PEGATRON
和碩聯合科技

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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 anofficial 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,

After undergoing global economic and political unrest in 2016, the policy uncertainty from major economies has reduced in 2017. Furthermore, with global oil price bottoming out and raw material price going up, it also helped ease the concern of deflation and stimulate global investment, production, and trading activities. As a result, global economy is gradually recovering and is expected to continue its momentum into 2018. The factors that might potentially impact economic growth in 2018 are revolving around global politics, financial market and regional political conflict. Though global trading has not seen any major impact from the tax reform, financial policies adjustment, and rising protectionism initiated by the United States, but it is widely anticipated that these changes are attributable to the rising trade barrier, while terrorism attacks in certain regions, turmoil in the Middle East, and tension between the United States and North Korea further deepen the concerns in 2018. For year 2017, Pegatron successfully penetrated into new customers and broadened business scope with existing customers. Benefitting from new product launch in 2017, Pegatron achieved revenue growth on a year over year basis. However, the full year profitability was negatively affected by sharp increase of labor cost during peak season.

Financial Performance

The consolidated revenue of 2017 reached NT$1,193.8 billion, increased by 3.1% from NT$1,157.7 billion in 2016 with gross margin of 3.9%. Profit attributable to owners of the parent company was NT$14.7 billion, declined by NT$4.6 billion from NT$19.3 billion in the previous year. Growth in revenue was contributed by new product launch, while decline in profitability was attributable to rising labor cost during peak season. In terms of revenue contribution, revenues from Communication and Consumer Electronics segments were fairly stable, while revenue from Computing segment declined on a year over year basis due to weakening market demand. In 2017, Communication segment has the highest revenue contribution, followed by Consumer Electronics and Computing segments.

Technical Capability and Operating Highlights

The application of IoT technology is becoming versatile as the global internet infrastructure is maturing. Driven mainly by the approaching of 5G commercial launch and the integration between artificial intelligence and advanced hardware technology, the demand of IoT devices is accelerating. As connectivity devices are embedded with data capture and communication capabilities, the devices, in conjunction with hardware and big data, are able to perform all types of services including control, detection and recognition. In addition to extensive experience in system assembly, Pegatron also possesses core competence in computing technology, communication transmission, video and audio processing, voice recognition, etc., and is able to provide integrated solutions to brand customers. After years of cultivation in internet infrastructure related devices, not only did Pegatron penetrate into the field of smart home devices but also extend its application to Internet of Vehicles, of which its related technologies will be one of Pegatron's strategic development in the next few years. In 2017, Pegatron expanded its manufacturing capacity to prepare for potential growth opportunities in the next two to three years. After the expansion, Pegatron will continue to pursuit its organic growth, improve overall utilization rate, and develop new product lines by engaging existing customers and new customers.

Awards and Social Responsibility

Pegatron, as a responsible corporate citizen, continues to engage in corporate social responsibility and integrate the core elements of sustainability into our corporate strategy. Pegatron actively responds to stakeholders' concerns on corporate sustainability, and continues to promote the awareness of human rights, as well as maintain a friendly, safe, and healthy working environment. In order to implement environmental protection and leverage the resources efficiently, Pegatron regularly conducts self-evaluation and assessment to ensure effective use of energy and resources. As a member of Responsible Business Alliance ("RBA"), Pegatron is committed to building a sustainable supply chain. Not only does Pegatron advocate CSR requirements at its annual supplier conference, but also encourage suppliers to participate the initiatives convened by RBA. Through this process, we aim to further emphasize the concept of sustainability in the supply chain. Pegatron was ranked the top 20% of listed companies in "The Third Corporate Governance Evaluation" held by Taiwan Stock Exchange. We will continue pursuing better performance on sustainability development, reinforcing our capability by improving all applicable indicators on social responsibility and strengthening the communication with the stakeholders. We are looking forward to playing an essential role in the value chain, working with our partners to demonstrate sustainable value in the industry and taking effective actions on reinforcing environmental protection as well as making social improvement.

Outlook

Looking forward to 2018, Pegatron expects both Consumer Electronics and Communication segments to grow, while Computing segment is likely to continue its declining trend since market demand remains soft. Despite Communication products are gradually maturing, Pegatron is expected to grow nonetheless. Stimulated by accelerating growth in IoT technology, brand customers from both Consumer Electronics and Communication segments launched various products featuring applications in energy saving, home security, voice assistance, Internet of Vehicles, etc., and Pegatron will cooperate closely with customers to enhance product roadmap and achieve another wave of growth. Looking ahead in 2018, Pegatron will work on generating higher value to our shareholders by following industry trend closely, improving utilization rate, and consequently uplifting overall profitability.

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

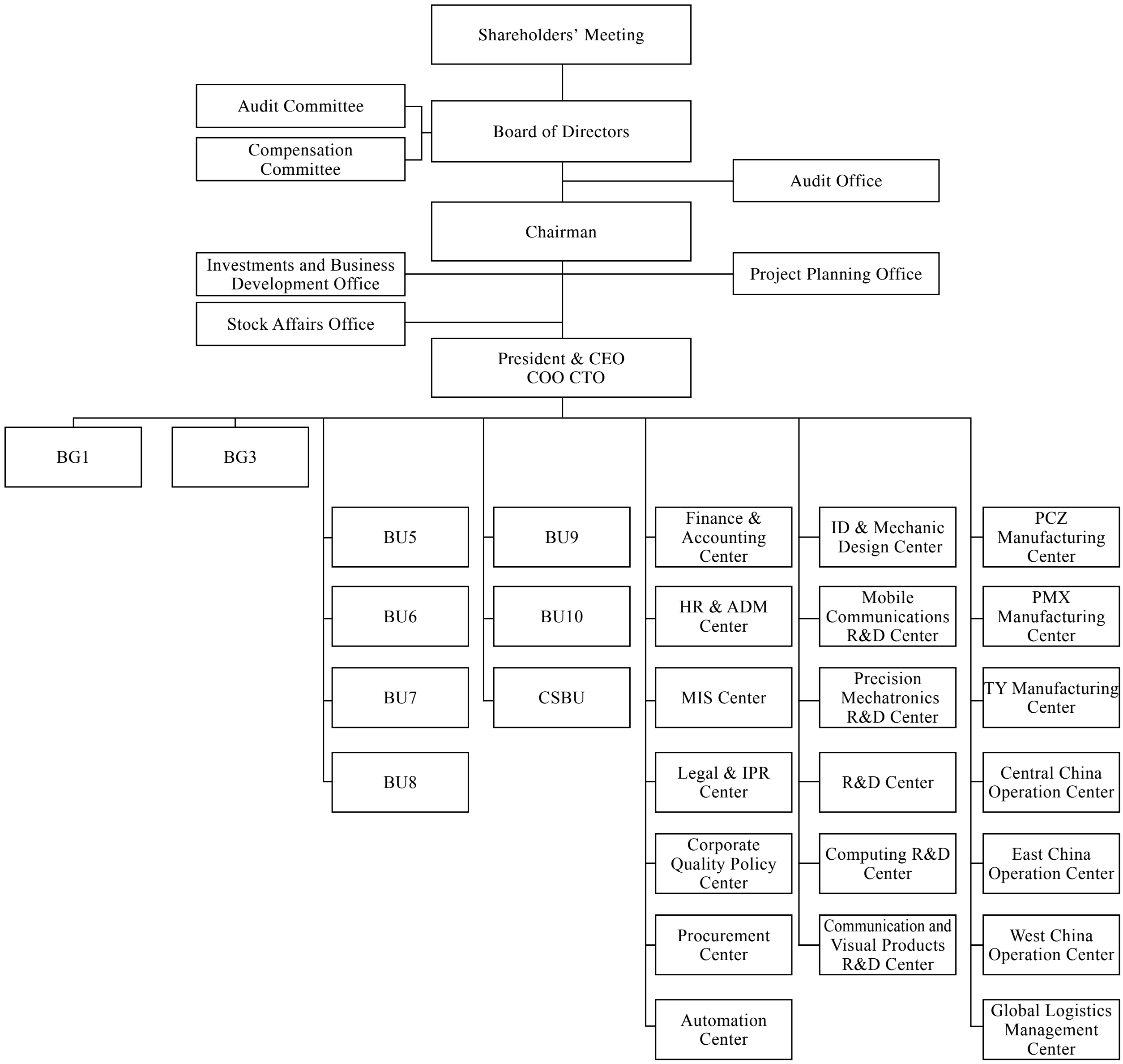
	for the 2009 CSR Report based on Global Reporting Initiative G3 format. ● The Company receivedISO 14064-1 Greenhouse Gases Inventory Verification.
Nov 2010	● The Company's Board of Directors approved the cancellation of 29,697,000 shares of treasury stock. Subsequently, the paid-in capital reduced to 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 33,938,000shares 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 forEmployee 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.
July 2017	● Issuance of 37,808,000 shares for Employee Restricted Stock Award and paid-in capital increased to NT$26,125 million.
July 2017	● The Company issued the 1st unsecured corporate bonds of NT$7 billion.
Oct 2017	● Issuance of 2,192,000 shares for Employee Restricted Stock Award and paid-in capital increased to NT$26,145 million.
Jan 2018	● The Company issued the 2nd unsecured corporate bonds of NT$8 billion.
Jan 2918	● Pegatron was named by Thomson Reuters 2018 Top 100 Global Technology Leaders.

3. Corporate Governance

3.1 Organization Structure

3.1.1 Organization Chart

As of 02/28/2018



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
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
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

Department	Main Responsibilities
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 related accessories
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 and server products

3.2 Board of Directors and Management Team

3.2.1 Introduction of Board of Directors

As of 02/28/2018

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	93,417,309	3.57	6,074,490	0.23	-	-	Master degree in Computer and Communication Engineering, National Taipei University of Technology Honorary PH.D in Engineering, National Taipei University of Technology Vice Chairman of 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 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 President of Cross-Strait Association for Advancing Culture Creative Vice President of Monte Jode Science & Technology Association

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	4,439,773	0.17	13,120	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 FuYangTechnology 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. Director of Pegatron USA 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 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	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 Director and 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 FreieUniversität 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. 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 of Advantech Foundation

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

Major Shareholders of the Institutional Shareholders

As of 02/28/2018

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 02/28/2018

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 02/28/2018

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	-	3
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

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.

3.2.3 Diversity of Board Members

Diversified Item / Name	Gender	Operation management	Technology	Accounting & Commerce	Law	Crisis management	Industry knowledge	International market opinion	Leadership decisions	Operation judgment
T.H. Tung	Male	V	V	V		V	V	V	V	V
Jason Cheng	Male	V	V	V		V	V	V	V	V
C.I. Chia	Male	V	V	V		V	V	V	V	V
C.V. Chen	Male	V		V	V	V	V	V	V	V
S.C. Ting	Male	V			V	V	V	V	V	V
T.K. Yang	Male	V	V	V		V	V	V	V	V
S. Chi	Male	V		V		V	V	V	V	V
S.J. Liao	Male	V	V	V		V	V	V	V	V
C.B. Chang	Male	V	V	V		V	V	V	V	V
C.B. Huang	Male	V	V	V		V	V	V	V	V
C.S. Yen	Male	V		V		V	V	V	V	V

3.2.4 Board of Directors Training Record

Title	Name	Date	Institute	Course	Period (hours)
Chairman	T.H. Tung	04/28/2017	The Taiwan Corporate Governance Association	How to manage information security risks and strengthen corporate governance	3
		08/03/2017	The Taiwan Corporate Governance Association	How to strengthen the effectiveness of the board of directors through board performance assessment	3
		09/15/2017	The Taiwan Corporate Governance Association	When anti-tax avoidance encounters anti-money laundering, the essentials for corporate (non-financial)	3
Deputy Chairman	Jason Cheng	04/28/2017	The Taiwan Corporate Governance Association	How to manage information security risks and strengthen corporate governance	3
		08/03/2017	The Taiwan Corporate Governance Association	How to strengthen the effectiveness of the board of directors through board performance assessment	3
		09/15/2017	The Taiwan Corporate Governance Association	When anti-tax avoidance encounters anti-money laundering, the essentials for corporate (non-financial)	3
		11/09/2017	The Taiwan Corporate Governance Association	Analysis of tax reform	3
Director	C.I. Chia	09/15/2017	The Taiwan Corporate Governance Association	When anti-tax avoidance encounters anti-money laundering, the essentials for corporate (non-financial)	3
		08/10/2017	The Taiwan Corporate Governance Association	Impact on firms of legal reforms in 2016-2017	3
Director	C.V. Chen	09/15/2017	The Taiwan Corporate Governance Association	When anti-tax avoidance encounters anti-money laundering, the essentials for corporate (non-financial)	3
		11/09/2017	The Taiwan Corporate Governance Association	Analysis of tax reform	3
Director	T.K. Yang	09/15/2017	The Taiwan Corporate Governance Association	When anti-tax avoidance encounters anti-money laundering, the essentials for corporate (non-financial)	3
		03/17/2017	The Taiwan Corporate Governance Association	Global, U.S./China economic outlook analysis	3
		11/09/2017	The Taiwan Corporate Governance Association	Analysis of tax reform	3

Title	Name	Date	Institution	Course	Period (hours)
Director	S.C. Ting	09/15/2017	The Taiwan Corporate Governance Association	When anti-tax avoidance encounters anti-money laundering, the essentials for corporate (non-financial)	3
		11/09/2017	The Taiwan Corporate Governance Association	Analysis of tax reform	3
Director	HONG-YE Investment Co., Ltd. Rep. : S.J. Liao	09/15/2017	The Taiwan Corporate Governance Association	When anti-tax avoidance encounters anti-money laundering, the essentials for corporate (non-financial)	3
		11/09/2017	The Taiwan Corporate Governance Association	Analysis of tax reform	3
Director	DAI-HE Investment Co., Ltd. Rep. : S. Chi	09/15/2017	The Taiwan Corporate Governance Association	When anti-tax avoidance encounters anti-money laundering, the essentials for corporate (non-financial)	3
		07/13/2017	Taiwan Academy of Banking and Finance	Operational practice and corporate governance workshop for Board of Directors	3
Independent Director	C.B. Chang	09/15/2017	The Taiwan Corporate Governance Association	When anti-tax avoidance encounters anti-money laundering, the essentials for corporate (non-financial)	3
		04/14/2017	Taiwan Institute of Directors	Challenges and priorities of the audit committee	3
Independent Director	C.B. Huang	04/28/2017	The Taiwan Corporate Governance Association	How to manage information security risks and strengthen corporate governance	3
		09/15/2017	The Taiwan Corporate Governance Association	When anti-tax avoidance encounters anti-money laundering, the essentials for corporate (non-financial)	3
		11/09/2017	The Taiwan Corporate Governance Association	Analysis of tax reform	3
Independent Director	C.S. Yen	04/28/2017	The Taiwan Corporate Governance Association	How to manage information security risks and strengthen corporate governance	3
		11/09/2017	The Taiwan Corporate Governance Association	Analysis of tax reform	3

3.2.5 Introduction of the Management Team

As of 02/28/2018

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	93,417,309	3.57	6,074,490	0.23	-	-	Master degree in Computer and Communication Engineering, National Taipei University of Technology Honorary PH.D in Engineering, National Taipei University of Technology Vice Chairman of Asus	Refer to Introduction of Board of Directors
Deputy Group CEO Jason Cheng	R.O.C.	Male	01/01/2008	4,439,773	0.17	13,120	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	R.O.C.	Male	08/01/2008	452,000	0.02	-	-	-	-	Bachelor degree in Electrical Engineering National Taiwan University Associate Vice President of Asus	Chairman of Top Quark Ltd. Director of Digitek (Chongqing) Ltd. Chairman of Asrock Incorporation
President and CEO S.J. Liao	R.O.C.	Male	11/02/2012	2,273,856	0.09	93	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
Chief Operating Officer and Senior Vice President Te-Tzu Yao	R.O.C.	Female	08/01/2008	1,349,109	0.05	-	-	-	-	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. Director of FuYang Flex Holding Ltd.

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	%		
Vice President Kuo-Yen Teng	R.O.C.	Male	08/01/2008	453,309	0.02	450,000	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	871,278	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	631,213	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.
Vice President Shih-Chi Hsu	R.O.C.	Male	08/01/2008	332,967	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	420,624	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	237,946	0.01	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	853,101	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	978,609	0.04	-	-	-	-	Master in Electrical Engineering Tufts University Vice President of Asus	None
Senior Vice President of RD &Engineering Pei-Chin Wang	R.O.C.	Male	10/03/2011	987,949	0.04	-	-	-	-	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	460,000	0.02	-	-	-	-	Master degree in Business Administration Tunghai University Deputy Chief Investment Officer of Asus	Chairman of Starlink Electronics Corp. Supervisor of Powtek (Shanghai) Co., Ltd. Supervisor of 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	340,390	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	R.O.C.	Male	11/02/2012	1,155,630	0.04	-	-	-	-	Ph. D. Electrical Engineering, University of Southern California Master degree in Electrical Engineering, University if 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	745,795	0.03	30,000	0.00	-	-	Master degree in Computer Science, National Chiao Tung University Associate Vice President of Unihan Corp. Senior Director of Asus	Director of Pegatron USA
Vice President Shaing-Shaing Wu	R.O.C.	Female	07/01/2014	580,000	0.02	-	-	-	-	Master degree in Business Administration, University of St. Thomas Vice Chairman of OFCO Industrial Corp.	Director of Kinsus Interconnect Technology Corp. Director of Kinsus Investment Co., Ltd. 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.

