PEGATRON
和碩聯合科技

TWSE 4938

2016 ANNUAL REPORT

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OVERSEAS SECURITIES EXCHANGE

Luxemburg Stock Exchange: http://www.bourse.lu

FOR MORE INFORMATION ABOUT PEGATRON

http://www.pegatroncorp.com

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

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

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1. Letter to Shareholders

Dear Shareholders,

In 2016, global economy and political conditions have gone through drastic changes as a result of rising protectionism, Britain exiting European Union and U.S. presidential election, of which also intensified the volatility of global financial market. Though concerns over the potential impact from Brexit have been slightly lifted, the global economy remains deeply ambivalent in the coming year towards the subsequent negotiations of trade deals between Britain and the European Union and the controversial speech and policies made by the newly elected U.S. president. In the past year, electronics industry continued operating in a challenging environment where end market demand remained sluggish as a result of mobile device approaching maturity with minimum specification upgrade to stimulate replacement cycle. While Pegatron was not immune from the headwind facing in the industry, the Company carefully managed its impact by continuously pursuing product and customer diversification which consequently helped the Company penetrating into new products and application. Despite slight decline on year over year basis, Pegatron's consolidated revenue in 2016 had again achieved over one trillion New Taiwan Dollars.

Financial Performance

The consolidated revenue of 2016 reached NT$1,157.7 billion, declined by 4.6% from NT$1,213.7 billion in 2015 with gross margin of 5.4%. Profit attributable to owners of the parent was NT$19.3 billion, declined by NT$4.5 billion from NT$23.8 billion in the previous year. Consequently earning per share reached NT$7.50 in 2016. Decline in revenue and profitability was attributable to softening end market demand for electronics. In 2016, consolidated revenue declined on year over year basis across three major product segments, while Communication segment has the highest revenue contribution, followed by Computing and Consumer Electronics segments.

Technical Capability and Operating Highlights

IoT technology is flourishing in the past few years and the demand for smart connectivity devices is on the growing trend, especially with the launch of smart home products imbedded with voice control technology which provide a clear direction of how IoT technology can be applied in daily life. In addition, VR (virtual reality) and AR (augmented reality) technologies are also adopted and applied in various fields, including gaming, industry, education, etc. As these devices require a combination of hardware and software capabilities to integrate with technologies in computing, communication, video, audio, optics, etc, Pegatron, with the solid foundation in research and development and well recognized core competence in technology integration, has the competitive edge to provide value added services to brand customers. In order for Pegatron to prepare itself for the next wave of growth, not only did the Company go through organization overhaul, but also continue investing in automation technologies so as to improve manufacturing efficiency and expand customer and product base.

Awards and Social Responsibility

Apart from operational achievement, Pegatron also actively responds to stakeholders' concerns on corporate sustainability, and continues to promote the awareness of human rights, safety & health and environmental protection. We continue to introduce these core elements into our management system and integrate the concept of sustainability into our corporate strategy. With the rising focus on effective supply chain management, Pegatron, as a member of the EICC, is committed to assisting our suppliers to comply with Pegatron's Supplier Code of Conduct. Not only do we strengthen advocacy in CSR requirements at annual supplier conference, but also put more emphasis on preparing CSR report, which demonstrates the economic, environmental and social aspects of Pegatron. Through this process, the Company can assess its performance on corporate social responsibility and continue making improvement thereof. Pegatron's performance on sustainable development was recognized by external parties. The Company was ranked the top 5% of listed companies in "The Second Corporate Governance Evaluation" held by Taiwan Stock Exchange. Furthermore, the Company was also selected as "2016 Channel News Asia Sustainability Top 100 Raking". Going forward, Pegatron, as a responsible corporate citizen, will continue to strengthen corporate governance, improve corporate sustainability, and encourage our suppliers to follow suit and take effective actions on reinforcing environmental protection as well as making social improvement.

Outlook '

Looking forward to 2017, Pegatron expects growth momentum to resume across Communication, Computing and Consumer Electronics segments by striving for new customers and expanding collaborations with existing customers. On top of the stable growth expected from three major product segments, Pegatron will continue implementing its long term strategy in product diversification, pursuing manufacturing efficiency, allocating resources and reinforcing technologies applicable to areas including IoT, automation, smart manufacturing, automotive electronics, etc. For people development and talent retention, we will continue providing opportunities and offering multiple training channels to our employees to enhance their skillset, accumulate experiences by collaborating with senior professional and encourage them to excel alongside the Company. After a challenging year in 2016, we anticipate 2017 to be a year of growth and we are working hard to generate better value to our shareholders.

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

Chairman T.H. Tung 

President and CEO S.J. Liao 

2. Company Profile

2.1 Date of Incorporation: June 27th, 2007

2.2 Company Milestones

June 2007	● Pegatron Corporation ("the Company") was incorporated with a paid-in capital of NT$1 million.
Nov 2007	● Increased paid-in capital to NT$50 million by capital injection
Jan 2008	● Increased paid-in capital to NT$16,050 million by issuing 1,600,000,000 shares to inherit the DMS (design and manufacturing services) unit from Asustek Computer Inc ("Asustek").
Apr 2008	● Merged 100% owned subsidiary, Asusalpha Computer Inc., in order to streamline corporate resources.
Jun 2008	● Became the member of EICC (Electronic Industry Code of Conduct) ● Increased paid-in capital to NT$18,846 million by issuing 279,628,141 shares in exchange for 100% ownership of Unihan Corporation with Asustek. After the share exchange, Unihan became the Company's wholly owned subsidiary.
Dec 2008	● The Company was awarded the world's first Energy using Product (EuP) certificate by DNV (DET NORSKE VERITAS).
Feb 2009	● Acquired Top Quark Limited for US$6.04 million in order to provide more comprehensive services of communication products to customers.
Apr 2009	● Completed the world's first Product Category Rule for Notebook PC products, which can be served as the key reference for Environmental Product Declaration (EPD) as officially announced on the website of Global TYPE III Environmental Product Declaration Network (GEDnet).
Jul 2009	● Acquired 100% shareholding of Powtek (Shanghai) Co., Ltd so as to conduct business in mainland China and expand the market share in China.
Oct 2009	● Assisted key customers received the world's first TYPE III Environmental Product Declaration for N51V series Notebook PC awarded by Environment and Development Foundation (EDF). ● Assisted key customers received the world first Carbon Footprint Certificate for N51V series Notebook PC awarded by DNV (DET NORSKE VERITAS).
Nov 2009	● Increased NT$4,014 million through capitalization of profits and the paid-in capital amounted to NT$22,861 million.
Dec 2009	● In order to streamline organization structure and reduce management cost, a key subsidiary, Protek (Shanghai) Limited, merged with another key subsidiary, North Tec Asia (Shanghai) Limited, and the former one is the surviving company. ● In order to expand business, a key subsidiary, Maintek Computer (Suzhou) Co., Ltd, increased capital of US$34 million. ● Assisted customers achieving key environmental certifications such as EPEAT, EU Flower and Taiwan Green Market. For more than 55 products.
Jan 2010	● The Company's Board of Directors, acting on behalf of the Company's AGM pursuant to the Company Law, approved the merger with Pegatron International. Upon the completion of the merger, the Company is the surviving company.
Mar 2010	● The Company's application for being a public company was approved.

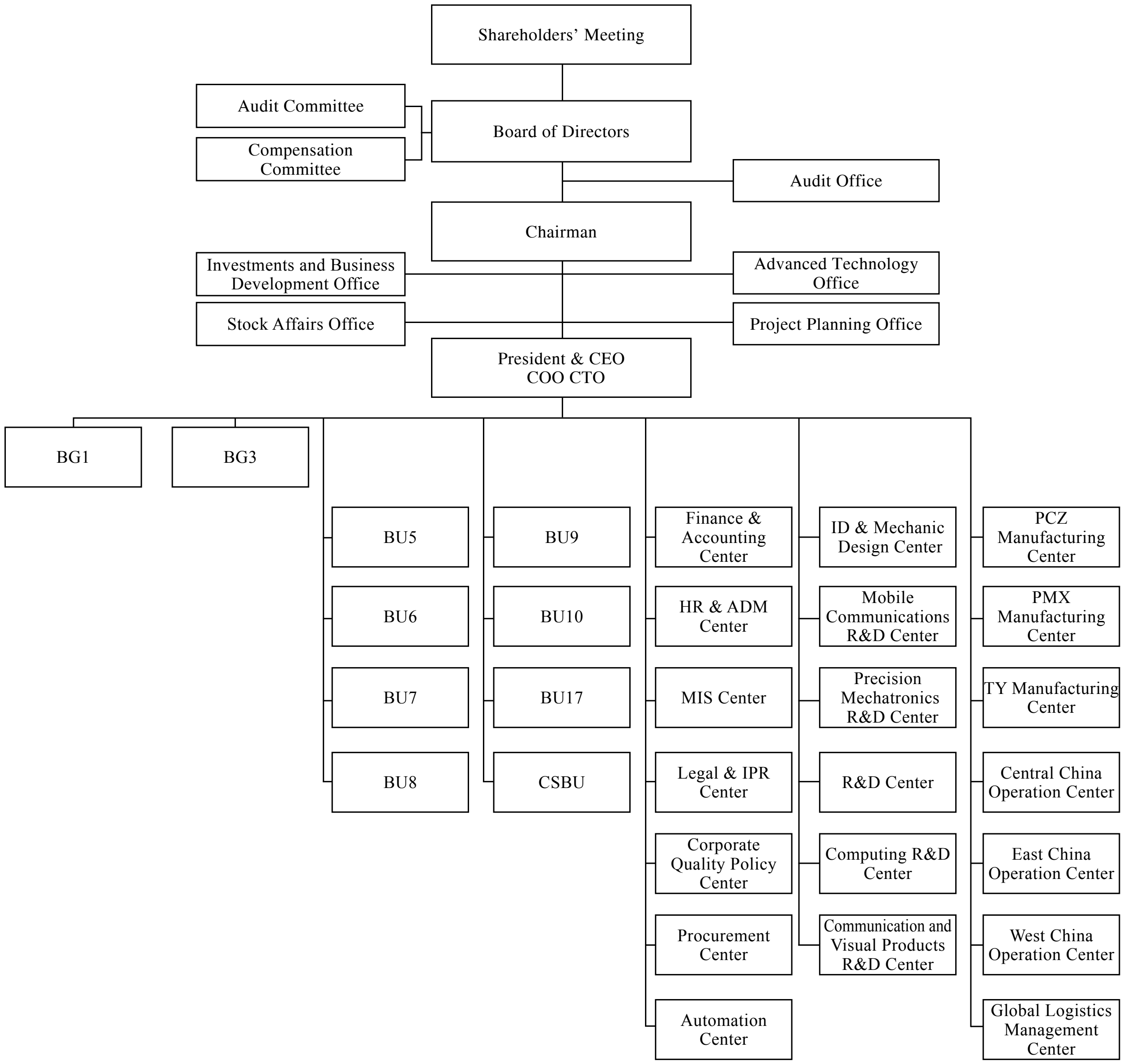
Jun 2010	● Approved the merger with Pegatron International by issuing 2,286,064 thousands shares after cancelling 2,286,054 thousands shares previously issued by Pegatron International. The paid-in capital amounted to NT$22,861 million. ● The Company was officially listed on the Taiwan Stock Exchange.
Aug 2010	● The Company issued GDRs on Luxemburg Stock Exchange
Sep 2010	● DNV (DET NORSKE VERITA) awarded the Company with A+ certification for the 2009 CSR Report based on Global Reporting Initiative G3 format. ● The Company received ISO 14064-1 Greenhouse Gases Inventory Verification.
Nov 2010	● The Company's Board of Directors approved the cancellation of 29,697,000 shares of treasury stock. Subsequently, the paid-in capital reduced to NT$22,563,669 thousand dollars. Assisted key customers received the world first PAS 2050 and ISO 14067-1 Carbon Footprint Certificate awarded by DNV (DET NORSKE VERITA).
Nov 2011	● The Company was awarded for top 100 companies in Taiwan by 2011 Taiwan Companies Innovation Survey organized by Industrial Development Bureau, Ministry of Economic Affairs and cosponsored by Business Next Magazine.
Feb 2012	● The Company issued the Euro Convertible Bonds of US$300 million on Singapore Stock Exchange.
Oct 2012	● The Company, being the first of its peers in the DMS (design, manufacturing & service) industry, was awarded the 2011 National Sustainable Development Award by National Council for Sustainable Development, Executive Yuan.
Jan 2013	● Issuance of 33,938,000 shares for Employee Restricted Stock Award and paid-in capital increased to NT$22,903 million. ● The Company's subsidiary "Casetek Holdings Limited" listed on Taiwan Stock Exchange.
Oct 2013	● Issuance of 6,062,000 shares for Employee Restricted Stock Award and paid-in capital increased to NT$23,161 million.
Dec 2013	● The Company was awarded the 2013 Industrial Sustainable Excellence Award – Enterprise Class by Industrial Development Bureau, Ministry of Economic Affairs. ● Merged 100% owned subsidiary, Unihan Corporation, in order to consolidate corporate resources, reduce operation cost and enhance operation efficiency.
Feb 2015	● The Company's Euro Convertible Bonds of US$300 million were fully converted to 232,406,616 shares.
Sep 2015	● Issuance of 39,678,000 shares for Employee Restricted Stock Award and paid-in capital increased to NT$26,033 million.
May 2016	● The Company's board of Directors approved the cancellation of 26,410,000 shares of treasury stock. Subsequently, the paid-in capital reduced to 25,760,683 thousand dollars.

3. Corporate Governance

3.1 Organization Structure

3.1.1 Organization Chart

As of 02/28/2017



3.1.2 Department Functions

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

Department	Main Responsibilities
ID & Mechanic Design Center	Developing mechanical and industrial design and providing support to each business unit for technology needed for each project
Computing R&D Center	Developing technologies for digital electronics and providing support to business units for relevant technology development
Mobile Communications R&D Center	Developing technologies for handheld devices and providing support to business units for relevant technology development
Communication and Visual Products R&D Center	Developing technologies for communication and visual products and providing support to business units for relevant technology development
Precision Mechatronics R&D Center	Developing technologies for precision mechatronics, optics and acoustics and developing technologies shared among each business unit
HR & ADM Center	Corporate human resource administration, construction and maintenance, labor safety and health planning and execution
Finance & Accounting Center	Corporate finance, accounting and tax planning and execution
Legal & IPR Center	Corporate legal affairs, legal counseling, litigation, patents, licensing and other intellectual property management
MIS Center	Internal & external network system planning, integration and design
Business Group 1	Design, manufacturing and services of computing and consumer electronics
Business Group 3	Design, manufacturing and services of handheld devices and multimedia players
Business Unit 5	Design, manufacturing and services of main boards and systems for large size customers
Business Unit 6	Design, manufacturing and services of communication and visual products
Business Unit 7	Design, manufacturing and services of game console products and tablets PCs
Business Unit 8	Design, manufacturing and services of main boards and systems for small and medium size customers
Business Unit 9	Design, manufacturing and services of metal casings and mold for products
Business Unit 10	Design, manufacturing and services of industrial PCs
Business Unit 17	Design, manufacturing and services of server products

3.2 Board of Directors and Management Team

3.2.1 Introduction of Board of Directors

As of 02/28/2017

Title / Name	Nationality	Gender	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
						Shares	%	Shares	%	Shares	%	Shares	%		
Chairman T.H. Tung	R.O.C	Male	05/18/2010	3	06/21/2016	92,817,309	3.57	92,817,309	3.60	6,074,490	0.24	-	-	Master degree in Computer and Communication Engineering, National Taipei University of Technology Honorary PH.D in Engineering, National Taipei University of Technology Vice Chairman of Asustek Computer Inc. (“Asus”)	Chairman and Group CEO of Pegatron Corp. Director of Kinsus Interconnect Technology Corp. Director of Asrock Incorporation Director of AzureWave Technologies, Inc. Chairman of Pegavision Corp. Chairman of Lumens Digital Optics Inc. Chairman of Asus Investment Co., Ltd. Chairman of Asuspower Investment Co., Ltd. Chairman of Asustek Investment Co., Ltd. Chairman of Ri-Kuan Metal Corporation Director of FuYang Technology Corp. Director of Casetek Holdings Limited (Cayman) Director of Magnificent Brightness Ltd. Director of Casetek Holdings Ltd. Director of Protek Global Holdings Ltd. Director of AMA Holdings Ltd. Director of Grand Upright Technology Limited Director of Aslink Precision Co., Ltd Director of EZHi Technologies, Inc. Chairman of Eslite Foundation for culture and Arts Director of Eslite Spectrum Corp Director of The Alliance Cultural Foundation Director of Hanguang Education Foundation Chairman of Taipei Computer Association Director of National Performing Arts Center Director of Koo Foundation Sun Yat-Sen Cancer Center Director of Lung Yingtai Cultural Foundation Director of ANDREW T.HUANG Medical Education Promotion Fund Director of Fair Winds Foundation Director of Bridge Across the Strait Foundation

Title / Name	Nationality	Gender	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
						Shares	%	Shares	%	Shares	%	Shares	%		
Deputy Chairman Jason Cheng	R.O.C	Male	05/18/2010	3	06/21/2016	4,178,773	0.16	3,891,773	0.15	13,524	0.00	-	-	Master degree in Electrical Engineering, University of Southern California President and CEO of Pegatron Corp. Deputy General Manager of Asus	Deputy Chairman and Deputy Group CEO of Pegatron Corp. Chairman of AzureWave Technologies, Inc. Chairman of Casetek Holdings imited(CAYMAN) Chairman of FuYang Technology Corp. Director of Asus Investment Ltd. Director of Asuspower Investment Ltd. Director of Asustek Investment Ltd. Director of RI-KUAN METAL Corp. Director of Pegatron Czech s.r.o. Chairman of Pegatron USA Director of Pegatron Logistic Service Inc. Director of Alcor Micro Corp.
Director C.I. Chia	R.O.C	Male	05/18/2010	3	06/21/2016	200,186	0.01	200,186	0.01	-	-	-	-	BBA, National Taiwan University MBA, University of Wisconsin-Madison Vice President, Citibank, N.A. Taipei Branch President, Individual Financial Services Group, Bank SinoPac	Director of Yangtze Associates Independent Director of Ardentec Corporation Supervisor of Airiti Inc.
Director C.V. Chen	R.O.C	Male	05/18/2010	3	06/21/2016	-	-	-	-	-	-	-	-	LL.B., National Taiwan University LL.M., University of British Columbia LL.M., Harvard Law School S.J.D., Harvard Law School Vice Chairman & Secretary-general of Straits Exchange Foundation (SEF) President of The Red Cross Society of The Republic of China	Chairman and Managing Partner of Lee and Li Attorneys-At-Law Adjunct Professor of Law at National Chengchi University Adjunct Professor of Law at Soochow University Director of Lee and Li Foundation Director of Asia Cement Corporation Director of Novartis Taiwan Director of Koo Foundation Sun Yat-Sen Cancer Center Director of Cheng Hsin General Hospital

Title / Name	Nationality	Gender	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
						Shares	%	Shares	%	Shares	%	Shares	%		
Director S.C. Ting	R.O.C	Male	06/21/2016	3	06/21/2016	-	-	-	-	-	-	-	-	PH.D. in International Politics, The Fletcher School of Law and Diplomacy MALD, The Fletcher School of Law and Diplomacy, Tufts University B.A. in Political Science, National Taiwan University Legislator, The Legislative Yuan, Republic of China Associate Professor, Graduate School of Political Science, National Taiwan University Visiting Scholar, Fairbank Center, Harvard University Visiting Scholar, Hoover Institution, Stanford University Deputy Executive Director, Central Policy Committee, KMT	Chairman of Chinese Taipei Basketball Association Director of Cheng Hsin General Hospital Director of Chinese Blood Donation Association Chairman of Bridge Across the Strait Foundation
Director T.K. Yang	R.O.C	Male	06/21/2016	3	06/21/2016	-	-	-	-	-	-	-	-	Ph.D of Business Management, National Chengchi University Political Deputy Minister, the Ministry of Finance, R.O.C. Chairman of Bank of Taiwan Executive Secretary of National Development Fund, Executive Yuan President of China Development Industrial Bank Associate Professor of MBA at National Chengchi University	Chairman of Yangtze Associates President of Huiyang Private Equity Fund Co., Ltd. Director of Asustek Computer Inc. Independent Director of ASROCK Incorporation Independent Director of DBS BANK Director of TTY Biopharm Company Limited Director of Taiwan Stock Exchange Director of CHIEN KUO Construction Co., LTD. Director of Airiti Inc.

Title / Name	Nationality	Gender	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
						Shares	%	Shares	%	Shares	%	Shares	%		
Director DAI-HE Investment Co., Ltd. Rep. : S. Chi	R.O.C	Male	06/21/2016	3	06/21/2016	370,000	0.01	370,000	0.01	-	-	-	-	Bachelor of Economics, National Taiwan University Master degree in Economics, National Taiwan University Ph.D. in Economics, Case Western Reserve University Assistant Professor, Department of Economics, Ohio State University Associate Professor, Professor and Department Chair of Economics, National Taiwan University Dean of School of Management at National Central University Professor and Director of Graduate Institute of Industrial Economics at National Central University Visiting Professor of Freie Universität Berlin, FU Berlin Deputy Minister of Council for Economic Planning and Development, Executive Yuan Chief Negotiator of Taiwan's accession to General Agreement on Trade in Services (GATS) Deputy chairman of Asia-Pacific Economic Cooperation, APEC Premier of Taiwan Academy of Banking and Finance Chairman of Taiwan Stock Exchange Minister without Portfolio of Executive Yuan	Chair Professor of Shin Hsin University Independent Director of SinoPac Holdings Independent Director of SinoPac Securities Corp. Independent Director of Asia Cement Corp. Independent Director of Adimmune Corp. Chair Professor of Soochow University

Title / Name	Nationality	Gender	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
						Shares	%	Shares	%	Shares	%	Shares	%		
Director HONG-YE Investment Co., Ltd. Rep. : S.J. Liao	R.,O.C	Male	06/21/2016	3	06/21/2016	2,600,000	0.10	2,600,000	0.10	-	-	-	-	Bachelor degree in Industrial and Business Management, Tatung Institute of Technology Chief Operating Officer of Pegatron Corp. Senior Vice President of Unihan Corp.	President and CEO of Pegatron Corp. President of Pegatron Japan Inc. Director of AMA Precision Inc. Director of Asuspower Corporation Director of Asuspower Investment Co., Ltd. Director of KAEDAR Electronics(KUNSHAN) Co.,Ltd. Executive Director of KAI CHUAN Electronics(CHONGQING) Co.,Ltd. Supervisor of FuYang Technology Corp.
Independent Director C.B. Chang	R.O.C.	Male	05/18/2010	3	06/21/2016	-	-	-	-	-	-	-	-	B.S., Statistics, National Chengchi University Deputy General Manager of China Development Industrial Bank Manager of Far Eastern Textile Ltd.	Director of Polytronic Technology Corp. Independent Director and Managing Director of Far Eastern International Bank Independent Director of Raydium Semiconductor Corp. Independent Director of Standard Foods Corporation
Independent Director C.B. Huang	R.O.C	Male	06/21/2016	3	06/21/2016	80,745	0.00	80,745	0.00	1,108,202	0.04	-	-	Electrical Engineering, National Taipei Institute of Technology President & GM of Havix Electronics Co., Ltd.	President & GM of Havix Electronics Co., Ltd. Independent Director of Kinsus Interconnect Technology Corp

Title / Name	Nationality	Gender	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
						Shares	%	Shares	%	Shares	%	Shares	%		
Independent Director C.S. Yen	.R.O.C.	Male	05/18/2010	3	06/21/2016	-	-	-	-	-	-	-	-	Provincial Keelung Senior High School Group President of Landis Hotels and Resorts Country Manager of American Express Inc. Taiwan General Manager of the Grand Hotel Chairman of Taiwan Visitors Association Pacific Asia Travel Association (PATA) Young Presidents' Organization (YPO) Asia Conference. Chairman for Asia Pacific region of The Leading Hotels of The World	Independent Director of Shinkong Insurance Co., Ltd. Director of NSFG Foundation Director of C. C. Social Welfare Foundation Director of Dwen An Social Welfare Foundation Director of Koo Foundation Sun Yat-Sen Cancer Center Director of Andrew T. Huang Medical Education Promotion Foundation Director of Lung Yingtai Cultural Foundation Director of Long Yen Foundation Director of T.T. Chao Cultural & Educational Foundation Director of Wistro Foundation Chairman of The Alliance Cultural Foundation Director of Eslite Foundation for Culture and Arts Director of WT Education Foundation Director of Kang Wen Culture & Education Foundation Director of USI Education Foundation Chairman of Junyi School for Innovative Learning Chairman of Anthroposophy Education Foundation Director of Kehua Culture & Education Foundation
Director Ted Hsu (Note 1)	R.O.C	Male	05/18/2010	3	06/19/2013	56,153,713	2.45	56,353,713	2.17	13,146,829	0.51	-	-	EMBA , National Chiao Tung University Deputy General Manager of Asus	Deputy Chairman of Pegatron Corp. Chairman of Asrock Incorporation. Chairman of Asuspower Investment Co., Ltd. Chairman of AzureWave Technologies, Inc. Chairman of eBizprise Inc. Director of Asuspower Corp. Chairman of Asiarock Technology Ltd. Director of Advantech Co. Ltd Director of ASMedia Technology Inc. Director of Medicus Tek Inc. Director of Pegavision Corp.

Title / Name	Nationality	Gender	Date First Elected	Term (Years)	Date Elected	Shareholding when Elected		Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
						Shares	%	Shares	%	Shares	%	Shares	%		
Director K.C. Liu (Note 2)	R.O.C	Male	05/18/2010	3	06/19/2013	161,490	0.01	161,490	0.01	-	-	-	-	Bachelor degree in Communication Engineering, National Chiao Tung University Founder of Advantech Corp	Chairman of Advantech Co. Ltd Chairman of Advantech foundation Chairman of Yan Hua Xing Ye Electronic(SHHQ) Chairman of Advantech Investment Fund - A Co., Ltd. (Advantech Fund - A) Chairman of Advanixs Corporation Chairman of Advantech Technology (China) Company Ltd. (AKMC) Chairman of Shanghai Advantech Intelligent Services Co., Ltd. (AINS) Chairman of Xi'an Advantech Software Ltd. (AXA) Chairman of Advantech Intelligent Service (AiST) Chairman of ACA Digital Corporation Chairman of Advantech Japan Co. Ltd.(AJP) Director of AIDC Investment Corp. Chairman of K and M Investment Co., Ltd. Director of Advantech Europe B.V.(AEU) Director of Advantech Technology Co., Ltd.(ATC) Director of HK Advantech Technology Co., Ltd((HK) ATC) Director of Advantech Automation Corp.(BVI)(AAC(BVI)) Managing Director of Spring Foundation of NCTU Director of B+B Smartworx Inc.
Independent Director C. Lin (Note 3)	R.O.C	Male	05/18/2010	3	06/19/2013	-	-	-	-	-	-	-	-	Master degree in Department of Public Finance, National Chengchi University Ph.D. Economics, University of Illinois Director General, Bureau of Finance, Taipei City Government Minister, Directorate General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. Minister of Finance of the R.O.C. Chairman of Vanguard International Semiconductor Corporation	Adjunct Professor of Economics at National Taiwan University Director of AIG Taiwan Insurance Co., Ltd. Director of TTY Biopharm Independent Director of Casetek Holdings Limited (Cayman). Independent Director of Inotera Memories, Inc. Director of PharmaEngine, Inc.

Note 1：Mr. Ted Hsu resigned from his position effective on 04/29/2016. The current shareholding is updated to 04/29/2016, and their current positions are updated to 02/29/2016.
Note 2：Mr. K.C. Liu resigned from his position effective on 06/21/2016. The current shareholding is updated to 06/21/2016, and their current positions are updated to 02/29/2016.
Note 3：Mr. C. Lin resigned from his position effective on 05/13/2016. The current shareholding is updated to 05/13/2016, and their current positions are updated to 02/29/2016.
Note 4: Current shareholding included the employee restricted stocks, which are under the custody of the Trust.

Major Shareholders of the Institutional Shareholders

As of 02/28/2017

Name of Institutional Shareholders	Major Shareholders of the Institutional Shareholders
Dai-He Investment Co., Ltd.	Hong-Ye Investment Co., Ltd (99.11%), C.T. Chen (0.30%), J.J. Wei (0.30%), S.P. Yang (0.29%)
Hong-Ye Investment Co., Ltd	T.H. Tung (92.08%), M.F. Shih (2.44%), E.L. Tung (2.44%), K.V. Tung (2.44%), I.S. Lin (0.12%), J.J. Wei (0.12%), S.P. Yang (0.12%), C.R. Wu (0.12%), M.L. Chung (o.12%)

Major Shareholders of the Major Shareholders that are Juridical Persons

As of 02/28/2017

Name of Institutional Shareholders	Major Shareholders of the Institutional Shareholders
Hong-Ye Investment Co., Ltd	T.H. Tung (92.08%), M.F. Shih (2.44%), E.L. Tung (2.44%), K.V. Tung (2.44%), I.S. Lin (0.12%), J.J. Wei (0.12%), S.P. Yang (0.12%), C.R. Wu (0.12%), M.L. Chung (o.12%)

3.2.2 Professional Qualifications and Independence Analysis of the Board Directors

As of 02/28/2017

Criteria / Name	Met One of the Following Professional Qualification Requirements with at Least Five Years Work Experience			Independence Criteria(Note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
T.H. Tung	-	-	V	-	-	-	V	V	V	V	V	V	V	0
Jason Cheng	-	-	V	-	-	V	V	V	V	V	V	V	V	0
C.I. Chia	-	-	V	V	V	V	V	V	V	V	V	V	V	1
C.V. Chen	V	V	V	V	V	V	V	V	V	-	V	V	V	0
S.C. Ting	V	V	V	V	V	V	V	V	V	V	V	V	V	0
T.K. Yang	V	V	V	V	V	V	V	-	V	V	V	V	V	2
S. Chi	V	-	V	V	V	V	V	V	V	V	V	V	-	4
S.J. Liao	-	-	V	-	-	V	V	V	V	V	V	V	-	0
C.B. Chang	-	-	V	V	V	V	V	V	V	V	V	V	V	3
C.B. Huang	-	-	V	V	V	V	V	V	V	V	V	V	V	1
C.S. Yen	-	-	V	V	V	V	V	V	V	V	V	V	V	1
Ted Hsu (Note 2)	-	-	V	-	-	-	V	V	V	V	V	V	V	0
K.C. Liu (Note 3)	-	-	V	V	V	V	V	V	V	V	V	V	V	0
C. Lin (Note 4)	V	-	V	V	V	V	V	V	V	V	V	V	V	2

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

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

Note 2: Mr. Ted Hsu resigned from his position effective on 04/29/2016. The aforementioned information is updated to 02/29/2016.
Note 3: Mr. K.C. Liu resigned from his position effective on 06/21/2016. The aforementioned information is updated to 02/29/2016.
Note 4: Mr. C. Lin resigned from his position effective on 05/13/2016. The aforementioned information is updated to 02/29/2016.

3.2.3 Introduction of the Management Team

As of 02/28/2017

Title / Name	Nationality	Gender	On-board Date	Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
				Shares	%	Shares	%	Shares	%		
Group CEO T.H. Tung	R.O.C.	Male	01/01/2008	92,817,309	3.60	6,074,490	0.24	-	-	Master degree in Computer and Communication Engineering, National Taipei University of Technology Honorary PH.D in Engineering, National Taipei University of Technology Vice Chairman of Asus	Refer to Introduction of Board of Directors
Deputy Group CEO Ted Hsu (Note 1)	R.O.C.	Male	01/01/2008	56,353,713	2.17	13,146,829	0.51	-	-	EMBA , National Chiao Tung University Deputy General Manager of Asus	Refer to Introduction of Board of Directors
Deputy Group CEO Jason Cheng (Note 2)	R.O.C.	Male	01/01/2008	3,891,773	0.15	13,524	0.00	-	-	Master degree in Electrical Engineering, University of Southern California President and CEO of Pegatron Corp. Deputy General Manager of Asus	Refer to Introduction of Board of Directors
Senior Vice President Hsu-Tien Tung (Note 3)	R.O.C.	Male	08/01/2008	304,000	0.01	-	-	-	-	Bachelor degree in Electrical Engineering National Taiwan University Associate Vice President of Asus	Director of Ability Enterprise Co., Ltd. Chairman of Top Quark Ltd. Director of Digitek (Chongqing) Ltd. Chairman of Asrock Incorporation
President and CEO S.J. Liao (Note 4)	R.O.C.	Male	11/02/2012	1,451,856	0.06	6,093	0.00	-	-	Bachelor degree in Industrial and Business Management, Tatung Institute of Technology Chief Operating Officer of Pegatron Corp. Senior Vice President of Unihan Corp.	Refer to Introduction of Board of Directors
Vice President Yean-Jen Shue (Note 5)	R.O.C.	Male	08/01/2008	806,432	0.03	4,175	0.00	-	-	Ph.D. Electrical Engineering University of Florida Associate Vice President of Asus	Director of Kai Jia Computer Accessory Co., Ltd. Director of Kai He Computer Accessory (Suzhou) Co., Ltd. Director of Casetek Holdings Limited (Cayman)

Title / Name	Nationality	Gender	On-board Date	Current Shareholding (Note)		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
				Shares	%	Shares	%	Shares	%		
Chief Operating Officer and Senior Vice President Te-Tzu Yao (Note 6)	R.O.C.	Female	08/01/2008	679,109	0.03	-	-	-	-	M.S. Psychology, National Taiwan University MBA in International Management, Thunderbird, The American Graduate School of International Management Chief Staff, CEO Office, Asus Vice President of Material Management, Wistron Corp General Auditor, Chief Logistic Officer, AVP of Global Operation, Acer Inc.	Director of AzureWave Technologies Inc. President of FuYang Technology Inc.
Vice President Kuo-Yen Teng	R.O.C.	Male	08/01/2008	583,309	0.02	-	-	-	-	College degree in Electronic Engineering National Taipei Institute of Technology Associate Vice President of Asus	None
Vice President Tsung-Jen Ku Lai	R.O.C	Male	08/01/2008	681,278	0.03	6,991	0.00	-	-	Bachelor degree in Industrial Engineering Tunghai University Associate Vice President of Asus	. Director of Pegatron Technology Service Inc. Director of Pegatron Service Singapore Pte. Ltd. Director of Pegatron Service Korea Llc. Chairman of AMA Precision Inc. Representative of Pegatron Service Holland B.V.
Vice President En-Bair Chang	R.O.C.	Male	02/01/2008	521,213	0.02	-	-	-	-	Master degree in Industrial Design Pratt Institute Associate Vice President of Asus	Director of Kaedar Trading Ltd. Director of Kaedar Holdings Ltd. Chairman of Slitek Holdings Ltd. Director of Wilson Holdings Ltd.

