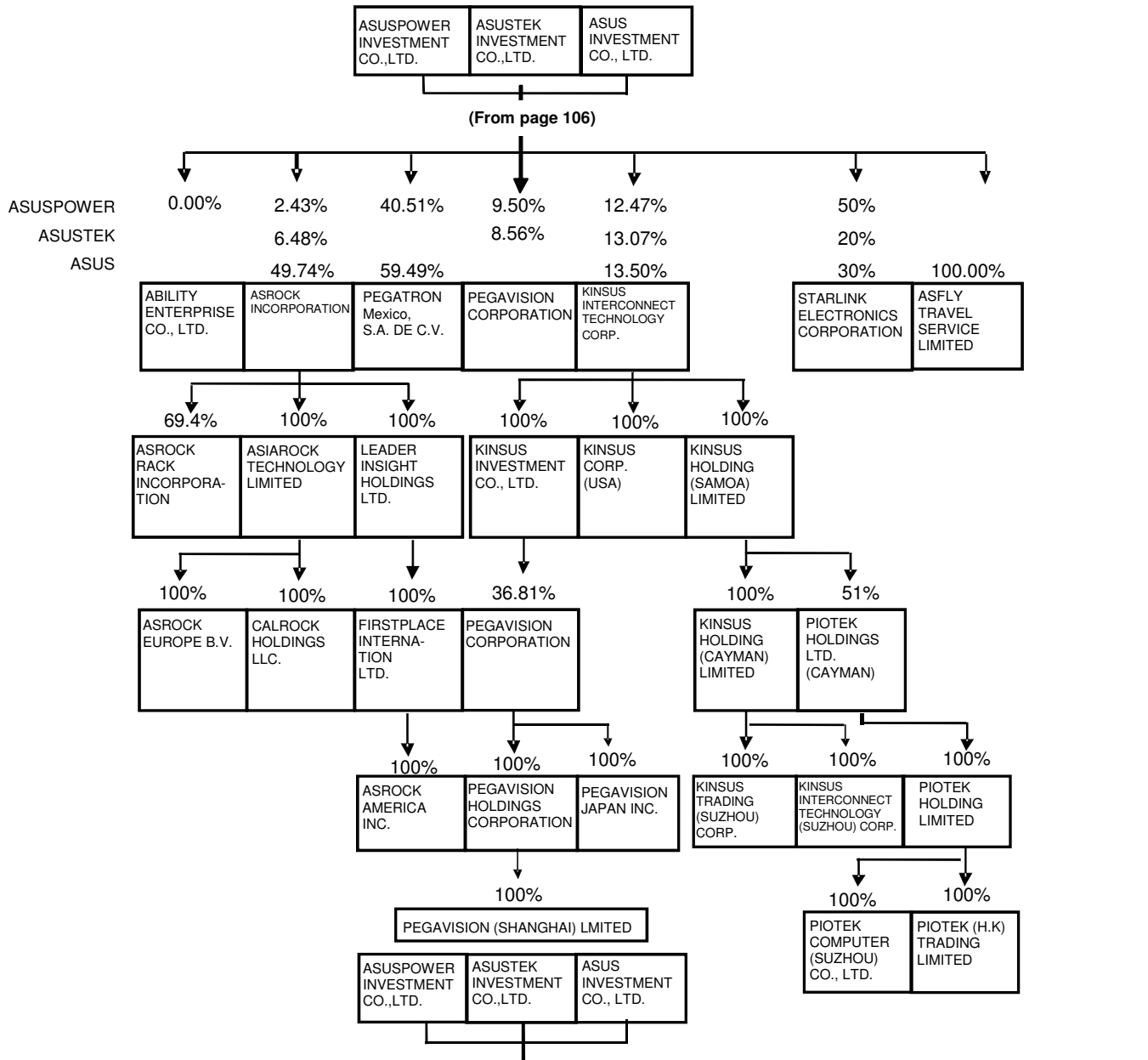
As of 12/31/2015

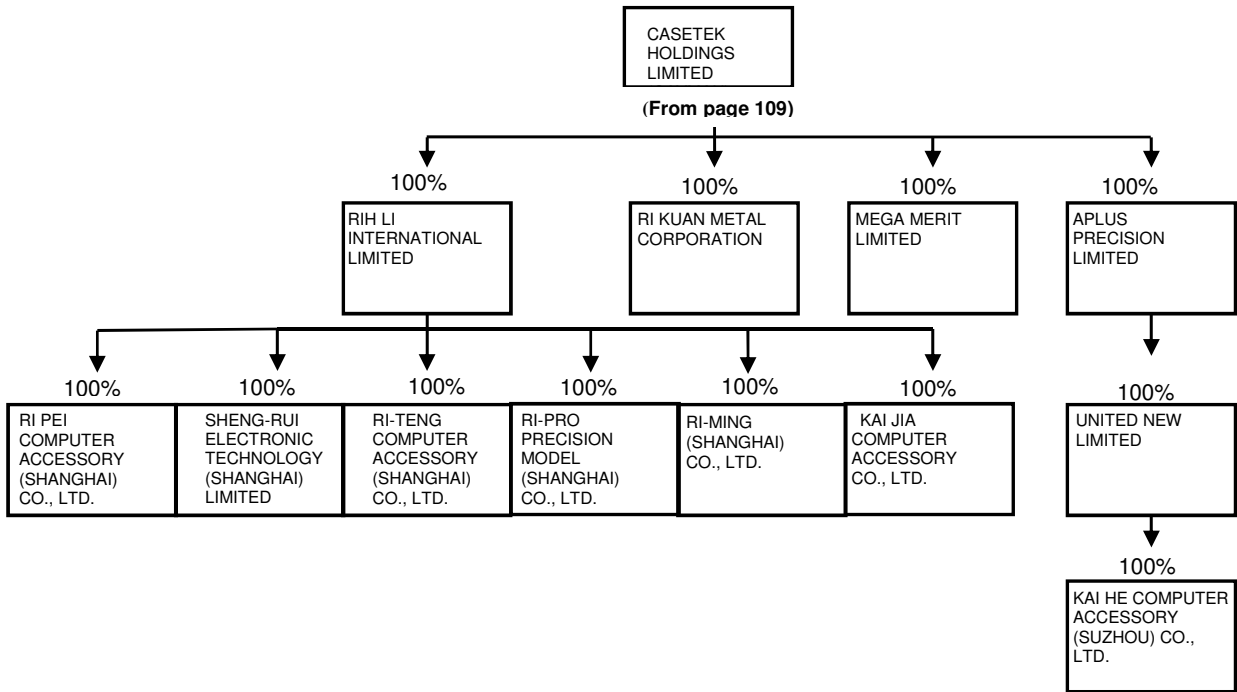












### 8.1.2 Business Scope of Pegatron and Its Affiliated Companies

Pegatron's affiliates support the Company's core business in providing design, manufacturing and services (DMS) of computing, consumer electronics and communication products. Some of Pegatron's affiliated companies are focused on investing in related companies in the industry. Pegatron and its affiliates provide mutual support in technology, capacity and services to maximize synergy within the group, enabling Pegatron to provide its customers with the most complete and comprehensive services.

**8.2 Private Placement Securities in the Most Recent year:** None.

### 8.3 The Shares of the Company Held or Disposed of by the Subsidiaries in the Most Recent year

Unit: NT\$ thousands; Shares; %

Name of subsidiary	Stock capital collected	Fund source	Shareholding ratio of the company	Date of acquisition or disposition	Shares and amount acquired	Shares and amount disposed of	Investment gain (loss)	Shareholdings & amount in the most recent year	Mortgage	Endorsement amount made for the subsidiary	Amount loaned to the subsidiary
Kinsus Interconnect Technology Corp.	4,460,000	Self-Finance	39%	2/13/2015	-	553,000 shares / NT\$15,675	-	-	-	-	-

**8.4 Any Other Special Notes to be specify:** None.

**8.5 Any Events in 2014 and as of the Date of this Annual Report that had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan:** None.

# **Attachment I**

**(English Translation of Financial Report Originally Issued in Chinese)**

**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**(With Independent Accountants' Audit Report Thereon)**

**(English Translation of Financial Report Originally Issued in Chinese)**

**AUDIT REPORT OF INDEPENDENT ACCOUNTANTS**

**To the Board of Directors of**

**Pegatron Corporation**

We have audited the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries (the “Group”) as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Group’s management. Our responsibility is to express the audit report based on our audits. We did not audit the financial statements of certain consolidated subsidiaries with total assets representing 14.33% and 16.23% and net sales representing 4.50% and 7.16% of the related consolidated total as of and for the years ended December 31, 2015 and 2014, respectively. Also, we did not audit the long-term investments in other companies representing 0.05% and 0.15% of consolidated total assets as of December 31, 2015 and 2014, respectively, and the related investment loss thereon representing (0.11)% and (1.14)% of consolidated net income before tax for the years ended December 31, 2015 and 2014, respectively. The financial statements of these subsidiaries and investees accounted for under the equity method were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, were based solely on the reports of other auditors.

We conducted our audits in accordance with “Regulation Governing Auditing and Certification of Financial Statements by Certified Public Accountants” and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations as endorsed by the Financial Supervisory Commission.

We have also audited the non-consolidated financial statements of the Pegatron Corporation as of and for the years ended December 31, 2015 and 2014 and have issued modified unqualified audit report thereon.

CPA: Ulyos Maa  
Securities and Futures Commission,  
Ministry of Finance, R.O.C. regulation  
(88) Tai-Tsai-Jung (6) No. 18311

March 17, 2016

#### **Notes to Readers**

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers 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.

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



**(English Translation of Financial Report Originally Issued in Chinese)**  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2015 AND 2014**  
**(All Amounts Expressed in Thousands of New Taiwan Dollars)**

	December 31, 2015		December 31, 2014	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents (Note 6(1))	\$ 102,561,346	22	107,688,632	24
Financial assets at fair value through profit or loss – current (Note 6(2))	4,732,661	1	5,746,322	1
Available-for-sale financial assets – current (Note 6(2))	857,820	-	1,083,436	-
Notes and accounts receivable, net (Notes 6(3), 6(28) and 7)	120,030,355	25	129,862,808	28
Other receivables, net (Notes 6(3) and 6(28))	27,694,719	6	14,873,148	3
Inventories (Note 6(4))	118,165,460	25	95,630,438	21
Non-current assets classified as held for sale, net (Notes 6(5) and 8)	-	-	493,740	-
Other financial assets – current (Notes 6(12) and 8)	785,779	-	2,187,887	1
Other current assets (Note 6(12))	15,575,204	3	12,036,315	3
	390,403,344	82	369,602,726	81
<b>Non-current assets:</b>				
Available-for-sale financial assets – noncurrent (Note 6(2))	961,584	-	1,480,281	-
Financial assets carried at cost – noncurrent (Note 6(2))	468,750	-	568,834	-
Investments accounted for using equity method (Note 6(6))	424,191	-	490,372	-
Property, plant and equipment (Notes 6(9) and 8)	71,037,778	15	72,898,284	16
Investment property, net (Note 6(10))	704,131	-	648,752	-
Intangible assets (Note 6(11))	1,555,087	-	1,601,259	-
Deferred tax assets (Note 6(19))	2,852,506	1	3,056,520	1
Prepayments on purchase of equipment	2,914,417	1	1,930,911	1
Other financial assets – noncurrent (Notes 6(12) and 8)	357,503	-	611,921	-
Long-term prepaid rents (Notes 6(17) and 8)	4,348,476	1	4,093,778	1
Other noncurrent assets (Note 6(12))	58,896	-	109,503	-
	85,683,319	18	87,490,415	19
<b>TOTAL ASSETS</b>	<b>\$ 476,086,663</b>	<b>100</b>	<b>457,093,141</b>	<b>100</b>

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

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONT'D)

DECEMBER 31, 2015 AND 2014

(All Amounts Expressed in Thousands of New Taiwan Dollars)

LIABILITIES	December 31, 2015		December 31, 2014	
	Amount	%	Amount	%
<b>Current Liabilities:</b>				
Short-term loans (Note 6(13))	\$ 45,467,083	9	27,180,563	6
Financial liabilities at fair value through profit or loss— current (Notes 6(2) and 6(15))	-	-	1,126,590	-
Notes and accounts payable (Note 7)	161,147,309	34	174,767,644	38
Accrued expenses	27,606,075	6	24,851,714	5
Other payables	6,792,896	1	7,488,338	2
Current income tax liabilities	7,847,931	2	5,919,270	1
Provisions— current (Note 6(16))	425,401	-	521,454	-
Deferred revenue	1,391,051	-	2,083,241	1
Bonds payable— current portion (Note 6(15))	-	-	1,808,230	-
Long-term loans payable— current portion (Note 6(14))	2,604,140	1	7,743,689	2
Other current liabilities	14,425,611	3	11,506,712	3
	<u>267,707,497</u>	<u>56</u>	<u>264,997,445</u>	<u>58</u>
<b>Non-current liabilities:</b>				
Long-term loans (Note 6(14))	12,306,749	3	13,949,222	3
Deferred tax liabilities (Note 6(19))	2,578,981	1	2,295,081	1
Other noncurrent liabilities (Note 6(18))	1,154,911	-	980,163	-
	<u>16,040,641</u>	<u>4</u>	<u>17,224,466</u>	<u>4</u>
<b>Total Liabilities</b>	<u>283,748,138</u>	<u>60</u>	<u>282,221,911</u>	<u>62</u>
<b>Equity Attributable to Owners of the Parent Company (Note 6(20))</b>				
<b>Share capital</b>	<u>26,030,205</u>	<u>5</u>	<u>25,156,805</u>	<u>6</u>
<b>Capital surplus:</b>				
Capital surplus, premium on capital stock	73,471,235	15	70,531,321	15
Capital surplus, others (Note 6(7))	5,501,139	1	3,764,399	1
	<u>78,972,374</u>	<u>16</u>	<u>74,295,720</u>	<u>16</u>
<b>Retained earnings:</b>				
Legal reserve	4,879,380	1	3,413,566	1
Unappropriated retained earnings	37,775,792	8	25,911,678	5
	<u>42,655,172</u>	<u>9</u>	<u>29,325,244</u>	<u>6</u>
<b>Other equity interest:</b>				
Exchange differences on translation of foreign financial statements	3,752,117	1	4,788,058	1
Unrealized gains on available-for-sale financial assets	211,234	-	177,810	-
Deferred compensation cost arising from issuance of restricted stock (Note 6(21))	(1,238,377)	-	(64,523)	-
	<u>2,724,974</u>	<u>1</u>	<u>4,901,345</u>	<u>1</u>
<b>Treasury stock</b>	<u>(2,590)</u>	<u>-</u>	<u>(8,183)</u>	<u>-</u>
Equity attributable to the parent Company	150,380,135	31	133,670,931	29
<b>Non-controlling interests</b>	<u>41,958,390</u>	<u>9</u>	<u>41,200,299</u>	<u>9</u>
<b>Total Equity</b>	<u>192,338,525</u>	<u>40</u>	<u>174,871,230</u>	<u>38</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 476,086,663</u>	<u>100</u>	<u>457,093,141</u>	<u>100</u>

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

**(English Translation of Financial Report Originally Issued in Chinese)**  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**  
**(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)**

	<b>For the Years ended December 31</b>			
	<b>2015</b>		<b>2014</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Operating revenues (Notes 6(24) and 7)</b>	\$ 1,218,853,846	100	1,022,705,728	100
Less: Sales returns and allowances	5,140,870	-	2,966,895	-
<b>Net sales</b>	<u>1,213,712,976</u>	<u>100</u>	<u>1,019,738,833</u>	<u>100</u>
<b>Cost of sales (Notes 6(4), 6(17), 6(18) and 7)</b>	<u>1,138,437,983</u>	<u>94</u>	<u>960,283,391</u>	<u>94</u>
<b>Gross profit</b>	<u>75,274,993</u>	<u>6</u>	<u>59,455,442</u>	<u>6</u>
<b>Operating expenses (Notes 6(17), 6(18) and 7)</b>				
Selling expenses	9,646,871	1	8,534,908	1
General and administrative expenses	11,280,211	1	10,264,751	1
Research and development expenses	14,673,367	1	12,335,198	1
	<u>35,600,449</u>	<u>3</u>	<u>31,134,857</u>	<u>3</u>
<b>Results from operating activities</b>	<u>39,674,544</u>	<u>3</u>	<u>28,320,585</u>	<u>3</u>
<b>Non-operating income and expenses</b>				
Other income (Note 6(26))	3,605,179	-	3,310,394	-
Other gains and losses (Notes 6(15) and 6(26))	(2,848,776)	-	(3,686,996)	-
Financial costs (Notes 6(15) and 6(26))	(852,951)	-	(1,090,080)	-
Share of loss of associates and joint ventures accounted for under equity method (Note 6(6))	(12,854)	-	(320,323)	-
Other losses	(379,128)	-	(271,493)	-
	<u>(488,530)</u>	<u>-</u>	<u>(2,058,498)</u>	<u>-</u>
<b>Profit before tax</b>	<u>39,186,014</u>	<u>3</u>	<u>26,262,087</u>	<u>3</u>
<b>Income tax expense (Note 6(19))</b>	<u>(10,314,155)</u>	<u>1</u>	<u>(7,334,474)</u>	<u>1</u>
<b>Profit for the year</b>	<u>28,871,859</u>	<u>2</u>	<u>18,927,613</u>	<u>2</u>
<b>Other comprehensive income (Notes 6(20) and 6(27))</b>				
<b>Items that will not be reclassified to profit and loss</b>				
Remeasurements effects on defined benefit plans	1,277	-	39,077	-
Income tax relating to components that will not reclassified	(1,085)	-	(3,751)	-
	<u>192</u>	<u>-</u>	<u>35,326</u>	<u>-</u>
<b>Items which may be reclassified to profit and loss in subsequent periods</b>				
Foreign currency translation differences—foreign operations	(1,191,862)	-	5,835,936	1
Unrealized (loss) gain on available-for-sale financial assets	(124,493)	-	397,057	-
Share of other comprehensive income of associates and joint ventures accounted for under equity method	(24,066)	-	(33,122)	-
Income tax relating to components that may be reclassified to profit and loss in subsequent periods	611	-	21,143	-
	<u>(1,339,810)</u>	<u>-</u>	<u>6,221,014</u>	<u>1</u>
<b>Other comprehensive income for the year, net of tax</b>	<u>(1,339,618)</u>	<u>-</u>	<u>6,256,340</u>	<u>1</u>
<b>Total comprehensive income for the year</b>	<u>\$ 27,532,241</u>	<u>2</u>	<u>25,183,953</u>	<u>3</u>

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

(English Translations of Financial Statements Originally Issued in Chinese)  
 PEGATRON CORPORATION AND ITS SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
 FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
 (Expressed in Thousands of New Taiwan Dollars)

		Attributable to Owners of the Parent Company																			
		Share capital			Capital surplus			Retained earnings			Other adjustments to equity										
											Foreign currency translation differences		Unrealized gains (losses) on available-for-sale financial assets		Deferred compensation cost		Total	Treasury stock	Owners of the parent company	Non-controlling interests	Total equity
Common stock	Advance receipts for share capital	Total	Legal reserve	Special reserve	Unappropriated	Total															
\$	23,204,345	7,210	23,211,555	63,175,819	2,458,117	3,280,485	15,405,350	21,143,952	14,658,138	11,250	14,669,388	14,669,388	4,836,695	97,939	4,934,634	(17,396)	14,858,138	19,604,022	367,513,385	4,269,475	144,055,179
	-	-	-	-	-	-	14,658,138	14,658,138	-	-	97,939	97,939	-	-	4,934,634	-	14,858,138	19,604,022	4,269,475	1,310,456	6,256,540
	-	-	-	-	-	-	-	-	-	-	14,669,388	14,669,388	4,836,695	97,939	4,934,634	-	14,858,138	19,604,022	5,579,931	-	25,183,953
	-	-	-	-	955,449	-	(955,449)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	(3,280,485)	3,280,485	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	(6,497,217)	(6,497,217)	-	-	-	-	-	-	-	-	-	-	-	-	(6,497,217)
	377,318	1,472,500	1,849,818	8,507,771	-	-	-	-	-	-	-	-	-	-	-	10,503	20,132	-	-	-	20,132
	-	-	-	9,629	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	2,266,315	-	-	-	-	-	-	-	-	-	-	-	-	22,663,315	-	-	-	(22,663,315)
	104,890	(2,010)	102,880	266,598	-	-	-	-	-	-	-	-	-	-	-	-	16,721	-	-	-	16,721
	(7,448)	-	(7,448)	8,738	-	-	-	-	-	-	-	-	-	-	-	(1,290)	-	-	-	-	369,478
	-	-	-	44,129	-	-	-	9,121	9,121	-	-	-	-	-	-	-	176,847	-	-	-	230,097
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,152,019
	23,679,105	1,477,700	25,156,805	742,957,720	3,413,566	-	25,911,678	29,325,244	177,810	4,788,058	23,811,625	23,811,625	64,523	177,810	4,901,345	(8,183)	133,670,931	412,002,299	5,060,234	1,152,019	174,871,230
	-	-	-	-	-	-	23,811,625	23,811,625	434	-	434	-	-	33,424	(1,002,517)	-	23,811,625	412,002,299	5,060,234	1,152,019	174,871,230
	-	-	-	-	-	-	23,812,059	23,812,059	33,424	(1,035,941)	33,424	-	-	33,424	(1,002,517)	-	22,809,542	412,002,299	5,060,234	1,152,019	174,871,230
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	1,465,814	-	(1,465,814)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	1,946,748	(1,472,500)	474,248	2,679,408	-	-	(10,509,621)	(10,509,621)	-	-	-	-	-	-	-	-	(10,509,621)	-	-	-	(10,509,621)
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,153,656	-	-	-	3,153,656
	-	-	-	12,029	-	-	-	-	-	-	-	-	-	-	-	6,113	18,142	-	-	-	18,142
	-	-	-	8,885	-	-	-	-	-	-	-	-	-	-	-	-	8,885	-	-	-	8,885
	13,800	(5,200)	8,600	26,488	-	-	-	-	-	-	-	-	-	-	-	-	35,088	-	-	-	35,088
	(6,228)	-	(6,228)	6,748	-	-	-	-	-	-	-	-	-	-	-	(520)	-	-	-	-	-
	396,780	-	396,780	1,943,096	-	-	27,490	27,490	-	-	-	-	-	-	-	-	1,193,512	-	-	-	1,193,512
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,173,854)	-	-	-	(1,173,854)
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,955,723)
\$	26,030,205	-	26,030,205	78,972,174	4,879,300	-	37,775,792	42,685,172	211,234	3,752,117	23,811,625	23,811,625	64,523	211,234	2,724,974	(2,590)	150,880,135	412,002,299	5,060,234	1,152,019	174,871,230

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

(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**  
(All Amount Expressed in Thousands of New Taiwan Dollars)

	For the Years Ended December 31	
	2015	2014
<b>Cash flows from operating activities:</b>		
<b>Profit before tax</b>	\$ 39,186,014	26,262,087
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>		
Depreciation	13,471,400	13,562,092
Amortization	223,479	200,322
(Reversal of) Allowance for uncollectable accounts	(80,476)	109,221
Net loss on financial assets or liabilities at fair value through profit or loss	200,625	4,304,477
Interest expense	672,266	868,009
Interest income	(1,396,275)	(1,778,928)
Dividends received	(97,677)	(87,166)
Compensation cost arising from employee stock options	941,827	297,826
(Loss) Gain on foreign currency exchange of bonds payable	(13,748)	517,134
Amortization of issuance costs on bonds payable	254	13,782
Share of loss of associates and joint ventures accounted for under equity method	12,854	320,323
Loss on foreign currency exchange on long-term loans	115,907	725,719
Loss on disposal of property, plant and equipment	200,197	351,566
Property, plant and equipment charged to expenses	17,511	15,199
Gains on disposals of other assets	-	(9,422)
Gains on disposal of non-current assets classified as held for sale	(402,661)	(61,740)
Gain on disposal of investments	(397,657)	(225,501)
(Reversal of) Impairment loss	(134,852)	578,759
Long-term prepaid rent charged to expenses	95,425	84,083
	<u>13,428,399</u>	<u>19,785,755</u>
<b>Change in operating assets and liabilities</b>		
<b>Change in operating assets</b>		
Decrease in financial assets reported at fair value through profit or loss	1,052,032	1,312,092
Decrease (increase) in notes and accounts receivable	9,912,717	(25,934,337)
Decrease (increase) in other receivables	(12,875,512)	14,424,266
Decrease (increase) in inventories	(22,535,022)	7,968,434
Decrease (increase) in other financial assets	1,402,108	(350,950)
Increase in other current assets	(3,613,244)	(5,831,149)
Decrease (increase) in other noncurrent assets	50,607	(37,372)
Total changes in operating assets	<u>(26,606,314)</u>	<u>(8,449,016)</u>
<b>Change in operating liabilities</b>		
Decrease in financial liabilities reported at fair value through profit or loss	(8,937)	(170,706)
Increase (decrease) in notes and accounts payable	(13,620,335)	16,094,114
Increase in accrued expense	2,551,506	5,692,301
Increase (decrease) in other payables	(389,408)	350,266
Decrease in deferred revenue	(611,895)	(2,630,445)
Increase (decrease) in provisions – current	(96,053)	70,552
Increase (decrease) in other current liabilities	2,907,337	(3,465,616)
Increase (decrease) in other non-current liabilities	94,645	(148,064)
Total changes in operating liabilities	<u>(9,173,140)</u>	<u>15,792,402</u>
Net changes in operating assets and liabilities	<u>(35,779,454)</u>	<u>7,343,386</u>
<b>Total changes in operating assets and liabilities</b>	<u>(22,351,055)</u>	<u>27,129,141</u>
<b>Cash provided by operating activities</b>	16,834,959	53,391,228
Interest received	1,425,566	1,754,649
Dividend received	139,496	127,316
Interest paid	(806,348)	(788,850)
Income taxes paid	(7,621,888)	(4,918,362)
<b>Net cash provided by operating activities</b>	<u>9,971,785</u>	<u>49,565,981</u>

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

(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**  
**(All Amount Expressed in Thousands of New Taiwan Dollars)**

	<b>For the Years Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from investing activities</b>		
Acquisition of available-for-sale financial assets	-	(634,599)
Proceeds from disposal of available-for-sale financial assets	935,224	226,274
Acquisition of financial assets at cost	(15,450)	(158,461)
Proceeds from disposal of financial assets at cost	200,584	227,642
Proceeds from capital reduction of financial assets at cost	-	7,497
Acquisition of investments accounted for using equity method	(10,000)	(30,180)
Proceeds from capital reduction of investments accounted for using equity method	161,086	-
Proceeds from disposal of non-current assets classified as held for sale	603,037	432,240
Acquisition of property, plant and equipment	(11,461,700)	(7,570,382)
Proceeds from disposal of property, plant and equipment	594,520	788,056
Proceeds from disposal of other assets	-	27,570
Acquisition of intangible assets	(143,249)	(84,967)
Decrease in other financial assets	254,418	624,167
Increase in prepayments on purchase of equipment	(3,415,970)	(2,830,092)
Increase in long-term prepaid rents	(455,788)	(342,270)
<b>Net cash used in investing activities</b>	<b>(12,753,288)</b>	<b>(9,317,505)</b>
<b>Cash flows from financing activities</b>		
Increase in short-term loans	18,286,520	4,166,085
Decrease in short-term notes and bills payable	-	(79,978)
Proceeds from long-term loans	16,636,681	21,173,983
Repayments of long-term loans	(23,539,410)	(29,822,575)
Dividends paid	(12,840,060)	(10,129,957)
Reduction of cash capital	(1,664,408)	-
Employee stock options	39,794	373,592
Acquisition of treasury shares	(32,885)	-
Proceeds from sale of treasury shares	46,521	51,620
Proceeds from issuance of restricted stock	396,780	220,000
Retrieve of restricted stock	(26,254)	(4,099)
Disposal of ownership interests in subsidiaries (without losing control)	-	4,291,730
Change in non-controlling interests	3,520	189,946
<b>Net cash used in financing activities</b>	<b>(2,693,201)</b>	<b>(9,569,653)</b>
<b>Effect of exchange rate fluctuations on cash held</b>	<b>347,418</b>	<b>2,748,503</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(5,127,286)</b>	<b>33,427,326</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>107,688,632</b>	<b>74,261,306</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 102,561,346</b>	<b>107,688,632</b>

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

**(English Translation of Financial Report Originally Issued in Chinese)**

**PEGATRON CORPORATION AND ITS SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2015 AND 2014**

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

**1. COMPANY HISTORY**

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

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

The consolidated financial statements of the Company as of and for the years ended December 31, 2015 and 2014 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in associates and jointly controlled entities.