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

3.2.6.1 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 Deputy Chairman Jason Cheng 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	1,026	0	0	85,810	92,259	0	83	0.58%	0.64%	146,084	151,371	0	0	8,750	0	10,394	0	1.64%	1.74%	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 Independent Director C.B. Chang Independent Director C.B. Huang Independent Director C.S. Yen	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
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																					

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)	-	-	-	-
NT$5,000,000 (Included)~ NT$10,000,000(Excluded)	Jason Cheng C.I. Chia C.V. Chen S.C. Ting T.K. Yang DAI-HE Investment Co., Ltd. Rep: S. Chi HONG-YE Investment Co., Ltd. Rep: S.J. Liao C.B. Chang C.B. Huang C.S. Yen	C.I. Chia C.V. Chen S.C. Ting T.K. Yang DAI-HE Investment Co., Ltd. Rep: S. Chi HONG-YE Investment Co., Ltd. Rep: S.J. Liao C.B. Chang C.B. Huang C.S. Yen	C.I. Chia C.V. Chen S.C. Ting T.K. Yang DAI-HE Investment Co., Ltd. Rep: S. Chi HONG-YE Investment Co., Ltd. Rep: S.J. Liao C.B. Chang C.B. Huang C.S. Yen	C.I. Chia C.V. Chen S.C. Ting T.K. Yang DAI-HE Investment Co., Ltd. Rep: S. Chi HONG-YE Investment Co., Ltd. Rep: S.J. Liao C.B. Chang C.B. Huang C.S. Yen
NT$10,000,000(Included) ~ NT$15,000,000(Excluded)	-	Jason Cheng	-	-
NT$15,000,000 (Included)~ NT$30,000,000(Excluded)	T.H. Tung	T. H. Tung	-	-
NT$30,000,000 (Included)~ NT$50,000,000(Excluded)	-	-	-	-
NT$50,000,000(Included) ~ NT$100,000,000(Excluded)	-	-	T.H. Tung Jason Cheng S.J. Liao	T.H. Tung Jason Cheng S.J. Liao
Over NT$100,000,000	-	-	-	-
Total	12	12	12	12

3.2.6.2Compensation Paid toPresident 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="9">84,832</td><td rowspan="9">90,158</td><td rowspan="9">0</td><td rowspan="9">0</td><td rowspan="9">293,145</td><td rowspan="9">297,680</td><td rowspan="9">42,662</td><td rowspan="9">0</td><td rowspan="9">44,306</td><td rowspan="9">0</td><td rowspan="9">2.86%</td><td rowspan="9">2.94%</td><td rowspan="9">240</td></tr>
<tr><td>Deputy Group CEO
Jason Cheng</td></tr>
<tr><td>Senior Vice President
Hsu-Tien Tung</td></tr>
<tr><td>President and CEO
S.J. Liao</td></tr>
<tr><td>Chief Operating Officer and Senior Vice President
Te-Tzu Yao</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-Chih 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													
Chief Technology Officer and Senior Vice President Chung Yu Huang													
Vice President Hsi-Wen Lee													
Vice President Shaing-Shaing Wu													
Vice President Chen-Yu Feng													

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)	-	-
NT$10,000,000(Included) ~ NT$15,000,000(Excluded)	Tsung-Jen Ku Lai Hsi-Wen Lee Ming-Tung Hsu Tian-Bao Chang En-Bair Chang Shih-Chi Hsu Chih-Hsiung Chen Kuang-Chih Cheng	Tsung-Jen Ku Lai Hsi-Wen Lee Ming-Tung Hsu Tian-Bao Chang En-Bair Chang Shih-Chi Hsu Chih-Hsiung Chen Kuang-Chih Cheng
NT$15,000,000(Included) ~ NT$30,000,000(Excluded)	Pei-Chin Wang Shaing-Shaing Wu Hsu-Tien Tung Chen-Yu Feng Chung Yu Huang Kuo-Yen Teng	Pei-Chin Wang Shaing-Shaing Wu 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 Te-Tzu Yao	T.H. Tung Te-Tzu Yao
NT$50,000,000(Included)~NT$100,000,000(Excluded)	Jason Cheng S.J. Liao	Jason Cheng S.J. Liao
Over NT$100,000,000	-	-
Total	18	18

3.2.6.3Employee 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	45,462	45,462	0.31%
Deputy Group CEO	Jason Cheng				
Senior Vice President	Hsu-Tien Tung				
President and CEO	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	Te-Tzu Yao				
Vice President	Shih-Chi Hsu				
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	Pei-Chin Wang				
Chief Financial Officer	Chiu-Tan Lin				
Chief Technology Officer and Senior Vice President	Chung Yu Huang				
Vice President	Hsi-Wen Lee				

3.2.6.4 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 2016: NT$19,339,815 thousand dollars
Net Income of year 2017: NT$14,682,988 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
2016	511,612	560,794	2.65%	2.90%
2017	506,449	524,483	3.45%	3.57%

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 2.65% and 2.90% in 2016 and 3.45% and 3.57% in 2017, 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 6 (A) meetings of the Board of Directors were held in 2017. The directors' attendance status is as follows:

Title	Name	Attendance in person (B)	By Proxy	Attendance rate (%)【B/A】	Remarks	
Chairman	T.H. Tung	6	0	100.0%	Renewal of office	Pegatron's 4th session of Board of Directors was elected at 2016 Annual General Shareholders' Meeting. Tenure of the session is from 21st June, 2016 to 20th June, 2019.
Director	Jason Cheng	6	0	100.0%	Renewal of office	
Director	C.I. Chia	6	0	100.0%	Renewal of office	
Director	C.V. Chen	6	0	100.0%	Renewal of office	
Director	T.K. Yang	6	0	100.0%	New office assumed	
Director	S.C Ting	6	0	100.0%	New office assumed	
Director	DAI-HE Investment Co., Ltd. Rep. : S. Chi	6	0	100.0%	New office assumed	
Director	HONG-YE Investment Co., Ltd. Rep. : S.J. Liao	6	0	100.0%	New office assumed	
Independent Director	C.S. Yen	5	0	83.3%	Renewal of office	
Independent Director	C.B. Chang	6	0	100.0%	Renewal of office	
Independent Director	C.B. Huang	6	0	100.0%	New office assumed	

Remarks:

1. For resolution of agendas referring to Article 14-3 of Securities and Exchange Act, please refer to the Major resolutions of Board of Directors. There were no resolutions objected by independent directors in writing, on record or subject to qualified opinion in 2017.
2. There were no recusals of directors due to conflict of interest in 2017.
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 2017.

3.3.2 Audit Committee

A total of 5 (A) meetings of the audit committee were held in 2017. 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.B. Chang</td><td>5</td><td>0</td><td>100%</td><td>Renewal of office</td><td rowspan="3">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.S. Yen</td><td>5</td><td>0</td><td>100%</td><td>Renewal of office</td></tr>
<tr><td>Independent Director</td><td>C.B. Huang</td><td>5</td><td>0</td><td>100%</td><td>New office assumed</td></tr>
</table>

Remarks:

1. For resolution of agendasreferring toArticle 14-5 of Securities and Exchange Act, please refer to the note below.There are no agendas which were not approved by the Audit Committee but otherwise resolved by two thirds or more of all directors in 2017.
2. There were no recusals of independent directors due to conflicts of interests in 2017.
3. Descriptions of the communications between the independent directors, the internal auditors, and the independent auditors in 2017:

   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.

Note: Resolution for agendas referring to in Article 14-5 of Securities and Exchange Act Date	Agenda (Referring to Article 14-5 of Securities and Exchange Act)	Disagreements from Independent Directors	Responses to disagreements	Resolution Circumstance
01/17/2017	The endorsement for the credit line of BOARDTEK COMPUTER (SUZHOU) CO., LTD. with bank	No	No	Approved
03/14/2017	1. Business report and financial statements of year 2016 2. Earnings distribution of year 2016 3. Pegatron's Internal Control System Statement of year 2016	No	No	Approved
05/09/2017	1. The amendment to the "Regulations Governing the Acquisition and Disposal of Assets" 2. The indirect investment US$100,000,000 in China subsidiary "PEGAGLOBE(KUNSHAN)Co., LTD." 3. The issuance of the 2nd round ECB	No	No	Approved
08/10/2017	The 2nd quarter 2017 consolidated financial report	No	No	Approved
11/09/2017	1. The total compensation for external auditor in year 2017 2. The plan of internal auditing in year 2018	No	No	Approved

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 availableon 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(Note1)								Number of Other Public Companies in Which the Individual is Concurrently Serving a Member of Compensation Committee	Remarks (Note 2)
		An Instructor or Higher Positionin a Departmentof Commerce, Law, Finance, Accounting, orOther Academic Department Related to theBusiness Needs of the Company in a Public orPrivate Junior College, College or University	A Judge, Public Prosecutor, Attorney, CertifiedPublic Accountant, or Other Professional orTechnical Specialist Who has Passed a NationalExamination and been Awarded a Certificate ina Profession Necessary for the Business of theCompany	Have Work Experience in the Areas of Commerce,Law, Finance, or Accounting, or OtherwiseNecessary 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 ofoutstanding 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 consultationto 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".

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 5 (A) meetings of the Compensation Committee were held in 2017. 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.B. Chang	5	0	100%	Renewal of office	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.S. Yen	4	0	80%	Renewal of office	
Member	Independent Director	C.B. Huang	5	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		Article 20 of the Company's Corporate Governance Principles stated that the Board shall consist of members from diverse background. Current Board members are skilled in commerce, accounting, law, leadership, decision making, business management, etc. Please refer to "Diversity of Board Members".	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.	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
(4) If Board Directors compensation structure were based on their performance?	V		According to Article 26 of the Articles of Incorporation, at most 7‰ of the profit shall be allocated as directors' remuneration. The reasonable remuneration is given after all factors such as overall operation performance and participation in the operation of the Company are taken into consideration. The Company's Compensation Committee evaluates the rationality of relevant remuneration policy periodically.	None
(5) 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)	
(6) If at minimum one independent director attended every board meeting?	V		The company held six Board meetings in 2017 and at least one independent director attended every board meeting. Please refer to "Implementation of Board of Directors".	
4. If the Company established a unit or assigned a personnel to handle corporate governance related issues?	V		Stock Affairs Office, Audit Office, Legal & IPR center and Finance & Accounting Center are 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 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	None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			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. 4. Affairs relating to investor relations.	None
5. If the Company established communication channel with stakeholders (including but not limited to shareholders, employees, customers, suppliers, etc) and disclosed key corporate social responsibility issues frequently enquired by stakeholders on the designated area of 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. Please refer to the Company's CSR report and corporate website for Issues of Concern and Communication Channel of 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? (2) If the Company adopted any other information disclosure channels (e.g., maintaining an English-language website, appointing designated	V 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. In addition to the role of spokesperson, the Company also has designated departments to collect and disclose information. Information disclosed on the corporate	None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
personnel to handle information collection and disclosure, appointing spokespersons, webcasting investors conference, etc)?			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.	None
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. Please refer to the "Employee Relations" of this annual report for employee rights and employee wellness. 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. The amount and scope of insurance coverage are reported to the Board of Directors and are available on MOPS. 5. In 2017, 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. Please refer to "Board of Directors Training Record".	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 2018 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 place any corporate governance structure to establish and review corporate social responsibility ("CSR") policy or its system?	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.	None

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			2. Conserve natural resources, and actively prevent pollution. 3. Reduce environmental impact and safety risks. 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 and the corresponding directives have been disclosed on the Company's intranet and corporate website. http://www.pegatroncorp.com/csr/view/id/1	None
(2) The implementation and effectiveness of CSR policy?	V		We organize several CSR task forces to implement the policies and achieve targets that we previously set up, including conflict minerals investigation program, supplier CSR management and audit program and energy saving & carbon reduction program. Description of programs and its progress are as follows: (1) Conflict Minerals Program: The investigation of conflict minerals in supply chain was initiated since 2012. We require direct suppliers to disclose the source of minerals sources used in the products which were supplied to us. In 2017, we completed the investigation of 1,700 suppliers and the overall response rate is more than 96%. (2) Supplier CSR Management and Audit Program: New suppliers are required to comply with the code of Conduct of the Business Responsibility Alliance	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			(RBA). For major suppliers, CSR self-assessment is also required. There are more than 2,000 suppliers signed the “Pegatron Supplier Code of Conduct Agreement”. In 2017, 160 suppliers completed self-assessment questionnaire, and 34 suppliers accepted and passed the on-site audits conducted by Pegatron. (3) Energy Saving & Carbon Reduction Program: Pegatron has been engaged in energy saving and carbon reduction initiatives since founded and actions taken including greenhouse gases (GHG) inventory and verification, reduction target and the implementation of several energy saving programs. We initiated the electricity monitoring plan to find opportunities for further improvement through collection and analysis of the electricity data so as to enhance the efficiency of electricity use. The reduction of GHG emissions per revenue in 2017 achieved the reduction target of 21% comparing to the base year in 2009.	None
(3) 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, RBA 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 material is also combined into the new employee orientation.	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
(4) 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 periodically?	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 representatives from CQPC, HR&ADM, Procurement, Customer Service, PR, Legal Affair Office, 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 and coordinate the cross-department issues via bi-weekly PureCSR Steering Committee meetings, so as to reach CSR goals and programs. CSR implementation status is periodically reported to the CEO and significant CSR practices and performance will be reported to the Company's board of directors yearly.	None
(5) 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.	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
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 principle 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 environmental or energy management system based on the characteristics of the industry where the Company belongs to?	V		An international environmental management system, ISO 14001, is in place and certified by the third parties periodically. Dedicated unit is set to implement the relevant requirements of ISO 14001. The certificates have 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 risks of global climate change are 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.	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
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 Responsible Business Alliance (RBA) (formerly, the EICC) members, the Company complies with RBA Code of Conduct, including international human rights, 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 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 the third parties periodically. The certificates have been publicly disclosed on the company's corporate website. A safe and healthy work environment has been established through the implementation of risk assessment, workplace improvement, daily inspections and audits. We are committed to reduce the safety and health hazards of employees and take measures such as conducting health checkup, arranging qualified first-aid personnel, establishing infirmaries and hiring nursing staffs engaged in labor health services. Safety and health trainings are regularly implemented to prevent occupational hazards. The implementation of relevant	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			activities such as risk assessment, medical checkups, audits and safety & heath trainings were carried out according to the annual plan. The achievement rate of the plan is up to 100%.	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, S.J. Liao, is held regularly every year. This will help our employees to have in-depth understandings of the company's decision making processes.	
(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.	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
(6) If the Company established any policy to adequately reflect company's operational result on their employees' compensation?	V		The Articles of Incorporation states the principle of accrued employee compensation.	None
(7) 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.	
(8) 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.	
(9) 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 RBA and follows its code of conduct. In addition, we promote RBA to our supply chain to ensure our suppliers are responsible for their environment and work place safety. Prior to engaging in a commercial dealing, 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 advocate CSR related	

Item	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
			contents, including environmental protection and international human rights into supplier self-evaluation checklist to ensure their operations meet our requirements.	None
(10) If the contracts with major suppliers stipulated a clause that allowed the Company to terminate or rescind the contract at any time shall the suppliers violate CSR policies and cause significant impact to the environment and society?	V		Compliance with CSR regulations and RBA Code of Conduct are included in the contract. If suppliers violate CSR regulations leading to penalty by authority or causing any significant impact to the environment or society, they have to accept the Company's CSR audits and provide their improvement reports within deadlines. The Company may terminate or rescind the contract if suppliers fail in the Company's CSR audits ultimately.	
4. Enhancing Information Disclosure If the Company disclosed CSR report and other relevant information on its corporate website and Market Observation Post System?	V		CSR report is published on annual basis with the chapters of corporate governance, social, economic and environmental performances. It is disclosed on corporate website and Market Observation Post System by the request from the Authority. (http://pegatroncorp.com/csr/view/id5)	None
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, targets and management procedures. (http://www.pegatroncorp.com)				

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?	V		stipulated the contractual liability for violation of ethical conduct.	None
(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 departmentshave 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 executedrigorously 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 organizedtraining and awareness programs on ethical corporate management to internal and external parties?	V		The Company organizes training on ethical corporate management each year.	

Items	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
3.Implementation of whistleblowing system (1) If the Company established a whistleblowing and reward system? Upon receiving a reported case, is there a dedicated personnel handling the reported case?	V		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.	None
(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 (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.	None
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.				

Items	Implementation Status			Non-implementation and its reason(s)
	Y	N	Summary	
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 54.
- **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 15, 2018

Based on the findings of self-assessment, Pegatron Corporation states the following with regard to its internal control system in 2017:

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, 2017, 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 2017 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 15, 2018 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 2017 Annual General Shareholder Meeting was held in Taipei on June 20, 2017. At the meeting, shareholders presented in person or by proxy approved the following agendas:

(1) The 2016 Business Report and Financial Statements

(2) The proposal of 2016 Earning Distribution

Implementation status：Ex-dividend record date was on August 7, 2017. Cash dividend date was distributed on August 30, 2017 and cash dividends per share was NT$4.92865082.

(3) Amendment to the Company's Articles of Incorporation

Implementation status: The Ministry of Economic approved the registration of Company's Articles Incorporation on July 2017. The revised Company's Articles of Incorporation is available on the corporate website.

(4) Amendment to the Procedures for Acquisition or Disposal of Assets

Implementation status: The revised Procedures for Acquisition or Disposal of Assets is available on the corporate website.

3.3.11.2 Major Resolutions of Board Meetings

Date	Major resolutions	Disagreements from Independent Director	Responses to disagreements
01.17.2017	● Approved the endorsement for the credit line of Boardtek Computer (Suzhou) CO., LTD. with bank	No	No
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 2017 Annual Shareholders' Meeting ● Approved Pegatron's Internal Control System Statement of 2016Y	No	No

05.09.2017	• Approved the 1st quarter 2017 consolidated financial report • Approved the amendment to the "Regulations Governing the Acquisition and Disposal of Assets" • Approved the indirect investment US$100,000,000 in China subsidiary "PEGAGLOBE (KUNSHAN) Co., LTD." • Approved the renewal of Syndicated Receivables Purchase Facility • Approved the issuance of corporate bond under the limit of NTD15,000 millions • Approved the 2^{nd} issuance of ECB • Approved the amendment to the scheduling of 2017 Annual Shareholders' Meeting • Approved the list of employees eligible for 2016Y employee restricted stocks award with total number of 38,191,000 shares granted	No	No
08.10.2017	• Approved the 2nd quarter 2017 consolidated financial report	No	No
09.15.2017	• Approved the list of employees eligible for 2016Y employee restricted stocks award with total number of 2,192,000 shares granted • Cancelled the endorsement for credit line of BOARDTEK COMPUTER (SUZHOU) CO., LTD. with bank	No	No
11.09.2017	• Approved the 3rd quarter 2017 consolidated financial report • Approved the total compensation for external auditor in year 2017 • Approved the plan of internal auditing in year 2018 • Approved the amendment to Pegatron's "Rules of Procedure for Board of Directors Meetings" • Approved the amendment to Pegatron's "Audit Committee Charter"	No	No
01.30.2018	• Approved Pegatron group to invest in Casetek Holdings Limited within the limit of NTD$6 billion • Approved to release the prohibition on Deputy Group CEO, Mr. Jason Cheng, in competitive business	No	No
03.15.2018	• Approved the appropriated remuneration of employees and directors in 2017Y • Approved 2017Y business report and financial statements • Approved earnings distribution of year 2017 • Approved the evaluation report for the independence of external Auditor • Approved the scheduling of 2018 Annual Shareholders' Meeting • Approved Pegatron's Internal Control System Statement of 2017Y	No	No

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 2017 and to the date of the annual report: None.

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

3.4 CPA Fees

CPA Firm	CPA		Auditing Period	Note
KPMG	Kuo-Yang Tseng	Chi-Lung Yu	Jan 1, 2017 ~ Dec 31, 2017	

Unit: NT$ thousands

Amount Bracket \ Items of CPAs fee		Auditing Fees	Non-Auditing Fees	Total
1	Below 2,000 thousand			
2	2,000 thousand (included) ~ 4,000 thousand(excluded)		v	
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	9,890	0	201	0	2,370	2,571	2017/1/1~ 2017/12/31	Non-auditing services include R&D investment tax credit, master file, CBC report and tax consultant.

3.5 Information on Change of CPA: None

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

None.

