

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

PEGATRON CORPORATION

NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

To the Board of Directors of Pegatron Corporation:

Opinion

We have audited the non-consolidated financial statements of Pegatron Corporation (“the Company”), which comprises the non-consolidated statement of financial position as of December 31, 2016 and 2015, and the non-consolidated statement of comprehensive income, non-consolidated statement of changes in equity and non-consolidated statement of cash flows for the years then ended, and notes to the non-consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the non-consolidated financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

Based on our professional judgment, key audit matters pertain to the most important matters in the audit of non-consolidated financial statements for the year ended December 31, 2016 of Pegatron Corporation. Those matters have been addressed in our audit opinion on the said non-consolidated financial statements and during the formation of our auditing opinion. However, we does not express an opinion on these matters individually. The key audit matters that, in our professional judgment, should be communicated are as follows:

1. Revenue recognition

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

(a) Key audit matters:

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

Therefore, the test of sales and sales returns and allowances recognition was one of the key audit matters in the audit of non-consolidated financial reports for the years ended December 31, 2016 and 2015 of Pegatron Corporation.

(b) Auditing procedures performed:

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

2. Inventory valuation

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

(a) Key audit matters:

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

(b) Auditing procedures performed:

- Analyze the amount of obsolete inventory and inventory market price decline between 2016 and 2015 and understand reasons of the difference. Discuss and resolve those differences with management.
- Obtain an inventory aging analysis and randomly select items to verify the correctness for age of inventory.
- Obtain last selling price for finished goods and replacement cost for raw material, and recalculate net realizable value with selling expense rate to check whether or not the method of inventory measurement adopted by the Company is reasonable.

Other Matters

We did not audit the financial statements of certain equity-accounted investees. Those statements were audited by other accountants whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for certain equity-accounted investees, are based solely on the reports of the other accountants. The amount of long-term investments in these investee companies represented 3.55% and 4.38% of the related total assets as of December 31, 2016 and 2015, respectively, and the related investment gain represented 3.41% and 4.32% of profit before tax for the years ended December 31, 2016 and 2015, respectively.

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

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

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

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

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

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

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

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

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

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

For those matters that we have communicated with those charged with governance, we have considered those matters to be key audit matters as they were the most significant to the audit of the financial statements for the year ended December 31, 2016. We have included these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interests of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)
March 14, 2017

Notes to Readers

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

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PEGATRON CORPORATION

Non-Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

Assets		December 31, 2016		December 31, 2015	
		Amount	%	Amount	%
Current assets:					
1100	Cash and cash equivalents (Note 6(a))	\$ 36,049,317	7	31,919,719	7
1110	Current financial assets at fair value through profit or loss (Note 6(b))	-	-	288,068	-
1170	Accounts receivable, net (Note 6(c))	68,813,703	14	86,443,966	20
1180	Accounts receivable due from related parties, net (Note 7)	199,196,892	40	148,231,475	34
1200	Other receivables, net (Notes 6(c) and 7)	39,635,390	8	23,581,706	5
130X	Inventories (Note 6(d))	28,671,953	6	26,965,535	6
1476	Other current financial assets (Note 6(i))	41,539	-	41,390	-
1479	Other current assets (Note 6(i))	161,864	-	131,683	-
		<u>372,570,658</u>	<u>75</u>	<u>317,603,542</u>	<u>72</u>
Non-current assets:					
1523	Non-current available-for-sale financial assets, net (Note 6(b))	556,673	-	-	-
1550	Investments accounted for using equity method (Note 6(e))	117,619,640	24	117,840,661	27
1600	Property, plant and equipment (Notes 6(g) and 7)	4,724,010	1	4,423,894	1
1780	Intangible assets (Note 6(h))	184,050	-	67,576	-
1840	Deferred tax assets (Note 6(p))	230,872	-	291,160	-
1980	Other non-current financial assets (Note 6(i))	35,383	-	30,419	-
1990	Other non-current assets (Note 6(i))	10,606	-	11,439	-
		<u>123,361,234</u>	<u>25</u>	<u>122,665,149</u>	<u>28</u>
Total assets		\$ <u>495,931,892</u>	<u>100</u>	<u>440,268,691</u>	<u>100</u>

See accompanying notes to financial statements.

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Non-Consolidated Balance Sheets(CONT'D)

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2016		December 31, 2015	
		Amount	%	Amount	%
Liabilities and Equity					
Current liabilities:					
2100	Short-term loans (Note 6(j))	\$ 15,689,400	3	39,225,875	9
2150	Notes and accounts payable	119,634,038	24	100,917,195	23
2180	Accounts payable to related parties (Note 7)	173,720,691	35	98,039,371	22
2219	Other payables (Note 6(o) and 7)	19,490,731	4	23,542,834	5
2230	Current tax liabilities	1,360,928	-	1,928,583	1
2250	Current provisions (Note 6(m))	98,159	-	117,549	-
2313	Deferred revenue	496,399	-	504,311	-
2322	Long-term loans payable, current portion (Note 6(k))	-	-	1,375,000	-
2399	Other current liabilities (Note 7)	14,206,182	3	13,364,462	3
		<u>344,696,528</u>	<u>69</u>	<u>279,015,180</u>	<u>63</u>
Non-Current liabilities:					
2540	Long-term loans (Note 6(k))	2,692,000	1	10,612,200	3
2570	Deferred tax liabilities (Note 6(p))	225,261	-	225,261	-
2670	Other non-current liabilities (Note 6(o))	48,513	-	35,915	-
		<u>2,965,774</u>	<u>1</u>	<u>10,873,376</u>	<u>3</u>
	Total liabilities	<u>347,662,302</u>	<u>70</u>	<u>289,888,556</u>	<u>66</u>
Equity (Note 6(q)) :					
3100	Share capital	25,751,695	5	26,030,205	6
Capital surplus:					
3210	Capital surplus, premium on capital stock	73,312,256	15	73,471,235	17
3280	Capital surplus, others	4,902,003	1	5,501,139	1
		<u>78,214,259</u>	<u>16</u>	<u>78,972,374</u>	<u>18</u>
Retained earnings:					
3310	Legal reserve	7,260,543	2	4,879,380	1
3350	Total unappropriated retained earnings (accumulated deficit)	40,844,207	8	37,775,792	8
		<u>48,104,750</u>	<u>10</u>	<u>42,655,172</u>	<u>9</u>
Other equity interest:					
3410	Exchange differences on translation of foreign financial statements (Note 6(w))	(3,552,939)	(1)	3,752,117	1
3425	Unrealized gains on available-for-sale financial assets (Note 6(w))	183,953	-	211,234	-
3491	Deferred compensation cost arising from issuance of restricted stock (Note 6(r))	(429,882)	-	(1,238,377)	-
		<u>(3,798,868)</u>	<u>(1)</u>	<u>2,724,974</u>	<u>1</u>
3500	Treasury stock	(2,246)	-	(2,590)	-
	Total equity	<u>148,269,590</u>	<u>30</u>	<u>150,380,135</u>	<u>34</u>
	Total liabilities and equity	<u>\$ 495,931,892</u>	<u>100</u>	<u>440,268,691</u>	<u>100</u>

See accompanying notes to financial statements.