**2. APPROVAL DATE AND PROCEDURES OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying consolidated financial statements were authorized for issue by the Board of Directors on March 17, 2016.

**3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED**

**(1) Impact of the 2013 version of the International Financial Reporting Standard (“IFRS”) endorsed by the Financial Supervisory Commissions R.O.C. (“FSC”)**

The Group has adopted the 2013 version of the IFRS endorsed by the FSC (excluding IFRS 9 Financial instruments) in preparing the consolidated financial statements starting 2015.

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

New standards and amendments	Effective date per IASB
• Amended IFRS 1 “ <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i> ”	July 1, 2010
• Amended IFRS 7 “ <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ”	July 1, 2011
• Amended IFRS 1 “ <i>Government Loans</i> ”	January 1, 2013
• Amended IFRS 7 “ <i>Disclosure — Transfers of Financial Assets</i> ”	July 1, 2011
• Amended IFRS 7 “ <i>Disclosure — Offsetting Financial Assets and Financial Liabilities</i> ”	January 1, 2013
• IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (Investment Entities amendments, effective 1 January 2014.)
• IFRS 11 <i>Joint Arrangements</i>	January 1, 2013
• IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
• IFRS 13 <i>Fair Value Measurement</i>	January 1, 2013
• Amended IAS 1 “ <i>Presentation of Items of Other Comprehensive Income</i> ”	July 1, 2012
• Amended IAS 12 “ <i>Deferred Tax: Recovery of Underlying Assets</i> ”	January 1, 2012
• Amended IAS 19 “ <i>Employee Benefits</i> ”	January 1, 2013
• Amended IAS 27 “ <i>Separate Financial Statements</i> ”	January 1, 2013
• Amended IAS 32 “ <i>Offsetting Financial Assets and Financial Liabilities</i> ”	January 1, 2014
• IFRIC 20 — <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013

The Group has assessed that the 2013 version of the IFRS endorsed by the Financial Supervisory Commissions R.O.C. did not have significant impact on the consolidated financial statements except for the following standards and amendments:

A. IFRS 12 Disclosure of Interests in Other Entities

The Group has increased its disclosures on its interests in subsidiaries, and associates in accordance with this standard.

B. IFRS 13 Fair Value Measurement

This standard defines fair value and provides a framework for measuring fair value and requires disclosures on fair value measurement. Under this standard, the Group has increased its disclosures on the measurement of fair value and postponed the adoption of the standard regarding fair value measurement during the transition period of IFRS 13.

Comparative information need not be disclosed for periods before initial application. Despite the postponing of the adoption of the standard, there is no significant impact on the disclosures of the consolidated financial assets and liabilities.



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C. Amendments to IAS 1 Presentation of Financial Statements

Under these amendments, the other comprehensive income section is required to present line items classified by their nature, and grouped between those items that will or will not be reclassified to profit and loss in subsequent periods. Allocation of income tax to these two groups of items of other comprehensive is also required. The Group has changed the presentation of comprehensive income statement along with its comparison periods in accordance with the standard.

D. Amendments to IAS 19 Defined Benefit Plans:

The amendments to IAS 19 require the Group to calculate a “net interest” amount by applying the discount rate to the net defined benefit liability or asset to replace the interest cost and expected return on planned assets used in current IAS 19. In addition, the amendments eliminate the accounting treatment of either corridor approach or the immediate recognition of actuarial gains and losses to profit or loss when it incurs, and instead, required to recognize all actuarial gains and losses immediately through other comprehensive income. The past service cost, on the other hand, will be expensed immediately when it incurs and no longer be amortized over the average period before vested on a straight-line basis.

An entity is required to recognize termination benefits at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognizes any related restructuring costs, and not just when the termination of employment happens. This standard also increases the requirement for disclosures of defined benefit plans.

The Group has changed its valuation and presentation of accrued pension liabilities, pension cost and actuarial gains or losses in accordance with this standard.

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

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

New standards and amendments	Effective date per IASB
• IFRS 9 <i>Financial Instruments</i>	January 1, 2018
• Amended IAS 28 and IFRS 10 “ <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ”	Undecided
• Amended IFRS 10, 12 and IAS 28 “ <i>Investment Entities: Applying the Consolidation Exception</i> ”	January 1, 2016
• Amended IFRS 11 “ <i>Accounting for Acquisitions of Interests in Joint Operations</i> ”	January 1, 2016
• IFRS 14 <i>Regulatory Deferral Accounts</i>	January 1, 2016
• IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2018
• IFRS 16 <i>Leases</i>	January 1, 2019
• Amended IAS 1 “ <i>Disclosure Initiative</i> ”	January 1, 2016
• Amended IAS 7 “ <i>Disclosure Initiative</i> ”	January 1, 2017

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New standards and amendments	Effective date per IASB
• Amended IAS 12 “ <i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ”	January 1, 2017
• Amended IAS 16 and IAS 38 “ <i>Clarification of Acceptable Methods of Depreciation and Amortization</i> ”	January 1, 2016
• Amended IAS 16 and IAS 41 “ <i>Agriculture : Bearer Plants</i> ”	January 1, 2016
• Amended IAS 19 “ <i>Defined Benefit Plans: Employee Contributions</i> ”	July 1, 2014
• Amended IAS 27 “ <i>Equity method in separate financial statements</i> ”	January 1, 2016
• Amended IAS 36 “ <i>Recoverable Amount Disclosures for Non-Financial Assets</i> ”	January 1, 2014
• Amended IAS 39 “ <i>Novation of Derivatives and Continuation of Hedge Accounting</i> ”	January 1, 2014
• 2010–2012 & 2011–2013 Annual Improvements Cycles	July 1, 2014
• 2012–2014 Annual Improvements Cycles	January 1, 2016
• Amended IFRIC 21 “ <i>Levies</i> ”	January 1, 2014

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES

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

##### (1) Statement of compliance

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

##### (2) Basis of preparation

###### A. Basis of measurement

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

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

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

**B. Functional and presentation currency**

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

**(3) Basis of consolidation**

**A. Principle of preparation of the consolidated financial statements**

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

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

**B. Acquisition of non-controlling interests**

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

**C. Subsidiaries**

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

**D. Business combination under common control**

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

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E. Losing control

When the Group loses control of a subsidiary it derecognizes the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognized in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

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

Investor	Subsidiary	Nature of business	Shareholding ratio		
			2015.12.31	2014.12.31	
THE COMPANY AND ASUSPOWER INVESTMENT	ABILITY ENTERPRISE CO., LTD. (Ability (TW))	Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products and leasing	11.72%	11.68%	Note-A
Ability (TW)	ABILITY ENTERPRISE (BVI) CO., LTD. (ABILITY)	Investing activities	100.00%	100.00%	Note A
Ability (TW)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%	Note A
Ability (TW)	VIEWQUEST TECHNOLOGIES INTERNATIONAL INC.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%	Note A
Ability (TW)	VIEWQUEST TECHNOLOGIES (BVI) INC. (VQ(BVI))	Manufacturing and trading computer peripherals, digital cameras and electronic components	100.00%	100.00%	Note A
Ability (TW)	Ability International Investment Co., Ltd.(ABILITY INVESTMENT)	Investing activities	100.00%	100.00%	Note A
Ability (TW)	E-PIN OPTICAL INDUSTRY CO., LTD.(E-PIN)	Selling electronic components of optical products	53.01%	53.01%	Note A
ABILITY	Ability Technology (Dongguan) Co., Ltd.	Manufacturing and selling digital cameras	100.00%	100.00%	Note A
ABILITY	Jiujiang Viewquest Electronics Inc.	Manufacturing and selling digital cameras	100.00%	100.00%	Note A
VQ(BVI)	VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD.	Manufacturing and selling digital cameras	100.00%	100.00%	Note A
E-PIN	E-PIN OPTICAL INDUSTRY CO., LTD.	Trading activities	100.00%	100.00%	Note A
E-PIN	E-PIN OPTICAL INDUSTRY (M.) SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	Note A
E-PIN	ALL VISION TECHNOLOGY SDN. BHD.	Manufacturing precision lenses	100.00%	100.00%	Note A
E-PIN	ALL VISION HOLDING LTD. (AV)	Investing activities	100.00%	100.00%	Note A
AV	EVERLIGHT DEVELOPMENT CORPORATION (ED)	Investing activities	100.00%	100.00%	Note A
AV	E-SKY HOLDING LTD. (ES)	Investing activities	73.04%	73.04%	Note A
ED	NANJING CHANGMING PHOTOELECTRIC TECHNOLOGY CO., LTD.	Manufacturing and developing precision optical lenses	55.45%	55.45%	Note A

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Investor	Subsidiary	Nature of business	Shareholding ratio		
			2015.12.31	2014.12.31	
ES	ZHONGSHAN SANXIN PRECISION INDUSTRY CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	100.00%	Note A
ES	NANJING E-PIN OPTOTECH CO., LTD.	Manufacturing and developing precision optical lenses	72.22%	72.22%	Note A
THE COMPANY	UNIHAN HOLDING LTD. (UNIHAN HOLDING)	Investing activities	100.00%	100.00%	
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDINGS)	Investing and trading activities	100.00%	100.00%	
CASETEK HOLDINGS	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	
CASETEK HOLDINGS	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00%	100.00%	
CASETEK HOLDINGS	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDINGS)	Investing and trading activities	100.00%	100.00%	
KAEDAR HOLDINGS	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00%	100.00%	
CASETEK HOLDINGS	KAEDAR TRADING LTD.	Investing and trading activities	100.00%	100.00%	
CASETEK HOLDINGS	CORE-TEK (SHANGHAI) LIMITED	Researching and producing spare parts for notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00%	100.00%	
CASETEK HOLDINGS	KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	Manufacturing, developing and inspecting computers and application systems, designing nonmetal and metal tooling, developing plastic and electronic component, selling self-manufactured products.	100.00%	100.00%	
THE COMPANY, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	38.08%	38.08%	Notes A
AZURE WAVE	EMINENT STAR CO., LTD. (EMINENT)	Investing activities	100.00%	100.00%	Note A
EMINENT	JADE TECHNOLOGIES LIMITED (JADE)	Investing activities	100.00%	100.00%	Note A
EMINENT · JADE	AZUREWAVE TECHNOLOGY (SHENZHEN) CO., LTD.	Designing, researching and selling computer products	- %	100.00%	Notes A and B
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00%	100.00%	Note A
AZURE WAVE	AZWAVE HOLDING (SAMOA) INC. (AZWAVE SAMOA)	Investing activities	100.00%	100.00%	Note A

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Investor	Subsidiary	Nature of business	Shareholding ratio		
			2015.12.31	2014.12.31	
AZURE WAVE	AZUREWAVE TECHNOLOGY (USA) INC.	Developing market	100.00%	100.00%	Note A
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00%	100.00%	Note A
AZWAVE SAMOA	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and selling computer products	100.00%	100.00%	Note A
AZWAVE SAMOA	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00%	100.00%	Note A
AZWAVE SAMOA	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00%	100.00%	Note A
THE COMPANY	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	100.00%	
AMA PRECISION	AMA HOLDINGS LIMITED (AMA)	Investing activities	100.00%	100.00%	
AMA	EXTECH LTD.	Trading electronic parts	90.51%	90.51%	
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	100.00%	100.00%	
AMA	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD.	Manufacturing and selling new electronic parts and premium hardware	100.00%	100.00%	
THE COMPANY	PEGATRON HOLLAND HOLDING B.V.(PHH)	Investing activities	100.00%	100.00%	
PHH	PEGATRON CZECH S.R.O.	Installing, repairing and selling electronic products	100.00%	100.00%	
PHH	Pegatron Service Holland B.V.	Sales and repair service center in Europe	100.00%	100.00%	
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00%	100.00%	
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00%	100.00%	
POWTEK	POWTEK (SHANGHAI) CO., LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00%	100.00%	
PEGATRON HOLDING, KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing activities	100.00%	100.00%	
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing activities	100.00%	100.00%	
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	
PIOTEK HOLDING	PIOTEK (H.K.) TRADING LIMITED	Trading activities	100.00%	100.00%	

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Investor	Subsidiary	Nature of business	Shareholding ratio		
			2015.12.31	2014.12.31	
PEGATRON HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Investing and trading activities	100.00%	100.00%	
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00%	100.00%	
ASLINK	PEGAGLOBE (KUNSHAN) CO.,LTD.	Manufacturing GPS, computer electronic devices, mobile phone, high-end server, disk drive, and other related components	100.00%	100.00%	
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00%	100.00%	
DIGITEK	DIGITEK (CHONGQING) CO., LTD.	Manufacturing, developing, and selling GPS, computer electronic devices, and after-sales services	100.00%	100.00%	
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%	
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00%	100.00%	
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00%	100.00%	
PROTEK	PROTEK (SHANGHAI) CO., LTD.	Developing, manufacturing and selling GPS, new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED (COTEK)	Investing and trading activities	100.00%	100.00%	
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	
PEGATRON HOLDING	TOP QUARK LIMITED (TOP QUARK)	Investing activities	100.00%	100.00%	
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00%	100.00%	
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	

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			2015.12.31	2014.12.31	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	58.65%	58.65%	
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Manufacturing and selling database storage and processing equipments	100.00%	100.00%	
ASIAROCK	ASROCK EUROPE B.V.	Selling database service and trading electronic components	100.00%	100.00%	
ASIAROCK	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%	
ASROCK	Leader Insight Holdings Ltd. (Leader)	Investing and holding activities	100.00%	100.00%	
Leader	Firstplace International Ltd. (Firstplace)	Investing and holding activities	100.00%	100.00%	
Firstplace	ASROCK America., Inc.	Selling database service and trading electronic components	100.00%	100.00%	
ASROCK	ASRock Rack Incorporation	Manufacturing and selling computer and related peripherals	69.40%	70.63%	Note C
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, whole selling and retailing electronic components, and providing business management consultant service	39.04%	39.00%	Note A
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00%	100.00%	Note A
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	54.87%	54.87%	Note A
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00%	100.00%	Note A
PEGAVISION CORPORATION	PEGAVISION JAPAN INC.	Selling medical appliances	100.00%	- %	Notes A and D
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	100.00%	100.00%	Note A
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%	Note A
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	Note A



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Investor	Subsidiary	Nature of business	Shareholding ratio		
			2015.12.31	2014.12.31	
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED (KINSUS CAYMAN)	Investing activities	100.00%	100.00%	Note A
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	Note A
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00%	100.00%	Note A
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION (STARLINK)	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00%	100.00%	
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED (CAYMAN) (CASETEK CAYMAN)	Investing activities	60.73%	60.73%	
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00%	100.00%	
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	Designing, manufacturing and selling electronic components and providing after-sales services , idle equipments leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Designing, manufacturing and selling electronic components and providing after-sales services , idle equipments leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Designing, manufacturing and selling electronic components and providing after-sales services , idle equipments leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Designing, manufacturing and selling electronic components and providing after-sales services , idle equipments leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	
RIH LI	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, manufacturing and selling electronic components and providing after-sales services , idle equipments leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	

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Investor	Subsidiary	Nature of business	Shareholding ratio		
			2015.12.31	2014.12.31	
RIH LI	KAI JIA COMPUTER ACCESSORY CO., LTD.	Designing, manufacturing and selling electronic components and providing after-sales services, idle equipments leasing, commission agency, trading services, relevant corresponding services, and surface processing for the aforementioned product.	100.00%	- %	Note E
CASETEK CAYMAN	RIH KUAN METAL CORPORATION (RIH KUAN)	Selling iron and aluminum products	100.00%	100.00%	
CASETEK CAYMAN	APLUS PRECISION LIMITED (APLUS)	Investing and trading activities	100.00%	100.00%	
APLUS	UNITED NEW LIMITED (UNITED)	Investing and trading activities	100.00%	100.00%	
UNITED	KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD (KAI HE)	Designing, manufacturing and selling electronic components and providing after-sales services, idle equipments leasing, commission agency, trading services, relevant corresponding services, and surface processing for the aforementioned product.	100.00%	100.00%	Note F
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00%	100.00%	
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00%	100.00%	
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.(PCBR)	Maintenance service	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens Optics)	Developing, manufacturing and selling computer data projectors and related peripherals	56.52%	56.52%	
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	100.00%	
Lumens Optics	Lumens Digital Image Inc.(SAMOA) (Lumens)	Investing activities	100.00%	100.00%	
Lumens	Lumens (Suzhou) Digital Image Inc.	Developing, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	100.00%	

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Investor	Subsidiary	Nature of business	Shareholding ratio		
			2015.12.31	2014.12.31	
ASUSPOWER INVESTMENT	Pegatron Service Singapore Pte. Ltd.	Sales and logistics center in Singapore	100.00%	100.00%	
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%	
The Company	PEGATRON USA, INC.	Sales and repair service center in North America	100.00%	100.00%	

Note A: As of December 31, 2015, AZURE WAVE TECHNOLOGY CORP., ABILITY ENTERPRISE CO., LTD. and KINSUS INTERCONNECT TECHNOLOGY CORP., were included in the consolidated financial statements even if the Group held 38.08%, 11.72% and 39.04%, respectively, or less than 50% of their total issued shares because the Group has acquired more than 50% of voting shares of each of these entities and has the ability to excise control over their respective board of directors.

Note B: It was liquidated in November 2015.

Note C: In January 2015, ASRock Rack Incorporation increased its capital by cash. As the Group did not increase its investment based on its original share holding ratio, the Group's share holding ratio in ASRock Rack Incorporation decreased to 69.40%.

Note D: In the second quarter of 2015, PEGAVISION CORPORATION established and invested JPY 9,900 thousand in exchange for a 100% equity ownership in PEGAVISION JAPAN INC..

Note E: It was established in the second quarter of 2015.

Note F: On July 29, 2015, KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD changed its name to the current name from AVY PRECISION ELECTROPLATING (SUZHOU) CO., LTD.

G. Subsidiaries excluded from consolidation: None.

(4) Foreign currency

A. Foreign currency transaction

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

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

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

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

**B. Foreign operations**

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

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

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

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

An asset is classified as current when:

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

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D. The asset is cash and cash equivalent (as defined in IAS 7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

**(6) Cash and cash equivalents**

Cash comprise cash balances and call deposits with maturities within three months. Cash equivalents are assets that are readily convertible into cash, and are subject to an insignificant risk of changes in their fair value.

Time deposits are accounted under cash and cash equivalents if they are accord with the definition aforementioned, and are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose, readily convertible to a known amount of cash and have an insignificant risk of change in value.

**(7) Financial instruments**

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

**A. Financial assets**

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

**(a) Financial assets at fair value through profit or loss**

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

- Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

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- Performance of the financial asset is evaluated on a fair value basis.
- Hybrid instrument contains one or more embedded derivatives.

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

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

**(b) Available-for sale financial assets**

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

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

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

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

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(c) Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. At initial recognition, held-to-maturity financial assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

Interest income is recognized into profit or loss, under “other income.” A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

(d) Loans and receivables

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

Interest income is recognized in profit or loss, under other income.

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

- i. The rights to accounts receivable have been isolated from the transferor as they are put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.
- ii. Each transferee has the right to pledge or exchange the rights to the accounts receivable, and no condition prevents the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.

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

- An agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or
- The ability to unilaterally cause the holder to return specific rights to the accounts receivable.

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

**(e) Impairment of financial assets**

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a loss event) that occurred subsequent to the initial recognition of the asset and that a loss event (or events) has an impact on the future cash flows of the financial assets that can be estimated reliably.

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

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

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

Such impairment loss is not reversible in subsequent periods.



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

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

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

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

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

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

**(f) Derecognition of financial assets**

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

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

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

**B. Financial liabilities and equity instruments**

**(a) Classification of debt or equity instruments**

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

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

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

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

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

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

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

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

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

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

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

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

**(c) Other financial liabilities**

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

**(d) Derecognition of financial liabilities**

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

**(e) Offsetting of financial assets and liabilities**

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

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(f) Financial guarantee contract

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

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

C. Derivative financial instruments, including hedge accounting

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

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

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

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

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

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

**(a) Fair value hedge**

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

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

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

**(b) Cash flow hedge**

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

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

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

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**(8) Inventories**

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

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

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

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

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

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

**(10) Investment in associates**

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

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

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

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

When the Group's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

**(11) Interests in Joint Ventures**

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

**(12) Investment property**

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

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

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

Buildings	20-60 years
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When the use of an investment property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

(13) Property, plant and equipment

A. Recognition and measurement

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of the significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

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

B. Reclassification to investment property

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

C. Subsequent cost

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



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D. Depreciation

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

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

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

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

Buildings	3-60 years
Machinery	1-20 years
Instrument equipment	1-5 years
Office and other equipment	2-20 years
Miscellaneous equipment	1-25 years

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

(14) Leased assets

A. Lessor

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

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

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

**B. Lessee**

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

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

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

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

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

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

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

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

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

**(15) Intangible assets**

**A. Goodwill**

**(a) Recognition**

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

**(b) Measurement**

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

**B. Other Intangible Assets**

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

**C. Subsequent Expenditure**

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

**D. Amortization**

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

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

Computer software cost	1-10 years
Trademark rights	5 years
Customer relationship	3 years
Technology	3 years
Intangible assets in development	5 years

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

**(16) Impairment – Non-derivative financial assets**

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

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

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

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

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

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

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

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

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

Reversal of an impairment loss for goodwill is prohibited.

**(17) Provisions**

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

**(18) Treasury stock**

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

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

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

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(19) Revenue

A. Goods sold

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

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

B. Service

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

(20) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group'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 Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

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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 Group, the recognized asset is limited to 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 Group. An economic benefit is available to the Group 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.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan 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.

**C. Short-term employee benefits**

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

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

**(21) Share-based payment**

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

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

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

**(22) Income Taxes**

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:

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

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:

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



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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.

**(23) Business combination**

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

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

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

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

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

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

**(24) Government grant**

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

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The grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

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

**(25) Earnings per share**

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

**(26) Operating segments**

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

**5. MAJOR SOURCES OF SIGNIFICANT ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATION UNCERTAINTY**

The preparation of the consolidated annual financial statements in conformity with IFRS 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.

Management continuously reviews the estimates and basic assumptions. Changes in accounting estimates are recognized in the period of change.

Information on critical judgments in applying accounting policies that have the most significant effect to the amounts recognized in the consolidated financial statements is included in the following notes:

(1) Note 6(10), Classification of investment property

(2) Note 6(17), Lease classification

Information on assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next year is included in the following notes:

(1) Note 6(28), Accounts receivable impairment evaluation

(1) Note 6(4), Measurement of inventories.

(2) Note 6(28), Fair value measurement of financial assets carried at cost

(3) Notes 6(9), 6(10) and 6(11), Key assumptions used in discounted cash flow projections

(4) Note 6(19), Realizability of deferred tax assets

**6. EXPLANATIONS TO SIGNIFICANT ACCOUNTS**

(1) Cash and cash equivalents

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Cash on hand	\$ 37,507	33,098
Cash in banks	47,415,722	39,460,679
Time deposits	55,108,117	68,112,565
Cash equivalents-RP Bonds	-	82,290
	<b>\$ 102,561,346</b>	<b>107,688,632</b>

A. The above cash and cash equivalents were not pledged as collateral. Pledged time deposits were accounted for under other financial assets. Please refer to Notes 6(12) and 8 for details.

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

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(2) Investment in financial assets and liabilities

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

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Financial assets at fair value through profit or loss — current:		
Held-for-trading		
Shares of stock of listed companies	\$ 246,679	129,191
Beneficiary certificates	4,485,982	5,570,992
Corporate bonds	-	46,139
	<u>\$ 4,732,661</u>	<u>5,746,322</u>
Available-for-sale financial assets — current:		
Shares of stock of overseas listed companies	<u>\$ 857,820</u>	<u>1,083,436</u>
Available-for-sale financial assets — noncurrent:		
Shares of stock of listed companies	\$ 765,744	1,238,361
Equity securities — common stock	195,840	241,920
	<u>\$ 961,584</u>	<u>1,480,281</u>
Financial assets carried at cost — noncurrent:		
Equity securities — common stock	\$ 263,118	363,202
Equity securities — preferred stock	205,632	205,632
	<u>\$ 468,750</u>	<u>568,834</u>
Financial liabilities at fair value through profit or loss — current:		
Held-for-trading		
Option exchange (long call)	\$ -	8,937
Designated as at fair value through profit or loss		
Overseas convertible bonds — conversion Option	-	256,763
Valuation adjustments	-	860,890
	<u>-</u>	<u>1,117,653</u>
	<u>\$ -</u>	<u>1,126,590</u>

- (a) For the years ended December 31, 2015 and 2014, the Group recognized a net loss on financial assets and liabilities reported at fair value through profit of \$200,625 and \$4,304,477, respectively.
- (b) For the years ended December 31, 2015 and 2014, the unrealized gain (loss) on available-for-sale financial assets amounted to \$(124,493) and \$397,057, respectively.
- (c) Considering that the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined, the Group management believes the fair value cannot be measured reliably. Therefore, the aforementioned investments held by the Group are measured at amortized cost less impairment at each reporting date. The Group evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of \$11,247 and \$130 for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, the Group had accumulated impairment loss of \$266,188 and \$394,725, respectively.

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- (d) The convertible bond issued by the Group was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put option embedded in bonds payable were separated from bonds payable, and were recognized as “Financial liabilities at fair value through profit or loss.” For the years ended December 31, 2015 and 2014, the Group recognized a loss on financial liability reported at fair value through profit or loss of \$238,997 and \$4,172,368, respectively. Please refer to Note 6(15) for detail.
- (e) Refer to Note 6(26) for further discussion on gains and losses on disposal of investments.
- (f) Refer to Note 6(28) for the Group’s information on financial instruments risk management.
- (g) As of December 31, 2015 and 2014, the aforesaid financial assets were not pledged as collateral.
- B. Fair value sensitivity analysis

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

	For the years ended December 31			
	2015		2014	
	After-Tax Comprehensive Income	After-Tax Profit (Loss)	After-Tax Comprehensive Income	After-Tax Profit (Loss)
Increase 3%	\$ 54,582	141,980	76,912	172,390
Decrease 3%	\$ (54,582)	(141,980)	(76,912)	(172,390)

C. Foreign equity investments

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

(Unit: Foreign currency/NTD in Thousands)

	December 31, 2015			December 31, 2014		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
USD	\$ 28,121	32.825	923,072	26,851	31.650	849,834
CNY	58,849	5.0550	297,482	110,769	5.1724	572,943

D. Derivative not used for hedging

The Group uses derivative financial instruments to hedge certain foreign exchange and interest risk the Group is exposed to, arising from its operating, investing and financing activities. Based on this policy, the Group holds derivative financial instruments for hedging purposes.

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Transactions that do not qualify for hedge accounting are presented as held-for-trading financial assets and financial liabilities:

**Financial Assets**

As of December 31, 2015 and 2014, there was no unsettled derivative financial asset.

**Financial Liabilities**

	December 31, 2014	
	Notional Principal (thousands)	Contract Period
Derivative financial instruments not used for hedging		
Option exchange (long call)	USD 2,000	2014.01~2015.03

As of December 31, 2015, there was no unsettled derivative financial liability.