Title / Name	Nationality	Gender	On-board Date	Current Shareholding (Note)		Spouse & Minor Shareholdings		Shareholding by Nominee Arrangement		Experience (Education)	Selected Current Positions
				Shares	%	Shares	%	Shares	%		
Vice President Shih-Chi Hsu	R.O.C.	Male	08/01/2008	145,967	0.01	-	-	-	-	Bachelor degree in Mechanical Engineering National Taiwan Institute of Technology Associate Vice President of Asus	None
Vice President Ming-Tung Hsu	R.O.C.	Male	08/01/2008	453,624	0.02	8,219	0.00	-	-	College degree in Industrial Engineering National Taipei Institute of Technology Associate Vice President of Asus	Representative of FuYang Electronics (Suzhou) Corporation
Vice President Kuang-Chih Cheng	R.O.C.	Male	08/01/2008	174,946	0.01	4,324	0.00	-	-	Master degree in Computer Science and Information Engineering Tamkang University Associate Vice President of Asus	None
Vice President Tian-Bao Chang	R.O.C.	Male	08/01/2008	693,101	0.03	-	-	-	-	College degree in Transportation Management Chungyu Institute of Technology Senior Manager of Asus	Director of Protek (Shanghai) Ltd. Director of Powtek (Shanghai) Co., Ltd. Director of Runtop (Shanghai) Co., Ltd. Director of Core-Tek (Shanghai) Ltd.
Vice President Chih-Hsiung Chen	R.O.C.	Male	07/01/2010	796,609	0.03	-	-	-	-	Master in Electrical Engineering Tufts University Vice President of Asus	None
Senior Vice President of RD & Engineering Pei-Chin Wang (Note 7)	R.O.C.	Male	10/03/2011	597,949	0.02	-	-	-	-	Master degree in Electrical Engineering, National Taiwan University Vice President of Asus	None
Chief Financial Officer Chiu-Tan Lin	R.O.C.	Male	02/01/2008	270,000	0.01	-	-	-	-	Master degree in Business Administration Tunghai University Deputy Chief Investment Officer of Asus	Chairman of Starlink Electronics Corp. Supervisor of Powtek (Shanghai) Co., Ltd. Supervisor of Digitek (Chongqing) Ltd. Supervisor of Speedtech Corp. Ltd

Title / Name	Nationality	Gender	On-board Date	Current Shareholding (Note)		Spouse & Minor Shareholdings		Shareholding by Nominee Arrangement		Experience（Education）	Selected Current Positions
				Shares	%	Shares	%	Shares	%		
Vice President Hsi-Wen Lee	R.O.C.	Male	08/01/2012	209,390	0.01	-	-	-	-	Master degree in Mechanical Engineering, National Taiwan University Senior Manager of Asus	None
Chief Technology Officer and Senior Vice President Chung Yu Huang (Note 8)	R.O.C.	Male	11/02/2012	595,630	0.02	-	-	-	-	Ph. D. Electrical Engineering, University of Southern California Bachelor, Electrical Engineering, National Taiwan University Associate Vice President of Asus	None
Vice President Chen-Yu Feng	R.O.C.	Male	08/01/2014	587,795	0.02	30,000	0.00	-	-	Master degree in Computer Science, National Chiao Tung University Associate Vice President of Unihan Corp. Senior Director of Asus	None
Vice President Shaing-Shaing Wu	R.O.C.	Female	07/01/2014	250,000	0.01	-	-	-	-	Master degree in Business Administration, University of St. Thomas Vice Chairman of OFCO Industrial Corp.	Director of Kinsus Interconnect Technology Corp. Director of Pegavision Investment Co., Ltd. Director of OFCO Industrial Corp. Director of Asus Investment Ltd. Director of Asustek Investment Ltd. Supervisor of FuYang Techology, Inc. Director of Tong Hsing Electronic Industries, Ltd. Director of Eslite Corporation.

Note: Current shareholding included the employee restricted stocks, which are under the custody of the Trust.
Note 1: Mr. Ted Hsu resigned from his position effective on 04/30/2016. The shareholding is updated to 04/29/2016, and his selected current positions are updated to 02/29/2016.
Note 2: Mr. Jason Cheng new position effective on 07/01/2016.
Note 3: Mr. Hsu-Tien Tung new position effective on 07/01/2016.
Note 4: Mr. S.J. Liao new position effective on 07/01/2016.
Note 5: Mr. Yean-Jen Shue resigned from the Management Team with new position effective on 06/01/2016. His shareholding is updated to 06/01/2016.
Note 6: Ms. Te-Tzu Yao new position effective on 07/01/2016.
Note 7: Mr. Pei-Chin Wang new position effective on 07/01/2016.
Note 8: Mr. Chung Yu Huang new position effective on 07/01/2016.

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

3.2.4.1 Remuneration Paid to Directors

Unit: NT$ thousands

Title/ Name	Remuneration								Total remuneration (A+B+C+D) as a % of net income		Compensation Earned by a Director Who is an Employee of Pegatron or its Consolidated Entities								Total remuneration (A+B+C+D+E+F+G) as a % of net income		Compensation paid to directors from non-consolidated affiliates
	Base Compensation(A)		Severance Pay and Pensions(B)		Compensation to Directors(C) (Note)		Allowances(D)				Base Compensation, Bonuses, and Allowances (E)		Severance Pay and Pensions (F)		Employee Compensation (G)						
	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron		From all consolidated entities		From Pegatron	From all consolidated entities	
															Cash	Stock	Cash	Stock			
Chairman T.H. Tung Director Ted Hsu (Note 1) Deputy Chairman Jason Cheng Director K.C. Liu (Note 2) Director C.I. Chia Director C.V. Chen Director S.C. Ting Director T.K. Yang Director DAI-HE Investment Co., Ltd. Rep: S. Chi	0	1,836	0	0	113,430	132,370	0	92	0.59%	0.69%	115,210	116,024	0	0	37,740	0	43,621	0	1.38%	1.52%	0

Title/ Name	Remuneration								Total remuneration (A+B+C+D) as a % of net income		Compensation Earned by a Director Who is an Employee of Pegatron or its Consolidated Entities								Total remuneration (A+B+C+D+E+F+G) as a % of net income		Compensation paid to directors from non-consolidated affiliates
	Base Compensation(A)		Severance Pay and Pensions(B)		Compensation to Directors(C) (Note)		Allowances(D)				Base Compensation, Bonuses, and Allowances (E)		Severance Pay and Pensions (F)		Employee Compensation (G)						
	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron		From all consolidated entities		From Pegatron	From all consolidated entities	
															Cash	Stock	Cash	Stock			
Director HONG-YE Investment Co., Ltd. Rep: S.J. Liao	Same as above	Same as above	Same as above	same as above	same as above	same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above	Same as above
Independent Director C.B. Chang																					
Independent Director C. Lin (Note 3)																					
Independent Director C.B. Huang																					
Independent Director C.S. Yen																					
In addition to the above information, do directors provide any consultancy service to all consolidated entities and what is its remuneration in the most recent year: 0																					

Note 1：Mr. Ted Hsu resigned from his position effective on 04/29/2016.
Note 2：Mr. K.C. Liu resigned from his position effective on 06/21/2016.
Note 3：Mr. C. Lin resigned from his position effective on 05/13/2016.

Bracket	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company	Companies in the financial report	The company	Companies in the financial report
Below NT$ 2,000,000	S.J. Liao	S.J. Liao	-	-
NT$2,000,000(Included) ~ NT$5,000,000(Excluded)	C. Lin Ted Hsu K.C. Liu S.C. Ting T.K. Yang C.B. Huang DAI-HE Investment Co., Ltd. Rep.: S. Chi	K.C. Liu S.C. Ting T.K. Yang DAI-HE Investment Co., Ltd. Rep: S. Chi	C. Lin K.C. Liu S.C. Ting T.K. Yang C.B. Huang DAI-HE Investment Co., Ltd. Rep: S. Chi	K.C. Liu S.C. Ting T.K. Yang DAI-HE Investment Co., Ltd. Rep: S. Chi
NT$5,000,000 (Included)~ NT$10,000,000(Excluded)	C.B. Chang C.V. Chen C.I. Chia C.S. Yen HONG-YE Investment Co., Ltd. Rep.: S.J. Liao	C. Lin Ted Hsu C.B. Chang C.V. Chen C.I. Chia C.S. Yen C.B. Huang HONG-YE Investment Co., Ltd. Rep.: S.J. Liao	C.B. Chang C.V. Chen C.I. Chia C.S. Yen HONG-YE Investment Co., Ltd. Rep.: S.J. Liao	C. Lin C.B. Chang C.V. Chen C.I. Chia C.S. Yen C.B. Huang HONG-YE Investment Co., Ltd. Rep.: S.J. Liao
NT$10,000,000(Included) ~ NT$15,000,000(Excluded)	Jason Cheng	-	Ted Hsu	Ted Hsu
NT$15,000,000 (Included)~ NT$30,000,000(Excluded)	T.H. Tung	Jason Cheng	-	-
NT$30,000,000 (Included)~ NT$50,000,000(Excluded)	-	T.H. Tung	S.J. Liao	S.J. Liao
NT$50,000,000(Included) ~ NT$100,000,000(Excluded)	-	-	T.H. Tung Jason Cheng	T.H. Tung Jason Cheng
Over NT$100,000,000	-	-	-	-
Total	15	15	15	15

3.2.4.2 Compensation Paid to President and Vice President

Unit: NT$ thousands

<table>
<tr><th rowspan="3">Title/Name</th><th colspan="2">Salary(A)</th><th colspan="2">Severance Pay and Pensions (B)</th><th colspan="2">Bonuses and Allowances (C)</th><th colspan="4">Employee Compensation (D)</th><th colspan="2">Total remuneration (A+B+C+D) as a % of net income</th><th rowspan="3">Compensation paid to directors from non-consolidated affiliates</th></tr>
<tr><th rowspan="2">From Pegatron</th><th rowspan="2">From all consolidated entities</th><th rowspan="2">From Pegatron</th><th rowspan="2">From all consolidated entities</th><th rowspan="2">From Pegatron</th><th rowspan="2">From all consolidated entities</th><th colspan="2">From Pegatron</th><th colspan="2">From all consolidated entities</th><th rowspan="2">From Pegatron</th><th rowspan="2">From all consolidated entities</th></tr>
<tr><th>Cash</th><th>Stock</th><th>Cash</th><th>Stock</th></tr>
<tr><td>Group CEO
T.H. Tung</td><td rowspan="11">81,230</td><td rowspan="11">88,250</td><td rowspan="11">0</td><td rowspan="11">0</td><td rowspan="11">217,862</td><td rowspan="11">228,241</td><td rowspan="11">99,090</td><td rowspan="11">0</td><td rowspan="11">104,971</td><td rowspan="11">0</td><td rowspan="11">2.06%</td><td rowspan="11">2.18%</td><td rowspan="11">240</td></tr>
<tr><td>Deputy Group CEO
Ted Hsu
(Note 1)</td></tr>
<tr><td>Deputy Group CEO
Jason Cheng
(Note 2)</td></tr>
<tr><td>Senior Vice President
Hsu-Tien Tung
(Note 3)</td></tr>
<tr><td>President and CEO
S.J. Liao
(Note 4)</td></tr>
<tr><td>Vice President
Yean-Jen Shue
(Note 5)</td></tr>
<tr><td>Chief Operating Officer and
Senior Vice President
Te-Tzu Yao
(Note 6)</td></tr>
<tr><td>Vice President
Tsung-Jen Ku Lai</td></tr>
<tr><td>Vice President
Kuo-Yen Teng</td></tr>
<tr><td>Vice President
En-Bair Chang</td></tr>
<tr><td>Vice President
Shih-Chi Hsu</td></tr>
</table>

Title/Name	Salary(A)		Severance Pay and Pensions (B)		Bonuses and Allowances (C)		Employee Compensation (D)				Total remuneration (A+B+C+D) as a % of net income		Compensation paid to directors from non-consolidated affiliates
	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron	From all consolidated entities	From Pegatron		From all consolidated entities		From Pegatron	From all consolidated entities	
							Cash	Stock	Cash	Stock			
Vice President Kuang-Chi Cheng	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above	Same as Above
Vice President Tian-Bao Chang													
Vice President Ming-Tung Hsu													
Vice President Chih-Hsiung Chen													
Senior Vice President of RD & Engineering Pei-Chin Wang (Note 7)													
Chief Technology Officer and Senior Vice President Chung Yu Huang (Note 8)													
Vice President His-Wen Lee													
Vice President Shaing-Shaing Wu													
Vice President Chen-Yu Feng													

Note 1: Mr. Ted Hsu resigned from his position effective on 04/30/2016.
Note 2: Mr. Jason Cheng new position effective on 07/01/2016.
Note 3: Mr. Hsu-Tien Tung new position effective on 07/01/2016.
Note 4: Mr. S.J. Liao new position effective on 07/01/2016.
Note 5: Mr. Yean-Jen Shue new position effective on 06/01/2016, and resigned from Management Team
Note 6: Ms. Te-Tzu Yao new position effective on 07/01/2016.
Note 7: Mr. Pei-Chin Wang new position effective on 07/01/2016.
Note 8: Mr. Chung Yu Huang new position effective on 07/01/2016.

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

3.2.4.3 Employee Profit Sharing Granted to Management Team

Unit: NT$ thousands

Title	Name	Stock (Fair Market Value)	Cash	Total	Ratio of Total Amount to Net Income (%)
Group CEO	T.H. Tung	0	103,390	103,390	0.53%
Deputy Group CEO (Note 1)	Ted Hsu				
Deputy Group CEO (Note 2)	Jason Cheng				
Senior Vice President (Note 3)	Hsu-Tien Tung				
President and CEO (Note 4)	S.J. Liao				
Vice President	Chen-Yu Feng				
Vice President	Ming-Tung Hsu				
Vice President	Kuang-Chih Cheng				
Vice President	Kuo-Yen Teng				
Vice President	Tsung-Jen Ku Lai				
Chief Operating Officer and Senior Vice President (Note 6)	Te-Tzu Yao				
Vice President	Shih-Chi Hsu				
Vice President (Note 5)	Yean-Jen Shue				
Vice President	En-Bair Chang				
Vice President	Tian-Bao Chang				
Vice President	Chih-Hsiung Chen				
Vice President	Shaing-Shaing Wu				
Senior Vice President of RD & Engineering (Note 7)	Pei-Chin Wang				
Chief Financial Officer	Chiu-Tan Lin				
Chief Technology Officer and Senior Vice President (Note 8)	Chung Yu Huang				
Vice President	Hsi-Wen Lee				

Note 1: Mr. Ted Hsu resigned from his position effective on 04/30/2016.
Note 2: Mr. Jason Cheng new position effective on 07/01/2016.
Note 3: Mr. Hsu-Tien Tung new position effective on 07/01/2016.
Note 4: Mr. S.J. Liao new position effective on 07/01/2016.
Note 5: Mr. Yean-Jen Shue new position effective on 06/01/2016, and resigned from Management Team
Note 6: Ms. Te-Tzu Yao new position effective on 07/01/2016.
Note 7: Mr. Pei-Chin Wang new position effective on 07/01/2016.
Note 8: Mr. Chung Yu Huang new position effective on 07/01/2016.

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

Total remuneration paid by the Company and by all companies included in the consolidated financial statements for the most recent two fiscal years to directors, presidents and vice presidents of the Company are as follows:
Net Income of year 2015: NT$23,811,625 thousand dollars
Net Income of year 2016: NT$19,339,815 thousand dollars

NT$ thousands; %

Year	Total remuneration paid to directors, presidents and vice presidents		Ratio of total remuneration paid to directors, presidents and vice presidents to net income (%)	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
2015	424,702	461,077	1.78%	1.94%
2016	511,612	560,794	2.65%	2.90%

The ratio of remuneration paid to directors, presidents and vice presidents of the Company and the companies in the consolidated financial statements in the last two years to the net income was 1.78% and 1.94% in 2015 and 2.65% and 2.90% in 2016, respectively.

Pursuant to Article 14-6 of Securities and Exchange Act, our Board of Directors approved the establishment of Compensation Committee, appointment of committee members and related internal regulations on August 25, 2011. Since the establishment of Compensation Committee, members of the committee shall exercise the utmost good faith and perform the following duties:

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

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

3.3 Implementation of Corporate Governance

3.3.1 Board of Directors

A total of 9 (A) meetings of the Board of Directors were held in 2016. The directors' attendance status is as follows:

Title	Name	Attendance in person (B)	By Proxy	Attendance rate (%)【B/A】	Remarks	
Chairman	T.H. Tung	7	2	77.8%	Renewal of office	Pegatron's 4th session of Board of Directors was elected at 2016 Annual General Shareholders' Meeting. All directors continue in office. Tenure of the session is from 21st June, 2016 to 20th June, 2019.
Director	Ted Hsu	4	0	100.0%	Resigned on 2016/04/29	
Director	Jason Cheng	8	0	88.9%	Renewal of office	
Director	K.C. Liu	3	1	60.0%	Term expired	
Director	C.I. Chia	9	0	100.0%	Renewal of office	
Director	C.V. Chen	7	0	77.8%	Renewal of office	
Director	T.K. Yang	4	0	100.0%	New office assumed	
Director	S.C Ting	4	0	100.0%	New office assumed	
Director	DAI-HE Investment Co., Ltd. Rep. : S. Chi	4	0	100.0%	New office assumed	
Director	HONG-YE Investment Co., Ltd. Rep. : S.J. Liao	4	0	100.0%	New office assumed	
Independent Director	C. Lin	4	1	80.0%	Resigned on 2016/05/13	
Independent Director	C.S. Yen	8	0	88.9%	Renewal of office	
Independent Director	C.B. Chang	9	0	100.0%	Renewal of office	
Independent Director	C.B. Huang	4	0	100.0%	New office assumed	

Remarks:

1. There were no circumstances referred to Article 14-3 of Securities and Exchange Act, nor resolutions objected by independent directors in writing, on record or subject to qualified opinions in 2016.
2. There were no recusals of directors due to conflict of interest in 2016.
3. Measures taken to strengthen the functionality of the Board:
   The Board complies with the "Rules Governing the Conduct of Board Meetings" which has been established according to statutory regulations. Chief Internal Audit and Chief Financial Officer also report to the Board regarding the status of internal audit and finance and relevant reports are provided to the directors for their reference.
4. There was no feedback from independent directors that requires further action from the Company in 2016.

3.3.2 Audit Committee

A total of 6 (A) meetings of the audit committee were held in 2016. The independent directors' attendance status is as follows:

<table>
<tr><th>Title</th><th>Name</th><th>Attendance in person (B)</th><th>By Proxy</th><th>Attendance rate (%)【B/A】</th><th colspan="2">Remarks</th></tr>
<tr><td>Independent Director</td><td>C. Lin</td><td>3</td><td>0</td><td>100%</td><td>Resigned on 2016//05/13</td><td rowspan="4">Pegatron's 4th session of Board of Directors was elected in 2016 Annual General Shareholders' Meeting.
The Audit Committee comprises three Independent Directors of new session.</td></tr>
<tr><td>Independent Director</td><td>C.B. Chang</td><td>6</td><td>0</td><td>100%</td><td>Renewal of office</td></tr>
<tr><td>Independent Director</td><td>C.S. Yen</td><td>6</td><td>0</td><td>100%</td><td>Renewal of office</td></tr>
<tr><td>Independent Director</td><td>C.B. Huang</td><td>3</td><td>0</td><td>100%</td><td>New office assumed</td></tr>
</table>

Remarks:

1. There were no circumstances referred to in Article 14-5 of Securities and Exchange Act, nor agendas which were not approved by the Audit Committee but otherwise resolved by two thirds or more of all directors in 2016.
2. There were no recusals of independent directors due to conflicts of interests in 2016.
3. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2016:

   Members of Audit Committee hold the meeting with internal auditors and independent auditors periodically, reviewing business and financial results, internal audit plan and findings.

   The head of Internal auditors attended every Audit Committee and presented the findings of all audit reports in the quarterly meetings of Audit Committee.

   Independent auditors presented their findings on Company's financial result of the 2nd and 4th quarter in the meeting. All materials are recorded with meeting minutes.

3.3.3 Status of Compensation Committee:

Pursuant to Article 14-6 of Securities and Exchange Act, listed companies shall establish a compensation committee. In 2016, after the election of new session of directors, the Compensation Committee comprised three independent directors, Mr. C. B. Chang, Mr. C.S. Yen and Mr. C.B. Huang. Mr. C.B. Chang is the Chairman of the Compensation Committee. The Compensation Committee Charter is available on Market Observation Post System of Taiwan Stock Exchange.

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

Note1: The independence criteria corresponding boxes are ticked to indicate whether the directors or supervisors had met any of the following conditions during the two years prior to being elected or during the term of office:

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

Note2: If members of the committee are also serving as Board directors, please specify if the Company complies with Item 5, Article 6 of "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is listed on the Stock Exchange or Traded over the Counter".

Tenure of the third session of Compensation committee is from 21st June, 2016 to 20th June, 2019.

A total of 4 (A) meetings of the Compensation Committee were held in 2016. The status of attendance is as follows:

Title	Position	Name	Attendance in person (B)	By Proxy	Attendance rate (%) (B/A)	Remarks	
Chairman	Independent Director	C. Lin	2	0	100%	Resigned on 2016/05/13	Period of the post of the 3rd session of Compensation Committee will be the same as that of the 4th session of the Board of Directors.
Member	Independent Director	C.B. Chang	4	0	100%	Renewal of office	
Member	Independent Director	C.S. Yen	4	0	100%	Renewal of office	
Member	Independent Director	C.B. Huang	2	0	100%	New office assumed	

Other Information to be disclosed:

1. If Board of Directors did not adopt or revise the proposal made by the Compensation Committee, please specify the date, session, agendas and resolutions of the Board of Directors meeting and how the Company handled the proposal made by the Compensation Committee (If amount of the compensation approved by the Board of Directors is higher than that proposed by the Compensation Committee, please specify the reasons and differences in proposals.)

   None.

2. If any members of the Compensation Committee were against or reserved their opinions towards the resolutions, please specify the date, session, agendas, opinions of all members and how the opinions were handled.

   None.

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

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

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
3. Structure of Board of Directors and its responsibility (1) If the Board consisted of members from diverse background?	V		The Company's Corporate Governance Principles stated that the Board shall consist of members from diverse background. Current Board members are skilled in finance, accounting, legal, leadership, decision making, business management, etc.	None
(2) If the Company established any other functional committee in addition to Compensation Committee, Audit Committee as required by law?	V		The Company established Compensation Committee and Audit Committee and its policies and procedures. Apart from the above mentioned committees, the Company has not established any other functional committee.	
(3) If the Company established methods and procedures to assess the performance of the Board and conduct assessment on annual basis?	V		The Company's Compensation Committee takes all factors such as participation in the operation of the Company, etc. into consideration when conducting evaluation on each Board member. The evaluation is usually carried out in the second half of each year.	
(4) If the Company assess the independence of CPA periodically?	V		Each March, the Company evaluates the independence of CPA based on KPMG's Statement of Independence and items stated in Article 46 & 47 of Certified Public Accountant Act. (Note)	
4. If the Company established a unit or assigned a personnel to handle corporate governance related issues (including but not limited to providing assistance to board members and handling all tasks associate with annual general shareholders' meeting)	V		Stock Affairs Office is assigned to handle corporate governance related matters and the main responsibilities are as follows: 1. Planning the meeting schedules and agendas of the board of directors annually. Informing all directors 7	None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			days before the meeting is convened and provided them sufficient meeting information to understand the content of the relevant proposals. 2. Arranging the Shareholders' Meeting every year and uploading the notice, handbook and minutes of the meeting to MOPS in accordance with the laws and regulations. Handling amendment registration after the revision of Company's Corporate Articles of Incorporation and the election of directors. 3. Arranging professional training courses for directors every year and providing them the latest developments of laws and regulations relating to the operation of the company in order to assist them with legal compliance.	
5. If the Company established communication channel with stakeholders (including but not limited to shareholders, employee, customers, suppliers, etc.) and disclosed key corporate social responsibility issues frequently enquired by stakeholders on the designated area of the corporate website?	V		The Company set up Honest_Box@pegatroncorp.com on the designated area of the corporate website for communication with stakeholders. Designated personnel and contact information are available to handle all enquiries and respond to any key issues raised by stakeholders.	None
6. If the Company engaged professional transfer agent to host annual general shareholders' meeting?	V		The Company engaged Registrar & Transfer Agency Department of KGI Securities Co. Ltd. to host annual general shareholders' meeting.	None
7 Information Disclosure (1) If the Company set up a corporate website to disclose information regarding the Company's finance, business and corporate governance?	V		To ensure transparency of information, the Company set up Investor Relations section on the corporate website and disclose information regarding finance, business and corporate governance.	None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
(2) If the Company adopted any other information disclosure channels (e.g., maintaining an English-language website, appointing designated personnel to handle information collection and disclosure, appointing spokespersons, webcasting investors conference, etc)?	V		In addition to the role of spokesperson, the Company also has designated departments to collect and disclose information. Information disclosed on the corporate website is presented in both Chinese and English, while quarter result and webcast of investor conference are available on the corporate website as soon as applicable.	
8. If the Company had other important information to facilitate better understanding of the Company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	V		1. Employee rights and wellness are stated in internal policies as required by relevant laws and regulations. 2. The Company maintains good relationship with customers and suppliers and fulfills its duties as a responsible corporate citizen. 3. Internal control, auditing and self-evaluation procedures are in place. 4. The Company also purchases insurance coverage for its directors. Insurance coverage is available on MOPS. 5. In 2016, the directors have completed the training courses in accordance with Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies.	None
9. Any improvement made in accordance with the result of the most recent corporate governance evaluation conducted by TWSE? Any measures to be taken on the outstanding items?	V		The Company reported to the Board of Directors in January 2017 regarding the result of self-evaluation and the feasibility of its improvement plans to rectify non-compliance items under the commercial practices.	None

Note: The Company evaluates the independence of CPA based on items stated in Article 46 & 47 of Certified Public Accountant Act. The Evaluation Criteria are as below：

Article 46 of Certified Public Accountant Act－

A CPA may not engage in the following conduct:

1. Permit others to practice under his or her name.
2. Practice under the name of another CPA.
3. Accept employment from a non-CPA to perform CPA services.
4. Take advantage of one's position as a CPA to engage in improper industrial or commercial competition.

5. Perform practice related to matters in connection with which one is an interested party.
6. Use the title of CPA to act as a guarantor in matters beyond the scope of CPA services.
7. Purchase real or personal property under his or her management as a CPA.
8. Solicit, agree to accept, or accept unlawful benefit or compensation.
9. Solicit business by improper means.
10. Advertise for promotional purposes not related to commencement of business, office relocation, merger, accepting client engagements, or introduction of the CPA firm.
11. Disclose confidential information obtained in the performance of professional services without the permission of the appointing agency, client, or audited entity.
12. Engage in other conduct that could tarnish the reputation of CPAs, as specified by the competent authority.

Article 47 of Certified Public Accountant Act—

A CPA to whom any of the following circumstances applies may not contract to perform attestation on financial reports:

1. The CPA is currently employed by the client or audited entity to perform routine work for which he or she receives a fixed salary, or currently serves as a director or supervisor thereof.
2. The CPA has previously served for the client or audited entity as a director, supervisor, managerial officer, or an employee with material influence over attestation, and has been separated from the position for less than two years.
3. The CPA is a spouse, lineal relative, direct relative by marriage, or a collateral relative within the second degree of kinship of any responsible person or managerial officer of the client or audited entity.
4. The CPA, or the spouse or a minor child thereof, has invested in the client or audited entity, or shares in financial gains therewith.
5. The CPA, or the spouse or a minor child thereof, has lent or borrowed funds to or from the client or audited entity. However, this does not apply if the client is a financial institution and the borrowing or lending is part of a normal business relationship.
6. The CPA provides management consulting or other non-attestation services that affect his or her independence.
7. The CPA fails to comply with regulations, as prescribed by the competent authority with relevant jurisdiction, governing CPA rotation, handling accounting matters on behalf of clients, or other matters that affect his or her independence.

3.3.5 Implementation of Corporate Social Responsibility

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
1. Exercising Corporate Governance (1) If the Company established corporate social responsibility (“CSR”) policy or system and reviewed its implementation and effectiveness?	V		PureCSR management system has been established to oversee the Company’s corporate social responsibility. Based on the management system, our CSR related issues can be monitored and addressed. The Company not only sets up CSR objectives and targets, but also performs internal & external audits. After each audit, proposals containing corrective and preventive actions are reviewed by the management to ensure compliance and adequacy of management system. PureCSR Policy is as follows: 1. Abide by all environmental protection, labor, safety and health laws. 2. Conserve natural resources, and actively prevent pollution. 3. Reduce environmental impact and safety risks.	None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			4. Fulfill customer requirements and become a green enterprise. 5. Enable company-wide promotion of corporate social responsibility. 6. Encourage full participation from employees and conduct continuous improvement. The policy is disclosed on the Company's intranet and corporate website. http://www.pegatroncorp.com/csr/view/id/1	
(2) If the Company conducted CSR related trainings?	V		CSR trainings are conducted in accordance with internal management procedures and legal requirements. There are lectures and on-line trainings, including the trainings on occupational safety & health, business ethics, EICC code of conduct, CSR internal audit and the introduction of CSR management system. The concepts and obligations of corporate social responsibility are promoted via intranet, internal announcements and daily meetings, and CSR training materials is also combined into the new employee orientation.	None
(3) If the Company set up a unit exclusively or concurrently to execute CSR policies and if the Board appointed member(s) of management team to supervise and report its implementation status to the Board?	V		The CEO appointed by the Company's board of directors is the chairman of the PureCSR Steering Committee. The committee is consisted of the representative from CQPC, HR&ADM, Procurement, Customer Service, PR, Legal, Audit Office, Stock Affair Office, all BU/FU and regional CSR teams. The members identify their stakeholders based on their responsibilities and respond to stakeholders' concerns in their daily work. The CSR team has been set to manage the CSR related issues	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			and coordinate the cross-department issues via bi-weekly PureCSR Steering Committee meeting, so as to reach CSR goals and programs. CSR implementation status is periodically reported to the CEO and escalated to the Company's board of directors when appropriate.	
(4) If the Company adopted appropriate remuneration policies, integrated employee performance appraisal with CSR policies, and established a clear and effective incentive and discipline system	V		Compensation paid to workers complies with all applicable wage laws, including those relating to minimum wages, overtime hours and legally mandated benefits. Adjustment will be made with reference to the country economic index and industrial salary level. Regulations concerning employee evaluation, performance appraisal, and incentive and discipline system are fully disclosed internally and full time employees are required to participate in the performance appraisal periodically.	
2. Fostering a Sustainable Environment (1) If the Company endeavored to utilize resources more efficiently and utilized renewable materials which have a lower impact on the environment?	V		From product design, use of green materials, manufacturing to waste material management, reducing environmental impacts has always been one of our guiding principles. We apply the principles to the research, development and manufacturing of consumer electronics with an effort to reduce environmental impacts. The Company complies with customers' product specifications and quality requirements for the use of renewable materials.	None
(2) If the Company established proper environment management system based on the characteristics of	V		An international environmental management system, ISO 14001, is in place and certified by a third party	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
the industry where the Company belongs to?			periodically. Dedicated unit is set to implement the relevant requirements of ISO 14001. The certificate has been publicly disclosed on the company's official website.	
(3) If the Company monitored the impact of climate change on the Company's business operations, checked greenhouse gas inventory and established corporate strategies on energy conservation and reduction on carbon and greenhouse gas emission?	V		The risk of global climate change is addressed and the impacts on the business operations are evaluated. The Company actively takes steps to reduce the emissions of greenhouse gas (GHG) by performing GHG inventory, and conducts internal and external verification every year. The target is to reduce greenhouse gas emissions by 21% and electricity consumption by 24% in year 2020 per million revenue compared to that of year 2009 so as to show our commitment to energy saving and carbon reduction. The Company has been engaged in the Carbon Disclosure Project (CDP) since 2009 to assess the risks and opportunities of our daily operation for climate change.	
3. Preserving Public Welfare (1) If the Company followed relevant labor laws, and internationally recognized human rights principal, and established appropriate management policies and procedures?	V		As a corporate citizen and one of Electronic Industry Citizenship Coalition (EICC) members, the Company complies with EICC Code of Conduct, including international human right, labor standards, environmental & safety laws, ethics and confidentiality requirements. The internal CSR management system and audit process are implemented to ensure compliance.	None
(2) If the Company established grievance channel for employees and handled complaints appropriately?	V		One of the employee communication channels, i-PEGA BOX, is available and dedicated personnel are assigned to handle and follow up the progress. Opinion boxes and	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			other grievance mechanism are also in place at our global plants to effectively solve employees' problems.	
(3) If the Company provided safe and healthy working environment to employees and conducted relevant training on safety and health management to employees periodically?	V		An international occupational safety and health management system, OHSAS 18001, is in place and certified by a third party periodically. The certificate has been publicly disclosed on the company's corporate website. A safe and healthy work environment has been established through the implementation of daily inspections and audits. Besides, annual training programs were arranged according to legal requirements. We are committed to reduce the safety and health hazards of employees and take measures such as conducting health checkup, installing qualified first-aid personnel, eastablishing infirmaries and hiring nursing staff engaged in labor health services. Safety and health trainings are regularly implemented to prevent occupational hazards.	None
(4) If the Company established a periodical communication mechanism to employees and notified employees of significant changes that may impact the Company's operation in a proper manner?	V		We have set up multiple communication channels including i-PEGA BOX and employee hotlines. Opinion mailboxes and grievance mechanism are also in place in our global plants to effectively solve employees' problems. Employees can choose different channels depending on their needs. In order to ensure our employees knowing the company's operating status and directions, "CEO cafe", an easy party host by our CEO, Jason Cheng, is held regularly every year. This will help our employees to have in-depth understandings of the company's decision making processes.	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
(5) If the Company provided career planning, relevant training and skill development for employees?	V		In order to meet the strategy of talent nurturing and to build up a learning environment, Pegatron Group introduced “Individual Development Plan (IDP)” to help all employees to set their self-development plans according to the corporate and personal targets, and to implement the plan to become mature in their occupational filed. Through IDP, supervisors can support corresponding resources and assistances in profession or work skills according to the employees’ needs. Moreover, employees can set their own targets and develop skills by participating multidimensional learning activities.	None
(6) If the Company established any consumer protection measures with regard to the process of research and development, procurement, production, operations and services and its grievance channels?	V		The Company is dedicated in design, manufacturing and service (DMS), and does not have direct contact with consumers. Customer complaints are handled properly in accordance with the requirements of quality, green product, and CSR management system.	
(7) If the Company followed relevant laws and regulations and international guidelines on marketing and labeling of products and services?	V		The Company is dedicated in design, manufacturing and service (DMS), and does not have direct contact with consumers. For the labeling and marketing, the Company follows legal and customers’ requirements.	
(8) Prior to engaging commercial dealings, if the Company assessed whether the supplier had track record o negative impact on the environment and society?	V		The Company is a member of EICC (Electronic Industry Citizenship Coalition) and follows its code of conduct. In addition, we promote EICC to our supply chain to ensure our suppliers are responsible for the society and environment. Prior to engaging in commercial dealings,	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
(9) If the contracts with major suppliers stipulated a clause that allowed the Company to terminate or rescind the contract at any time shall the suppliers violate CSR policies and cause significant impact to the environment and society?	V		environment. Prior to engaging in commercial dealings, the Company makes assessment on suppliers' environmental and social performance, and avoids engaging with a supplier which violates its corporate social responsibility policy. All suppliers are required to sign Pegatron's Supplier Code of Conduct, which includes environmental, health and safety, labor and ethical standards to commit that their operations are in accordance with our CSR policy. Besides, we have also conducted CSR audits and put CSR related contents, including environmental protection and international human right into supplier self-evaluation checklist to ensure their operation meets our requirements. Compliance with CSR regulations and EICC Code of Conduct are included in the contract. If suppliers violate CSR regulations leading to penalty by authority or causing significant impact to the environment and society, they have to accept the Company's CSR audits and provide their improvement reports within deadline. The Company may terminate or rescind the contract if suppliers fail in the Company's CSR audits ultimately.	None
4. Enhancing Information Disclosure If the Company disclosed CSR report and other relevant information on its corporate website and Market Observation Post System?	V		CSR report is published on annual basis with the chapters of corporate governance, social, economic and environmental performances. It is disclosed on corporate website and Market Observation Post System by the request from the Authority. (http://pegatroncorp.com/csr/view/id5)	None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
5. If the Company established any guideline of corporate social responsibility in accordance with "Corporate Social Responsibility Best-Practice Principles for Listed Companies"? "Corporate Social Responsibility Best-Practice Principles" has been approved by Board of Directors in 2015. We also posted it on corporate website and MOPS. The implementation status is consistent with the principle. (http://www.pegatroncorp.com/investorsRelation/eng/internalpolicies.php)				
6. Other material information that helps to understand the operation of corporate social responsibility: There is a specific CSR section on the corporate website including CSR policy, target and management procedures. (http://www.pegatroncorp.com)				
7. Please provide further description for company product or corporate social responsibility report which is certified by relevant organization: The 2016 CSR report of the Company is edited based on core option of GRI Standards and will be verified by the 3rd party (BSI Taiwan) with the international verification standard of AA 1000 (2008) type 1 and moderate level of assurance. The verification statement will be attached in the CSR report after the verification is completed.				