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

PEGATRON CORPORATION

Non-Consolidated Statements of Comprehensive Income

For the years ended December 31, 2016 and 2015

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

		For the years ended December 31			
		2016		2015	
		Amount	%	Amount	%
4110	Operating revenue (Notes 6(t) and 7)	1,011,099,854	100	1,057,111,066	100
4170	Less: Sales returns and allowances	3,003,067	-	3,675,244	-
	Operating revenue, net	1,008,096,787	100	1,053,435,822	100
5000	Cost of sales (Notes 6(d), 6(n) and 7)	981,245,130	97	1,020,724,240	97
5900	Gross profit from operations	26,851,657	3	32,711,582	3
5920	Add: Realized profit from sales	17,314	-	10,707	-
5950	Gross profit from operations	26,868,971	3	32,722,289	3
6000	Operating expenses (Notes 6(n), 6(o) and 7):				
6100	Selling expenses	3,254,872	1	7,324,557	1
6200	General and administrative expenses	3,188,404	-	3,137,235	-
6300	Research and development expenses	8,304,326	1	8,197,805	1
6300	Total operating expenses	14,747,602	2	18,659,597	2
	Non-operating income and expenses:				
7010	Total other income (Notes 6(v) and 7)	800,575	-	932,836	-
7020	Other gains and losses (Notes 6(l) and 6(v))	(1,487,849)	-	809,153	-
7050	Finance costs (Notes 6(l) and 6(v))	(572,317)	-	(582,102)	-
7070	Share of profit of associates and joint ventures accounted for using equity method (Note 6(e))	11,092,941	1	11,521,055	1
7590	Miscellaneous disbursements (Note 7)	(57,335)	-	(6,077)	-
	Profit from continuing operations before tax	21,897,384	2	26,737,557	2
7950	Less: Tax expense (Note 6(p))	2,557,569	-	2,925,932	-
	Profit for the year	19,339,815	2	23,811,625	2
8300	Other comprehensive income:				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8311	Remeasurement effects on net defined benefit liability	(3,022)	-	3,729	-
8330	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	3,731	-	(3,295)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
		709	-	434	-
8360	Other components of other comprehensive income that may be reclassified to profit or loss				
8362	Unrealised gains on valuation of available-for-sale financial assets	4,983	-	-	-
8380	Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	(7,337,320)	(1)	(1,002,517)	-
8399	Income tax related to components of other comprehensive income that may be reclassified to profit or loss	-	-	-	-
		(7,332,337)	(1)	(1,002,517)	-
8300	Other comprehensive income for the year, net of tax	(7,331,628)	(1)	(1,002,083)	-
	Total comprehensive income for the year	\$ 12,008,187	1	22,809,542	2
	Earnings per share, net of tax (Note 6(s))				
	Basic earnings per share	\$ 7.50		9.23	
	Diluted earnings per share	\$ 7.42		9.10	

See accompanying notes to financial statements.

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

Non-Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	Share capital					Retained earnings					Total other equity interest			Total equity
	Common stock	Advance receipts for share capital	Total share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Deferred compensation cost	Total other equity interest	Treasury stock	
Balance at January 1, 2015	\$ 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	-	4,901,345	(8,183)	133,670,931
Profit for the year	-	-	-	-	-	-	23,811,625	23,811,625	(1,035,941)	33,424	-	(1,002,517)	-	23,811,625
Other comprehensive income for the year	-	-	-	-	-	-	434	434	(1,035,941)	-	-	(1,002,517)	-	(1,002,083)
Total comprehensive income for the year	-	-	-	-	-	-	23,812,059	23,812,059	(1,035,941)	33,424	-	(1,002,517)	-	22,809,542
Appropriation and distribution of retained earnings:														
Legal reserve	-	-	-	-	1,465,814	-	(1,465,814)	-	-	-	-	-	-	-
Cash dividends of common stock	-	-	-	-	-	-	(10,509,621)	(10,509,621)	-	-	-	-	-	(10,509,621)
Conversion of convertible bonds	1,946,748	(1,472,500)	474,248	2,679,408	-	-	(10,509,621)	(10,509,621)	-	-	-	-	-	3,153,656
Disposal of Company's shares by subsidiaries treated as treasury stock transactions	-	-	-	12,029	-	-	-	-	-	-	-	-	6,113	18,142
Changes in ownership interests in subsidiaries	-	-	-	8,885	-	-	-	-	-	-	-	-	-	8,885
Share-based payments	13,800	(5,200)	8,600	26,488	-	-	-	-	-	-	-	-	-	35,088
Expiration of restricted shares of stock issued to employees	(6,228)	-	(6,228)	6,748	-	-	-	-	-	-	-	-	(520)	-
Compensation cost arising from restricted shares of stock	396,780	-	396,780	1,943,096	-	-	27,490	27,490	-	-	(1,173,854)	(1,173,854)	-	1,193,512
Balance at December 31, 2015	26,030,205	-	26,030,205	78,972,374	4,879,380	-	37,775,792	42,655,172	3,752,117	211,234	(1,238,377)	2,724,974	(2,590)	150,380,135
Profit for the year	-	-	-	-	-	-	19,339,815	19,339,815	(7,305,056)	(27,281)	-	(7,332,337)	-	19,339,815
Other comprehensive income for the year	-	-	-	-	-	-	709	709	(7,305,056)	(27,281)	-	(7,332,337)	-	(7,331,628)
Total comprehensive income for the year	-	-	-	-	-	-	19,340,524	19,340,524	(7,305,056)	(27,281)	-	(7,332,337)	-	12,008,187
Appropriation and distribution of retained earnings:														
Legal reserve	-	-	-	-	2,381,163	-	(2,381,163)	-	-	-	-	-	-	-
Cash dividends of common stock	-	-	-	-	-	-	(12,953,501)	(12,953,501)	-	-	-	-	-	(12,953,501)
Purchase of treasury stock	(264,100)	-	(264,100)	(830,477)	-	-	(973,751)	(973,751)	-	-	-	(2,068,328)	-	(2,068,328)
Retirement of treasury stock	-	-	-	2,575	-	-	-	-	-	-	-	2,068,328	-	-
Changes in ownership interests in subsidiaries	-	-	-	2,575	-	-	-	-	-	-	-	-	-	-
Expiration of restricted shares of stock issued to employees	(14,410)	-	(14,410)	14,066	-	-	-	-	-	-	-	-	344	-
Compensation cost arising from restricted shares of stock	-	-	-	55,721	-	-	36,306	36,306	-	-	808,495	808,495	-	900,522
Balance at December 31, 2016	\$ 25,751,695	-	25,751,695	78,214,259	7,260,543	-	40,844,207	48,104,750	(3,552,939)	183,953	(429,882)	(3,798,868)	(2,246)	148,269,590

Note: The Company's remuneration of directors of \$166,000 and \$203,000 and remuneration of employees of \$1,734,000 and \$2,072,000 for the years ended December 31, 2016 and 2015, had been deducted from statements of comprehensive income for the years ended December 31, 2016 and 2015, respectively.

See accompanying notes to financial statements.

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PEGATRON CORPORATION

Non-Consolidated Statements of Cash Flows
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2016	2015
Cash flows from operating activities:		
Profit before tax	\$ 21,897,384	26,737,557
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	590,244	632,216
Amortization expense	34,687	31,814
Reversal of allowance for uncollectable accounts	(69,986)	(47,654)
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(1,298)	234,391
Interest expense	492,506	409,334
Interest income	(229,810)	(247,794)
Other loss	217,855	-
Compensation cost arising from employee stock options	900,522	892,593
Effect of exchange rate changes of bonds payable	-	(13,748)
Amortization of issuance costs on bonds payable	-	254
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	(11,092,941)	(11,521,055)
Loss on disposal of property, plant and equipment	55,708	3,789
Loss on disposal of investments accounted for using equity method	561,172	-
Realized profit from sales	(17,314)	(10,707)
(Gain) loss on foreign currency exchange	(338,865)	352,500
(Decrease) increase in provision	(19,390)	53,519
Total adjustments to reconcile profit (loss)	(8,916,910)	(9,230,548)
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease (increase) in financial assets reported at fair value through profit or loss	289,366	(283,462)
Increase (decrease) in accounts receivable	(49,265,872)	18,911,300
Increase in other receivables	(252,869)	(10,687,674)
Increase in inventories	(1,706,418)	(8,615,150)
Decrease (increase) in other financial assets	(149)	751
Decrease (increase) in other current assets	(30,181)	9,741
Increase in other non-current assets	(534,155)	(11,439)
Total changes in operating assets	(51,500,278)	(675,933)
Changes in operating liabilities:		
Increase (decrease) in accounts payable	94,398,163	(25,748,259)
Increase (decrease) in other payable	(3,085,960)	3,544,571
Decrease in deferred revenue	(7,912)	(31,403)
Increase in other current liabilities	841,720	2,610,264
Increase in other non-current liabilities	9,576	4,433
Total changes in operating liabilities	92,155,587	(19,620,394)
Net changes in operating assets and liabilities	40,655,309	(20,296,327)
Net adjustments	31,738,399	(29,526,875)
Cash provided by (used in) operating activities	53,635,783	(2,789,318)
Interest received	211,844	249,351
Dividends received	4,307,600	6,150,000
Interest paid	(482,029)	(495,743)
Income taxes paid	(3,021,423)	(2,610,648)
Net cash provided by operating activities	54,651,775	503,642