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

	December 31, 2015	December 31, 2014
Notes receivable	\$ 170,001	211,918
Accounts receivable	121,973,316	131,843,496
Other receivables	27,709,682	14,888,670
Less: Allowance for impairment	(2,127,925)	(2,208,128)
	<u>\$ 147,725,074</u>	<u>144,735,956</u>

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

B. As of December 31, 2015 and 2014, the Company sold its accounts receivable without recourse as follows:

December 31, 2015						
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
SMBC	\$ -	USD 300,000,000	USD -	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ -
ANZ(Note)	\$ 23,524,575	USD 1,400,000,000	USD -	None	"	\$ 23,524,575

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

December 31, 2014

<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
SMBC	<u>\$ -</u>	<u>USD 300,000,000</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>\$ -</u>
ANZ(Note)	<u>\$ 41,145,000</u>	<u>USD 1,300,000,000</u>	<u>USD 894,000,000</u>	None	"	<u>\$ 41,145,000</u>

Note: In October 2015 and 2014, the Company signed a one year joint accounts receivable factoring agreement with ANZ Bank and six other banks where each bank will factor on pro-rata basis.

For the years ended December 31, 2015 and 2014, the Company recognized a loss of \$159,497 and \$202,998, respectively, from the factoring of accounts receivable, which was accounted under financial costs in the statement of comprehensive income. Also, the difference of \$23,524,575 and \$12,849,900 between the carrying value of factored accounts receivable and the amount advanced was accounted under other receivables as of December 31, 2015 and 2014, respectively.

C. As of December 31, 2015 and 2014, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

December 31, 2015

<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line (thousands)</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
Mega International Commercial Bank	<u>\$ 251,600</u>	<u>USD 30,000</u>	<u>\$ -</u>	None	The accounts receivable factoring is without recourse.	<u>\$ 251,600</u>

December 31, 2014

<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line (thousands)</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
Mega International Commercial Bank	<u>\$ 509,292</u>	<u>USD 30,000</u>	<u>\$ 153,968</u>	None	The accounts receivable factoring is without recourse.	<u>\$ 509,292</u>

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(4) Inventories

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Merchandise	\$ 1,551,835	1,765,647
Finished goods	67,260,261	47,946,981
Work in process	20,917,494	13,953,394
Raw materials	35,083,914	37,736,580
Subtotal	124,813,504	101,402,602
Less: Allowance for inventory market decline and obsolescence	(6,648,044)	(5,772,164)
Total	<u>\$ 118,165,460</u>	<u>95,630,438</u>

For the years ended December 31, 2015 and 2014, the components of cost of goods sold were as follows:

	<u>For the Years Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Cost of goods sold	\$ 1,099,548,746	943,951,359
(Reversal of) Provision on inventory market price decline	863,182	(30,048)
Loss on disposal of inventory	37,215,635	15,346,725
Unallocated manufacturing overhead	819,130	950,685
(Gain) Loss on physical inventory	(8,710)	64,670
	<u>\$ 1,138,437,983</u>	<u>960,283,391</u>

For the year ended December 31, 2014, the conditions that previously caused inventories to be written down below cost had disappeared due to the disposal of related inventories, so that the related allowance for loss on decline in the value of inventories was reversed, which resulted in a reversal gain on inventory valuation allowance.

As of December 31, 2015 and 2014, the aforesaid inventories were not pledged as collateral.

(5) Non-current assets classified as held for sale (net)

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Investments accounted for using equity method.	\$ -	388,901
Property, plant, and equipment	-	104,839
	<u>\$ -</u>	<u>493,740</u>

A. On February 16, 2015, Casetek Holdings sold its equity ownership in Indeed Holdings Limited for \$431,211 to non-related parties. As of December 31, 2014, the investments in Indeed Holdings Limited were accounted under non-current assets classified as held for sale. The transfer of equity ownership was completed in May 2015. A disposal gain of \$335,878 has been recognized thereon.



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- B. In December 2014, Ability (TW) and its subsidiaries sold part of the land and property of E-PIN's office in Taipei for \$158,280 in a sale-lease back arrangement. In February 2015, the process for the transfer of title of ownership to these assets was completed, when the payment for the assets sold is received, as required under the sales contract. In December 2014, Ability (TW) also sold its E-PIN's equipments in Nanjing for \$16,529 to a non-related party. The process for the transfer of title of ownership to those non-current assets has been completed during the reporting period. A disposal gain of \$66,783 has been recognized thereon.
- C. In January 2014, ASLINK sold its ownership of ASAP TECHNOLOGY (JIANGXI) CO., LTD. for \$432,240 and recognized a gain on disposal of investments of \$61,740.
- D. Information for the Group's non-current assets held for sale pledged as securities for debt, please refer to Note 8.

(6) Investments accounted for using equity method

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Individually insignificant associates	\$ 424,191	490,372
	<u>For the Years Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
The Group's share of profit (loss) of the associates		
Loss for the year	\$ (12,854)	(320,323)
Other comprehensive income	(24,066)	(33,122)
Total comprehensive income	\$ (36,920)	(353,445)

- B. As of December 31, 2015 and 2014, the aforesaid investments accounted for using equity method were not pledged as collateral.

(7) Disposal of investments without losing control

In March 2014, the Group sold 7.45% equity ownership of CASETEK CAYMAN for \$4,192,863.

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The effect of changes in equity of subsidiaries which also resulted in changes in equity of the parent company was as follows:

	<u>December 31, 2014</u>
Received from non-controlling interests	\$ 4,192,863
Carrying amount of subsidiaries disposed	<u>1,972,382</u>
Capital surplus — difference between consideration and carrying amount of subsidiaries disposed	<u>\$ 2,220,481</u>

(8) Subsidiaries that have material non-controlling interest

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

<u>Subsidiaries</u>	<u>Country of registration</u>	<u>Equity Ownership of non-controlling interest</u>	
		<u>December 31, 2015</u>	<u>December 31, 2014</u>
KINSUS and its subsidiaries	Taiwan	60.96%	61.00%
ABILITY and its subsidiaries	Taiwan	88.28%	88.32%
ASROCK and its subsidiaries	Taiwan	41.35%	41.35%
CASETEK HOLDINGS LIMITED (CAYMAN)	Taiwan/ Cayman	39.27%	39.27%

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

A. Information regarding KINSUS and its subsidiaries

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Current assets	\$ 23,471,368	23,471,268
Non-current assets	19,167,364	17,580,406
Current liabilities	(10,318,448)	(10,103,181)
Non-current liabilities	<u>(1,492,483)</u>	<u>(895,719)</u>
Net assets	<u>\$ 30,827,801</u>	<u>30,052,774</u>
Non-controlling interest	<u>\$ 17,777,750</u>	<u>17,101,272</u>

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	For the Years Ended December 31	
	2015	2014
Operating revenue	\$ <b>23,061,311</b>	<b>24,943,834</b>
Net income for the period	\$ 2,729,526	3,490,233
Other comprehensive loss (income)	(137,614)	301,864
Comprehensive income	\$ <b>2,591,912</b>	<b>3,792,097</b>
Net income attribute to non-controlling interest	\$ <b>1,809,591</b>	<b>2,219,299</b>
Comprehensive income attribute to non-controlling interest	\$ <b>1,767,315</b>	<b>2,327,490</b>
Cash flows from operating activities	\$ 6,938,575	6,887,088
Cash flows from investing activities	(4,961,460)	(3,331,389)
Cash flows from financing activities	(783,229)	(1,790,348)
Net increase in cash and cash equivalents	\$ <b>1,193,886</b>	<b>1,765,351</b>

B. Information regarding ABILITY and its subsidiaries

	December 31, 2015	December 31, 2014
Current assets	\$ 8,795,084	10,987,220
Non-current assets	5,222,319	5,878,525
Current liabilities	(5,180,123)	(6,752,002)
Non-current liabilities	(102,557)	(253,420)
Net assets	\$ <b>8,734,723</b>	<b>9,860,323</b>
Non-controlling interest	\$ <b>7,745,320</b>	<b>8,724,907</b>

	For the Years Ended December 31	
	2015	2014
Operating revenue	\$ <b>19,254,208</b>	<b>24,180,166</b>
Net income for the period	\$ 867,444	170,989
Other comprehensive loss (income)	(150,734)	625,124
Comprehensive income	\$ <b>716,710</b>	<b>796,113</b>
Net income attribute to non-controlling interest	\$ <b>788,449</b>	<b>156,455</b>
Comprehensive income attribute to non-controlling interest	\$ <b>655,092</b>	<b>709,318</b>
Cash flows from operating activities	\$ 989,459	2,092,987
Cash flows from investing activities	290,330	(526,631)
Cash flows from financing activities	(2,366,148)	(1,144,835)
Net increase (decrease) in cash and cash equivalents	\$ <b>(1,086,359)</b>	<b>421,521</b>

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C. Information regarding ASROCK and its Subsidiaries

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Current assets	\$ 7,812,156	7,068,735
Non-current assets	319,077	616,067
Current liabilities	(2,244,410)	(1,696,510)
Non-current liabilities	(30,284)	(25,436)
Net assets	<u>\$ 5,856,539</u>	<u>5,962,856</u>
Non-controlling interest	<u>\$ 2,425,260</u>	<u>2,486,755</u>
	<u>For the Years Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Operating revenue	<u>\$ 7,217,149</u>	<u>8,906,989</u>
Net income for the period	\$ 206,131	488,206
Other comprehensive income	144,199	228,649
Comprehensive income	<u>\$ 350,330</u>	<u>716,855</u>
Net income attributed to non-controlling interest	<u>\$ 65,427</u>	<u>189,945</u>
Comprehensive income attributed to non-controlling interest	<u>\$ 125,804</u>	<u>284,360</u>
Cash flows from operating activities	\$ 1,305,366	(839,730)
Cash flows from investing activities	1,980,973	212,948
Cash flows from financing activities	(460,137)	(1,101,639)
Net increase (decrease) in cash and cash equivalents	<u>\$ 2,826,202</u>	<u>(1,728,421)</u>

D. Information regarding CASETEK HOLDINGS LIMITED(CAYMAN)

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Current assets	\$ 28,893,035	27,834,791
Non-current assets	19,927,861	18,428,539
Current liabilities	(15,581,629)	(15,318,710)
Non-current liabilities	(2,237,693)	(2,595,094)
Net assets	<u>\$ 31,001,574</u>	<u>28,349,526</u>
Non-controlling interest	<u>\$ 12,173,078</u>	<u>11,131,725</u>

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	For the Years Ended December 31	
	2015	2014
Operating revenue	\$ <b>38,614,914</b>	<b>34,520,346</b>
Net income for the period	\$ 5,635,891	4,923,649
Other comprehensive income	(537,953)	1,477,490
Comprehensive income	\$ <b>5,097,938</b>	<b>6,401,139</b>
Net income attributed to non-controlling interest	\$ <b>2,212,989</b>	<b>1,872,716</b>
Comprehensive income attributed to non-controlling interest	\$ <b>2,001,754</b>	<b>2,393,580</b>
Cash flows from operating activities	\$ 10,819,513	7,257,467
Cash flows from investing activities	(5,513,822)	(1,364,183)
Cash flows from financing activities	(3,554,164)	(2,761,581)
Net increase in cash and cash equivalents	\$ <b>1,751,527</b>	<b>3,131,703</b>

(9) Property, plant and equipment

The movements in the cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2015 and 2014 were as follows:

	Machinery and Instrument Other Construction						Total
	Land	Buildings	and equipment	equipment	facilities	in progress	
<b>Cost or deemed cost:</b>							
Balance on January 1, 2015	\$ 5,567,180	41,446,276	58,742,688	1,670,643	25,178,826	2,982,725	135,588,338
Additions	10,766	662,997	2,724,897	77,359	1,987,509	5,768,819	11,232,347
Disposals and obsolescence	(179,496)	(1,142,042)	(4,026,148)	(157,911)	(2,177,467)	-	(7,683,064)
Reclassifications	191,374	1,173,279	2,518,969	-	949,097	(2,516,768)	2,315,951
Effect of movements in exchange rates	(9,602)	(827,673)	(989,963)	(30,278)	(495,058)	(69,883)	(2,422,457)
Balance on December 31, 2015	\$ <b>5,580,222</b>	<b>41,312,837</b>	<b>58,970,443</b>	<b>1,559,813</b>	<b>25,442,907</b>	<b>6,164,893</b>	<b>139,031,115</b>
Balance on January 1, 2014	\$ 5,233,683	39,286,047	57,553,035	1,630,519	25,400,015	598,580	129,701,879
Additions	279,687	1,012,587	2,279,112	99,891	2,559,811	2,696,435	8,927,523
Disposals and obsolescence	-	(665,747)	(4,961,661)	(133,654)	(4,655,914)	-	(10,416,976)
Reclassifications	57,590	36,486	1,355,818	-	867,455	(334,401)	1,982,948
Effect of movements in exchange rates	(3,780)	1,776,903	2,516,384	73,887	1,007,459	22,111	5,392,964
Balance on December 31, 2014	\$ <b>5,567,180</b>	<b>41,446,276</b>	<b>58,742,688</b>	<b>1,670,643</b>	<b>25,178,826</b>	<b>2,982,725</b>	<b>135,588,338</b>
<b>Depreciation and impairment loss :</b>							
Balance on January 1, 2015	\$ 50,054	11,823,017	33,554,418	1,026,774	16,235,791	-	62,690,054
Depreciation for the period	-	2,556,168	6,614,194	292,840	3,996,928	-	13,460,130
(Reversal of) Impairment loss	(50,054)	(2)	(120,249)	(79)	482	-	(169,902)
Reclassifications	-	(4,220)	106,359	-	(146,758)	-	(44,619)
Disposals and obsolescence	-	(1,039,963)	(3,684,264)	(153,693)	(2,010,427)	-	(6,888,347)
Effect of movements in exchange rates	-	(251,021)	(450,474)	(20,758)	(331,726)	-	(1,053,979)
Balance on December 31, 2015	\$ -	<b>13,083,979</b>	<b>36,019,984</b>	<b>1,145,084</b>	<b>17,744,290</b>	-	<b>67,993,337</b>

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	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Construction in progress</u>	<u>Total</u>
Balance on January 1, 2014	\$ 50,054	9,377,785	30,038,405	793,144	15,525,837	-	55,785,225
Depreciation for the period	-	2,606,679	6,386,944	315,470	4,242,620	-	13,551,713
(Reversal of) Impairment loss	-	25	203,033	(29)	43,036	-	246,065
Reclassifications	-	(39,624)	(321,775)	-	83,809	-	(277,590)
Disposals and obsolescence	-	(593,276)	(4,204,004)	(127,092)	(4,352,982)	-	(9,277,354)
Effect of movements in exchange rates	-	471,428	1,451,815	45,281	693,471	-	2,661,995
Balance on December 31, 2014	<u>\$ 50,054</u>	<u>11,823,017</u>	<u>33,554,418</u>	<u>1,026,774</u>	<u>16,235,791</u>	<u>-</u>	<u>62,690,054</u>
<b>Carrying amounts :</b>							
Balance on December 31, 2015	<u>\$ 5,580,222</u>	<u>28,228,858</u>	<u>22,950,459</u>	<u>414,729</u>	<u>7,698,617</u>	<u>6,164,893</u>	<u>71,037,778</u>
Balance on December 31, 2014	<u>\$ 5,517,126</u>	<u>29,623,259</u>	<u>25,188,270</u>	<u>643,869</u>	<u>8,943,035</u>	<u>2,982,725</u>	<u>72,898,284</u>

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

	<u>For the Years Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
<b>Impairment loss (reversal gain)</b>	<u>\$ (169,902)</u>	<u>246,065</u>

- B. CASTEK CAYMAN and its subsidiaries had moved part of their operation and personnel from KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD to the factory of RI-TENG in Shanghai, China in order to align their resources with the requirements of their major client. CASYTEK CAYMAN and its subsidiaries conducted the impairment testing for the production line of KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD, an impairment loss on related equipments of \$338,653 was recognized for the year ended December 31, 2014, and impairment loss on damaged equipments of \$14,257 and \$4,367 were recognized for the years ended December 31 2015 and 2014, respectively, by KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD.. In 2015, CASYTEK CAYMAN and its subsidiaries retested the impairment of the production line and the result thereof disclosed an excess of \$127,157 in the recoverable amount of the production line over its carrying value, which was recognized as reversal gain.
- C. In 2014, Ability (TW) and its subsidiaries filed an application to the Ministry of Economic for the purchase of land and property in New Taipei industrial park, which were previously rented by Ability (TW) and its subsidiaries. The acquisition cost for the land and the property amounted to \$14,784 and \$58,292, respectively. The compensation of \$16,603 from the Government for the rental payment is charged to profit or loss. In 2014, Ability (TW) and its subsidiaries have reclassified part of their property, plant and equipment into non-current assets classified as held for sale. Please refer to Note 6(5) for further details.

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- D. KINSUS INTERCONNECT TECHNOLOGY CORP. completed a series of farm land purchases covering a total land area of 36,287.15 square meters in the name of KINSUS's chairman instead of KINSUS, due to the restriction imposed by the local government.
- E. In September 2015, a fire accident occurred at RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.. The equipment loss and the related repair cost arising from this accident amounted to RMB 16,198 thousand (NTD 82,534), which was recognized in its books by RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD..
- F. Please refer to Note 6(26) for details of the capitalization of interest expenses and gain and loss on disposal of property, plant and equipment.
- G. Please refer to Note 8 for details of the property, plant and equipment pledged as collateral.

(10) Investment property

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<b>Cost or deemed cost:</b>			
Balance as of January 1, 2015	\$ 281,945	539,483	821,428
Reclassifications	-	72,341	72,341
Effect of movement in exchange rate	-	(1,571)	(1,571)
Balance as of December 31, 2015	<u>\$ 281,945</u>	<u>610,253</u>	<u>892,198</u>
Balance as of January 1, 2014	\$ 281,945	539,483	821,428
Balance as of December 31, 2014	<u>\$ 281,945</u>	<u>539,483</u>	<u>821,428</u>
<b>Depreciation and impairment loss :</b>			
Balance as of January 1, 2015	\$ 9,617	163,059	172,676
Depreciation for the period	-	11,270	11,270
Reclassifications	-	4,220	4,220
Effect of movement in exchange rate	-	(99)	(99)
Balance as of December 31, 2015	<u>\$ 9,617</u>	<u>178,450</u>	<u>188,067</u>
Balance as of January 1, 2014	\$ 9,617	152,680	162,297
Depreciation for the period	-	10,379	10,379
Balance as of December 31, 2014	<u>\$ 9,617</u>	<u>163,059</u>	<u>172,676</u>
<b>Carrying amounts :</b>			
Balance as of December 31, 2015	<u>\$ 272,328</u>	<u>431,803</u>	<u>704,131</u>
Balance as of December 31, 2014	<u>\$ 272,328</u>	<u>376,424</u>	<u>648,752</u>

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

	<u>For the Years Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Rental income	<u>\$ 31,685</u>	<u>29,020</u>
Direct operating expenses arising from investment property that generate rental income	<u>\$ 11,270</u>	<u>10,379</u>

- B. As of December 31, 2015 and 2014 the fair value of investment property of the Group was \$1,166,415 and \$1,036,455, respectively. The fair value of investment property was evaluated based on the recent market transaction on arm's length terms.

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C. As of December 31, 2015 and 2014, the aforesaid investment properties were not pledged as collateral.

(11) Intangible assets

The movements in the costs of intangible assets, amortization, and impairment loss of the Group for the years ended December 31, 2015 and 2014 were as follows:

	<u>Goodwill</u>	<u>Customer relationship</u>	<u>Technology</u>	<u>Others</u>	<u>Total</u>
<b>Costs:</b>					
Balance on January 1, 2015	\$ 1,943,538	380,175	813,972	909,737	4,047,422
Additions	-	-	-	143,249	143,249
Disposals	-	(380,175)	(813,972)	(87,819)	(1,281,966)
Reclassifications	-	-	-	3,172	3,172
Effect of movement in exchange rate	41,036	-	-	18,331	59,367
Balance on December 31, 2015	<u>\$ 1,984,574</u>	<u>-</u>	<u>-</u>	<u>986,670</u>	<u>2,971,244</u>
Balance on January 1, 2014	\$ 1,882,028	358,013	766,522	1,191,013	4,197,576
Additions	-	-	-	84,967	84,967
Disposals	(2,926)	-	-	(404,827)	(407,753)
Reclassifications	-	-	-	1,127	1,127
Effect of movement in exchange rate	64,436	22,162	47,450	37,457	171,505
Balance on December 31, 2014	<u>\$ 1,943,538</u>	<u>380,175</u>	<u>813,972</u>	<u>909,737</u>	<u>4,047,422</u>
<b>Amortization and Impairment Loss:</b>					
Balance on January 1, 2015	\$ 671,792	380,175	813,972	580,224	2,446,163
Amortization for the period	-	-	-	223,479	223,479
Disposals	-	(380,175)	(813,972)	(87,819)	(1,281,966)
Reclassifications	-	-	-	10,656	10,656
Effect of movement in exchange rate	-	-	-	17,825	17,825
Balance on December 31, 2015	<u>\$ 671,792</u>	<u>-</u>	<u>-</u>	<u>744,365</u>	<u>1,416,157</u>
Balance on January 1, 2014	\$ 342,154	358,013	766,522	761,055	2,227,744
Amortization for the period	-	-	-	200,322	200,322
Impairment loss	332,564	-	-	-	332,564
Disposals	(2,926)	-	-	(404,827)	(407,753)
Reclassifications	-	-	-	(298)	(298)
Effect of movement in exchange rate	-	22,162	47,450	23,972	93,584
Balance on December 31, 2014	<u>\$ 671,792</u>	<u>380,175</u>	<u>813,972</u>	<u>580,224</u>	<u>2,446,163</u>
<b>Carrying amounts:</b>					
Balance on December 31, 2015	<u>\$ 1,312,782</u>	<u>-</u>	<u>-</u>	<u>242,305</u>	<u>1,555,087</u>
Balance on December 31, 2014	<u>\$ 1,271,746</u>	<u>-</u>	<u>-</u>	<u>329,513</u>	<u>1,601,259</u>

A. The amortization of intangible assets were respectively recognized in the statement of comprehensive income as follows:

	<u>For the Years Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Operating costs	\$ 30,094	29,509
Operating expenses	193,385	170,813
	<u>\$ 223,479</u>	<u>200,322</u>



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B. Goodwill impairment

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

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

At the end of each reporting period, the Group assess whether there is any indication of impairment loss on goodwill. In 2015 and 2014, impairment loss recognized on good will amounted to \$0 and \$332,564, respectively. The key assumptions used in determining the value in use by each cash-generating unit were as follows:

- (a) The recoverable amount of the metal casing factory cash-generating unit was based on value in use. Key assumptions used in calculating the recoverable amount were as follows:
    - i. Management had projected cash flow based on a five-year financial budget which was extrapolated from historical operating results and future operating plan.
    - ii. Pre-tax discount rate used in calculating the value in use was determined from weighted average cost of capital (WACC) of the Company.
  - (b) The recoverable amount of the digital camera cash-generating unit was based on value in use. Key assumptions used in calculating the recoverable amount were as follows:
    - i. Cash flow estimation was based on past experience, actual operating results and a five-year operating plan.
    - ii. Projected revenue and gross profit ratio were extrapolated from management's forecast based on past operating results and future marketing development trends.
    - iii. Pre-tax discount rate used in calculating the value in use was determined from weighted average cost of capital (WACC) of the Company.
- C. For the years ended December 31, 2015 and 2014, the Group has not noted any indication of potential impairment loss based on the impairment testing performed.

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(12) Other financial assets and other assets

Other current and noncurrent assets were as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Other financial assets – current	\$ 785,779	2,187,887
Other financial assets – noncurrent	357,503	611,921
Other current assets	15,575,204	12,036,315
Other noncurrent assets	58,896	109,503
	<b>\$ 16,777,382</b>	<b>14,945,626</b>

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

B. Other current assets consisted of temporary payments, current tax asset and others.

C. Other noncurrent assets consisted of long-term prepaid expenses and others.

(13) Short-term loans

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Unsecured bank loans	\$ 45,467,083	27,171,068
Secured bank loans	-	9,495
Total	<b>\$ 45,467,083</b>	<b>27,180,563</b>
Unused credit line	<b>\$ 47,331,135</b>	<b>57,757,891</b>
Interest rate	<b>0.70%~2.03%</b>	<b>0.60%~5.06%</b>

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

(14) Long -term loans

	<b>December 31, 2015</b>	
	<b>Currency</b>	<b>Amount</b>
Secured bank loans	NTD	\$ 305,034
Unsecured bank loans	NTD	12,553,330
Unsecured bank loans	USD	2,065,325
		14,923,689
Less : Fees		(12,800)
Less : Current portion		(2,604,140)
Total		<b>\$ 12,306,749</b>
Unused credit line		<b>\$ 12,145,250</b>
Interest rate		<b>1.02%~2.19%</b>
Expiration		<b>2016.1~2020.12</b>

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	December 31, 2014	
	Currency	Amount
Secured bank loans	NTD	\$ 740,200
Unsecured bank loans	NTD	12,784,324
Unsecured bank loans	USD	8,185,987
		<u>21,710,511</u>
Less : Fees		(17,600)
Less : Current portion		(7,743,689)
Total		<u>\$ 13,949,222</u>
Unused credit line		<u>\$ 6,796,950</u>
Interest rate		<u>0.72%~1.80%</u>
Expiration		<u>2013.11~2019.1</u>

A. Securities for bank loans

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

B. Loan covenants

- (a) On October 25, 2010, the Company signed a syndicated loan agreement with a total credit line of USD 400,000 thousand. According to the Company's credit loan facility agreement with the banks, during the loan repayment periods, the Company must comply with certain financial covenants based on its audited annual and reviewed semi-annual consolidated financial statements (June 30 and December 31) as follows:
  - i. Current ratio (current assets/current liabilities): should not be less than 100%.
  - ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.
  - iii. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.
  - iv. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.
  - v. Factoring line of accounts receivable factoring/ net book value of accounts receivable before derecognition: less than 50%

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

This syndicated loan agreement was due in November, 2015. The Company was in compliance with the above financial covenants as of December 31, 2014.

- (b) On August 1, 2013, the Company signed a syndicated loan agreement with a total credit line of \$12,000,000. According to the agreement, the Company must comply with the following financial covenants:
- i. Current ratio (current assets/current liabilities): should not be less than 100%.
  - ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 80%.
  - iii. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.
  - iv. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

Compliance with the aforesaid financial covenants is determined on the reviewed quarterly consolidated financial statements (March 31, June 30 and September 30) and audited annual (December 31) stand alone and consolidated financial statements of the Group.

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

The Company was in compliance with the above financial covenants as of December 31, 2015 and 2014.

- (c) On January 30, 2015, CASETEK CAYMAN signed a USD 300,000 thousand worth of credit facility in the form of credit loan with multiple banks. According to the credit loan facility agreements, during the loan repayment periods, CASETEK CAYMAN must comply with certain financial covenants, such as current ratio, debt ratio, interest coverage ratio and tangible net assets, based on its audited annual consolidated financial statements (December 31).
- i. Current ratio (Current assets/Current liabilities): Not less than 100%.
  - ii. Total liabilities **【** Total liabilities (including contingent liability, but excluding those of non-controlling interests)/Total assets less intangible Assets **】** : Less than 100%.
  - iii. Interest coverage ratio **【** (Profit before tax + depreciation + amortization + interest expenses)/ interest expenses **】** : Not lower than five.

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iv. Tangible net assets (Total assets - total liabilities - intangible assets): Not lower than \$15,000,000.

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

CASETEK CAYMAN was in compliance with the above financial covenants as of December 31, 2015.