3.3.6 Implementation of Ethical Corporate Management Best Practice Principles:

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

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

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

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

3.3.7 Corporate Governance Guideline and Regulations:

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

3.3.8 Other Important Information Regarding Corporate Governance: None

3.3.9 Internal Control System:

- **Declaration of internal control:** Please refer to page 50.
- **If the Company is requested by the SEC to retain CPA's service for examining internal control system, the Independent Auditor's Report must be disclosed:** None

Pegatron Corporation
Statement of Internal Control System

Date: March 14, 2017

Based on the findings of self-assessment, Pegatron Corporation states the following with regard to its internal control system in 2016:

1. Pegatron is fully aware that establishing, operating and maintaining an internal control system are the responsibilities of its Board of Directors and management. The aim of the internal control system is to provide reasonable assurance to effectiveness and efficiency of operations (including profitability, performance and safeguarding of assets), reliability, timeliness, transparency and regulatory compliance of financial reporting and compliance with of applicable laws, regulations and bylaws.

2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can only provide reasonable assurance of accomplishing the aforementioned three objectives. Moreover, the effectiveness of an internal control system may be subject to changes of environmental or circumstances. Nevertheless, the internal control system of Pegatron contains self-monitoring mechanism and Pegatron takes corrective actions whenever a deficiency is identified.

3. Pegatron evaluates the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control System by Public Companies (herein below, the “Regulations”). The criteria adopted by the Regulations identify five constituent elements of internal control based on the process of management control: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communications, and (5) monitoring activities. Each component further contains several items. Please refer to the Regulations for details.

4. Pegatron has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.

5. Based on the findings of the self-assessment mentioned in the preceding paragraph, Pegatron believes that, as of December 31, 2016, its internal control system (including its supervision and management of subsidiaries), as well as understanding the degree of achievement of its objectives concerning operational effectiveness and efficiency, reliability, timeliness, transparency and regulatory compliance of financial reporting, and compliance with the applicable laws, regulations and bylaws, were effective in design and operation, and reasonably assured the achievement of the above-stated objectives.

6. This Statement will be integral part of Pegatron’s Annual Report for the year 2016 and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171 and 174 of the Securities and Exchange Law.

7. This Statement has been passed by the Board of Directors in their meeting held on March 14, 2017 with zero of eleven attending directors expressing dissenting opinions, and the remainder all affirming the content of this Statement.

Pegatron Corporation

T.H. Tung
Chairman

S.J. Liao
President and Chief Executive Officer

3.3.10 The penalties delivered to the Company and the staffs of the Company, or the penalties delivered by the Company to the staffs for violations of internal control system, the major nonconformity, and the corrective action in the most recent years and up to the date of the annual report: None.

3.3.11 Major Resolutions of Shareholders' Meeting and Board Meetings

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

Pegatron's 2016 Annual General Shareholder Meeting was held in Taipei on June 21, 2016. At the meeting, shareholders presented in person or by proxy approved the following agendas:

(1) The 2015 Business Report and Financial Statements

(2) The proposal of 2015 Earning Distribution

Implementation status：Ex-dividend record date was on August 8, 2016. Cash dividend date was distributed on August 26, 2016 and cash dividends per share was NT$ 5.02974240

(3) The Issuance of Employee Restricted Award

Implementation status: Pegatron submitted the issuance plan to Securities and Futures Bureau on December 8th 2016 and received the approval on December 19th 2016.

(4) Election of the 4th session of Board of Directors

Implementation status: The Chairman and Vice Chariman were elected by the new session of Board of Directors after the AGM. Information of the Board of Directors has been registered at the Department of Commerce, MOEA.

(5) Release the Prohibition on Board of Directors from Participation in Competitive Business.

3.3.11.2 Major Resolutions of Board Meetings

Date	Major resolutions
01.21.2016	● Approved the endorsement for the credit line of Boardtek Computer (Suzhou) CO., LTD. with bank ● Approved the amendment to the Company's Article of Incorporation. ● Approved the share buy-back plan for share cancellation.
03.03.2016	● Approved the amendment to the Company's Article of Incorporation. ● Approved the scheduling of 2016 First Extraordinary Shareholders' Meeting.
03.17.2016	● Approved the appropriated remuneration of employees and directors in 2015Y. ● Approved 2015 business report and financial statements. ● Approved earnings distribution of year 2015 ● Approved the change of accountants due to the internal job rotation of the CPA firm ● Approved to hold the election for the fourth session of Board of Directors (including Independent Directors) ● Approved the proposal for releasing the prohibition on directors from participation in competitive business ● Approved the scheduling of 2016 Annual Shareholders' Meeting

	● Approved the proposal to issue 40,000,000 shares as employee restricted stock award to motivate employees in 2016
04.20.2016	● Approved to modify the details of the election for the fourth session of Board of Directors ● Approved to modify the details of Directors' nomination ● Approved the list of nominated candidates of new session directors by BOD ● Approved to invest in China (FUYANG ELECTRONICS (SUZHOU) CO., LTD.) under US$19M
05.10.2016	● Approved the 1st quarter 2016 consolidated financial report ● Approved the list of candidates of new session directors ● The board of directors elected Mr. Jason Cheng as Vice Chairperson ● Approved to extend the period of credit line for factoring AR
06.21.2016	● The board of directors elected Mr. TH Tung as Chairman ● The board of directors elected Mr. Jason Cheng as Vice Chairperson ● Approved the appointment of members of 3rd session compensation committee ● Approved the appointment of members of 2nd session audit committee ● Approved to release the prohibition on Vice President, Ms. Te-Tzu Yao, in competitive business
08.11.2016	● Aprroved the 2nd quarter consolidated financial report ● Approved the indirect investment US$45,000,000 in China subsidiary "PEGAGLOBE(KUNSHAN)Co., LTD."
09.27.2016	● Approved the "Procedures for Lending Funds and Endorsement & Guarantee" of FUYANG TECHNOLOGY CORPORATION. ● Approved the endorsement for the contract of COTEK ELECTRONICS (SUZHOU) CO., LTD.
11.10.2016	● Aprroved the 3rd quarter consolidated financial report
01.17.2017	● Approved the endorsement for the credit line of BOARDTEK COMPUTER (SUZHOU) CO., LTD. with bank
03.14.2017	● Approved the appropriated remuneration of employees and directors in 2016Y ● Approved 2016 business report and financial statements ● Approved earnings distribution of year 2016 ● Approved the amendment to the Company's Article of Incorporation ● Approved the scheduling of 2016 Annual Shareholders' Meeting

3.3.12 Major Issues of Record or Written Statement Made by Any Director Dissenting to Important Resolutions Passed by the Board of Directors in 2016 and to the date of the annual report: None.

3.3.13 Resignation or Dismissal of Personnel Involved in the Company :

As of 02/28/2017

Position	Name	Date of Appointment	Date of Termination	Reasons for Resignation
Deputy Chairman and Deputy Group CEO	Ted Hsu	01/01/2008	04/30/2016	Personal career planning
President and CEO	Jason Cheng	01/01/2008	06/30/2016	Position adjustment
Senior Vice President and Chief Operation Officer	S.J. Liao	11/02/2012	06/30/2016	Position adjustment
Senior Vice President and Chief Technology Officer	Hsu-Tien Tung	08/01/2008	06/30/2016	Position adjustment

3.4 CPA Fees

CPA Firm	CPA		Auditing Period	Note
KPMG	Kuo-Yang Tseng	Chi-Lung Yu	Jan 1, 2016 ~ Dec 31, 2016	

Unit: NT$ thousands

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

Service Items included in the CPA fees

Unit: NT$ thousands

CPA Firm	CPA	Fees	Non-Auditing Fees					Auditing Period	Note
			System Design	Industrial and commercial registration	HR	Others	Total		
KPMG	Kuo-Yang Tseng Chi-Lung Yu	9,770	0	140	0	1,787	1,927	2016/1/1~ 2016/12/31	Non-auditing services include R&D investment tax credit and tax consultant.

3.5 Information on Change of CPA:

3.5.1 Regarding the former CPA

<table>
<tr><td>Date of Change</td><td colspan="4">January 1, 2016</td></tr>
<tr><td>Reasons for the Change</td><td colspan="4">The original CPAs of the Company were Ulyos K.J. Maa (CPA A) and Charlott W.W. Lin (CPA B) from KPMG. Due to internal restructuring at KPMG, the CPAs of the Company were changed to Kuo-Yang Tseng (CPA C) and Chi-Lung Yu (CPA D), beginning January 1, 2016.</td></tr>
<tr><td rowspan="3">Describe whether the Company terminated or the CPA did not accept the appointment</td><td colspan="2">Parties / Status</td><td>CPA</td><td>The Company</td></tr>
<tr><td colspan="2">Termination of appointment</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">No longer accepted (continued) appointment</td><td>-</td><td>-</td></tr>
<tr><td>Other issues (except for unqualified issues) in the audit reports within the last two years</td><td colspan="4">None</td></tr>
<tr><td rowspan="6">Differences with the company</td><td rowspan="4">Yes</td><td>-</td><td colspan="2">Accounting principles or practices</td></tr>
<tr><td>-</td><td colspan="2">Disclosure of Financial Statements</td></tr>
<tr><td>-</td><td colspan="2">Audit scope or steps</td></tr>
<tr><td>-</td><td colspan="2">Others</td></tr>
<tr><td>None</td><td colspan="3">✓</td></tr>
<tr><td colspan="4">Remarks/specify details:</td></tr>
<tr><td>Other Revealed Matters</td><td colspan="4">None</td></tr>
</table>

3.5.2 Regarding the successor CPA

Name of accounting firm	KPMG
Name of CPA	Kuo-Yang Tseng and Chi-Lung Yu
Date of appointment	March 17, 2016
Consultation results and opinions on accounting treatments or principles with respect to specified transactions and the company's financial reports that the CPA might issue prior to the engagement.	None
Succeeding CPA's written opinion of disagreement toward the former CPA	None

3.6 If the chairman, president, and financial or accounting manager of the Company who had worked for the independent auditor or the related party in the most recent year, the name, title, and the term with the independent auditor or the related party must be disclosed:

None.

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

3.7.1 Information on Net Change in Shareholding

Unit: Share

Title	2016		01/01/2017-02/28/2017	
	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman and Group CEO T.H. Tung	-	-	-	-
Deputy Chairman and Deputy Group CEO Jason Cheng (Note 1)	(287,000)	-	-	-
Director C.I. Chia	56,000	-	-	-
Director C.V. Chen	-	-	-	-
Director S.C. Ting	-	-	-	-
Director T.K. Yang	-	-	-	-
Director HAI-HE Investment Co., Ltd Rep: S. Chi	-	-	-	-
Director S. Chi	-	-	-	-
Director HONG-YE Investment Co., Ltd. Rep. : S.J. Liao	-	-	-	-
President and CEO S.J. Liao (Note 2)				
Independent Director C.B. Chang	-	-	-	-
Independent Director C.B. Huang	-	-	-	-
Independent Director C.S. Yen	-	-	-	-
Director and Deputy Group CEO Ted Hsu (Note 3)	(250,000)	-	-	-
Director K.C. Liu (Note 4)	-	-	-	-
Independent Director C. Lin (Note 5)	-	-	-	-
Shareholder of 10% shareholding or more Asustek Computer Inc.	-	-	-	-
Senior Vice President Hsu-Tien Tung (Note 7)	(106,000)	-	-	-
Vice President Yean-Jen Shue (Note 10)	-	-	-	-
Chief Operating Officer and Senior Vice President Te-Tzu Yao (Note 6)	(82,000)	-	(20,000)	-
Vice President Kuo-Yen Teng	(41,000)	-	(5,000)	-
Vice President Tsung-Jen Ku Lai	(5,000)	-	-	-

Title	2016		01/01/2017-02/28/2017	
	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Vice President En-Bair Chang	-	-	-	-
Vice President Shih-Chi Hsu	(100,000)	-	-	-
Vice President Kuang-Chih Cheng	(19,000)	-	(8,000)	-
Vice President Tian-Bao Chang	-	-	-	-
Vice President Ming-Tung Hsu	(9,000)	-	-	-
Vice President Chih-Hsiung Chen	-	-	-	-
Chief Financial Officer Chiu-Tan Lin	(90,000)	-	(41,000)	-
Senior Vice President of RD & Engineering Pei-Chin Wang(Note 9)	(30,000)	-	-	-
Chief Technology Officer and Senior Vice President Chung Yu Huang (Note 8)	-	-	-	-
Vice President Hsi-Wen Lee	(66,000)	-	(3,000)	-
Vice President Shaing-Shaing Wu	-	-	-	-
Vice President Chen-Yu Feng	-	-	-	-

Note 1: Mr. Jason Cheng new position effective on 07/01/2016.
Note 2: Mr. S.J. Liao new position effective on 07/01/2016.
Note 3: Mr. Ted Hsu resigned from his position effective on 04/29/2016. Holding Increase (Decrease) of 2016 is from 01/01/2016 to his resignation Date.
Note 4: Mr. K.C. Liu resigned from his position effective on 06/21/2016. Holding Increase (Decrease) of 2016 is from 01/01/2016 to his resignation Date.
Note 5: Mr. C. Lin resigned from his position effective on 05/13/2016. Holding Increase (Decrease) of 2016 is from 01/01/2016 to his resignation Date.
Note 6: Ms. Te-Tzu Yao new position effective on 07/01/2016.
Note 7: Mr. Hsu-Tien Tung new position effective on 07/01/2016.
Note 8: Mr. Chung Yu Huang new position effective on 07/01/2016.
Note 9: Mr. Pei-Chin Wang new position effective on 07/01/2016.
Note 10: Mr. Yean-Jen Shue resigned from his position effective on 06/01/2016, and resigned from the management team. Holding Increase (Decrease) of 2016 is from 01/01/2016 to his resignation Date.
Note 11: The company elected the fourth session of Board of Directors on 06/21/2016. Holding Increase (Decrease) of 2016 is from the elected date to 12/31/2016
Note 12: Holding Increase (Decrease) included the employee restricted stocks, which are under the custody of the Trust.

3.7.2 Information of Shares Transferred: None

3.7.3 Information of Equity Pledged: None

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

As of 08/08/2016

Name	Shareholding		Spouse & Minor		Shareholding by Nominee Arrangement		The relationship between any of the Company's Top Ten Share holders		Remarks %
	Shares	%	Shares	%	Shares	%	Name	Relation	
Asustek Computer Inc. (Representative: Jonney Shih)	448,506,484	17.42	-	-	-	-	Jonney Shih	Chairman of Asustek Computer Inc.	-
T.H. Tung	92,337,309	3.59	6,074,490	0.23	-	-	-	-	-
Jonney Shih	67,032,290	2.60	-	-	-	-	Asustek Computer Inc.	Chairman	-
Cathay Life Insurance Co., Ltd	66,247,000	2.57	-	-	-	-	-	-	-
Ted Hsu	56,353,713	2.19	-	-	-	-	-	-	-
Citi (Taiwan) Bank in Custody for Government of Singapore Investment Corporation	52,453,957	2.04	-	-	-	-	-	-	-
Infinity Grow International Limited	38,505,000	1.50	-	-	-	-	-	-	-
Morgan Stanley & Co. International Plc.	36,701,573	1.43	-	-	-	-	-	-	-
CTBC Bank in Custody for Pegatron Corporation	32,511,600	1.26	-	-	-	-	-	-	-
Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds	30,144,897	1.17	-	-	-	-	-	-	-

3.9 Long-Term Investment Ownership

Unit: thousand shares; %; As of 12/31/2016

Long-Term Investment	Ownership by Pegatron (1)		Direct/Indirect Ownership by Directors and Management (2)		Total Ownership (1)+(2)	
	Shares	%	Shares	%	Shares	%
Asustek Investment Co., Ltd.	946,278	100.00	-	0	946,278	100.00
Asuspower Investment Co., Ltd.	932,845	100.00	-	0	932,845	100.00
Asus Investment Co., Ltd.	979,255	100.00	-	0	979,255	100.00
AMA Precision Inc.	33,500	100.00	-	0	33,500	100.00
Pegatron USA, Inc.	50	100.00	-	0	50	100.00
Pegatron Holland Holding B.V.	-	100.00	-	0	-	100.00
Pegatron Holding Ltd.	861,906	100.00	-	0	861,906	100.00
Unihan Holding Ltd.	199,110	100.00	-	0	199,110	100.00
AzureWave Technologies, Inc.	35,750	27.53	13,697	10.55	49,447	38.08

4. Capital and Shares

4.1 Capital and Shares

4.1.1 Type of Stock

As of 03/16/2017

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Share	2,574,944,871	425,055,129	3,000,000,000	Listed

4.1.2 Share Capital

As of 03/16/2017

Month/ Year	Par Value (NTD)	Authorized Capital		Paid-in Capital		Remark		
		Shares (1,000)	Amount (NT$1,000)	Shares (1,000)	Amount (NT$1,000)	Sources of Capital	Capital Increased by Assets Other than Cash	Date of Approval and Document No.
03/2016	10	3,000,000	30,000,000	2,602,761	26,027,615	Cancelling employee restricted stocks of NT$2,590 thousand	-	Note 1
06/2016	10	3,000,000	30,000,000	2,576,068	25,760,683	Cancelling of Treasury Stocks of NT$264,100 thousand, and Cancelling employee restricted stocks of NT$2,832 thousand	-	Note 2
09/2016	10	3,000,000	30,000,000	2,575,627	25,756,275	Cancelling employee restricted stocks of NT$4,408 thousand	-	Note 3
11/2016	10	3,000,000	30,000,000	2,575,169	25,751,695	Cancelling employee restricted stocks of NT$4,580 thousand	-	Note 4
02/2016	10	3,000,000	30,000,000	2,574,945	25,749,449	Cancelling employee restricted stocks of NT$2,246 thousand	-	Note 5

Note 1: 03/10/2016 Jin So Son Tzi No. 10501040500
Note 2: 06/03/2016 Jin So Son Tzi No. 10501112730
Note 3: 09/05/2016 Jin So Son Tzi No. 10501215160
Note 4: 11/29/2016 Jin So Son Tzi No. 10501276080
Note 5: 02/23/2017 Jin So Son Tzi No. 10601025860

4.1.3 Information for Shelf Registration: None

4.1.4 Composition of Shareholders

As of 08/08/2016; Units: share

Item	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	5	28	376	119,938	1,205	121,552
Shareholding (shares)	10	116,697,791	611,199,570	612,892,899	1,235,277,999	2,576,068,269
Percentage	0	4.53	23.73	23.78	47.96	100.00

4.1.5 Shareholding Distribution Status

Common Share (The par value for each share is NT$10)

As of 08/08/2016

Class of Shareholding (Unit : Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	64,871	18,059,083	0.70
1,000 ~ 5,000	46,095	92,166,192	3.58
5,001 ~ 10,000	5,426	41,207,517	1.60
10,001 ~ 15,000	1,566	19,478,513	0.76
15,001 ~ 20,000	877	16,086,374	0.62
20,001 ~ 30,000	793	20,018,001	0.78
30,001 ~ 50,000	547	21,537,000	0.83
50,001 ~ 100,000	466	33,543,761	1.30
100,001 ~ 200,000	224	31,836,499	1.24
200,001 ~ 400,000	227	64,491,589	2.50
400,001 ~ 600,000	110	53,928,038	2.09
600,001 ~ 800,000	69	48,378,870	1.88
800,001 ~ 1,000,000	38	34,384,333	1.33
over 1,000,001	243	2,080,952,499	80.79
Total	121,552	2,576,068,269	100.00

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

4.1.6 List of Major Shareholder

As of 08/08/2016

Shareholder's Name	Shareholding	
	Shares	Percentage
Asustek Computer Inc. (Representative: Jonney Shih)	448,506,484	17.42
T.H.Tung	92,337,309	3.59
Jonney Shih	67,032,290	2.60
Cathay Life Insurance Co., Ltd.	66,247,000	2.57
Ted Hsu	56,353,713	2.19
Citi (Taiwan) Bank in Custody for Government of Singapore Investment Corporation	52,453,957	2.04
Infinity Grow International Limited	38,505,000	1.50
Morgan Stanley & Co. International Plc.	36,701,573	1.43
CTBC Bank in Custody for Pegatron Corporation	32,511,600	1.26
Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds	30,144,897	1.17

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

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

Item	2015	2016	01/01/2017-03/16/2017
Market Price per Share (Note 1)			
Highest Market Price	98.40	86.8	85.30
Lowest Market Price	71.20	60.20	72.00
Average Market Price	85.32	74.60	79.05
Net Worth per Share (Note 2)			
Before Distribution	57.77	57.58	-
After Distribution	52.80	Undistributed	-
Earnings per Share			
Weighted Average Shares (thousand shares)	2,581,005	2,579,930	-
Diluted Earnings Per Share (Note 3)	9.23	7.50	-
Dividends per Share			
Cash Dividends	5.00	Undistributed	-
Stock Dividend			
• Dividends from Retained Earnings	-	-	-
• Dividends from Capital Surplus	-	-	-
Accumulated Undistributed Dividends (Note 4)	-	-	-
Return on Investment			
Price / Earnings Ratio (Note 5)	9.24	9.95	-
Price / Dividend Ratio (Note 6)	17.06	Undistributed	-
Cash Dividend Yield Rate (Note 7)	5.86%	Undistributed	-

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

calculated based on the trading amount and volume.

Note 2: Based on the shares issued for the year end and resolution for stock distribution in the shareholders' meeting the next year.

Note 3: If the stock dividend is to be adjusted retroactively, earning per share before and after the adjustment shall be listed.

Note 4: Pursuant to regulations of security issuance, the undistributed dividend can be accumulated till the year with retained earnings. However, the accumulated undistributed dividend shall be disclosed.

Note 5: Price / Earnings Ratio = Average Market Price / Earnings per Share

Note 6: Price / Dividend Ratio = Average Market Price / Cash Dividends per Share

Note 7: Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price

4.1.8 Dividend Policy and Execution Status

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

In Company' Articles of Incorporation provides that:

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

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

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

Moreover, in order to strengthen the dividend policy in Company's Article of Incorporation, Pegatron plans to amend Article 28-1 in the Annual General Shareholders' Meeting in 2017.

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

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

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

Article 28-1: The distribution of the dividends of the Company will be coordinated with the surplus of that year based on the principle of stabilization. Considering rapid changes occurring in the industry where the Company operates and potential funding needs to support long term business strategy, the Company established a balanced dividend policy. If the Company would set aside dividend under Article 28, the amount shall not be lower than 10% of distributable surplus of the fiscal year, and the cash dividend would be at least ten percent (10%) of the total dividend in the shareholders bonus to be distributed.

4.1.8.2 Proposed Dividend Distribution

The Board approved the proposal for 2016 dividend distribution at its meeting on March 14, 2017. The proposal will become effective according to the relevant regulations, upon the approval of shareholders at the Annual General Shareholders' Meeting on June 20, 2017.

Unit: NT$

Items	Amount	
	Subtotal	Total
Beginning Retained Earnings		22,441,128,206
Minus: Retirement of Treasury Stock		(973,750,518)
Beginning Retained Earnings		21,467,377,688
Add: Other Comprehensive Income for the Period		709,425
Compensation Cost Arising from Employee Restricted Stock Award		36,305,747
Net Profit After Tax		19,339,814,979
Distributable Net Profit		40,844,207,839
Minus: Special Reserve Reverse		(3,368,986,312)
Minus: 10% Legal Reserve		(1,933,981,498)
Minus: Cash Dividend		(12,873,915,645)
Unappropriated Retained Earnings		22,667,324,384

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

Not Applicable.

4.1.10 Compensation to Employees and Remuneration to Directors:

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

In Company' Articles of Incorporation provides that:

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

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

shall be determined by the board of directors.

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

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

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

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

4.1.10.3 Remuneration distribution to employees in 2016 resolved by the Board of Directors

a. Proposed remuneration to employees and remuneration to directors.

	Amount (NT$)
Remuneration to Employees	1,734,000,000
Remuneration to Directors	166,000,000

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

No stock based remuneration was distributed in 2016.

4.1.10.4 Distribution of remuneration to employees and remuneration to directors in 2015 resolved by the Annual Shareholders Meeting on Jun. 21, 2016.

	Amount (NT$)
Remuneration to Employees	2,072,000,000
Remuneration to Directors	203,000,000

Above cash bonus and compensation, being approved by the Board, has been expensed under the Company's 2015 income statements. There is no difference between the amounts approved in the shareholders' meeting and those of the estimation recognized in the financial statements.

4.1.11 Buyback of Common Stock

As of 03/16/2017

Treasury stocks in Batches	2nd Batch
Purpose of Buy-back	For shareholders' interest
Timeframe of Buy-back	01/22/2016 ~ 03/21/2016
Price range	NT$46.3 ~ 80[note]
Class, quantity of shares bought back	Common shares 26,410,000 shares
Value in NT$ of bought-back shares	NT$2,070,808,559
Shares sold/transferred	26,410,000

Treasury stocks in Batches	2nd Batch
Accumulated number of company shares held	0
Percentage of total company shares held (%)	0

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

4.2 Issuance of Corporate Bond: None.

4.3 Preferred Shares (with stock option): None.

4.4 Issuance of Global Depository Receipts:

As of 03/16/2017

Item \ Date of Issuance			August 9, 2010
Date of issuance (Process)			08/09/2010
Location and Issuance and Trade			Luxemburg Stock Exchange
Total Amount			Non applicable
Unit Price (in NT$ per GDS)			NT$37.70
Total Issuance			12,163,804
Source of Common Stock Registration			One GDS stands to five common share of Pegatron
Total Marketable Security Shares Recognized			Stands for 60,819,020 common shares of Pegatron
Rights and Obligations of GDR Holders			Same as those of common share holders (See Deposit Agreement and Custody Agreement for Details)
Trustee			Non applicable
GDR Institute			Citibank N.A.
Depositary Institute			Citibank Taiwan Limited
Outstanding GDSs (as of December 31, 2016)			6,250,269 GDSs
Issuance and Expense Amortization throughout the Issuance Period			Annual listing fees and accountant fees were borne by Pegatron
GDR Agreement and Depositary Agreement			See Deposit Agreement and Custody Agreement for Details
Market Price per unit (US$)	2016	Max.	US$13.57
		Min.	US$9.24
		Average	US$11.60
	As of March 16, 2017	Max.	US$13.90
		Min.	US$11.55
		Average	US$12.63

4.5 Employee Stock Option: None

4.6 Employee Restricted Stocks

4.6.1 Issuance of Employee Restricted Stocks

As of 02/28/2017

Type of Restricted Shares	Grant of 2014
Approval Date by the Authority	2014/12/09
Grant Date	2015/07/01
Number of Employee Restricted Stock Granted	39,678,000
Price of Issuance	NT$10
Percentage of Employee Restricted Stocks to Outstanding Common Shares	1.54%
Conditions for Exercise of Employee Restricted Stocks	a. Upon the first anniversary of receiving the restricted stocks, employees can exercise 20% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct. b. Upon the second anniversary of receiving the restricted stocks, employees can exercise 40% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct. c. Upon the third anniversary of receiving the restricted stocks, employees can exercise the remaining 40% of the restricted stocks, provided the employees fulfill the requirements specified in the annual appraisal of that year and have not violated any statutory laws and/or any of the following internal policies and regulations such as employment contract, none disclosure agreement, company code of conduct, behavior of business ethic and conduct.
Limitations to the Rights of Employee Restricted Stocks	a. Before fulfilling the vesting conditions, the restricted shares under the custody shall not be sold, pledged, transferred, and gave as gifts to others or any other means of disposal. b. Voting rights: To be conducted by the Trust in accordance with the relevant laws and regulations.
Custody of Employee Restricted Stocks	A total of 30,139,600 shares delivered to the Trust
Procedures for Non-Compliance of the	The Company can buy back and cancel all restricted stocks from any employee whom received restricted stocks but fail to comply with the conditions.

Type of Restricted Shares	Grant of 2014
Conditions	
Number of Employee Restricted Stocks Bought Back	1,768,355 (Note 1)
Number of Employee Restricted Stocks Free from Custody	7,770,045
Number of Employee Restricted Stocks under Custody	30,139,600
Number of Employee Restricted Stocks under Custody to Outstanding Common Shares (%)	1.17%
Impact on Shareholders' Equity	A. Potential expense: The number of restricted stocks proposed at 2014 Annual General Shareholders' Meeting is 40,000,000 shares at NT$10 as issuance price. The Company shall evaluate the fair value of the stocks on the issuance date and accrue relevant cost over the issuance period. The potential expense incurred is estimated at NT$2,110,782 thousands. In accordance with the conditions for exercising restricted stocks set forth in the preceding paragraph, the annually expensed amount was NT$796,363 thousands and NT$884,537 thousands in 2015 and 2016 respectively. The annually expensed amount is estimated at NT$357,225 thousands and NT$72,657 thousands in 2017 and 2018 respectively. B. Potential impact to dilution of earnings per share (EPS) and other factors that may affect shareholder's equity: Potential dilution of EPS based on the existing outstanding ordinary shares of 2,574,783,219 shares, is estimated at NT$0.31, NT$0.34, NT$0.14 and NT$0.03 in 2015, 2016, 2017 and 2018 respectively. Since the potential impact to EPS is limited, we do not expect any material impact to shareholders' equity.

Note 1：Public filings made regarding shares bought back from employees.

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

As of 02/28/2017; Unit: Shares; %; NT$

Position	Title	Name	Number of Employee Restricted Shares	Number of Employee Restricted Stocks to Outstanding Common Shares	Free from the Trust				Under the Trust			
					Number of Employee Restricted Stocks Free from Custody	Price of Issuance	Total Amount of Issuance	Number of Employee Restricted Stocks Free from Custody to Outstanding Common Shares (%)	Number of Employee Restricted Stocks under Custody	Price of Issuance	Total Amount of Issuance	Number of Employee Restricted Stocks under Custody to Outstanding Common Shares (%)
Management Team	Group CEO	T.H. Tung	7,210,000	0.28	1,392,000	10	13,920,000	0.05	5,568,000	10	55,680,000	0.22
	Deputy Group CEO (Note 1)	Ted Hsu										
	Deputy Group CEO (Note 2)	Jason Cheng										
	President and CEO (Note 4)	S.J. Liao										
	Chief Financial Officer	Chiu-Tan Lin										
	Senior Vice President (Note 3)	Hsu-Tien Tung										
	Chief Operating Officer and Senior Vice President (Note 6)	Te-Tzu Yao										
	Vice President	Kuo-Yen Teng										
	Vice President	Tsung-Jen Ku Lai										
	Vice President	En-Bair Chang										
	Vice President	Shih-Chi Hsu										
	Vice President	Kuang-Chih Cheng										
	Vice President	Tian-Bao Chang										
	Vice President	Ming-Tung Hsu										
	Vice President	Chih-Hsiung Chen										
	Senior Vice President of RD & Engineering (Note 7)	Pei-Chin Wang										
	Vice President	His-Wen Lee										
	Chief Technology Officer and Senior Vice President (Note 8)	Chung Yu Huang										
	Vice President	Shaing-Shaing Wu										
	Vice President	Chen-Yu Feng										

Position	Title	Name	Number of Employee Restricted Shares	Number of Restricted Employee Shares to Outstanding Common Shares	Free from the Trust				Under the Trust			
					Number of Employee Restricted Stocks Free from Custody	Price of Issuance	Total Amount of Issuance	Number of Employee Restricted Stocks Free from Custody to Outstanding Common Shares (%)	Number of Employee Restricted Stocks under Custody	Price of Issuance	Total Amount of Issuance	Number of Employee Restricted Stocks under Custody to Outstanding Common Shares (%)
Employee	Associate Vice President	Ka-Wai Kong	4,370,000	0.17	874,000	10	874,000	0.03	3,496,000	10	34,960,000	0.14
	Associate Vice President	Yu-Heng Lu										
	Associate Vice President	Wei-Pang Lee										
	Associate Vice President	Wen-Pin Li										
	Associate Vice President	Yi-Hsin Lee										
	Associate Vice President	Yi-Yung Wu										
	Associate Vice President	Ching-Ru Wu										
	Associate Vice President	Kuo-Jung Hsu										
	Special Assistant (Note 5)	Yean-Jen Shue										
	Senior Director	Jen-Chien Huang										
	Associate Vice President	Ting-Pang Huang										
	Associate Vice President	Hsiang-Chieh Huang										
	Senior Director	Chi-Liang Chen										
	Associate Vice President	Cheih-Tsung Chen										
	Associate Vice President	Hsin-Cheng Chen										
	Associate Vice President	Shing-Jung Kuo										
	Associate Vice President	Ying-Liang Kuo										
	Associate Vice President	Li-Ling Chao										
	Associate Vice President	Hsiu-Yu Pan										
	Associate Vice President	I-Sheng Tsai										
	Associate Vice President	Che-Yen Lai										
	Senior Director	Ju-Hui Hsieh										

Note: Employees who granted the same number of options are being listed.
Note 1: Mr. Ted Hsu resigned from his position effective on 04/30/2016.
Note 2: Mr. Jason Cheng new position effective on 07/01/2016.
Note 3: Mr. Hsu-Tien Tung new position effective on 07/01/2016.
Note 4: Mr. S.J. Liao new position effective on 07/01/2016.
Note 5: Mr. Yean-Jen Shue new position effective on 06/01/2016, and resigned from Management Team. The title stated above is the new position.
Note 6: Ms. Te-Tzu Yao new position effective on 07/01/2016.
Note 7: Mr. Pei-Chin Wang new position effective on 07/01/2016.
Note 8: Mr. Chung Yu Huang new position effective on 07/01/2016.

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

Not Applicable

4.8 Financing Plan and Implementation

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

5. Overview of Business Operation

5.1 Business Activities

5.1.1 Business Scope

5.1.1.1 Operating Scope

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

5.1.1.2 Breakdown of Sales by Major Products

Unit: NT$ thousands; %

Year / Major Product	2015		2016	
	Amount	%	Amount	%
3C Products	1,116,847,324	92.02	1,080,738,921	93.35
Other	96,865,652	7.98	76,971,192	6.65
Total	1,213,712,976	100.00	1,157,710,113	100.00

5.1.1.3 Product Lines

Computing Product

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

Communication Product

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

Consumer Electronics Product

a. Tablets
b. Game consoles

5.1.1.4 Product (Service) Development

a. Developing a wireless doorbell camera with 180-degree wide-angle, enhanced night mode, and high-definition two-way voice communication.
b. Developing a small, easy-to-carry wireless speaker and microphone that replaces the low-quality speaker and microphone on mobile devices and computers for purposes such as teleconferencing. With CD-quality audio, it can also be used to enjoy high-quality music listening.
c. Developing a multi-function video conferencing system, using Intel i3-7100U Kabylake, six arrays of integrated microphones, six-way speaker amplifier, six video input and output interfaces (SDI, Display, HDMI), supports wireless, Bluetooth, USB, PoE / PSE , SATA, Giga Ethernet functions; all in a fan-less cooling design.
d. Developing NVF-enabled routers to integrate different network services and data routing into the same device, significantly reducing the number of equipment and maintenance costs.
e. Expanding the existing In-House Forward-Base switch software, and support the main hardware platform to increase product lines.
f. Developing innovative Intel Purley platform servers equipped with high-density GPGPU, storage server, FPGA server, flexible configuration. This is a green computing solution for parallel computing to create a highly scalable energy-saving future, and meet scalable supercomputing needs.
g. Developing Consumer systems (desktop/laptop/2-in-1) designs using Intel Kaby Lake and Apollo Lake platforms, while meeting market demands for customization, deep plowing products, and diversified product lines.
h. Developing new generation of satellite set top boxes, supports (720P, H.264), dual-band wireless 2.4G/5G, speeds up to 1900Mbps, a family (including the use of 4Kp60 HEVC (H.265) video, and 4 video compression formats (720P, H.264) for use in home entertainment centers.
i. Developing commercial systems (desktop/laptop) designs using the Intel Kaby Lake platform, with the future having opportunity to meet demand for new generations of Intel Cannon Lake platform.
j. Using a decentralized architecture platform to store huge amounts of data for analyzing; and combined with machine learning to develop the best match, abnormality detection, pattern identification, and other applications to improve processes and resource efficiency.
k. Develop an intelligent voice and visual interaction system, combined with micro projector, long distance voice, Amazon Alexa voice service, Alexa skill kit, and Pegatron IOT cloud service. It can also provide customized services and flexible

IOT software development kits to offer customers developing application services.

l. Develop an intelligent video conferencing system, equipped with a 360 degree camera, and using deep learning technology for face detection and verification. Using face detection and sound tracking to zoom in on the speaker's face in the video conference, and using face verification to identify the speaker's name. In the future, the system will be integrated with speech to text function to generate meeting minutes.
m. Develop a new generation of automotive infotainment, integrated new connected services with smart phones, including Apple CarPlay, Google Android Auto, Miracast wireless video streaming, and map POI sharing services.