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

Non-Consolidated Statements of Cash Flows(CONT'D)
For the years ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2016	2015
Cash flows from investing activities:		
Acquisition of investments accounted for using equity method	(1,420,200)	(1,565,300)
Proceeds from capital reduction of investments accounted for using equity method	-	221,009
Acquisition of property, plant and equipment	(278,873)	(390,284)
Proceeds from disposal of property, plant and equipment	1,726	548
Increase in other financial assets	(4,964)	(3,735)
Acquisition of intangible assets	(151,161)	(50,677)
Net cash used in investing activities	(1,853,472)	(1,788,439)
Cash flows from financing activities:		
Increase (decrease) in short-term loans	(23,369,810)	17,260,775
Proceeds from long-term loans	13,400,000	15,223,680
Repayments of long-term loans	(22,695,200)	(20,287,680)
Decrease in other payables to related parties	(967,800)	-
Cash dividends paid	(12,953,501)	(10,509,621)
Exercise of employee share options	-	35,088
Proceeds from issuance of restricted stock	-	396,780
Purchase of treasury stock	(2,068,328)	-
Redemption of restricted stock	(14,066)	(6,748)
Net cash provided by (used in) financing activities	(48,668,705)	2,112,274
Net increase in cash and cash equivalents	4,129,598	827,477
Cash and cash equivalents, beginning of the year	31,919,719	31,092,242
Cash and cash equivalents, end of the year	\$ 36,049,317	31,919,719

See accompanying notes to financial statements.

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PEGATRON CORPORATION

Notes to the Non-Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

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

(1) Company history

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

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

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

The non-consolidated financial statements for the year ended December 31, 2016 were authorized for issue by the Board of Directors on March 14, 2017.

(3) New standards, amendments and interpretations adopted:

- (a) Impact of not yet adopted International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC")

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed for adoption by the FSC in preparing their financial statements effective January 1, 2017. The related new standards, interpretations and amendments are as follows:

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The result of the Company's assessment disclosed that the initial application of the above IFRSs would not have any material impact on the financial statements.

(b) Newly released or amended standards and interpretations not yet endorsed by the FSC

The following is a summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Company should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the issuance date the Company's financial statements, the FSC has yet to announce the effective dates of the other IFRSs.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 "Insurance Contracts" (Applicable for IFRS 9 "Financial Instruments" and IFRS 4 "Insurance Contracts")	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 Investment Property	January 1, 2018

Relevant standards applicable to the Company were as follows:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
May 28, 2014 April 12, 2016	IFRS 15 "Revenue from Contracts with Customers"	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows: <ul style="list-style-type: none"> • Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income. • Impairment: The expected credit loss model is used to evaluate impairment. • Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

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

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

(4) Summary of significant accounting policies:

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

(a) Statement of compliance

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

(b) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;
- 2) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- 3) The net defined benefit liability is recognized as the present value of the defined benefit less the fair value of plan assets.

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(ii) Functional and presentation currency

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

(c) Foreign currency

(i) Foreign currency transaction

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

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

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

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

(ii) Foreign operations

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

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

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

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

An asset is classified as current when:

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

All other assets are classified as non-current.

A liability is classified as current when:

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

All other liabilities are classified as non-current.

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(e) 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.

(f) Financial instruments

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

(i) Financial assets

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

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is held-for-trading or is designated as such on initial recognition. Financial assets classified as held-for-trading if it is acquired principally for the purpose of selling in the short term. The 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:

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

At initial recognition, financial assets classified under this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to the initial recognition, 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.

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

2) Available-for sale financial assets

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

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

Dividend income is recognized in profit or loss on the date when the Company’s right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in the non-operating income and expenses.

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

3) Loans and receivables

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

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.

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

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

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

4) Impairment of financial assets

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

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

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

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

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

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

5) **Derecognition of financial assets**

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

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

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity instruments

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

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

Preference share is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Discretionary dividends thereon are recognized as distributions within equity upon approval by the Company's shareholders.

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

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

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

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

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

2) **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:

- a) 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;
- b) Performance of the financial liabilities is evaluated on a fair value basis;
- c) 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 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.

3) **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.

4) **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".

5) **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.

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

6) Financial guarantee contract

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

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

(iii) Derivative financial instruments, including hedge accounting

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

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

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

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

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

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

1) Fair value hedge

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

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

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

2) Cash flow hedge

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

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

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

(g) Inventories

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

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.

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(h) Subsidiaries

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

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

(i) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent cost

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

(iii) Depreciation

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

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

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

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

Buildings	3-50 years
Machine	5-6 years
Instrument equipment	3-5 years
Miscellaneous equipment	1-6 years

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

(j) Leased assets

(i) Lessor

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

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

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

(ii) Lessee

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

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

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

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

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

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

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

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

If the Company concludes for an operating lease that it is impracticable to separate the payment reliably, then treat all payments under the arrangement as lease payments, and disclose the situation accordingly.

(k) Intangible assets

(i) Other Intangible Assets

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

(ii) Subsequent Expenditure

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(iii) Amortization

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

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

Computer software cost 0-5 years

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

(l) Impairment – Non-financial assets

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

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

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

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

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

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.

(m) Provisions

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(n) Treasury stock

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

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

(o) Revenue

(i) Goods sold

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

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

(ii) Service

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

(p) Employee benefits

(i) Defined contribution plans

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(ii) Defined benefit plans

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

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

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

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

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

(iii) Short-term employee benefits

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

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(q) Share-based payment

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

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

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

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

(r) Income Taxes

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

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

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

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

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

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

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

- (i) if the entity has the legal right to settle tax assets and liabilities on a net basis; and
- (ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:
 - 1) levied by the same taxing authority; or
 - 2) levied by different taxing authorities, but where each such authority intend to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation; or where the timing of asset realization and debt liquidation is matched.

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

(s) **Business combination**

Business combinations of the Company are accounted for using the acquisition method. Goodwill is measured at the consideration transferred less amounts of the identifiable assets acquired and the liabilities assumed (generally at fair value) at the acquisition date. If the amounts of net assets acquired or liabilities assumed exceeds the acquisition price, an assessment is made whether all of the assets acquired and liabilities assumed are correctly identified, and a gain is recognized for the excess.

Non-controlling equity interest is measured either at fair value at acquisition-date or at the share of the acquirer's identifiable net assets in each acquisition.

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

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

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

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

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.

(t) Earnings per share

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

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

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

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

(a) Judgment regarding control of subsidiaries

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

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(b) Valuation of inventories

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

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2016	December 31, 2015
Cash on hand	\$ 180	180
Cash in banks	14,400,062	25,794,124
Time deposits	<u>21,649,075</u>	<u>6,125,415</u>
	<u>\$ 36,049,317</u>	<u>31,919,719</u>

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

(b) Investment in financial assets and liabilities

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

	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss — current:		
Held-for-trading		
Beneficiary certificates	\$ -	<u>288,068</u>
Available-for-sale financial assets — noncurrent:		
Shares of stock of listed companies	<u>\$ 556,673</u>	<u>-</u>
Financial assets carried at cost — noncurrent:		
Equity securities — common stock	<u>\$ -</u>	<u>-</u>

- (ii) For the years ended December 31, 2016 and 2015, the Company recognized a net gain (loss) on financial assets at fair value through profit or loss of \$1,298 and (\$234,391) respectively.