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

3.7.1 Information on Net Change in Shareholding

Unit: Share

Title	2017		01/01/2018-02/28/2018	
	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman and Group CEO T.H. Tung	600,000	-	-	-
Deputy Chairman and Deputy Group CEO Jason Cheng	548,000	-	-	-
Director C.I. Chia	-	-	-	-
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	822,000			
Independent Director C.B. Chang	-	-	-	-
Independent Director C.B. Huang	-	-	-	-
Independent Director C.S. Yen	-	-	-	-
Shareholder of 10% shareholding or more Asustek Computer Inc.	-	-	-	-
Senior Vice President Hsu-Tien Tung	148,000	-	-	-
Chief Operating Officer and Senior Vice President Te-Tzu Yao	650,000	-	-	-
Vice President Kuo-Yen Teng	(135,000)	-	-	-
Vice President Tsung-Jen Ku Lai	190,000	-	-	-
Vice President En-Bair Chang	110,000	-	-	-
Vice President Shih-Chi Hsu	187,000	-	-	-
Vice President Kuang-Chih Cheng	57,000	-	(2,000)	-
Vice President Tian-Bao Chang	160,000	-	-	-

Title	2017		01/01/2018-02/28/2018	
	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Vice President Ming-Tung Hsu	(33,000)	-	-	-
Vice President Chih-Hsiung Chen	182,000	-	-	-
Chief Financial Officer Chiu-Tan Lin	159,000	-	(10,000)	-
Senior Vice President of RD & Engineering Pei-Chin Wang	390,000	-	-	-
Chief Technology Officer and Senior Vice President Chung Yu Huang	560,000	-	-	-
Vice President Hsi-Wen Lee	128,000	-	-	-
Vice President Shaing-Shaing Wu	330,000	-	-	-
Vice President Chen-Yu Feng	167,000	-	(9,000)	-

Note: 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 08/07/2017

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	17.17	-	-	-	-	Jonney Shih	Chairman of Asustek Computer Inc.	-
T.H. Tung	93,177,309	3.57	6,074,490	0.23	-	-	-	-	-
Jonney Shih	67,032,290	2.57	-	-	-	-	Asustek Computer Inc.	Chairman	-
Ted Hsu	56,353,713	2.16	-	-	-	-	-	-	-
GDR-Pegatron Corporation	51,176,470	1.96	-	-	-	-	-	-	-
Morgan Stanley & Co. International Plc	38,801,285	1.49	-	-	-	-	-	-	-
Cathay United Bank in Custody for Expert Union Limited Investment account	38,505,000	1.47	-	-	-	-	-	-	-
Citi (Taiwan) Bank in Custody for Government of Singapore Investment	36,076,957	1.38	-	-	-	-	-	-	-
Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds	32,910,181	1.26	-	-	-	-	-	-	-
JPMorgan Chase Bank, N.A., Taipei Branch in Custody for Stichting Depositary APG Emerging Markets Equity Pool	29,379,094	1.12	-	-	-	-	-	-	-

3.9 Long-Term Investment Ownership

Unit: thousand shares; %; As of 12/31/2017

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.	951,278	100.00	-	0	951,278	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.	961,906	100.00	-	0	961,906	100.00
Unihan Holding Ltd.	199,110	100.00	-	0	199,110	100.00
AzureWave Technologies, Inc.	35,750	26.78	13,697	10.26	49,447	37.04

4. Capital and Shares

4.1 Capital and Shares

4.1.1 Type of Stock

As of 03/16/2018

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Share	2,613,896,351	386,103,649	3,000,000,000	Listed

4.1.2 Share Capital

As of 03/16/2018

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.
02/2017	10	3,000,000	30,000,000	2,574,945	25,749,449	Cancelling employee restricted stocks of NT$2,246 thousand	-	Note 1
06/2017	10	3,000,000	30,000,000	2,574,734	25,747,335	Cancelling employee restricted stocks of NT$2,114 thousand	-	Note 2
07/2017	10	3,000,000	30,000,000	2,612,542	26,125,415	Issuing employee restricted stocks of NT$378,080 thousand	-	Note 3
08/2017	10	3,000,000	30,000,000	2,612,339	26,123,391	Cancelling employee restricted stocks of NT$2,024 thousand	-	Note 4
11/2017	10	3,000,000	30,000,000	2,614,531	26,145,311	Issuing employee restricted stocks of NT$21,920 thousand	-	Note 5
12/2017	10	3,000,000	30,000,000	2,614,091	26,140,906	Cancelling employee restricted stocks of NT$4,405 thousand	-	Note 6
03/2018	10	3,000,000	30,000,000	2,613,896	26,138,964	Cancelling employee restricted stocks of NT$1,942 thousand	-	Note 7

Note 1: 02/23/2017 Jin So Son Tzi No. 10601025860
Note 2: 06/01/2017 Jin So Son Tzi No. 10601069950
Note 3: 07/27/2017 Jin So Son Tzi No. 10601108460
Note 4: 08/30/2017 Jin So Son Tzi No. 10601124710
Note 5: 11/02/2017 Jin So Son Tzi No. 10601152130
Note 6: 12/11/2017 Jin So Son Tzi No. 10601164090
Note 7: 03/08/2018 Jin So Son Tzi No. 10701024350

4.1.3 Information for Shelf Registration: None

4.1.4 Composition of Shareholders

As of 08/07/2017; Units: share

Item	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	5	15	292	104,011	1,113	105,436
Shareholding (shares)	10	52,215,691	563,723,671	587,472,966	1,409,129,191	2,612,541,529
Percentage	0	2.00	21.57	22.49	53.94	100.00

4.1.5 Shareholding Distribution Status

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

As of 08/07/2017

Class of Shareholding (Unit : Share)	Number of Shareholders	Shareholding (Shares)	Percentage
1 ~ 999	61,281	16,972,606	0.65
1,000 ~ 5,000	35,635	70,075,262	2.68
5,001 ~ 10,000	3,771	28,154,037	1.08
10,001 ~ 15,000	1,257	15,611,190	0.60
15,001 ~ 20,000	723	13,063,892	0.50
20,001 ~ 30,000	761	18,869,152	0.72
30,001 ~ 50,000	564	22,090,845	0.85
50,001 ~ 100,000	451	31,912,719	1.22
100,001 ~ 200,000	272	38,654,679	1.48
200,001 ~ 400,000	239	68,393,198	2.62
400,001 ~ 600,000	113	55,675,453	2.13
600,001 ~ 800,000	47	33,238,132	1.27
800,001 ~ 1,000,000	46	41,536,193	1.59
over 1,000,001	276	2,158,294,171	82.61
Total	105,436	2,612,541,529	100.00

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

4.1.6 List of Major Shareholder

As of 08/07/2017

Shareholder's Name	Shareholding	
	Shares	Percentage
Asustek Computer Inc. (Representative: Jonney Shih)	448,506,484	17.17
T.H.Tung	93,177,309	3.57
Jonney Shih	67,032,290	2.57
Ted Hsu	56,353,713	2.16
GDR-Pegatron Corporation	51,176,470	1.96
Morgan Stanley & Co. International Plc.	38,801,285	1.49
Cathay United Bank in Custody for Expert Union Limited Investment account	38,505,000	1.47
Citi (Taiwan) Bank in Custody for Government of Singapore Investment	36,076,957	1.38
Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds	32,910,181	1.26
JPMorgan Chase Bank, N.A., Taipei Branch in Custody for Stichting Depositary APG Emerging Markets Equity Pool	29,379,094	1.12

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	2016	2017	01/01/2018-03/16/2018
Market Price per Share (Note 1)			
Highest Market Price	86.80	100.00	81.90
Lowest Market Price	60.20	67.52	70.00
Average Market Price	74.60	84.97	75.23
Net Worth per Share (Note 2)			
Before Distribution	57.58	57.84	-
After Distribution	52.58	Undistributed	-
Earnings per Share			
Weighted Average Shares (thousand shares)	2,579,930	2,592,882	-
Diluted Earnings Per Share (Note 3)	7.50	5.66	-
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)	9.95	15.01	-
Price / Dividend Ratio (Note 6)	14.92	Undistributed	-
Cash Dividend Yield Rate (Note 7)	6.70%	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 order to strengthen the dividend policy in Company's Article of Incorporation, Pegatron amended 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 2017 dividend distribution at its meeting on March 15, 2018. The proposal will become effective according to the relevant regulations, upon the approval of shareholders at the Annual General Shareholders' Meeting on June 21, 2018.

Unit: NT$

Items	Amount	
	Subtotal	Total
Beginning Retained Earnings		22,667,324,384
Add: Other Comprehensive Income for the Period		4,299,545
Compensation Cost Arising from Employee Restricted Stock Award		58,345,569
Net Profit After Tax		14,682,987,920
Distributable Net Profit		37,412,957,418
Minus: Special Reserve Reverse		(5,446,226,741)
Minus: 10% Legal Reserve		(1,468,298,792)
Minus: Cash Dividend		(10,454,651,804)
Unappropriated Retained Earnings		20,043,780,081

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:

4.1.10.1Compensation 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 2017 resolved by the Board of Directors

a. Proposed remuneration to employees and remuneration to directors.

	Amount (NT$)
Remuneration to Employees	1,188,000,000
Remuneration to Directors	115,000,000

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 2017.

4.1.10.4 Distribution of remuneration to employees and remuneration to directors in 2016 resolved by the Annual Shareholders Meeting on Jun. 20, 2017.

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

Above cash bonus and compensation, being approved by the Board, has been expensed under the Company's 2016 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: None.

4.2 Issuance of Corporate Bond:

As of 03/16/2018 ; Unit: NT$

Type of Corporate Bonds	Domestic Unsecured Bond (106-1)	Domestic Unsecured Bond (106-2)
Issuance Date	2017/07/13	2018/01/10
Denomination	NT$1,000,000	
Offering Price	At Par	
Total Amount	NT$7,000,000,000	NT$8,000,000,000
Coupon	Trance A: 0.91% p.a. Trance B: 1.06% p.a. Tranche C: 1.20% p.a.	Trance A: 0.78% p.a. Trance B: 0.92% p.a. Tranche C: 1.08% p.a.
Tenure & Maturity Date	Tranche A: 3 years Maturity: 2020/07/13 Tranche B: 5 years Maturity: 2022/07/13 Tranche C: 7 years Maturity: 2024/07/13	Tranche A: 3 years Maturity: 2021/01/10 Tranche B: 5 years Maturity: 2023/01/10 Tranche C: 7 years Maturity: 2025/01/10
Guarantor	None	
Trustee	Taipei Fubon Commercial Bank Co., Ltd	
Underwriter	Capital Securities Corp.	Yuanta Securities Co., Ltd
Legal Counsel	Hui-Chi Kuo	
Auditor	Kuo-Yang Tseng / Chi-Lung Yu	
Type of Corporate Bonds	Domestic Unsecured Bond (106-1)	Domestic Unsecured Bond (106-2)
Repayment	Bullet	
Outstanding	NT$7,000,000,000	NT$8,000,000,000
Redemption or Early Repayment Clause	None	
Covenants	None	
Credit Rating	twAA- (Taiwan Ratings Corporation, 06/15/2017)	
Other Rights of Bondholders 1. Amount of Converted or Exchanged Common Shares, GDRs or Other Securities 2. Conversion Right	1. Not applicable 2. None	
Dilution Effect sand Other Adverse Effects on Existing Shareholders	None	
Custodian	None	

4.3 Preferred Shares (with stock option): None.

4.4 Issuance of Global Depository Receipts:

As of 03/16/2018

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$37.70
Total Issuance			12,163,804
Source of Common Stock Registration			One GDS stands to five common share of Pegatron
Total Marketable Security Shares Recognized			Stands for 60,819,020 common shares of Pegatron
Rights and Obligations of GDR Holders			Same as those of common share holders (See Deposit Agreement and Custody Agreement for Details)
Trustee			Non applicable
GDR Institute			Citibank N.A.
Depositary Institute			Citibank Taiwan Limited
Outstanding GDSs (as of December 31, 2016)			10,944,703 GDSs
Issuance and Expense Amortization throughout the Issuance Period			Annual listing fees and accountant fees were borne by Pegatron
GDR Agreement and Depositary Agreement			See Deposit Agreement and Custody Agreement for Details
Market Price per unit (US$)	2017	Max.	US$16.40
		Min.	US$11.34
		Average	US$13.96
	As of March 16, 2018	Max.	US$13.70
		Min.	US$12.10
		Average	US$12.77

4.5 Employee Stock Option: None.

4.6 Employee Restricted Stocks

4.6.1 Issuance of Employee Restricted Stocks

As of 02/28/2018

Type of Restricted Shares	Grant of 2014	First Grant of 2016	Second Grant of 2016
Approval Date by the Authority	2014/12/09	2016/12/19	
Grant Date	2015/07/01	2017/07/11	2017/10/19
Number of Employee Restricted StockGranted	39,678,000	37,808,000	2,192,000
Price of Issuance	NT$10	NT$10	
Percentage of Employee Restricted Stocks to Outstanding Common Shares	1.52%	1.45%	0.08%
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	Company Performance Criteria： a. Earnings Per Share (“EPS”)：On the date RSAs are scheduled to be vested, the average EPS based on the financial statements of recent three years is higher than those of the peer group. b. Return On Equity(“ROE”)：On the date RSAs are scheduled to be vested, the average ROE based on the financial statements of recent three years is higher than those of the peer group. c. The Peer group set forth in the two preceding paragraphs includes HON HAI Precision Industry Co., Ltd., Quanta Computer Inc.,Compal Electronics Inc., Wistron Corp. and Inventec Corporation. d. EPS set forth in the first paragraph refers to the basic earnings per share of the consolidated statements of comprehensive income of the consolidated financial statements audited by CPA. ROE set forth in the second paragraph refers to the comprehensive income divided by	

Type of Restricted Shares	Grant of 2014	First Grant of 2016	Second Grant of 2016
	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.	average shareholder's equity, based on the consolidated financial statements or non-consolidated financial statements audited by CPA. When ROE calculated is higher than either one of the two performance criteria, RSAs will be vested. Employee Performance Criteria： 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.	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.	

Type of Restricted Shares	Grant of 2014	First Grant of 2016	Second Grant of 2016
Custody of Employee Restricted Stocks	A total of 14,565,600 shares delivered to the Trust	A total of 37,477,000 shares delivered to the Trust	A total of 2,192,000 shares delivered to the Trust
Procedures for Non-Compliance of the Conditions	The Company can buy back and cancel all restricted stocks from any employee whom received restricted stocks but fail to comply with the conditions.	The Company can buy back and cancel all restricted stocks from any employee whom received restricted stocks but fail to comply with the conditions.	
Number of Employee Restricted Stocks Bought Back	2,545,533 (Note 1)	331,000 (Note 1)	0 (Note 1)
Number of Employee Restricted Stocks Free from Custody	22,566,867	0	0
Number of Employee Restricted Stocks under Custody	14,565,600	37,477,000	2,192,0000
Number of Employee Restricted Stocks under Custody to Outstanding Common Shares (%)	0.56%	1.43%	0.08%
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$2,249,663 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, NT$884,537 thousands and NT$496,106 thousands in 2015, 2016 and 2017 respectively. The annually expensed amount is estimated at NT$72,657 thousands in 2018. B. Potential impact to dilution of earnings per share (EPS) and other factors that may affect shareholder's equity:	A. Potential expense: The number of restricted stocks proposed at 2016 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$1,875,087 thousands. In accordance with the conditions for exercising restricted stocks set forth in the preceding paragraph, the annually expensed amount was NT$725,512 thousands in 2017. The annually expensed amount is estimated at NT$740,858 thousands, NT$336,978 thousands and NT$71,739 in 2018, 2019 and 2020 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 2,613,662,951 shares, is estimated at NT$0.28, NT$0.28, NT$0.13 and NT$0.03 in 2017, 2018,	

Type of Restricted Shares	Grant of 2014	First Grant of 2016	Second Grant of 2016
	Potential dilution of EPS based on the existing outstanding ordinary shares of 2,613,662,951 shares, is estimated at NT$0.30, NT$0.34, NT$0.19 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.	2019 and 2020 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 02/28/2018; 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	14,580,000	0.56	4,176,000	10	41,760,000	0.16	10,404,000	10	104,040,000	0.40
	Deputy Group CEO	Jason Cheng										
	President and CEO	S.J. Liao										
	Chief Financial Officer	Chiu-Tan Lin										
	Senior Vice President	Hsu-Tien Tung										
	Chief Operating Officer and Senior Vice President	Te-Tzu Yao										
	Vice President	Kuo-Yen Teng										
	Vice President	Tsung-Jen Ku Lai										
	Vice President	En-Bair Chang										
	Vice President	Shih-Chi Hsu										
	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	Pei-Chin Wang										
	Vice President	Hsi-Wen Lee										
	Chief Technology Officer and Senior Vice President	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	Yu-Heng Lu	6,990,000	0.27	1,788,000	10	17,880,000	0.07	5,202,000	10	52,020,000	0.20
	Associate Vice President	Wei-Pang Lee										
	Associate Vice President	Yi-Yung Wu										
	Associate Vice President	Ching-Ru Wu										
	Special Assistant	Yean-Jen Shue										
	Associate Vice President	Ting-Pang Huang										
	Associate Vice President	Hsiang-Chieh Huang										
	Associate Vice President	Cheih-Tsung Chen										
	Associate Vice President	Shing-Jung Kuo										
	Associate Vice President	Li-Ling Chao										
	Associate Vice President	Hsiu-Yu Pan										
	Associate Vice President	I-Sheng Tsai										
	Senior Director	Ju-Hui Hsieh										

Note: Employees who granted the same number of options are being listed.

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

Not Applicable.