5.1.2 Industry Overview

5.1.2.1 Progress and Development of the Industry

a. Computing Industry

According to research, total PC volume (including notebook PCs and desktop PCs) declined by around 6% YoY in 2016. The decline is attributable to vigilant inventory control by some branding companies in the first half of 2016 as a result of high inventory base in the previous few quarters. Though shipment outperformed the original expectation in the second half of 2016, the annual volume was still negatively impacted by key component shortage.

Looking forward to 2017, the market expects the demand from commercial replacement to drive better performance YoY. Despite weakening demand in consumer models, the overall competition tends to be healthy as the average selling price ("ASP") per notebook PC is expected to increase due to growth of products with higher ASP such as ultrabook, gaming and 2 in 1 models. According to IDC, overall PC volume in 2017 is expected to decline by 2.1% YoY, while the volume is likely to remain stable at the range of positive and negative 1% from 2018 to 2020.

b. Communication Industry

According to IDC, the worldwide volume of smartphone shipped in 2016 reached 1.45 billion units with 0.6% growth YoY. IDC further estimates that smartphone volume will continue growing in the next few years and likely to reach 1.71 billion units in 2020, with estimated compound annual growth rate of 3.5% from 2015 to 2020. Volume growth is mainly driven by growing demand in emerging market and Asia Pacific region as a result of upgrading 3G to 4G technologies, whereas demand in the developed countries will slow down due to higher penetration rate.

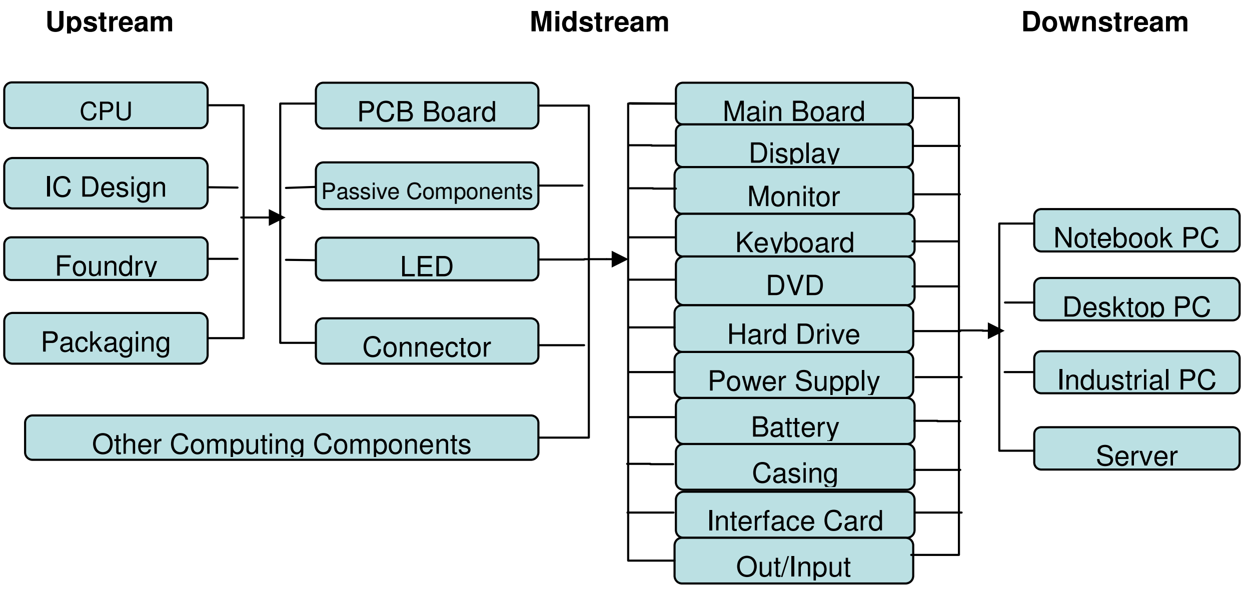
Average selling price of smartphone is likely to decline going forward as growth is mainly driven by emerging market where the ASP per smartphone is below US$150, while demand in developed markets is mainly driven by replacement cycle, which implies a declining ASP trend in the next few years. IDC estimates that ASP is likely to reduce from US$295.89 to US$259.31 per unit from 2015 to 2020, with compound annual growth rate of -2.6%.

c. Consumer Electronics Industry

Tablets and game consoles are the major revenue contributors in consumer electronics segment. According to IDC, tablets shipped in 2016 were around 180 million units, declined by 12% YoY. As the demand in tablets continued declining, commercial and 2 in 1 models are likely to outperform. IDC estimates that the overall tablets volume to continue declining in 2017 as the stable growth in commercial tablets can hardly offset the decline in consumer tablets, with growth momentum in tablets is likely to resume in 2018. The compound annual growth rate is likely to be -2.1% from 2015 to 2020 with commercial tablets sustaining the growth. In the next few years, Windows based tablets is likely to gain its market share among major platforms of Android, iOS and Windows due to increasing popularity of commercial tablets models.

Impacted by decline in the 7th generation of game console, IDC estimated the 28 millions of game console shipped in 2016, declined by 6.9% YoY. Looking forward to 2017, IDC predicts that the overall volume of game console is expected to resume its growth momentum with 19.4% growth YoY, mainly driven by new product launch by Nintendo “Switch” and Xbox “Project Scorpio”. After the launch, the overall volume of game console is expected to remain flattish YoY from 2018 to 2020.

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



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

5.1.2.3 Trends of Product Development

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

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

5.1.2.4 Market Competition

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

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

5.1.3 Research and Development

5.1.3.1 Research and Development Expense in Recent Year

Unit: NT$ thousands; %

Items	**2015**	**2016**
R&D Expense (A)	14,673,367	14,086,091
Net Revenue (B)	1,213,712,976	1,157,710,113
(A)/(B) %	1.21	1.22

5.1.3.2 Research and Development Accomplishments in the Recent Year

Year	Achievement in Research and Development
2016	1. Developed a new high-performance high-speed home gateway that includes DOCSIS 3.1 compliant high-speed cable modem, built-in Zigbee Pro, USB 3.0, MoCA 2.0, and integrated 802.11ac Wave 2 dual-band wireless network. 2. Developed a video conferencing system with image recognition, combined with 10 special microphones, track source positioning, and with two high-end video cameras 1080P @ 60. This system can track sound position, adjust the optimal image output without manually adjusting the camera or moving to accommodate the camera. Face recognition can identify the participants in the meeting to make it more real and convenient. The system is designed with a fanless design to reduce background noise and add more accurate voice recognition and positioning. 3. Developed a miniaturized web video conferencing system with easy-to-use features and a 120 degree wide-angle camera for use in personal or small meeting rooms. 4. Completed 40G / 100G switch development, cross-platform production software, and rapid integration testing. 5. Successfully developed a portrait extraction technique which can be applied in video conferencing scenarios based on depth camera technology. This unique technique significantly reduces the video transmission bandwidth (up to 25%~60% of transmission bandwidth reduction) and other video conferencing applications such as replacing background and filtering out non-participants will be able to leverage accordingly. 6. Developed systems (desktop/laptop/2-in-1) using Intel and AMD chip architectures. Main developed models for the Intel Kaby Lake and Intel Apollo Lake platforms. 7. Completed the development of off-site collaborative systems based on decentralized platforms to store huge amounts of data for analyzing; and combined with machine learning and M2M related technologies for real-time transformation of data to information and then using artificial intelligence to help improve production efficiency. 8. Completed the development of automotive front seat infotainment system and rear seat multimedia entertainment systems with mutual control integration. 9. Completed the development of Advanced Driving Assistance System (ADAS) product and technologies, including Forward Collision Warning System (FCWS), Lane Departure Warning System (LDWS), Pedestrian Detecting System, Speed Limit Detection (SLD), Inclement Weather Processing, and Single Camera HDR. 10. Completed the development of second generation unmanned drones; integrated with computer vision, this system can automatically recognize faces, track objects, and take photos by hand gesture recognition. 11. Completed the development of intelligent voice control systems, combined with voice wake-up, 360-degree long distance and high-definition voice receiving, sound tracking, and Microsoft Bing speech recognition and speech synthesis technology. Using voice commands, smart phone applications, and automatic learning; home appliances can controlled through Allseen Alljoyn IOT protocol. 12. Completed the development of telematics to upload vehicle's messages to the cloud through 3G / LTE connection. In addition, when the airbag is triggered in an accident, it can also automatically send messages to an Emergency Center for immediate assistance. Drivers and passengers can all use functions such as emergency calls (e-call: emergency call), information delivery (i-call: information call), and fault notifications (b-call:

	breakdown call). 13. Completed the development of car V2V communication systems in line with the US Department of Transportation standards, combined with high-precision RTK GPS to 802.11p DSRC exchange car, and relative positioning to achieve traffic safety warning assistance. 14. Pegatron was previously Google's official Android 3PL certification Lab; and now successfully became ChromeOS official certification lab.

5.1.4 Long Term and Short Term Business Development Plans

5.1.4.1 Short Term Business Development Plan

a. To increase market competitiveness and pursue higher annual revenue growth by lean operation management and effective manufacturing process.

b. To improve the efficiency of logistic management by reducing logistic cost and shortening product delivery time.

c. Based on the product mix to approach different markets with different strategies. For mainstream products, the aim is to increase value-added services and versatility of the products with industrial design and new technologies, so as to become the market leader by developing leading products with innovative technology and expertise in the market. As for low cost products, the Company endeavors to provide products with lower manufacturing cost to fulfill consumers' needs.

d. To strengthen the relationship with existing customers, provide total solutions to customers and increase DMS market shares.

5.1.4.2 Long Term Business Development Plan

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

a. Customer Service Strategy

- To strengthen the customer relationship and provide services in product planning, research and development, and manufacturing.
- To complete the deployment of global sales network and provide comprehensive after sales services to customers.

b. Manufacturing Strategy

- To continuously promote the LSS project and improve the quality and efficiency at all level
- To enhance vertical as well as horizontal integration and streamline group resources in related components, products, and services.

c. Product Development Strategy

- To focus on talent development especially in R&D and industrial design sectors and to enhance the Company's R&D capabilities.

- To proactively develop material and technologies that are environmentally friendly and that comply with green product and other relevant environmental protection regulations

5.2 Market and Sales Overview

5.2.1 Market Analysis

5.2.1.1 Sales (Service) Regions

Unit: NT$ thousands; %

		2015		2016	
		Amount	%	Amount	%
Domestic		185,605,468	15.29	170,921,579	14.76
Export	Asia	182,354,115	15.02	190,684,652	16.47
	Europe	510,430,274	42.06	332,669,838	28.74
	America	273,135,851	22.50	396,964,194	34.29
	Others	62,187,268	5.12	66,469,850	5.74
	Subtotal	1,028,107,508	84.71	986,788,534	85.24
Total		1,213,712,976	100.00	1,157,710,113	100.00

5.2.1.2 Market Share

According to Digitimes, notebook PC ODM/EMS companies in Taiwan accounted for 119 million units of notebook PCs in 2016, around 80.63% of total global shipment volume. This included 40.1 million units from Quanta, 34.5 million units from Compal, 18.9 million units from Wistron, 9.9 million units from Inventec and 9.7 million units from Pegatron.

5.2.1.3 Market Demand, Supply and Growth

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

Looking forward to 2017, despite increasing uncertainty in the business environment amid international political and economic turbulence, the decline in global notebook PCs is expected to minimize due to increasing popularity in higher ASP products such as ultrabook, gaming and 2 in 1 consumer models, as well as the replacement cycle for commercial models. Notebook PCs trend is expected to stabilize starting in 2018. For mobile devices, benefitting from lower average selling price, emerging markets continue to drive the growth in this product segment, while demand in developed countries is mainly driven by replacement cycle. As for tablets, its growth had also decelerated due to weakening replacement cycle and growth momentum is unlikely to resume in the next few years. However, commercial tablets, 2 in 1 detachable tablets and tablets with specific features designed for niche markets may set a new trend for consumer electronics industry.

5.2.1.4 Competitive Advantages

a. Experienced R&D Team

In addition to the Advanced Technology Office within the Company, there are also designated research and development engineers in each product category. As of the date of this annual report, total research and development engineers reached 4,565. The leading research and development engineers in each product development have more than 15 years of experience in the relevant fields.

b. Comprehensive Manufacturing Locations

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

c. Diversified Product Portfolio and Customer Base

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

d. Global Logistics Capabilities

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

e. Professional Management Team

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

f. Innovation Capabilities

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

g. Comprehensive Vertical Integration

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

5.2.1.5 Advantages, Disadvantages and its Responsive Strategies

Advantages

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

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

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

In the recent years, key components, such as chipset and PCB and other electronic products have become more competitive at the global level. Comprehensive development of the component industry is one of the key factors for the prosperity of the computing industry in Taiwan.

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

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

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

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

e. Comprehensive after sales service network

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

Disadvantages

a. Declined gross margin due to severe pricing competition

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

b. Profit margin impact by fluctuation of foreign exchange rates

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

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

The Company has increased the usage of automation for majority of products in an effort to reduce the reliance on labors. However, certain manufacturing processes are still conducted manually. As the issues of labor shortage gradually surfaced over recent years, labor compensation has increased dramatically, which increases the manufacturing cost and affects the Company's competitiveness in the global market.

Responsive Strategies

a. Enhance research and development capability and manufacture high value-added products.

b. Enforce cost control and inventory management, and maximize production efficiency by increasing automation.

c. Maximize the hedging effect by balancing the position in foreign and local currencies.

d. Invest in automation equipment to reduce the reliance on labor and improve product quality.

e. Allocate labors across manufacturing sites appropriately and minimize the impact of labor shortage.

5.2.2 Application of Major Products

a. Computing Products

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

b. Communication Products

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

c. Consumer Electronics Products

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

5.2.3 Supply of Major Material

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

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

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

5.2.4.1 Major Suppliers of the Last Two Fiscal Years

Unit: NT$ thousands

Item	2015				2016			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	X Company (Note1)	437,005,605	39.52	None	X Company (Note 1)	463,668,922	40.24	None
2	Z Company (Note 1)	94,617,517	8.56	Shareholder	Z Company (Note 1)	98,460,867	8.54	Shareholder
3	S Company	50,114,279	4.53	None	U Company (Note 1)	49,421,536	4.29	None
	Others	524,120,285	47.39	-	Others	540,778,124	46.93	-
	Net Total Purchases	1,105,857,686	100.00	-	Net Total Purchases	1,152,329,449	100.00	-

Note 1: In 2015 and 2016, the Company purchased (raw) material via major customers.
Note 2: Increase and decrease of the amount was due to business demand.

5.2.4.2 Major Customers of the Last Two Fiscal Years

Unit: NT$ thousands

Item	2015				2016			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	A Company	729,205,460	60.08	None	A Company	691,091,107	59.69	None
2	B Company	122,375,001	10.08	Shareholder	B Company	125,455,471	10.84	Shareholder
	Others	362,132,515	29.84	-	Others	341,163,535	29.47	
	Net Total Sales	1,213,712,976	100.00	-	Net Total Sales	1,157,710,113	100.00	

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

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

Unit: thousands; NT$ thousands

Year / Output / Major Products (or by departments)	2015			2016		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
3C Products	280	298	150,522	280	276	1,465,698
Other	-	-	3,540,652	-	-	4,416,899
Total	280	298	3,691,174	280	276	5,882,597

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

5.2.6 Sales Quantities and Value of the Last Two Years

Unit: thousands; NT$ thousands

Shipments & Sales / Year / Major Products	2015				2016			
	Domestic		Export		Domestic		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
3C Products	19,520	165,540,905	124,817	867,971,530	18,157	153,679,181	129,088	830,534,460
Others	-	5,878,006	-	14,045,381	-	6,566,579	-	17,316,567
Total	19,520	171,418,911	124,817	882,016,911	18,157	160,245,760	129,088	847,851,027

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

5.3 Status of Employees

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

Year		2015	2016	As of 03/16/2017
Number of Employees	Others	2,776	2,737	2,703
	R&D	4,610	4,606	4,565
	Total	7,386	7,343	7,268
Average Age		34.2	35.3	35.5
Average Years of Service		5.5	6.1	6.3
Education	Ph.D.	0.31%	0.25%	0.23%
	Masters	40.03%	41.43%	41.68%
	Bachelor's Degree	55.05%	54.72%	54.46%
	Senior High School	3.81%	3.55%	3.01%
	Below Senior High School	0.80%	0.67%	0.62%

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

5.4 Expenditure on Environmental Protection

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

In 2015 and as of the date of this annual report, the Company was in accordance with environmental legislation and did not incur any loss or receive any penalty for major environmental pollution. Environmental aspects are identified and managed under an environmental management system externally certified to the international standard ISO14001 (Environmental Management System). There are designated personnel within the company who are in charge of environmental protection in compliance with the legal requirements. Waste clearance and disposal, wastewater management, environmental measurement and chemicals management have been conducted and controlled according to management procedures. Besides, we consign a 3rd party to measure the concentration of the emissions and discharges to ensure minimum environmental pollution and its compliance with relevant legal regulations. In order to meet the international regulations and customer requirements, the company introduces IECQ QC 080000 (Hazardous Substances Process Management System) to ensure the compliance of products. Suppliers are requested to sign a statement and guarantee that their products do not contain any environmental hazardous substance. Major expenditure on environmental protection includes the cost of pollution control, waste disposal, environmental monitoring environmental management system certification dedicated environmental professionals, trainings and environmental activities.

5.5 Employee Relations

5.5.1 Employee's Welfare and Benefit

a. Employee welfare and benefit

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

b. Training program

We place great emphasis on career planning and talent development for employees by encouraging employees to attend internal and external training programs. Internal training programs include courses for core competency and professional competency development to enhance employees' capabilities, while external training programs include seminars or conferences organized by external parties that provide excellent training opportunities for employees. We have around 102,000 training hours in 2016. The average training hour is above 15 per colleagues.

Resources of Learning	Description
New employee orientation	● Corporate introduction, corporate culture, and online orientation programs, HSF, and Occupational Safety & Health Programs are included to help new employees know about Pegatron and adapt to the new work environment ● In order to help new employee be familiar with the environment and the internal procedures quickly, each new employee may have one mentor
Core competency training	We plan trainings of each level's employees which are based on competencies.
Management training	We plan management trainings such as new manager orientation which is based on roles and responsibilities of supervisors.

Professional competency training	Each unit plans professional competency trainings which are based on needs of professional knowledge and skills.
Train the trainer training	In order to pass down the internal knowledge, train the trainer training is held regularly every year. And both of e-learning and classroom training's instructor are included.
General lectures	Art, life, ecology and management lectures are included.
Pega e-library	Offers employees over one thousand books to borrow and read.

c. Retirement system

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

d. Employee rights

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

e. Employees code of conduct

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

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

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

5.6 Important Contracts

As of 03/16/2017

Agreement	Counterparty	Period	Major Contents	Restrictions
Appointment Agreement	ABeam Consulting Ltd	03/28/2008 ~ to date	SAP system development and migration	Should ABeam not complete the work specified in the contract, the Company is entitled to cancel the contract and request for punitive damage as well as other compensation, provided AMeam is solely responsible for not completing the work as scheduled.
Software Purchase Agreement	NEC Taiwan Ltd	03/07/2012 ~ to date	Purchase of SAP software	None
License Agreement	SAP Taiwan Co., Ltd.	03/07/2012 ~ to date	License of SAP software	None
Syndication Agreement	Bank of Taiwan, Chang Hwa Bank, Taiwan Cooperative Bank, Mega International Commercial Bank, E. Sun Bank, Hua Nan Bank, Agricultural Bank of Taiwan, CTBC Bank, China Development Industrial Bank	08/01/2013 ~ 2018	Loan Amount: NT$12billion. Period: 5 years	Restrictions to financial ratios: 1. Current ratio: no less than 100%; 2. Debt ratio (interesting bearing debt to equity: no higher than 80%); 3. Interest coverage ratio (EBITDA): no less than 4 times; 4. Tangible equity: no less than NT$90billion.
Lease Agreement	Fubon Life Insurance Co., Ltd.	06/01/2013 ~ 05/31/2016	Lease the building from Fubon as office. Period: 3 years	None.
Lease Agreement	Fubon Life Insurance Co., Ltd.	06/01/2016 ~ 05/31/2017	Renew the above Lease Agreement with Fubon	3 months written notice to Fubon prior to expiration of such Lease Agreement and such Lease Agreement will be extended to 12/31/2017 upon Fubon's approval
Lease Agreement	WIN Semiconductors Corp.	06/01/2016 ~ 4/30/2020	Lease the building from WIN as the factory.	None
Software Purchase Agreement	Acer Incorporated	12/1/2013 ~ 11/30/2016	Purchase of Microsoft Office system and the related software	None
License Agreement	Microsoft Operations Pte Ltd.	12/1/2013 ~ 11/30/2016	License of Microsoft Office system and the related software	None
License Agreement	Microsoft Operations Pte Ltd.	12/1/2016 ~ 11/30/2019	License of Microsoft Office system and the related software	None
Construction Engineering Agreement	Li Jing Engineering Co. Ltd.	2015/11/15 ~ 2018/4/2	Reconstruction of Li-de building	None
Construction Engineering Agreement	ACTER CO.,LTD.	3/10/2016~ 4/27/2018	Electrical & HVAC Reconstruction of Li-de building	None

6. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Consolidated Balance Sheet

Unit: NT$ thousands

Item \ Year		Five-Year Financial Summary (Note)				
		2012	2013	2014	2015	2016
Current assets		308,250,538	326,934,979	369,602,726	390,403,344	364,225,586
Funds & Investments		1,607,697	1,187,753	490,372	424,191	362,909
Property, plant and equipment		73,179,119	73,916,654	72,898,284	71,037,778	66,860,809
Intangible assets		2,770,545	1,969,832	1,601,259	1,555,087	1,439,186
Other assets		9,546,840	11,886,306	12,500,500	12,666,263	11,056,743
Total assets		395,354,739	415,895,524	457,093,141	476,086,663	443,945,233
Current liabilities	Before Distribution	238,103,119	239,272,864	264,997,445	267,707,497	254,236,823
	After Distribution	241,538,576	245,770,081	275,507,067	280,660,998	Undistributed
Non-current liabilities		29,614,039	32,567,481	17,224,466	16,040,641	7,686,209
Total liabilities	Before Distribution	267,717,158	271,840,345	282,221,911	283,748,138	261,923,032
	After Distribution	271,152,615	278,337,562	292,731,533	296,701,639	Undistributed
Equity		95,805,279	107,303,794	133,670,931	150,380,135	148,269,590
Share capital		22,903,049	23,211,555	25,156,805	26,030,205	25,751,695
Capital surplus		61,723,110	63,175,819	74,295,720	78,972,374	78,214,259
Retained earnings	Before Distribution	15,005,566	21,143,952	29,325,244	42,655,172	48,104,750
	After Distribution	11,570,109	14,646,735	18,815,622	29,701,671	Undistributed
Other equity interest		(3,807,652)	(210,136)	4,901,345	2,724,974	(3,798,868)
Treasury stock		(18,794)	(17,396)	(8,183)	(2,590)	(2,246)
Non-controlling interests		31,832,302	36,751,385	41,200,299	41,958,390	33,752,611
Total Equity	Before Distribution	127,637,581	144,055,179	174,871,230	192,338,525	182,022,201
	After Distribution	124,202,124	137,557,962	164,361,608	179,385,024	Undistributed

Note: Above financial information has been audited by CPA.

6.1.2 Condensed Consolidated Statement of Comprehensive Income

Unit: NT$ thousands

Year / Item	Five-Year Financial Summary (Note)				
	2012	2013	2014	2015	2016
Operating revenues	881,197,415	949,752,028	1,019,738,833	1,213,712,976	1,157,710,113
Gross profit	37,032,384	45,516,719	59,455,442	75,274,993	63,067,117
Results from operating activities	12,211,588	15,576,752	28,320,585	39,674,544	32,413,969
Non-operating income and expenses	1,967,609	3,453,120	(2,058,498)	(488,530)	(3,334,299)
Profit before tax	14,179,197	19,029,872	26,262,087	39,186,014	29,079,670
Profit (loss) from continuing operations	10,336,181	14,247,247	18,927,613	28,871,859	22,137,392
Profit (loss) from discontinued operations	-	-	-	-	-
Profit (loss)	10,336,181	14,247,247	18,927,613	28,871,859	22,137,392
Other comprehensive income (after tax)	(2,977,627)	3,916,721	6,256,340	(1,339,618)	(8,421,469)
Comprehensive income	7,358,554	18,163,968	25,183,953	27,532,241	13,715,923
Profit (loss), attributable to owners of parent	6,382,945	9,554,496	14,658,138	23,811,625	19,339,815
Profit (loss), attributable to non-controlling interests	3,953,236	4,692,751	4,269,475	5,060,234	2,797,577
Comprehensive income, attributable to owners of parent	3,819,274	12,903,831	19,604,022	22,809,542	12,008,187
Comprehensive income, attributable to non-controlling interests	3,539,280	5,260,137	5,579,931	4,722,699	1,707,736
Basic earnings per share	2.83	4.16	6.24	9.23	7.50

Note: Above financial information has been audited by CPA.

6.1.3 Condensed Individual Balance Sheet

Unit: NT$ thousands

Item \ Year		Five-Year Financial Summary (Note)				
		2012	2013	2014	2015	2016
Current assets		227,051,674	283,288,047	316,056,068	317,603,542	372,570,658
Funds & Investments		89,510,096	95,704,186	112,093,393	117,840,661	117,619,640
Property, plant and equipment		4,473,252	4,444,544	4,478,327	4,423,894	4,724,010
Intangible assets		93,514	58,990	48,713	67,576	184,050
Other assets		123,037	239,921	206,989	333,018	833,534
Total assets		321,251,573	383,735,688	432,883,490	440,268,691	495,931,892
Current liabilities	Before Distribution	207,361,516	251,086,153	286,989,503	279,015,180	344,696,528
	After Distribution	210,796,973	257,583,370	297,499,125	291,968,681	Undistributed
Non-current liabilities		18,084,778	25,345,741	12,223,056	10,873,376	2,965,774
Total liabilities	Before Distribution	225,446,294	276,431,894	229,212,559	289,888,556	347,662,302
	After Distribution	228,881,751	282,929,111	309,722,181	302,842,057	Undistributed
Equity		NA	NA	NA	NA	NA
Share capital		22,903,049	23,211,555	25,156,805	26,030,205	25,751,695
Capital surplus		61,723,110	63,175,819	74,295,720	78,972,374	78,214,259
Retained earnings	Before Distribution	15,005,566	21,143,952	29,325,244	42,655,172	48,104,750
	After Distribution	11,570,109	14,646,735	18,815,622	29,701,671	Undistributed
Other equity interest		(3,807,652)	(210,136)	4,901,345	2,724,974	(3,798,868)
Treasury stock		(18,794)	(17,396)	(8,183)	(2,590)	(2,246)
Non-controlling interests		NA	NA	NA	NA	NA
Total Equity	Before Distribution	95,805,279	107,303,794	133,670,931	150,380,135	148,269,590
	After Distribution	92,369,822	100,807,577	123,161,309	137,426,634	Undistributed

Note: Above financial information has been audited by CPA.

6.1.4 Condensed IndividualStatement of Comprehensive Income

Unit: NT$ thousands

Item \ Year	Five-Year Financial Summary (Note1)				
	2012	2013	2014	2015	2016
Operating revenues	638,869,554	794,224,728	897,963,588	1,053,435,822	1,008,096,787
Gross profit (Note 2)	6,674,619	10,802,101	24,884,749	32,722,289	26,868,971
Results from operating activities	(916,249)	289,078	7,971,306	14,062,692	12,121,369
Non-operating income and expenses	7,735,386	9,257,322	8,467,161	12,674,865	9,776,015
Profit before tax	6,819,137	9,546,400	16,438,467	26,737,557	21,897,384
Profit (loss) from continuing operations	6,382,945	9,554,496	14,658,138	23,811,625	19,339,815
Profit (loss) from discontinued operations	-	-	-	-	-
Profit (loss)	6,382,945	9,554,496	14,658,138	23,811,625	19,339,815
Other comprehensive income (after tax)	(2,563,671)	3,349,335	4,945,884	(1,002,083)	(7,331,628)
Comprehensive income	3,819,274	12,903,831	19,604,022	22,809,542	12,008,187
Profit (loss), attributable to owners of parent	NA	NA	NA	NA	NA
Profit (loss), attributable to non-controlling interests	NA	NA	NA	NA	NA
Comprehensive income, attributable to owners of parent	NA	NA	NA	NA	NA
Comprehensive income, attributable to non-controlling interests	NA	NA	NA	NA	NA
Basic earnings per share	2.83	4.16	6.24	9.23	7.5

Note 1: Above financial information has been audited by CPA.
Note 2: Gross profit included realized (unrealized) profits from affiliated companies.

6.1.5 Auditing by CPA from 2012 to 2016

Year	CPA Firm	CPA's Name	Auditing Opinion
2012	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2013	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2014	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2015	KPMG	Ulyos K.J. Maa & Charlotte W.W. Lin	Modified Unqualified
2016	KPMG	Kuo-Yang Tseng & Chi-Lung Yu	Unqualified

6.2 Five-Year Financial Analysis

6.2.1 Consolidated Financial Analysis

Item (Note 2) \ Year (Note1)		Five-Year Financial Analysis				
		2012	2013	2014	2015	2016
Capital structure (%)	Debt ratio	67.72	65.36	61.74	59.60	59.00
	Ratio of long-term capital to property, plant and equipment	210.83	233.73	259.02	288.08	279.01
Solvency	Current ratio (%)	129.46	136.64	139.47	145.83	143.26
	Quick ratio (%)	86.87	90.75	98.84	95.87	98.23
	Times interest earned (Times)	12.29	18.87	31.26	59.29	32.88
Operating ability	Accounts receivable turnover (Times)	8.46	8.28	8.56	9.55	10.65
	Average collection period	43.14	44.08	42.64	38.22	34.27
	Inventory turnover (Times)	10.03	8.71	9.11	10.07	9.23
	Accounts payable turnover (Times)	6.20	5.46	5.76	6.78	6.59
	Average days in sales	36.39	41.90	40.06	36.26	39.52
	Property, plant, and equipment turnover (Times)	12.04	12.85	13.99	17.09	17.32
	Total assets turnover (Times)	2.23	2.28	2.23	2.55	2.61
Profitability	Return on total assets (%)	3.28	3.73	4.50	6.31	4.98
	Return on stockholders' equity (%)	8.42	10.49	11.87	15.72	11.83
	Pretax profit to paid-in capital (%)	61.91	81.98	104.39	150.54	112.92
	Net profit margin (%)	1.17	1.50	1.86	2.38	1.91
	Basic earnings per share ($)	2.83	4.16	6.24	9.23	7.50
Cash flow	Cash flow ratio (%)	10.33	10.48	18.70	3.72	28.25
	Cash flow adequacy ratio (%)	57.24	67.58	84.98	75.44	84.48
	Cash reinvestment ratio (%)	10.93	8.39	15.58	(Note3)	22.34
Leverage	Operating leverage	2.07	1.89	1.49	1.35	1.40
	Financial leverage	1.11	1.07	1.03	1.02	1.03
	Analysis of financial ratio change in the last two years. 1. Times interest earned ratio: The ratio decreased in 2016 due to the decrease in gross profit and profit before tax. 2. Return on total assets: The ratio decreased in 2016 due to the decrease in gross profit and net income. 3. Return on stockholders' equity: The ratio decreased in 2016 due to the decrease in net income. 4. Pretax profit to paid-in capital: The ratio decreased in 2016 due to the decrease in gross profit and profit before tax. 5. Cash flow ratio: The ratio increased in 2016 due to the increase in net cash inflow from operating activity. 6. Cash reinvestment ratio: The ratio increased in 2016 due to the increase in net cash inflow from operating activity.					

Note 1: Financial report of each year has been audited by CPA firm.
Note 2: Equations:
1. Capital Structure
   (1) Debt ratio = Total liability / Total assets

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

2. Solvency
   (1) Current ratio: Current assets / current liability
   (2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability
   (3) Times interest earned = Net income before tax and interest expense / Interest expense of the year
3. Operating ability
   (1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable derived from business operation)
   (2) Days sales in accounts receivable = 365 / Account receivable turnover
   (3) Inventory turnover = Cost of goods sold / Average inventory amount
   (4)Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)
   (5) Average days in sales = 365 / Inventory turnover
   (6) Fixed assets turnover = Net sales / Net fixed assets
   (7) Total assets turnover = Net sales / Total assets
4. Profitability
   (1) Return on assets = (Net income (loss) + interest expense x (1-tax rate)) / Average total assets
   (2) Return on shareholders' equity = Net income (loss) / Net average shareholders' equity
   (3) Return to issued capital stock = Net income before tax / Issued capital stock
   (4) Profit ratio = Net income (loss) / Net sales
   (5) Basic earnings per share = (Net income – preferred stock dividend) / Weighted average stock shares issued
5. Cash flow
   (1) Cash flow ratio = Bet cash flow from operating activity / Current liability
   (2) Cash flow adequacy ratio = Net cash flow from operating activity in the past 5 years / (Capital expenditure + Inventory interest + Cash dividend) in the past 5 years
   (3) Cash + reinvestment ratio = (Net cash flow from operating activity – Cash dividend) / (Fixed assets + Long term investment + Other assets + Working capital)
6. Balance
   (1) Degree of operating leverage = (Net operating income – Variable operating cost and expense) / Operating income(note6)
   (2) Degree of financial leverage = Operating income / (Operating income – interest expense)

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

6.2.2 Individual Financial Analysis

Item (Note 2)	Year (Note1)	2012	2013	2014	2015	2016
		Five-Year Financial Analysis				
Capital structure (%)	Debt ratio	70.18	72.04	69.12	65.84	70.10
	Ratio of long-term capital to property, plant and equipment	2,520.63	2,973.68	3,252.40	3,639.15	3,195.62
Solvency	Current ratio (%)	109.50	112.83	110.13	113.83	108.09
	Quick ratio (%)	103.57	104.02	103.69	104.12	99.72
	Times interest earned (Times)	12.03	14.82	34.79	66.32	45.46
Operating ability	Accounts receivable turnover (Times)	4.21	3.87	5.34	9.18	9.08
	Average collection period	86.70	94.32	68.35	39.76	40.20
	Inventory turnover (Times)	57.95	44.95	42.07	43.97	34.56
	Accounts payable turnover (Times)	4.49	4.13	4.12	4.82	3.99
	Average days in sales	6.30	8.12	8.68	8.30	10.56
	Property, plant, and equipment turnover (Times)	142.82	178.70	200.51	238.12	213.40
	Total assets turnover (Times)	1.99	2.07	2.07	2.39	2.03
Profitability	Return on total assets (%)	2.55	2.87	3.69	5.53	4.22
	Return on stockholders' equity (%)	6.82	9.41	12.17	16.77	12.95
	Pretax Profit to paid-in capital (%)	29.77	41.13	65.34	102.72	85.03
	Net profit margin (%)	1.00	1.20	1.63	2.26	1.92
	Basic earnings per share ($)	2.83	4.16	6.24	9.23	7.50
Cash flow	Cash flow ratio (%)	(Note3)	(Note3)	7.10	0.18	15.86
	Cash flow adequacy ratio (%)	(Note3)	(Note3)	44.82	12.15	85.59
	Cash reinvestment ratio (%)	(Note3)	(Note3)	9.45	(Note3)	27.41
Leverage	Operating leverage	0.30	3.16	1.08	1.05	1.05
	Financial leverage	0.60	-	1.07	1.03	1.04

Analysis of financial ratio change in the last two years.

1. Times interest earned ratio: The ratio decreased in 2016 due to the decrease in profit.
2. Inventory turnover (Times): The ratio decreased in 2016 due to the increase in average inventory.
3. Average days in sales: The ratio increased in 2016 due to the increase in inventory turnover.
4. Return on total assets: The ratio decreased in 2016 due to the decrease in gross margin and net income.
5. Return on stockholders' equity: The ratio decreased in 2016 due to the decrease in gross margin and net income.
6. Cash flow ratio: The ratio increased in 2016 due to the increase in net cash inflow from operating activity.
7. Cash flow adequacy ratio: The ratio increased in 2016 due to the increase in net cash inflow from operating activity.
8. Cash reinvestment ratio: The ratio increased in 2016 due to the increase in net cash inflow from operating activity.