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

- (iii) For the year ended December 31, 2016, the Company recognized unrealized gain on available-for-sale financial asset amounted to \$4,983.
- (iv) The aforementioned investments held by the Company are measured at amortized cost at each reporting date given the range of reasonable fair value estimates is large and the probability for each estimate of fair value cannot be reasonably determined, therefore, the Company management determines the fair value cannot be measured reliably. As of December 31, 2016 and 2015, the Company had accumulated impairment loss thereon of \$150,000.
- (v) 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 measured at fair value. For the year ended December 31, 2015, the Company recognized a loss on financial liability reported at fair value through profit or loss of \$238,997. Please refer to Note 6(l) for details.
- (vi) Refer to Note 6(v) for further discussion on gains and losses on disposal of investments.
- (vii) Refer to Note 6(x) for the Company's credibility, currency, and risk exposure related with financial instruments.
- (viii) As of December 31, 2016 and 2015, the aforesaid financial assets were not pledged as collateral.
- (ix) If the stock price changes at the reporting date, the changes in other comprehensive income of the Company are estimated as follows: (The analysis was made on the same basis for both periods, assuming that all other variables remain constant and any impact to forecasted sales and purchases was ignored):

	For the years ended December 31			
	2016		2015	
	Comprehensive Income (Loss) (net of tax)	Net Income (Loss) (net of tax)	Comprehensive Income (Loss) (net of tax)	Net Income (Loss) (net of tax)
Increase 3%	\$ 16,700	-	-	8,642
Decrease 3%	\$ (16,700)	-	-	(8,642)

- (c) Accounts and other receivable, net

	December 31, 2016	December 31, 2015
Accounts receivable	\$ 70,456,204	88,156,453
Other receivables	39,635,390	23,581,706
Less: Allowance for impairment	(1,642,501)	(1,712,487)
	\$ 108,449,093	110,025,672

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

- (i) Refer to Note 6(x) for the Company's accounts receivable and other receivables exposure to credit risk and currency risk, and the impairment evaluation of accounts receivable.
- (ii) Accounts receivables which are transferred in accordance with derecognition standards of IFRS are deemed as sale of accounts receivables. As of December 31, 2016 and 2015, the Company sold its accounts receivable without recourse as follows:

December 31, 2016						
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
ANZ(Note)	<u>\$ 38,700,000</u>	<u>USD 1,200,000,000</u>	<u>USD -</u>	None	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.	<u>\$ 38,700,000</u>
December 31, 2015						
<u>Purchaser</u>	<u>Assignment Facility</u>	<u>Factoring Line</u>	<u>Advanced Amount</u>	<u>Collateral</u>	<u>Significant Factoring Terms</u>	<u>Derecognition Amount</u>
SMBC	<u>\$ -</u>	<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>\$ 23,524,575</u>	<u>USD 1,400,000,000</u>	<u>USD -</u>	None	"	<u>\$ 23,524,575</u>

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

For the years ended December 31, 2016 and 2015, the Company recognized a loss of \$66,988 and \$159,497, respectively, from the factoring of accounts receivable, which was accounted under financial costs in the statement of comprehensive income. Also, the difference of \$38,700,000 and \$23,524,575 between the carrying value of factored accounts receivable and the amount advanced was accounted under other receivables as of December 31, 2016 and 2015, respectively.

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(d) Inventories

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Merchandise	\$ 28,768,896	26,745,978
Finished goods	97,746	129,847
Work in process	79,938	119,493
Raw materials	<u>357,904</u>	<u>476,144</u>
Subtotal	29,304,484	27,471,462
Less: Allowance for inventory market decline and obsolescence	<u>(632,531)</u>	<u>(505,927)</u>
Total	<u>\$ 28,671,953</u>	<u>26,965,535</u>

For the years ended December 31, 2016 and 2015, the components of cost of goods sold were as follows:

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Cost of goods sold	\$ 981,071,606	1,020,761,918
(Reversal of) provision on inventory market price decline	126,604	(94,773)
Loss on physical inventory	9,000	22,426
Unamortized manufacturing expenses	<u>37,920</u>	<u>34,669</u>
	<u>\$ 981,245,130</u>	<u>1,020,724,240</u>

(i) For the years ended December 31, 2016 and 2015, cost of goods sold and expenses amounting to \$981,245,130 and \$1,020,724,240 were recognized, respectively. In 2016, the Company recognized provision on inventory market price decline of \$126,604 and included it in cost of goods sold because of adjusting inventory value to net realize value. The reversal gain of provision arising from destocking in 2015 of 94,773 was recognized. Such gain was deducted from cost of goods sold.

(ii) As of December 31, 2016 and 2015, the aforesaid inventories were not pledged as collateral.

(e) Investments accounted for using equity method

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Subsidiary	<u>\$ 117,619,640</u>	<u>117,840,661</u>

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(i) Subsidiaries

Please refer to the consolidated financial statement for the years ended December 31, 2016 and 2015.

(ii) For the years ended December 31, 2016 and 2015, the Company had participated in the capital increase of PEGATRON HOLDING LTD., and invested USD45,000 thousand (approximately NTD1,420,200) and USD49,000 thousand (approximately NTD1,565,300), respectively.

(iii) For the years ended December 31, 2016 and 2015, the Company received cash dividend of \$4,307,600 and \$6,150,000, respectively, from its investee companies accounted for under equity method.

(iv) As of December 31, 2016 and 2015, the investments in aforesaid equity-accounted investees were not pledged as collateral.

(f) Loss of control of a subsidiary

On June 29, 2016, the shareholders of Ability Enterprise Co., Ltd. elected new set of directors during the shareholders' meeting, so that the Group lost its control over Ability Enterprise Co., Ltd. as the Group is unable to acquire more than half of the voting rights of the board of directors. This resulted in a disposal loss of \$561,172, which was charged to the statement of comprehensive income. The aforementioned loss was measured at the fair value of its equity ownership of 11.73% amounting to \$551,690 as of June 29, 2016.

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

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(g) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2016 and 2015 were as follows:

	<u>Land</u>	<u>Building and construction</u>	<u>Machinery and equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or deemed cost:							
Balance on January 1, 2016	\$ 2,358,521	2,237,189	43,223	268,005	601,458	11,823	5,520,219
Additions	-	11,973	682	105,994	75,095	219,062	412,806
Disposals and obsolescence	-	(97,933)	(5,623)	(93,899)	(468,309)	-	(665,764)
Reclassifications	-	-	-	11,438	535,373	(11,823)	534,988
Balance on December 31, 2016	<u>\$ 2,358,521</u>	<u>2,151,229</u>	<u>38,282</u>	<u>291,538</u>	<u>743,617</u>	<u>219,062</u>	<u>5,802,249</u>
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>
Depreciation and impairment loss :							
Balance on January 1, 2016	\$ -	715,206	25,660	133,098	222,361	-	1,096,325
Depreciation for the year	-	51,909	5,438	87,093	445,804	-	590,244
Disposals and obsolescence	-	(42,200)	(5,623)	(93,899)	(466,608)	-	(608,330)
Balance on December 31, 2016	<u>\$ -</u>	<u>724,915</u>	<u>25,475</u>	<u>126,292</u>	<u>201,557</u>	<u>-</u>	<u>1,078,239</u>
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>
Carrying amounts :							
Balance on December 31, 2016	<u>\$ 2,358,521</u>	<u>1,426,314</u>	<u>12,807</u>	<u>165,246</u>	<u>542,060</u>	<u>219,062</u>	<u>4,724,010</u>
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>

- (i) As of December 31, 2016 and 2015, the property, plant and equipment were not pledged as collateral.
- (ii) The Company has started construction of new buildings. Please refer to Note 9(a) for the total cost and expenditure thereof.

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(h) Intangible assets

The intangible assets of the Company consisted of computer software and golf certificate. The components of the costs of intangible assets, amortization, and impairment loss thereon of the years ended December 31, 2016 and 2015 were as follows:

Costs:

Balance on January 1, 2016	\$ 96,357
Additions	151,161
Disposals	<u>(15,484)</u>
Balance on December 31, 2016	<u>\$ 232,034</u>
Balance on January 1, 2015	\$ 101,324
Additions	50,677
Disposals	<u>(55,644)</u>
Balance on December 31, 2015	<u>\$ 96,357</u>

Amortization and Impairment Loss:

Balance on January 1, 2016	\$ 28,781
Amortization for the year	34,687
Disposals	<u>(15,484)</u>
Balance on December 31, 2016	<u>\$ 47,984</u>
Balance on January 1, 2015	\$ 52,611
Amortization for the year	31,814
Disposals	<u>(55,644)</u>
Balance on December 31, 2015	<u>\$ 28,781</u>

Carrying amounts:

Balance on December 31, 2016	<u>\$ 184,050</u>
Balance on December 31, 2015	<u>\$ 67,576</u>

- (i) The amortization of intangible assets and impairment losses are respectively included in the statement of comprehensive income. Please refer to Note 12 for details.
- (ii) As of December 31, 2016 and 2015, the intangible assets were not pledged as collateral.