4.8 Financing Plan and Implementation

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

5. Overview of Business Operation

5.1 Business Activities

5.1.1 Business Scope

5.1.1.1 Operating Scope

The Company offers a wide range of electronics products in computing, communications and consumer electronics segments, including Notebook PCs, Desktop PCs, Motherboards, VGA Cards, Cable Modems, Set-top Boxes, Smartphones, Game Consoles, Automotive Electronics 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	2016		2017	
	Amount	%	Amount	%
3C Products	1,080,738,921	93.35	1,115,096,661	93.41
Other	76,971,192	6.65	78,711,854	6.59
Total	1,157,710,113	100.00	1,193,808,515	100.00

5.1.1.3 Product Lines

Computing Product

a. Notebook PCs

b. DeskTop PCs

c. Motherboards

d. VGA Cards

Communication Product

a. Cable modems

b. Set-top boxes

c. Smartphones

d. Switches

e. Router

Consumer Electronics Product

a. Tablets

b. Game consoles

c. Automotive electronics

5.1.1.4 Product (Service) Development

a. Developing “consumer” systems (desktop / laptop / 2-in-1) designs using Intel Coffee Lake / Whisky Lake / Gemini Lake platforms for different operation while meeting market demands for customization, deep plowing products, and diversified product lines.

b. Developing “commercial” systems (desktop/laptop) designs using IntelCoffee Lake / Whisky Lake platforms.
c. Developing a new generation of high-performance, high-speed enterprise gateways that include DOCSIS 3.1 compliant high-speed cable modems, built-in 8x1G Ethernet, 8xHD VoIP, USB 3.0, Power over Ethernet (PoE), and integrated 802.11ac Wave 2 dual-band (2.4G/5G) wireless networks.
d. Establishing big data storage and deep learning computing platforms to provide structure / semi-structure / non-structure data collection and storage services, deep learning related framework and tools; to speed up development of artificial intelligence related applications.
e. Developing a multi-model input assistant combining Google Assistant, Pegatron Visual Interactive system, and Computer Vision technology. Based on these technologies, provide seamless multi-user switching and flexible IoT control experiences.
f. Developing face detection and face recognition by deep learning. Accuracy reaching 99.83%, being top 1 in the world for LFW face data set. Applying to Door Bells, and IP cameras, and robots.
g. Developing speaker verification by deep learning reaching99% accuracy and applying to Door Bells and Robotic products.
h. Developing object detection reaching 99% accuracy and applying to Door Bell and IP cameras to detect humanoid shapes, detect flames, and gestures for Robotic products.
i. Developing pose estimation reaching 99% accuracy and applying to Robotic products.
j. Adopting automotive SPICE software development process for a new generation of automotive infotainment systems; complaint to Google Android Automotive requirements.
k. Developing autonomous navigation service robots, integrating new human-like interaction UI, LiDAR SLAM with 3D camera obstacle avoidance, and autonomous navigation; providing 24/7 enterprise operation.
l. Developing 25G/50G/100G switches, and phase in ONIE and SONiC open platforms.
m. Focusing on the development of Telematics Box, including CAN (Controller Area Network), V2R (Vehicle to Roadside), V2V (Vehicle to Vehicle), V2I (Vehicle to Infrastructure), and V2P (Vehicle to Person). In addition, integrate value-added services into our design such as 3G, LTE, etc.

n. Developing the next generation of AVN/IVI with Renesas Rcar Gen-3.
o. Implementing the latest Android Automotive OS and connecting smart phone with automotive devices including Apple Wifi CarPlay, Google Android Auto, Miracast, Map, POI sharing, etc.
p. Studying the bonding technology of car panel/cluster and curved glass, including flat panel to curved glass, and curved panel to curved glass. The study and application will improve the immersive (feeling) and increase the depth of field. A wider view will make the internal environment of the vehicle friendlier to drivers. In addition, the study and improvement of the bonding structure will also better meet car crash safety requirements.

5.1.2 Industry Overview

5.1.2.1 Progress and Development of the Industry

a. Computing Industry

According to IDC, total PC volume (including notebook PCs and desktop PCs) declined by merely 1% YoY in 2017. In addition to improving global economic conditions, increasing demand from commercial sectors also helped to stabilize the declining trend and boost the overall sentiment for PC industry. Except commercial PC demand led by Windows10 replacement cycle, the decline of tablets also redirect brand customers to focus on the innovation of notebook PCs. Therefore, volume for ultrabook, gaming and 2-in-1 notebook PCs grew higher than the previous year and so was notebook PC for educational purposes. Looking forward to 2018, the market expects the demand from commercial replacement to continue, while demand for consumer model will remain weak. However, whether demand will be impacted by prolonged PC replacement cycle and pricing fluctuation causing by weaker currency in major markets still remain a concern. As a result, according to IDC, overall PC volume in 2018 is expected to decline by 2.3% YoY, while the volume is likely to remain stable at the range of positive and negative 1% from 2019 to 2021.

b. Communication Industry

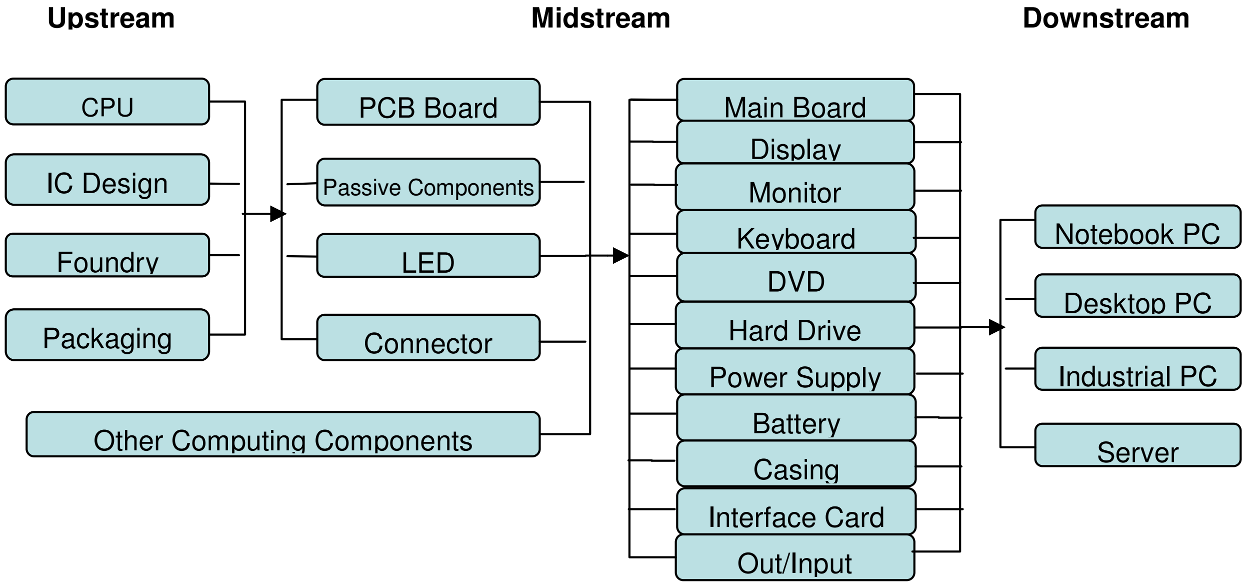
According to IDC, the worldwide volume of smartphone shipped in 2017 reached 1.472 billion units with minor decline YoY, which differed significantly from the market's previous expectation of super cycle. The short of expectation is attributable to rising smartphone price from major spec upgrade on various flagship models launched by brand customers, while legacy models were gaining more tractions due to higher cost performance. IDC further estimates that smartphone volume is likely to resume its growth momentum in the next few years and potentially reach 1.7 billion units in 2021, with estimated compound annual growth rate of 3% from 2016 to 2021. Smartphone growth is driven mainly by growing demand in emerging market and Asia Pacific region, whereas demand in the developed countries will slow down due to higher penetration rate. Average selling price of smartphone is likely to increase going forward as the price increase on the flagship models in the developed market will outweigh the volume growth of low cost smartphone in the emerging market. IDC estimates that smartphone ASP is likely to increase from US$282.49 to US$317.12 per unit from 2016 to 2021, with compound annual growth rate of 2.3%.

c. Consumer Electronics Industry

Tablets and game consoles are the major revenue contributors in consumer electronics segment. According to IDC, tablet shipment remained a declining trend, despite higher volume from consumer models than expected. Even though commercial tablets have a better long term prospect, commercial sectors tend to adopt BYOD (Bring Your Own Device) model with higher ASP. Therefore, the overall volume of commercial tablets shipped in 2017 was lower than expected. Looking forward to 2018, the volume of consumer tablets is expected to decline due mainly to prolonged replacement cycle and cannibalization from smartphones with bigger screen size. As for commercial sectors, since more and more enterprises adopt CYOD (Choose Your Own Device) model, volume from commercial tablets is expected to stabilize in 2018. IDC estimates that the overall tablets volume to continue declining in 2018 as the stable growth in commercial tablets can hardly offset the decline in consumer tablets. The compound annual growth rate is likely to be -3.6% from 2016 to 2021 with CAGR for commercial tablets and consumers tablets at 3.1% and -5.0% respectively.

Benefiting from launch of Switch by Nintendo in early 2017 with overwhelming demand and new game console launch by Xbox in the second half of the year, IDC estimated that 42 millions of game console shipped in 2017, a significant 44.1% YoY growth. Looking forward to 2018, IDC predicts that the overall volume of game console is expected to continue its growth momentum driven by better than expected demand in Switch and shipment from Xbox. After this wave of demand, the overall volume for game console is likely to decline YoY from 2019 to 2021 till the launch of next generation of product.

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 and consumer electronics products, consumers are constantly looking for products lighter in weight and slimmer in size with longer battery life. After tablets reaching its maturity, brand customers are taking proactive actions to integrate smartphones and notebook PCs and provide multi-purpose solutions such as larger screen size smartphones, 2-in-1 notebook PC, convertible PC, etc., to consumers.

In recent years, as the infrastructure of internet is becoming progressively better, the concepts of Internet of Things (IoT) and voice assistant have widely inspired the innovation of hardware design. Core brands such as Alexia from Amazon, Google Assistant from Google, Siri from Apple and alongside many other companies are building their eco system and at the same time trying to extend its application to various end devices aiming at environmental control, smart home connectivity, automobile electronics, etc. Apart from innovations on hardware design, brands customers also actively deploying in integration of hardware and software, data analysis, artificial intelligence, etc., in order to predict consumer demand more accurately. Following this trend, it will not be long for consumers to equip with devices that are easy to operate and complement users' daily life.

5.1.2.4 Market Competition

In the process of market consolidation among computing, consumer electronics, and communication products, major assembly companies are gaining more market share from the smaller ones. Furthermore, Chinese venders also challenge the assembly industry, which was traditionally dominated by Taiwanese venders, by penetrating into downstream assembly business from upstream component business. Therefore, in order to obtain orders from international brand customers and maintain topline growth, it has become crucial for assembly companies to provide total solution, maintain competitive advantage, and increase value add to brand customers by enhancing capabilities in hardware and software design, industrial design as well as vertical integration.

Pegatron assembles computing, consumer electronics and communication products for brans customer. In addition to improving manufacturing efficiency, Pegatron also assist brand customers in handling global logistics and distribution as well as further cost reduction. While economies of scale and comprehensive vertical integration are considered two important elements, DMS service (design, manufacturing and services) and integrated services in hardware and software are also key successful factors 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	2016	2017
R&D Expense (A)	14,086,091	13,341,912
Net Revenue (B)	1,157,710,113	1,193,808,515
(A)/(B) %	1.22	1.12

5.1.3.2 Research and Development Accomplishments in the Recent Year

Year	Achievement in Research and Development
2017	1. Developed a new high-performance 802.11ax triple band WiFi mesh gateway that also includes BT5.0, Zigbee, and USB3.0 interfaces. 2. Developed smart operation applications based on decentralized platforms to store huge amounts of data for analyzing and combined with machine learning to develop best match, abnormality detection, pattern identification, and other applications to improve processes and resource efficiency. 3. Developed smart video conference devices with 360 degree camera and integrated sound tracking to detect/identify faces by deep learning. Using face detection and sound tracking the microphone can zoom in on the person speaking and provide the name of the speaker using face recognition. 4. Collected ten million amounts of data to develop face recognition and face detection by deep learning; reaching 99.58% accuracy rate in LFW international face data set. 5. Mass production of automotive IVI head unit system with rear seat entertainment support. 6. 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 speech synthesis technology. Enable Amazon Alexa Voice Service and Google Assistant to provide excellent user experiences. By using voice commands, smart phone applications, and automatic learning; home appliances can be controlled through AllJoyn / IFTTT protocol. 7. Previously we were Google's official Android and ChromeOS 3PL certification labs. In 2017, we successfully qualified as Google's Android Auto certification Lab. 8. Developed compact, easy to hand-carry wireless speaker with built-in microphones. It can replace handheld devices and laptops for network telephony conferencing.With CD-quality audio, enjoying high-quality music playback is also possible. 9. Developed a 1080P resolution, 166 degree wide dual-mode IR filter Doorbell camera. The camera has wireless and full duplex communication features. Also developed a miniaturized web video conferencing system with easy-to-use features and a 120 degree wide camera for personal use or use in small meeting rooms. 10. Finished 48 port 10G Base-T Data Center Switch Development 11. Developed a manufacturing calibration mechanism for camera + IMU based position tracking. The camera and IMU compensation parameters set has been proved to have superior position tracking performance when applied to a position tracking algorithm. Also, the calibration process can be accomplished with cost-effective manufacturingtools and processes. The calibration process is a key manufacturing process for any VR/AR HMD system equipped with inside-out tracking technology. 12. Developed AVN integrating the second generation of Renesas platform for automotive infotainment, which enhances the connection with smart phones. 13. Developed 11.45" Rear Seat Entertainment System with i.MAX platform.

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; %

		2016		2017	
		Amount	%	Amount	%
Domestic		170,921,579	14.76	149,381,904	12.51
Export	Asia	190,684,652	16.47	139,079,110	11.65
	Europe	332,669,838	28.74	453,169,704	37.96
	America	396,964,194	34.29	407,742,938	34.15
	Others	66,469,850	5.74	44,434,859	3.73
	Subtotal	986,788,534	85.24	1,044,426,611	87.49
Total		1,157,710,113	100.00	1,193,808,515	100.00

5.2.1.2 Market Share

According to Digitimes, notebook PC ODM/EMS companies in Taiwan accounted for 126 million units of notebook PCs in 2017, around 81.02% of total global shipment volume. This included 44.1 million units from Quanta, 37.3 million units from Compal, 18.2 million units from Wistron, 9.25 million units from Inventec and 8.8 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 time to market for computing, consumer electronics and communication products, and meanwhile 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 2018, despite of minor volume decline in consumer notebook PC, more models in ultra-slim PC, gaming PC and 2-in-1 PC with higher technical and assembly requirements help the industry move away from price competition, while replacement cycle for commercial PC continues, which will minimize the decline of overall PC volume for this year and is expected to turn positive from 2019. For mobile devices, demand of smartphone in developed countries will be driven mainly by replacement cycle, while volume growth will continue in merging market incentivizing by lower average selling price. Application of IoT in environmental control, smart home connectivity, automobile electronics, etc. will help expand the innovation to new areas and bring out another wave of demand

5.2.1.4 Competitive Advantages

a. Experienced R&D Team

In addition to R&D Center 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 4,386. 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 ofproducing 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 numeroustransformations 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 Europe, America 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 and smart home connectivity, such as tablets, game consoles, smart home security systems, etc.

5.2.3 Supply of Major Material

Major Raw Materials	Source of Supply	Supply Situation
Chipset	R Company、X Company、S Company	Stable
System Module	X Company、Z Company	Stable
Display	X Company、Z Company	Stable
Mechanical Parts	X Company、T Company、V Company	Stable
IC	R Company、S Company、Q 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	2016				2017			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	X Company (Note1)	463,668,922	46.57	None	X Company (Note 1)	509,466,562	48.23	None
2	Z Company (Note 1)	98,460,867	9.89	Shareholder	Z Company (Note 1)	87,729,527	8.31	Shareholder
3	U Company	49,421,536	4.96	None	U Company (Note 1)	43,646,107	4.13	None
	Others	384,073,067	38.58	-	Others	415,414,018	39.33	-
	Net Total Purchases	995,624,392	100.00	-	Net Total Purchases	1,056,256,214	100.00	-

Note 1: In 2016 and 2017, 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	2016				2017			
	Company Name	Amount	%	Relation with Issuer	Company Name	Amount	%	Relation with Issuer
1	A Company	691,091,107	59.69	None	A Company	733,049,391	61.40	None
2	B Company	125,455,471	10.84	Shareholder	B Company	111,201,206	9.31	Shareholder
	Others	341,163,535	29.47	-	Others	349,557,918	29.29	
	Net Total Sales	1,157,710,113	100.00	-	Net Total Sales	1,193,808,515	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)	2016			2017		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
3C Products	280	276	1,465,698	211	211	2,340,607
Other	-	-	4,416,899	-	-	6,133,415
Total	280	276	5,882,597	211	211	8,474,022

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	2016				2017			
	Domestic		Export		Domestic		Export	
	Quantity	Amount	Quantity	Amount	Quantity	Amount	Quantity	Amount
3C Products	18,157	153,679,181	129,088	830,534,460	14,490	136,231,563	164,588	919,288,918
Others	-	6,566,579	-	17,316,567	-	3,641,437	-	21,413,077
Total	18,157	160,245,760	129,088	847,851,027	14,490	139,873,000	164,588	940,701,995

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		2016	2017	As of 03/16/2018
Number of Employees	Others	2,737	2,694	2,709
	R&D	4,606	4,399	4,386
	Total	7,343	7,093	7,095
Average Age		35.3	36.1	36.2
Average Years of Service		6.1	6.86	7.0
Education	Ph.D.	0.25%	0.20%	0.21%
	Masters	41.43%	42.51%	42.27%
	Bachelor's Degree	54.72%	51.02%	50.99%
	Senior High School	3.55%	5.58%	5.86%
	Below Senior High School	0.67%	0.69%	0.66%

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 2017 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 the 3rd parties 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 its products. Suppliers are requested to sign statements, provide material testing repots and guarantee that their products do not contain any environmental hazardous substance. Major expenditure on environmental protection includes the costs of pollution control, waste disposal, environmental monitoring, inspections of hazardous chemicals on products, environmental management system certification, hiring of dedicated professionals, environmental trainings and the relevant 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 78,000 training hours in 2017. The average training hour is above 13 hours per employee.

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 03/16/2018

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.	06/01/2016 ~ 05/31/2017	Lease the building from Fubon as an office	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 e-Enabling Service Business Inc.	12/1/2016 ~ 11/30/2019	Purchase of Microsoft operating 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
Asset Transfer Agreement	Arris Taiwan Ltd.	2/8/2018	Acquisition of the land, buildings and other assets from Arris Taiwan	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)				
		2013	2014	2015	2016	2017
Current assets		326,934,979	369,602,726	390,403,344	364,225,586	395,398,572
Funds & Investments		1,187,753	490,372	424,191	362,909	503,718
Property, plant and equipment		73,916,654	72,898,284	71,037,778	66,860,809	78,075,271
Intangible assets		1,969,832	1,601,259	1,555,087	1,439,186	1,497,234
Other assets		11,886,306	12,500,500	12,666,263	11,056,743	12,760,824
Total assets		415,895,524	457,093,141	476,086,663	443,945,233	488,235,619
Current liabilities	Before Distribution	239,272,864	264,997,445	267,707,497	254,236,823	291,327,147
	After Distribution	245,770,081	275,507,067	280,660,998	267,110,739	Undistributed
Non-current liabilities		32,567,481	17,224,466	16,040,641	7,686,209	17,184,662
Total liabilities	Before Distribution	271,840,345	282,221,911	283,748,138	261,923,032	308,511,809
	After Distribution	278,337,562	292,731,533	296,701,639	274,796,948	Undistributed
Equity		107,303,794	133,670,931	150,380,135	148,269,590	145,975,738
Share capital		23,211,555	25,156,805	26,030,205	25,751,695	26,140,906
Capital surplus		63,175,819	74,295,720	78,972,374	78,214,259	79,897,751
Retainede arnings	Before Distribution	21,143,952	29,325,244	42,655,172	48,104,750	49,976,468
	After Distribution	14,646,735	18,815,622	29,701,671	35,230,834	Undistributed
Other equity interest		(210,136)	4,901,345	2,724,974	(3,798,868)	(10,037,445)
Treasury stock		(17,396)	(8,183)	(2,590)	(2,246)	(1,942)
Non-controlling interests		36,751,385	41,200,299	41,958,390	33,752,611	33,748,072
Total Equity	Before Distribution	144,055,179	174,871,230	192,338,525	182,022,201	179,723,810
	After Distribution	137,557,962	164,361,608	179,385,024	169,148,285	Undistributed

Note: Above financial information has been audited by CPA.