(15) Bonds payable

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

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Convertible bonds issued	\$ 8,874,000	8,874,000
Unamortized discounted on bonds payable	-	(120,577)
Accumulated amount of converted bonds	(8,874,000)	(7,069,620)
Bonds payable, end of the year	-	1,683,803
Foreign currency valuation, end of the year	-	124,427
Bonds payable, net	-	1,808,230
Less: current portion of bonds payable	-	(1,808,230)
	<u>\$ -</u>	<u>-</u>
Embedded derivative –conversion options, accounted under financial liabilities at fair value through profit or loss	<u>\$ -</u>	<u>1,117,653</u>
	<b>For the Years Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Embedded derivative –conversion options, accounted under other gains and losses	<u>\$ 238,997</u>	<u>4,172,368</u>
Interest expense	<u>\$ (65,389)</u>	<u>39,852</u>

The put option of the bonds payable is exercisable at three years after the first day of issue (February 6, 2015). Bonds payable of \$1,808,230 as of December 31, 2014, was classified as current liabilities for those convertible bonds whose holders bear the right to require for bond redemption within a year. Those bonds payable which are not expected to be settled within twelve months after the redemption period were reclassified as noncurrent liabilities.

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

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B. The offering information on the unsecured convertible bonds were as follows:

<u>Item</u>	<u>1<sup>st</sup> overseas unsecured convertible bonds issued in 2012</u>
1. Offering amount	USD 300 million with each unit valued at USD 200 thousand.
2. Issue date	February 6, 2012
3. Listing place	Singapore Exchange Securities Trading Limited (the "SGX-ST")
4. Interest	The Bonds will not bear any interest.
5. Issue period	5 years, commencing from February 6, 2012 and matured on February 6, 2017.
6. Settlement	Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on Maturity Date at an amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.
7. Redemption at the option of the Company	<p>(1) The Company may redeem the Bonds, in whole but not in part, at the early redemption amount at any time on or after February 6, 2015 if the closing price of the common shares on TWSE (translated into U.S. Dollars at the fixing rate at 11:00 a.m. Taipei time as quoted by Taipei Forex Inc.) on each trading day during a period of 20 consecutive trading dates exceeds at least 125% of the quotient of the early redemption amount divided by the number of shares to be issued upon conversion of USD 200,000 principal amount of Bonds on the applicable trading day based on the conversion price then in effect (translated into U.S. Dollars at the fixed exchange rate of NT\$29.761 = USD 1.00).</p> <p>(2) If more than 90% in principal amount of the Bonds originally outstanding has been redeemed, repurchased and cancelled or converted, the Company has the right to redeem all but not portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) The Bonds may be redeemed, in whole but not in part, if the affect of change in the tax laws of ROC will increase the Company's tax liability, interest expense or related cost from the Bonds. Holders may elect not to have their bonds redeemed with no entitlement to any additional amount of reimbursement of additional tax.</p>
8. Redemption at the option of the Holder	<p>(1) Each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds on February 6, 2015 at a redemption price equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p>

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<u>Item</u>	<u>1<sup>st</sup> overseas unsecured convertible bonds issued in 2012</u>
	<p>(2) In the event that the Company's common shares ceased to be listed or admitted to trading on the TWSE, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) In the event of change of control occurs with respect to the Company, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount.</p>
9. Conversion	<p>(1) Conversion period</p> <p>Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, each Holder of the Bonds will have the right at any time during the conversion period commencing March 18, 2012 (the 41st day following the Closing Date) and ending at the close of business on January 27, 2017 (the 10th day prior to the Maturity Date), to convert their bonds.</p> <p>(2) Conversion price</p> <p>The conversion price was NT\$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012. However, upon the issuance of restricted Company shares of stock to employees, the conversion price has been adjusted to NT\$40.11 per share effective October 7, 2013. The conversion price has been adjusted to NT\$38.28 per share effective September 15, 2014 due to the distribution of cash dividends in 2014.</p> <p>(3) Conversion to common shares</p> <p>Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT\$29.761 = USD 1.00) divided by the conversion price on the conversion date.</p>

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(16) Provisions

	<b>Warranties</b>	<b>Allowance for sales returns and discounts</b>	<b>Total</b>
Balance on January 1, 2015	\$ 235,959	285,495	521,454
Provisions made during the year	-	107,583	107,583
Provisions used during the year	(178)	(47,423)	(47,601)
Provisions reversed during the year	(3,790)	(150,618)	(154,408)
Effect of movements in exchange rates	1,452	(3,079)	(1,627)
Balance on December 31, 2015	<u>\$ 233,443</u>	<u>191,958</u>	<u>425,401</u>
Balance on January 1, 2014	\$ 232,666	218,236	450,902
Provisions made during the year	1,015	339,790	340,805
Provisions used during the year	-	(197,474)	(197,474)
Provisions reversed during the year	-	(84,768)	(84,768)
Effect of movements in exchange rates	2,278	9,711	11,989
Balance on December 31, 2014	<u>\$ 235,959</u>	<u>285,495</u>	<u>521,454</u>

A. Warranties

Warranties of Ability (TW) are recognized when the expected benefits to be derived by Ability (TW) from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

B. Allowance for sales return and discounts

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.



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(17) Operating leases

A. Lessee

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

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Less than one year	\$ 1,736,565	1,227,118
Between one and five years	1,900,847	1,214,677
	<b>\$ 3,637,412</b>	<b>2,441,795</b>

The Group leases a number of office, warehouse, factory facilities and staff dormitories under operating leases. The leases typically run for a period of 1 to 10 years, with an option to renew the lease after that date.

For the years ended December 31, 2015 and 2014, expenses recognized in profit or loss in respect of operating leases was as follows:

	<b>For the Years Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Cost of sales	\$ 1,394,758	1,011,059
Operating expenses	441,758	407,220
	<b>\$ 1,836,516</b>	<b>1,418,279</b>

B. Long-term prepaid rents

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Long-term prepaid rents	<b>\$ 4,348,476</b>	<b>4,093,778</b>

(a) Long-term prepaid rents represent land use rights under operating lease arrangement is expensed equally over 38 to 67 years.

(b) Please refer to Note 8 for details of the aforesaid land use rights pledged as collateral.

(18) Employee benefits

A. Defined benefit plans

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

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Present value of defined benefit obligations	\$ 331,194	329,749
Fair value of plan assets	(195,829)	(192,195)
Net defined benefit liabilities	<b>\$ 135,365</b>	<b>137,554</b>

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The Group makes defined benefit plan 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.

(a) Composition of plan assets

The Group set 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.

The Group's contributions to the pension funds 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.

(b) 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, 2015 and 2014 were as follows:

	<b>For the Years Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Defined benefit obligation, January 1	\$ 329,749	361,929
Current service costs and interest	13,102	12,998
Re-measurements of the net defined benefit liability		
Actuarial gains (losses) arose from changes in demographic assumptions	2,218	(1,635)
Actuarial gains (losses) arose from changes in financial assumption	20,143	(15,988)
Experience adjustments	(22,784)	(20,931)
Benefits paid by the plan	(11,234)	(6,624)
Defined benefit obligation, December 31	<b>\$ 331,194</b>	<b>329,749</b>

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(c) 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, 2015 and 2014 were as follows:

	For the Years Ended December 31	
	2015	2014
Fair value of plan assets, January 1	\$ 192,195	184,115
Interests revenue	4,300	3,690
Re-measurements of the net defined benefit liability		
Experience adjustments	854	523
Contributions made	9,714	10,491
Benefits paid by the plan	(11,234)	(6,624)
Fair value of plan assets, December 31	<u>\$ 195,829</u>	<u>192,195</u>

(d) Expenses recognized in profit or loss

The Group's pension expenses recognized in profit or loss for the years ended December 31, 2015 and 2014 were as follows:

	For the Years Ended December 31	
	2015	2014
Current service cost	\$ 5,699	5,812
Net interest on net defined benefit liability	3,103	3,496
	<u>\$ 8,802</u>	<u>9,308</u>
Operating Cost	\$ 549	875
Operating Expense	8,253	8,433
	<u>\$ 8,802</u>	<u>9,308</u>

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

The Group's net defined benefit liability recognized in other comprehensive income for the years ended December 31, 2015 and 2014 were as follows:

	For the Years Ended December 31	
	2015	2014
Cumulative amount, January 1	\$ 84,822	123,899
Recognized during the year	(1,277)	(39,077)
Cumulative amount, December 31	<u>\$ 83,545</u>	<u>84,822</u>

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(f) Actuarial assumptions

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Discount rate	1.75%~2.00%	2.00%~2.25%
Future salary increases	1.75%~3.00%	1.75%~3.00%

Based on the actuarial report, the Group is expected to make a contribution payment of \$9,614 to the defined benefit plans for the one year period after the reporting date.

The weighted-average duration of the defined benefit plans is between 17 and 25 years.

(g) Sensitivity Analysis

In determining the present value of the defined benefit obligation, the Group's management makes judgments and estimates in determining certain actuarial assumptions on the balance sheet date, which includes employee turnover rate and future salary changes. Changes in actuarial assumptions may have significant impact on the amount of defined benefit obligation.

As of December 31, 2015 and 2014, the changes in the principal actuarial assumptions will impact 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, 2015		
Discount	(29,547)	33,208
Future salary increase	32,665	(29,384)

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.

B. Defined contribution plans

The Group contributes an amount at the rate of 6% of the employee's monthly wages to the Labor Pension personal account with the Bureau of the Labor Insurance and Council of Labor Affairs in R.O.C. in accordance with the provisions of the Labor Pension Act. The Group's contributions to the Bureau of the Labor Insurance and Social Security Bureau for the employees' pension benefits require no further payment of additional legal or constructive obligations.

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The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2015 and 2014 amounted to \$6,180,514 and \$3,822,769, respectively.

- C. As of December 31, 2015 and 2014, the Group's short-term employee benefits liabilities were \$282,590 and \$247,698, respectively.

(19) Income Tax

- A. The income tax expense for the years ended December 31, 2015 and 2014 was calculated as follows:

	For the Years Ended December 31	
	2015	2014
Current income tax expense		
Current period incurred	\$ 9,712,212	6,230,240
Prior years income tax adjustment	(435,378)	582,677
10% surtax on undistributed earnings	510,783	681,677
Deferred tax expense		
The origination and reversal of temporary differences	526,538	(160,120)
Income tax expense	<u>\$ 10,314,155</u>	<u>7,334,474</u>

- B. Income tax on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2015 and 2014 as follows :

	For the Years Ended December 31	
	2015	2015
Profit before income tax	\$ 39,186,014	26,262,087
Income tax on pre-tax financial income calculated at the domestic rates applicable to profits in the country concerned	12,035,798	7,736,129
Permanent differences	(1,621,248)	(1,448,419)
Changes in unrecognized temporary differences	(1,067,663)	(1,199,727)
Oversea dividends received	909,540	971,444
Prior years income tax adjustment	(435,378)	582,677
10% surtax on undistributed earnings	510,783	681,677
Others	(17,677)	10,693
Income tax expense	<u>\$ 10,314,155</u>	<u>7,334,474</u>

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C. Deferred tax assets and liabilities

(a) Unrecognized deferred tax liabilities

As of December 31, 2015 and 2014, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax liabilities as the Group has the ability to control the reversal of these temporary differences which are not expected to reverse in the foreseeable future. The related amounts were as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
The aggregate temporary differences associated with investments in subsidiaries	\$ 28,593,218	21,088,100
Unrecognized deferred tax liabilities	<u>\$ 4,860,847</u>	<u>3,584,977</u>

(b) Unrecognized deferred tax assets

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Deductible temporary differences	\$ 644,663	585,902
Tax losses	1,036,963	887,517
	<u>\$ 1,681,626</u>	<u>1,473,419</u>

The ROC Income Tax Act allows the carry forward of net losses, as assessed by the tax authorities, to offset against taxable income. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

As of December 31, 2015, the Group had not recognized the prior years' loss carry-forwards as deferred tax assets, and the expiry years thereof were as follows:

<u>Company Name</u>	<u>Year of occurrence</u>	<u>Unused balance</u>	<u>Expiry year</u>
KINSUS and its subsidiaries	2010~2015	\$ 3,045,619	2015~2022
ABILITY (TW) and its subsidiaries	2010~2012	935,406	Note
ASROCK and its subsidiaries	2007~2015	112,712	2017~2033
CASETEK CAYMAN and its subsidiaries	2015	543,171	2020
AZUREWAVE and its subsidiaries	2012~2014	631,553	2022~2024
AMA PRECISION	2009~2015	146,224	2019~2025
		<u>\$ 5,414,685</u>	

Note: In accordance with its local income tax act.

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(c) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2015 and 2014 were as follows:

	<u>Gain on foreign investments</u>	<u>Others</u>	<u>Total</u>
<b>Deferred tax liabilities:</b>			
Balance, January 1, 2015	\$ 2,005,973	289,108	2,295,081
Recognized in loss (profit)	597,198	(217,083)	380,115
Recognized in comprehensive income	11,786	(12,397)	(611)
Exchange differences on translation	(95,528)	(76)	(95,604)
Balance, December 31, 2015	<u>\$ 2,519,429</u>	<u>59,552</u>	<u>2,578,981</u>
Balance, January 1, 2014	\$ 2,174,218	280,234	2,454,452
Recognized in profit	(221,888)	(24,660)	(246,548)
Recognized in comprehensive income	(54,169)	33,026	(21,143)
Exchange differences on translation	107,812	508	108,320
Balance, December 31, 2014	<u>\$ 2,005,973</u>	<u>289,108</u>	<u>2,295,081</u>

	<u>Provision for Contingent Service Cost</u>	<u>Gain on valuation of inventory</u>	<u>Unrealized expenses</u>	<u>Others</u>	<u>Total</u>
<b>Deferred tax assets:</b>					
Balance, January 1, 2015	\$ 484,922	907,826	1,551,733	112,039	3,056,520
Recognized in profit (loss)	(327,752)	144,383	7,666	29,280	(146,423)
Recognized in comprehensive income	-	-	-	(1,085)	(1,085)
Exchange differences on translation	(5,636)	(18,519)	(33,416)	1,065	(56,506)
Balance, December 31, 2015	<u>\$ 151,534</u>	<u>1,033,690</u>	<u>1,525,983</u>	<u>141,299</u>	<u>2,852,506</u>
Balance, January 1, 2014	\$ 896,396	973,765	1,050,123	180,201	3,100,485
Recognized in profit (loss)	(411,474)	(111,092)	504,591	(68,453)	(86,428)
Recognized in comprehensive income	-	-	(3,074)	(677)	(3,751)
Exchange differences on translation	-	45,153	93	968	46,214
Balance, December 31, 2014	<u>\$ 484,922</u>	<u>907,826</u>	<u>1,551,733</u>	<u>112,039</u>	<u>3,056,520</u>

D. Status of approval of income tax

- (a) The Company's income tax returns through 2013 have been assessed and approved by the Tax Authority, except for the income tax return for 2012, which is still under review by the Tax Authority.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

<u>Years of Approval</u>	<u>Company Name</u>
2014	HUA-YUAN INVESTMENT LTD., ASFLY TRAVEL SERVICE LTD., ABILITY INVESTMENT.
2013	KINSUS INTERCONNECT TECHNOLOGY CORP., ASROCK INCORPORATION (Note), ABILITY (TW), E-PIN, PEGAVISION CORPORATION, PEGA INTERNATIONAL LIMITED, AMA PRECISION, PEGAVISION INVESTMENT, ASUSTEK INVESTMENT, ASUSPOWER INVESTMENT, ASUS INVESTMENT CO., LTD., STARLINK, LUMENS OPTICS, RIH KUAN METAL, AZURE WAVE, EZWAVE, AZURE LIGHTING TECHNOLOGIES, INC., and ASROCK RACK, INC.
2012	UNIHAN CORPORATION

Note: The income tax return for 2012 is still under review by the Tax Authority

E. Five year income tax exemption period

The investments of KINSUS INTERCONNECT TECHNOLOGY CORP. and PEGAVISION CORPORATION for their establishment and expansion conform to “the Regulations Regarding Awards for Newly Emerging and Strategic Industries under Manufacturing and Technical Service Industries.” As approved by the Tax Authority, the Group is eligible for five-year income tax exemption, the details of which were as follows:

<u>Approving Office</u>	<u>Approval document number</u>	<u>Tax exemption period</u>
Industrial Development Bureau	10005112010	01/01/2013~12/31/2017
Industrial Development Bureau	10005116950	01/01/2014~12/31/2018

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Stockholders' imputation tax credit account	\$ <u>3,296,778</u>	<u>1,457,733</u>
	<u>2015 (Expect)</u>	<u>2014 (Actual)</u>
Tax deduction ratio for earnings distributable to R.O.C. residents	<u>13.83%</u>	<u>12.49%</u>

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

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



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(20) Capital and reserves

As of December 31, 2015 and 2014, 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 2,603,020 and 2,367,911 thousand common shares, respectively, and the capital that rose from the shares had all been retrieved.

A. Nominal ordinary shares

The movements in ordinary shares of stock outstanding for the years ended December 31, 2015 and 2014 were as follows:

Ordinary Shares (In thousands of shares)	For the Years Ended December 31	
	2015	2014
Beginning balance, January 1	2,367,911	2,320,435
(Expiration of) Restricted stock issued to employees	39,055	(745)
Exercise of employee stock options	1,380	10,489
Conversion of convertible bonds	194,674	37,732
Ending balance, December 31	<b>2,603,020</b>	<b>2,367,911</b>

In 2015, the Company issued 39,678 thousand shares of employee restricted stock. New common shares of stock totaling 860 and 47,424 thousand shares, respectively, were issued from the exercise of employee stock options and conversion of convertible bonds. For the year ended December 31, 2014, new common shares of stock totaling 10,288 and 184,982 were issued from the exercise of employee stock options and conversion of convertible bonds, of which 520 and 147,250 thousand shares, respectively, were accounted under advance receipts as the registration procedures were yet to be completed. For the years ended December 31, 2015 and 2014, the Company had retired 623 and 745 thousand shares, respectively, of restricted stock to employees. Therefore, the authorized capital of the Company consisted of both 3,000,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,603,020 thousand and 2,367,911 thousand common shares of stock, as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, the restricted Company shares of stock issued to employees have expired, of which 259 and 207 thousand shares, respectively, have not been retired.

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B. Global depositary receipts

ASUSTeK GDR 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 "Issuer of Overseas Securities Offering and Issued Guidelines." As of December 31, 2015 and 2014, the Company has listed, in total, 5,994 and 6,589 thousand units of GDR, respectively, on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed Company shares totaling 29,969 and 32,946 thousand shares of stock, respectively. Major terms and conditions for GDRs were as follows:

(a) 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.

(b) 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.

C. Capital surplus

The components of the capital surplus were as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
From issuance of share capital	\$ 62,284,056	62,023,550
From conversion of convertible bonds	11,187,179	8,507,771
From treasury stock-transactions	108,582	96,553
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,383,056	2,383,056
Changes in ownership interest in subsidiaries	738,737	729,852
Employee share options	1,304	13,171
Restricted stock to employees	1,859,543	131,850
Other	409,917	409,917
	<b>\$ 78,972,374</b>	<b>74,295,720</b>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

In accordance with Amended Companies Act of 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.

**D. 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, is distributed as follows:

- (a) No less than 10% as employees' bonuses which are distributable in cash or shares of stock. In the event that the employee bonus is distributed in the form of shares of stock, employees qualifying for such distribution may include the employees of subsidiaries of the Company who meet certain specific requirements. Such qualified employees and distribution ratio are decided by the Board of Directors.
- (b) Up to 1% as remuneration to directors.
- (c) The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

In order to bring about stability in the payment of dividends, the Company distributes dividends depending on the level of earnings of each year. The Company is facing a rapidly changing industrial environment. In consideration of the Company's long-term operating plan and funding needs, the Company adopts a stable dividends policy. Therefore, the Company distributes cash dividends of at least 10% of the aggregate dividends, if the distributions include cash dividends.

In accordance with the amended Companies Act of 2015, employee bonuses and directors and supervisors' remuneration are no longer distributed from earnings. The Company will amend its Articles of Incorporation on this regard before the date prescribed by the Authority.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(a) Legal reserve

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

(b) Special reserve

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

(c) Earnings Distribution

For the year ended December 31, 2014, employee bonuses and directors' remuneration of \$1,325,000 and \$131,000, respectively, were estimated and recognized as current expense. These amounts were calculated using the Company's net profit for the year ended December 31, 2014, and were determined according to the earnings allocation method, priority and factor for employee benefits and key management personnel compensation as stated under the Articles of Association. These benefits were charged to profit or loss under operating costs or operating expenses for the year ended December 31, 2014.

On June 15, 2015 and June 18, 2014, the Company's shareholders' meeting resolved to appropriate the 2014 and 2013 earnings. These earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

	<u>2014</u>	<u>2013</u>
Common stock dividends per share (dollars)		
— Cash	<u>\$ 4.10</u>	<u>2.80</u>
Employee bonus — Cash	\$ 1,325,000	870,000
Remuneration to directors and supervisors	<u>131,000</u>	<u>85,000</u>
Total	<u>\$ 1,456,000</u>	<u>955,000</u>

The 2014 and 2013 earnings approved for distribution agreed with those accrued in the financial statements for the years ended December 31, 2014 and 2013.

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Related information of distributions of employee bonus and remuneration to directors and supervisors can be accessed from the Market Observation Post System on the web site.

E. Treasury stock

Company shares of stock that are owned by the Company's subsidiaries are treated as treasury stock. As of December 31, 2015 and 2014, the Company's shares held by its subsidiaries were 0 and 553 thousand shares, amounting to \$0 and \$40,369 at fair value, respectively.

F. Other equity accounts ( net of tax)

	<b>Exchange differences on translation of foreign financial statements</b>	<b>Available-for- sale investments</b>	<b>Deferred compensation arising from issuance of restricted stock</b>	<b>Total</b>
Balance, January 1, 2015	\$ 4,788,058	177,810	(64,523)	4,901,345
Exchange differences on foreign operation	(1,011,875)	-	-	(1,011,875)
Exchange differences on associates accounted for using equity method	(24,066)	-	-	(24,066)
Unrealized gains on available-for-sale financial assets of subsidiaries accounted for using equity method	-	33,424	-	33,424
Deferred compensation cost	-	-	(1,173,854)	(1,173,854)
Balance, December 31, 2015	<u>\$ 3,752,117</u>	<u>211,234</u>	<u>(1,238,377)</u>	<u>2,724,974</u>
Balance, January 1, 2014	\$ (48,637)	79,871	(241,370)	(210,136)
Exchange differences on foreign operation	4,869,817	-	-	4,869,817
Exchange differences on associates accounted for using equity method	(33,122)	-	-	(33,122)
Unrealized gains on available-for-sale financial assets of subsidiaries accounted for using equity method	-	97,939	-	97,939
Deferred compensation cost	-	-	176,847	176,847
Balance, December 31, 2014	<u>\$ 4,788,058</u>	<u>177,810</u>	<u>(64,523)</u>	<u>4,901,345</u>

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G. Non-controlling interests (net of tax)

	For the Years Ended December 31,	
	2015	2014
Balance, January 1	\$ 41,200,299	36,751,385
Profit attributable to non-controlling interests	5,060,234	4,269,475
Comprehensive income attributable to non-controlling interests		
Foreign currency translation differences – foreign operations	(179,376)	987,262
Unrealized (loss) gain on available-for-sale financial assets	(157,917)	299,118
Actuarial gains (losses) on defined benefit plans	(242)	24,076
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	(2,266,315)
Changes in ownership interest in subsidiaries	(8,885)	(16,721)
Changes in non-controlling interests	(3,955,723)	1,152,019
Balance, December 31	<u>\$ 41,958,390</u>	<u>41,200,299</u>

(21) Share-based payment

Information on share-based payment transaction as of December 31, 2015 and 2014 were as follows:

**Equity-settled share-based payment**

**Restricted stock to employee**

	Issued in		
	2014	2013	2012
Thousand units granted	40,000	6,062	34,167
Contractual life	3 years	3 years	3 years
Vesting period	Note A	Note B	Note B
Actual turnover rate of employees	1.57%	5.41%	9.27%
Estimated future turnover rate for each of the three years of employees	10.48% , 20.18%, 34.36%	10.94% , 25.07%, 33.76%	14.28%, 22.84%, 28.85%

**Employee stock option**

	Issued in	
	2012	2011
Thousand units granted	8,053	40,679
Contractual life	3 years	3 years
Vesting period	2 years	2 years
Actual turnover rate of employees	21.67%	-
Estimated future turnover rate of employees	19.01%	19.88%

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**Cash-settled share-based payment**

**Stock appreciation rights plan**

**Issued in 2012**

Thousand units granted	Note C
Contractual life	07/01/2013~06/30/2014
Vesting period	1.25 years
Actual turnover rate of employees	-
Estimated future turnover rate of employees	8.97%

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.

Note C: The option will be granted only if the earnings per share target be reached.

On April 14, 2011, the Company obtained the approval from the Financial Supervisory Commission and issued 50,000 units of Employee Stock Options with an exercisable right of 1,000 shares of the Company's common shares of stock per unit. For these employee stock options, the Company will issue its own new common shares on settlement, and the exercise price of all stock options shall be equal to the closing price of the Company's common stock at grant date. The expected life of the stock options is estimated to be 3 years, and stock option granted to an employee is not transferable to any person. If the exercise period expires, the employee forfeits his/her right to exercise the option and purchase the shares. Except for the forfeiture of vested options, all stock options shall vest from the second year of the grant date, and the employees should exercise the right to apply for shares against the stock option vested in them pursuant to the stock option plan.

On October 19, 2012, the Company obtained the approval from the Financial Supervisory Commission to issue restricted Company shares of stock to employees for up to a limited number of 40,000 thousand shares. On grant date of November 9, 2012, the Board of Directors approved the list of eligible employees and resolved to issue 34,167 thousand shares effective December 20, 2012. The actual number of newly issued shares was 33,938 thousand shares with a par value of \$10 per share. The procedure for the registration of change of capital stock has been completed. Unless the vesting conditions have elapsed, 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.

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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 \$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 December 9, 2014, the Company obtained the approval from the Financial Supervisory Commission to issue restricted Company shares of stock to employees for up to a limited number of 40,000 thousand shares. On grant date of May 7, 2015, the Board of Directors approved the list of eligible employees and resolved to issue 40,000 thousand shares effective July 1, 2015. The actual number of newly issued shares was 39,678 thousand shares with a par value of \$10 per share. The procedure for the registration of change of capital stock has been completed. Unless the vesting conditions have elapsed, 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.

In order to encourage employees to stay and contribute their skills to the Company, the Board of Directors resolved on March 19, 2012 to issue 30,000 thousand units of Employee Stock Appreciation Rights. The Company will pay the stock appreciation rights as employee bonus in cash based on the difference between the base price and the settlement price of the stock appreciation right where the base price on settlement of the right is the closing price of the Company's common stock on grant date, and the settlement price is the closing price of the Company's common share on exercise date.

The compensation cost from the cash-settled stock appreciation right was \$0 for the year ended December 31, 2014, because the stock appreciation right remains unvested as of December 31, 2014.



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A. 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		
	2014	2013	2012
Fair value at grant date	05/07/2015	08/12/2013	11/09/2012
Share price at grant date	\$ 91.90	45.20	39.45
Exercise price (Note A)	10.00	10.00	10.00
Expected life of the option	3 years	3 years	3 years
Current market price	91.90	45.20	39.45
Expected volatility	33.37%	32.68%	38.49%
Expected dividend yield rate (Note A)	- %	- %	- %
Risk-free interest rate	(Note B)	(Note C)	(Note D)

**Employee stock option**

	Issued in	
	2012	2011
Fair value at grant date	04/02/2012	07/01/2011
Share price at grant date	44.85	30.00
Exercise price (Note A)	44.85	30.00
Expected life of the option	3 years	3 years
Current market price	44.85	30.00
Expected volatility	44.41%	37.0531%
Expected dividend yield rate (Note A)	-%	-%
Risk-free interest rate	0.95%	1.0838%

**Cash-settled share-based payment**

**Restricted stock to employee**

	Issued in
	2012
Fair value at grant date	04/02/2012
Share price at grant date	N/A
Exercise price (Note A)	N/A
Expected life of the option	07/01/2013~06/30/2014
Current market price	-
Expected volatility	40.12%
Expected dividend yield rate (Note A)	- %
Risk-free interest rate	1.355%

Note A: After the issuance of the employee stock options, if the Company increases its capital through the surplus and/or capital reserve, the exercise price will be adjusted accordingly. Therefore, the expected dividend yield rate is excluded in calculating the fair value of the stock option.