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(i) Other financial assets and other assets

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Other financial assets—current	\$ 41,539	41,390
Other financial assets—noncurrent	35,383	30,419
Other current assets	161,864	131,683
Other noncurrent assets	<u>10,606</u>	<u>11,439</u>
	<u>\$ 249,392</u>	<u>214,931</u>

(i) 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.

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

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

(j) Short-term loans

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Unsecured bank loans	\$ <u>15,689,400</u>	<u>39,225,875</u>
Interest rate	<u>0.95%~6.85%</u>	<u>0.70%~0.93%</u>

(i) Collateral for short-term borrowings

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

(k) Long-term loans

	<u>December 31, 2016</u>			
	<u>Currency</u>	<u>Interest rate</u>	<u>Expiration</u>	<u>Amount</u>
Unsecured bank loans	NTD	1.5789%	2018.9	\$ 2,700,000
Less : Arrangement fee				<u>(8,000)</u>
Total				<u>\$ 2,692,000</u>
	<u>December 31, 2015</u>			
	<u>Currency</u>	<u>Interest rate</u>	<u>Expiration</u>	<u>Amount</u>
Unsecured bank loans	NTD	1.5789%	2016.9--2018.9	\$ 12,000,000
Less : Arrangement fee				(12,800)
Less : Current portion				<u>(1,375,000)</u>
Total				<u>\$ 10,612,200</u>

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(i) Securities for bank loans

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

(ii) Loan covenants

1) 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:

- a) Current ratio (current assets/current liabilities): should not be less than 100%.
- b) Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 50%.
- c) Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.
- d) Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.
- e) 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.

(iii) 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:

- 1) Current ratio (current assets/current liabilities): should not be less than 100%.
- 2) Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 80%.
- 3) Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than \$90,000,000.
- 4) Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

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

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

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, 2016 and 2015.

(l) Bonds payable

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

	December 31, 2016	December 31, 2015
Convertible bonds issued	\$ -	8,874,000
Accumulated amount of Converted bonds	-	(8,874,000)
Bonds payable, end of the year	\$ -	-
For the years ended December 31		
	2016	2015
Embedded derivative instruments –conversion options, accounted under other gains and losses	\$ -	238,997
Interest expense	\$ -	(65,389)

The put option of the bonds payable is exercisable at three years after the first day of issue (February 6, 2015).

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

(ii) The offering information on the unsecured convertible bonds was as follows:

Item	1st overseas unsecured convertible bonds issued in 2012
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.

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

<u>Item</u>	<u>1st overseas unsecured convertible bonds issued in 2012</u>
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 early by the Company, in whole but not in part, if there is a change in the tax laws of ROC that 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>

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

Item	1st overseas unsecured convertible bonds issued in 2012
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.</p> <p>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>

(m) Provisions

	<u>Allowance for sales returns and discounts</u>
Balance on January 1, 2016	\$ 117,549
Provisions reversed during the year	<u>(19,390)</u>
Balance on December 31, 2016	<u>\$ 98,159</u>
Balance on January 1, 2015	\$ 64,030
Provisions made during the period	<u>53,519</u>
Balance on December 31, 2015	<u>\$ 117,549</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.

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(n) Operating leases

(i) Lessee

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Less than one year	\$ 120,077	95,461
Between one and five years	<u>159,335</u>	<u>109,248</u>
	<u>\$ 279,412</u>	<u>204,709</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 5 years, with an option to renew the lease after that date.

For the years ended December 31, 2016 and 2015, expenses recognized in profit or losses in respect of operating leases were as follows:

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Cost of sales	\$ 42,215	13,788
Operating expenses	<u>123,106</u>	<u>118,662</u>
	<u>\$ 165,321</u>	<u>132,450</u>

(o) Employee benefits

(i) Defined benefit plans

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Present value of defined benefit obligations	\$ 36,076	28,606
Fair value of plan assets	<u>(9,363)</u>	<u>(8,756)</u>
Net defined benefit liabilities	<u>\$ 26,713</u>	<u>19,850</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.

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

1) Composition of plan assets

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

As of December 31, 2016, the Company's contributions to the pension funds which amounted to \$9,363 were deposited with Bank of Taiwan. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

The movements in the present value of the defined benefit obligations for the years ended December 31, 2016 and 2015 were as follows:

	For the years ended December 31	
	2016	2015
Defined benefit obligation, January 1	\$ 28,606	27,988
Current service costs and interest	4,543	4,319
Re-measurement of the net defined benefit liability		
— Actuarial gains (losses) arose from changes in demographic assumptions	483	(251)
— Actuarial gains arose from changes in financial assumption	1,666	1,738
— Experience adjustment	778	(5,188)
Defined benefit obligation, December 31	<u>\$ 36,076</u>	<u>28,606</u>

3) Movements in the fair value of plan assets

The movements in the fair value of the defined benefit plan assets for the years ended December 31, 2016 and 2015 were as follows:

	For the years ended December 31	
	2016	2015
Fair value of plan assets, January 1	\$ 8,756	8,040
Interests revenue	175	181
Re-measurement of the net defined benefit liability		
— Experience adjustment	(95)	28
Benefits paid by the plan	527	507
Fair value of plan assets, December 31	<u>\$ 9,363</u>	<u>8,756</u>

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

4) Expenses recognized in profit or loss

The Company's pension expenses recognized in profit or loss for the years ended December 31, 2016 and 2015 were as follows:

	For the years ended December 31	
	2016	2015
Current service cost	\$ 3,971	3,689
Net interest on net defined benefit liability	397	449
	<u>\$ 4,368</u>	<u>4,138</u>
Operating Expense	<u>\$ 4,368</u>	<u>4,138</u>

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

The Company's net defined benefit liability recognized in other comprehensive income for the years ended December 31, 2016 and 2015 were as follows:

	For the years ended December 31	
	2016	2015
Cumulative amount, January 1	\$ 3,898	169
Recognized during the year	(3,022)	3,729
Cumulative amount, December 31	<u>\$ 876</u>	<u>3,898</u>

6) Actuarial assumptions

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

	December 31, 2016	December 31, 2015
Discount rate	1.80 %	2.00 %
Future salary increase rate	3.00 %	3.00 %

The Company is expected to make a contribution payment of \$527 to the defined benefit plans for the one year period after December 31, 2016.

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

7) Sensitivity Analysis

As of December 31, 2016 and 2015, the changes in the principal actuarial assumptions will impact the present value of defined benefit obligation as follows:

	Impact on the present value of defined benefit obligation	
	Increase by 0.50%	Decrease by 0.50%
December 31, 2016		
Discount	(4,071)	4,639
Future salary increase	4,557	(4,045)
December 31, 2015		
Discount	(3,329)	3,803
Future salary increase	3,744	(3,314)

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

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

(ii) Defined contribution plans

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

The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2016 and 2015 amounted to \$309,909 and \$290,303, respectively.

(iii) Short-term employee benefits

The Company's short-term employee benefit liabilities amounted to \$140,132 and \$98,611 as of December 31, 2016 and 2015, respectively.

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(p) Income tax

- (i) The components of income tax expense for the years ended December 31, 2016 and 2015 were as follows:

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Current income tax expense		
Currently incurred	\$ 1,590,239	2,718,105
Adjustment to prior year's income tax charged to current income tax	56,553	28,559
10% surtax on undistributed earnings	850,489	270,307
Deferred tax expense		
The origination and reversal of temporary differences	<u>60,288</u>	<u>(91,039)</u>
Income tax expense	<u>\$ 2,557,569</u>	<u>2,925,932</u>

- (ii) Income tax calculated on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2016 and 2015 as follows:

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Profit before income tax	\$ 21,897,384	26,737,557
Income tax on pre-tax financial income calculated at the domestic rate	3,722,555	4,545,385
Permanents differences	(737,416)	(773,891)
Change of unrecognized temporary differences	(1,334,391)	(1,144,059)
Prior years income tax adjustment	56,553	28,559
10% surtax on undistributed earnings	850,489	270,307
Others	<u>(221)</u>	<u>(369)</u>
	<u>\$ 2,557,569</u>	<u>2,925,932</u>

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(iii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

As of December 31, 2016 and 2015, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax liabilities as the Company has the ability to control the reversal of these temporary differences which are not expected to reverse in the foreseeable future.