6.1.2 Condensed Consolidated Statement of Comprehensive Income

Unit: NT$ thousands

Item \ Year	Five-Year Financial Summary (Note)				
	2013	2014	2015	2016	2017
Operating revenues	949,752,028	1,019,738,833	1,213,712,976	1,157,710,113	1,193,808,515
Gross profit	45,516,719	59,455,442	75,274,993	63,067,117	46,669,889
Results from operating activities	15,576,752	28,320,585	39,674,544	32,413,969	18,998,696
Non-operating income and expenses	3,453,120	(2,058,498)	(488,530)	(3,334,299)	1,414,354
Profit before tax	19,029,872	26,262,087	39,186,014	29,079,670	20,413,050
Profit (loss) fromcontinuing operations	14,247,247	18,927,613	28,871,859	22,137,392	16,014,772
Profit (loss) from discontinued operations	-	-	-	-	-
Profit (loss)	14,247,247	18,927,613	28,871,859	22,137,392	16,014,772
Other comprehensive income (after tax)	3,916,721	6,256,340	(1,339,618)	(8,421,469)	(5,878,122)
Comprehensive income	18,163,968	25,183,953	27,532,241	13,715,923	10,136,650
Profit (loss), attributable to owners of parent	9,554,496	14,658,138	23,811,625	19,339,815	14,682,988
Profit (loss), attributable to non-controlling interests	4,692,751	4,269,475	5,060,234	2,797,577	1,331,784
Comprehensive income, attributable to owners of parent	12,903,831	19,604,022	22,809,542	12,008,187	9,241,061
Comprehensive income, attributable to non-controlling interests	5,260,137	5,579,931	4,722,699	1,707,736	895,589
Basic earnings per share	4.16	6.24	9.23	7.05	5.66

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)				
		2013	2014	2015	2016	2017
Current assets		283,288,047	316,056,068	317,603,542	372,570,658	380,463,314
Funds & Investments		95,704,186	112,093,393	117,840,661	117,619,640	122,190,881
Property, plant and equipment		4,444,544	4,478,327	4,423,894	4,724,010	4,722,912
Intangible assets		58,990	48,713	67,576	184,050	316,961
Other assets		239,921	206,989	333,018	833,534	1,259,125
Total assets		383,735,688	432,883,490	440,268,691	495,931,892	508,953,193
Current liabilities	Before Distribution	251,086,153	286,989,503	279,015,180	344,696,528	355,933,994
	After Distribution	257,583,370	297,499,125	291,968,681	357,570,444	Undistributed
Non-current liabilities		25,345,741	12,223,056	10,873,376	2,965,774	7,043,461
Total liabilities	Before Distribution	276,431,894	229,212,559	289,888,556	347,662,302	362,977,455
	After Distribution	282,929,111	309,722,181	302,842,057	360,536,218	Undistributed
Equity		NA	NA	NA	NA	NA
Share capital		23,211,555	25,156,805	26,030,205	25,751,695	26,140,906
Capital surplus		63,175,819	74,295,720	78,972,374	78,214,259	79,897,751
Retained earnings	Before Distribution	21,143,952	29,325,244	42,655,172	48,104,750	49,976,468
	After Distribution	14,646,735	18,815,622	29,701,671	35,230,834	Undistributed
Other equity interest		(210,136)	4,901,345	2,724,974	(3,798,868)	(10,037,445)
Treasury stock		(17,396)	(8,183)	(2,590)	(2,246)	(1,942))
Non-controlling interests		NA	NA	NA	NA	NA
Total Equity	Before Distribution	107,303,794	133,670,931	150,380,135	148,269,590	145,975,738
	After Distribution	100,807,577	123,161,309	137,426,634	135,395,674	Undistributed

Note: Above financial information has been audited by CPA.

6.1.4 Condensed IndividualStatement of Comprehensive Income

Unit: NT$ thousands

Year / Item	Five-Year Financial Summary (Note1)				
	2013	2014	2015	2016	2017
Operating revenues	794,224,728	897,963,588	1,053,435,822	1,008,096,787	1,080,574,995
Gross profit (Note 2)	10,802,101	24,884,749	32,722,289	26,868,971	18,787,939
Results from operating activities	289,078	7,971,306	14,062,692	12,121,369	6,304,079
Non-operating income and expenses	9,257,322	8,467,161	12,674,865	9,776,015	8,896,368
Profit before tax	9,546,400	16,438,467	26,737,557	21,897,384	15,200,447
Profit (loss) fromcontinuing operations	9,554,496	14,658,138	23,811,625	19,339,815	14,682,988
Profit (loss) from discontinued operations	-	-	-	-	-
Profit (loss)	9,554,496	14,658,138	23,811,625	19,339,815	14,682,988
Other comprehensive income (after tax)	3,349,335	4,945,884	(1,002,083)	(7,331,628)	(5,441,927)
Comprehensive income	12,903,831	19,604,022	22,809,542	12,008,187	9,241,061
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	4.16	6.24	9.23	7.50	5.66

Note 1: Above financial information has been audited by CPA.
Note2:Gross profit included realized (unrealized) profits from affiliated companies.

6.1.5 Auditing by CPA from 2013to 2017

Year	CPA Firm	CPA's Name	Auditing Opinion
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
2017	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)	2013	2014	2015	2016	2017
Capital structure (%)	Debt ratio	65.36	61.74	59.60	59.00	63.19
	Ratio of long-term capital to property, plant and equipment	233.73	259.02	288.08	279.01	248.06
Solvency	Current ratio (%)	136.64	139.47	145.83	143.26	135.72
	Quick ratio (%)	90.75	98.84	95.87	98.23	90.20
	Times interest earned (Times)	18.87	31.26	59.29	32.88	22.45
Operating ability	Accounts receivable turnover (Times)	8.28	8.56	9.55	10.65	9.69
	Average collection period	44.08	42.64	38.22	34.27	37.66
	Inventory turnover (Times)	8.71	9.11	10.07	9.23	9.44
	Accounts payable turnover (Times)	5.46	5.76	6.78	6.59	6.41
	Average days in sales	41.90	40.06	36.26	39.52	38.66
	Property, plant, and equipment turnover (Times)	12.85	13.99	17.09	17.32	15.29
	Total assets turnover (Times)	2.28	2.23	2.55	2.61	2.45
Profitability	Return on total assets (%)	3.73	4.50	6.31	4.98	3.61
	Return on stockholders' equity (%)	10.49	11.87	15.72	11.83	8.85
	Pretax profit to paid-in capital (%)	81.98	104.39	150.54	112.92	78.09
	Net profit margin (%)	1.5	1.86	2.38	1.91	1.34
	Basic earnings per share ($)	4.16	6.24	9.23	7.50	5.66
Cash flow	Cash flow ratio (%)	10.48	18.70	3.72	28.25	6.46
	Cash flow adequacy ratio (%)	67.58	84.98	63.88	109.74	102.32
	Cash reinvestment ratio (%)	8.39	15.58	(Note3)	22.34	1.65
Leverage	Operating leverage	1.89	1.49	1.35	1.40	1.69
	Financial leverage	1.07	1.03	1.02	1.03	1.05

	Analysis of financial ratio change in the last two years. 1. Times interest earned ratio: The ratio decreased in 2017 due to the decrease in gross profit and profit before tax 2. Return on total assets: The ratio decreased in 2017 due to the decrease in gross profit and net income. 3. Return on stockholders' equity: The ratio decreased in 2017 due to the decrease in gross profit and net income. 4. Pretax profit to paid-in capital: The ratio decreased in 2017 due to the decrease in gross profit and profit before tax. 5. Net profit margin: The ratio decreased in 2017 due to the decrease in gross profit and net income. 6. Basic EPS: The amount decreased in 2017 due to the decrease in net income. 7. Cash flow ratio: The ratio decreased in 2017 due to the decrease in net cash inflow from operating activity. 8. Cash reinvestment ratio: The ratio decreased in 2017 due to the decrease in net cash inflow from operating activity. 9. Operating leverage: The ratio increased in 2017 due to the decrease inresults from operating activities.

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)	Five-Year Financial Analysis				
		2013	2014	2015	2016	2017
Capital structure (%)	Debt ratio	72.04	69.12	65.84	70.10	71.32
	Ratio of long-term capital to property, plant and equipment	2,973.68	3,252.40	3,639.15	3,195.62	3,238.85
Solvency	Current ratio (%)	112.83	110.13	113.83	108.09	106.89
	Quick ratio (%)	104.02	103.69	104.12	99.72	96.95
	Times interest earned (Times)	14.82	34.79	66.32	45.46	28.56
Operating ability	Accounts receivable turnover (Times)	3.87	5.34	9.18	9.08	8.95
	Average collection period	94.32	68.35	39.76	40.20	40.78
	Inventory turnover (Times)	44.95	42.07	43.97	34.56	32.36
	Accounts payable turnover (Times)	4.13	4.12	4.82	3.99	3.55
	Average days in sales	8.12	8.68	8.30	10.56	11.28
	Property, plant, and equipment turnover (Times)	178.70	200.51	238.12	213.40	228.79
	Total assets turnover (Times)	2.07	2.07	2.39	2.03	2.12
Profitability	Return on total assets (%)	2.87	3.69	5.53	4.22	3.01
	Return on stockholders' equity (%)	9.41	12.17	16.77	12.95	9.98
	Pretax Profit to paid-in capital (%)	41.13	65.34	102.72	85.03	58.15
	Net profit margin (%)	1.20	1.63	2.26	1.92	1.36
	Basic earnings per share ($)	4.16	6.24	9.23	7.50	5.66
Cash flow	Cash flow ratio (%)	(Note3)	7.10	0.18	15.86	(Note3)
	Cash flow adequacy ratio (%)	(Note3)	44.82	12.15	85.59	76.57
	Cash reinvestment ratio (%)	(Note3)	9.45	(Note3)	27.41	(Note3)
Leverage	Operating leverage	3.16	1.08	1.05	1.05	1.13
	Financial leverage	-	1.07	1.03	1.04	1.10
	Analysis of financial ratio change in the last two years. 1. Times interest earned ratio: The ratio decreased in 2017 due to the decrease in gross profit and profit before tax. 2. Return on total assets: The ratio decreased in 2017due to the decrease in gross profit and net income. 3. Return on stockholders' equity: The ratio decreased in 2017 due to the decrease in gross profit and net income. 4. Pretax Profit to paid-in capital: The ratio decreased in 2017 due to the decrease in gross profit and profit before tax. 5. Net profit margin: The ratio decreased in 2017 due to the decrease in gross profit and net income. 6. Basic EPS: EPS decreased in 2017 due to the decrease innet income.					

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 15, 2018

The Board of Directors has prepared the Pegatron Corporation's ("the Company)" 2017 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-ConsolidatedFinancial 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; %

Year / Item	2016	2017	Difference	
			Amount	%
Current Assets	395,398,572	364,225,586	31,172,986	8.56%
Funds & Investments	503,718	362,909	140,809	38.80%
Property, plant and equipment	78,075,271	66,860,809	11,214,462	16.77%
Intangible Assets	1,497,234	1,439,186	58,048	4.03%
Other Assets	12,760,824	11,056,743	1,704,081	15.41%
Total Assets	488,235,619	443,945,233	44,290,386	9.98%
Current Liabilities	291,327,147	254,236,823	37,090,324	14.59%
Long-term Liabilities	13,947,276	4,522,890	9,424,386	208.37%
Other Liabilities	3,237,386	3,163,319	74,067	2.34%
Total Liabilities	308,511,809	261,923,032	46,588,777	17.79%
Capital stock	26,140,906	25,751,695	389,211	1.51%
Capital surplus	79,897,751	78,214,259	1,683,492	2.15%
Retained Earnings	49,976,468	48,104,750	1,871,718	3.89%
Other Adjustments	23,708,685	29,951,497	(6,242,812)	(20.84%)
Total Stockholders' Equity	179,723,810	182,022,201	(2,298,391)	(1.26%)

Analysis of changes in financial ratios:

1. Funds & Investments: The increase is due to the increase of unrealized gains on available-for-sale financial assets recognized under equity method
2. Long-term Liabilities: The increase is due to the issuance of corporate bonds.
3. Other Adjustments: The decrease is due to the decrease in exchange differences on translation of foreign financial statements for the year 2017.

- **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	2017	Difference	
			Amount	%
Net Sales	1,193,808,515	1,157,710,113	36,098,402	3.12%
Cost of Sales	1,147,138,626	1,094,642,996	52,495,630	4.80%
Gross Profit	46,669,889	63,067,117	(16,397,228)	(26.00%)
Operating Expense	27,671,193	30,653,148	(2,981,955)	(9.73%)
Results from operating activities	18,998,696	32,413,969	(13,415,273)	(41.39%)
Non-operating Income and Expenses	1,414,354	(3,334,299)	4,748,653	(142.42%)
Profit Before Tax	20,413,050	29,079,670	(8,666,620)	(29.80%)
Income Tax Expense	4,398,278	6,942,278	(2,544,000)	(36.65%)
Profit for the year	16,014,772	22,137,392	(6,122,620)	(27.66%)
Other Comprehensive Income	(5,878,122)	(8,421,469)	2,543,347	(30.20%)
Total Comprehensive Income	10,136,650	13,715,923	(3,579,273)	(26.10%)

Analysis of changes in financial ratios:

1. Gross Profit: The decrease is due to the increase of cost of sales.
2. Results from operating activities: The decrease is due to the decrease of gross profit.
3. Non-Operating Income and Expense: The decrease is due to the decrease of foreign exchange loss.
4. Profit Before Tax: The decrease is due to the decrease of results from operating activities.
5. Income Tax Expense: The decrease is due to the decrease of profit before tax.
6. Profit for the year: The decrease is due to the decrease of profit before tax.
7. Other comprehensive income: The increase is due to the increase in exchange difference on translation of foreign financial statements.
8. Total Comprehensive Income: The decrease is due to the decrease in profit for the year.

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Current Year – Consolidated

Unit: NT$ thousands; %

Item \ Year	2017	2016	Difference	
			Amount	%
Cash flows from operating activities	18,823,847	71,830,851	(53,007,004)	73.79
Cash flows from investing activities	(27,164,586)	(20,431,385)	(6,733,201)	32.96
Cash flows from financing activities	11,265,631	(40,870,352)	52,135,983	127.56

Analysis of changes in financial ratios:

1. Cash flows from operating activities: The decrease in cash flow was due to increased inventory and increased accounts receivable as compared to the previous year.
2. Cash flows from investing activities: The decrease was due to increased prepayments on purchase of equipment and increased acquisition of property, plant and equipment as compared to the previous year.
3. Cash flows from financing activities: The increase was due to decreased repayment of long-term debt, increased short-term debt and proceeds from issuing bonds 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 2017, the investment income under equity method reached NT$10,140,629 thousand dollars, which decreased by 8.6% as compared to the previous year. The decrease was due to order fluctuation from customers in 2017. 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. We also issued NT$15 billion unsecured corporate bonds in order to lock in long term funding cost. 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 USD), 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 0.62% and 0.9% respectively in 2017, which represented a minor inflation and did not have material impact on the Company's financial conditions in 2017. 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 2017 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 2017. Shall such needs arise due to business operation, the transaction will be processed in accordance with the Company's internal policy "Procedures for the Acquisition and Disposal of Assets". The derivative transactions conducted by the Company's subsidiaries are for hedging purpose. For non-hedging transactions, subsidiaries will handle cautiously.

7.6.3 Future Research & Development Projects and Corresponding Budget

The Company focuses on the development of products that are integrated with high added value based on the Company's product roadmap. Going forward, it is estimated that around NT$8.1billion 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 2017 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 2017 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 2017 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 2017 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 17.16% 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

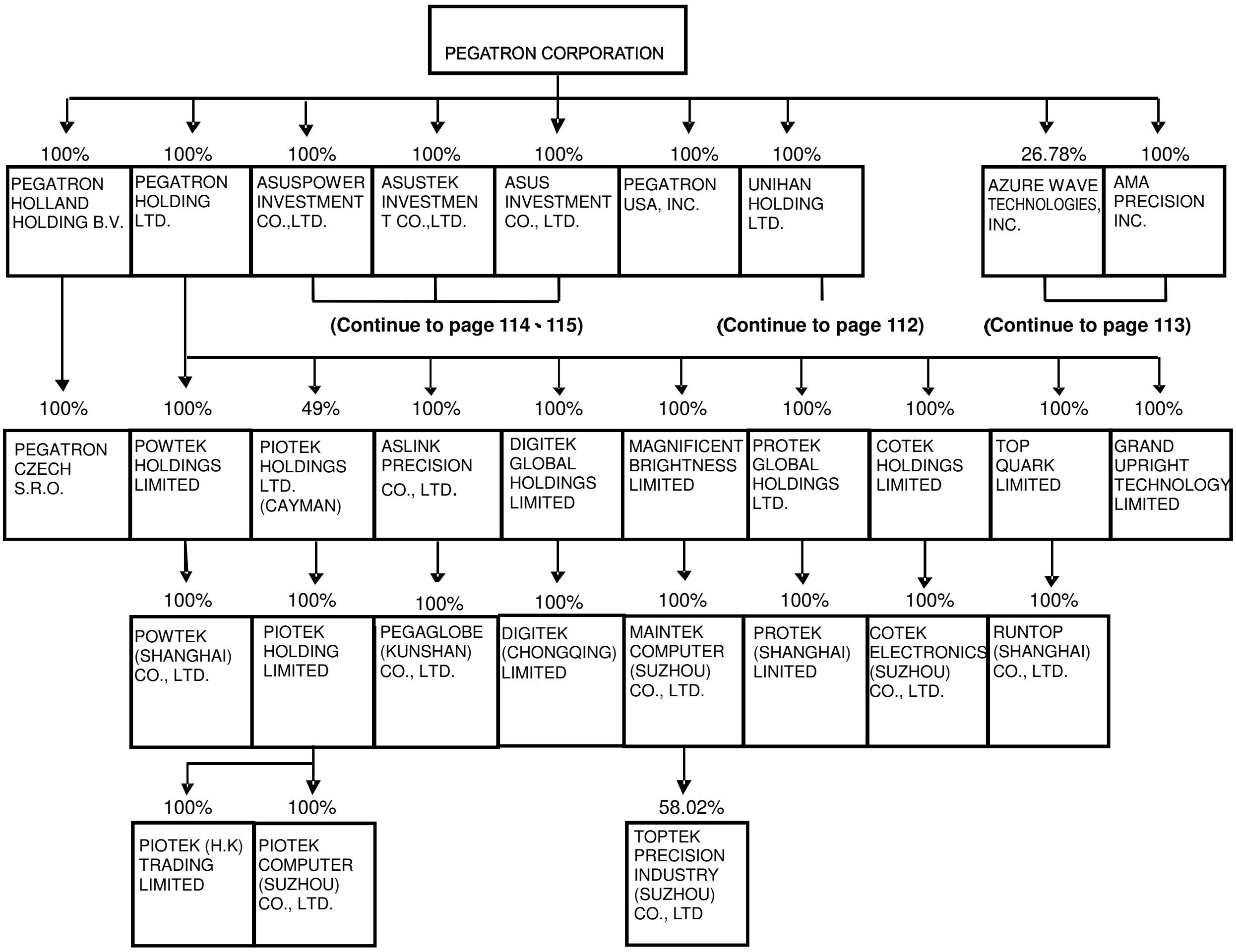
In 2017 and as of the date of this annual report, the Company did not engage in litigation or non-litigation matters that had significant impacts on shareholders' right or security prices. For litigation or non-litigation matter for major shareholder with 10% or more holding (as of the date of this annual report, Asustek Computer Inc. is the only shareholder with more than 10% of shareholding), please refer to the major shareholder's annual report.