Note 1: Financial report of each year has been audited by CPA firm.
Note 2: Equations:
1. Capital Structure
   (1) Debt ratio = Total liability / Total assets
   (2) Ratio of long-term capital to property, plant and equipment = (Net shareholders’ equity + Long-term liability) / Net property, plant and equipment
2. Solvency
   (1) Current ratio: Current assets / current liability
   (2) Quick ratio = (Current assets – Inventory – Prepaid expense) / current liability
   (3) Times interest earned = Net income before tax and interest expense / Interest expense of the year
3. Operating ability
   (1) Account receivable turnover (including accounts receivable and notes receivable derived from business operations) = Net sales / Average accounts receivable (including accounts receivable and notes receivable

derived from business operation)
(2) Days sales in accounts receivable = 365 / Account receivable turnover
(3) Inventory turnover = Cost of goods sold / Average inventory amount
(4)Account payable turnover (including accounts payable and notes payable derived from business operation) = Cost of goods sold / Average accounts payable (including accounts payable and notes payable derived from business operation)
(5) Average days in sales = 365 / Inventory turnover
(6) Fixed assets turnover = Net sales / Net fixed assets
(7) Total assets turnover = Net sales / Total assets

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

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

6. Balance
(1) Degree of operating leverage = (Net operating income – Variable operating cost and expense) / Operating income(note6)
(2) Degree of financial leverage = Operating income / (Operating income – interest expense)

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

6.3 Audit Committee's Report in the Most Recent Year

Pegatron Corporation

Audit Committee's Review Report

Date: March 14, 2017

The Board of Directors has prepared the Pegatron Corporation's ("the Company)" 2016 Business Report, financial statements, and proposal for earning distribution. The CPA firm of KPMG was retained to audit the Company's financial statements and has issued an audit report relating to the financial statements. The above Business Report, financial statements, and earning distribution proposal have been examined and determined to be correct and accurate by the Audit Committee members of Pegatron Corporation. According to Article 14-4 of Securities and Exchange Act and Article 219 of the Company Law, we hereby submit this report.

Pegatron Corporation

Chairman of the Audit Committee: Mr. C.B. Chang

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

Please refer to Attachment I.

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

Please refer to Attachment II.

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

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

7.1 Analysis of Financial Status – Consolidated

Unit: NT$ thousands; %

Item \ Year	2016	2015	Difference	
			Amount	%
Current Assets	364,225,586	390,403,344	(26,177,758)	(6.71%)
Funds & Investments	362,909	424,191	(61,282)	(14.45%)
Property, plant and equipment	66,860,809	71,037,778	(4,176,969)	(5.88%)
Intangible Assets	1,439,186	1,555,087	(115,901)	(7.45%)
Other Assets	11,056,743	12,666,263	(1,609,520)	(12.71%)
Total Assets	443,945,233	476,086,663	(32,141,430)	(6.75%)
Current Liabilities	254,236,823	267,707,497	(13,470,674)	(5.03%)
Long-term Liabilities	4,522,890	12,306,749	(7,783,859)	(63.25%)
Other Liabilities	3,163,319	3,733,892	(570,573)	(15.28%)
Total Liabilities	261,923,032	283,748,138	(21,825,106)	(7.69%)
Capital stock	25,751,695	26,030,205	(278,510)	(1.07%)
Capital surplus	78,214,259	78,972,374	(758,115)	(0.96%)
Retained Earnings	48,104,750	42,655,172	5,449,578	12.78%
Other Adjustments	29,951,497	44,680,774	(14,729,277)	(32.97%)
Total Stockholders' Equity	182,022,201	192,338,525	(10,316,324)	(5.36%)

Analysis of changes in financial ratios:

1. Long-term Liabilities: The decrease is due to the decrease in Long-term debts.
2. Other Adjustments: The decrease is due to the decrease in exchange differences on translation of foreign financial statements and Non-controlling interests for the year 2016.

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

  No significant changes on the Company's financial condition.

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

7.2 Analysis of Operating Results - Consolidated

Unit: NT$ thousands; %

Item \ Year	2016	2015	Difference	
			Amount	%
Net Sales	1,157,710,113	1,213,712,976	(56,002,863)	(4.61%)
Cost of Sales	1,094,642,996	1,138,437,983	(43,794,987)	(3.85%)
Gross Profit	63,067,117	75,274,993	(12,207,876)	(16.22%)
Operating Expense	30,653,148	35,600,449	(4,947,301)	(13.90%)
Results from operating activities	32,413,969	39,674,544	(7,260,575)	(18.30%)
Non-operating Income and Expenses	(3,334,299)	(488,530)	(2,845,769)	582.52%
Profit Before Tax	29,079,670	39,186,014	(10,106,344)	(25.79%)
Income Tax Expense	6,942,278	10,314,155	(3,371,877)	(32.69%)
Profit for the year	22,137,392	28,871,859	(6,734,467)	(23.33%)
Other Comprehensive Income	(8,421,469)	(1,339,618)	(7,081,851)	528.65%
Total Comprehensive Income	13,715,923	27,532,241	(13,816,318)	(50.18%)

Analysis of changes in financial ratios:

1. Non-Operating Income and Expense: The decrease is due to loss from disposal of investments and Foreign exchange loss.
2. Income Tax Expense: The decrease is due to the decrease of profit before tax.
3. Other comprehensive income: The decrease is due to the decrease in exchange difference on translation of foreign financial statements.
4. Profit Before Tax: The decrease is due to the decrease of profit before tax.
5. Profit for the year: The decrease is due to the decrease of profit before tax.
6. Total Comprehensive Income: The decrease is due to the decrease in profit for the year and exchange differences on translation of foreign financial statements.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Current Year – Consolidated

Unit: NT$ thousands; %

Item \ Year	2016	2015	Difference	
			Amount	%
Cash flows from operating activities	71,830,851	9,971,785	61,859,066	620.34
Cash flows from investing activities	(20,431,385)	(12,753,288)	(7,678,097)	60.20
Cash flows from financing activities	(40,870,352)	(2,693,201)	(38,177,151)	1,417.54

Analysis of changes in financial ratios:

1. Cash flows from operating activities: The increase in cash flow was due to decreased inventory and increased accounts payable as compared to the previous year.
2. Cash flows from investing activities: The decrease was due to disposal of consolidated subsidiary (restated as available-for-sale financial assets after the disposal) and increased acquisition of property, plant and equipment as compared to the previous year.
3. Cash flows from financing activities: The decrease was due to increased repayment of long-term debt and decreased short-term debt as compared to the previous year.

7.3.2 Remedy for Cash Deficit and Liquidity Analysis:

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

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

7.4 Major Capital Expenditure Items: None.

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

The Company's long-term investment accounted under the equity method is mostly for strategic purposes. In 2016, the investment income under equity method reached NT$11,092,941 thousand dollars, which decreased slightly as compared to the previous year. The decrease was due to order fluctuation from customers in 2016. For future investment, the Company will continue focusing on strategic purpose and carefully assessing the financial risks and its return in order to maximize the value for the Company.

7.6 Analysis of Risk Management

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

(1) Interest Rate

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

(2) Foreign Exchange Rate

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

a. Collecting market information for analysis and risk evaluation, contacting banks on a regular basis to be fully aware of the trend of foreign exchange rate, and adjusting financial positions in foreign currency when necessary.

b. Securing reasonable profits by taking foreign exchange into consideration when providing quotations for sales.

(3) Inflation

According to the statistics released by the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, the consumer price index and wholesale price index increased by 1.04% and decreased by 2.99% respectively in 2016, which represented a minor inflation and did not have material impact on the Company's financial conditions in 2016. The Company observes the changes of market price at all times and adjusts selling price or inventory levels when necessary.

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

(1) High-Risk, High-Leverage Investment

In 2016 and as of the date of this annual report, the Company has not conducted any high-risk and/or high-leverage investment.

(2) Loaning or Endorsement Guarantees

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

(3) Derivatives Transactions

The Company did not conduct any derivative transactions in 2016. Shall such needs arise due to business operation, the transaction will be processed in accordance with the Company's internal policy "Procedures for the Acquisition and Disposal of Assets". The derivative transactions conducted by the Company's subsidiaries are for hedging purpose. For non-hedging transactions, subsidiaries will handle cautiously.

7.6.3 Future Research & Development Projects and Corresponding Budget

The Company focuses on the development of products that are integrated with high added value based on the Company's product roadmap. Going forward, it is estimated that around NT$7.7 billion will be spent on product research and development and pursuing leading position in core business by controlling factors such as talent, capital, technology, etc.

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

The Company complies with regulations associating with corporate governance, company law, security law and other important sources of regulations. In addition, the Company also monitors material changes in governing regulations and laws and be fully aware of the changes in the markets. In 2016 and as of the date of this annual report, there were no such risks to the Company.

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

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

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

Since the date of incorporation, the Company has been having a positive corporate image and complying with relevant laws and regulations. In 2016 and as of the date of this annual report, there were no such risks for the Company.

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

In 2016 and as of the date of this annual report, the Company did not have any plans for mergers and acquisitions and there were no such risks for the Company.

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

The Company takes factors such as global economy, industry outlook, market demand and customers' order forecast into consideration when planning factory and capacity expansion. In 2016 and as of the date of this annual report, the benefits of expansion plan meet the Company's expectation.

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

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

a. Source of Purchase

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

b. Sales of Products

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

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

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

As of the date of this annual report, Asustek Computer Inc. owns around 17.42% of Pegatron total outstanding shares. Asustek has reiterated its intention to gradually and orderly reduce its equity interest in Pegatron. Pegatron will work closely with Asustek to complete their contemplated disposals of Pegatron shares in a way that would minimize the negative impact on the price of Pegatron shares and other shareholders.

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

By the end of 2009, the Company was owned 100% by Asustek and the shareholding reduced dramatically after the spin-off plan in 2010. The operation of the Company has become more transparent after the spin-off and acceptable by customers, which is considered a positive factor in business development. In addition, the Company has formed a management team to manage the Company's operation and does not have risks associating with the changes in control over the Company.

7.6.12 Litigation or Non-litigation Matters

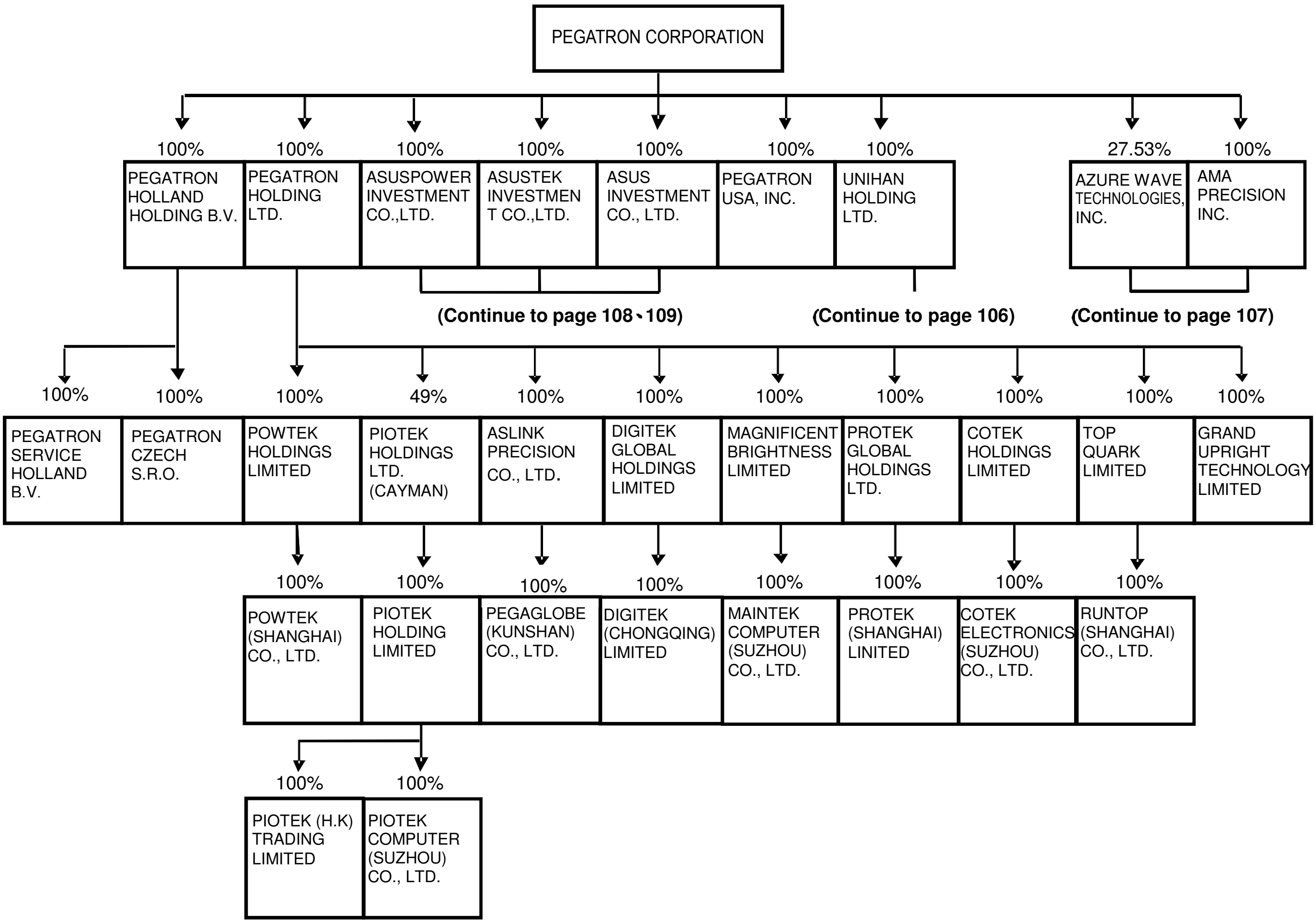
In 2016 and as of the date of this annual report, the Company did not engage in litigation or non-litigation matters that had significant impacts on shareholders' right or security prices. For litigation or non-litigation matter for major shareholder with 10% or more holding (as of the date of this annual report, Asustek Computer Inc. is the only shareholder with more than 10% of shareholding), please refer to the major shareholder's annual report.

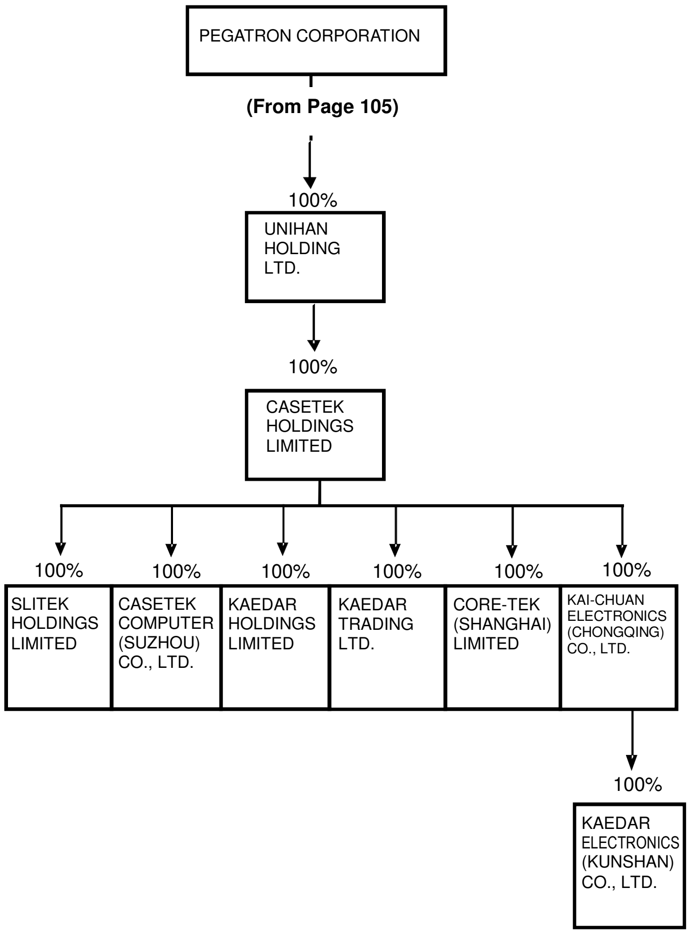
7.7 Other Major Risks

In 2016 and as of the date of this annual report, the Company did not have any other major risks.

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

As of 12/31/2016




PEGATRON CORPORATION
(From Page 105)
100%
UNIHAN HOLDING LTD.
100%
CASETEK HOLDINGS LIMITED
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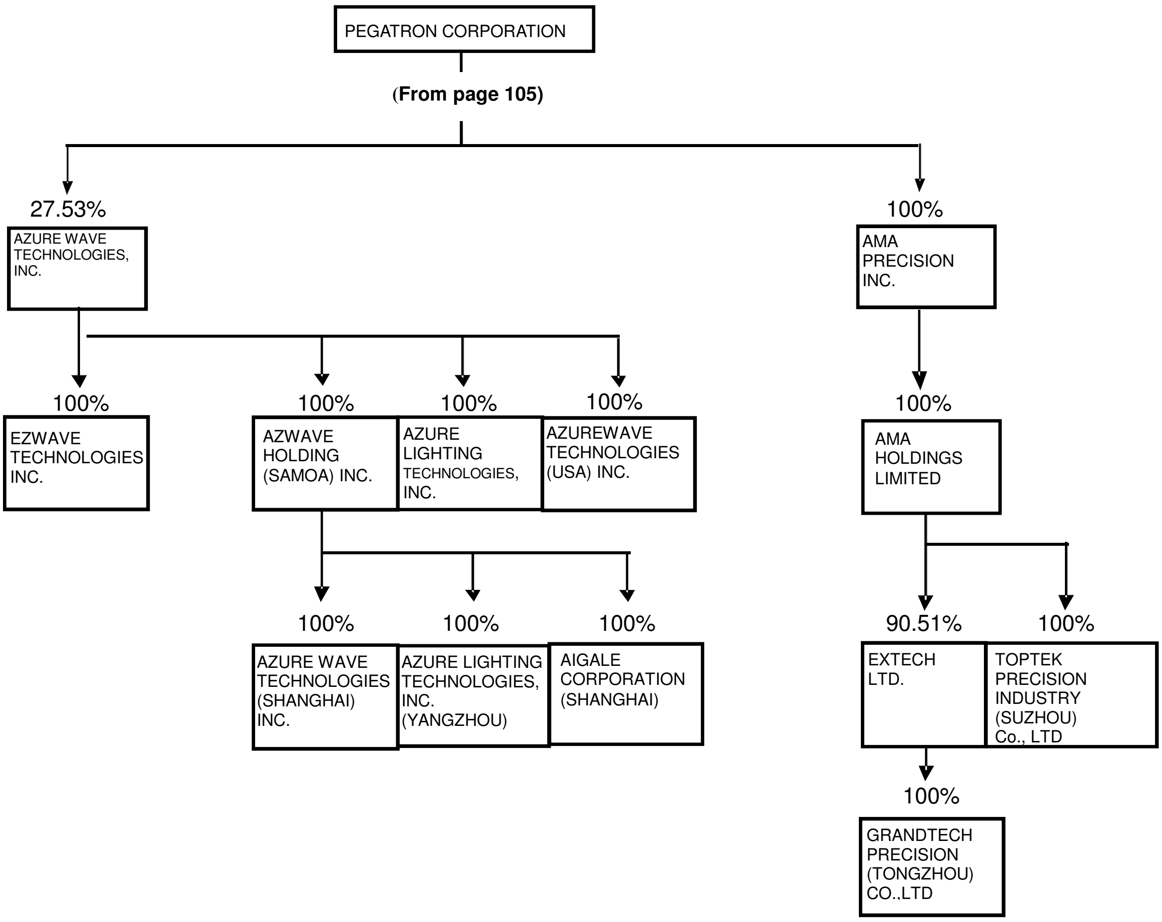
SLITEK HOLDINGS LIMITED
100%
CASETEK COMPUTER (SUZHOU) CO., LTD.
100%
KAEDAR HOLDINGS LIMITED
100%
KAEDAR TRADING LTD.
100%
CORE-TEK (SHANGHAI) LIMITED
100%
KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.
100%
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.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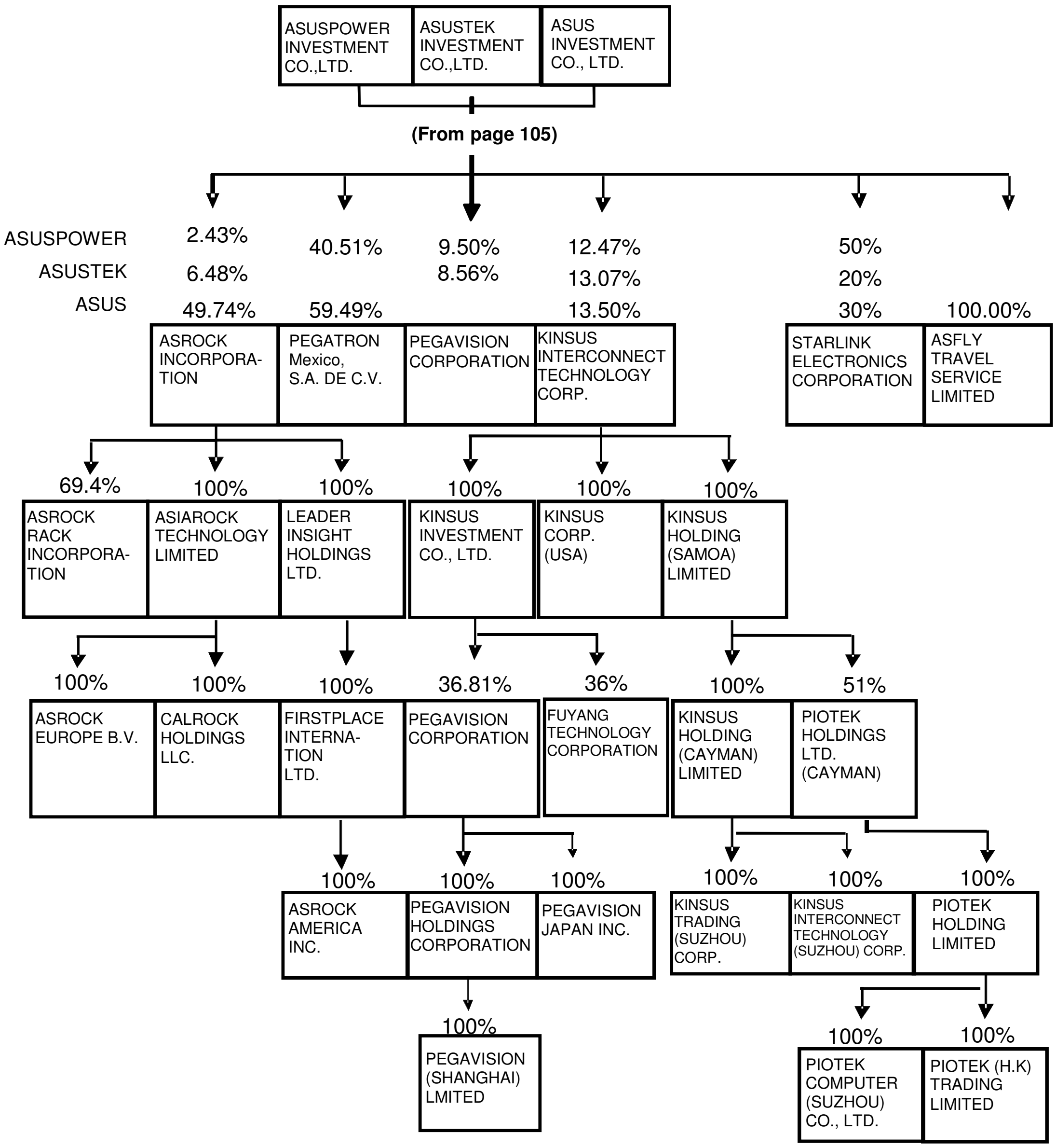
27.53%
AZURE WAVE TECHNOLOGIES, INC.
100%
AMA PRECISION INC.
100%
EZWAVE TECHNOLOGIES INC.
100%
AZWAVE HOLDING (SAMOA) INC.
100%
AZURE LIGHTING TECHNOLOGIES, INC.
100%
AZUREWAVE TECHNOLOGIES (USA) INC.
100%
AMA HOLDINGS LIMITED
100%
AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.
100%
AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)
100%
AIGALE CORPORATION (SHANGHAI)
90.51%
EXTECH LTD.
100%
TOPTEK PRECISION INDUSTRY (SUZHOU) Co., LTD
100%
GRANDTECH PRECISION (TONGZHOU) CO.,LTD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ASUS INVESTMENT CO., LTD.
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2.43%
6.48%
49.74%
40.51%
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8.56%
12.47%
13.07%
13.50%
50%
20%
30%
100.00%
ASROCK INCORPORA-TION
PEGATRON Mexico, S.A. DE C.V.
PEGAVISION CORPORATION
KINSUS INTERCONNECT TECHNOLOGY CORP.
STARLINK ELECTRONICS CORPORATION
ASFLY TRAVEL SERVICE LIMITED
69.4%
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ASROCK RACK INCORPORA-TION
ASIAROCK TECHNOLOGY LIMITED
LEADER INSIGHT HOLDINGS LTD.
KINSUS INVESTMENT CO., LTD.
KINSUS CORP. (USA)
KINSUS HOLDING (SAMOA) LIMITED
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ASROCK EUROPE B.V.
CALROCK HOLDINGS LLC.
FIRSTPLACE INTERNA-TION LTD.
PEGAVISION CORPORATION
FUYANG TECHNOLOGY CORPORATION
KINSUS HOLDING (CAYMAN) LIMITED
PIOTEK HOLDINGS LTD. (CAYMAN)
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PEGAVISION HOLDINGS CORPORATION
PEGAVISION JAPAN INC.
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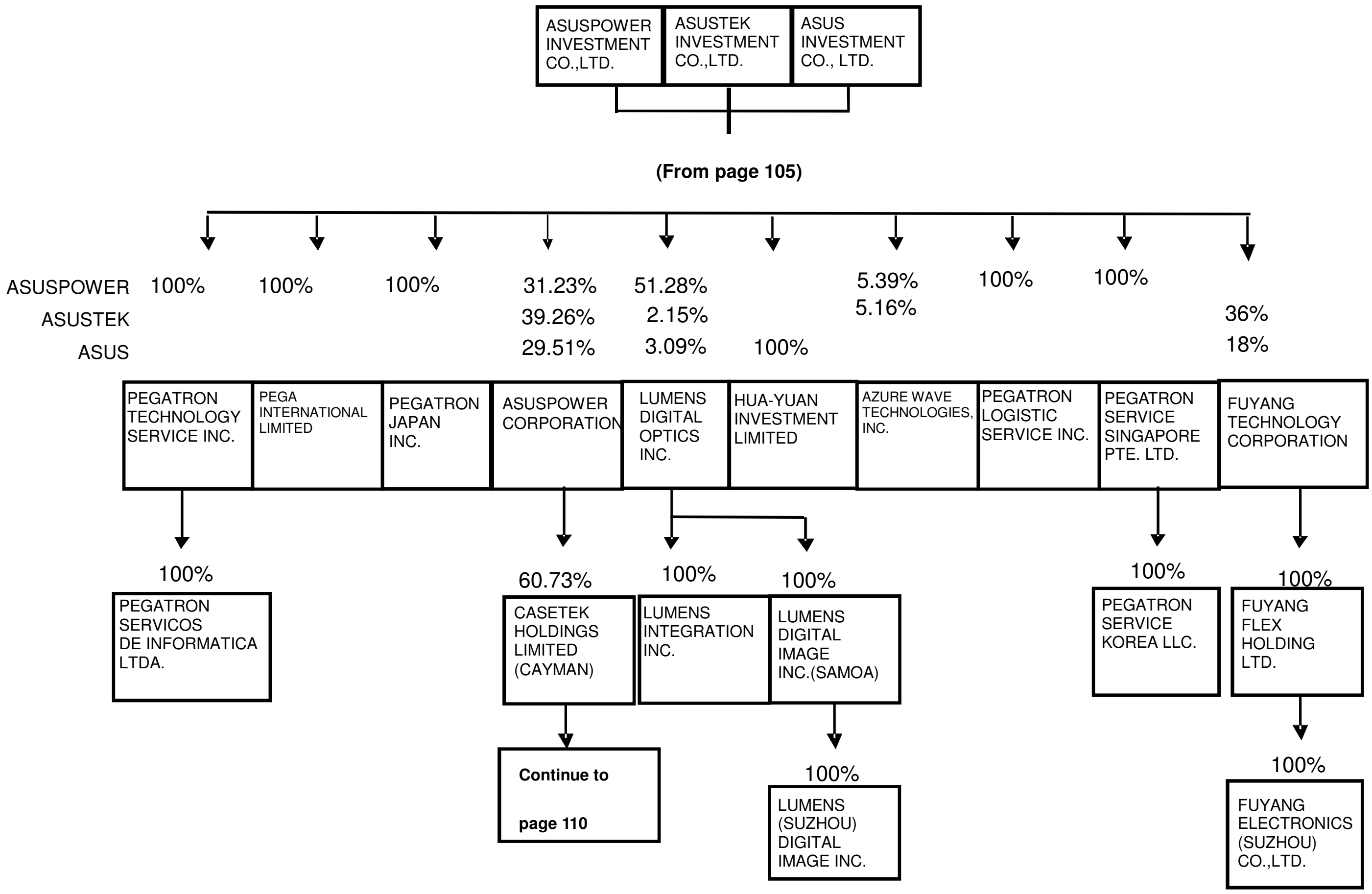
PIOTEK COMPUTER (SUZHOU) CO., LTD.
PIOTEK (H.K) TRADING LIMITED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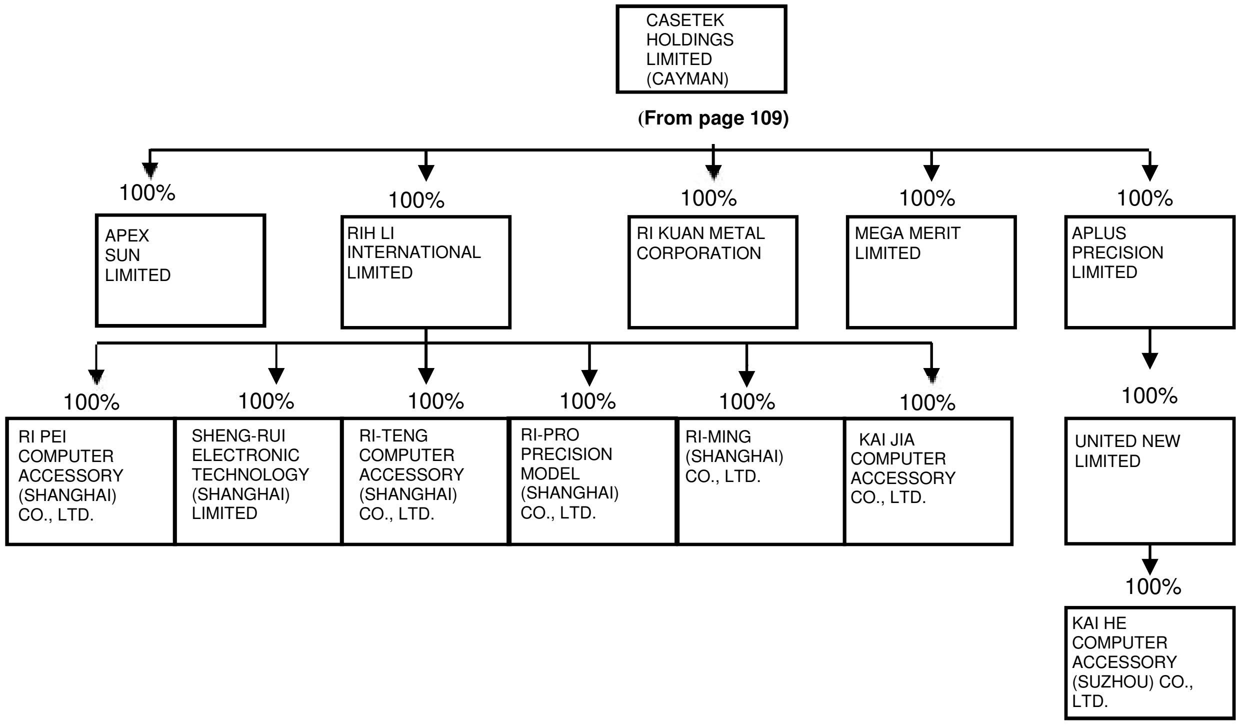
PEGATRON TECHNOLOGY SERVICE INC.
PEGA INTERNATIONAL LIMITED
PEGATRON JAPAN INC.
ASUSPOWER CORPORATION
LUMENS DIGITAL OPTICS INC.
HUA-YUAN INVESTMENT LIMITED
AZURE WAVE TECHNOLOGIES, INC.
PEGATRON LOGISTIC SERVICE INC.
PEGATRON SERVICE SINGAPORE PTE. LTD.
FUYANG TECHNOLOGY CORPORATION
100%
PEGATRON SERVICOS DE INFORMATICA LTDA.
60.73%
CASETEK HOLDINGS LIMITED (CAYMAN)
Continue to page 110
100%
LUMENS INTEGRATION INC.
100%
LUMENS DIGITAL IMAGE INC.(SAMOA)
100%
LUMENS (SUZHOU) DIGITAL IMAGE INC.
100%
PEGATRON SERVICE KOREA LLC.
100%
FUYANG FLEX HOLDING LTD.
100%
FUYANG ELECTRONICS (SUZHOU) CO.,LTD.


CASETEK HOLDINGS LIMITED (CAYMAN)
(From page 109)
100%
APEX SUN LIMITED
100%
RIH LI INTERNATIONAL LIMITED
100%
RI KUAN METAL CORPORATION
100%
MEGA MERIT LIMITED
100%
APLUS PRECISION LIMITED
100%
RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.
100%
SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED
100%
RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.
100%
RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.
100%
RI-MING (SHANGHAI) CO., LTD.
100%
KAI JIA COMPUTER ACCESSORY CO., LTD.
100%
UNITED NEW LIMITED
100%
KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD.

8.1.2 Business Scope of Pegatron and Its Affiliated Companies

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

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

8.3 The Shares of the Company Held or Disposed of by the Subsidiaries in the Most Recent year: None

8.4 Any Other Special Notes to be specify: None.

8.5 Any Events in 2016 and as of the Date of this Annual Report that had Significant Impacts on Shareholders' Right or Security Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan: None.

Attachment I

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

(With Independent Accountants' Audit Report Thereon)

Table of contents

Representation Letter

The entities that are required to be included in the combined financial statements of PEGATRON CORPORATION as of and for the year ended December 31, 2016 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, PEGATRON CORPORATION and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: PEGATRON CORPORATION
Chairman: Tzu-Hsien Tung
Date: March 14, 2017

Independent Auditors' Report

To the Board of Directors of Pegatron Corporation:

Opinion

We have audited the consolidated financial statements of Pegatron Corporation and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of December 31, 2016 and 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other auditors, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Group 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 and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretations as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

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 Consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated financial statements for the year ended December 31, 2016 of the Group. Those matters have been addressed in our audit opinion on the said consolidated financial statements and during the formation of our audit opinion. However, we do 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 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 Group 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 consolidated financial reports for the years ended December 31, 2016 and 2015 of the Group.

(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 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 high-tech products change fast and the industry in which the Group 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 Group is reasonable.

Other Matter

We did not audit the financial statements of certain consolidated subsidiaries with total assets representing 11.72% and 14.33% and net sales representing 3.47% and 4.50% of the related consolidated total as of and for the years ended December 31, 2016 and 2015, respectively. Also, we did not audit the long-term investments in other companies representing 0.03% and 0.05% of consolidated total assets as of December 31, 2016 and 2015, respectively, and the related investment loss thereon representing (0.24)% and (0.11)% of consolidated net income before tax for the years ended December 31, 2016 and 2015, respectively. The financial statements of these subsidiaries and investees accounted for under the equity method were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for these companies, were based solely on the reports of other auditors.