	December 31, 2016	December 31, 2015
The aggregate temporary differences associated with investments in subsidiaries	<u>\$ 29,768,739</u>	<u>21,919,380</u>
Unrecognized deferred tax liabilities	<u>\$ 5,060,686</u>	<u>3,726,295</u>

2) Recognized deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2016 and 2015 were as follows:

	Gain on foreign investments	Convertible bonds	Others	Total
Deferred tax liabilities:				
Balance, January 1, 2016	\$ 225,261	-	-	225,261
Balance, December 31, 2016	<u>\$ 225,261</u>	<u>-</u>	<u>-</u>	<u>225,261</u>
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>
	Gain or loss on valuation of Inventory	Convertible bonds	Others	Total
Deferred tax assets:				
Balance, January 1, 2016	\$ 86,008	-	205,152	291,160
Recognized in profit (loss)	21,522	-	(81,810)	(60,288)
Balance, December 31, 2016	<u>\$ 107,530</u>	<u>-</u>	<u>123,342</u>	<u>230,872</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>

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(iv) Status of approval of income tax

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

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

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Stockholders' imputation tax credit account	\$ <u>4,734,475</u>	<u>3,296,778</u>
	<u>2016(Expect)</u>	<u>2015(Actual)</u>
Tax deduction ratio for earnings distributable to R.O.C. residents	<u>14.92%</u>	<u>13.61%</u>

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

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

(q) Share capital and other interests

As of December 31, 2016 and 2015, 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 2,575,169 and 2,603,020 thousand common shares, respectively, and the capital that rose from the shares had all been retrieved.

(i) Nominal ordinary shares

The movements in ordinary shares of stock outstanding for the years ended December 31, 2016 and 2015 were as follows:

<u>Ordinary Shares (In thousands of shares)</u>	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Beginning balance, January 1	2,603,020	2,367,911
(Expiration of) restricted stock issued to employee	(1,441)	39,055
Exercise of employee stock options	-	1,380
From conversion of convertible bonds	-	194,674
Retirement of treasury stock	<u>(26,410)</u>	<u>-</u>
Ending balance, December 31	<u>2,575,169</u>	<u>2,603,020</u>

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

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. The Company retired treasury stock 26,410 thousand shares to maintain shareholders' equity in 2016. For the years ended December 31, 2016 and 2015, the Company had retired 1,441 and 623 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 2,575,169 and 2,603,020 thousand common shares of stock, as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the restricted Company shares of stock issued to employees have expired, of which 225 and 259 thousand shares, respectively, have not been retired.

(ii) Global depositary receipts

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

The Company may issue new GDRs with no more than 60,819,020 of the Company's common shares and deliver them to ASUSTeK GDR holders pursuant to the "Guidelines for Offering and Issuing by Issuer of Overseas Securities". As of December 31, 2016 and 2015, the Company has listed, in total, 6,250 and 5,994 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 31,251 and 29,969 thousand shares of stock, respectively. Major terms and conditions for GDRs were as follows:

1) Voting Rights

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

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

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

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(iii) Capital surplus

The components of the capital surplus were as follows:

	December 31, 2016	December 31, 2015
From issuance of share capital	\$ 62,238,593	62,284,056
From conversion of convertible bonds	11,073,663	11,187,179
From treasury stock transactions	23,614	108,582
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,383,056	2,383,056
Changes in ownership interest in subsidiaries	741,312	738,737
Employee share options	1,304	1,304
Restricted stock to employees	1,342,800	1,859,543
Other	<u>409,917</u>	<u>409,917</u>
	<u>\$ 78,214,259</u>	<u>78,972,374</u>

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

(iv) Retained earnings

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

In order to bring about stability in the payment of dividends, the Company distributes dividends depending on the level of earnings of each year. The Company is facing a rapidly changing industrial environment. In consideration of the Company's long-term operating plan and funding needs, the Company adopts a stable dividends policy. Therefore, the Company distributes cash dividends of at least 10% of the aggregate dividends, if the distributions include cash dividends.

(Continued)

PEGATRON CORPORATION
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1) Legal reserve

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

2) Special reserve

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

3) Earnings Distribution

On June 21, 2016 and June 15, 2015, the Company's shareholders' meeting resolved to appropriate the 2015 and 2014 earnings. These earnings were appropriated or distributed as follows:

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

(v) Treasury stock

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

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

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(vi) Other equity accounts (net of tax)

	Exchange differences on translation of foreign financial statements	Available-for- sale investments	Deferred compensation arising from issuance of restricted stock	Total
Balance, January 1, 2016	\$ 3,752,117	211,234	(1,238,377)	2,724,974
Exchange differences on subsidiaries and associates accounted for using equity method	(7,305,056)	-	-	(7,305,056)
Unrealized gains on available for- sale financial assets	-	4,983	-	4,983
Unrealized losses on available-for- sale financial assets of subsidiaries and associates accounted for using equity method	-	(32,264)	-	(32,264)
Deferred compensation cost	-	-	808,495	808,495
Balance, December 31, 2016	<u>\$ (3,552,939)</u>	<u>183,953</u>	<u>(429,882)</u>	<u>(3,798,868)</u>
Balance, January 1, 2015	\$ 4,788,058	177,810	(64,523)	4,901,345
Exchange differences on subsidiaries accounted for using equity method	(1,035,941)	-	-	(1,035,941)
Unrealized gains 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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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(r) Share-based payment

Information on share-based payment transactions as of December 31, 2016 and 2015 was as follows:

	Equity-settled share-based payment			
	Restricted stock to employee			Employee stock option
	Issued in 2014	Issued in 2013	Issued in 2012	Issued in 2012
Thousand units granted	40,000	6,062	34,167	8,053
Contractual life	3 years	3 years	3 years	3 years
Vesting period	Note A	Note B	Note B	2 years
Actual turnover rate of employees	4.94%	5.80%	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%	19.01%

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

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

On 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.

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.

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PEGATRON CORPORATION
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On June 18, 2014, the shareholders approved a resolution passed during their meeting to award 40,000 thousand new restricted shares of stock to those full-time employees who meet certain requirement of the Company. The restricted stock has been registered with and approved by the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C. On May 7, 2015, the board of directors issued 39,678 thousand restricted shares with fair value of NT\$91.9 each at grant date.

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

(i) Determining the fair value of equity instruments granted

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

	Equity-settled share-based payment			
	Equity-settled share-based payment			Employee stock option
	Restricted stock to employee			
	Issued in 2014	Issued in 2013	Issued in 2012	Issued in 2012
Fair value at grant date	05/07/2015	08/12/2013	11/09/2012	04/02/2012
Share price at grant date	\$ 91.90	45.20	39.45	44.85
Exercise price (Note A)	10.00	10.00	10.00	44.85
Expected life of the option	3 years	3 years	3 years	3 years
Current market price	91.90	45.20	39.45	44.85
Expected volatility	33.37%	32.68%	38.49%	44.41%
Expected dividend yield rate (Note A)	-%	-%	-%	-%
Risk-free interest rate	(Note B)	(Note C)	(Note D)	0.95%

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.

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(ii) Restricted stock to employee

For the year ended December 31, 2016, 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, 2016 and 2015, 1,407 and 675 thousand shares of the restricted shares of stock issued to employees have expired, which were charged to capital surplus of \$14,066 and \$6,748, respectively. As of December 31, 2016 and 2015, the Company has deferred compensation cost arising from issuance of restricted stock of \$429,882 and \$1,238,377, respectively.

For the years ended December 31, 2016 and 2015, the Company recognized salary cost of \$36,306 and \$27,490 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.

On June 21, 2016, pursuant to the resolution of its shareholders' meeting, the Company planned to issue 40,000 thousand shares of restricted share of stock to employees with par value of \$10 per share, which was declared to Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C. Share of issuance was not yet approved by Board of Directors. Vesting conditions are in accordance with the offering information.