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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.

Note D: The risk-free interest rate is 0.6953% for the 1st year, 0.7363% for the 2nd year, and 0.7873% for the 3rd year.

B. Restricted stock to employee

For the year ended December 31, 2015, the Company issued restricted shares of stock to employees of 39,678 thousand shares, which resulted in a capital surplus — restricted employee stock of \$1,894,333. Also, for the years ended December 31, 2015 and 2014, 675 and 874 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$6,748 and \$8,738, respectively. As of December 31, 2015 and 2014, the Company has deferred compensation cost arising from issuance of restricted stock of \$1,238,377 and \$64,523, respectively.

For the years ended December 31, 2015 and 2014, the Company recognized salary cost of \$27,490 and \$9,121 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.

C. Employee stock options

Information on aforesaid employee stock options was as follows:

(a) For the year ended December 31, 2015

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

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(b) For the year ended December 31, 2014

	<b>Issued in 2012</b>	
	<b>Number of Exercisable Thousand Shares</b>	<b>Weighted-average Exercise Price</b>
Balance, beginning of the period	6,501	\$ 42.67
Granted	-	-
Exercised	(4,762)	42.67
Exercised	(686)	40.80
Forfeited	(181)	-
Expired	-	-
Balance, end of the period	<b>872</b>	40.80
Exercisable, end of the period	<b>863</b>	
Weighted-average fair value of options granted	<b>13.8</b>	
Exercise price of share option outstanding, end of the period	<b>40.8</b>	
Remaining contractual life	<b>0.25</b>	
Expenses incurred on share-based payment transactions	<b>8,462</b>	

	<b>Issued in 2011</b>	
	<b>Number of Exercisable Thousand Shares</b>	<b>Weighted-average Exercise Price</b>
Balance, beginning of the period	5,050	\$ 27.06
Granted	-	-
Exercised	(4,840)	27.06
Forfeited	(66)	-
Expired	(144)	-
Balance, end of the period	-	
Exercisable, end of the period	-	
Weighted-average fair value of options granted	<b>7.9</b>	
Exercise price of share option outstanding, end of the period	-	
Remaining contractual life	-	
Expenses incurred on share-based payment transactions	<b>(1,138)</b>	

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D. Expenses resulted from share-based payments

The Group incurred expenses from share-based payments transactions for the years ended December 31, 2015 and 2014 as follows:

	For the Years Ended December 31	
	2015	2014
Expenses resulting from issuance of restricted stock to employees	\$ 892,593	230,097
Expenses arising from granting of employee share options (including employee share options granted to subsidiaries' employees)	-	7,324
Total	<u>\$ 892,593</u>	<u>237,421</u>

(22) Subsidiary's share-based payments

- A. For the years ended December 31, 2015 and 2014, Ability (TW) has share-based payment transactions as follows:

	Equity-settled		
	Restricted stock to employee	Employee stock options	
	Issued in 2014	Issued in 2008	Issued in 2007
Thousand units granted	22,000	9,500	10,000
Contractual life	3 years	7 years	7 years
Vesting period	3 years	2 years	2 years

The restricted shares of stock may not be transferred unless the vesting conditions have elapsed. The holder of the restricted shares are entitled to the right as existing common shareholders; Employee resigns in the vesting period is obligate to return the restricted shares of stock but without returning the distributed dividend.

- B. The Black-Scholes Option Valuation Model was adopted to estimate the fair value of the first batch of Ability (TW) employee stock options. The Trinomial Tree Option Valuation Model was adopted to estimate the fair value of the second batch of Ability (TW) employee stock option on the day of granted and at the end of each period.

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	Equity-settled		
	Restricted stock to employee	Employee stock option	
	Granted in 2014	Granted in 2008	Granted in 2007
Grand date	May 21, 2014	October 13, 2008	December 27, 2007
Stock Price at granted date	\$20.90	22.20	52.80
Exercise price	10.00	22.20	52.80
Expected life of the options	3 years	7 years	5.10 years
Current market price	20.90	22.20	52.80
Volatility factors of the expected market price	Note A	43.11%	39.87%
Dividend yields	Note B	-	-
Risk-free interest rate	Note C	2.2101%	2.54%

Note A: The volatility factors of the expected market price are 22.22% for the 1st year, 21.15% for the 2nd year, and 25.67% for the 3rd year.

Note B: The Dividend yields are 8.22% for the 1st year, - % for the 2nd year, and - % for the 3rd year.

Note C: Risk-free interest rate is 1.4628% for the 1st year, 1.6421% for the 2nd year, and 1.9488% for the 3rd year.

C. Information on share-based payment transactions were as follows:

(a) For the year ended December 31, 2015

The first batch of employee stock options	Issued in 2008	
	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	428	\$ 13.6
Granted	-	-
Exercised	(346)	13.6
Forfeited	(82)	-
Outstanding at the end of the period	-	-
Exercisable at the end of the period	-	-
Weighted-average fair value of options granted	<b>8.88</b>	
Exercise price of share option outstanding, end of the period	-	
Remaining contractual life	-	

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(b) For the year ended December 31, 2014

The first batch of employee stock options	Issued in 2008		Issued in 2007	
	Quantity of stock option (thousand shares)	Weighted-average exercise price	Quantity of stock option (thousand shares)	Weighted-average exercise price
Outstanding at the beginning of the period	1,268	\$ 15.0	5,079	29.9
Exercised	(690)	15.0	-	-
Exercised	(80)	13.6	-	-
Forfeited	(70)	-	(5,079)	27.1
Outstanding at the end of the period	<u>428</u>	13.6	<u>-</u>	-
Exercisable at the end of the period	<u>428</u>	13.6	<u>-</u>	-
Weighted-average fair value of options granted	<u>8.88</u>		<u>20.6025</u>	
Exercise price of share option outstanding, end of the period	<u>13.60</u>		<u>-</u>	
Remaining contractual life	<u>0.75</u>		<u>-</u>	

D. For the years ended December 31, 2015 and 2014, the weighted-average exercise price of stock option on the date of exercise amounted to \$16.87 and \$18.83 per share, respectively.

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

	For the Years Ended December 31	
	2015	2014
Equity-settled	\$ <u>52,277</u>	<u>64,860</u>

F. For the years ended December 31, 2015 and 2014, Ability (TW) repurchased 1,950 and 409 thousand shares of stock for \$19,506 and \$4,099, respectively, at \$10 per share as certain employee resigned during the vesting period. As of December 31, 2015 and 2014, 153 and 288 thousand shares with total amount of \$1,533 and \$2,883, respectively, have been retired.

(23) Earnings per share

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

Basic earnings per share	For the Years Ended December 31	
	2015	2014
Profit attributable to ordinary shareholders	\$ <u>23,811,625</u>	<u>14,658,138</u>
Weighted-average number of ordinary shares	<u>2,581,005</u>	<u>2,348,719</u>
	<u>\$ 9.23</u>	<u>6.24</u>

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	For the Years Ended December 31	
	2015	2014
<b>Diluted earnings per share</b>		
Profit attributable to ordinary shareholders (diluted)	\$ <u>23,811,625</u>	<u>14,658,138</u>
Weighted-average number of ordinary shares	2,581,005	2,348,719
Effect of potentially dilutive ordinary shares		
Employee stock bonus	36,082	25,528
Employee stock option	-	337
Weighted-average number of ordinary shares (diluted)	<u>2,617,087</u>	<u>2,374,584</u>
	\$ <u>9.10</u>	<u>6.17</u>

For the years ended December 31, 2015 and 2014, convertible bonds of \$230,562 and \$4,360,446, respectively, were not included in the calculation of weighted-average number of shares, due to its anti-dilutive impact on earnings per share.

(24) Revenue

	For the Years Ended December 31	
	2015	2014
Sale of goods	\$ 1,145,874,263	994,044,717
Others	67,838,713	25,694,116
	\$ <u>1,213,712,976</u>	<u>1,019,738,833</u>

(25) Remuneration of employees and directors

Based on the amended Company's Articles of Incorporation which have been approved by the Board of Directors but have not been approved by the shareholders' meeting, remuneration of employees and directors are appropriated at the rate of at least 7% and no more than 0.7% of profit before tax, respectively. The Company should offset prior years' accumulated deficit before any appropriation of profit. Employees of subsidiaries may also be entitled to the employee remuneration of the Company, which can be settled in the form of cash or stock.

For the year ended December 31, 2015, remuneration of employees and directors of \$2,072,000 and \$203,000, respectively, were estimated and recognized as current expense. These amounts were calculated using the Company's profit before tax before remuneration of employees and directors for the year ended December 31, 2015. These benefits were charged to profit or loss under operating costs or operating expenses for the year ended December 31, 2015. Management is expecting that the differences, if any, between the amounts which are yet to be approved in the shareholders' meeting and those recognized in the financial statements will be treated as changes in accounting estimates and charged to profit or loss.

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Related information of distributions of remuneration to employees and directors can be accessed from the Market Observation Post System on the web site.

(26) Non-operating income and expenses

A. Other income

	For the Year Ended December 31	
	2015	2014
Interest income	\$ 1,396,275	1,778,928
Subsidy income	763,276	701,364
Rental income	268,171	230,514
Technical service income	271,333	261,309
Other income	906,124	338,279
	<u>\$ 3,605,179</u>	<u>3,310,394</u>

B. Other gains and losses

	For the Years Ended December 31	
	2015	2014
Gain on reversal of uncollectable account	\$ 110,963	5,784
Loss on disposal of property, plant and equipment	(170,100)	(277,494)
Gain on disposal of non-current assets classified as held for sale	402,661	61,740
Gain on disposal of other assets	-	9,422
Gain on disposal of investments	397,657	225,501
Foreign exchange gain (loss)	(3,524,184)	1,171,287
(Reversal of) Impairment loss	134,852	(578,759)
Net losses on evaluation of financial assets (liabilities) measured at fair value through profit or loss	(200,625)	(4,304,477)
	<u>\$ (2,848,776)</u>	<u>(3,686,996)</u>

C. Finance costs

	For the Years Ended December 31	
	2015	2014
Interest expenses	\$ 672,266	868,009
Less: Interest expenses capitalization	-	-
Finance expense – bank fees	180,685	222,071
	<u>\$ 852,951</u>	<u>1,090,080</u>



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(27) Reclassification of other comprehensive income

	For the Years Ended December 31	
	2015	2014
Net fair value change in available-for-sale financial assets recognized in:		
Other comprehensive income	\$ (425,922)	277,445
Profit or loss	301,429	119,612
Net fair value change recognized in other comprehensive income	<u>\$ (124,493)</u>	<u>397,057</u>

(28) Financial instruments

A. Credit risk

(a) Exposure to credit risk

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

(b) Credit risk concentrations

As of December 31, 2015 and 2014, the accounts receivable from the Group's top three customers amounted to \$72,039,287 and \$79,193,401, representing 59% and 60% of accounts receivable, respectively, which exposes the Group to credit risk.

(c) Impairment losses

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

	December 31, 2015	December 31, 2014
Not past due	\$ 143,150,534	141,233,520
Past due 0 - 30 days	3,233,260	2,903,684
Past due 31 - 120 days	1,466,766	718,248
Past due 121 - 365 days	62,580	186,174
Past due more than 1 year	1,939,859	1,902,458
	<u>\$ 149,852,999</u>	<u>146,944,084</u>

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

	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance on January 1, 2015	\$ 72,020	2,136,108	2,208,128
Reversal of impairment loss	(212)	(80,264)	(80,476)
Written off unrecoverable amount	-	(1,159)	(1,159)
Foreign exchange loss (gain)	1,751	(319)	1,432
Balance on December 31, 2015	<u>\$ 73,559</u>	<u>2,054,366</u>	<u>2,127,925</u>
Balance on January 1, 2014	\$ 71,096	2,038,457	2,109,553
Impairment loss	206	109,015	109,221
Written off unrecoverable amount	(3,451)	-	(3,451)
Foreign exchange loss	4,169	26,847	31,016
Others	-	(38,211)	(38,211)
Balance on December 31, 2014	<u>\$ 72,020</u>	<u>2,136,108</u>	<u>2,208,128</u>

Based on historical default rates, the Group 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 Group's capital movement, and there's no penalty interest due for late payment. The Group'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 Group 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 Group 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.

B. 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>
<b>December 31, 2015</b>					
Non-derivative financial liabilities					
Secured bank loans	\$ 305,034	305,034	134,034	56,000	115,000
Unsecured bank loans	60,085,738	60,085,738	47,937,189	3,200,170	8,948,379
Non-interest bearing liabilities	195,546,280	195,546,280	195,546,280	-	-
	<u>\$ 255,937,052</u>	<u>255,937,052</u>	<u>243,617,503</u>	<u>3,256,170</u>	<u>9,063,379</u>

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	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>Within 1 year</b>	<b>1-2 years</b>	<b>More than 2 years</b>
<b>December 31, 2014</b>					
Non-derivative financial liabilities					
Secured bank loans	\$ 749,695	749,695	386,400	148,295	215,000
Unsecured bank loans	48,141,379	48,141,379	34,537,852	1,424,492	12,179,035
Unsecured convertible bonds	1,808,230	1,808,230	1,808,230	-	-
Non-interest bearing liabilities	207,107,696	207,107,696	207,107,696	-	-
Derivative financial liabilities					
Overseas convertible bonds— conversion options	1,117,653	1,117,653	1,117,653	-	-
Option exchange contract — outflow	8,937	8,937	8,937	-	-
	<b>\$ 258,933,590</b>	<b>258,933,590</b>	<b>244,966,768</b>	<b>1,572,787</b>	<b>12,394,035</b>

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

C. Currency risk

(a) Currency risk exposure

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

(Unit: Foreign currency/NTD in Thousands)

	<b>December 31, 2015</b>			<b>December 31, 2014</b>		
	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>NTD</b>	<b>Foreign Currency</b>	<b>Exchange Rate</b>	<b>NTD</b>
<b>Financial assets</b>						
Monetary items						
USD:NTD	\$ 8,323,160	32.825	273,207,727	9,524,967	31.650	301,465,206
USD:CNY	6,318,520	6.4936	207,405,419	5,838,639	6.119	184,792,924
USD:CZK	55,187	24.8213	1,811,513	46,913	22.8441	1,484,796
CNY:NTD	399,849	5.055	2,021,237	1,627,657	5.1724	8,418,893
<b>Financial liabilities</b>						
Monetary items						
USD:NTD	7,794,417	32.825	255,851,738	8,819,213	31.650	279,128,091
USD:CNY	8,500,368	6.4936	279,024,580	7,875,746	6.119	249,267,361
USD:CZK	28,825	24.8213	946,181	41,321	22.8441	1,307,810
CNY:NTD	139,291	5.055	704,116	251,501	5.1724	1,300,864

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(b) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, loans, accounts payable, bonds payable and other payables that are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Group's functional currency as of December 31, 2015 and 2014 would have decreased the before-tax net income by \$516,591 and \$344,630, respectively. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for both periods.

(c) Gains or losses on monetary item

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the years ended December 31, 2015 and 2014, the foreign exchange gain (loss), including both realized and unrealized, amounted to \$(3,524,184) and \$1,171,287, respectively.

D. Interest rate analysis

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

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

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

If the interest rate increases / decreases by 1%, the Group's net income will decrease /increase by \$59,200 and \$46,931 for the years ended December 31, 2015 and 2014, respectively, assuming all other variable factors remain constant. This is mainly due to the Group's variable rate borrowing.

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E. Fair value of financial instruments

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

(a) Categories of financial instruments

<b>Financial Assets</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Financial assets at fair value through profit or loss		
Held-for-trading non-derivative financial assets	\$ 4,732,661	5,746,322
Available-for-sale financial assets	1,819,404	2,563,717
Financial assets carried at cost	468,750	568,834
Deposits and receivables		
Cash and cash equivalents	102,561,346	107,688,632
Notes, accounts and other receivables	147,725,074	144,735,956
Other financial assets	1,143,282	2,799,808
Sub-total	251,429,702	255,224,396
	<b>\$ 258,450,517</b>	<b>264,103,269</b>
<b>Financial liabilities</b>		
Financial liabilities at fair value through profit or loss		
Held-for-trading	\$ -	8,937
Financial liabilities designated as at fair value through profit or loss	-	1,117,653
Sub-total	-	1,126,590
Financial liabilities carried at amortized cost		
Short-term loans	45,467,083	27,180,563
Notes, accounts, other payables and accrued expenses	195,546,280	207,107,696
Bonds payable (including current portion)	-	1,808,230
Long-term borrowings (including current portion)	14,910,889	21,692,911
Guarantee deposit (recognized in other noncurrent liabilities)	519,337	443,603
Sub-total	256,443,589	258,233,003
	<b>\$ 256,443,589</b>	<b>259,359,593</b>

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(b) Fair value hierarchy

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

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

	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>December 31, 2015</b>					
Financial assets designated as at fair value through profit or loss					
Held-for-trading non-derivative financial assets	\$ 4,732,661	4,732,661	-	-	4,732,661
Available-for-sale financial assets					
Stock of listed companies	765,744	765,744	-	-	765,744
Equity investment — common stock	195,840	-	195,840	-	195,840
Stock of overseas listed companies	857,820	857,820	-	-	857,820
	<u>\$ 6,552,065</u>	<u>6,356,225</u>	<u>195,840</u>	<u>-</u>	<u>6,552,065</u>
<b>December 31, 2014</b>					
Financial assets designated as at fair value through profit or loss					
Held-for-trading non-derivative financial assets	\$ 5,746,322	5,746,322	-	-	5,746,322
Available-for-sale financial assets					
Stock of listed companies	1,238,361	1,238,361	-	-	1,238,361
Equity investment — common stock	241,920	-	241,920	-	241,920
Stock of overseas listed companies	1,083,436	-	1,083,436	-	1,083,436
	<u>\$ 8,310,039</u>	<u>6,984,683</u>	<u>1,325,356</u>	<u>-</u>	<u>8,310,039</u>
<b>December 31, 2014</b>					
Financial liabilities designated as at fair value through profit or loss					
Derivative financial liabilities	\$ 8,937	-	8,937	-	8,937
Overseas convertible bonds — conversion options	1,117,653	-	1,117,653	-	1,117,653
	<u>\$ 1,126,590</u>	<u>-</u>	<u>1,126,590</u>	<u>-</u>	<u>1,126,590</u>

There have been no transfers from each level for the years ended December 31, 2015 and 2014.

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

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

- (i) Financial assets measured at amortized cost

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

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

- (i) Non-derivative financial instruments

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

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

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

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

- (ii) Derivative financial instruments

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

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

F. Offsetting of financial assets and financial liabilities

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

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

<b>2015.12.31</b>						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		Net amounts (e)=(c)-(d)
				Financial Instruments	Cash collected as pledge	
Accounts Receivable and Payable	<u>\$ 39,902,301</u>	<u>33,703,531</u>	<u>6,198,770</u>	<u>-</u>	<u>-</u>	<u>6,198,770</u>

<b>2015.12.31</b>						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		Net amounts (e)=(c)-(d)
				Financial Instruments	Cash collected as pledge	
Accounts Receivable and Payable	<u>\$ 33,703,531</u>	<u>33,703,531</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

<b>2014.12.31</b>						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		Net amounts (e)=(c)-(d)
				Financial Instruments	Cash collected as pledge	
Accounts Receivable and Payable	<u>\$ 35,978,701</u>	<u>27,324,260</u>	<u>8,654,441</u>	<u>-</u>	<u>-</u>	<u>8,654,441</u>

<b>2014.12.31</b>						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		Net amounts (e)=(c)-(d)
				Financial Instruments	Cash collected as pledge	
Accounts Receivable and Payable	<u>\$ 27,338,867</u>	<u>27,324,260</u>	<u>14,607</u>	<u>-</u>	<u>-</u>	<u>14,607</u>



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(29) Financial risk management

A. Overview

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

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

B. Risk management framework

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

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

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

C. Credit risk

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

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

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**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

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

**(a) Accounts receivables and other receivables**

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

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

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

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

**(b) Investment**

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

**(c) Guarantee**

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

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**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

D. Liquidity risk

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

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

The funds and marketable securities investments held by the Group have publicly quoted prices and could be sold at approximate market price. In the case of foreign currency swap contracts, management believes that the cash flow risk is not significant because contracted foreign currency exchange rates are fixed.

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

E. Market risk

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

(a) Currency risk

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

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

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

(b) Interest rate risk

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

(c) Price floating risk on equity instruments

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

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

(30) Capital management

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, non-redeemable preference shares, retained earnings and non-controlling interests of the Group. The Board of Directors monitors the return on capital as well as the level of dividends to ordinary shareholders.

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

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Total liabilities	\$ 283,748,138	282,221,911
Less: cash and cash equivalents	102,561,346	107,688,632
Net debt	<b>\$ 181,186,792</b>	<b>174,533,279</b>
Total capital (Note)	<b>\$ 373,525,317</b>	<b>349,404,509</b>
Debt to equity ratio	<b>48.51%</b>	<b>49.95%</b>

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

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Management believes that there were no changes in the Group's approach to capital management for the year ended December 31, 2015.

(31) Non-cash transactions of financing activity

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

**7. RELATED PARTY TRANSACTIONS**

(1) The ultimate parent company

The Company is the ultimate parent company of the Group.

(2) Significant Transactions with related parties

A. Sale of Goods and Services to Related Parties

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

	Sales		Receivables from Related Parties	
	2015	2014	December 31, 2015	December 31, 2014
Others	\$ -	1,800	-	502

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.

B. Purchase of Goods from Related Parties

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

	Purchases		Payables to Related Parties	
	2015	2014	December 31, 2015	December 31, 2014
Others	\$ 61,851	454,102	10,796	13,136

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

C. Warranty repair expense paid to Related Parties

	For the Years Ended December 31	
	2015	2014
Others	\$ 533	-

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

D. Other income and expenses from Related Parties

	For the Years Ended December 31	
	2015	2014
Others	\$ -	154

(3) Key management personnel compensation:

	For the Years Ended December 31	
	2015	2014
Short-term employee benefits	\$ 602,068	543,857
Post-employment benefits	4,584	4,818
Share-based payments	169,745	40,022
	\$ 776,397	588,697

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

8. Pledged Assets

As of December 31, 2015 and 2014, pledged assets were as follows:

Asset	Purpose of pledge	December 31, 2015	December 31, 2014
Other financial asset	Customs duty guarantee, collateral, rental deposits, travel agency guarantee, etc.	\$ 44,533	45,255
Non-current assets held-for-sale	Bank loans	-	88,517
Property, plant and equipment	Bank loans	1,616,838	1,858,372
Long-term prepaid rentals	Bank loans	-	12,333
Refundable deposits	Customs duty guarantee, custom deposits, and deposits for performance guarantee	24,300	27,044
		\$ 1,685,671	2,031,521

9. Significant Commitments And Contingencies

(1) Major commitments and contingencies were as follows:

A. Unused standby letters of credit

	December 31, 2015	December 31, 2014
EUR	\$ 3,010	2,973
JPY	3,262,883	5,882,425
USD	7,211	30,633

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

	December 31, 2015	December 31, 2014
NTD	\$ 6,689	11,997

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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- C. As of December 31, 2015 and 2014, the significant contracts for purchase of properties by the Group amounted to \$13,223,710 and \$5,219,870, of which \$6,258,950 and \$2,894,149, respectively, were unpaid.
- D. As of December 31, 2015 and 2014, the Group provided endorsement guarantee for bank loans obtained by the related parties, including Group entities, amounting to \$9,841,287 and \$16,488,504, respectively.
- E. As of December 31, 2015, the Group issued a tariff guarantee of \$276,175 to the bank for the purpose of importing goods.
- F. The board of directors of Ability (TW) decided to build a new office building with its own land on September 15, 2014. Construction will be provided by Ta Chen Construction & Engineering Corp. The whole contract price for this construction is \$824,775.

(2) Significant contingent liability: None.

**10. LOSSES DUE TO MAJOR DISASTERS: None.**

**11. SUBSEQUENT EVENTS:**

In order to maintain the Company's credit standing and shareholders' equity, the Board of Directors resolved to buy back 50,000 thousand shares of the Company during January 22 to March 21, 2016. Prices for this repurchase ranged between \$46.30 to \$80.00 per share. Please refer to Market Observation Post System for details.

**12. OTHER**

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

By item	For the Year Ended December 31, 2015			For the Year Ended December 31, 2014		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 45,440,684	16,965,510	62,406,194	37,138,087	13,614,362	50,752,449
Health and labor insurance	4,951,812	1,049,772	6,001,584	3,337,938	818,849	4,156,787
Pension	5,268,762	920,554	6,189,316	3,152,526	679,551	3,832,077
Others	2,270,572	874,115	3,144,687	1,851,880	666,358	2,518,238
Depreciation	12,164,759	1,295,371	13,460,130	11,717,766	1,833,947	13,551,713
Amortization	30,094	193,385	223,479	29,509	170,813	200,322

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

	For the Years Ended December 31	
	2015	2014
Depreciation in investment property	\$ <u>11,270</u>	<u>10,379</u>

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**PEGATRON CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

**13. SEGMENT INFORMATION**

(1) General Information

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

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

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

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



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PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

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

<b>For the Year Ended December 31, 2015</b>	<b>DMS</b>	<b>Strategic Investment Group</b>	<b>Adjustment and eliminations</b>	<b>Total</b>
Revenue :				
Revenue from external customers	\$ 1,114,266,543	99,446,433	-	1,213,712,976
Intersegment revenues	2,580,781	7,243,274	(9,824,055)	-
Total revenue	<u>\$ 1,116,847,324</u>	<u>106,689,707</u>	<u>(9,824,055)</u>	<u>1,213,712,976</u>
Share of profit of associates and joint ventures accounted for using equity method	<u>\$ 4,838,315</u>	<u>10,092,787</u>	<u>(14,943,956)</u>	<u>(12,854)</u>
Other significant non-monetary items:				
Goodwill	<u>\$ -</u>	<u>1,147,923</u>	<u>164,859</u>	<u>1,312,782</u>
<b>Reportable segment profit or loss</b>	<u>\$ 30,324,630</u>	<u>23,808,056</u>	<u>(14,949,672)</u>	<u>39,183,014</u>
Assets:				
Investments accounted for using equity method	<u>\$ 47,585,206</u>	<u>89,508,143</u>	<u>(136,669,158)</u>	<u>424,191</u>
<b>Reportable segment assets</b>	<u>\$ 392,071,442</u>	<u>220,643,421</u>	<u>(136,628,200)</u>	<u>476,086,663</u>
<b>Reportable segment liabilities</b>	<u>\$ 241,691,277</u>	<u>42,180,763</u>	<u>(123,902)</u>	<u>283,748,138</u>
<b>For the Year Ended December 31, 2014</b>				
Revenue :				
Revenue from external customers	\$ 922,718,932	97,019,901	-	1,019,738,833
Intersegment revenues	1,567,605	13,604,269	(15,171,874)	-
Total revenue	<u>\$ 924,286,537</u>	<u>110,624,170</u>	<u>(15,171,874)</u>	<u>1,019,738,833</u>
Share of profit of associates and joint ventures accounted for using equity method	<u>\$ 4,145,662</u>	<u>10,561,052</u>	<u>(15,027,037)</u>	<u>(320,323)</u>
Other significant non-monetary items:				
Goodwill	<u>\$ -</u>	<u>1,106,886</u>	<u>164,860</u>	<u>1,271,746</u>
<b>Reportable segment profit or loss</b>	<u>\$ 18,894,004</u>	<u>22,389,431</u>	<u>(15,021,348)</u>	<u>26,262,087</u>
Assets:				
Investments accounted for using equity method	<u>\$ 47,572,890</u>	<u>82,269,314</u>	<u>(129,351,832)</u>	<u>490,372</u>
<b>Reportable segment assets</b>	<u>\$ 373,500,846</u>	<u>212,802,987</u>	<u>(129,210,692)</u>	<u>457,093,141</u>
<b>Reportable segment liabilities</b>	<u>\$ 239,829,916</u>	<u>42,415,715</u>	<u>(23,720)</u>	<u>282,221,911</u>

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

A. External Sales

<u>Region</u>		<u>2015</u>	<u>2014</u>
Europe	\$	510,430,274	316,907,114
USA		273,135,851	301,753,238
Taiwan		185,605,468	224,249,202
China		100,602,388	55,944,888
Japan		81,751,727	61,244,411
Others		62,187,268	59,639,980
Total	\$	<u><b>1,213,712,976</b></u>	<u><b>1,019,738,833</b></u>

B. Non-current assets

<u>Region</u>		<u>December 31, 2015</u>	<u>December 31, 2014</u>
Taiwan	\$	21,546,353	19,067,524
China		57,097,050	60,116,829
Others		1,018,603	1,100,357
Total	\$	<u><b>79,662,006</b></u>	<u><b>80,284,710</b></u>

Non-current assets include property, plant and equipment, investment property, intangible assets, and other non-current assets, excluding financial instruments, deferred tax assets, pension fund assets, and rights arising from an insurance contract (non-current).