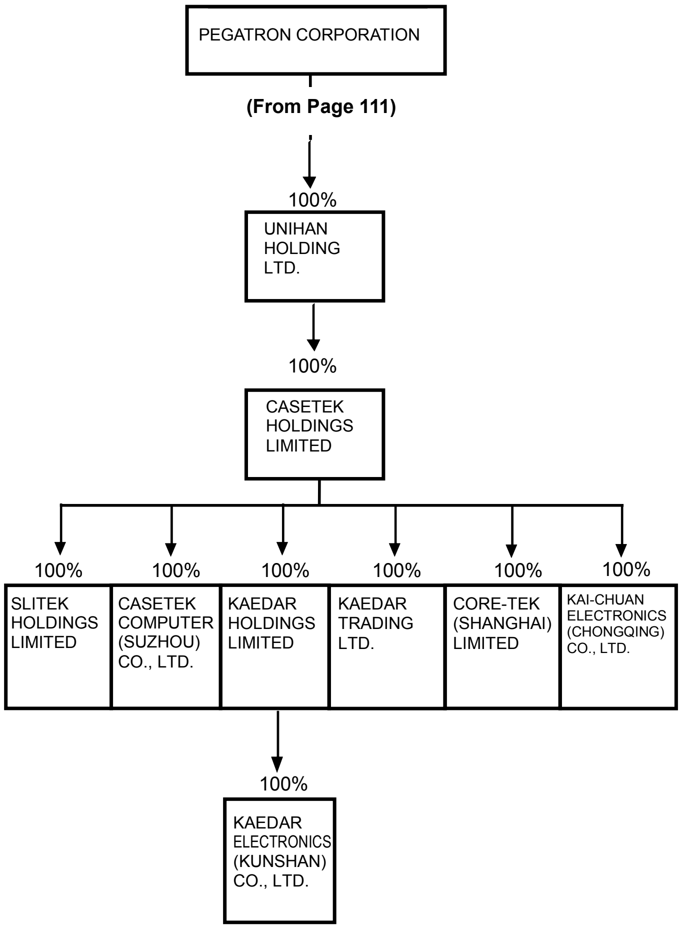
7.7 Other Major Risks

In 2017 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 12/31/2017




PEGATRON CORPORATION
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SLITEK HOLDINGS LIMITED
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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.
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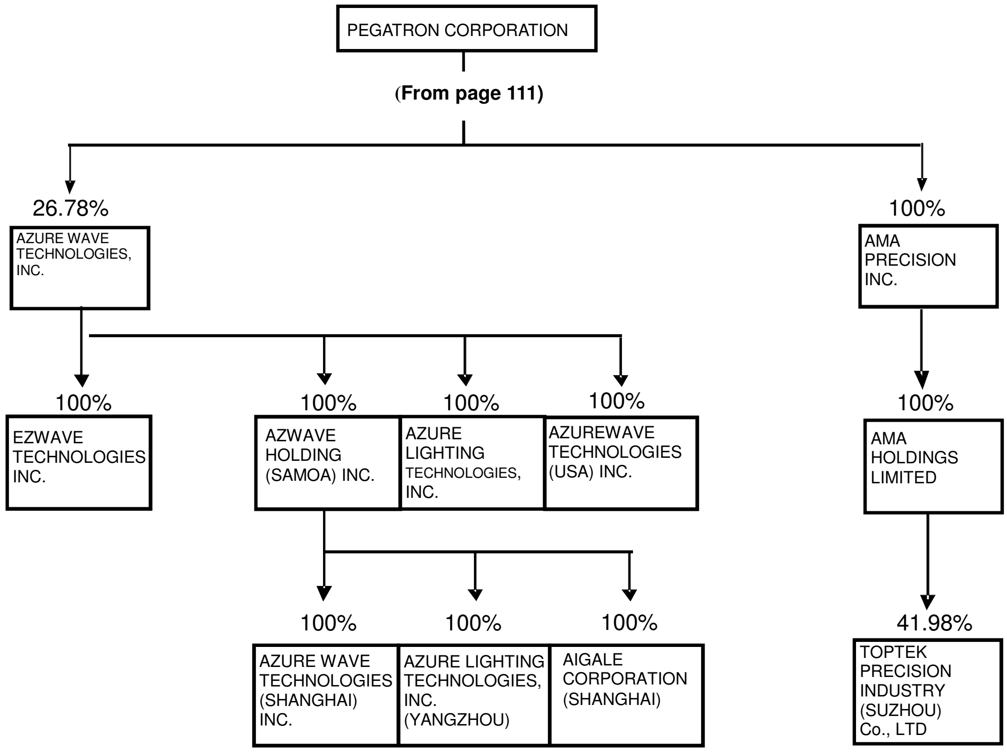
KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.


PEGATRON CORPORATION
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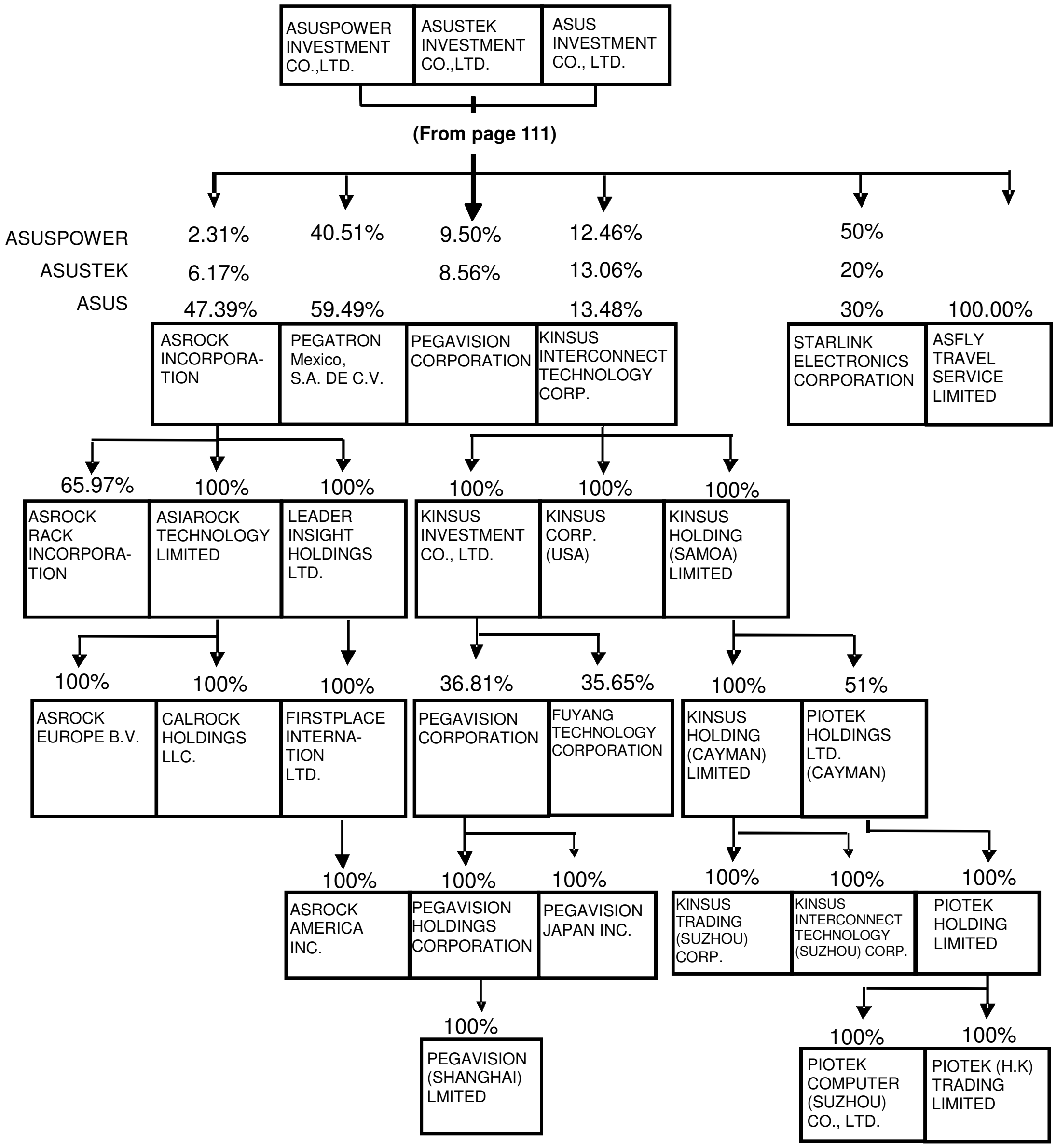
AMA PRECISION INC.
100%
EZWAVE TECHNOLOGIES INC.
100%
AZWAVE HOLDING (SAMOA) INC.
100%
AZURE LIGHTING TECHNOLOGIES, INC.
100%
AZUREWAVE TECHNOLOGIES (USA) INC.
100%
AMA HOLDINGS LIMITED
100%
AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.
100%
AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)
100%
AIGALE CORPORATION (SHANGHAI)
41.98%
TOPTEK PRECISION INDUSTRY (SUZHOU) Co., LTD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ASUSTEK INVESTMENT CO.,LTD.
ASUS INVESTMENT CO., LTD.
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2.31%
6.17%
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40.51%
59.49%
9.50%
8.56%
12.46%
13.06%
13.48%
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
65.97%
100%
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100%
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100%
ASROCK RACK INCORPORA-TION
ASIAROCK TECHNOLOGY LIMITED
LEADER INSIGHT HOLDINGS LTD.
KINSUS INVESTMENT CO., LTD.
KINSUS CORP. (USA)
KINSUS HOLDING (SAMOA) LIMITED
100%
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100%
36.81%
35.65%
100%
51%
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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ASROCK AMERICA INC.
PEGAVISION HOLDINGS CORPORATION
PEGAVISION JAPAN INC.
KINSUS TRADING (SUZHOU) CORP.
KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.
PIOTEK HOLDING LIMITED
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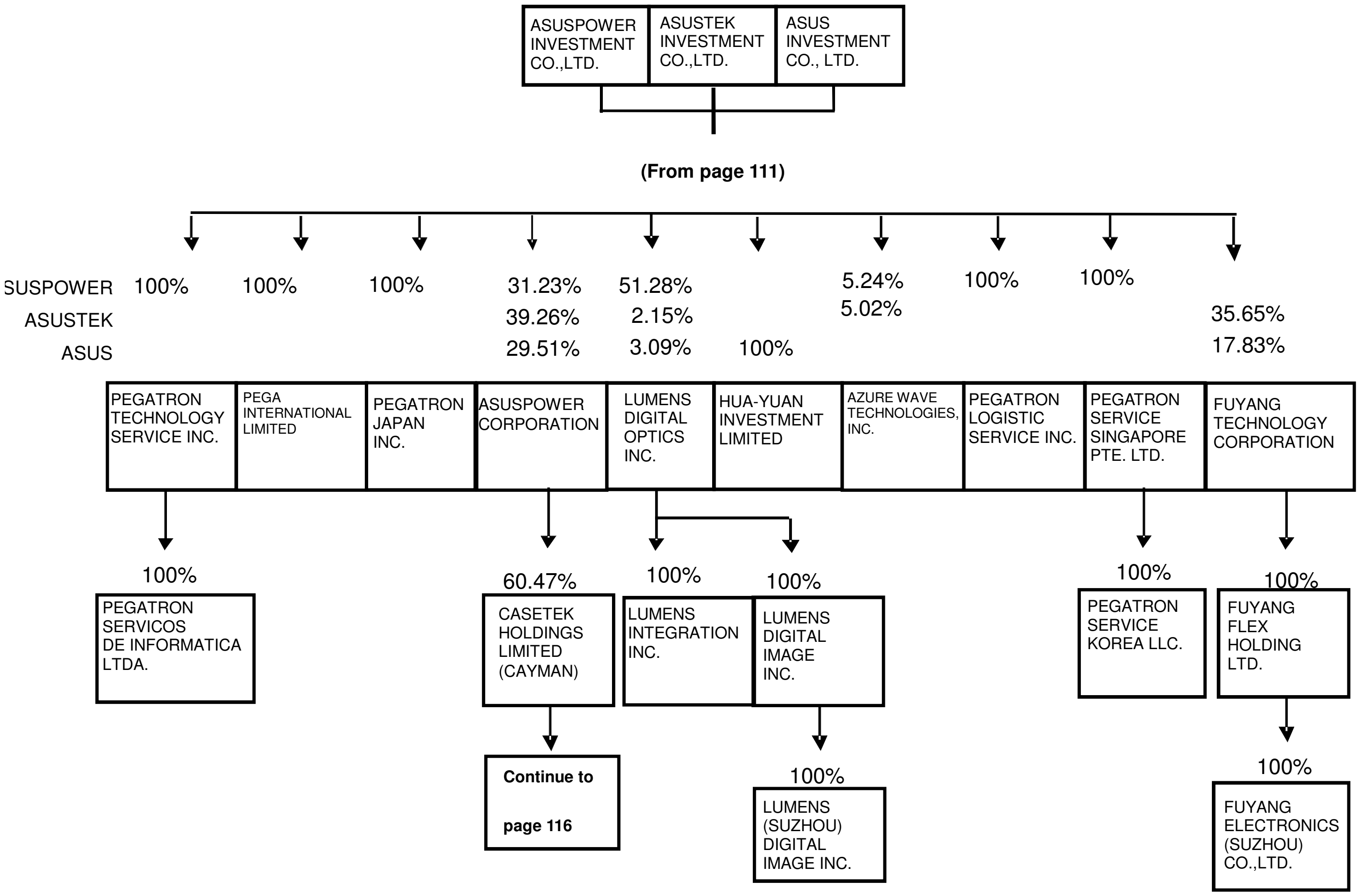
PIOTEK COMPUTER (SUZHOU) CO., LTD.
PIOTEK (H.K) TRADING LIMITED


ASUSPOWER INVESTMENT CO.,LTD.
ASUSTEK INVESTMENT CO.,LTD.
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SUSPOWER
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100%
100%
31.23%
39.26%
29.51%
51.28%
2.15%
3.09%
100%
5.24%
5.02%
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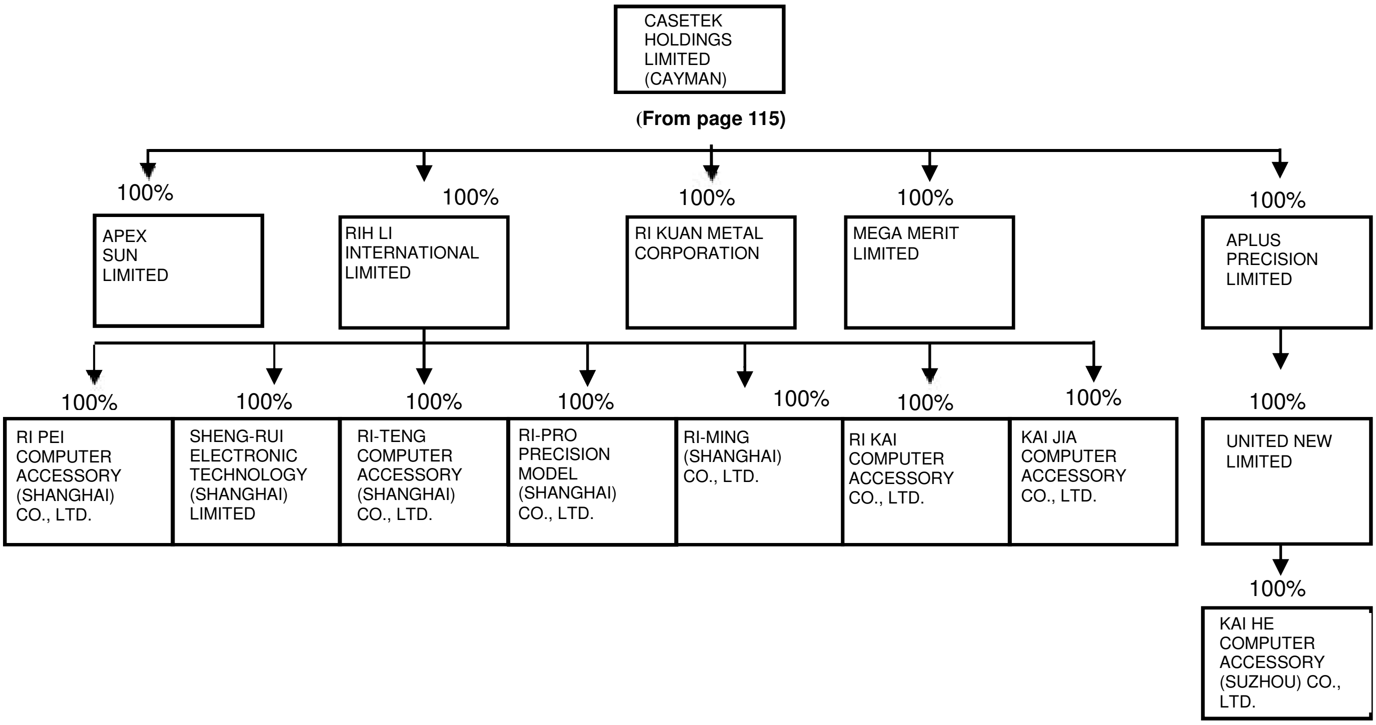
100%
35.65%
17.83%
PEGATRON TECHNOLOGY SERVICE INC.
PEGA INTERNATIONAL LIMITED
PEGATRON JAPAN INC.
ASUSPOWER CORPORATION
LUMENS DIGITAL OPTICS INC.
HUA-YUAN INVESTMENT LIMITED
AZURE WAVE TECHNOLOGIES, INC.
PEGATRON LOGISTIC SERVICE INC.
PEGATRON SERVICE SINGAPORE PTE. LTD.
FUYANG TECHNOLOGY CORPORATION
100%
PEGATRON SERVICOS DE INFORMATICA LTDA.
60.47%
CASETEK HOLDINGS LIMITED (CAYMAN)
100%
LUMENS INTEGRATION INC.
100%
LUMENS DIGITAL IMAGE INC.
100%
PEGATRON SERVICE KOREA LLC.
100%
FUYANG FLEX HOLDING LTD.
Continue to page 116
100%
LUMENS (SUZHOU) DIGITAL IMAGE INC.
100%
FUYANG ELECTRONICS (SUZHOU) CO.,LTD.