(iii) Employee stock options

Information on aforesaid employee stock options was as follows:

For the year ended December 31, 2015

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

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Notes to Non-Consolidated Financial Statements

(iv) Expenses resulted from share-based payments

The Company incurred expenses from share-based payments transactions for the years ended December 31, 2016 and 2015 as follows:

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Expenses resulting from issuance of restricted stock to employees	<u>\$ 900,522</u>	<u>892,593</u>

(s) Earnings per share

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

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Basic earnings per share		
Profit attributable to ordinary shareholders	<u>\$ 19,339,815</u>	<u>23,811,625</u>
Weighted-average number of ordinary shares	<u>2,579,930</u>	<u>2,581,005</u>
	<u>\$ 7.50</u>	<u>9.23</u>
Diluted earnings per share		
Profit attributable to ordinary shareholders (diluted)	<u>\$ 19,339,815</u>	<u>23,811,625</u>
Weighted-average number of ordinary shares	<u>2,579,930</u>	<u>2,581,005</u>
Effect of potentially dilutive ordinary shares		
Employee stock bonus	<u>27,941</u>	<u>36,082</u>
Weighted-average number of ordinary shares (diluted)	<u>2,607,871</u>	<u>2,617,087</u>
	<u>\$ 7.42</u>	<u>9.10</u>

For the years ended December 31, 2016 and 2015, convertible bonds of \$0 and \$230,562, respectively, were not included in the calculation of weighted-average number of shares, due to its anti-dilutive impact on earnings per share.

(t) Revenue

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Sale of goods	<u>\$ 984,213,641</u>	<u>1,033,512,435</u>
Others	<u>23,883,146</u>	<u>19,923,387</u>
	<u>\$ 1,008,096,787</u>	<u>1,053,435,822</u>

(u) Remuneration of employees and directors

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

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For the years ended December 31, 2016 and 2015, remuneration of employees and directors of \$1,734,000, \$2,072,000, \$166,000 and \$203,000, respectively, were estimated on the basis of the Company's net profit before tax, excluding the remuneration of employees and directors of each period, multiplied by the percentage of remuneration of employees and directors as specified in the Company's Articles of Incorporation. Such amounts were recognized as operating cost or operating expense for the years ended December 31, 2016 and 2015. Management is expecting that the differences, if any, between the actual distributed amounts and estimated amounts will be treated as changes in accounting estimates and charged to profit or loss. The number of shares to be distributed were calculated based on the closing price of the Company's ordinary shares, one day prior to Board of Directors meeting.

In 2015, the Company accrued recognized remuneration of employees and directors of \$2,072,000 and \$203,000, respectively. There was no difference between the amounts approved in Board of Directors meeting on March 17, 2016. For further information, please refer to Market Observation Post System.

(v) Non-operation income and expenses

(i) Other income

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Interest income	\$ 229,810	247,794
Rental income	84,450	66,228
Technical service income	204,469	235,748
Other income	<u>281,846</u>	<u>383,066</u>
	<u>\$ 800,575</u>	<u>932,836</u>

(ii) Other gains and losses

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Gains (losses) on disposal of property, plant and equipment	\$ 25	(441)
Foreign exchange (losses) gains	(780,131)	996,331
Gain on reversal of uncollectable account	69,986	47,654
Net gains (losses) on evaluation of financial assets (liabilities) measured at fair value through profit or loss	1,298	(234,391)
Loss from disposal of long-term investment	(561,172)	-
Loss from impairment of other receivables	<u>(217,855)</u>	<u>-</u>
	<u>\$ (1,487,849)</u>	<u>809,153</u>

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(iii) Finance costs

	For the years ended December 31	
	2016	2015
Interest expenses	\$ 492,506	409,334
Finance expense—bank fees	79,811	172,768
	\$ 572,317	582,102

(w) Reclassification of other comprehensive income

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

	For the years ended December 31	
	2016	2015
Available-for-sale financial assets		
Net change in fair value	\$ 4,983	-
Net (loss) gain from subsidiaries for using equity method	(39,573)	33,424
Reclassification to profit or loss for losing control of subsidiaries	7,309	-
Net fair value change recognized in other comprehensive income	\$ (27,281)	33,424

	For the years ended December 31	
	2016	2015
Cumulative adjustment		
Losses from subsidiaries for using equity method	\$ (7,295,693)	(1,035,941)
Reclassification to profit or loss for losing control of subsidiaries	(9,363)	-
Net fair value change recognized in other comprehensive income	\$ (7,305,056)	(1,035,941)

(x) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

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2) Credit risk concentrations

As of December 31, 2016 and 2015, the accounts receivable from the Company's top three customers amounted to \$196,872,694 and \$135,339,244, representing 73% and 57% of accounts receivable, respectively, which exposes the Company to credit risk.

3) Impairment losses

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

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Not past due	\$ 303,232,218	255,432,473
Past due 0 - 30 days	4,213,105	1,916,133
Past due 31 - 120 days	172,845	970,712
Past due 121 - 365 days	55,137	5,319
Past due more than 1 year	<u>1,615,181</u>	<u>1,644,997</u>
	<u>\$ 309,288,486</u>	<u>259,969,634</u>

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

	<u>Individually</u> <u>assessed</u> <u>impairment</u>	<u>Collectively</u> <u>assessed</u> <u>impairment</u>	<u>Total</u>
Balance on January 1, 2016	\$ -	1,712,487	1,712,487
Reversal of impairment loss	-	(69,986)	(69,986)
Balance on December 31, 2016	<u>\$ -</u>	<u>1,642,501</u>	<u>1,642,501</u>
Balance on January 1, 2015	\$ -	1,761,300	1,761,300
Written off unrecoverable amount	-	(1,159)	(1,159)
Reversal of impairment loss	-	(47,654)	(47,654)
Balance on December 31, 2015	<u>\$ -</u>	<u>1,712,487</u>	<u>1,712,487</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.

(ii) Liquidity risk

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

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
December 31, 2016					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 18,389,400	18,389,400	15,689,400	2,700,000	-
Non-interest bearing liabilities	<u>312,845,460</u>	<u>312,845,460</u>	<u>312,845,460</u>	<u>-</u>	<u>-</u>
	<u>\$ 331,234,860</u>	<u>331,234,860</u>	<u>328,534,860</u>	<u>2,700,000</u>	<u>-</u>
December 31, 2015					
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>\$ 273,725,275</u>	<u>273,725,275</u>	<u>263,100,275</u>	<u>2,750,000</u>	<u>7,875,000</u>

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

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

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Notes to Non-Consolidated Financial Statements

(iii) Currency risk

1) Currency risk exposure

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

(Unit: Foreign currency/NTD in Thousands)

	December 31, 2016			December 31, 2015		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$10,152,816	32.250	327,428,316	7,870,701	32.825	258,355,760
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	9,820,436	32.250	316,709,061	7,423,796	32.825	243,686,104

2) Sensitivity analysis

The Company's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, 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, 2016 and 2015 would have increased or decreased the before-tax net income by \$127,294 and \$161,551, respectively. The analysis is performed on the same basis for both periods.

3) Gains or losses on monetary item

As the Company deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the years ended December 31, 2016 and 2015, the foreign exchange gains (losses), including both realized and unrealized, amounted to (\$780,131) and \$996,331, respectively.

(iv) Interest rate analysis

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

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

(Continued)

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Notes to Non-Consolidated Financial Statements

(v) Fair value of financial instruments

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

1) Categories of financial instruments

Financial Assets:

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Financial assets at fair value through profit or loss		
Held-for-trading non-derivative financial assets	\$ -	288,068
Available-for-sale financial asset	556,673	-
Financial assets carried at cost	-	-
Deposits and receivables		
Cash and cash equivalents	36,049,317	31,919,719
Accounts and other receivables	307,645,985	258,257,147
Other financial assets	76,922	71,809
Sub-total	343,772,224	290,248,675
Total	<u>\$ 344,328,897</u>	<u>290,536,743</u>

Financial liabilities:

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Financial liabilities carried at amortized cost		
Short-term loans	\$ 15,689,400	39,225,875
Notes, accounts and other payables	312,845,460	222,499,400
Long-term borrowings (including current portion)	2,692,000	11,987,200
Guarantee deposit (recognized in other noncurrent liabilities)	21,801	16,065
Total	<u>\$ 331,248,661</u>	<u>273,728,540</u>

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

2) Fair value hierarchy

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

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

		<u>December 31, 2016</u>			
		<u>Fair Value</u>			
	<u>Book Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets designated as at fair value through profit or loss					
Listed stock	\$ <u>556,673</u>	<u>556,673</u>	<u>-</u>	<u>-</u>	<u>556,673</u>
		<u>December 31, 2015</u>			
		<u>Fair Value</u>			
	<u>Book Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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>

There have been no transfers from each level for the years ended December 31, 2016 and 2015.