We have also audited the non-consolidated financial statements of Pegatron Corporation as of and for the years ended December 31, 2016 and 2015 and have issued an unqualified and a modified unqualified audit report thereon, respectively.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China., and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the 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 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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 Group'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 the Group'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 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 Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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 interest benefits 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 consolidated financial statements are intended only to present the consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

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

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2016 Amount	%	December 31, 2015 Amount	%
	Current assets:				
1100	Cash and cash equivalents (Note 6(a))	$ 108,713,312	24	102,561,346	22
1110	Current financial assets at fair value through profit or loss (Note 6(b))	4,367,847	1	4,732,661	1
1125	Current available-for-sale financial assets (Note 6(b))	266,523	-	857,820	-
1170	Notes and accounts receivable, net (Notes 6(c), 6(ab) and 7)	93,315,940	21	120,030,355	25
1200	Other receivables, net (Notes 6(c) and 6(ab))	42,590,627	10	27,694,719	6
130X	Inventories (Note 6(d))	107,319,402	24	118,165,460	25
1476	Other current financial assets (Notes 6(l) and 8)	479,510	-	785,779	-
1479	Other current assets (Note 6(l))	7,172,425	2	15,575,204	3
		364,225,586	82	390,403,344	82
	Non-current assets:				
1523	Non-current available-for-sale financial assets (Note 6(b))	789,622	-	961,584	-
1543	Non-current financial assets carried at cost (Note 6(b))	371,082	-	468,750	-
1550	Investments accounted for using equity method (Note 6(f))	362,909	-	424,191	-
1600	Property, plant and equipment (Notes 6(i) and 8)	66,860,809	15	71,037,778	15
1760	Investment property, net (Note 6(j))	57,221	-	704,131	-
1780	Intangible assets (Note 6(k))	1,439,186	-	1,555,087	-
1840	Deferred tax assets (Note 6(s))	2,347,933	1	2,852,506	1
1915	Prepayments on purchase of equipment	3,003,023	1	2,914,417	1
1980	Other non-current financial assets (Notes 6(l) and 8)	427,655	-	357,503	-
1985	Long-term prepaid rentals (Notes 6(q) and 8)	4,014,064	1	4,348,476	1
1990	Other non-current assets (Note 6(l))	46,143	-	58,896	-
		79,719,647	18	85,683,319	18
	Total assets	$ 443,945,233	100	476,086,663	100

	Liabilities and Equity	December 31, 2016 Amount	%	December 31, 2015 Amount	%
	Current liabilities:				
2100	Short-term loans (Note 6(m))	$ 31,148,468	7	45,467,083	9
2150	Notes and accounts payable (Note 7)	171,265,693	39	161,147,309	34
2209	Accrued expenses	25,179,749	6	27,606,075	6
2219	Other payables	5,480,741	1	6,792,896	1
2230	Current tax liabilities	4,538,439	1	7,847,931	2
2250	Current provisions (Note 6(p))	160,064	-	425,401	-
2313	Deferred revenue	1,040,615	-	1,391,051	-
2322	Long-term loans payable, current portion (Note 6(n))	536,257	-	2,604,140	1
2399	Other current liabilities	14,886,797	3	14,425,611	3
		254,236,823	57	267,707,497	56
	Non-Current liabilities:				
2540	Long-term loans (Note 6(n))	4,522,890	1	12,306,749	3
2570	Deferred tax liabilities (Note 6(s))	1,803,244	1	2,578,981	1
2670	Other non-current liabilities (Note 6(r))	1,360,075	-	1,154,911	-
		7,686,209	2	16,040,641	4
	Total liabilities	261,923,032	59	283,748,138	60
	Equity Attributable to Owners of the Parent Company (Note 6(t)):				
3100	Share capital	25,751,695	6	26,030,205	5
	Capital surplus:				
3210	Capital surplus, premium on capital stock	73,312,256	16	73,471,235	15
3280	Capital surplus, others (Note 6(g))	4,902,003	1	5,501,139	1
		78,214,259	17	78,972,374	16
	Retained earnings:				
3310	Legal reserve	7,260,543	2	4,879,380	1
3350	Unappropriated retained earnings	40,844,207	9	37,775,792	8
		48,104,750	11	42,655,172	9
	Other equity interest:				
3410	Exchange differences on translation of foreign financial statements	(3,552,939)	(1)	3,752,117	1
3425	Unrealized gains on available-for-sale financial assets	183,953	-	211,234	-
3491	Deferred compensation cost arising from issuance restricted stock (Note 6(u))	(429,882)	-	(1,238,377)	-
		(3,798,868)	(1)	2,724,974	1
3500	Treasury stock	(2,246)	-	(2,590)	-
	Equity attributable to the parent company	148,269,590	33	150,380,135	31
36xx	Non-controlling interests	33,752,611	8	41,958,390	9
	Total equity	182,022,201	41	192,338,525	40
	Total liabilities and equity	$ 443,945,233	100	476,086,663	100

See accompanying notes to financial statements.

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

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 year ended December 31			
		2016		2015	
		Amount	%	Amount	%
4110	Sales revenue (Notes 6(x) and 7)	$ 1,163,923,241	101	1,218,853,846	100
4170	Less: Sales returns and allowances	6,213,128	1	5,140,870	-
	Operating revenue, net	1,157,710,113	100	1,213,712,976	100
5000	Cost of sales (Notes 6(d), 6(q), 6(r) and 7)	1,094,642,996	95	1,138,437,983	94
	Gross profit from operations	63,067,117	5	75,274,993	6
6000	**Operating expenses (Notes 6(q), 6(r) and 7):**				
6100	Selling expenses	5,946,930	-	9,646,871	1
6200	General and administrative expenses	10,620,127	1	11,280,211	1
6300	Research and development expenses	14,086,091	1	14,673,367	1
	Total operating expenses	30,653,148	2	35,600,449	3
	Results from operating activities	32,413,969	3	39,674,544	3
	Non-operating income and expenses:				
7010	Other income (Note 6(z))	3,172,133	-	3,605,179	-
7020	Other gains and losses (Notes 6(o) and 6(z))	(5,247,487)	-	(2,848,776)	-
7050	Finance costs (Notes 6(o) and 6(z))	(1,005,006)	-	(852,951)	-
7060	Share of loss of associates and joint ventures accounted for using equity method (Note 6(f))	(3,131)	-	(12,854)	-
7590	Miscellaneous disbursements	(250,808)	-	(379,128)	-
		(3,334,299)	-	(488,530)	-
	Profit from continuing operations before tax	29,079,670	3	39,186,014	3
7950	Less: Tax expense (Note 6(s))	6,942,278	1	10,314,155	1
	Profit for the year	22,137,392	2	28,871,859	2
8300	**Other comprehensive income (Notes 6(t) and 6(aa)):**				
8310	**Components of other comprehensive income that will not be reclassified to profit or loss**				
8311	Remeasurement effect on net defined benefit liability	4,265	-	1,277	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	(1,286)	-	(1,085)	-
		2,979	-	192	-
8360	**Other components of other comprehensive income that may be reclassified to profit or loss**				
8361	Exchange differences on translation of foreign financial statements	(8,597,708)	(1)	(1,191,862)	-
8362	Unrealized gains (losses) on valuation of available-for-sale financial assets	124,524	-	(124,493)	-
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method	(48,217)	-	(24,066)	-
8399	Income tax related to components of other comprehensive income that may be reclassified to profit or loss	(96,953)	-	(611)	-
		(8,424,448)	(1)	(1,339,810)	-
8300	**Other comprehensive income for the year, net of tax**	(8,421,469)	(1)	(1,339,618)	-
8500	**Total comprehensive income for the year**	$ 13,715,923	1	27,532,241	2
	Profit attributable to:				
8610	Owners of the parent company	$ 19,339,815	2	23,811,625	2
8620	Non-controlling interests	2,797,577	-	5,060,234	-
		$ 22,137,392	2	28,871,859	2
	Comprehensive income attributable to:				
8710	Owners of the parent company	$ 12,008,187	1	22,809,542	2
8720	Non-controlling interests	1,707,736	-	4,722,699	-
		$ 13,715,923	1	27,532,241	2
	Earnings per share, net of tax (Note 6(w))				
9750	**Basic earnings per share**	$	7.50		9.23
9850	**Diluted earnings per share**	$	7.42		9.10

See accompanying notes to financial statements.

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of the parent company														
	Share capital				Retained earnings			Total other equity interest							
	Common stock	Advance receipts for share capital	Total share capital	Capital surplus	Legal reserve	Unappropriated retained earnings	Total retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Deferred compensation cost	Total other equity interest	Treasury stock	Owners of the parent company	Non-controlling interests	Total equity
Balance at January 1, 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	(64,523)	4,901,345	(8,183)	133,670,931	41,200,299	174,871,230
Profit for the year	-	-	-	-	-	23,811,625	23,811,625	-	-	-	-	-	23,811,625	5,060,234	28,871,859
Other comprehensive income for the year	-	-	-	-	-	434	434	(1,035,941)	33,424	-	(1,002,517)	-	(1,002,083)	(337,535)	(1,339,618)
Total comprehensive income for the year	-	-	-	-	-	23,812,059	23,812,059	(1,035,941)	33,424	-	(1,002,517)	-	22,809,542	4,722,699	27,532,241
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)	-	(10,509,621)
Conversion of convertible bonds	1,946,748	(1,472,500)	474,248	2,679,408	-	-	-	-	-	-	-	-	3,153,656	-	3,153,656
Disposal of the Company's share by subsidiaries treated as treasury stock transactions	-	-	-	12,029	-	-	-	-	-	-	-	6,113	18,142	-	18,142
Changes in ownership interests in subsidiaries	-	-	-	8,885	-	-	-	-	-	-	-	-	8,885	(8,885)	-
Share-based payments	13,800	(5,200)	8,600	26,488	-	-	-	-	-	-	-	-	35,088	-	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	-	1,193,512
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,955,723)	(3,955,723)
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	41,958,390	192,338,525
Profit for the year	-	-	-	-	-	19,339,815	19,339,815	-	-	-	-	-	19,339,815	2,797,577	22,137,392
Other comprehensive income for the year	-	-	-	-	-	709	709	(7,305,056)	(27,281)	-	(7,332,337)	-	(7,331,628)	(1,089,841)	(8,421,469)
Total comprehensive income for the year	-	-	-	-	-	19,340,524	19,340,524	(7,305,056)	(27,281)	-	(7,332,337)	-	12,008,187	1,707,736	13,715,923
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)	-	(12,953,501)
Conversion of convertible bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	-	(2,068,328)	(2,068,328)	-	(2,068,328)
Retirement of treasury stock	(264,100)	-	(264,100)	(830,477)	-	(973,751)	(973,751)	-	-	-	-	2,068,328	-	-	-
Changes in ownership interests in subsidiaries	-	-	-	2,575	-	-	-	-	-	-	-	-	2,575	(2,575)	-
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	900,522
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,910,940)	(9,910,940)
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**	**33,752,611**	**182,022,201**

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

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	$ 29,079,670	39,186,014
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	12,770,863	13,471,400
Amortization expense	141,548	223,479
Reversal of allowance for uncollectable accounts	(36,760)	(80,476)
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(67,790)	200,625
Interest expense	912,165	672,266
Interest income	(1,057,275)	(1,396,275)
Dividend income	(20,659)	(97,677)
Compensation cost arising from employee stock options	907,285	941,827
Effect of exchange rate changes of bonds payable	-	(13,748)
Amortization of issuance costs on bonds payable	-	254
Share of loss of associates and joint ventures accounted for using equity method	3,131	12,854
Effect of exchange rate changes of long-term loans	(36,176)	115,907
Loss on disposal of property, plant and equipment	240,489	200,197
Property, plant and equipment charged to expenses	49,768	17,511
Gain on disposal of non-current assets classified as held for sale	-	(402,661)
Loss (gain) on disposal of investments	574,526	(397,657)
(Reversal of) Impairment loss	59,968	(134,852)
Long-term prepaid rent charged to expenses	95,295	95,425
Decrease in provision	(11,650)	(48,452)
Other loss	217,855	-
Total adjustments to reconcile profit (loss)	14,742,583	13,379,947
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease in financial assets at fair value through profit or loss	424,768	1,052,032
Decrease in notes and accounts receivable	24,197,509	9,912,717
Increase in other receivables	(14,022,934)	(12,875,512)
Decrease (increase) in inventories	9,509,597	(22,535,022)
Decrease in other financial assets	150,037	1,402,108
Decrease (increase) in other current assets	8,128,167	(3,613,244)
Decrease in other non-current assets	21,285	50,607
Total changes in operating assets	28,408,429	(26,606,314)
Changes in operating liabilities:		
Decrease in financial liabilities at fair value through profit or loss	-	(8,937)
Increase (decrease) in notes and accounts payable	12,076,464	(13,620,335)
Increase (decrease) in accrued expenses	(1,648,644)	2,551,506
Decrease in other payables	(1,403,876)	(389,408)
Decrease in provisions	(24,416)	(47,601)
Decrease in deferred revenue	(69,141)	(611,895)
Increase in other current liabilities	670,573	2,907,337
Increase in other non-current liability	22,830	94,645
Total changes in operating liabilities	9,623,790	(9,124,688)
Net changes in operating assets and liabilities	38,032,219	(35,731,002)
Net adjustments	52,774,802	(22,351,055)
Cash provided by operating activities	81,854,472	16,834,959
Interest received	1,069,904	1,425,566
Dividends received	70,384	139,496
Interest paid	(919,565)	(806,348)
Income taxes paid	(10,244,344)	(7,621,888)
Net cash flows from operating activities	71,830,851	9,971,785

See accompanying notes to financial statements.

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

PEGATRON CORPORATION AND ITS SUBSIDIARIES

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:		
Proceeds from disposal of available-for-sale financial assets	-	935,224
Acquisition of financial assets carried at cost	-	(15,450)
Proceeds from disposal of financial assets carried at cost	653	200,584
Acquisition of investments accounted for using equity method	-	(10,000)
Proceeds from disposal of subsidiaries	(3,674,323)	-
Proceeds from capital reduction of investments accounted for using equity method	-	161,086
Proceeds from disposal of non-current assets classified as held for sale	-	603,037
Acquisition of property, plant and equipment	(12,453,467)	(11,461,700)
Proceeds from disposal of property, plant and equipment	529,241	594,520
Acquisition of intangible assets	(224,591)	(143,249)
Decrease (increase) in other financial assets	(110,298)	254,418
Increase in prepayments on purchase of equipment	(4,317,635)	(3,415,970)
Increase in long-term prepaid rentals	(180,965)	(455,788)
Net cash flows used in investing activities	(20,431,385)	(12,753,288)
Cash flows from financing activities:		
Increase (decrease) in short-term loans	(13,919,128)	18,286,520
Proceeds from long-term loans	14,200,000	16,636,681
Repayments of long-term loans	(24,020,366)	(23,539,410)
Cash dividends paid	(15,172,473)	(12,840,060)
Capital reduction payments to shareholders	-	(1,664,408)
Exercise of employee stock options	-	39,794
Purchase of treasury stock	(2,068,328)	(32,885)
Proceeds from sale of treasury stock	-	46,521
Issuance of restricted stock	-	396,780
Redemption of restricted stock	(15,057)	(26,254)
Change in non-controlling interests	125,000	3,520
Net cash flows used in financing activities	(40,870,352)	(2,693,201)
Effect of exchange rate fluctuations on cash held	(4,377,148)	347,418
Net increase (decrease) in cash and cash equivalents	6,151,966	(5,127,286)
Cash and cash equivalents, beginning of the year	102,561,346	107,688,632
Cash and cash equivalents, end of the year	$ 108,713,312	102,561,346

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

(1) Company history

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

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

The consolidated financial statements of the Company as of and for the years ended December 31, 2016 and 2015 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates entities.

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

The accompanying 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:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 "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

Except for the following items, the Group believes that the adoption of the above IFRSs would not have a material impact on the consolidated financial statements:

(i) Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"

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

1) the level of the fair value hierarchy within which the fair value measurement is categorized; and

2) the valuation technique(s) used for fair value measurements categorized within Levels 2 and 3 of the fair value hierarchy, and the key valuation assumptions made.

The Group expects the aforementioned amendments will result in a broader disclosure of the recoverable amount for non-financial assets.

(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 Group should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the issuance date the Group'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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 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
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 Group 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.

Issuance / Release Dates	Standards or Interpretations	Content of amendment
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: ・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.
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: ・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 Group 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 Group completes its evaluation.

(4) Summary of significant accounting policies:

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

(a) Statement of compliance

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

(b) Basis of preparation

(i) Basis of measurement

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

1) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments) ;

2) Available-for-sale financial assets are measured at fair value;

3) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and

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

(ii) Functional and presentation currency

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

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

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

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized income arising from investment accounted for using equity method is eliminated against the Company invested in its subsidiaries. The accounting treatment for unrealized loss is the same as unrealized income only when there is no indication of impairment.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) Acquisition of non-controlling interests

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

(iii) Subsidiaries

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

(iv) Business combination under common control

The business combinations under common control often occur as the group activities are recognized in which the direct ownership of subsidiaries changes but the ultimate parent remains the same. These combinations are treated as the later of either the earliest comparative period in financial statements or the date of common control that requires the restatement of comparative information of prior period. Upon consolidation, assets and liabilities of the acquired entity are recognized at their carrying amount in the consolidated financial statements of owners of the Company. The equity of the consolidated entity is accounted for under the non-controlling interest, and related income and loss are directly recognized in profits attributable to non-controlling interest.

(v) Losing control

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

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

			Shareholding ratio		
Investor	**Subsidiary**	**Nature of business**	**December 31, 2016**	**December 31, 2015**	**Notes**
THE COMPANY AND ASUSPOWER INVESTMENT	ABILITY ENTERPRISE CO., LTD. (Ability (TW))	Selling computer peripherals, office automation equipment, digital cameras, retailing and wholesaling, of food products and leasing	11.73%	11.72%	Note 1
Ability (TW)	ABILITY ENTERPRISE (BVI) CO., LTD.(ABILITY)	Investing activities	100.00%	100.00%	Note 1

Investor	Subsidiary	Nature of business	Shareholding ratio December 31, 2016	Shareholding ratio December 31, 2015	Notes
Ability (TW)	ACTION PIONEER INTERNATIONAL LTD.	Trading activities	100.00%	100.00%	Note 1
Ability (TW)	VIEWQUEST TECHNOLOGIES INTERNATIONAL INC.	Selling computer peripherals, digital cameras and electronic components	100.00%	100.00%	Note 1
Ability (TW)	VIEWQUEST TECHNOLOGIES (BVI) INC.(VQ(BVI))	Manufacturing and trading computer peripherals, digital cameras and electronic components	100.00%	100.00%	Note 1
Ability (TW)	Ability International Investment Co., Ltd.(ABILITY INVESTMENT)	Investing activities	100.00%	100.00%	Note 1
Ability (TW)	E-PIN OPTICAL INDUSTRY CO., LTD.(E-PIN)	Selling electronic components of optical products	53.01%	53.01%	Note 1
ABILITY	Ability Technology (Dongguan) Co., Ltd.	Manufacturing and selling digital cameras	100.00%	100.00%	Note 1
ABILITY	Jiujiang Viewquest Electronics Inc.	Manufacturing and selling digital cameras	100.00%	100.00%	Note 1
VQ(BVI)	VIEWQUEST TECHNOLOGIES (DONGGUAN) CO., LTD.	Manufacturing and selling digital cameras	100.00%	100.00%	Note 1
E-PIN	E-PIN OPTICAL INDUSTRY CO., LTD.	Trading activities	100.00%	100.00%	Note 1
E-PIN	E-PIN OPTICAL INDUSTRY(M.)SDN BHD.	Manufacturing precision lenses	100.00%	100.00%	Note 1
E-PIN	ALL VISION TECHNOLOGY SDN BHD.	Manufacturing precision lenses	100.00%	100.00%	Note 1
E-PIN	ALL VISION HOLDING LTD.(AV)	Investing activities	100.00%	100.00%	Note 1
AV	EVERLIGHT DEVELOPMENT CORPORATION(ED)	Investing activities	100.00%	100.00%	Note 1
AV	E-SKY HOLDING LTD.(ES)	Investing activities	73.04%	73.04%	Note 1
ED	NANJING CHANGMING PHOTOELECTRIC TECHNOLOGY CO., LTD.	Manufacturing and developing precision optical lenses	55.45%	55.45%	Note 1
ES	ZHONGSHAN SANXIN PRECISION INDUSTRY CO., LTD.	Manufacturing and developing precision optical lenses	100.00%	100.00%	Note 1
ES	NANJING E-PIN OPTOTECH CO., LTD.	Manufacturing and developing precision optical lenses	72.22%	72.22%	Note 1
THE COMPANY	UNIHAN HOLIDNG LTD. (UNIHAN HOLDING)	Investing activities	100.00%	100.00%	
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDINGS)	Investing and trading activities	100.00%	100.00%	

Investor	Subsidiary	Nature of business	Shareholding ratio December 31, 2016	Shareholding ratio December 31, 2015	Notes
CASETEK HOLDINGS	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00%	100.00%	
CASETEK HOLDINGS	CASETEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling computers, computer parts, application systems, and providing after-sales service	100.00%	100.00%	
CASETEK HOLDINGS	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDINGS)	Investing and trading activities	100.00%	100.00%	
KAEDAR HOLDINGS	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00%	100.00%	
CASETEK HOLDINGS	KAEDAR TRADING LTD.	Investing and trading activities	100.00%	100.00%	
CASETEK HOLDINGS	CORE-TEK (SHANGHAI) LIMITED	Researching and producing spare parts for notebook computers, designing nonmetal tooling, electronic specific equipment and related products, repairing and producing precision equipment and providing after-sales service	100.00%	100.00%	
CASETEK HOLDINGS	KAI-CHUAN ELECTRONICS (CHONGQING) CO., LTD.	Manufacturing, developing and inspecting computers and application systems, designing and manufacturing nonmetal and metal tooling, developing plastic and electronic component, selling self-manufactured products.	100.00%	100.00%	
THE COMPANY, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	AZURE WAVE TECHNOLOGIES, INC. (AZURE WAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	38.08%	38.08%	Note 2
AZURE WAVE	EMINENT STAR CO., LTD. (Eminent)	Investing activities	- %	100.00%	Notes 2 and 6
Eminent	Jade Technologies Limited(Jade)	Investing activities	- %	100.00%	Notes 2 and 4
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00%	100.00%	Note 2
AZURE WAVE	Azwave Holding (Samoa) Inc.(Azwave Samoa)	Investing activities	100.00%	100.00%	Note 2
AZURE WAVE	Azurewave Technologies (USA) Inc.	Developing market	100.00%	100.00%	Note 2
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00%	100.00%	Note 2
Azwave Samoa	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and selling computer products	100.00%	100.00%	Note 2
Azwave Samoa	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00%	100.00%	Note 2
Azwave Samoa	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00%	100.00%	Note 2

			Shareholding ratio		
Investor	**Subsidiary**	**Nature of business**	**December 31, 2016**	**December 31, 2015**	**Notes**
THE COMPANY	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00%	100.00%	
AMA PRECISION	AMA Holdings Limited(AMA)	Investing activities	100.00%	100.00%	
AMA	EXTECH LTD.	Trading electronic parts	90.51%	90.51%	
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	100.00%	100.00%	
AMA	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD.	Manufacturing and selling new electronic parts and premium hardware	100.00%	100.00%	
THE COMPANY	PEGATRON HOLLAND HOLDING B.V.(PHH)	Investing activities	100.00%	100.00%	
PHH	PEGATRON Czech s.r.o.	Installing, repairing and selling electronic products	100.00%	100.00%	
PHH	Pegatron Service Holland B.V.	Sales and repair service center in Europe	100.00%	100.00%	
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00%	100.00%	
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00%	100.00%	
POWTEK	POWTEK (SHANGHAI) LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00%	100.00%	
PEGATRON HOLDING、KINSUS SAMOA	PIOTEK HOLDINGS LTD. (CAYMAN) (PIOTEK CAYMAN)	Investing activities	100.00%	100.00%	
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing activities	100.00%	100.00%	
PIOTEK HOLDING	PIOTEK COMPUTER (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	
PIOTEK HOLDING	PIOTEK(H.K.) TRADING LIMITED	Trading activities	100.00%	100.00%	
PEGATRON HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Investing and trading activities	100.00%	100.00%	
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00%	100.00%	
ASLINK	PEGAGLOBE (KUNSHAN) CO.,LTD.	Manufacturing GPS, computer electronic devices, mobile phone, high-end server, disk drive, and other related components	100.00%	100.00%	
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00%	100.00%	
DIGITEK	DIGITEK (CHONGQING) LTD.	Manufacturing, developing, and selling GPS, computer electronic devices, and after-sales services	100.00%	100.00%	

Investor	Subsidiary	Nature of business	Shareholding ratio December 31, 2016	Shareholding ratio December 31, 2015	Notes
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00%	100.00%	
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00%	100.00%	
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD.(PROTEK)	Investing and trading activities	100.00%	100.00%	
PROTEK	PROTEK (SHANGHAI) LTD.	Developing, manufacturing and selling GPS, new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED(COTEK)	Investing and trading activities	100.00%	100.00%	
COTEK	COTEK ELECTRONICS (SUZHOU) CO., LTD.	Developing, manufacturing and selling new electronic components, circuit boards and relevant products, and providing after-sales service	100.00%	100.00%	
PEGATRON HOLDING	TOP QUARK LIMITED(TOP QUARK)	Investing activities	100.00%	100.00%	
TOP QUARK	RUNTOP (SHANGHAI) CO., LTD.	Manufacturing and selling computer parts and peripherals of digital automatic data processors, multimedia computer system accessories, power supply units, network switches, and modems	100.00%	100.00%	
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASROCK INCORPORATION (ASROCK)	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	58.65%	58.65%	
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Manufacturing and selling database storage and processing equipment	100.00%	100.00%	
ASIAROCK	ASROCK EUROPE B.V.	Selling database service and trading electronic components	100.00%	100.00%	
ASIAROCK	CalRock Holdings, LLC.	Office building leasing	100.00%	100.00%	
ASROCK	Leader Insight Holdings Ltd.(Leader)	Investing and holding activities	100.00%	100.00%	
Leader	First place International Limited (First place)	Investing and holding activities	100.00%	100.00%	
First place	ASRock America, Inc.	Selling database service and trading electronic components	100.00%	100.00%	

Investor	Subsidiary	Nature of business	Shareholding ratio December 31, 2016	Shareholding ratio December 31, 2015	Notes
ASROCK	ASRock Rack Incorporation	Manufacturing and selling computer and related peripherals	69.40%	69.40%	
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS)	Manufacturing electronic parts, whole selling and retailing electronic components, and providing business management consultant service	39.04%	39.04%	Note 2
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00%	100.00%	Note 2
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	54.87%	54.87%	Note 2
KINSUS INVESTMENT, ASUSTEK INVESTMENT AND ASUS INVESTMENT	FUYANG TECHNOLOGY CORPORATION	Manufacturing and wholesaling wires, cables, and electronic components	90.00%	- %	Note 3
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00%	100.00%	Note 2
PEGAVISION CORPORATION	PEGAVISION JAPAN INC.	Selling medical appliances	100.00%	100.00%	Note2
FUYANG TECHNOLOGY CORPORATION	FUYANG FLEX HOLDING LTD. (FUYANG HOLDING)	Investing activities	100.00%	- %	Notes 3 and 7
FUYANG HOLDING	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Researching, producing, inspecting, repairing and selling flexible multilayer model, computer digital signal process system and card.	100.00%	- %	Note 3
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	100.00%	100.00%	Note 2
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00%	100.00%	Note 2
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00%	100.00%	Note 2
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED(KINSUS CAYMAN)	Investing activities	100.00%	100.00%	Note 2

			Shareholding ratio		
Investor	**Subsidiary**	**Nature of business**	**December 31, 2016**	**December 31, 2015**	**Notes**
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00%	100.00%	Note 2
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00%	100.00%	Note 2
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	STARLINK ELECTRONICS CORPORATION	Manufacturing electronic parts and plastic products, and manufacturing and wholesaling electronic components	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00%	100.00%	
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED(CAYMAN) (CASETEK CAYMAN)	Investing activities	60.73%	60.73%	
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED	Investing activities	100.00%	100.00%	
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD. (RI-TENG)	Designing, manufacturing and selling electronic components and providing after-sales services , idle equipments leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Designing, manufacturing and selling electronic components and providing after-sales services , idle equipments leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Designing, manufacturing and selling electronic components and providing after-sales services , idle equipments leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Designing, manufacturing and selling electronic components and providing after-sales services , idle equipments leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	
RIH LI	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, manufacturing and selling electronic components and providing after-sales services , idle equipment leasing, commission agency, trading services and their relevant corresponding services	100.00%	100.00%	

Investor	Subsidiary	Nature of business	Shareholding ratio December 31, 2016	Shareholding ratio December 31, 2015	Notes
RIH LI	KAI JIA COMPUTER ACCESSORY CO., LTD.	Designing, manufacturing and selling electronic components and providing after-sales services, idle equipment leasing, commission agency, trading services, relevant corresponding services, and surface processing for the aforementioned product.	100.00%	100.00%	
CASETEK CAYMAN	APEX SUN LIMITED	Investing activities	100.00%	-	Note 5
CASETEK CAYMAN	RIH KUAN METAL CORPORATION	Selling iron and aluminum products	100.00%	100.00%	
CASETEK CAYMAN	APLUS PRECISION LIMITED(APLUS)	Investing and trading activities	100.00%	100.00%	
APLUS	UNITED NEW LIMITED(UNITED)	Investing and trading activities	100.00%	100.00%	
UNITED	KAI HE COMPUTER ACCESSORY (SUZHOU) CO., LTD	Designing, manufacturing and selling electronic components and providing after-sales service, idle equipment leasing, commission agency, trading services, relevant corresponding services, and surface processing for the aforementioned product.	100.00%	100.00%	
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00%	100.00%	
ASUS INVESTMENT	ASFLY TRAVEL SERVICE LIMITED	Travel agency	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00%	100.00%	
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA. (PCBR)	Maintenance service	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00%	100.00%	
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00%	100.00%	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens Optics)	Developing, manufacturing and selling computer data projectors and related peripherals	56.52%	56.52%	
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00%	100.00%	
Lumens Optics	Lumens Digit Image Inc. (SAMOA)(Lumens)	Investing activities	100.00%	100.00%	
Lumens	Lumens (Suzhou) Digital Image Inc.	Developing, manufacturing and selling projectors, projection screens and related products, and providing after-sales service	100.00%	100.00%	

Investor	Subsidiary	Nature of business	Shareholding ratio December 31, 2016	December 31, 2015	Notes
ASUSPOWER INVESTMENT	Pegatron Service Singapore Pte. Ltd.(PSG)	Sales and logistics center in Singapore	100.00%	100.00%	
PSG	PEGATRON SERVICE KOREA LLC.	Sales and repair service center in Korea	100.00%	- %	Note 5
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00%	100.00%	
THE COMPANY	PEGATRON USA, INC.	Sales and repair service center in North America	100.00%	100.00%	

Note 1: On June 29, 2016, the shareholders of Ability Enterprise Co., Ltd. elected new set of directors during shareholders' meeting, so that the Group lost its control over Ability Enterprise Co., Ltd. as the Group is unable to acquire more than half of the voting rights of the board of directors. Consequently, Ability Enterprise Co., Ltd. and its subsidiaries were no longer included in the consolidated financial statements from that date on.

Note 2: As of December 31, 2016, AZURE WAVE TECHNOLOGY CORP., ABILITY ENTERPRISE CO., LTD. and KINSUS INTERCONNECT TECHNOLOGY CORP., were included in the consolidated financial statements even if the Group held 38.08% and 39.04%, respectively, or less than 50% of their total issued shares because the Group has acquired more than 50% of voting shares of each of these entities and has the ability to excise control over their respective board of directors.

Note 3: It was established in the second quarter of 2016.

Note 4: It was liquidated in May 2016.

Note 5: It was established in the first quarter of 2016.

Note 6: It was liquidated in August 2016.

Note 7: In October 2016, the Group has restructured, so that the 100% equity ownership of FUYANG HOLDING was transferred from UNIHAN HOLDING to FUYANG TECHNOLOGY.

(vii) Subsidiaries excluded from consolidation: None.

(d) Foreign currency

(i) Foreign currency transaction

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

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

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

1) Available-for-sale equity investment;

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

3) Qualifying cash flow hedges to the extent the hedge is effective.

(ii) Foreign operations

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

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

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

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

An asset is classified as current when:

(i) It is expected to be realized the asset, or intended to be sold or consumed, during the normal operating cycle;

(ii) It is held primarily for the purpose of trading;

(iii) It is expected to be realized within twelve months after the reporting period; or

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

All other assets are classified as non-current.

A liability is classified as current when:

(i) It is expected to be settled within the Group's normal operating cycle;

(ii) It is held primarily for the purpose of trading;

(iii) The liability is due to be settled within twelve months after the reporting period; or

(iv) It does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

All other liabilities are classified as non-current.

(f) Cash and cash equivalents

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

Time deposits are accounted under cash and cash equivalents if they are accord with the definition aforementioned, and are held for the purpose of meeting short-term cash commitment rather than for investment or other purpose.

(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.

(h) Financial instruments

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

(i) Financial assets

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

1) Financial assets at fair value through profit or loss

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

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

b) Performance of the financial asset is evaluated on a fair value basis.

c) Hybrid instrument contains one or more embedded derivatives.

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

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

2) Available-for sale financial assets

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

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

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

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

3) Loans and receivables

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

Loans and receivables include accounts receivables and other receivables. Interest income is recognized in profit or loss, under other income.

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

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

b) Each transferee has the right to pledge or exchange the rights to the accounts receivable, and no condition prevents the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor.

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

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

   ii) The ability to unilaterally cause the holder to return specific rights to the accounts receivable.

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

4) Impairment of financial assets

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

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

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

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. Such impairment loss is not reversible in subsequent periods.

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

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

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

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

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

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

5) Derecognition of financial assets

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

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

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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity instruments

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

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

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 Group's shareholders.

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

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

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

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

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

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

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 non-operating income and expenses, 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 Group has the legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

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, they are measured at the higher of (a) the amount of contractual obligation determined in accordance with IAS 37; or (b) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18.

(iii) Derivative financial instruments, including hedge accounting

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

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

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

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

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

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

1) Fair value hedge

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

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

Hedged financial instruments using an effective interest rate is amortized to profit or loss when hedge accounting is discontinued over the period to maturity. The effective rate can discount the adjustment amount to zero at the maturity date.

2) Cash flow hedge

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

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

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.

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

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

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

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

(j) Investment in associates

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

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

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

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

When the Group's share of losses exceeds its interest in associates, the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(k) Investment property

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

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

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

Buildings	20-60 years

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

(l) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Reclassification to investment property

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

(iii) Subsequent cost

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

(iv) Depreciation

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

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

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

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

Buildings	1-60 years
Machinery	1-10 years
Instrument equipment	3-10 years
Office and other equipment	2-10 years
Miscellaneous equipment	1-25 years

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

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

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

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

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

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

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

1) The fulfillment of the arrangement is dependent on the use of a specific asset or assets; and

2) The arrangement contains a right to use the asset.

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

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

(n) Intangible assets

(i) Goodwill

1) Recognition

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

2) Measurement

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

(ii) Other Intangible Assets

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

(iii) Subsequent Expenditure

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

(iv) Amortization

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

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

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

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

(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. Allowances for sales returns and allowances are estimated and recognized in provisions based on historical experiences when goods are sold.

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

(ii) Service

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. Only when the result of the transactions is difficult to estimate, revenues are recognized within the cost that are very possibly recovered.

(p) Impairment – Non-financial assets

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

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

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

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

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

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

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

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

Reversal of an impairment loss for goodwill is prohibited.

(q) Provisions

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

(r) Treasury stock

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

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

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

(s) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

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

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

(iii) Short-term employee benefits

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

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

(t) 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.

(u) 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.

(iii) Initial recognition of goodwill.

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

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

(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.

(v) Business combination

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

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

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

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

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

Business combinations under common control are accounted in the later date of the earliest period financial reports are expressed and the establishment date of common control. Assets and liabilities of the merged entities are recognized at their carrying amount in the non-consolidated financial statements.

(w) Government grant

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

The grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. If the grant is used for reimburse loss and expenses that have happened or for immediate financial aid for the Company and no future related cost, it can be recognized gain at the time the Company acquires.