CASETEK HOLDINGS LIMITED (CAYMAN)
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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%
RI KAI COMPUTER ACCESSORY 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 2017 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, 2017 AND 2016

(With Independent Accountants' Audit Report Thereon)

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, 2017 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 15, 2018

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, 2017 and 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years 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 (please refer to Other Matters paragraph), the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers 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, inclusive of the reports from other auditors, 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, 2017 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(q) 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, 2017 and 2016 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(h), 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 2017 and 2016 and understand reasons of the difference. Discuss and resolve those differences with management.
- Obtain an inventory aging analysis and randomly select items to verify the correctness for age of inventory.
- Obtain last selling price for finished goods and replacement cost for raw material, and recalculate net realizable value with selling expense rate to check whether or not the method of inventory measurement adopted by the Group is reasonable.

Other Matter

We did not audit the financial statements of certain consolidated subsidiaries with total assets representing 11.08% and 11.72% and net sales representing 2.97% and 3.47% of the related consolidated total as of and for the years ended December 31, 2017 and 2016, respectively. Also, we did not audit the long-term investments in other companies representing 0.03% and 0.03% of consolidated total assets as of December 31, 2017 and 2016, respectively, and the related investment loss thereon representing (0.07)% and (0.24)% of consolidated net income before tax for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 and have issued unqualified audit reports thereon.

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 15, 2018

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statements 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, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2017		December 31, 2016	
	Assets	**Amount**	**%**	**Amount**	**%**
	Current assets:				
1100	Cash and cash equivalents (Note 6(a))	$ 107,444,124	22	108,713,312	24
1110	Current financial assets at fair value through profit or loss (Note 6(b))	2,824,913	1	4,367,847	1
1125	Current available-for-sale financial assets (Note 6(b))	384,782	-	266,523	-
1170	Notes and accounts receivable, net (Note 6(c))	149,414,212	31	93,315,940	21
1200	Other receivables, net (Note 6(c))	1,490,873	-	42,590,627	10
130X	Inventories (Note 6(d))	123,874,993	25	107,319,402	24
1476	Other current financial assets (Notes 6(k) and 8)	1,222,740	-	479,510	-
1479	Other current assets (Note 6(k))	8,741,935	2	7,172,425	2
		395,398,572	81	364,225,586	82
	Non-current assets:				
1523	Non-current available-for-sale financial assets (Note 6(b))	1,158,831	-	789,622	-
1543	Non-current financial assets carried at cost (Note 6(b))	350,509	-	371,082	-
1550	Investments accounted for using equity method (Note 6(e))	503,718	-	362,909	-
1600	Property, plant and equipment (Notes 6(h) and 8)	78,075,271	16	66,860,809	15
1760	Investment property, net (Note 6(i))	52,870	-	57,221	-
1780	Intangible assets (Note 6(j))	1,497,234	-	1,439,186	-
1840	Deferred tax assets (Note 6(r))	3,345,992	1	2,347,933	1
1915	Prepayments on purchase of equipment	3,717,374	1	3,003,023	1
1980	Other non-current financial assets (Notes 6(k) and 8)	300,700	-	427,655	-
1985	Long-term prepaid rentals (Note 6(p))	3,783,164	1	4,014,064	1
1990	Other non-current assets (Note 6(k))	51,384	-	46,143	-
		92,837,047	19	79,719,647	18
	Total assets	**$ 488,235,619**	**100**	**443,945,233**	**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 Balance Sheets (CONT'D)

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2017		December 31, 2016	
	Liabilities and Equity	**Amount**	**%**	**Amount**	**%**
	Current liabilities:				
2100	Short-term loans (Note 6(l))	$ 46,058,620	10	31,148,468	7
2150	Notes and accounts payable (Note 7)	186,896,307	38	171,265,693	39
2209	Accrued expenses (Note 6(q))	27,121,355	6	25,179,749	6
2219	Other payables	11,432,493	2	5,480,741	1
2230	Current tax liabilities	3,132,941	1	4,538,439	1
2250	Current provisions (Note 6(o))	186,802	-	160,064	-
2313	Deferred revenue	902,193	-	1,040,615	-
2322	Long-term loans payable, current portion (Note 6(m))	1,107,312	-	536,257	-
2399	Other current liabilities	14,489,124	3	14,886,797	3
		291,327,147	60	254,236,823	57
	Non-Current liabilities:				
2530	Bonds payable (Note 6(n))	6,992,476	2	-	-
2540	Long-term loans (Note 6(m))	6,954,800	1	4,522,890	1
2570	Deferred tax liabilities (Note 6(r))	1,601,481	-	1,803,244	1
2670	Other non-current liabilities (Note 6(q))	1,635,905	-	1,360,075	-
		17,184,662	3	7,686,209	2
	Total liabilities	308,511,809	63	261,923,032	59
	Equity Attributable to Owners of the Parent Company (Note 6(s)):				
3100	Share capital	26,140,906	5	25,751,695	6
	Capital surplus:				
3210	Capital surplus, premium on capital stock	74,283,165	15	73,312,256	16
3280	Capital surplus, others (Note 6(t))	5,614,586	1	4,902,003	1
		79,897,751	16	78,214,259	17
	Retained earnings:				
3310	Legal reserve	9,194,524	2	7,260,543	2
3320	Special reserve	3,368,986	1	-	-
3350	Unappropriated retained earnings	37,412,958	8	40,844,207	9
		49,976,468	11	48,104,750	11
	Other equity interest:				
3410	Exchange differences on translation of foreign financial statements	(9,698,374)	(2)	(3,552,939)	(1)
3425	Unrealized gains on available-for-sale financial assets	883,161	-	183,953	-
3491	Deferred compensation cost arising from issuance restricted stock (Note 6(t))	(1,222,232)	-	(429,882)	-
		(10,037,445)	(2)	(3,798,868)	(1)
3500	Treasury stock	(1,942)	-	(2,246)	-
	Equity attributable to the parent company	145,975,738	30	148,269,590	33
36xx	Non-controlling interests	33,748,072	7	33,752,611	8
	Total equity	179,723,810	37	182,022,201	41
	Total liabilities and equity	$ 488,235,619	100	443,945,233	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, 2017 and 2016

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

		For the years ended December 31			
		2017		2016	
		Amount	%	Amount	%
4110	**Operating revenue (Note 6(w))**	$ 1,197,312,896	100	1,163,923,241	101
4170	Less: Sales returns and allowances	3,504,381	-	6,213,128	1
	Operating revenue, net	1,193,808,515	100	1,157,710,113	100
5000	Cost of sales (Notes 6(d), 6(p), 6(q), 6(x), and 7)	1,147,138,626	96	1,094,642,996	95
	Gross profit from operations	46,669,889	4	63,067,117	5
6000	**Operating expenses (Notes 6(p), 6(q) and 6(x)):**				
6100	Selling expenses	4,920,146	-	5,946,930	-
6200	General and administrative expenses	9,409,135	1	10,620,127	1
6300	Research and development expenses	13,341,912	1	14,086,091	1
	Total operating expenses	27,671,193	2	30,653,148	2
	Results from operating activities	18,998,696	2	32,413,969	3
	Non-operating income and expenses:				
7010	Other income (Note 6(y))	4,173,619	-	3,172,133	-
7020	Other gains and losses (Notes 6(i) and 6(y))	(1,655,179)	-	(5,247,487)	-
7050	Finance costs (Note 6(y))	(1,018,004)	-	(1,005,006)	-
7060	Share of loss of associates and joint ventures accounted for using equity method (Note 6(e))	(4,484)	-	(3,131)	-
7590	Miscellaneous disbursements	(81,598)	-	(250,808)	-
		1,414,354	-	(3,334,299)	-
	Profit from continuing operations before tax	20,413,050	2	29,079,670	3
7950	Less: Tax expense (Note 6(r))	4,398,278	-	6,942,278	1
	Profit for the year	16,014,772	2	22,137,392	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	1,414	-	4,265	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	(1,088)	-	(1,286)	-
		2,502	-	2,979	-
8360	**Other components of other comprehensive income that may be reclassified to profit or loss**				
8361	Exchange differences on translation of foreign financial statements	(6,599,633)	(1)	(8,597,708)	(1)
8362	Unrealized gains on valuation of available-for-sale financial assets (Note 6(z))	541,228	-	124,524	-
8370	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss (Note 6(e))	167,389	-	(48,217)	-
8399	Income tax related to components of other comprehensive income that may be reclassified to profit or loss	(10,392)	-	(96,953)	-
8300	**Other comprehensive income for the year, net of tax**	(5,878,122)	(1)	(8,421,469)	(1)
8500	**Total comprehensive income for the year**	$ 10,136,650	1	13,715,923	1
	Profit attributable to:				
8610	Owners of the parent company	$ 14,682,988	2	19,339,815	2
8620	Non-controlling interests	1,331,784	-	2,797,577	-
		$ 16,014,772	2	22,137,392	2
	Comprehensive income attributable to:				
8710	Owners of the parent company	$ 9,241,061	1	12,008,187	1
8720	Non-controlling interests	895,589	-	1,707,736	-
		$ 10,136,650	1	13,715,923	1
	Earnings per share, net of tax (Note 6(v))				
9750	**Basic earnings per share**	$	5.66		7.50
9850	**Diluted earnings per share**	$	5.63		7.42

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, 2017 and 2016

(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	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	Owners of the parent company	Non-controlling interests	Total equity
Balance at January 1, 2016	$ 26,030,205	78,972,374	4,879,380	-	37,775,792	42,655,172	3,752,117	211,234	(1,238,377)	2,724,974	(2,590)	150,380,135	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 appropriated	-	-	2,381,163	-	(2,381,163)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(12,953,501)	(12,953,501)	-	-	-	-	-	(12,953,501)	-	(12,953,501)
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	-	(2,068,328)	(2,068,328)	-	(2,068,328)
Retirement of treasury stock	(264,100)	(830,477)	-	-	(973,751)	(973,751)	-	-	-	-	2,068,328	-	-	-
Changes in ownership interests in subsidiaries	-	2,575	-	-	-	-	-	-	-	-	-	2,575	(2,575)	-
Expiration of restricted shares of stock issued to employees	(14,410)	14,066	-	-	-	-	-	-	-	-	344	-	-	-
Compensation cost arising from restricted shares of stock	-	55,721	-	-	36,306	36,306	-	-	808,495	808,495	-	900,522	-	900,522
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(9,910,940)	(9,910,940)
Balance at December 31, 2016	25,751,695	78,214,259	7,260,543	-	40,844,207	48,104,750	(3,552,939)	183,953	(429,882)	(3,798,868)	(2,246)	148,269,590	33,752,611	182,022,201
Profit for the year	-	-	-	-	14,682,988	14,682,988	-	-	-	-	-	14,682,988	1,331,784	16,014,772
Other comprehensive income for the year	-	-	-	-	4,300	4,300	(6,145,435)	699,208	-	(5,446,227)	-	(5,441,927)	(436,195)	(5,878,122)
Total comprehensive income for the year	-	-	-	-	14,687,288	14,687,288	(6,145,435)	699,208	-	(5,446,227)	-	9,241,061	895,589	10,136,650
Appropriation and distribution of retained earnings:														
Legal reserve appropriated	-	-	1,933,981	-	(1,933,981)	-	-	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,368,986	(3,368,986)	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(12,873,916)	(12,873,916)	-	-	-	-	-	(12,873,916)	-	(12,873,916)
Changes in ownership interests in subsidiaries	-	(165,279)	-	-	-	-	-	-	-	-	-	(165,279)	165,279	-
Share-based payment transactions	400,000	-	-	-	-	-	-	-	-	-	-	400,000	-	400,000
Expiration of restricted shares of stock issued to employees	(10,789)	10,485	-	-	-	-	-	-	-	-	304	-	-	-
Compensation cost arising from restricted shares of stock	-	1,838,286	-	-	58,346	58,346	-	-	(792,350)	(792,350)	-	1,104,282	-	1,104,282
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(1,065,407)	(1,065,407)
Balance at December 31, 2017	**$ 26,140,906**	**79,897,751**	**9,194,524**	**3,368,986**	**37,412,958**	**49,976,468**	**(9,698,374)**	**883,161**	**(1,222,232)**	**(10,037,445)**	**(1,942)**	**145,975,738**	**33,748,072**	**179,723,810**

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

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2017	2016
Cash flows from operating activities:		
Profit before tax	$ 20,413,050	29,079,670
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	12,875,356	12,770,863
Amortization expense	233,799	141,548
Reversal of allowance for uncollectable accounts	(162,127)	(36,760)
Net gain on financial assets or liabilities at fair value through profit or loss	(146,321)	(67,790)
Interest expense	951,706	912,165
Interest income	(1,499,714)	(1,057,275)
Dividends income	(37,902)	(20,659)
Compensation cost arising from employee stock options	1,386,317	907,285
Amortization of issuance costs on bonds payable	476	-
Share of loss of associates and joint ventures accounted for using equity method	4,484	3,131
Effect of exchange rate changes of long-term loans	(85,597)	(36,176)
Loss on disposal of property, plant and equipment	53,364	240,489
Property, plant and equipment charged to expenses	65,166	49,768
(Gain) loss on disposal of investments	(38,091)	574,526
(Reversal of) impairment loss	(34,474)	59,968
Long-term prepaid rent charged to expenses	184,111	95,295
(Reversal of) provisions	49,426	(11,650)
Other loss	470,924	217,855
Total adjustments to reconcile profit	14,270,903	14,742,583
Changes in operating assets and liabilities:		
Changes in operating assets:		
Decrease in financial assets at fair value through profit or loss	1,689,255	424,768
(Increase) decrease in notes and accounts receivable	(55,937,542)	24,197,509
Decrease (increase) in other receivables	40,684,759	(14,022,934)
(Increase) decrease in inventories	(16,555,591)	9,509,597
(Increase) decrease in other financial assets	(743,230)	150,037
(Increase) decrease in other current assets	(1,699,082)	8,128,167
(Increase) decrease in other non-current assets	(1,855)	21,285
Total changes in operating assets	(32,563,286)	28,408,429
Changes in operating liabilities:		
Increase in notes and accounts payable	15,636,278	12,076,464
Increase (decrease) in accrued expenses	1,628,745	(1,648,644)
Increase (decrease) in other payables	5,854,604	(1,403,876)
Decrease in provisions	(22,688)	(24,416)
Decrease in deferred revenue	(158,685)	(69,141)
(Decrease) increase in other current liabilities	(397,673)	670,573
Increase in other non-current liabilities	298,595	22,830
Total changes in operating liabilities	22,839,176	9,623,790
Net changes in operating assets and liabilities	(9,724,110)	38,032,219
Net adjustments	4,546,793	52,774,802
Cash provided by operating activities	24,959,843	81,854,472
Interest received	1,436,231	1,069,904
Dividends received	37,902	70,384
Interest paid	(864,790)	(919,565)
Income taxes paid	(6,745,339)	(10,244,344)
Net cash flows from operating activities	18,823,847	71,830,851

(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, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2017	2016
Cash flows from investing activities:		
Proceeds from disposal of available-for-sale financial assets	$ 69,167	-
Proceeds from disposal of financial assets carried at cost	-	653
Net cash outflow from disposal of subsidiaries	-	(3,674,323)
Acquisition of property, plant and equipment	(20,357,276)	(12,453,467)
Proceeds from disposal of property, plant and equipment	680,928	529,241
Decrease in refundable deposits	126,955	-
Acquisition of intangible assets	(366,923)	(224,591)
Increase in other financial assets	-	(110,298)
Increase in prepayments on purchase of equipment	(7,140,517)	(4,317,635)
Increase in long-term prepaid rentals	(176,920)	(180,965)
Net cash flows used in investing activities	(27,164,586)	(20,431,385)
Cash flows from financing activities:		
Increase (decrease) in short-term loans	14,910,152	(13,919,128)
Proceeds from issuing bonds	6,992,000	-
Proceeds from long-term loans	6,375,600	14,200,000
Repayments of long-term loans	(3,287,038)	(24,020,366)
Cash dividends paid	(14,431,721)	(15,172,473)
Purchase of treasury stock	-	(2,068,328)
Issuance of restricted stock	493,590	-
Redemption of restricted stock	(10,485)	(15,057)
Change in non-controlling interests	223,533	125,000
Net cash flows from (used in) financing activities	11,265,631	(40,870,352)
Effect of exchange rate fluctuations on cash held	(4,194,080)	(4,377,148)
Net (decrease) increase in cash and cash equivalents	(1,269,188)	6,151,966
Cash and cash equivalents, beginning of the year	108,713,312	102,561,346
Cash and cash equivalents, end of the year	**$ 107,444,124**	**108,713,312**

(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, 2017 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 were authorized for issue by the Board of Directors on March 15, 2018.

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

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

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

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 " Presentation of Financial Statements-Disclosure Initiative	January 1, 2016

(Continued)

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 " Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014
Amendments to IAS 39 " Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

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

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

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

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

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

(Continued)

(i) IFRS 9 "Financial Instruments"

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

1) Classification- Financial assets

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

Based on its assessment, the Group does not believe that the new classification requirements would have had a material impact on its accounting for trade receivables, investments in debt securities and investments in equity securities that are managed on a fair value basis. At December 31, 2017, the Group had part of equity investments classified as available-for-sale with a fair value of $836,228. At initial application of IFRS 9, the Group has designated these investments as measured at FVTPL. Consequently, all fair value gains and losses would be reported in comprehensive income. The Group estimated the application of IFRS 9's classification requirements on January 1, 2018 resulting in the increase of $606,270 in retained earnings, as well as the decrease of $606,270 in other equity interest.

At December 31, 2017, the remaining part of equity investments classified as available-for-sale with a fair value of $707,335 and financial assets at fair value through profit or loss of $28,800 that are held for long-term strategic purposes. At initial application of IFRS 9, the Group has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses would be reclassified to profit or loss on disposal. The Group estimated the application of IFRS 9's classification requirements on January 1, 2018 resulting in a decrease of $5,850 in retained earnings, as well as the increase of $5,850 in other equity interest, respectively.

(Continued)

At December 31, 2017, the Group had part of financial assets measured at cost of $279,494 and cumulative impairment losses of $274,587. At initial application of IFRS 9, the Group has designated these financial assets as measured at FVOCI. Consequently, all fair value gains and losses would be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses would be reclassified to profit or loss on disposal. The Group estimated the application of IFRS 9's classification requirements on January 1, 2018 resulting in a decrease of $274,587 in other equity interest, as well as the increase of $274,587 in retained earnings, respectively.

Remaining part of financial assets measured at cost of $71,015 and cumulative impairment losses of $797. At initial application of IFRS 9, the Group has designated these financial assets as measured at FVTPL. The Group estimated that there would be no effect for the application of IFRS 9's classification requirements on January 1, 2018.

At initial application of IFRS 9, the Group' s equity-accounted subsidiaries have designated their financial assets as measured at FVTPL or FVOCI. The Group estimated the application of IFRS 9' s classification requirements on January 1, 2018 resulting in the increase of $157,980 in retained earnings, as well as the decrease of $157,980 in other equity interest.