3) 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:

- a) Financial assets measured at amortized cost

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

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

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

a) Non-derivative financial instruments

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

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

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

b) Derivative financial instruments

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

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

(vi) Offsetting of financial assets and financial liabilities

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

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

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

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

December 31, 2016						
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 (Note)	Cash collected as pledge	
Accounts Receivable and Payable	\$ 59,499,028	59,499,028	-	-	-	-

December 31, 2015						
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
	Gross Assets (a)	Gross liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d)		Net amounts (e)=(c)-(d)
				Financial Instruments (Note)	Cash collected as pledge	
Accounts Receivable and Payable	\$ 98,610,444	78,206,796	20,403,648	-	-	20,403,648

December 31, 2015						
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 (Note)	Cash collected as pledge	
Accounts Receivable and Payable	\$ 78,206,796	78,206,796	-	-	-	-

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

(y) Financial risk management

(i) Overview

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

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

(ii) Risk management framework

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

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

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

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

(iii) Credit risk

Credit risk means the potential loss of the Company if the counterparty involved in that transaction defaults. The primary potential credit risk is from financial instruments like cash, equity securities, and accounts receivable. Also, the Company deposits cash in different financial institutions. The Company manages credit risk exposure related to each financial institution and believes that there is no significant concentration of credit risk on cash and equity securities.

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

1) Accounts receivables and other receivables

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

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

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.

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

2) Investment

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

3) Guarantees

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

(iv) Liquidity risk

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

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

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

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

(v) Market risk

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

1) Currency risk

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

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

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

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

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

2) Interest rate risk

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

3) Price floating risk on equity instruments

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

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

(z) Capital management

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

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

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

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

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Total liabilities	\$ 347,662,302	289,888,556
Less: cash and cash equivalents	<u>36,049,317</u>	<u>31,919,719</u>
Net debt	<u>\$ 311,612,985</u>	<u>257,968,837</u>
Total capital (Note)	<u>\$ 459,882,575</u>	<u>408,348,972</u>
Debt to equity ratio	<u>67.76%</u>	<u>63.17%</u>

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

Management believes that there were no changes in the Company's approach to capital management for the year ended December 31, 2016.

(aa) Non-cash transactions of financing activity

For the years ended December 31, 2016 and 2015, non-cash financing activity of the Company was as follows:

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

(7) Related-party transactions:

(a) List of subsidiaries

	<u>Shareholding ratio</u>	
	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
ABILITY ENTERPRISE CO., LTD. (Note)	11.73 %	11.72 %
UNIHAN HOLIDNG LTD.	100.00 %	100.00 %
AZUREWAVE TECHNOLOGY CO., LTD.	27.53 %	27.53 %
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 %

Note: The Company has lost control over Ability Enterprise Co., Ltd on June 29, 2016 and reclassified the Company's equity investment thereon to available-for-sale financial asset-noncurrent.

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(b) The ultimate parent company

The Company is the ultimate parent company.

(c) Significant Transactions with related parties

(i) Sale of Goods to Related Parties

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

	<u>Sales</u>		<u>Receivables from Related Parties</u>	
	<u>2016</u>	<u>2015</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Subsidiaries	<u>\$ 5,793,802</u>	<u>6,385,614</u>	<u>199,196,892</u>	<u>148,231,475</u>

Prices charged for sales transactions with associates were not significantly different from those of non-related parties. The average sales term for notes and accounts receivables pertaining to such sales transactions ranged from one to three months. Receivables from related parties were not secured with collaterals, and did not require provisions for bad debt expenses based on the result of management's evaluation.

(ii) Purchase of Goods from Related Parties

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

	<u>Purchases</u>		<u>Payables to Related Parties</u>	
	<u>2016</u>	<u>2015</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Subsidiaries	\$125,153,433	170,611,734	173,716,300	98,029,200
Others	<u>40,827</u>	<u>61,185</u>	<u>4,391</u>	<u>10,171</u>
	<u>\$125,194,260</u>	<u>170,672,919</u>	<u>173,720,691</u>	<u>98,039,371</u>

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

(iii) Warranty repair expense paid to Related Parties

	<u>For the years ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Subsidiaries	<u>\$ 61,820</u>	<u>123,237</u>

(Continued)

PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(iv) Other income and losses from Related Parties

	For the years ended December 31	
	2016	2015
Subsidiaries	\$ 12,202	16,224

(v) Rental revenue

For the years ended December 31, 2016 and 2015, the Company incurred other related party transactions of \$68,240 and \$42,477, respectively, which were accounted for as rental revenue. Lease terms with associates were not significantly different from those of non-related parties.

(vi) Other related party transactions recorded as expenses

For the years ended December 31, 2016 and 2015, 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 \$1,348,447 and \$1,727,392, respectively.

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

For the years ended December 31, 2016 and 2015, molds purchased from other related parties amounted to \$3,986 and \$5,351, respectively.

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

	December 31, 2016	December 31, 2015
Other receivables		
Subsidiaries	\$ 7,811	23,723
Other payables		
Subsidiaries	\$ 1,088,747	3,142,514
Other current liabilities		
Subsidiaries	\$ 111,013	46,371

(ix) Borrowings from related parties

	December 31, 2016	December 31, 2015
Subsidiaries	\$ 8,707,500	9,847,500
Interest rate	0.6646%~0.6741	0.2833%~0.2835
	%	%
Interest expense	\$ 46,920	24,614

(x) As of December 31, 2016, please refer to Note 13 for endorsements and guarantees for related party.

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(d) Key management personnel compensation

	For the years ended December 31	
	2016	2015
Short-term employee benefits	\$ 166,925	167,419
Post-employment benefits	2,133	2,268
Share-based payments	<u>158,956</u>	<u>163,449</u>
	<u>\$ 328,014</u>	<u>333,136</u>

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

(8) Pledged assets:

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

<u>Asset</u>	<u>Purpose of pledge</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Other financial asset-restricted deposit	Deposits for customs duties and provisional seizure	\$ 41,539	41,390
Other financial asset-refundable deposits	Deposits for performance guarantee	<u>35,383</u>	<u>30,419</u>
		<u>\$ 76,922</u>	<u>71,809</u>

(9) Major commitments and contingencies:

(a) Major commitments and contingencies were as follows:

(i) Unused standby letters of credit

	December 31, 2016	December 31, 2015
EUR	<u>\$ 2,540</u>	<u>2,540</u>

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

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

(iii) As of December 31, 2016 and 2015, the Company signed significant contract for purchase of properties amounting to \$878,800 and 693,502, of which \$662,895 and 682,063 was unpaid.

(b) Major contingent liability: None.

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PEGATRON CORPORATION
Notes to Non-Consolidated Financial Statements

(10) Losses due to major disasters: None

(11) Subsequent events: None

(12) Other:

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

By function By item	For the year ended December 31, 2016			For the year ended December 31, 2015		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit						
Salary	\$ 1,286,093	9,527,939	10,814,032	1,255,526	9,404,802	10,660,328
Health and labor insurance	95,485	480,194	575,679	93,350	457,571	550,921
Pension	46,527	267,750	314,277	43,734	250,707	294,441
Others	100,013	425,821	525,834	112,647	443,824	556,471
Depreciation	394,890	195,354	590,244	426,474	205,742	632,216
Amortization	30,523	4,164	34,687	28,252	3,562	31,814

In 2016 and 2015, the Company has 7,398 and 7,382 employees, respectively.

(13) Segment information:

Please refer to the consolidated financial statements for the years ended December 31, 2016 and 2015 for disclosure of segment information for disclosures on segment information.