(4) Major Customer

Major customers from DMS in 2015 and 2014 were as follows:

<u>Customer</u>		<u>2015</u>	<u>2014</u>
A	\$	729,205,460	521,007,973
B		122,375,001	120,950,470
C		61,848,011	42,051,907
	\$	<u><b>913,428,472</b></u>	<u><b>684,010,350</b></u>

# **Attachment II**

**(English Translation of Financial Report Originally Issued in Chinese)**

**PEGATRON CORPORATION**

**NON-CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

**(With Independent Accountants' Audit Report Thereon)**

**(English Translation of Financial Report Originally Issued in Chinese)**

**AUDIT REPORT OF INDEPENDENT ACCOUNTANTS**

**To the Board of Directors of  
Pegatron Corporation**

We have audited the accompanying balance sheets of Pegatron Corporation (the “Company”) as of December 31, 2015 and 2014, and the related statements of comprehensive income, changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain investees accounted for under the equity method, in which the Company’s long-term equity investments represented 4.38% and 5.14% of total assets as of December 31, 2015 and 2014, respectively, and related share of profit or loss of subsidiaries, associates and joint ventures accounted for under equity method represented 4.32% and 6.51% of profit before tax for the years ended December 31, 2015 and 2014, respectively. The financial statements of these investees were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these investees, is based solely on the reports of other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and 2014, the results of its operations and its cash flows for the years then ended in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

CPA: Ulyos Maa  
Securities and Futures Commission,  
Ministry of Finance, R.O.C. regulation  
(88) Tai-Tsai-Jung (6) No. 18311

March 17, 2016

#### **Note to Readers**

The accompanying non-consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers. 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.

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

**(English Translation of Financial Report Originally Issued in Chinese)**  
**PEGATRON CORPORATION**  
**NON-CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2015 AND 2014**  
**(All Amounts Expressed in Thousands of New Taiwan Dollars)**

	December 31, 2015		December 31, 2014	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents (Note 6(1))	\$ 31,919,719	7	31,092,242	7
Financial assets at fair value through profit or loss – current (Note 6(2))	288,068	-	-	-
Accounts receivable, net (Note 6(3))	86,443,966	20	103,145,200	24
Accounts receivable, net – Related parties (Note 7)	148,231,475	34	150,393,887	35
Other receivables, net (Notes 6(3) and 7)	23,581,706	5	12,895,589	3
Inventories (Note 6(4))	26,965,535	6	18,350,385	4
Other financial assets – current (Note 6(8))	41,390	-	42,141	-
Other current assets (Note 6(8))	131,683	-	136,624	-
	317,603,542	72	316,056,068	73
<b>Non-current assets:</b>				
Investments accounted for using equity method (Note 6(5))	117,840,661	27	112,093,393	26
Property, plant and equipment, net (Notes 6(6) and 7)	4,423,894	1	4,478,327	1
Intangible assets (Note 6(7))	67,576	-	48,713	-
Deferred tax assets (Note 6(15))	291,160	-	180,305	-
Other financial assets – noncurrent (Note 6(8))	30,419	-	26,684	-
Other noncurrent assets (Note 6(8))	11,439	-	-	-
	122,665,149	28	116,827,422	27
<b>TOTAL ASSETS</b>	<b>\$ 440,268,691</b>	<b>100</b>	<b>432,883,490</b>	<b>100</b>

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

## (English Translation of Financial Report Originally Issued in Chinese)

## PEGATRON CORPORATION

## NON-CONSOLIDATED BALANCE SHEETS (CONT'D)

DECEMBER 31, 2015 AND 2014

(All Amounts Expressed in Thousands of New Taiwan Dollars)

	December 31, 2015		December 31, 2014	
	Amount	%	Amount	%
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Short-term loans (Note 6(9))	\$ 39,225,875	9	21,965,100	5
Financial liabilities at fair value through profit or loss – current (Notes 6(2) and 6(11))	-	-	1,117,653	-
Notes and accounts payable	100,917,195	23	110,563,613	26
Accounts payable – Related parties (Note 7)	98,039,371	22	114,141,212	26
Other payables (Note 7)	23,542,834	5	19,210,958	5
Current income tax liabilities	1,928,583	1	1,764,795	-
Provisions – current (Note 6(12))	117,549	-	64,030	-
Deferred revenue	504,311	-	535,714	-
Bonds payable – current portion (Note 6(11))	-	-	1,808,230	-
Long-term loans payable – current portion (Note 6(10))	1,375,000	-	5,064,000	1
Other current liabilities (Note 7)	13,364,462	3	10,754,198	3
	<u>279,015,180</u>	<u>63</u>	<u>286,989,503</u>	<u>66</u>
<b>Non-current liabilities:</b>				
Long-term loans (Note 6(10))	10,612,200	3	11,982,400	3
Deferred tax liabilities (Note 6(15))	225,261	-	205,445	-
Other noncurrent liabilities (Note 6(14))	35,915	-	35,211	-
	<u>10,873,376</u>	<u>3</u>	<u>12,223,056</u>	<u>3</u>
<b>Total Liabilities</b>	<u>289,888,556</u>	<u>66</u>	<u>299,212,559</u>	<u>69</u>
<b>EQUITY (Note 6(16))</b>				
<b>Share capital</b>	<u>26,030,205</u>	<u>6</u>	<u>25,156,805</u>	<u>6</u>
<b>Capital surplus:</b>				
Capital surplus, premium on capital stock	73,471,235	17	70,531,321	16
Capital surplus, others	5,501,139	1	3,764,399	1
	<u>78,972,374</u>	<u>18</u>	<u>74,295,720</u>	<u>17</u>
<b>Retained earnings:</b>				
Legal reserve	4,879,380	1	3,413,566	1
Unappropriated retained earnings	37,775,792	8	25,911,678	6
	<u>42,655,172</u>	<u>9</u>	<u>29,325,244</u>	<u>7</u>
<b>Other equity items:</b>				
Exchange differences on translation of foreign financial statements	3,752,117	1	4,788,058	1
Unrealized gains on available-for-sale financial assets	211,234	-	177,810	-
Deferred compensation cost arising from issuance of restricted stock (Note 6(17))	(1,238,377)	-	(64,523)	-
	<u>2,724,974</u>	<u>1</u>	<u>4,901,345</u>	<u>1</u>
<b>Treasury stock</b>	<u>(2,590)</u>	<u>-</u>	<u>(8,183)</u>	<u>-</u>
<b>Total Equity</b>	<u>150,380,135</u>	<u>34</u>	<u>133,670,931</u>	<u>31</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 440,268,691</u>	<u>100</u>	<u>432,883,490</u>	<u>100</u>

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

**(English Translation of Financial Report Originally Issued in Chinese)**  
**PEGATRON CORPORATION**  
**NON-CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**  
**(All Amounts Expressed in Thousands of New Taiwan Dollars, Except for Share Data)**

	<b>For the Years ended December 31</b>			
	<b>2015</b>		<b>2014</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Operating revenues (Notes 6(19) and 7)</b>	\$ 1,057,111,066	100	900,073,512	100
Less: Sales returns and allowances	3,675,244	-	2,109,924	-
<b>Net sales</b>	1,053,435,822	100	897,963,588	100
<b>Cost of sales (Notes 6(4), 6(13) and 7)</b>	1,020,724,240	97	873,094,844	97
<b>Gross profit</b>	32,711,582	3	24,868,744	3
<b>Realized profit on intercompany transactions</b>	10,707	-	16,005	-
<b>Gross profit</b>	32,722,289	3	24,884,749	3
<b>Operating expenses (Notes 6(13), 6(14) and 7)</b>				
Selling expenses	7,324,557	1	7,602,091	1
General and administrative expenses	3,137,235	-	2,541,792	-
Research and development expenses	8,197,805	1	6,769,560	1
	18,659,597	2	16,913,443	2
<b>Results from operating activities</b>	14,062,692	1	7,971,306	1
<b>Non-operating income and expenses</b>				
Other income (Notes 6(21) and 7)	932,836	-	599,273	-
Other gains and losses (Notes 6(11) and 6(21))	809,153	-	(3,374,868)	-
Financial costs (Notes 6(11) and 6(21))	(582,102)	-	(702,460)	-
Share of profit (loss) of associates and joint ventures accounted for under equity method (Note 6(5))	11,521,055	1	11,976,103	1
Other losses (Note 7)	(6,077)	-	(30,887)	-
	12,674,865	1	8,467,161	1
<b>Profit before tax</b>	26,737,557	2	16,438,467	2
<b>Income tax expense (Note 6(15))</b>	(2,925,932)	-	(1,780,329)	-
<b>Profit for the year</b>	<b>23,811,625</b>	<b>2</b>	<b>14,658,138</b>	<b>2</b>
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified to profit and loss</b>				
Remeasurements effects on defined benefit plans	3,729	-	1,364	-
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for under equity accounted	(3,295)	-	9,886	-
	434	-	11,250	-
<b>Items which may be reclassified to profit and loss in subsequent periods</b>				
Foreign currency translation differences—foreign operations	(1,390,638)	-	2,715,588	-
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for under equity method	388,121	-	2,219,046	-
	(1,002,517)	-	4,934,634	-
<b>Other comprehensive income for the year, net of tax</b>	(1,002,083)	-	4,945,884	-
<b>Total comprehensive income for the year</b>	<b>\$ 22,809,542</b>	<b>2</b>	<b>\$ 19,604,022</b>	<b>2</b>
<b>Earnings per share, net of tax(Notes 6(18))</b>				
Basic earnings per share	<b>\$ 9.23</b>		<b>\$ 6.24</b>	
Diluted earnings per share	<b>\$ 9.10</b>		<b>\$ 6.17</b>	

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



(English Translations of Financial Statements Originally Issued in Chinese)  
**PEGATRON CORPORATION**  
**NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**  
(Expressed in Thousands of New Taiwan Dollars)

		Attributable to Owners of the Company											
		Share capital			Retained earnings			Other adjustments to equity					
		Common stock	Advance receipts for share capital	Capital surplus	Legal reserve	Special reserve	Retained earnings	Total	Foreign currency translation differences	Unrealized gains on available-for-sale financial assets	Deferred compensation cost	Treasury stock	Total equity
\$	23,204,545	7,210	23,211,555	63,175,819	2,458,117	3,280,485	15,405,350	21,143,952	(48,637)	79,871	(241,370)	(210,136)	107,303,794
	-	-	-	-	-	-	14,658,138	14,658,138	-	-	-	-	14,658,138
	-	-	-	-	-	-	11,250	11,250	4,836,695	97,939	-	4,934,634	4,945,884
	-	-	-	-	-	-	14,669,388	14,669,388	4,836,695	97,939	-	4,934,634	19,604,022
	-	-	-	-	955,449	-	(955,449)	-	-	-	-	-	-
	-	-	-	-	-	(3,280,485)	3,280,485	-	-	-	-	-	-
	-	-	-	-	-	-	(6,497,217)	(6,497,217)	-	-	-	-	(6,497,217)
	377,318	1,472,500	1,849,818	8,507,771	-	-	-	-	-	-	-	-	10,357,589
	-	-	-	-	9,629	-	-	-	-	-	-	-	20,132
	-	-	-	2,266,315	-	-	-	-	-	-	-	-	2,266,315
	-	-	-	16,721	-	-	-	-	-	-	-	-	16,721
	104,890	(2,010)	102,880	266,598	-	-	-	-	-	-	-	-	369,478
	(7,448)	-	(7,448)	8,738	-	-	-	-	-	-	-	(1,290)	-
	-	-	-	44,129	-	-	9,121	9,121	-	-	176,847	176,847	230,097
	23,679,105	1,477,700	25,156,805	74,295,720	3,413,566	-	25,911,678	29,325,244	4,788,058	177,810	(64,523)	4,901,345	133,670,931
	-	-	-	-	-	-	23,811,625	23,811,625	-	-	-	-	23,811,625
	-	-	-	-	-	-	434	434	(1,035,941)	33,424	-	(1,002,517)	(1,002,083)
	-	-	-	-	-	-	23,812,059	23,812,059	(1,035,941)	33,424	-	(1,002,517)	22,809,542
	-	-	-	-	1,465,814	-	(1,465,814)	-	-	-	-	-	-
	-	-	-	-	-	-	(10,509,621)	(10,509,621)	-	-	-	-	(10,509,621)
	1,946,748	(1,472,500)	474,248	2,679,408	-	-	-	-	-	-	-	-	3,153,656
	-	-	-	12,029	-	-	-	-	-	-	-	-	18,142
	-	-	-	8,885	-	-	-	-	-	-	-	6,113	8,885
	13,800	(5,200)	8,600	26,488	-	-	-	-	-	-	-	-	35,088
	(6,228)	-	(6,228)	6,748	-	-	-	-	-	-	-	(520)	-
	396,780	-	396,780	1,943,096	-	-	27,490	27,490	-	-	(1,173,854)	(1,173,854)	1,193,512
	<b>26,030,205</b>	-	<b>26,030,205</b>	<b>78,972,374</b>	<b>4,879,390</b>	-	<b>37,775,792</b>	<b>42,655,172</b>	<b>3,752,117</b>	<b>211,234</b>	<b>(1,238,377)</b>	<b>2,724,974</b>	<b>150,380,135</b>

Note 1: The directors' and supervisors' remuneration of \$85,000 and employees' bonuses of \$870,000 for the year ended December 31, 2014 had been deducted from comprehensive income for the year ended December 31, 2014. Please refer to Note 6(16) for details of earning distribution.

Note 2: The directors' remuneration of \$131,000 and employees' bonuses of \$1,325,000 for the year ended December 31, 2015 had been deducted from comprehensive income for the year ended December 31, 2015. Please refer to Note 6(16) for details of earning distribution.

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

(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION**  
**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**  
**(All Amount Expressed in Thousands of New Taiwan Dollars)**

	For the Years Ended December 31	
	2015	2014
<b>Cash flows from operating activities:</b>		
<b>Profit before tax</b>	\$ 26,737,557	16,438,467
<b>Adjustments to reconcile net income to net cash used in operating activities</b>		
Depreciation	632,216	611,252
Amortization	31,814	31,572
(Reversal of) Allowance for uncollectable accounts	(47,654)	1,680,594
Net loss on financial assets or liabilities at fair value through profit or loss	234,391	4,172,368
Interest expense	409,334	486,420
Interest income	(247,794)	(164,737)
Compensation cost arising from employee stock options	892,593	237,421
(Gain) Loss on foreign currency exchange of bonds payable	(13,748)	517,134
Amortization of issuance costs on bonds payable	254	13,782
Share of profit of subsidiaries, associates and joint ventures accounted for under equity method	(11,521,055)	(11,976,103)
Loss on disposal of property, plant and equipment	3,789	30,184
Realized profits on intercompany transactions	(10,707)	(16,005)
Loss on foreign currency exchange	352,500	295,200
	<u>(9,284,067)</u>	<u>(4,080,918)</u>
<b>Change in operating assets and liabilities</b>		
<b>Change in operating assets</b>		
Increase in financial assets reported at fair value through profit or loss	(283,462)	-
Decrease (increase) in accounts receivable	18,911,300	(36,559,730)
Decrease (increase) in other receivables	(10,687,674)	10,394,767
Decrease (increase) in inventories	(8,615,150)	3,635,037
Decrease in other financial assets	751	13,679
Decrease (increase) in other current assets	9,741	(15,397)
Increase in other non-current assets	(11,439)	-
Total changes in operating assets	<u>(675,933)</u>	<u>(22,531,644)</u>
<b>Change in operating liabilities</b>		
Increase (decrease) in notes and accounts payable	(25,748,259)	25,964,673
Increase in other payables	3,544,571	3,215,317
Increase in provisions — current	53,519	1,107
Increase (decrease) in deferred revenue	(31,403)	31,390
Increase (decrease) in other current liabilities	2,610,264	(3,339,336)
Increase in other non-current liabilities	4,433	6,283
Total changes in operating liabilities	<u>(19,566,875)</u>	<u>25,879,434</u>
Net changes in operating assets and liabilities	<u>(20,242,808)</u>	<u>3,347,790</u>
Total changes in operating assets and liabilities	<u>(29,526,875)</u>	<u>(733,128)</u>
<b>Cash provided by (used in) operating activities</b>	(2,789,318)	15,705,339
Interest received	249,351	170,635
Dividend received	6,150,000	5,220,940
Interest paid	(495,743)	(429,111)
Income taxes paid	(2,610,648)	(296,005)
<b>Net cash provided by operating activities</b>	<u>503,642</u>	<u>20,371,798</u>

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

(English Translation of Financial Report Originally Issued in Chinese)  
**PEGATRON CORPORATION**  
**NON-CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**  
**(All Amount Expressed in Thousands of New Taiwan Dollars)**

	For the Years Ended December 31	
	2015	2014
<b>Cash flows from investing activities</b>		
Acquisition of investments accounted for using equity method	(1,565,300)	(2,370,351)
Proceeds from capital reduction of investments accounted for using equity method	221,009	-
Acquisition of property, plant and equipment	(390,284)	(541,258)
Proceeds from disposal of property, plant and equipment	548	626
Decrease (increase) in other financial assets	(3,735)	5,808
Acquisition of intangible assets	(50,677)	(21,295)
<b>Net cash used in investing activities</b>	<b>(1,788,439)</b>	<b>(2,926,470)</b>
<b>Cash flows from financing activities</b>		
Increase in short-term loans	17,260,775	3,336,975
Proceeds from long-term loans	15,223,680	20,599,580
Repayments of long-term loans	(20,287,680)	(25,368,380)
Increase in other payables — related parties	-	2,043,750
Dividends paid	(10,509,621)	(6,497,217)
Employee stock options	35,088	362,154
Proceeds from issuance of restricted stock	396,780	-
Retrieve of restricted stock	(6,748)	-
<b>Net cash provided by (used in) financing activities</b>	<b>2,112,274</b>	<b>(5,523,138)</b>
Net increase in cash and cash equivalents	827,477	11,922,190
<b>Cash and cash equivalents, beginning of the year</b>	<b>31,092,242</b>	<b>19,170,052</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 31,919,719</b>	<b>31,092,242</b>

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

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**PEGATRON CORPORATION**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2015 AND 2014**

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

**1. COMPANY HISTORY**

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

The non-consolidated financial statements were authorized for issue by the Board of Directors on March 17, 2016.

**3. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED**

**(1) Impact of the 2013 version of the International Financial Reporting Standard (“IFRS”) endorsed by the Financial Supervisory Commissions R.O.C. (“FSC”)**

The Company has adopted the 2013 version of the IFRS endorsed by the FSC (excluding IFRS 9 Financial instruments) in preparing non-consolidated financial statements starting 2015.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

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

New standards and amendments	Effective date per IASB
• Amended IFRS 1 “ <i>Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i> ”	July 1, 2010
• Amended IFRS 1 “ <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ”	July 1, 2011
• Amended IFRS 1 “ <i>Government Loans</i> ”	January 1, 2013
• Amended IFRS 7 “ <i>Disclosure — Transfers of Financial Assets</i> ”	July 1, 2011
• Amended IFRS 7 “ <i>Disclosure — Offsetting Financial Assets and Financial Liabilities</i> ”	January 1, 2013
• IFRS 10 <i>Consolidated Financial Statements</i>	January 1, 2013 (Investment Entities amendments, effective 1 January 2014.)
• IFRS 11 <i>Joint Arrangements</i>	January 1, 2013
• IFRS 12 <i>Disclosure of Interests in Other Entities</i>	January 1, 2013
• IFRS 13 <i>Fair Value Measurement</i>	January 1, 2013
• Amended IAS 1 “ <i>Presentation of Items of Other Comprehensive Income</i> ”	July 1, 2012
• Amended IAS 12 “ <i>Deferred Tax: Recovery of Underlying Assets</i> ”	January 1, 2012
• Amended IAS 19 “ <i>Employee Benefits</i> ”	January 1, 2013
• Amended IAS 27 “ <i>Separate Financial Statements</i> ”	January 1, 2013
• Amended IAS 32 “ <i>Offsetting Financial Assets and Financial Liabilities</i> ”	January 1, 2014
• IFRIC 20 — <i>Stripping Costs in the Production Phase of a Surface Mine</i>	January 1, 2013

The Company has assessed that the 2013 version of the IFRS endorsed by the Financial Supervisory Commissions R.O.C. did not have significant impact on the consolidated financial statements except for the following standards and amendments:

A. IFRS 12 Disclosure of Interests in Other Entities

The Company has increased its disclosures on its interests in subsidiaries and associates in accordance with this standard.

B. IFRS 13 Fair Value Measurement

This standard defines fair value and provides a framework for measuring fair value and requires disclosures on fair value measurement. Under this standard, the Company has increased its disclosures on the measurement of fair value and postponed the adoption of the standard regarding fair value measurement during the transition period of IFRS 13.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

Comparative information need not be disclosed for periods before initial application. Despite the postponing of the adoption of the standard, there is no significant impact on the disclosures of the non-consolidated financial assets and liabilities.

C. Amendments to IAS 1 Presentation of Financial Statements

Under these amendments, the other comprehensive income section is required to present line items classified by their nature, and grouped between those items that will or will not be reclassified to profit and loss in subsequent periods. Allocation of income tax to these two groups of items of other comprehensive is also required. The Company has changed the presentation of comprehensive income statement along with its comparison periods in accordance with the standard.

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

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

New standards and amendments	Effective date per IASB
• IFRS 9 <i>Financial Instruments</i>	January 1, 2018
• Amended IAS 28 and IFRS 10 “ <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ”	Undecided
• Amended IFRS 10, 12 and IAS 28 “ <i>Investment Entities: Applying the Consolidation Exception</i> ”	January 1, 2016
• Amended IFRS 11 “ <i>Accounting for Acquisitions of Interests in Joint Operations</i> ”	January 1, 2016
• IFRS 14 <i>Regulatory Deferral Accounts</i>	January 1, 2016
• IFRS 15 <i>Revenue from Contracts with Customers</i>	January 1, 2018
• IFRS 16 <i>Leases</i>	January 1, 2019
• Amended IAS 1 “ <i>Disclosure Initiative</i> ”	January 1, 2016
• Amended IAS 7 “ <i>Disclosure Initiative</i> ”	January 1, 2017
• Amended IAS 12 “ <i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ”	January 1, 2017
• Amended IAS 16 and IAS 38 “ <i>Clarification of Acceptable Methods of Depreciation and Amortization</i> ”	January 1, 2016
• Amended IAS 16 and IAS 41 “ <i>Agriculture : Bearer Plants</i> ”	January 1, 2016
• Amended IAS 19 “ <i>Defined Benefit Plans: Employee Contributions</i> ”	July 1, 2014
• Amended IAS 27 “ <i>Equity method in separate financial statements</i> ”	January 1, 2016
• Amended IAS 36 “ <i>Recoverable Amount Disclosures for Non-Financial Assets</i> ”	January 1, 2014
• Amended IAS 39 “ <i>Novation of Derivatives and Continuation of Hedge Accounting</i> ”	January 1, 2014

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

New standards and amendments	Effective date per IASB
· 2010–2012 & 2011–2013 Annual Improvements Cycles	July 1, 2014
· 2012–2014 Annual Improvements Cycles	January 1, 2016
· Amended IFRIC 21 “Levies”	January 1, 2014

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES

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

(1) Statement of compliance

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

(2) Basis of preparation

A. 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:

- (a) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;
- (b) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- (c) The net defined benefit liability is recognized as the present value of the defined benefit less the fair value of plan assets.

B. 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.

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PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

(3) Foreign currency

A. 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:

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

B. Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the 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 in the exchange differences on translation of foreign financial statements in equity.

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



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PEGATRON CORPORATION

NOTES TO FINANCIAL STATEMENTS (CONT'D)

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, and presented in the translation reserve in equity.

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

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

(5) Cash and cash equivalents

Cash comprise cash balances and call deposits with maturities within three months. Cash equivalents are assets that are readily convertible into cash, and are subject to an insignificant risk of changes in their fair value.

Time deposits are accounted under cash and cash equivalents if they 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.

(6) Financial instruments

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

A. Financial assets

The Company classifies financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

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

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

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

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

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

(b) 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.

- i. The rights to accounts receivable have been isolated from the transferor as they are put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.
- ii. Each transferee has the right to pledge or exchange the rights to the accounts receivable, and no condition prevents the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.

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- iii. The transferor does not maintain effective control over the rights to the accounts receivable claims through either:
- An agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity, or
  - The ability to unilaterally cause the holder to return specific rights to the accounts receivable.

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

(c) Impairment of financial assets

A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a loss event) that occurred subsequent to the initial recognition of the asset and that a loss event (or events) has an impact on the future cash flows of the financial assets that can be estimated reliably.

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

Such impairment loss is not reversible in subsequent periods.

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

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

(d) 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”.

B. Financial liabilities and equity instruments

(a) 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.

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

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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.

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

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

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

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

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

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

**(c) Other financial liabilities**

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

**(d) Derecognition of financial liabilities**

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

**(e) Offsetting of financial assets and liabilities**

Financial assets and liabilities are presented on a net basis when the 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.

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(f) Financial guarantee contract

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

At initial recognition, a financial guarantee contracts not classified as financial liabilities at fair value through profit or loss by the Company is recognized at fair value, plus, any directly attributable transaction cost. Subsequent to initial recognition, 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.

C. 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.

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.



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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.

**(a) Fair value hedge**

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

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

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

**(b) Cash flow hedge**

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

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

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

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(7) Inventories

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

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

(8) Investment in associates

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

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

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

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

When the Company's share of losses exceeds its interest in associates, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

(9) 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.

(10) Property, plant and equipment

A. Recognition and measurement

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of the significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

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

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B. 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.

C. Depreciation

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

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

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

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

Buildings	3-50 years
Machine	2-6 years
Instrument equipment	1-5 years
Miscellaneous equipment	1-8 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.

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(11) Leased assets

A. Lessor

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

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

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

B. Lessee

Leases in which the 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.

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.

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.

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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:

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

(12) Intangible assets

A. Other Intangible Assets

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

B. 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.

C. Amortization

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

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Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, 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	2-5 years
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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.

(13) Impairment – Non-derivative financial assets

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

If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the 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 sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Such is deemed as an impairment loss, which is recognized immediately in profit or loss.

The 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 other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

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

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

(14) 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.