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

(x) 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.

(y) Operating segments

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

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

The preparation of the 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(g) for details.

(b) Valuation of inventories

Regarding assumptions and estimation uncertainties, valuation of inventories has a significant risk of resulting in a material adjustment within the next financial year. As inventories are stated at the lower of cost or net realizable value, the 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	$	16,143	37,507
Cash in banks		34,381,705	47,415,722
Time deposits		74,218,714	55,108,117
Cash equivalents-repurchase bonds		96,750	-
	$	108,713,312	102,561,346

(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(l) and 8 for details.

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

(b) Investment in financial assets and liabilities

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

		December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss－current:			
Held-for-trading			
Shares of stock of listed companies	$	270,926	246,679
Beneficiary certificates		4,096,921	4,485,982
Total	$	4,367,847	4,732,661
Available-for-sale financial assets － current:			
Shares of stock of overseas listed companies	$	266,523	857,820
Available-for-sale financial assets －noncurrent:			
Shares of stock of listed companies	$	610,702	765,744
Equity securities － common stock		178,920	195,840
Total	$	789,622	961,584
Financial assets carried at cost － noncurrent:			
Equity securities – common stock	$	165,450	263,118
Equity securities – preferred stock		205,632	205,632
Total	$	371,082	468,750

1) For the years ended December 31, 2016 and 2015, the Group recognized a net gain (loss) on financial assets (liabilities) reported at fair value through profit or loss of $67,790 and $(200,625), respectively.

2) For the years ended December 31, 2016 and 2015, the unrealized gain (loss) on available-for-sale financial assets amounted to $124,524 and $(124,493), respectively.

3) Considering that the range of reasonable fair value estimates is large and the probability for each estimate cannot be reasonably determined, the Group management believes the fair value cannot be measured reliably. Therefore, the aforementioned investments held by the Group are measured at amortized cost less impairment at each reporting date. The Group evaluated the carrying value and the recoverable amount of the investments and recognized impairment loss of $0 and $11,247 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, the Group had accumulated impairment loss of $254,811 and $266,188, respectively.

4) The convertible bond issued by the Group was treated as a compound financial instrument, for which the liability and equity components were accounted for separately. The call and put option embedded in bonds payable were separated from bonds payable, and were measured at fair value." For the year ended December 31, 2015, the Group recognized a loss on financial liability reported at fair value through profit or loss of $238,997. Please refer to Note 6(o) for detail.

5) Refer to Note 6(z) for further discussion on gains and losses on disposal of investments.

6) Refer to Note 6(ab) for the Group's information on financial instruments risk management.

7) As of December 31, 2016 and 2015, the aforesaid financial assets were not pledged as collateral.

(ii) Fair value sensitivity analysis

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

	For the 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%	$ 31,684	131,035	54,582	141,980
Decrease 3%	$ (31,684)	(131,035)	(54,582)	(141,980)

(iii) Foreign equity investments

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

(Unit: Foreign currency/NTD in Thousands)

	December 31, 2016			December 31, 2015		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
USD	$ 10,992	32.250	354,492	28,121	32.825	923,072
CNY	57,329	4.6490	266,523	58,849	5.0550	297,482

(iv) Derivative not used for hedging

Derivative financial instruments are used to hedge certain foreign exchange and interest risk the Group is exposed to, arising from its operating, investing and financial activities. As of December 31, 2016 and 2015, the Group did not have related transactions that do not quality for hedge accounting presented as held-for-trading financial assets and financial liability.

As of December 31, 2016 and 2015, the Group did not have related transactions that do not qualify for hedge accounting are presented as held-for-trading financial assets and financial liabilities.

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

	December 31, 2016	December 31, 2015
Notes receivable	$ 96,170	170,001
Accounts receivable	95,115,492	121,973,316
Other receivables	42,605,518	27,709,682
Less: Allowance for impairment	(1,910,613)	(2,127,925)
	$ 135,906,567	147,725,074

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

(ii) Accounts receivable which are transferred in accordance with derecognition standards of IFRS are deemed as sale of accounts receivable. As of December 31, 2016 and 2015, the Company sold its accounts receivable without recourse as follows:

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

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

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.

(iii) As of December 31, 2016 and 2015, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

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

December 31, 2015						
Purchaser	Assignment Facility	Factoring Line (thousands)	Advanced Amount	Collateral	Significant Factoring Terms	Derecognition Amount
Mega International Commercial Bank	$ 251,600	USD 30,000	$ -	None	The accounts receivable factoring is without recourse	$ 251,600

(d) Inventories

	December 31, 2016	December 31, 2015
Merchandise	$ 629,690	1,551,835
Finished goods	65,797,600	67,260,261
Work in process	17,624,217	20,917,494
Raw materials	28,203,409	35,083,914
Subtotal	112,254,916	124,813,504
Less: Allowance for inventory market decline and obsolescence	(4,935,514)	(6,648,044)
Total	$ 107,319,402	118,165,460

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

	For the years ended December 31	
	2016	**2015**
Cost of goods sold	1,067,674,727	1,099,548,746
(Reversal of) Provision on inventory market price decline	(1,519,661)	863,182
Loss on disposal of inventory	27,187,138	37,215,635
Unallocated manufacturing overhead	1,254,990	819,130
(Gain) Loss on physical inventory	45,802	(8,710)
	1,094,642,996	**1,138,437,983**

In 2016, the Group recognized reversal of provision on inventory market price decline of $1,519,661 and included it in cost of goods sold because of adjusting inventory value to net realize value. The provision arising from destocking in 2015 of $863,182 was recognized. Such gain was deducted from cost of goods sold.

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

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

	December 31, 2016	**December 31, 2015**
Property, plant, and equipment	$ -	-

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

(ii) In December 2014, Ability (TW) and its subsidiaries sold part of the land and property of E-PIN's office in Taipei for $158,280 in a sale-lease back arrangement. In February 2015, the process for the transfer of title of ownership to these assets was completed, when the payment for the assets sold is received, as required under the sales contract. In December 2014, Ability (TW) also sold its E-PIN's equipments in Nanjing for $16,529 to a non-related party. The process for the transfer of title of ownership to those non-current assets has been completed during the reporting period. A disposal gain of $66,783 has been recognized thereon.

(f) Investments accounted for using equity method

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

		December 31, 2016	December 31, 2015
Individually insignificant associates	$	362,909	424,191

		For the years ended December 31	
		2016	2015
The Group's share of profit (loss) of the associates			
Loss for the year	$	(3,131)	(12,854)
Other comprehensive income		(48,217)	(24,066)
Total comprehensive income	$	(51,348)	(36,920)

(ii) As of December 31, 2016 and 2015, the aforesaid investments accounted for using equity method were not pledged as collateral.

(g) Loss of control of a subsidiary

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

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

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

(h) Subsidiaries that have material non-controlling interest

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

Subsidiaries	Country of registration	Equity Ownership of non-controlling interest December 31, 2016	Equity Ownership of non-controlling interest December 31, 2015
KINSUS and its subsidiaries	Taiwan	60.96%	60.96%
ABILITY and its subsidiaries	Taiwan	- %	88.28%
ASROCK and its subsidiaries	Taiwan	41.35%	41.35%
CASETEK CAYMAN	Taiwan/ Cayman	39.27%	39.27%

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

(i) Information regarding KINSUS and its subsidiaries

	December 31, 2016	December 31, 2015
Current assets	$ 21,615,555	23,471,368
Non-current assets	19,638,160	19,167,364
Current liabilities	(8,639,797)	(10,318,448)
Non-current liabilities	(1,599,149)	(1,492,483)
Net assets	$ 31,014,769	30,827,801
Non-controlling interest	$ 18,151,995	17,777,750

	For the years ended December 31 2016	For the years ended December 31 2015
Operating revenue	$ 23,165,066	23,061,311
Net income for the period	$ 2,073,028	2,729,526
Other comprehensive loss	(326,985)	(137,614)
Comprehensive income	$ 1,746,043	2,591,912
Net income attribute to non-controlling interest	$ 1,446,006	1,809,591
Comprehensive income attribute to non-controlling interest	$ 1,325,193	1,767,315

	For the years ended December 31	
	2016	**2015**
Cash flows from operating activities	$ 5,752,676	6,938,575
Cash flows from investing activities	(4,971,181)	(4,961,460)
Cash flows from financing activities	(2,312,646)	(783,229)
Net (decrease) increase in cash and cash equivalents	$ (1,531,151)	1,193,886

(ii) Information regarding ABILITY and its subsidiaries

	December 31, 2016	**December 31, 2015**
Current assets	$ -	8,795,084
Non-current assets	-	5,222,319
Current liabilities	-	(5,180,123)
Non-current liabilities	-	(102,557)
Net assets	$ -	8,734,723
Non-controlling interest	$ -	7,745,320

	2016 Jan.-June (Note)	**2015 Jan.-Dec.**
Operating revenue	$ 5,758,572	19,254,208
Net income for the period	$ 48,287	867,444
Other comprehensive income (loss)	30,123	(150,734)
Comprehensive income	$ 78,410	716,710
Net income attribute to non-controlling interest	$ 48,655	788,449
Comprehensive income attribute to non-controlling interest	$ 74,224	655,092
Cash flows from operating activities	$ 213,863	989,459
Cash flows from investing activities	(205,297)	290,330
Cash flows from financing activities	(11,498)	(2,366,148)
Net decrease in cash and cash equivalents	$ (2,932)	(1,086,359)

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

(iii) Information regarding ASROCK and its Subsidiaries

	December 31, 2016	December 31, 2015
Current assets	$ 7,751,292	7,812,156
Non-current assets	330,798	319,077
Current liabilities	(2,438,731)	(2,244,410)
Non-current liabilities	(15,879)	(30,284)
Net assets	$ 5,627,480	5,856,539
Non-controlling interest	$ 2,309,248	2,425,260

	For the years ended December 31 2016	2015
Operating revenue	$ 7,120,620	7,217,149
Net income for the period	$ 123,375	206,131
Other comprehensive (loss) income	(64,830)	144,199
Comprehensive income	$ 58,545	350,330
Net income attribute to non-controlling interest	$ 29,750	65,427
Comprehensive income attribute to non-controlling interest	$ 340	125,804
Cash flows from operating activities	$ 541,030	1,305,366
Cash flows from investing activities	8,117	1,980,973
Cash flows from financing activities	(287,604)	(460,137)
Net increase in cash and cash equivalents	$ 261,543	2,826,202

(iv) Information regarding CASETEK CAYMAN

	December 31, 2016	December 31, 2015
Current assets	$ 28,863,585	28,893,035
Non-current assets	21,739,451	19,927,861
Current liabilities	(19,445,716)	(15,581,629)
Non-current liabilities	(2,412,077)	(2,237,693)
Net assets	$ 28,745,243	31,001,574
Non-controlling interest	$ 11,287,107	12,173,078

	For the years ended December 31	
	2016	2015
Operating revenue	$ 32,763,310	38,614,914
Net income for the period	$ 2,801,624	5,635,891
Other comprehensive loss	(2,340,299)	(537,953)
Comprehensive income	$ 461,325	5,097,938
Net income attribute to non-controlling interest	$ 1,100,086	2,212,989
Comprehensive income attribute to non-controlling interest	$ 176,272	2,001,754
Cash flows from operating activities	$ 5,188,093	10,819,513
Cash flows from investing activities	(6,529,986)	(5,513,822)
Cash flows from financing activities	2,075,656	(3,554,164)
Net increase in cash and cash equivalents	$ 733,763	1,751,527

(i) Property, plant and equipment

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

	Land	Buildings	Machinery and equipment	Instrument equipment	Other facilities	Construction in progress	Total
Cost or deemed cost:							
Balance on January 1, 2016	$ 5,580,222	41,312,837	58,970,443	1,559,813	25,442,907	6,164,893	139,031,115
Additions	-	1,201,866	2,507,628	115,842	1,696,725	7,095,931	12,617,992
Disposals and obsolescence	-	(683,866)	(3,907,119)	(112,741)	(2,508,785)	-	(7,212,511)
Reclassifications	4,642	4,398,938	4,180,183	11,438	1,986,181	(6,254,585)	4,326,797
Effect of movement in exchange rate	(15,462)	(2,818,941)	(3,587,843)	(102,931)	(1,490,261)	(339,203)	(8,354,641)
Loss of control of a subsidiary	(1,248,948)	(1,429,646)	(2,570,728)	-	(2,460,056)	(526,728)	(8,236,106)
Balance on December 31, 2016	$ 4,320,454	41,981,188	55,592,564	1,471,421	22,666,711	6,140,308	132,172,646
Balance on January 1, 2015	$ 5,567,180	41,446,276	58,742,688	1,670,643	25,178,826	2,982,725	135,588,338
Additions	10,766	662,997	2,724,897	77,359	1,987,509	5,768,819	11,232,347
Disposals and obsolescence	(179,496)	(1,142,042)	(4,026,148)	(157,911)	(2,177,467)	-	(7,683,064)
Reclassifications	191,374	1,173,279	2,518,969	-	949,097	(2,516,768)	2,315,951
Effect of movement in exchange rate	(9,602)	(827,673)	(989,963)	(30,278)	(495,058)	(69,883)	(2,422,457)
Balance on December 31, 2015	$ 5,580,222	41,312,837	58,970,443	1,559,813	25,442,907	6,164,893	139,031,115

	Land	Buildings	Machinery and equipment	Instrument equipment	Other facilities	Construction in progress	Total
Depreciation and impairment loss：							
Balance on January 1, 2016	$ -	13,083,979	36,019,984	1,145,084	17,744,290	-	67,993,337
Depreciation for the year	-	2,218,989	6,852,364	242,630	3,448,286	-	12,762,269
(Reversal of) Impairment loss	-	141	56,564	(50)	3,313	-	59,968
Reclassifications	-	288,821	639	-	(193,829)	-	95,631
Disposals and obsolescence	-	(621,287)	(3,423,598)	(111,091)	(2,286,805)	-	(6,442,781)
Effect of movement in exchange rate	-	(938,862)	(2,260,504)	(87,297)	(1,088,449)	-	(4,375,112)
Loss of control of a subsidiary	-	(499,879)	(1,933,444)	-	(2,348,152)	-	(4,781,475)
Balance on December 31, 2016	$ -	13,531,902	35,312,005	1,189,276	15,278,654	-	65,311,837
Balance on January 1, 2015	$ 50,054	11,823,017	33,554,418	1,026,774	16,235,791	-	62,690,054
Depreciation for the year	-	2,556,168	6,614,194	292,840	3,996,928	-	13,460,130
(Reversal of) Impairment loss	(50,054)	(2)	(120,249)	(79)	482	-	(169,902)
Reclassifications	-	(4,220)	106,359	-	(146,758)	-	(44,619)
Disposals and obsolescence	-	(1,039,963)	(3,684,264)	(153,693)	(2,010,427)	-	(6,888,347)
Effect of movement in exchange rate	-	(251,021)	(450,474)	(20,758)	(331,726)	-	(1,053,979)
Balance on December 31, 2015	$ -	13,083,979	36,019,984	1,145,084	17,744,290	-	67,993,337
Carrying amounts：							
Balance on December 31, 2016	$ 4,320,454	28,449,286	20,280,559	282,145	7,388,057	6,140,308	66,860,809
Balance on December 31, 2015	$ 5,580,222	28,228,858	22,950,459	414,729	7,698,617	6,164,893	71,037,778

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

	For the years ended December 31	
	2016	**2015**
Impairment loss (reversal gain)	$ 59,968	(169,902)

(ii) For the years ended December 31, 2016 and 2015, impairment losses on damaged equipment of $16,571 and $14,257, respectively, were recognized by CASETEK CAYMAN and its subsidiaries. CASETEK CAYMAN and its subsidiaries sold damaged equipment at selling price exceeding its carrying amount by $2,959 which was recognized as a reversal gain for the year ended December 31, 2016. In 2015, CASETEK CAYMAN and its subsidiaries retested the impairment of the production line and the result thereof disclosed an excess of $127,157 in the recoverable amount of the production line over its carrying value, which was recognized as reversal gain.

(iii) KINSUS INTERCONNECT TECHNOLOGY CORP. completed a series of farm land purchases covering a total land area of 36,287.15 square meters in the name of KINSUS's chairman instead of KINSUS, due to the restriction imposed by the local government.

(iv) In September 2015, a fire accident occurred at RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.. The equipment loss and the related repair cost arising from this accident amounted to RMB 16,198 thousand (NTD 82,534), which was recognized in its books by RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD..

(v) Please refer to Note 6(z) for details of gain and loss on disposal of property, plant and equipment.

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

(j) Investment property

	Land	Buildings	Total
Cost or deemed cost:			
Balance on January 1,2016	$ 281,945	610,253	892,198
Effect of movement in exchange rate	-	(5,684)	(5,684)
Loss of control of a subsidiary	(281,945)	(539,483)	(821,428)
Balance on December 31, 2016	$ -	65,086	65,086
Balance on January 1,2015	$ 281,945	539,483	821,428
Reclassifications	-	72,341	72,341
Effect of movement in exchange rate	-	(1,571)	(1,571)
Balance on December 31, 2015	$ 281,945	610,253	892,198
Depreciation and impairment loss：			
Balance on January 1,2016	$ 9,617	178,450	188,067
Depreciation for the year	-	8,594	8,594
Effect of movement in exchange rate	-	(553)	(553)
Loss of control of a subsidiary	(9,617)	(178,626)	(188,243)
Balance on December 31, 2016	$ -	7,865	7,865
Balance on January 1,2015	$ 9,617	163,059	172,676
Depreciation for the year	-	11,270	11,270
Reclassifications	-	4,220	4,220
Effect of movements in exchange rate	-	(99)	(99)
Balance on December 31, 2015	$ 9,617	178,450	188,067
Carrying amounts：			
Balance on December 31, 2016	$ -	57,221	57,221
Balance on December 31, 2015	$ 272,328	431,803	704,131

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

	For the years ended December 31	
	2016	**2015**
Rental income	$ 18,047	31,685
Direct operating expenses arising from investment property that generate rental income	$ 8,594	11,270

(ii) As of December 31, 2016 and 2015 the fair value of investment property of the Group was \$87,564 and \$1,166,415, respectively. The fair value of investment property was evaluated based on the recent market transaction on arm's length terms.

(iii) As of December 31, 2016 and 2015, the aforesaid investment properties were not pledged as collateral.

(k) Intangible assets

The movements in the costs of intangible assets, amortization, and impairment loss of the Group for the years ended December 31, 2016 and 2015 were as follows:

	Goodwill	Customer relationship	Technology	Others	Total
Costs:					
Balance on January 1, 2016	$ 1,984,574	-	-	986,670	2,971,244
Additions	-	-	-	224,591	224,591
Disposals	-	-	-	(49,585)	(49,585)
Reclassifications	-	-	-	2,697	2,697
Effect of movement in exchange rate	(20,082)	-	-	(21,294)	(41,376)
Loss of control of a subsidiary	(164,859)	-	-	(53,025)	(217,884)
Balance on December 31, 2016	$ 1,799,633	-	-	1,090,054	2,889,687
Balance on January 1, 2015	$ 1,943,538	380,175	813,972	909,737	4,047,422
Additions	-	-	-	143,249	143,249
Disposals	-	(380,175)	(813,972)	(87,819)	(1,281,966)
Reclassifications	-	-	-	3,172	3,172
Effect of movement in exchange rate	41,036	-	-	18,331	59,367
Balance on December 31, 2015	$ 1,984,574	-	-	986,670	2,971,244

		Goodwill	Customer relationship	Technology	Others	Total
Amortization and Impairment Loss:						
Balance on January 1, 2016	$	671,792	-	-	744,365	1,416,157
Amortization for the year		-	-	-	141,548	141,548
Disposals		-	-	-	(49,585)	(49,585)
Reclassifications		-	-	-	1,185	1,185
Effect of movement in exchange rate		-	-	-	(15,224)	(15,224)
Loss of control of a subsidiary		-	-	-	(43,580)	(43,580)
Balance on December 31, 2016	$	671,792	-	-	778,709	1,450,501
Balance on January 1, 2015	$	671,792	380,175	813,972	580,224	2,446,163
Amortization for the year		-	-	-	223,479	223,479
Disposals		-	(380,175)	(813,972)	(87,819)	(1,281,966)
Reclassifications		-	-	-	10,656	10,656
Effect of movement in exchange rate		-	-	-	17,825	17,825
Balance on December 31, 2015	$	671,792	-	-	744,365	1,416,157
Carrying amounts:						
Balance on December 31, 2016	$	1,127,841	-	-	311,345	1,439,186
Balance on December 31, 2015	$	1,312,782	-	-	242,305	1,555,087

(i) The amortization of intangible assets were respectively recognized in the statement of comprehensive income as follows:

		For the years ended December 31	
		2016	2015
Operating costs	$	38,802	30,094
Operating expenses		102,746	193,385
	$	141,548	223,479

(ii) Goodwill impairment

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

		December 31, 2016	December 31, 2015
Mechanics	$	1,081,452	1,100,733
Consumer electronic		44,867	210,527
Others		1,522	1,522
	$	1,127,841	1,312,782

At the end of each reporting period, the Group assess whether there is any indication of impairment loss on goodwill. There were no impairment loss recognized on goodwill in 2016 and 2015. The key assumptions used in determining the value in use by each cash-generating unit were as follows:

1) The recoverable amount of the metal casing factory cash-generating unit was based on value in use. Key assumptions used in calculating the recoverable amount were as follows:

   a) Management had projected cash flow based on a five-year financial budget which was extrapolated from historical operating results and future operating plan.

   b) Pre-tax discount rate used in calculating the value in use was determined from weighted average cost of capital (WACC) of the Company.

2) The recoverable amount of the digital camera cash-generating unit was based on value in use. Key assumptions used in calculating the recoverable amount were as follows:

   a) Cash flow estimation was based on past experience, actual operating results and a five-year operating plan.

   b) Projected revenue and gross profit ratio were extrapolated from management's forecast based on past operating results and future marketing development trends.

   c) Pre-tax discount rate used in calculating the value in use was determined from weighted average cost of capital (WACC) of the Company.

(iii) For the years ended December 31, 2016 and 2015, the Group has not noted any indication of potential impairment loss based on the impairment testing performed.

(l) Other financial assets and other assets

Other current and noncurrent assets were as follows:

	December 31, 2016	December 31, 2015
Other financial assets－current	$ 479,510	785,779
Other financial assets－noncurrent	427,655	357,503
Other current assets	7,172,425	15,575,204
Other noncurrent assets	46,143	58,896
	$ 8,125,733	16,777,382

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

(ii) Other current assets consisted of prepayments, current tax asset and others.

(iii) Other noncurrent assets consisted of other long-term prepaid expenses and others.

(m) Short-term loans

	December 31, 2016	December 31, 2015
Unsecured bank loans	$ 31,148,468	45,467,083
Interest rate	0.51%~6.85%	0.70%~2.03%

Assets were not pledged as collateral for bank loans.

(n) Long -term loans

	December 31, 2016	
	Currency	Amount
Secured bank loans	NTD	$ 171,000
Unsecured bank loans	NTD	3,787,550
Unsecured bank loans	USD	1,108,597
		5,067,147
Less: Fees		(8,000)
Less: Current portion		(536,257)
Total		$ 4,522,890
Interest rate		1.02%~2.59%
Expiration		2017.01~2021.09

	December 31, 2015	
	Currency	Amount
Secured bank loans	NTD	$ 305,034
Unsecured bank loans	NTD	12,553,330
Unsecured bank loans	USD	2,065,325
		14,923,689
Less: Fees		(12,800)
Less: Current portion		(2,604,140)
Total		$ 12,306,749
Interest rate		1.02%~2.19%
Expiration		2016.01~2020.12

(i) Securities for bank loans

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

2) CASETEK CAYMAN's subsidiaries obtained a long-term loan from Mega International Commercial Bank. CASETEK CAYMAN is the endorsement guarantee provider for such loan.

(ii) Loan covenants

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

   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.

2) 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:

   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 80%.

   c) Tangible net assets (stockholders' equity (including minority shareholders) - intangible assets): should not be less than $90,000,000.

   d) Interest coverage ratio (EBITDA/interest expenses): should not be less than 400%.

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

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

The Company was in compliance with the above financial covenants as of December 31, 2016 and 2015.

3) On January 30, 2015, CASETEK CAYMAN signed a USD 300,000 thousand worth of credit facility in the form of credit loan with multiple banks. According to the credit loan facility agreements, during the loan repayment periods, CASETEK CAYMAN must comply with certain financial covenants, such as current ratio, debt ratio, interest coverage ratio and tangible net assets, based on its audited annual consolidated financial statements (December 31).

a) Current ratio (Current assets/Current liabilities): Not less than 100%.

b) Total liabilities【Total liabilities (including contingent liability, but excluding those of non-controlling interests)/Total assets less intangible Assets】: Less than 100%.

c) Interest coverage ratio【 (Profit before tax + depreciation + amortization + interest expenses)/ interest expenses 】: Not lower than five.

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

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

CASETEK CAYMAN was in compliance with the above financial covenants as of December 31, 2016 and 2015.

(o) 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 –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(t) for the information on capital surplus – conversion of convertible bonds generated from the conversion.

(ii) The offering information on the unsecured convertible bonds were 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
6.Settlement	Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on Maturity Date at an amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.
7.Redemption at the option of the Company	(1)The Company may redeem the Bonds, in whole but not in part, at the early redemption amount at any time on or after February 6, 2015 if the closing price of the common shares on TWSE (translated into U.S. Dollars at the fixing rate at 11:00 a.m. Taipei time as quoted by Taipei Forex Inc.) on each trading day during a period of 20 consecutive trading dates exceeds at least 125% of the quotient of the early redemption amount divided by the number of shares to be issued upon conversion of USD 200,000 principal amount of Bonds on the applicable trading day based on the conversion price then in effect (translated into U.S. Dollars at the fixed exchange rate of NT$29.761= USD 1.00). (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. (3)The Bonds may be redeemed, in whole but not in part, if the affect of change in the tax laws of ROC will increase the Company's tax liability, interest expense or related cost from the Bonds. Holders may elect not to have their bonds redeemed with no entitlement to any additional amount of reimbursement of additional tax.

Item	1st overseas unsecured convertible bonds issued in 2012
8.Redemption at the option of the Holder	(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. (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. (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.
9.Conversion	(1)Conversion period 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. (2)Conversion price The conversion price was NT$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012. However, upon the issuance of restricted Company shares of stock to employees, the conversion price has been adjusted to NT$40.11 per share effective October 7, 2013. The conversion price has been adjusted to NT$38.28 per share effective September 15, 2014 due to the distribution of cash dividends in 2014. (3)Conversion to common shares Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT$29.761 = USD 1.00) divided by the conversion price on the conversion date.

(p) Provisions

	Warranties	Allowance for sales returns and discounts	Total
Balance on January 1, 2016	$ 233,443	191,958	425,401
Provisions made during the year	-	10,380	10,380
Provisions used during the year	(3,409)	(21,007)	(24,416)
Provisions reversed during the year	-	(19,683)	(19,683)
Effect of movement in exchange rate	(680)	(1,667)	(2,347)
Loss of control of a subsidiary	(229,271)	-	(229,271)
Balance on December 31, 2016	$ 83	159,981	160,064
Balance on January 1, 2015	$ 235,959	285,495	521,454
Provisions made during the year	-	107,583	107,583
Provisions used during the year	(178)	(47,423)	(47,601)
Provisions reversed during the year	(3,790)	(150,618)	(154,408)
Effect of movement in exchange rate	1,452	(3,079)	(1,627)
Balance on December 31, 2015	$ 233,443	191,958	425,401

(i) Warranties

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

(ii) Allowance for sales return and discounts

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

(q) Operating leases

(i) Leasee

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

	December 31, 2016	December 31, 2015
Less than one year	$ 1,603,335	1,736,565
Between one and five years	1,564,062	1,900,847
More than five years	206,720	-
	$ 3,374,117	3,637,412

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

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

	For the years ended December 31	
	2016	**2015**
Cost of sales	$ 1,588,808	1,394,758
Operating expenses	496,377	441,758
	$ 2,085,185	1,836,516

(ii) Long-term prepaid rents

	December 31, 2016	December 31, 2015
Long-term prepaid rents	$ 4,014,064	4,348,476

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

2) As of December 31, 2016 and 2015, the aforesaid land use rights were not pledged as collateral.

(r) Employee benefits

(i) Defined benefit plans

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

	December 31, 2016	December 31, 2015
Present value of defined benefit obligations	$ 230,574	331,194
Fair value of plan assets	(143,849)	(195,829)
Net defined benefit liabilities	$ 86,725	135,365

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

1) Composition of plan assets

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

The Group's contributions to the pension funds were deposited with Bank of Taiwan. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

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	$ 331,194	329,749
Current service costs and interest	38,041	13,102
Re-measurements of the net defined benefit liability		
—Actuarial gains (losses) arose from changes in demographic assumptions	(2,432)	2,218
—Actuarial gains arose from changes in financial assumption	9,163	20,143
—Experience adjustments	(11,405)	(22,784)
Benefits paid by the plan	-	(11,234)
Loss of control of a subsidiary	(133,987)	-
Defined benefit obligation, December 31	$ 230,574	331,194

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	$ 195,829	192,195
Interests revenue	10,799	4,300
Re-measurements of the net defined benefit liability		
－Experience adjustments	(409)	854
Contributions made	6,286	9,714
Benefits paid by the plan	-	(11,234)
Expected return on plan assets	(914)	-
Loss of control of a subsidiary	(67,742)	-
Fair value of plan assets, December 31	$ 143,849	195,829

4) Expenses recognized in profit or loss

The Group'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	$ 33,651	5,699
Net interest on net defined benefit liability	(6,409)	3,103
	$ 27,242	8,802
Operating costs	$ 841	549
Operating expenses	26,401	8,253
	$ 27,242	8,802

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

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

	For the years ended December 31	
	2016	**2015**
Cumulative amount, January 1	$ 83,545	84,822
Recognized during the year	(4,265)	(1,277)
Cumulative amount, December 31	$ 79,280	83,545

6) Actuarial assumptions

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

	December 31, 2016	**December 31, 2015**
Discount rate	1.35%～1.80%	1.75%～2.00%
Future salary increase rate	2.00%～3.00%	1.75%～3.00%

Based on the actuarial report, the Group is expected to make a contribution payment of $6,286 to the defined benefit plans for the one year period after the reporting date.

The weighted-average duration of the defined benefit plans is between 9 and 25 years.

7) Sensitivity Analysis

In determining the present value of the defined benefit obligation, the Group's management makes judgments and estimates in determining certain actuarial assumptions on the balance sheet date, which includes employee turnover rate and future salary changes. Changes in actuarial assumptions may have significant impact on the amount of defined benefit obligation.

As of December 31, 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 by0.50%**
December 31, 2016		
Discount	(21,587)	24,285
Future salary increase	20,536	(18,137)

	Impact on the present value of defined benefit obligation	
	Increase by 0.50%	**Decrease by0.50%**
December 31, 2015		
Discount	(29,547)	33,208
Future salary increase	32,665	(29,384)

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

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

(ii) Defined contribution plans

The Group contributes an amount at the rate of 6% of the employee's monthly wages to the Labor Pension personal account with the Bureau of the Labor Insurance and Council of Labor Affairs in R.O.C. in accordance with the provisions of the Labor Pension Act. The Group's contributions to the Bureau of the Labor Insurance and Social Security Bureau for the employees' pension benefits require no further payment of additional legal or constructive obligations.

The cost of the pension contributions to the Labor Insurance Bureau for the years ended December 31, 2016 and 2015 amounted to $5,785,909 and $6,180,514, respectively.

(iii) As of December 31, 2016 and 2015, the Group's short-term employee benefits liabilities were $333,344 and $282,590, respectively.

(s) Income Tax

(i) The income tax expense for the years ended December 31, 2016 and 2015 was calculated as follows:

	For the years ended December 31	
	2016	**2015**
Current income tax expense		
Current period incurred	$ 6,674,459	9,712,212
Prior years income tax adjustment	(380,860)	(435,378)
10% surtax on undistributed earnings	991,507	510,783
Deferred tax expense		
The origination and reversal of temporary differences	(342,828)	526,538
Income tax expense	$ 6,942,278	10,314,155

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

	For the years ended December 31	
	2016	2015
Profit before income tax	$ 29,079,670	39,186,014
Income tax on pre-tax financial income calculated at the domestic rates applicable to profits in the country concerned	9,655,043	12,035,798
Permanent differences	(2,591,351)	(1,621,248)
Changes in unrecognized temporary differences	(1,224,929)	(1,067,663)
Oversea dividends received	407,749	909,540
Prior years income tax adjustment	(380,860)	(435,378)
10% surtax on undistributed earnings	991,507	510,783
Others	85,119	(17,677)
Income tax expense	$ 6,942,278	10,314,155

(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 Group has the ability to control the reversal of these temporary differences which are not expected to reverse in the foreseeable future. The related amounts were as follows:

	December 31, 2016	December 31, 2015
The aggregate temporary differences associated with investments in subsidiaries	$ 34,747,332	28,593,218
Unrecognized deferred tax liabilities	$ 5,907,046	4,860,847

2) Unrecognized deferred tax assets

	December 31, 2016	December 31, 2015
Deductible temporary differences	$ 692,807	644,663
Tax losses	810,089	1,036,963
	$ 1,502,896	1,681,626

The ROC Income Tax Act allows the carry forward of net losses, as assessed by the tax authorities, to offset against taxable income. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

As of December 31, 2016, the Group had not recognized the prior years' loss carry-forwards as deferred tax assets, and the expiry years thereof were as follows:

Company Name	Year of occurrence	Unused balance	Expiry year
KINSUS and its subsidiaries	2010~2015	$ 3,108,899	2017~2022
ASROCK and its subsidiaries	2007~2016	302,077	2017~2026
CASETEK CAYMAN and its subsidiaries	2015~2016	834,181	2020~2021
AZUREWAVE and its subsidiaries	2012~2014	548,248	2022~2024
AMA PRECISION	2009~2014	145,080	2019~2024
		$ 4,938,485	

3) 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	Others	Total
Deferred tax liabilities:			
Balance, January 1, 2016	$ 2,519,429	59,552	2,578,981
Recognized in loss (profit)	(603,270)	23,505	(579,765)
Recognized in other comprehensive income	(57,119)	(39,834)	(96,953)
Exchange differences on translation	(93,039)	(1,871)	(94,910)
Loss of control of a subsidiary	-	(4,109)	(4,109)
Balance, December 31, 2016	$ 1,766,001	37,243	1,803,244
Balance, January 1, 2015	$ 2,005,973	289,108	2,295,081
Recognized in loss (profit)	597,198	(217,083)	380,115
Recognized in other comprehensive income	11,786	(12,397)	(611)
Exchange differences on translation	(95,528)	(76)	(95,604)
Balance, December 31, 2015	$ 2,519,429	59,552	2,578,981

	Provision for Contingent Service Cost	Gain on valuation of inventory	Unrealized expenses	Others	Total
Deferred tax assets:					
Balance, January 1, 2016	$ 151,534	1,033,690	1,525,983	141,299	2,852,506
Recognized in loss (profit)	(33,089)	(354,368)	43,219	107,301	(236,937)
Recognized in other comprehensive income	-	-	-	(1,286)	(1,286)
Exchange differences on translation	(1,267)	(58,466)	(92,294)	(24,597)	(176,624)
Loss of control of a subsidiary	(32,791)	-	(43,232)	(13,703)	(89,726)
Balance, December 31, 2016	$ 84,387	620,856	1,433,676	209,014	2,347,933
Balance, January 1, 2015	$ 484,922	907,826	1,551,733	112,039	3,056,520
Recognized in loss (profit)	(327,752)	144,383	7,666	29,280	(146,423)
Recognized in other comprehensive income	-	-	-	(1,085)	(1,085)
Exchange differences on translation	(5,636)	(18,519)	(33,416)	1,065	(56,506)
Balance, December 31, 2015	$ 151,534	1,033,690	1,525,983	141,299	2,852,506

(iv) Status of approval of income tax

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

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

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

(v) Five year income tax exemption period

The investments of KINSUS INTERCONNECT TECHNOLOGY CORP. and PEGAVISION CORPORATION for their establishment and expansion conform to "the Regulations Regarding Awards for Newly Emerging and Strategic Industries under Manufacturing and Technical Service Industries." As approved by the Tax Authority, the Group is eligible for five-year income tax exemption, the details of which were as follows:

Approving Office	Approval document number	Tax exemption period
Industrial Development Bureau	10005112010	01/01/2013~12/31/2017
Industrial Development Bureau	10005116950	01/01/2014~12/31/2018

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

	December 31, 2016	December 31, 2015
Stockholders' imputation tax credit account	$ 4,734,475	3,296,778

	2016 (Expect)	2015 (Actual)
Tax deduction ratio for earnings distributable to R.O.C. residents	14.92%	13.61%

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

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

(t) Capital and reserves

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:

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

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

The Company may issue new GDRs with no more than 60,819,020 of the Company's common shares and deliver them to ASUSTeK GDR holders pursuant to the "Issuer of Overseas Securities Offering and Issued Guidelines." As of December 31, 2016 and 2015, the Company has listed, in total, 6,250 and 5,994 thousand units of GDR, respectively, on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed Company shares totaling 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.

(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	409,917	409,917
	$ 78,214,259	78,972,374

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

(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.

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 distributed as dividends and employee bonuses and remuneration to directors and supervisors as follows:

	For the years ended December 31	
	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.

(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 foreign operation	(7,263,087)	-	-	(7,263,087)
Exchange differences on associates accounted for using equity method	(48,217)	-	-	(48,217)
Unrealized loss on available-for-sale financial assets of subsidiaries accounted for using equity method	-	(14,425)	-	(14,425)
Deferred compensation cost	-	-	808,495	808,495
Disposal of subsidiaries	6,248	(12,856)	-	(6,608)
Balance, December 31, 2016	$ (3,552,939)	183,953	(429,882)	(3,798,868)
Balance, January 1, 2015	$ 4,788,058	177,810	(64,523)	4,901,345
Exchange differences on foreign operation	(1,011,875)	-	-	(1,011,875)
Exchange differences on associates accounted for using equity method	(24,066)	-	-	(24,066)
Unrealized gains on available-for-sale financial assets of subsidiaries accounted for using equity method	-	33,424	-	33,424
Deferred compensation cost	-	-	(1,173,854)	(1,173,854)
Balance, December 31, 2015	$ 3,752,117	211,234	(1,238,377)	2,724,974

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

	For the years ended December 31	
	2016	2015
Balance, January 1	$ 41,958,390	41,200,299
Profit attributable to non-controlling interests	2,797,577	5,060,234
Other comprehensive income attributable to non-controlling interests		
Foreign currency translation differences－foreign operations	(1,243,916)	(179,376)
Unrealized (loss) gain on available-for- sale financial assets	151,805	(157,917)
Actuarial gain (loss) on defined benefit plans	2,270	(242)
Disposal of subsidiaries	(7,454,156)	-
Changes in ownership interest in subsidiaries	(2,575)	(8,885)
Changes in non-controlling interests	(2,456,784)	(3,955,723)
Balance, December 31	$ 33,752,611	41,958,390

(u) Share-based payment

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

	Equity-settled share-based payment			
	Restricted stock to employee			
	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.

On June 18, 2014, the shareholders approved a resolution passed during their meeting to award to 40,000 thousand new restricted shares of stock to those full-time employees who meet certain requirement of the Group. 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 $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 cancel the shares thereafter.

(i) Determining the fair value of equity instruments granted

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

	Equity-settled share-based payment			
	Equity-settled share-based payment 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.

(ii) Restricted stock to employee

For the year ended December 31, 2015, the Company issued restricted shares of stock to employees of 39,678 thousand shares, which resulted in a capital surplus — restricted employee stock of $1,894,333. Also, for the years ended December 31, 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 and warrant list were 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 year	872	$ 40.80
Exercised	(860)	40.80
Expired	(12)	-
Balance, end of the year	-	-
Exercisable, end of the year	-	
Weighted-average fair value of options granted	13.8	
Exercise price of share option outstanding, end of the year	-	
Remaining contractual life	-	
Expenses incurred on share-based payment transactions	-	

(iv) Expenses resulted from share-based payments

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

	For the years ended December 31	
	2016	**2015**
Expenses resulting from issuance of restricted stock to employees	$ 900,522	892,593

(v) Subsidiary's share-based payments

(i) For the years ended December 31, 2015, Ability (TW) has share-based payment transactions a follows:

	Equity-settled	
	Restricted stock to employee	**Employee stock options**
	Issued in 2014	**Issued in 2008**
Thousand units granted	22,000	9,500
Contractual life	3 years	7 years
Vesting period	3 years	2 years

The restricted shares of stock may not be transferred unless the vesting conditions have elapse The holder of the restricted shares are entitled to the right as existing common shareholders Employee resigns in the vesting period is obligate to return the restricted shares of stock bu without returning the distributed dividend.

(ii) The Black-Scholes Option Valuation Model was adopted to estimate the fair value of the firs batch of Ability (TW) employee stock options. The Trinomial Tree Option Valuation Mode was adopted to estimate the fair value of the second batch of Ability (TW) employee stoc option on the day of granted and at the end of each period.

	Equity-settled	
	Restricted stock to employee	**Employee stock option**
	Granted in 2014	**Granted in 2008**
Grant date	May 21, 2014	October 13, 2008
Stock Price at granted date	$ 20.90	22.20
Exercise price	10.00	22.20
Expected life of the options	3 years	7 years
Current market price	20.90	22.20
Volatility factors of the expected market price	Note A	43.11%
Dividend yields	Note B	-%
Risk-free interest rate	Note C	2.2101%

Note A : The volatility factors of the expected market price are 22.22% for the 1st yea 21.15% for the 2nd year, and 25.67% for the 3rd year.

Note B : The Dividend yields are 8.22% for the 1st year, - % for the 2nd year, and - % for th 3rd year.

Note C : Risk-free interest rate is 1.4628% for the 1st year, 1.6421% for the 2nd year, an 1.9488% for the 3rd year.

(iii) Information on share-based payment transactions were as follows:

1) For the year ended December 31, 2015

The first batch of employee stock options	Issued in 2008 Quantity of stock option (thousand shares)	Issued in 2008 Weighted-average exercise price
Outstanding at the beginning of the year	428	$ 13.6
Granted	-	-
Exercised	(346)	13.6
Expired	(82)	-
Outstanding at the end of the year	-	-
Exercisable at the end of the year	-	
Weighted-average fair value of options granted	8.88	
Exercise price of share option outstanding, end of the year	-	
Remaining contractual life	-	

(iv) For the year ended December 31, 2015, the weighted-average exercise price of stock option on the date of exercise amounted to $16.87 per share.

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

	For the years ended December 31 2016 (Note)	For the years ended December 31 2015
Equity-settled	$ 10,170	52,277

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

(vi) For the year ended December 31, 2015, Ability (TW) repurchased 1,950 thousand shares of stock for $19,506, at $10 per share as certain employee resigned during the vesting period. As of December 31, 2015, 153 thousand shares with total amount of $1,533 have been retired.

(w) Earnings per share

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

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

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.

(x) Revenue

	For the years ended December 31	
	2016	2015
Sale of goods	$ 1,074,052,905	1,145,874,263
Others	83,657,208	67,838,713
	$ 1,157,710,113	1,213,712,976

(y) Remuneration of employees and directors

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

For the years ended December 31, 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.

(z) Non-operating income and expenses

(i) Other income

	For the years ended December 31	
	2016	2015
Interest income	$ 1,057,275	1,396,275
Subsidy income	845,078	763,276
Rental income	253,063	268,171
Technical service income	251,385	271,333
Other income	765,332	906,124
	$ 3,172,133	3,605,179

(ii) Other gains and losses

	For the years ended December 31	
	2016	2015
Gain on reversal of uncollectable account	$ 70,336	110,963
Loss on disposal of property, plant and equipment	(150,078)	(170,100)
Gain on disposal of non-current assets classified as held for sale	-	402,661
(Loss) gain from disposal of investments	(574,526)	397,657
Foreign exchange loss	(4,383,186)	(3,524,184)
(Reversal of) Impairment loss	(59,968)	134,852
Net losses on evaluation of financial assets (liabilities) measured at fair value through profit or loss	67,790	(200,625)
Other losses	(217,855)	-
	$ (5,247,487)	(2,848,776)

(iii) Finance costs

	For the years ended December 31	
	2016	2015
Interest expenses	$ 912,165	672,266
Finance expense – bank fees	92,841	180,685
	$ 1,005,006	852,951

(aa) Reclassification of other comprehensive income

	For the years ended December 31	
	2016	2015
Available-for-sale financial assets		
Net change in fair value	$ (14,425)	33,424
Reclassification to profit or loss for losing control of subsidiaries	(12,856)	-
Net fair value change recognized in other comprehensive income	$ (27,281)	33,424
Cumulative adjustment		
Losses from current period	$ (7,263,087)	(1,011,875)
Share of other comprehensive income of associates accounted for using equity method	(48,217)	(24,066)
Reclassification to profit or loss for losing control of subsidiaries	6,248	-
Net fair value change recognized in other comprehensive income	$ (7,305,056)	(1,035,941)

(ab) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Credit risk concentrations

As of December 31, 2016 and 2015, the accounts receivable from the Group's top three customers amounted to $44,383,971 and $72,039,287, representing 47% and 59% of accounts receivable, respectively, which exposes the Group to credit risk.

3) Impairment losses

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

	December 31, 2016	December 31, 2015
Not past due	$ 133,275,190	143,150,534
Past due 0 - 30 days	2,478,288	3,233,260
Past due 31 - 120 days	286,556	1,466,766
Past due 121 - 365 days	86,671	62,580
Past due more than 1 year	1,690,475	1,939,859
	$ 137,817,180	149,852,999

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

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2016	$ 73,559	2,054,366	2,127,925
Recognition of loss from impairment	12	-	12
Reversal of impairment loss	-	(36,772)	(36,772)
Loss of control of a subsidiary	-	(176,022)	(176,022)
Foreign exchange gain	(2,228)	(2,302)	(4,530)
Balance on December 31, 2016	$ 71,343	1,839,270	1,910,613
Balance on January 1, 2015	$ 72,020	2,136,108	2,208,128
Reversal of impairment loss	(212)	(80,264)	(80,476)
Written off unrecoverable amount	-	(1,159)	(1,159)
Foreign exchange loss (gain)	1,751	(319)	1,432
Balance on December 31, 2015	$ 73,559	2,054,366	2,127,925

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

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

(ii) Liquidity risk

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

	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	More than 2 years
December 31, 2016					
Non-derivative financial liabilities					
Secured bank loans	$ 171,000	171,000	56,000	46,625	68,375
Unsecured bank loans	36,044,615	36,044,615	31,628,725	3,180,575	1,235,315
Non-interest bearing liabilities	201,926,183	201,926,183	201,926,183	-	-
	$ 238,141,798	238,141,798	233,610,908	3,227,200	1,303,690
December 31, 2015					
Non-derivative financial liabilities					
Secured bank loans	$ 305,034	305,034	134,034	56,000	115,000
Unsecured bank loans	60,085,738	60,085,738	47,937,189	3,200,170	8,948,379
Non-interest bearing liabilities	195,546,280	195,546,280	195,546,280	-	-
	$ 255,937,052	255,937,052	243,617,503	3,256,170	9,063,379

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

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

(iii) Currency risk

1) Currency risk exposure

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

(Unit: Foreign currency / NTD in Thousands)

	December 31, 2016			December 31, 2015		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial assets						
Monetary items						
USD:NTD	$ 10,433,545	32.25	336,481,826	8,323,160	32.825	273,207,727
USD:CNY	8,227,417	6.937	265,335,128	6,318,520	6.4936	207,406,354
USD:CZK	39,837	25.6342	1,284,759	55,187	24.8213	1,811,578
CNY:NTD	1,175,798	4.649	5,466,285	399,849	5.0550	2,021,237

	December 31, 2016			December 31, 2015		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial liabilities						
Monetary items						
USD:NTD	$ 10,062,359	32.250	324,511,078	7,794,417	32.825	255,851,738
USD:CNY	9,582,667	6.937	309,042,094	8,500,368	6.4936	279,025,838
USD:CZK	21,448	25.6342	691,706	28,825	24.8213	946,214
CNY:NTD	729,450	4.649	3,391,213	139,291	5.0550	704,116

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable, other receivables, loans, accounts payable, bonds payable and other payables that are denominated in foreign currency. A 1% of appreciation of each major foreign currency against the Group's functional currency as of December 31, 2016 and 2015 would have increased the before-tax net income by $291,494 and decreased the before-tax net income by $516,735, respectively. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the reporting date. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for both periods.

3) Gains or losses on monetary item

As the Group deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. For the years ended December 31, 2016 and 2015, the foreign exchange losses, including both realized and unrealized, amounted to $4,383,186 and $3,524,184, 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 Group's internal management reported the increases/decreases in the interest rates and the exposure to changes in interest rates of 1% is considered by management to be a reasonable change of interest rate.

If the interest rate increases / decreases by 1%, the Group's net income will decrease /increase by $97,067 and $59,200 for the years ended December 31, 2016 and 2015, respectively, assuming all other variable factors remain constant. This is mainly due to the Group's variable rate borrowing.

(v) Fair value of financial instruments

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

1) Categories of financial instruments

Financial Assets:

	December 31, 2016	December 31, 2015
Financial assets at fair value through profit or loss		
Held-for-trading non-derivative financial assets	$ 4,367,847	4,732,661
Available-for-sale financial assets	1,056,145	1,819,404
Financial assets carried at cost	371,082	468,750
Deposits and receivables		
Cash and cash equivalents	108,713,312	102,561,346
Notes, accounts and other receivables	135,906,567	147,725,074
Other financial assets	907,165	1,143,282
Sub-total	245,527,044	251,429,702
Total	$ 251,322,118	258,450,517

Financial liabilities:

	December 31, 2016	December 31, 2015
Financial liabilities carried at amortized cost		
Short-term loans	$ 31,148,468	45,467,083
Notes, accounts, other payables and accrued expenses	201,926,183	195,546,280
Long-term borrowings (including current portion)	5,059,147	14,910,889
Guarantee deposit (recognized in other noncurrent liabilities)	527,461	519,337
Total	$ 238,661,259	256,443,589

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).

	December 31, 2016				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets designated as at fair value through profit or loss					
Held-for-trading non-derivative financial assets	$ 4,367,847	4,367,847	-	-	4,367,847
Available-for-sale financial assets					
Stock of listed companies	610,702	610,702	-	-	610,702
Equity investment－common stock	178,920	-	178,920	-	178,920
Stock of overseas listed companies	266,523	266,523	-	-	266,523
	$ 5,423,992	5,245,072	178,920	-	5,423,992

	December 31, 2015				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets designated as at fair value through profit or loss					
Held-for-trading non-derivative financial assets	$ 4,732,661	4,732,661	-	-	4,732,661
Available-for-sale financial assets					
Stock of listed companies	765,744	765,744	-	-	765,744
Equity investment－common stock	195,840	-	195,840	-	195,840
Stock of overseas listed companies	857,820	857,820	-	-	857,820
	$ 6,552,065	6,356,225	195,840	-	6,552,065

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.

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

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

December 31, 2016

Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
				Amounts not offset (d)		
	Gross Assets (a)	Gross liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Financial Instruments	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	$ 31,365,382	25,397,763	5,967,619	-	-	5,967,619

December 31, 2016

Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
				Amounts not offset (d)		
	Gross Assets (a)	Gross liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Financial Instruments	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	$ 25,397,763	25,397,763	-	-	-	-

December 31, 2015

Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.						
				Amounts not offset (d)		
	Gross Assets (a)	Gross liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Financial Instruments	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	$ 39,902,301	33,703,531	6,198,770	-	-	6,198,770

December 31, 2015

Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
				Amounts not offset (d)		
	Gross Assets (a)	Gross liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Financial Instruments	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	$ 33,703,531	33,703,531	-	-	-	-

(ac) Financial risk management

(i) Overview

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

For more quantitative information about the financial instruments, please refer to the other related notes of 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 Group's risk management policies. Management reports regularly to the Board of Directors on its activities.

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

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

(iii) Credit risk

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

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

1) Accounts receivables and other receivables

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

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

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

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

2) Investment

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

3) Guarantee

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

(iv) Liquidity risk

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

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

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

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

1) Currency risk

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

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

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

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

2) Interest rate risk

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

3) Price floating risk on equity instruments

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

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

(ad) Capital management

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

The Group uses the debt-to-equity ratio, interest bearing liability-to-equity ratio and other financial ratio to maintain an optimal capital structure and raise returns on equity.

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

	December 31, 2016	December 31, 2015
Total liabilities	$ 261,923,032	283,748,138
Less: cash and cash equivalents	108,713,312	102,561,346
Net debt	**$ 153,209,720**	**181,186,792**
Total capital (Note)	**$ 335,231,921**	**373,525,317**
Debt to equity ratio	**45.70%**	**48.51%**

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

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

(ae) Non-cash transactions of financing activity

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

(7) Related-party transactions:

(a) The ultimate parent company

The Company is the ultimate parent company of the Group.

(b) Significant Transactions with related parties

(i) Sale of Goods to Related Parties

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

	Sales		Receivables from Related Parties	
	2016	**2015**	**December 31, 2016**	**December 31, 2015**
Others	**$ 662**	**-**	**-**	**-**

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.

(ii) Purchase of Goods from Related Parties

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

	Purchases		Payables to Related Parties	
	2016	2015	December 31, 2016	December 31, 2015
Others	$ 41,357	61,851	4,472	10,796

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

(iii) Warranty repair expense paid to Related Parties

	For the years ended December 31	
	2016	2015
Others	$ -	533

(c) Key management personnel compensation:

	For the years ended December 31	
	2016	2015
Short-term employee benefits	$ 443,410	602,068
Post-employment benefits	3,527	4,584
Share-based payments	158,955	169,745
	$ 605,892	776,397

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

(8) Pledged assets:

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

Asset	Purpose of pledge	December 31, 2016	December 31, 2015
Other financial asset-restricted deposit	Post-release duty deposits customs duty, rental deposits, travel agency guarantee, etc.	$ 46,691	44,533
Property, plant and equipment	Bank loans	249,649	1,616,838
Other financial asset-refundable deposits	Customs duty guarantee, rental deposits, and deposits for performance guarantee	37,382	24,300
		$ 333,722	1,685,671

(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	$ 2,655	3,010
JPY	1,454,932	3,262,883
USD	8,469	7,211
CNY	955	-

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

	December 31, 2016	December 31, 2015
NTD	$ 87,869	6,689

(iii) As of December 31, 2016 and 2015, the significant contracts for purchase of properties by the Group amounted to $11,554,587 and $13,223,710, of which $2,830,075 and $6,258,950, respectively, were unpaid.

(iv) As of December 31, 2016 and 2015, the Group provided endorsement guarantee for bank loans obtained by the related parties, including Group entities, amounting to $12,237,198 and $9,841,287, respectively.

(v) As of December 31, 2016 and 2015 the Group issued a tariff guarantee of $662,165 and $276,175, respectively, to the bank for the purpose of importing goods.

(b) Significant contingent liability: None.

(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:

	For the years ended December 31					
	2016			2015		
By item	**Operating Cost**	**Operating expense**	**Total**	**Operating Cost**	**Operating expense**	**Total**
Employee benefit						
Salary	$ 44,130,325	16,128,396	60,258,721	45,440,684	16,965,510	62,406,194
Health and labor insurance	4,824,910	933,909	5,758,819	4,951,812	1,049,772	6,001,584
Pension	4,920,426	892,725	5,813,151	5,268,762	920,554	6,189,316
Others	1,713,449	789,294	2,502,743	2,270,572	874,115	3,144,687
Depreciation	11,438,450	1,323,819	12,762,269	12,164,759	1,295,371	13,460,130
Amortization	38,802	102,746	141,548	30,094	193,385	223,479

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

	For the years ended December 31	
	2016	**2015**
Depreciation in investment property	$ 8,594	11,270

(13) Segment information:

(a) General Information

The Group's operating segments required to be disclosed are categorized as DMS (Design, Manufacturing and Service) and Strategic Investment Group. DMS's main operating activities are designing and manufacturing computer, communication and consumer electronics' end products, and providing after-sales service. Strategic Investment Group is DMS's upstream and downstream supply chain, strategic investments and other related investments arms. The chief operating decision maker's main responsibility is to integrate strategy that creates operating synergy throughout the supply chain and to allocate the profit from the operating result. The Group assesses performance of the segments based on the segments' profit, and report the amounts of revenues based on the financial information used to prepare the consolidated financial report.

(b) Reportable segment profit or loss, segment assets, segment liabilities, and their measurement and reconciliations

The Group uses the internal management report that the chief operating decision maker reviews as the basis to determine resource allocation and make a performance evaluation. The internal management report includes profit before taxation, excluding any extraordinary activity and foreign exchange gain or losses, because taxation, extraordinary activity and foreign exchange gains or losses are managed on a group basis, and hence they are not able to be allocated to each reportable segment. In addition, not all reportable segments include depreciation and amortization of significant non-cash items. The reportable amount is similar to that in the report used by the chief operating decision maker.

The operating segment accounting policies are similar to the ones described in Note 4 "significant accounting policies" except for the recognition and measurement of pension cost, which is on a cash basis. The Group treated intersegment sales and transfers as third-party transactions. They are measured at market price.

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

	For the year ended December 31			
	2016			
	DMS	Strategic Investment Group	Adjustment and eliminations	Total
Revenue：				
Revenue from external customers	$ 1,078,907,440	78,802,673	-	1,157,710,113
Intersegment revenues	1,831,481	2,775,907	(4,607,388)	-
Total revenue	$ 1,080,738,921	81,578,580	(4,607,388)	1,157,710,113
Share of profit of associates and joint ventures accounted for using equity method	$ 3,056,365	9,734,983	(12,794,479)	(3,131)
Other significant non-monetary items:				
Goodwill	$ -	1,127,841	-	1,127,841
Reportable segment profit or loss	$ 24,288,805	17,581,738	(12,790,873)	29,079,670
Assets:				
Investments accounted for using equity method	$ 43,218,838	92,221,847	(135,077,776)	362,909
Reportable segment assets	$ 373,147,174	206,242,122	(135,444,063)	443,945,233
Reportable segment liabilities	$ 224,877,585	37,411,735	(366,288)	261,923,032

	For the year ended December 31 2015			
	DMS	**Strategic Investment Group**	**Adjustment and eliminations**	**Total**
Revenue：				
Revenue from external customers	$ 1,114,266,543	99,446,433	-	1,213,712,976
Intersegment revenues	2,580,781	7,243,274	(9,824,055)	-
Total revenue	$ 1,116,847,324	106,689,707	(9,824,055)	1,213,712,976
Share of profit of associates and joint ventures accounted for using equity method	$ 4,838,315	10,092,787	(14,943,956)	(12,854)
Other significant non-monetary items:				
Goodwill	$ -	1,147,923	164,859	1,312,782
Reportable segment profit or loss	$ 30,324,630	23,808,056	(14,946,672)	39,186,014
Assets:				
Investments accounted for using equity method	$ 47,585,206	89,508,143	(136,669,158)	424,191
Reportable segment assets	$ 392,071,442	220,643,421	(136,628,200)	476,086,663
Reportable segment liabilities	$ 241,691,277	42,180,763	(123,902)	283,748,138

(c) Geographic information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

(i) External Sales

Region	**For the years ended December 31 2016**	**2015**
Europe	$ 332,669,838	510,430,274
USA	396,964,194	273,135,851
Taiwan	170,921,579	185,605,468
China	103,033,702	100,602,388
Japan	87,650,950	81,751,727
Others	66,469,850	62,187,268
	$ 1,157,710,113	1,213,712,976

(ii) Non-current assets

Region	December 31, 2016	December 31, 2015
Taiwan	$ 20,868,460	21,546,353
China	52,969,239	57,097,050
Others	882,559	1,018,603
Total	**$ 74,720,258**	**79,662,006**

Non-current assets include property, plant and equipment, investment property, intangible assets, and other non-current assets, excluding financial instruments, deferred tax assets, pension fund assets, and rights arising from an insurance contract (non-current).

(d) Major Customer

Major customers from DMS in 2016 and 2015 were as follows:

Customer	2016	2015
A	$ 691,091,107	729,205,460
B	125,455,471	122,375,001
C	77,163,832	61,848,011
	$ 893,710,410	**913,428,472**

Attachment II

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NON-CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

(With Independent Accountants' Audit Report Thereon)

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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.

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.

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

PEGATRON CORPORATION

Non-Consolidated Balance Sheets

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2016		December 31, 2015	
	Assets	**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	-
		372,570,658	75	317,603,542	72
	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	-
		123,361,234	25	122,665,149	28
	Total assets	**$ 495,931,892**	**100**	**440,268,691**	**100**

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

PEGATRON CORPORATION

Non-Consolidated Balance Sheets(CONT'D)

December 31, 2016 and 2015

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2016		December 31, 2015	
	Liabilities and Equity	Amount	%	Amount	%
	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
		344,696,528	69	279,015,180	63
	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	-
		2,965,774	1	10,873,376	3
	Total liabilities	347,662,302	70	289,888,556	66
	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
		78,214,259	16	78,972,374	18
	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
		48,104,750	10	42,655,172	9
	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)	- -
		(3,798,868)	(1)	2,724,974	1
3500	**Treasury stock**	(2,246)	-	(2,590)	-
	Total equity	148,269,590	30	150,380,135	34
	Total liabilities and equity	$ 495,931,892	100	440,268,691	100

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
		12,121,369	1	14,062,692	1
	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)	-
		9,776,015	1	12,674,865	1
	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.

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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					
	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	Total equity
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	(64,523)	4,901,345	(8,183)	133,670,931
Profit for the year	-	-	-	-	-	-	23,811,625	23,811,625	-	-	-	-	-	23,811,625
Other comprehensive income for the year	-	-	-	-	-	-	434	434	(1,035,941)	33,424	-	(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	-	-	-	-	-	-	-	-	-	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	-	-	-	-	-	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	-	-	-	-	-	-	-	-	-	-	-	-	(2,068,328)	(2,068,328)
Retirement of treasury stock	(264,100)	-	(264,100)	(830,477)	-	-	(973,751)	(973,751)	-	-	-	-	2,068,328	-
Changes in ownership interests in subsidiaries	-	-	-	2,575	-	-	-	-	-	-	-	-	-	2,575
Expiration of restricted shares of stock issued to employees	(14,410)	-	(14,410)	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

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

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

accompanying notes to financial statements.

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:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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

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

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: • 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.

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • 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.

(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.

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.

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.

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.

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

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.

(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 o 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 a entity after deducting all of its liabilities. Equity instruments issued are recognize 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 th Company’s option, and any dividends are discretionary. Discretionary dividends thereo are recognized as distributions within equity upon approval by the Company’ shareholders.

Preference share capital is classified as a financial liability if it is redeemable on specific date or at the option of the shareholders, or if dividend payments are nc discretionary.

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

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

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

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

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.

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

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.

(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.

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.

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.

(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.

(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.

(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.

(q) Share-based payment

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

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

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

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

(r) Income Taxes

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

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

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

(i) Assets and liabilities that are initially recognized from non-business combination transactions, with no effect on net income or taxable gains (losses).

(ii) Temporary differences arising from equity investments on subsidiaries or joint ventures, where there is a high probability that such temporary differences will not reverse.

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

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

(i) if the entity has the legal right to settle tax assets and liabilities on a net basis; and

(ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:

1) levied by the same taxing authority; or

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

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

(s) Business combination

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

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

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

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

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

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

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.

(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	21,649,075	6,125,415
	$ 36,049,317	31,919,719

(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	$ -	288,068
Available-for-sale financial assets－ noncurrent:		
Shares of stock of listed companies	$ 556,673	-
Financial assets carried at cost － noncurrent:		
Equity securities － common stock	$ -	-

(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.

(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

(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

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

December 31, 2015

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

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.

(d) Inventories

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

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

		For the years ended December 31	
		2016	2015
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		37,920	34,669
	$	981,245,130	1,020,724,240

(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

		December 31, 2016	December 31, 2015
Subsidiary	$	117,619,640	117,840,661

(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)
	$ 8,218,361

(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:

	Land	Building and construction	Machinery and equipment	Instrument equipment	Other facilities	Construction in progress	Total
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	$ 2,358,521	2,151,229	38,282	291,538	743,617	219,062	5,802,249
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	$ 2,358,521	2,237,189	43,223	268,005	601,458	11,823	5,520,219
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	$ -	724,915	25,475	126,292	201,557	-	1,078,239
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	$ -	715,206	25,660	133,098	222,361	-	1,096,325
Carrying amounts：							
Balance on December 31, 2016	$ 2,358,521	1,426,314	12,807	165,246	542,060	219,062	4,724,010
Balance on December 31, 2015	$ 2,358,521	1,521,983	17,563	134,907	379,097	11,823	4,423,894

(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.

(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	(15,484)
Balance on December 31, 2016	**$ 232,034**
Balance on January 1, 2015	$ 101,324
Additions	50,677
Disposals	(55,644)
Balance on December 31, 2015	**$ 96,357**
Amortization and Impairment Loss:	
Balance on January 1, 2016	$ 28,781
Amortization for the year	34,687
Disposals	(15,484)
Balance on December 31, 2016	**$ 47,984**
Balance on January 1, 2015	$ 52,611
Amortization for the year	31,814
Disposals	(55,644)
Balance on December 31, 2015	**$ 28,781**
Carrying amounts:	
Balance on December 31, 2016	**$ 184,050**
Balance on December 31, 2015	**$ 67,576**

(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.

(i) Other financial assets and other assets

	December 31, 2016	December 31, 2015
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	10,606	11,439
	$ 249,392	214,931

(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

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

(i) Collateral for short-term borrowings

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

(k) Long -term loans

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

	December 31, 2015			
	Currency	Interest rate	Expiration	Amount
Unsecured bank loans	NTD	1.5789%	2016.9－2018.9	$ 12,000,000
Less：Arrangement fee				(12,800)
Less：Current portion				(1,375,000)
Total				$ 10,612,200

(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.

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.

Item	1st overseas unsecured convertible bonds issued in 2012
6.Settlement	Unless the Bonds have been previously redeemed, repurchased and cancelled or converted, the Bonds will be redeemed by the Company on Maturity Date at an amount equal to the principal amount of the Bonds with a yield-to-maturity of 1.5% per annum, calculated on semi-annual basis.
7.Redemption at the option of the Company	(1)The Company may redeem the Bonds, in whole but not in part, at the early redemption amount at any time on or after February 6, 2015 if the closing price of the common shares on TWSE (translated into U.S. Dollars at the fixing rate at 11:00 a.m. Taipei time as quoted by Taipei Forex Inc.) on each trading day during a period of 20 consecutive trading dates exceeds at least 125% of the quotient of the early redemption amount divided by the number of shares to be issued upon conversion of USD 200,000 principal amount of Bonds on the applicable trading day based on the conversion price then in effect (translated into U.S. Dollars at the fixed exchange rate of NT$29.761 = USD 1.00). (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. (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.
8.Redemption at the option of the Holder	(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. (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. (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.

Item	1st overseas unsecured convertible bonds issued in 2012
9.Conversion	(1)Conversion period 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. (2)Conversion price The conversion price was NT$42.11 per share which was 112% of the closing price reported by the TWSE in respect of the Common Shares of the Company on January 30, 2012. However, upon the issuance of restricted Company shares of stock to employees, the conversion price has been adjusted to NT$40.11 per share effective October 7, 2013. The conversion price has been adjusted to NT$38.28 per share effective September 15, 2014 due to the distribution of cash dividends in 2014. (3)Conversion to common shares Upon conversion, the number of common shares converted is calculated by the issuance price (translated at a fixed exchange rate applicable on conversion of Bonds of NT$29.761 = USD 1.00) divided by the conversion price on the conversion date.

(m) Provisions

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

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

(n) Operating leases

(i) Leasee

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

		December 31, 2016	December 31, 2015
Less than one year	$	120,077	95,461
Between one and five years		159,335	109,248
	$	279,412	204,709

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:

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

(o) Employee benefits

(i) Defined benefit plans

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

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

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

1) Composition of plan assets

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

As of December 31, 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	$ 36,076	28,606

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	$ 9,363	8,756

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
	$ 4,368	4,138
Operating Expense	$ 4,368	4,138

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	$ 876	3,898

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.

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.

(p) Income tax

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

	For the years ended December 31	
	2016	**2015**
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	60,288	(91,039)
Income tax expense	$ 2,557,569	2,925,932

(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:

	For the years ended December 31	
	2016	**2015**
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	(221)	(369)
	$ 2,557,569	2,925,932

(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	$ 29,768,739	21,919,380
Unrecognized deferred tax liabilities	$ 5,060,686	3,726,295

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	$ 225,261	-	-	225,261
Balance, January 1, 2015	$ 225,261	(19,816)	-	205,445
Recognized in loss	-	19,816	-	19,816
Balance, December 31, 2015	$ 225,261	-	-	225,261

	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	$ 107,530	-	123,342	230,872
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	$ 86,008	-	205,152	291,160

(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:

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

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:

	For the years ended December 31	
Ordinary Shares (In thousands of shares)	2016	2015
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	(26,410)	-
Ending balance, December 31	2,575,169	2,603,020

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.

(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	409,917	409,917
	$ 78,214,259	78,972,374

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.

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.

(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	$ (3,552,939)	183,953	(429,882)	(3,798,868)
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	$ 3,752,117	211,234	(1,238,377)	2,724,974

(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			
	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.

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 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.

(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	13.8	
Exercise price of share option outstanding, end of the period	-	
Remaining contractual life	-	
Expenses incurred on share-based payment transactions	-	

(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:

	For the years ended December 31	
	2016	**2015**
Expenses resulting from issuance of restricted stock to employees	$ 900,522	892,593

(s) Earnings per share

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

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

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

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

(u) Remuneration of employees and directors

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

For the years ended December 31, 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

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

(ii) Other gains and losses

	For the years ended December 31	
	2016	2015
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	(217,855)	-
	$ (1,487,849)	**809,153**

(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.

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:

	December 31, 2016	December 31, 2015
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	1,615,181	1,644,997
	$ 309,288,486	**259,969,634**

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

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2016	$ -	1,712,487	1,712,487
Reversal of impairment loss	-	(69,986)	(69,986)
Balance on December 31, 2016	**$ -**	**1,642,501**	**1,642,501**
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	**$ -**	**1,712,487**	**1,712,487**

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.

	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	More than 2 years
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	312,845,460	312,845,460	312,845,460	-	-
	$ 331,234,860	331,234,860	328,534,860	2,700,000	-
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	222,499,400	222,499,400	222,499,400	-	-
	$ 273,725,275	273,725,275	263,100,275	2,750,000	7,875,000

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

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

(iii) Currency risk

1) Currency risk exposure

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

(Unit: Foreign currency/NTD in Thousands)

	December 31, 2016			December 31, 2015		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial assets						
Monetary items						
USD	$ 10,152,816	32.250	327,428,316	7,870,701	32.825	258,355,760
Financial liabilities						
Monetary items						
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.

(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:

	December 31, 2016	December 31, 2015
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	$ 344,328,897	290,536,743

Financial liabilities:

	December 31, 2016	December 31, 2015
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	$ 331,248,661	273,728,540

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).

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

	December 31, 2015				
		Fair Value			
	Book Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets designated as at fair value through profit or loss					
Held-for-trading non-derivative financial assets	$ 288,068	288,068	-	-	288,068

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.

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.						
				Amounts not offset(d)		
	Gross Assets (a)	**Gross liabilities Offset (b)**	**Net amounts presented (c)=(a)-(b)**	**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

December 31, 2016						
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.						
		Gross		Amounts not offset(d)		
	Gross Assets (a)	liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
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		Amounts not offset(d)		
	Gross Assets (a)	liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
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		Amounts not offset(d)		
	Gross Assets (a)	liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
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.

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.

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.

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 rick 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.

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

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

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

	Shareholding ratio	
	December 31, 2016	December 31, 2015
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.

(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:

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

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:

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

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

	For the years ended December 31	
	2016	2015
Subsidiaries	$ 61,820	123,237

(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.

(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	158,956	163,449
	$ 328,014	333,136

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:

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

(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	$ 2,540	2,540

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

	December 31, 2016	**December 31, 2015**
NTD	$ 87,869	6,689

(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.

(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.

Pegatron Corporation

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