(15) Treasury stock

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

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

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

(16) Revenue

A. Goods sold

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



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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.

B. Service

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

(17) Employee benefits

A. Defined contribution plans

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

B. Defined benefit plans

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.

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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.

**C. Short-term employee benefits**

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

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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(18) 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.

(19) 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:

- A. Assets and liabilities that are initially recognized from non-business combination transactions, with no effect on net income or taxable gains (losses).

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- B. 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:

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

(20) 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.

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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.

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.

**(21) Earnings per share**

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

**(22) Operating segments**

Please refer to the consolidated financial report of Pegatron Corporation for the years ended December 31, 2015 and 2014 for operating segments information.

**5. MAJOR SOURCES OF ACCOUNTING ASSUMPTIONS, JUDGMENTS AND ESTIMATION UNCERTAINTY**

The preparation of the non-consolidated financial statements in conformity with Regulations Governing the Preparation of Financial Reports 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.

Management continuously reviews the estimates and basic assumptions. Changes in accounting estimates are recognized in the period of change.

Information on critical judgments in applying accounting policies that have the most significant effect to the amounts recognized in the non-consolidated financial statements is included in the following notes:

(1) Note 6(13), Lease classification

Information on assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next years are included in the following notes:

(1) Note 6(3), Accounts receivable impairment evaluation

(2) Note 6(4), Measurement of inventories.

(3) Note 6(15), Realizability of deferred tax assets

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6. EXPLANATIONS TO SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2015	December 31, 2014
Cash on hand	\$ 180	160
Cash in banks	25,794,124	17,512,686
Time deposits	6,125,415	13,579,396
	<u>\$ 31,919,719</u>	<u>31,092,242</u>

A. The above cash and cash equivalents were not pledged as collateral. Pledged time deposits were accounted for under other financial assets. Please refer to Notes 6(8) and 8 for details.

B. Refer to Note 6(22) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

(2) Investment in financial assets and liabilities

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

	December 31, 2015	December 31, 2014
Financial assets at fair value through profit or loss – current:		
Held-for-trading		
Beneficiary certificates	<u>\$ 288,068</u>	<u>-</u>
Financial assets carried at cost – noncurrent:		
Equity securities – common stock	<u>\$ -</u>	<u>-</u>
Financial liabilities at fair value through profit or loss – current		
Foreign convertible bonds – conversion options	\$ -	256,763
Adjustments	-	860,890
	<u>\$ -</u>	<u>1,117,653</u>

B. 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, 2015 and 2014, the Company had accumulated impairment loss thereon of \$150,000.

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- C. The convertible bond issued by the Company was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put option embedded in bonds payable were separated from bonds payable, and were recognized as “Financial liabilities at fair value through profit or loss.” For the years ended December 31, 2015 and 2014, the Company recognized a loss on financial liability reported at fair value through profit or loss of \$238,997 and \$4,172,368, respectively. Please refer to Note 6(11) for details.
- D. As of December 31, 2015 and 2014, the aforesaid financial assets were not pledged as collateral.
- E. 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	
	2015	2014
Stock Price	Net Income(net of tax)	Net Income(net of tax)
Increase by 3%	\$ 8,642	-
Decrease by 3%	\$ (8,642)	-

- F. As of December 31, 2015 and 2014, there were no significant investments in foreign equity.

(3) Accounts and other receivable, net

	December 31, 2015	December 31, 2014
Accounts receivable	\$ 88,156,453	104,906,500
Other receivables	23,581,706	12,895,589
Less: Allowance for impairment	(1,712,487)	(1,761,300)
	<u>\$ 110,025,672</u>	<u>116,040,789</u>

- A. Refer to Note 6(22) for the Company’s accounts receivable and other receivables exposure to credit risk and currency risk.



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B. As of December 31, 2015 and 2014, the Company sold its accounts receivable without recourse as follows:

December 31, 2015						
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
SMBC	\$ -	USD 300,000,000	USD -	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ -
ANZ(Note)	\$ 23,524,575	USD 1,400,000,000	USD -	None	"	\$ 23,524,575
December 31, 2014						
Purchaser	Assignment Facility	Factoring Line	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
SMBC	\$ -	USD 300,000,000	USD -	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	\$ -
ANZ(Note)	\$ 41,145,000	USD 1,300,000,000	USD 894,000,000	None	"	\$ 41,145,000

Note: In October 2015 and 2014, the Company signed a one year joint accounts receivable factoring agreement with ANZ Bank and six other banks where each bank will factor on pro-rata basis.

For the years ended December 31, 2015 and 2014, the Company recognized a loss of \$159,497 and \$202,998, respectively, from the factoring of accounts receivable, which was accounted under financial costs in the statement of comprehensive income. Also, the difference of \$23,524,575 and \$12,849,900 between the carrying value of factored accounts receivable and the amount advanced was accounted under other receivables as of December 31, 2015 and 2014, respectively.

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(4) Inventories

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Merchandise	\$ 26,745,978	18,129,325
Finished goods	129,847	26,643
Work in process	119,493	249,111
Raw materials	476,144	546,006
Subtotal	<u>27,471,462</u>	<u>18,951,085</u>
Less: Allowance for inventory market decline and obsolescence	(505,927)	(600,700)
Total	<u><u>\$ 26,965,535</u></u>	<u><u>18,350,385</u></u>

For the years ended December 31, 2015 and 2014, the components of cost of goods sold were as follows:

	<b>For the Years Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Cost of goods sold	\$ 1,020,761,918	872,959,939
(Reversal of) Provision on inventory market price decline	(94,773)	34,238
Loss on disposal of inventory	22,426	17,185
Unamortized manufacturing expenses	34,669	81,776
Loss on physical inventory	-	1,706
	<u><u>\$ 1,020,724,240</u></u>	<u><u>873,094,844</u></u>

The reversal of provision arises from destocking in 2015.

As of December 31, 2015 and 2014, the aforesaid inventories were not pledged as collateral.

(5) Investments accounted for using equity method

The Company's financial information for equity-accounted investees at reporting date was as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Subsidiary	<u><u>\$ 117,840,661</u></u>	<u><u>112,093,393</u></u>

A. Subsidiaries

Please refer to the consolidated financial report for the years ended December 31, 2015 and 2014.

B. For the years ended December 31, 2015 and 2014, the Company had participated in the capital increase of PEGATRON HOLDING LTD., and invested USD49,000 thousand (approximately NTD1,565,300) and USD69,000 thousand (approximately NTD 2,072,301), respectively.

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- C. For the years ended December 31, 2015 and 2014, the Company received cash dividend of \$6,150,000 and \$5,220,940, respectively, from its investee companies accounted for under equity method.
- D. For the years ended December 31, 2015 and 2014, the Company's shares held by its subsidiaries were treated as treasury stock as described in Note 6(16).
- E. As of December 31, 2015 and 2014, the investments in aforesaid equity-accounted investees were not pledged as collateral.

(6) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2015 and 2014 were as follows:

	Land	Building and construction	Machinery and equipment	Instrument equipment	Other facilities	Construction in progress	Total
<b>Cost or deemed cost:</b>							
Balance on January 1, 2015	\$ 2,358,521	2,239,504	44,274	329,684	555,470	-	5,527,453
Additions	-	705	996	75,143	44,825	11,823	133,492
Disposals and obsolescence	-	(3,020)	(2,047)	(136,822)	(447,465)	-	(589,354)
Reclassifications	-	-	-	-	448,628	-	448,628
Balance on December 31, 2015	<u>\$ 2,358,521</u>	<u>2,237,189</u>	<u>43,223</u>	<u>268,005</u>	<u>601,458</u>	<u>11,823</u>	<u>5,520,219</u>
Balance on January 1, 2014	\$ 2,233,032	2,271,183	48,745	314,655	729,701	-	5,597,316
Additions	125,489	-	4,765	97,132	50,358	-	277,744
Disposals and obsolescence	-	(31,679)	(9,236)	(82,103)	(622,690)	-	(745,708)
Reclassifications	-	-	-	-	398,101	-	398,101
Balance on December 31, 2014	<u>\$ 2,358,521</u>	<u>2,239,504</u>	<u>44,274</u>	<u>329,684</u>	<u>555,470</u>	<u>-</u>	<u>5,527,453</u>
<b>Depreciation and impairment loss :</b>							
Balance on January 1, 2015	\$ -	662,915	21,017	176,040	189,154	-	1,049,126
Depreciation for the year	-	55,311	6,362	91,842	478,701	-	632,216
Disposals and obsolescence	-	(3,020)	(1,719)	(134,784)	(445,494)	-	(585,017)
Balance on December 31, 2015	<u>\$ -</u>	<u>715,206</u>	<u>25,660</u>	<u>133,098</u>	<u>222,361</u>	<u>-</u>	<u>1,096,325</u>
Balance on January 1, 2014	\$ -	633,008	23,180	153,998	342,586	-	1,152,772
Depreciation for the year	-	58,684	6,921	103,021	442,626	-	611,252
Disposals and obsolescence	-	(28,777)	(9,084)	(80,979)	(596,058)	-	(714,898)
Balance on December 31, 2014	<u>\$ -</u>	<u>662,915</u>	<u>21,017</u>	<u>176,040</u>	<u>189,154</u>	<u>-</u>	<u>1,049,126</u>
<b>Carrying amounts :</b>							
Balance on December 31, 2015	<u>\$ 2,358,521</u>	<u>1,521,983</u>	<u>17,563</u>	<u>134,907</u>	<u>379,097</u>	<u>11,823</u>	<u>4,423,894</u>
Balance on December 31, 2014	<u>\$ 2,358,521</u>	<u>1,576,589</u>	<u>23,257</u>	<u>153,644</u>	<u>366,316</u>	<u>-</u>	<u>4,478,327</u>

As of December 31, 2015 and 2014, the property, plant and equipment were not pledged as collateral.

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(7) 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, 2015 and 2014 were as follows :

**Costs:**

Balance on January 1, 2015	\$	101,324
Additions		50,677
Disposals		(55,644)
Balance on December 31, 2015	\$	<u><u>96,357</u></u>
Balance on January 1, 2014	\$	113,001
Additions		21,295
Disposals		(32,972)
Balance on December 31, 2014	\$	<u><u>101,324</u></u>

**Amortization and Impairment Loss:**

Balance on January 1, 2015	\$	52,611
Amortization for the year		31,814
Disposals		(55,644)
Balance on December 31, 2015	\$	<u><u>28,781</u></u>
Balance on January 1, 2014	\$	54,011
Amortization for the year		31,572
Disposals		(32,972)
Balance on December 31, 2014	\$	<u><u>52,611</u></u>

**Carrying amounts:**

Balance on December 31, 2015	\$	<u><u>67,576</u></u>
Balance on December 31, 2014	\$	<u><u>48,713</u></u>

The amortization of intangible assets and impairment losses are respectively included in the statement of comprehensive income. Please refer to Note 12 for details.

(8) Other financial assets and other assets

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Other financial assets — current	\$ 41,390	42,141
Other financial assets — noncurrent	30,419	26,684
Other current assets	131,683	136,624
Other noncurrent assets	11,439	-
	<u><u>\$ 214,931</u></u>	<u><u>205,449</u></u>

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- A. Other financial assets are assets that do not qualify as cash and cash equivalents which consisted of time deposits with maturity period of over three months, restricted time deposits and guarantee deposit paid. Please refer to Note 8 for details.
- B. Other current assets consisted of prepayments, temporary payments and others.
- C. Other noncurrent assets consisted of prepayments for business facilities.

(9) Short-term loans

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Unsecured bank loans	\$ <b>39,225,875</b>	<b>21,965,100</b>
Unused credit line	\$ <b>32,614,464</b>	<b>41,832,735</b>
Interest rate	<b>0.70%~0.93%</b>	<b>0.60%~0.95%</b>

(10) Long-term loans

<b>December 31, 2015</b>				
	<b>Currency</b>	<b>Interest rate</b>	<b>Expiration</b>	<b>Amount</b>
Unsecured bank loans	NTD	1.5789%	2016.09~2018.09	\$ 12,000,000
Less : Arrangement fee				(12,800)
Less : Current portion				(1,375,000)
Total				<b>\$ 10,612,200</b>
Unused credit line				<b>\$ -</b>

<b>December 31, 2014</b>				
	<b>Currency</b>	<b>Interest rate</b>	<b>Expiration</b>	<b>Amount</b>
Unsecured bank loans	USD	1.2949%	2013.11~2015.11	\$ 5,064,000
Unsecured bank loans	NTD	1.5979%~1.6137%	2016.09~2018.09	12,000,000
Total				17,064,000
Less : Arrangement fee				(17,600)
Less : Current portion				(5,064,000)
Total				<b>\$ 11,982,400</b>
Unused credit line				<b>\$ -</b>

A. Securities for bank loans

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

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B. Loan covenants

- (a) On October 25, 2010, the Company signed a syndicated loan agreement with a total credit line of USD400,000 thousand. According to the Company's credit loan facility agreement with the banks, during the loan repayment periods, the Company must comply with certain financial covenants based on its audited annual and reviewed semi-annual consolidated financial statements (June 30 and December 31) as follows:
- i. Current ratio (current assets/current liabilities): should not be less than 100%.
  - ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.
  - iii. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.
  - iv. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.
  - v. Factoring line of accounts receivable factoring/ net book value of accounts receivable before derecognition: less than 50%

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

This syndicated loan agreement was due in November, 2015. The Company was in compliance with the above financial covenants as of December 31, 2014.

- (b) On August 1, 2013, the Company signed a syndicated loan agreement with a total credit line of \$12,000,000. According to the agreement, the Company must comply with the following financial covenants:
- i. Current ratio (current assets/current liabilities): should not be less than 100%.
  - ii. Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 80%.
  - iii. Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.
  - iv. Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

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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, 2015 and 2014.

(11) Bonds payable

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

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Convertible bonds issued	\$ 8,874,000	8,874,000
Unamortized discounted on bonds payable	-	(120,577)
Accumulated amount of Converted bonds	(8,874,000)	(7,069,620)
Bonds payable, end of the year	-	1,683,803
Foreign currency valuation, end of the year	-	124,427
Bonds payable, net	-	1,808,230
Less: current portion	-	(1,808,230)
	<u>\$ -</u>	<u>-</u>
Embedded derivative –conversion options, accounted under financial liabilities at fair value through profit or loss	<u>\$ -</u>	<u>1,117,653</u>
	<b>For the Years Ended December 31</b>	
	<u>2015</u>	<u>2014</u>
Embedded derivative instruments –conversion options, accounted under other gains and losses	<u>\$ 238,997</u>	<u>4,172,368</u>
Interest expense	<u>\$ (65,389)</u>	<u>39,852</u>

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The put option of the bonds payable is exercisable at three years after the first day of issue (February 6, 2015). Bonds payable of \$1,808,230 as of December 31, 2014 was classified as current liabilities for those convertible bonds whose holders bear the right to require for bond redemption within a year. Those bonds payable which are not expected to be settled within twelve months after the redemption period will reclassify as noncurrent liabilities. As of February 28, 2015, all of the convertible bonds issued in 2012 have been converted into shares. Please refer to Note 6(16) for the information on capital surplus – conversion of convertible bonds generated from the conversion.

B. The offering information on the unsecured convertible bonds was as follows:

<u>Item</u>	<u>1<sup>st</sup> overseas unsecured convertible bonds issued in 2012</u>
1. Offering amount	USD 300 million with each unit valued at USD 200 thousand.
2. Issue date	February 6, 2012
3. Listing place	Singapore Exchange Securities Trading Limited (the “SGX-ST”)
4. Interest	The Bonds will not bear any interest.
5. Issue period	5 years, commencing from February 6, 2012 and matured on February 6, 2017.
6. Settlement	Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on Maturity Date at an amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.
7. Redemption at the option of the Company	(1) The Company may redeem the Bonds, in whole but not in part, at the early redemption amount at any time on or after February 6, 2015 if the closing price of the common shares on TWSE (translated into U.S. Dollars at the fixing rate at 11:00 a.m. Taipei time as quoted by Taipei Forex Inc.) on each trading day during a period of 20 consecutive trading dates exceeds at least 125% of the quotient of the early redemption amount divided by the number of shares to be issued upon conversion of USD 200,000 principal amount of Bonds on the applicable trading day based on the conversion price then in effect (translated into U.S. Dollars at the fixed exchange rate of NT\$29.761 = USD 1.00).



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<u>Item</u>	<u>1<sup>st</sup> overseas unsecured convertible bonds issued in 2012</u>
	<p>(2) If more than 90% in principal amount of the Bonds originally outstanding has been redeemed, repurchased and cancelled or converted, the Company has the right to redeem all but not portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) The Bonds may be redeemed, in whole but not in part, if the affect of change in the tax laws of ROC will increase the Company's tax liability, interest expense or related cost from the Bonds. Holders may elect not to have their bonds redeemed with no entitlement to any additional amount of reimbursement of additional tax.</p>
8. Redemption at the option of the Holder	<p>(1) Each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds on February 6, 2015 at a redemption price equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(2) In the event that the Company's common shares ceased to be listed or admitted to trading on the TWSE, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.</p> <p>(3) In the event of change of control occurs with respect to the Company, each Holder has the right to require the Company to redeem all or any portion of the principal amount of such Holder's Bonds at the early redemption amount.</p>
9. Conversion	<p>(1) Conversion period</p> <p>Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, each Holder of the Bonds will have the right at any time during the conversion period commencing March 18, 2012 (the 41<sup>st</sup> day following the Closing Date) and ending at the close of business on January 27, 2017 (the 10<sup>th</sup> day prior to the Maturity Date), to convert their bonds.</p> <p>(2) Conversion price</p> <p>The conversion price was NT\$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012.</p>

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<u>Item</u>	<u>1<sup>st</sup> overseas unsecured convertible bonds issued in 2012</u>
	However, upon the issuance of restricted Company shares of stock to employees, the conversion price has been adjusted to NT\$40.11 per share effective October 7, 2013. The conversion price has been adjusted to NT\$38.28 per share effective September 15, 2014 due to the distribution of cash dividends in 2014.
	(3) Conversion to common shares
	Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT\$29.761 = USD 1.00) divided by the conversion price on the conversion date.

(12) Provisions

	<u>Allowance for sales returns and discounts</u>
Balance on January 1, 2015	\$ 64,030
Provisions made during the period	53,519
Balance on December 31, 2015	<u>\$ 117,549</u>
Balance on January 1, 2014	\$ 62,923
Provisions made during the period	1,107
Balance on December 31, 2014	<u>\$ 64,030</u>

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.

(13) Operating leases

A. Leasee

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Less than one year	\$ 95,461	105,523
Between one and five years	109,248	70,329
	<u>\$ 204,709</u>	<u>175,852</u>

The Company leases a number of office, warehouse, and parking lots under operating leases. The leases typically run for a period of 1 to 4 years, with an option to renew the lease after that date.

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For the years ended December 31, 2015 and 2014, expenses recognized in profit or losses in respect of operating leases were as follows:

	For the years Ended December 31	
	2015	2014
Cost of sales	\$ 13,780	518
Operating expenses	118,670	117,365
	<u>\$ 132,450</u>	<u>117,883</u>

(14) Employee benefits

A. Defined benefit plans

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

	December 31, 2015	December 31, 2014
Present value of defined benefit obligations	\$ 28,606	27,988
Fair value of plan assets	(8,756)	(8,040)
Net defined benefit liabilities	<u>\$ 19,850</u>	<u>19,948</u>

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.

(a) 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.

The Company's contributions to the pension funds 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.

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(b) 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, 2015 and 2014 were as follows:

	For the Years Ended December 31	
	2015	2014
Defined benefit obligation, January 1	\$ 27,988	25,267
Current service costs and interest	4,319	4,066
Re-measurement of the net defined benefit liability		
Actuarial gains (losses) arose from changes in demographic assumptions	(251)	1,286
Actuarial gains (losses) arose from changes in financial assumption	1,738	(1,737)
Experience adjustment	(5,188)	(894)
Defined benefit obligation, December 31	<u>\$ 28,606</u>	<u>27,988</u>

(c) 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, 2015 and 2014 were as follows:

	For the Years Ended December 31	
	2015	2014
Fair value of plan assets, January 1	\$ 8,040	7,305
Interests revenue	181	146
Re-measurement of the net defined benefit liability		
Experience adjustment	28	19
Benefits paid by the plan	507	570
Fair value of plan assets, December 31	<u>\$ 8,756</u>	<u>8,040</u>

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(d) Expenses recognized in profit or loss

The Company's pension expenses recognized in profit or loss for the years ended December 31, 2015 and 2014 were as follows:

	For the Years Ended December 31	
	2015	2014
Current service cost	\$ 3,689	3,561
Net interest on net defined benefit liability	449	359
	<b>\$ 4,138</b>	<b>3,920</b>
Operating Expense	<b>\$ 4,138</b>	<b>3,920</b>

(e) 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, 2015 and 2014 were as follows:

	For the Years Ended December 31	
	2015	2014
Cumulative amount, January 1	\$ 169	(1,195)
Recognized during the year	3,729	1,364
Cumulative amount, December 31	<b>\$ 3,898</b>	<b>169</b>

(f) Actuarial assumptions

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

	December 31, 2015	December 31, 2014
Discount rate	2.00%	2.25%
Future salary increases	3.00%	3.00%

Based on the actuarial report, the Company is expected to make a contribution payment of \$506 to the defined benefit plans for the one year period after the reporting date.

The weighted-average duration of the defined benefit plans is 25 years.

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(g) Sensitivity Analysis

In determining the present value of the defined benefit obligation, the Company's management makes judgments and estimates in determining certain actuarial assumptions on the balance sheet date, which includes employee turnover rate and future salary changes. Changes in actuarial assumptions may have significant impact on the amount of defined benefit obligation.

As of December 31, 2015 and 2014, the changes in the principal actuarial assumptions will impact the present value of defined benefit obligation as follows:

	<b>Impact on the present value of defined benefit obligation</b>	
	<b>Increase by 0.50%</b>	<b>Decrease by 0.50%</b>
December 31, 2015		
Discount	(3,329)	3,803
Future salary increase	3,744	(3,314)
December 31, 2014		
Discount	(3,228)	3,687
Future salary increase	3,639	3,221

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.

B. 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, 2015 and 2014 amounted to \$290,303 and \$258,491, respectively.

C. Short-term employee benefits

The Company's short-term employee benefit liabilities amounted to \$98,611 and \$89,184 as of December 31, 2015 and 2014, respectively.

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(15) Taxes

- A. The components of income tax expense for the years ended December 31, 2015 and 2014 were as follows:

	For the Years Ended December 31	
	2015	2014
Current income tax expense		
Currently incurred	\$ 2,718,105	1,439,672
Adjustment to prior year's income tax charged to current income tax	28,559	(180,311)
10% surtax on undistributed earnings	270,307	540,166
Deferred tax expense		
The origination and reversal of temporary differences	(91,039)	(19,198)
Income tax expense	<u>\$ 2,925,932</u>	<u>1,780,329</u>

- B. Income tax calculated on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2015 and 2014 as follows :

	For the Years Ended December 31	
	2015	2014
Profit before income tax	\$ 26,737,557	16,438,467
Income tax on pre-tax financial income calculated at the domestic rate	4,545,385	2,794,539
Permanents differences	(773,891)	(64,440)
Change of unrecognized temporary differences	(1,144,059)	(1,262,195)
Prior years income tax adjustment	28,559	(180,311)
10% surtax on undistributed earnings	270,307	540,166
Others	(369)	(47,430)
Income tax expense	<u>\$ 2,925,932</u>	<u>1,780,329</u>

- C. Deferred tax assets and liabilities

- (a) Unrecognized deferred tax liabilities

As of December 31, 2015 and 2014, 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.

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The related amounts were as follows:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
The aggregate temporary differences associated with investments in subsidiaries	\$ <u>21,919,380</u>	<u>15,189,625</u>
Unrecognized deferred tax liabilities	\$ <u>3,726,295</u>	<u>2,582,236</u>

(b) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2015 and 2014 were as follows:

	<u>Gain on foreign investments</u>	<u>Convertible bonds</u>	<u>Others</u>	<u>Total</u>
<b>Deferred tax liabilities:</b>				
Balance, January 1, 2015	\$ 225,261	(19,816)	-	205,445
Recognized in loss	-	19,816	-	19,816
Balance, December 31, 2015	\$ <u>225,261</u>	<u>-</u>	<u>-</u>	<u>225,261</u>
Balance, January 1, 2014	\$ 225,261	(7,864)	-	217,397
Recognized in profit	-	(11,952)	-	(11,952)
Balance, December 31, 2014	\$ <u>225,261</u>	<u>(19,816)</u>	<u>-</u>	<u>205,445</u>
<b>Deferred tax assets:</b>				
	<u>Gain or loss on valuation of Inventory</u>	<u>Convertible bonds</u>	<u>Others</u>	<u>Total</u>
Balance, January 1, 2015	\$ 102,119	11,502	66,684	180,305
Recognized in profit (loss)	(16,111)	(11,502)	138,468	110,855
Balance, December 31, 2015	\$ <u>86,008</u>	<u>-</u>	<u>205,152</u>	<u>291,160</u>
Balance, January 1, 2014	\$ 96,298	43,578	33,183	173,059
Recognized in profit (loss)	5,821	(32,076)	33,501	7,246
Balance, December 31, 2014	\$ <u>102,119</u>	<u>11,502</u>	<u>66,684</u>	<u>180,305</u>

D. Status of approval of income tax

The Company's income tax returns through 2013 have been assessed and approved by the Tax Authority. However, the income tax return for 2012 is still under review by the Tax Authority.



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

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Stockholders' imputation tax credit account	\$ <u>3,296,778</u>	<u>1,457,733</u>
	<b>2015 (Expect)</b>	<b>2014 (Actual)</b>
Tax deduction ratio for earnings distributable to R.O.C. residents	<u>13.83%</u>	<u>12.49%</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.

(16) Share capital and other interests

As of December 31, 2015 and 2014, 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 2,603,020 and 2,367,911 thousand common shares, respectively, and the capital that rose from the shares had all been retrieved.

A. Nominal ordinary shares

The movements in ordinary shares of stock outstanding for the years ended December 31, 2015 and 2014 were as follows:

	<b>For the Years Ended December 31</b>	
Ordinary Shares (In thousands of shares)	<b>2015</b>	<b>2014</b>
Beginning balance, January 1	2,367,911	2,320,435
(Expiration of) Restricted stock issued to employees	39,055	(745)
Exercise of employee stock options	1,380	10,489
From conversion of convertible bonds	194,674	37,732
Ending balance, December 31	<u>2,603,020</u>	<u>2,367,911</u>

In 2015, the Company issued 39,678 thousand shares of employee restricted stock. New common shares of stock totaling 860 and 47,424 thousand shares, respectively, were issued from the exercise of employee stock options and conversion of convertible bonds. For the year ended December 31, 2014, new common shares of stock totaling 10,288 and 184,982 were issued from the exercise of employee stock options and conversion of convertible

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bonds, of which 520 and 147,250 thousand shares, respectively, were accounted under advance receipts as the registration procedures were yet to be completed. For the years ended December 31, 2015 and 2014, the Company had retired 623 and 745 thousand shares, respectively, of restricted stock to employees. Therefore, the authorized capital of the Company consisted of both 3,000,000 thousand shares, with par value of \$10 per share, and its outstanding capital consisted of 2,603,020 and 2,367,911 thousand common shares of stock, as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, the restricted Company shares of stock issued to employees have expired, of which 259 and 207 thousand shares, respectively, have not been retired.

**B. Global depositary receipts**

ASUSTeK GDR 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, 2015 and 2014, the Company has listed, in total, 5,994 and 6,589 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 29,969 and 32,946 thousand shares of stock, respectively. Major terms and conditions for GDRs were as follows:

**(a) 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.

**(b) 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.

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C. Capital surplus

The components of the capital surplus were as follows:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
From issuance of share capital	\$ 62,284,056	62,023,550
From conversion of convertible bonds	11,187,179	8,507,771
From treasury stock-transactions	108,582	96,553
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,383,056	2,383,056
Changes in ownership interest in subsidiaries	738,737	729,852
Employee share options	1,304	13,171
Restricted stock to employees	1,859,543	131,850
Other	409,917	409,917
	<b><u>\$ 78,972,374</u></b>	<b><u>74,295,720</u></b>

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.

D. 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, is distributed as follows:

- (a) No less than 10% as employees' bonuses which are distributable in cash or shares of stock. In the event that the employee bonus is distributed in the form of shares of stock, employees qualifying for such distribution may include the employees of subsidiaries of the Company who meet certain specific requirements. Such qualified employees and distribution ratio are decided by the Board of Directors.
- (b) Up to 1% as remuneration to directors.
- (c) The remaining earnings, if any, may be appropriated according to a resolution of a stockholders' meeting.

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In order to bring about stability in the payment of dividends, the Company distributes dividends depending on the level of earnings of each year. The Company is facing a rapidly changing industrial environment. In consideration of the Company's long-term operating plan and funding needs, the Company adopts a stable dividends policy. Therefore, the Company distributes cash dividends of at least 10% of the aggregate dividends, if the distributions include cash dividends.

In accordance with the amended Companies Act of 2015, employee bonuses and directors and supervisors' remuneration are no longer distributed from earnings. The Company will amend its Articles of Incorporation on this regard before the date prescribed by the Authority.

(a) Legal reserve

In accordance with the Amended Companies Act 2012, 10 percent of net income is set aside as legal reserve, until it is equal to share capital. If the Company incurred profit for the year, the meeting of shareholders decides 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.

(b) Special reserve

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

(c) Earnings Distribution

For the year ended December 31, 2014, employee bonuses and directors' remuneration of \$1,325,000 and \$131,000, respectively, were estimated and recognized as current expense. These amounts were calculated using the Company's net profit for the year ended December 31, 2014, and were determined according to the earnings allocation method, priority and factor for employee benefits and key management personnel compensation as stated under the Articles of Association. These benefits were charged to profit or loss under operating costs or operating expenses for the year ended December 31, 2014.

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On June 15, 2015 and June 18, 2014, the Company's shareholders' meeting resolved to appropriate the 2014 and 2013 earnings. These earnings were distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

	<u>2014</u>	<u>2013</u>
Common stock dividends per share (dollars)		
— Cash	\$ <u>4.10</u>	<u>2.80</u>
Employee bonus — Cash	\$ 1,325,000	870,000
Remuneration to directors and supervisors	131,000	85,000
Total	\$ <u>1,456,000</u>	<u>955,000</u>

The 2014 and 2013 earnings approved for distribution agreed with those accrued in the financial statements for the years ended December 31, 2014 and 2013.

Related information of distributions of employee bonus and remuneration to directors and supervisors can be accessed from the Market Observation Post System on the web site.

E. Treasury stock

Company shares of stock that are owned by the Company's subsidiaries are treated as treasury stock. As of December 31, 2015 and 2014, the Company's shares held by its subsidiaries were 0 and 553 thousand shares, amounting to \$0 and \$40,369 at fair value.

F. Other equity accounts (net of tax)

	<u>Exchange differences on translation of foreign financial statements</u>	<u>Available-for- sale investments</u>	<u>Deferred compensation arising from issuance of restricted stock</u>	<u>Total</u>
Balance, January 1, 2015	\$ 4,788,058	177,810	(64,523)	4,901,345
Exchange differences on foreign operation	(1,390,638)	-	-	(1,390,638)
Exchange differences on subsidiaries and associates accounted for using equity method	354,697	-	-	354,697
Unrealized gains (losses) on available-for-sale financial assets of subsidiaries and associates accounted for using equity method	-	33,424	-	33,424
Deferred compensation cost	-	-	(1,173,854)	(1,173,854)
Balance, December 31, 2015	\$ <u>3,752,117</u>	<u>211,234</u>	<u>(1,238,377)</u>	<u>2,724,974</u>

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	Exchange differences on translation of foreign financial statements	Available-for-sale investments	Deferred compensation arising from issuance of restricted stock	Total
Balance, January 1, 2014	\$ (48,637)	79,871	(241,370)	(210,136)
Exchange differences on foreign operation	2,715,588	-	-	2,715,588
Exchange differences on subsidiaries and associates accounted for using equity method	2,121,107	-	-	2,121,107
Unrealized gains (losses) on available-for-sale financial assets of subsidiaries and associates accounted for using equity method	-	97,939	-	97,939
Deferred compensation cost	-	-	176,847	176,847
Balance, December 31, 2014	<u>\$ 4,788,058</u>	<u>177,810</u>	<u>(64,523)</u>	<u>4,901,345</u>

(17) Share-based payment

Information on share-based payment transactions as of December 31, 2015 and 2014 was as follows:

**Equity-settled share-based payment**

**Restricted stock to employee**

	Issued in		
	2014	2013	2012
Thousand units granted	40,000	6,062	34,167
Contractual life	3 years	3 years	3 years
Vesting period	Note A	Note B	Note B
Actual turnover rate of employees	1.57%	5.41%	9.27%
Estimated future turnover rate for each or the three years of employees	10.48% , 20.18%, 34.36%	10.94% , 25.07%, 33.76%	14.28%, 22.84%, 28.85%

**Employee stock option**

	Issued in	
	2012	2011
Thousand units granted	8,053	40,679
Contractual life	3 years	3 years
Vesting period	2 years	2 years
Actual turnover rate of employees	21.67%	-
Estimated future turnover rate of employees	19.01%	19.88%

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<u>Cash-settled share-based payment Stock appreciation rights plan</u>	<u>Issued in 2012</u>
Thousand units granted	Note C
Contractual life	07/01/2013~06/30/2014
Vesting period	1.25 years
Actual turnover rate of employees	-
Estimated future turnover rate of employees	8.97%

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.

Note C: The option will be granted only if the earnings per share target be reached.

On April 14, 2011, the Company obtained the approval from the Financial Supervisory Commission and issued 50,000 units of Employee Stock Options with an exercisable right of 1,000 shares of the Company's common shares of stock per unit. For these employee stock options, the Company will issue its own new common shares on settlement, and the exercise price of all stock options shall be equal to the closing price of the Company's common stock at grant date. The expected life of the stock options is estimated to be 3 years, and stock option granted to an employee is not transferable to any person. If the exercise period expires, the employee forfeits his/her right to exercise the option and purchase the shares. Except for the forfeiture of vested options, all stock options shall vest from the second year of the grant date, and the employees should exercise the right to apply for shares against the stock option vested in them pursuant to the stock option plan.

On October 19, 2012, the Company obtained the approval from the Financial Supervisory Commission to issue restricted Company shares of stock to employees for up to a limited number of 40,000 thousand shares. On grant date of November 9, 2012, the Board of Directors approved the list of eligible employees and resolved to issue 34,167 thousand shares effective December 20, 2012. The actual number of newly issued shares was 33,938 thousand shares with a par value of \$10 per share. The procedure for the registration of change of capital stock has been completed. Unless the vesting conditions have elapsed, 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.

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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 \$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 December 9, 2014, the Company obtained the approval from the Financial Supervisory Commission to issue restricted Company shares of stock to employees for up to a limited number of 40,000 thousand shares. On grant date of May 7, 2015, the Board of Directors approved the list of eligible employees and resolved to issue 40,000 thousand shares effective July 1, 2015. The actual number of newly issued shares was 39,678 thousand shares with a par value of \$10 per share. The procedure for the registration of change of capital stock has been completed. Unless the vesting conditions have elapsed, 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.

In order to encourage employees to stay and contribute their skills to the Company, the Board of Directors resolved on March 19, 2012 to issue 30,000 thousand units of Employee Stock Appreciation Rights. The Company will pay the stock appreciation rights as employee bonus in cash based on the difference between the base price and the settlement price of the stock appreciation right where the base price on settlement of the right is the closing price of the Company's common stock on grant date, and the settlement price is the closing price of the Company's common share on exercise date.

The compensation cost from the cash-settled stock appreciation right was \$0 for the year ended December 31, 2014 because the stock appreciation right remains unvested as of December 31, 2014.



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A. 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		
	2014	2013	2012
Fair value at grant date	05/07/2015	08/12/2013	11/09/2012
Share price at grant date	\$ 91.90	45.20	39.45
Exercise price (Note A)	10.00	10.00	10.00
Expected life of the option	3 years	3 years	3 years
Current market price	91.90	45.20	39.45
Expected volatility	33.37%	32.68%	38.49%
Expected dividend yield rate (Note A)	- %	- %	- %
Risk-free interest rate	(Note B)	(Note C)	(Note D)

**Employee stock option**

	Issued in	
	2012	2011
Fair value at grant date	04/02/2012	07/01/2011
Share price at grant date	44.85	30.00
Exercise price (Note A)	44.85	30.00
Expected life of the option	3 years	3 years
Current market price	44.85	30.00
Expected volatility	44.41%	37.0531%
Expected dividend yield rate (Note A)	-%	-%
Risk-free interest rate	0.95%	1.0838%

**Cash-settled share-based payment**

**Restricted stock to employee**

	Issued in
	2012
Fair value at grant date	04/02/2012
Share price at grant date	N/A
Exercise price (Note A)	N/A
Expected life of the option	07/01/2013~06/30/2014
Current market price	-
Expected volatility	40.12%
Expected dividend yield rate (Note A)	- %
Risk-free interest rate	1.355%

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Note A: After the issuance of the employee stock options, if the Company increases its capital through the surplus and/or capital reserve, the exercise price will be adjusted accordingly. Therefore, the expected dividend yield rate is excluded in calculating the fair value of the stock option.

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.

Note D: The risk-free interest rate is 0.6953% for the 1st year, 0.7363% for the 2nd year, and 0.7873% for the 3rd year.

B. Restricted stock to employee

For the year ended December 31, 2015, the Company issued restricted shares of stock to employees of 39,678 thousand shares, which resulted in a capital surplus — restricted employee stock of \$1,894,333. Also, for the years ended December 31, 2015 and 2014, 675 and 874 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$6,748 and \$8,738, respectively. As of December 31, 2015 and 2014, the Company has deferred compensation cost arising from issuance of restricted stock of \$1,238,377 and \$64,523, respectively.

For the years ended December 31, 2015 and 2014, the Company recognized salary cost of \$27,490 and \$9,121 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.

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C. Employee stock options

Information on aforesaid employee stock options was as follows:

(a) For the year ended December 31, 2015

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

(b) For the year ended December 31, 2014

	<b>Issued in 2012</b>	
	<b>Number of Exercisable Thousand Shares</b>	<b>Weighted-average Exercise Price</b>
Balance, beginning of the period	6,501 \$	42.67
Granted	-	-
Exercised	(4,762)	42.67
Exercised	(686)	40.80
Forfeited	(181)	-
Expired	-	-
Balance, end of the period	<b>872</b>	40.80
Exercisable, end of the period	<b>863</b>	
Weighted-average fair value of options granted	<b>13.8</b>	

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	<b>Issued in 2012</b>	
	<b>Number of Exercisable Thousand Shares</b>	<b>Weighted-average Exercise Price</b>
Exercise price of share option outstanding, end of the period	<b>40.80</b>	
Remaining contractual life	<b>0.25</b>	
Expenses incurred on share-based payment transactions	<b>8,462</b>	

	<b>Issued in 2011</b>	
	<b>Number of Exercisable Thousand Shares</b>	<b>Weighted-average Exercise Price</b>
Balance, beginning of the period	5,050	27.06
Granted	-	-
Exercised	(4,840)	27.06
Forfeited	(66)	-
Expired	(144)	-
Balance, end of the period	-	-
Exercisable, end of the period	-	-
Weighted-average fair value of options granted	<b>7.9</b>	
Exercise price of share option outstanding, end of the period	-	
Remaining contractual life	-	
Expenses incurred on share-based payment transactions	<b>(1,138)</b>	

D. Expenses resulted from share-based payments

The Company incurred expenses from share-based payments transactions for the years ended December 31, 2015 and 2014 as follows:

	<b>For the Years Ended December 31</b>	
	<b>2015</b>	<b>2014</b>
Expenses resulting from issuance of restricted stock to employees	\$ 892,593	230,097
Expenses arising from granting of employee share options(including granted by the company to subsidiaries)	-	7,324
Total	<b>\$ 892,593</b>	<b>237,421</b>

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(18) Earnings per share

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

	For the Years Ended December 31	
	2015	2014
<b>Basic earnings per share</b>		
Profit attributable to ordinary shareholders	\$ 23,811,625	14,658,138
Weighted-average number of ordinary shares	2,581,005	2,348,719
	<u>\$ 9.23</u>	<u>6.24</u>
<b>Diluted earnings per share</b>		
Profit attributable to ordinary shareholders (diluted)	\$ 23,811,625	14,658,138
Weighted-average number of ordinary shares	2,581,005	2,348,719
Effect of potentially dilutive ordinary shares		
Employee stock bonus	36,082	25,528
Employee stock option	-	337
Weighted-average number of ordinary shares (diluted)	2,617,087	2,374,584
	<u>\$ 9.10</u>	<u>6.17</u>

For the years ended December 31, 2015 and 2014, convertible bonds of \$230,562 and \$4,360,446, respectively, were not included in the calculation of weighted-average number of shares, due to its anti-dilutive impact on earnings per share.

(19) Revenue

	For the Years Ended December 31	
	2015	2014
Sale of goods	\$ 1,033,512,435	878,000,008
Others	19,923,387	19,963,580
	<u>\$ 1,053,435,822</u>	<u>897,963,588</u>

(20) Remuneration of employees and directors

Based on the amended Company's Articles of Incorporation which have been approved by the Board of Directors but have not been approved by the shareholders' meeting, remuneration of employees and directors are appropriated at the rate of at least 7% and no more than 0.7% of profit before tax, respectively. The Company should offset prior years' accumulated deficit before any appropriation of profit. Employees of subsidiaries may also be entitled to the employee remuneration of the Company, which can be settled in the form of cash or stock.

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For the year ended December 31, 2015, remuneration of employees and directors of \$2,072,000 and \$203,000, respectively, were estimated and recognized as current expense. These amounts were calculated using the Company's profit before tax before remuneration of employees and directors for the year ended December 31, 2015. These benefits were charged to profit or loss under operating costs or operating expenses for the year ended December 31, 2015. Management is expecting that the differences, if any, between the amounts which are yet to be approved in the shareholders' meeting and those recognized in the financial statements will be treated as changes in accounting estimates and charged to profit or loss.

Related information of distributions of remuneration to employees and directors can be accessed from the Market Observation Post System on the web site.

(21) Non-operation income and expenses

A. Other income

	For the Years Ended December 31	
	2015	2014
Interest income	\$ 247,794	164,737
Rental income	66,228	57,739
Technical service income	235,748	219,823
Other income	383,066	156,974
	<u>\$ 932,836</u>	<u>599,273</u>

B. Other gains and losses

	For the Years Ended December 31	
	2015	2014
Loss on disposal of property, plant and equipment	\$ (441)	(385)
Foreign exchange gains	996,331	797,885
Gain on reversal of uncollectable account	47,654	-
Net losses on evaluation of financial assets (liabilities) measured at fair value through profit or loss	(234,391)	(4,172,368)
	<u>\$ 809,153</u>	<u>(3,374,868)</u>

C. Finance costs

	For the Years Ended December 31	
	2015	2014
Interest expenses	\$ 409,334	486,420
Finance expense – bank fees	172,768	216,040
	<u>\$ 582,102</u>	<u>702,460</u>

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(22) Financial instruments

A. Credit risk

(a) Exposure to credit risk

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

(b) Credit risk concentrations

As of December 31, 2015 and 2014, the accounts receivable from the Company's top three customers amounted to \$135,339,244 and \$165,298,716, representing 57% and 65% of accounts receivable, respectively, which exposes the Company to credit risk.

(c) Impairment losses

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Not past due	\$ 255,432,473	263,999,211
Past due 0 - 30 days	1,916,133	2,090,426
Past due 31 - 120 days	970,712	382,288
Past due 121 - 365 days	5,319	101,601
Past due more than 1 year	1,644,997	1,622,450
	<u>\$ 259,969,634</u>	<u>268,195,976</u>

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

	<u>Individually assessed impairment</u>	<u>Collectively assessed impairment</u>	<u>Total</u>
Balance on January 1, 2015	\$ -	1,761,300	1,761,300
Written off unrecoverable amount	-	(1,159)	(1,159)
Reversal of uncollectable account	-	(47,654)	(47,654)
Balance on December 31, 2015	<u>\$ -</u>	<u>1,712,487</u>	<u>1,712,487</u>
Balance on January 1, 2014	\$ -	80,706	80,706
Impairment loss	-	1,680,594	1,680,594
Balance on December 31, 2014	<u>\$ -</u>	<u>1,761,300</u>	<u>1,761,300</u>

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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. There's no significant impairment on accounts receivable for the year ended December 31, 2015.

B. 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>
<b>December 31, 2015</b>					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 51,225,875	51,225,875	40,600,875	2,750,000	7,875,000
Non-interest bearing liabilities	<u>222,499,400</u>	<u>222,499,400</u>	<u>222,499,400</u>	<u>-</u>	<u>-</u>
	<u><b>\$ 273,725,275</b></u>	<u><b>273,725,275</b></u>	<u><b>263,100,275</b></u>	<u><b>2,750,000</b></u>	<u><b>7,875,000</b></u>
<b>December 31, 2014</b>					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 39,029,100	39,029,100	27,029,100	-	12,000,000
Unsecured bonds	1,808,230	1,808,230	1,808,230	-	-
Non-interest bearing liabilities	243,915,783	243,915,783	243,915,783	-	-
Derivative financial liabilities					
Overseas convertible bonds — conversion options	1,117,653	1,117,653	1,117,653	-	-
	<u><b>\$ 285,870,766</b></u>	<u><b>285,870,766</b></u>	<u><b>273,870,766</b></u>	<u><b>-</b></u>	<u><b>12,000,000</b></u>



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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.

C. Currency risk

(a) 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)

	December 31, 2015			December 31, 2014		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial assets						
<u>Monetary items</u>						
USD	7,870,701	32.825	258,355,760	8,577,700	31.650	271,484,205
Financial liabilities						
<u>Monetary items</u>						
USD	7,423,796	32.825	243,686,104	8,112,727	31.650	256,767,810

(b) 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, accounts payable, bonds 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, 2015 and 2014 would have decreased the before-tax net income by \$146,697 and \$147,164, respectively. The analysis is performed on the same basis for both periods.

(c) 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, 2015 and 2014, the foreign exchange gain, including both realized and unrealized, amounted to \$996,331 and \$797,885, respectively.

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D. Interest rate analysis

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

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

For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date. The 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.

If the interest rate increases / decreases by 1%, the Company's net income will decrease /increase by \$99,600 and \$141,631 for the years ended December 31, 2015 and 2014, respectively, assuming all other variable factors remain constant. This is mainly due to the Company's variable rate borrowing.

E. Fair value of financial instruments

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

(a) Categories of financial instruments

<b>Financial Assets</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Financial assets at fair value through profit or loss		
Held-for-trading non-derivative financial assets	\$ 288,068	-
Financial assets carried at cost	-	-
Deposits and receivables		
Cash and cash equivalents	31,919,719	31,092,242
Accounts and other receivables	258,257,147	266,434,676
Other financial assets	71,809	68,825
Sub-total	290,248,675	297,595,743
	<b>\$ 290,536,743</b>	<b>297,595,743</b>

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<b>Financial liabilities</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Financial liabilities at fair value through profit or loss		
Financial liabilities designated as at fair value through profit or loss	\$ -	1,117,653
Financial liabilities carried at amortized cost		
Short-term loans	39,225,875	21,965,100
Notes, accounts and other payables	222,499,400	243,915,783
Bonds payable (including current portion)	-	1,808,230
Long-term borrowings (including current portion)	11,987,200	17,046,400
Guarantee deposit (recognized in other noncurrent liabilities)	16,065	15,264
Sub-total	<u>273,728,540</u>	<u>284,750,777</u>
	<u>\$ 273,728,540</u>	<u>285,868,430</u>

(b) Fair value hierarchy

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

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

	<b>Book Value</b>	<b>Fair Value</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>December 31, 2015</b>					
Financial assets designated as at fair value through profit or loss					
Held-for-trading non-derivative financial assets	\$ <u>288,068</u>	<u>288,068</u>	<u>-</u>	<u>-</u>	<u>288,068</u>

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	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>December 31, 2014</b>					
Financial liabilities designated as at fair value through profit or loss					
Overseas convertible bonds – conversion options	\$ <u>1,117,653</u>	<u>-</u>	<u>1,117,653</u>	<u>-</u>	<u>1,117,653</u>

There have been no transfers from each level for the years ended December 31, 2015 and 2014.

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

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

(i) Financial assets measured at amortized cost

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

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

(i) Non-derivative financial instruments

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

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

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

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

(ii) Derivative financial instruments

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

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

F. 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:

2015.12.31						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		Net amounts (e)=(c)-(d)
				Financial Instruments	Cash collected as pledge	
Accounts Receivable and Payable	\$ 98,610,444	78,206,796	20,403,648	-	-	20,403,648

2015.12.31						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		Net amounts (e)=(c)-(d)
				Financial Instruments	Cash collected as pledge	
Accounts Receivable and Payable	\$ 78,206,796	78,206,796	-	-	-	-

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2014.12.31

Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		Net amounts (e)=(c)-(d)
				Financial Instruments	Cash collected as pledge	
Accounts Receivable and Payable	\$ 88,896,418	65,236,682	23,659,736	-	-	23,659,736

2014.12.31

Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		Net amounts (e)=(c)-(d)
				Financial Instruments	Cash collected as pledge	
Accounts Receivable and Payable	\$ 65,236,682	65,236,682	-	-	-	-

(23) Financial risk management

A. 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.

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

B. Risk management framework

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

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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.

C. 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.

(a) 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.

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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.

**(b) 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.

**(c) Guarantees**

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

**D. 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.



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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.

E. Market risk

Market risk is a risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the 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.

(a) 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.

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(b) 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.

(c) 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.

(24) 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:

	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Total liabilities	\$ 289,888,556	299,212,559
Less: cash and cash equivalents	31,919,719	31,092,242
Net debt	<b>\$ 257,968,837</b>	<b>268,120,317</b>
Total capital (Note)	<b>\$ 408,348,972</b>	<b>401,791,248</b>
Debt to equity ratio	<b>63.17%</b>	<b>66.73%</b>

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, 2015.

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(25) Non-cash transactions of financing activity

For the years ended December 31, 2015 and 2014, non-cash financing activity of the Company was as follows:

Convertible bonds payable converted into ordinary shares. Please refer to Note 6(11) for details.

7. RELATED PARTY TRANSACTIONS

(1) List of subsidiaries :

Subsidiary	Shareholding ratio	
	2015.12.31	2014.12.31
ABILITY ENTERPRISE CO., LTD.	11.72%	11.68%
UNIHAN HOLIDNG LTD.	100.00%	100.00%
AZUREWAVE TECHNOLOGY CO., LTD.	38.08%	38.08%
AMA PRECISION INC.	100.00%	100.00%
PEGATRON HOLLAND HOLDING B.V.	100.00%	100.00%
PEGATRON HOLDING LTD.	100.00%	100.00%
ASUSPOWER INVESTMENT CO., LTD.	100.00%	100.00%
ASUS INVESTMENT CO., LTD.	100.00%	100.00%
ASUSTEK INVESTMENT CO., LTD.	100.00%	100.00%
PEGATRON USA, INC.	100.00%	100.00%

(2) The ultimate parent company

The Company is the ultimate parent company.

(3) Significant Transactions with related parties

A. Sale of Goods and Services to Related Parties

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

	Sales		Receivables from Related Parties	
	2015	2014	December 31, 2015	December 31, 2014
Subsidiaries	<u>\$ 6,385,614</u>	<u>7,048,092</u>	<u>148,231,475</u>	<u>150,393,887</u>

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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.

B. 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>2015</u>	<u>2014</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Subsidiaries	\$ 170,611,734	192,760,657	98,029,200	114,129,456
Others	61,185	434,515	10,171	11,756
	<u>\$ 170,672,919</u>	<u>193,195,172</u>	<u>98,039,371</u>	<u>114,141,212</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.

C. Warranty repair expense paid to Related Parties

	<u>For the Years Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Subsidiaries	\$ <u>123,237</u>	<u>239,119</u>

D. Other income and expenses from Related Parties

	<u>For the Years Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Subsidiaries	\$ <u>16,224</u>	<u>12,384</u>

E. Rental revenue

For the years ended December 31, 2015 and 2014, the Company incurred other related party transactions of \$42,477 and \$28,026, respectively, which were accounted for as rental revenue.

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F. Other related party transactions recorded as expenses

For the years ended December 31, 2015 and 2014, 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 \$1,727,392 and \$988,831, respectively.

G. Purchase and sales of real estate property and other assets

For the years ended December 31, 2015 and 2014, molds purchased from other related parties amounted to \$5,351 and \$3,738, respectively.

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

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Other receivables		
Subsidiaries	<u>\$ 23,723</u>	<u>18,559</u>
Other payables		
Subsidiaries	<u>\$ 3,142,514</u>	<u>998,762</u>
Other current liabilities		
Subsidiaries	<u>\$ 46,371</u>	<u>19,099</u>

I. Borrowings from related parties

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Subsidiaries	<u>\$ 9,847,500</u>	<u>9,495,000</u>
Interest rate	<u>0.2833%~0.2835%</u>	<u>0.2276%~0.2341%</u>

(4) Key management personnel compensation:

	<u>For the Years Ended December 31</u>	
	<u>2015</u>	<u>2014</u>
Short-term employee benefits	\$ 167,419	130,490
Post-employment benefits	2,268	2,151
Share-based payments	163,449	32,209
	<u>\$ 333,136</u>	<u>164,850</u>

Please refer to Note 6(17) for further explanations related to share-based payment transactions.

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**8. PLEDGED ASSETS**

As of December 31, 2015 and 2014, pledged assets were as follows:

<u>Asset</u>	<u>Purpose of pledge</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Other financial asset	Deposits for customs duties and provisional seizure	\$ 41,390	42,141
Refundable deposits	Deposits for performance guarantee	30,419	26,684
		<u>\$ 71,809</u>	<u>68,825</u>

**9. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

(1) Major commitments and contingencies were as follows:

A. Unused standby letters of credit

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
EUR	\$ 2,540	2,540

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
NTD	\$ 6,689	11,997

C. As of December 31, 2015, the Company signed significant assets purchase agreements amounting to \$693,502, of which \$682,063 was unpaid as of the balance date.

(2) Significant contingent liability: None.

**10. LOSSES DUE TO MAJOR DISASTERS: None.**

**11. SUBSEQUENT EVENTS:**

In order to maintain the Company's credit standing and shareholders' equity, the Board of Directors resolved to buy back 50,000 thousand shares of the Company during January 22 to March 21, 2016. Prices for this repurchase ranged between \$46.30 to \$80.00 per share. Please refer to Market Observation Post System for details.

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**12. OTHER**

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

By item	For the year ended December 31, 2015			For the year ended December 31, 2014		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit						
Salary	\$ 1,255,526	9,404,802	10,660,328	1,052,748	7,288,752	8,341,500
Health and labor insurance	93,350	457,571	550,921	83,992	397,786	481,778
Pension	43,734	250,707	294,441	41,794	220,617	262,411
Others	112,647	443,824	556,471	93,145	380,176	473,321
Depreciation	426,474	205,742	632,216	388,222	223,030	611,252
Amortization	28,252	3,562	31,814	27,382	4,190	31,572

The Company has the total number of employees of 7,376 and 6,783, respectively under the year of 2015 and 2014.

**13. SEGMENT INFORMATION**

Please refer to the consolidated financial report for the years ended December 31, 2015 and 2014.

**Pegatron Corporation**



**T.H. Tung, Chairman**







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