2) Impairment-Financial assets and contact assets

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

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

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

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

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

(Continued)

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

3) Disclosures

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

4) Transition

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

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

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

  – The determination of the business model within which a financial asset is held.

  – The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

  – The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 Revenue from Contracts with Customers

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

1) Sales of goods

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

(Continued)

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

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

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

2) Transition

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

The Group estimates the adoption of IFRS 15, resulting in the increase of $111,809, $902,193 and $298,611 in right to the returned goods (recognized under other current assets), contract liabilities and refund liabilities (recognized under other current liabilities), respectively; and a decrease of $902,193, $186,802 in unearned revenue and current provision, respectively, on January 1, 2018.

(iii) Amendments to IAS 7 "Disclosure Initiative"

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

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

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

(Continued)

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

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

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

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

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

(Continued)

(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) The net defined benefit liability is recognized as the present value of the defined benefit obligation less the fair value of plan assets.

(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 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.

(Continued)

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, 2017**	**December 31, 2016**	**Notes**
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 %	
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 %	

(Continued)

Investor	Subsidiary	Nature of business	Shareholding ratio December 31, 2017	Shareholding ratio December 31, 2016	Notes
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	37.04 %	38.08 %	Notes 1 and 3
AZURE WAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00 %	100.00 %	Note 1
AZURE WAVE	Azwave Holding (Samoa) Inc.(Azwave Samoa)	Investing activities	100.00 %	100.00 %	Note 1
AZURE WAVE	Azurewave Technologies (USA) Inc.	Market development activities	100.00 %	100.00 %	Note 1
AZURE WAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00 %	100.00 %	Note 1
Azwave Samoa	AZURE WAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and trading computer products	100.00 %	100.00 %	Note 1
Azwave Samoa	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00 %	100.00 %	Note 1
Azwave Samoa	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00 %	100.00 %	Note 1
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 %	Note 9
EXTECH LTD.	GRANDTECH PRECISION (TONGZHOU) CO., LTD.	Manufacturing, developing and selling electronic parts	- %	100.00 %	Note 10
AMA, MAINTEK COMPUTER (SUZHOU) CO., LTD.	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD.	Manufacturing and selling new electronic parts and premium hardware	100.00 %	100.00 %	Note 11
THE COMPANY	PEGATRON HOLLAND HOLDING B.V.(PHH)	Investing activities	100.00 %	100.00 %	

(Continued)

Investor	Subsidiary	Nature of business	Shareholding ratio December 31, 2017	December 31, 2016	Notes
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 %	Note 12
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 %	Note 14
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing activities	100.00 %	100.00 %	Note 14
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 %	Note 14
PIOTEK HOLDING	PIOTEK(H.K.) TRADING LIMITED	Trading activities	100.00 %	100.00 %	Note 14
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, electronic calculators, and aftersale service	100.00 %	100.00 %	
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00 %	100.00 %	
MAGNIFICENT	MAINTEK COMPUTER (SUZHOU) CO., LTD.	Manufacturing, developing and selling power supply units, computer cases, computer systems, notebooks, main boards, and computer peripherals, and providing after-sales service	100.00 %	100.00 %	
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00 %	100.00 %	
PROTEK	PROTEK (SHANGHAI) 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 %	

(Continued)

			Shareholding ratio		
Investor	**Subsidiary**	**Nature of business**	**December 31, 2017**	**December 31, 2016**	**Notes**
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	55.87 %	58.65 %	Note 7
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 Limited (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 %	
ASROCK	ASRock Rack Incorporation	Manufacturing and selling computer and related peripherals	65.97 %	69.40 %	Note 4
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	39.00 %	39.04 %	Notes 13 and 14
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00 %	100.00 %	Notes 2 and 14

(Continued)

Investor	Subsidiary	Nature of business	Shareholding ratio December 31, 2017	Shareholding ratio December 31, 2016	Notes
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	54.87 %	54.87 %	Notes 2 and 14
KINSUS INVESTMENT, ASUSTEK INVESTMENT AND ASUS INVESTMENT	FUYANG TECHNOLOGY CORPORATION	Manufacturing and wholesaling wires, cables, and electronic components	89.13 %	90.00 %	Notes 2, 5 and 14
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00 %	100.00 %	Note 14
PEGAVISION CORPORATION	PEGAVISION JAPAN INC.	Selling medical appliances	100.00 %	100.00 %	Note 14
FUYANG TECHNOLOGY CORPORATION	FUYANG FLEX HOLDING LTD. (FUYANG HOLDING)	Investing activities	100.00 %	100.00 %	
FUYANG HOLDING	FUYANG ELECTRONICS (SUZHOU) CO., LTD.	Researching, producing, inspecting, repairing and selling flexible multilayer model, computer digital signal process system and card; selling own produced products and providing related technical consulting service	100.00 %	100.00 %	
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	100.00 %	100.00 %	Note 14
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00 %	100.00 %	Note 14
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00 %	100.00 %	Note 14
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED(KINSUS CAYMAN)	Investing activities	100.00 %	100.00 %	Note 14
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00 %	100.00 %	Note 14
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00 %	100.00 %	Note 14
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 %	

(Continued)

Investor	Subsidiary	Nature of business	Shareholding ratio December 31, 2017	Shareholding ratio December 31, 2016	Notes
ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED(CAYMAN) (CASETEK CAYMAN)	Investing activities	60.47 %	60.73 %	Note 8
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00 %	100.00 %	
RIH LI	RI-TENG COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	
RIH LI	RI-PRO PRECISION MODEL (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	
RIH LI	RI-MING (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	
RIH LI	SHENG-RUI ELECTRONIC TECHNOLOGY (SHANGHAI) LIMITED	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product.	100.00 %	100.00 %	
RIH LI	RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	
RIH LI	KAI JIA COMPUTER ACCESSORY CO., LTD.	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling and surface processing for the aforementioned product.	100.00 %	100.00 %	
RIH LI	RI KAI COMPUTER ACCESSORY CO., LTD.(RI KAI)	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling.	100.00 %	- %	Note 6
CASETEK CAYMAN	APEX SUN LIMITED	Investing activities	100.00 %	100.00 %	
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, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling 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 %	

(Continued)

			Shareholding ratio		
Investor	**Subsidiary**	**Nature of business**	**December 31, 2017**	**December 31, 2016**	**Notes**
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 %	
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 %	100.00 %	
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00 %	100.00 %	
THE COMPANY	PEGATRON USA, INC.	Sales and repair service center in North America	100.00 %	100.00 %	

Note 1: AZURE WAVE TECHNOLOGY CORP. was included in the consolidated financial statements even if the Group held 37.04% of their total issued shares because the Group has acquired more than 50% of voting shares of the entity and has the ability to excise control over its board of directors.

Note 2: On May 19, 2017, PEGAVISION INVESTMENT changed its name to KINSUS INVESTMENT CO., LTD.

Note 3: As AZURE WAVE TECHNOLOGY CORP. issued employee restricted shares of stock on June 5, 2017, the Group’ s shareholding ratio in AZURE WAVE TECHNOLOGY CORP. decreased from 38.08% to 37.04%.

Note 4: On May 19, 2017. ASRock Rack Incorporation launched its capital increase. As the Group did not increase its investment based on its shareholding ratio, the Group's shareholding ratio in ASRock Rack Incorporation decreased from 69.40% to 65.97%.

Note 5: On May 26, 2017, FUYANG TECHNOLOGY CORPORATION launched its capital increase. As the Group did not increase its investment based on its shareholding ratio, the Group's shareholding ratio in FUYANG TECHNOLOGY CORPORATION decreased from 90.00% to 89.13%.

Note 6: RI LI has established and registered a company through capital increase on September 27, 2017.

(Continued)

Note 7: As ASROCK INCORPORATION issued employee restricted shares of stock on September 22, 2017, the Group's shareholding ratio in ASROCK INCORPORATION decreased from 58.65% to 55.87%.

Note 8: As CASETEK HOLDINGS LIMITED issued employee restricted shares of stock through capital increase on September 5, 2017, the Group' s shareholding ratio in CASETEK HOLDINGS LIMITED decreased from 60.73% to 60.47%.

Note 9: It was liquidated in December 2017.

Note 10: It was liquidated in May 2017.

Note 11: In October 2017, the Group has restructured, so that the 100% equity ownership of TOPTEK PRECISION INDUSTRY (SUZHOU) CO., LTD. was held by AMA and MAINTEK COMPUTER (SUZHOU) CO., LTD.

Note 12: It was liquidated in December 2017.

Note 13: As transferred treasury stock to employees on September 22, 2017, the Group' s shareholding ratio in KINSUS INTERCONNECT TECHNOLOGY CORP. decrease from 39.04% to 39.00%.

Note 14: Since the Group only held 39% of voting rights of KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS), with the remaining 61% shares belonging to different shareholders having no intention of exercising their votes collectively, and also, due to the fact that the Group' s participation dominated the previous shareholders' meetings, resulting in the Group having a significant control over KINSUS, therefore, KINSUS has been included in the consolidated financial statements of the Group as of December 31, 2017.

(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

(Continued)

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.

(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

(Continued)

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

Time deposits are accounted under cash and cash equivalents if they 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) 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, and included in statement of comprehensive 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.

(Continued)

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. 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.

(Continued)

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

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

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

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

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

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

(Continued)

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.

(Continued)

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

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

Compound financial instruments issued by the 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) 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.

(Continued)

3) Derecognition of financial liabilities

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

4) Offsetting of financial assets and liabilities

Financial assets and liabilities are presented on a net basis when the 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.

5) Financial guarantee contract

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

At initial recognition, a financial guarantee contracts not classified as financial liabilities at fair value through profit or loss by the Group 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.

(Continued)

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.

(Continued)

(h) 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.

(i) 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.

(j) 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.

(Continued)

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 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.

(k) 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.

(Continued)

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	1-50 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.

(l) 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.

(Continued)

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.

(m) 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 allocated to goodwill and any other assets.

(Continued)

(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	3-10 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.

(n) 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.

(Continued)

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.

(o) 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.

The Group has adopted IFRIC 21 "Levies" which prescribes the initial application date effective January 1, 2017. According to the Interpretation, the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of a levy, as identified by the legislation.

(p) 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.

(Continued)

(q) 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.

(r) 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.

(Continued)

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.

(s) 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.

(Continued)

(t) 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.

(Continued)

(u) 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.

(v) 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.

(Continued)

(w) Earnings per share

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

(x) 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 Notes 4(c) and 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. Please refer to Note 6(d) for further description of the valuation of inventories.

(Continued)

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	$ 16,139	16,143
Cash in banks	23,429,025	34,381,705
Time deposits	83,998,960	74,218,714
Cash equivalents-repurchase bonds	-	96,750
	$ 107,444,124	**108,713,312**

(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(k) and 8 for details.

(ii) Please refer to Note 6(aa) 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, 2017	December 31, 2016
Financial assets at fair value through profit or loss－current:		
Held-for-trading		
Shares of stock of listed companies	$ 351,785	270,926
Beneficiary certificates	2,473,128	4,096,921
Total	**$ 2,824,913**	**4,367,847**
Available-for-sale financial assets － current:		
Shares of stock of overseas listed companies	**$ 384,782**	**266,523**
Available-for-sale financial assets －noncurrent:		
Shares of stock of listed companies	$ 721,071	610,702
Equity securities － common stock	437,760	178,920
Total	**$ 1,158,831**	**789,622**
Financial assets carried at cost － noncurrent:		
Equity securities – common stock	$ 152,853	165,450
Equity securities – preferred stock	197,656	205,632
Total	**$ 350,509**	**371,082**

(Continued)

1) For the years ended December 31, 2017 and 2016, the Group recognized a net gain on financial assets reported at fair value through profit or loss of $146,321, and $67,790, respectively.

2) For the years ended December 31, 2017 and 2016, the unrealized gain on available-for-sale financial assets amounted to $541,228, and $124,524, 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 $20,573 and $0 for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the Group had accumulated impairment loss of $275,384, and $254,811, respectively.

4) Please refer to Note 6(y) for further discussion on gains and losses on disposal of investments.

5) Please refer to Note 6(aa) for the Group' s information on financial instruments risk management.

6) As of December 31, 2017 and 2016, 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			
	2017		2016	
	Comprehensive Income (Loss) (net of tax)	Net Income (Loss) (net of tax)	Comprehensive Income (Loss) (net of tax)	Net Income (Loss) (net of tax)
Increase 3%	$ 46,308	84,747	31,684	131,035
Decrease 3%	$ (46,308)	(84,747)	(31,684)	(131,035)

(iii) Foreign equity investments

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

(Unit: Foreign currency/NTD in Thousands)

	December 31, 2017			December 31, 2016		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
USD	$ 10,992	29.760	327,122	10,992	32.250	354,492
CNY	84,484	4.5545	384,782	57,329	4.6490	266,523

(Continued)

(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, 2017 and 2016 the Group did not have related transactions that do not qualify for hedge accounting presented as held-for-trading financial assets and financial liability.

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

		December 31, 2017	December 31, 2016
Notes receivable	$	52,010	96,170
Accounts receivable		151,085,518	95,115,492
Other receivables		1,504,367	42,605,518
Less: Allowance for impairment		(1,736,810)	(1,910,613)
	$	**150,905,085**	**135,906,567**

(i) Refer to Note 6(aa) 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, 2017 and 2016, the Company sold its accounts receivable without recourse as follows:

December 31, 2017

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

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

Note: In October 2016, the Company signed a one year joint accounts receivable factoring agreement with ANZ Bank and six other banks where each bank will factor on pro-rata basis.

For the years ended December 31, 2017 and 2016, the Company recognized a fee and interest on bank advance payment of $67,933 and $66,988, respectively, from the factoring of accounts receivable, which was accounted under financial costs in the statement of comprehensive income. Also, the difference of $0, and $38,700,000 between the carrying value of factored accounts receivable and the amount advanced was accounted under other receivables as of December 31, 2017 and 2016, respectively.

(Continued)

(iii) As of December 31, 2017 and 2016, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows:

December 31, 2017						
Purchaser	**Assignment Facility**	**Factoring Line (thousands)**	**Advanced Amount**	**Collateral**	**Significant Factoring Terms**	**Derecognition Amount**
Mega International Commercial Bank	$ 218,494	USD 30,000	$ 89,303	None	The accounts receivable factoring is without recourse	$ 218,494

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

(d) Inventories

	December 31, 2017	December 31, 2016
Merchandise	$ 882,380	629,690
Finished goods	79,536,751	65,797,600
Work in process	16,687,884	17,624,217
Raw materials	33,666,478	28,203,409
Subtotal	130,773,493	112,254,916
Less: Allowance for inventory market decline and obsolescence	(6,898,500)	(4,935,514)
Total	$ 123,874,993	107,319,402

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

	For the years ended December 31	
	2017	2016
Cost of goods sold	$ 1,134,712,441	1,067,674,727
Provision on (Reversal of) inventory market price decline	1,962,986	(1,519,661)
Loss on disposal of inventory	9,263,307	27,187,138
Unallocated manufacturing overhead	1,177,097	1,254,990
Loss on physical inventory	22,795	45,802
	$ 1,147,138,626	1,094,642,996

For the year ended December 31, 2017, the Group recognized a provision on inventory market price decline of $1,962,986, which was charged to profit or loss under cost of goods sold. The gain was recognized from the reversal of provision arising from destocking for the year ended December 31, 2016 of $1,519,661. Such gain was deducted from cost of goods sold.

As of December 31, 2017 and 2016, the aforesaid inventories were not pledged as collateral.

(Continued)

(e) 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, 2017	December 31, 2016
Individually insignificant associates	$ **503,718**	**362,909**

	For the years ended December 31	
	2017	**2016**
The Group's share of profit (loss) of the associates		
Loss for the year	(4,484)	(3,131)
Other comprehensive income (loss)	167,389	(48,217)
Total comprehensive income (loss)	**162,905**	**(51,348)**

(ii) As of December 31, 2017 and 2016, the aforesaid investments accounted for using equity method 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 $561,251 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 derecognized assets and liabilities of Ability 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**

(Continued)

(g) 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, 2017	Equity ownership of non-controlling interest December 31, 2016
KINSUS and its subsidiaries	Taiwan	61.00 %	60.96 %
ABILITY and its subsidiaries	Taiwan	- %	- %
ASROCK and its subsidiaries	Taiwan	44.13 %	41.35 %
CASETEK CAYMAN	Taiwan/ Cayman	39.53 %	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, 2017	December 31, 2016
Current assets	$ 18,774,402	21,615,555
Non-current assets	23,503,075	19,638,160
Current liabilities	(10,537,887)	(8,639,797)
Non-current liabilities	(1,824,592)	(1,599,149)
Net assets	**$ 29,914,998**	**31,014,769**
Non-controlling interest	**$ 17,744,607**	**18,151,995**

	For the years ended December 31 2017	For the years ended December 31 2016
Operating revenue	**$ 22,335,486**	**23,165,066**
Net income for the year	$ 335,322	2,073,028
Other comprehensive loss	(110,417)	(326,985)
Comprehensive income	**$ 224,905**	**1,746,043**
Net income attribute to non-controlling interest	**$ 436,428**	**1,446,006**
Comprehensive income attribute to non-controlling interest	**$ 388,981**	**1,325,193**
Cash flows from operating activities	$ 6,002,634	5,752,676
Cash flows from investing activities	(6,805,361)	(4,971,181)
Cash flows from financing activities	(6,037)	(2,312,646)
Net decrease in cash and cash equivalents	**$ (808,764)**	**(1,531,151)**

(Continued)

(ii) Information regarding ABILITY and its subsidiaries

	December 31, 2017	December 31, 2016
Current assets	$ -	-
Non-current assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Net assets	**$ -**	**-**
Non-controlling interest	**$ -**	**-**

	For the years ended December 31	
	2017	2016 Jan.-Jun. (Note)
Operating revenue	**$ -**	**5,758,572**
Net income for the period	$ -	48,287
Other comprehensive income	-	30,123
Comprehensive income	**$ -**	**78,410**
Net income attribute to non-controlling interest	**$ -**	**48,655**
Comprehensive income attribute to non-controlling interest	**$ -**	**74,224**
Cash flows from operating activities	$ -	213,863
Cash flows from investing activities	-	(205,297)
Cash flows from financing activities	-	(11,498)
Net decrease in cash and cash equivalents	**$ -**	**(2,932)**

Note: As disclosed in Note 6(f), the Group ceased 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 above.

(iii) Information regarding ASROCK and its subsidiaries

	December 31, 2017	December 31, 2016
Current assets	$ 8,605,071	7,751,292
Non-current assets	362,132	330,798
Current liabilities	(3,252,207)	(2,438,731)
Non-current liabilities	(23,003)	(15,879)
Net assets	**$ 5,691,993**	**5,627,480**
Non-controlling interest	**$ 2,534,768**	**2,309,248**

(Continued)

	For the years ended December 31	
	2017	2016
Operating revenue	$ **9,211,647**	**7,120,620**
Net income for the year	442,487	123,375
Other comprehensive loss	(315,501)	(64,830)
Comprehensive income	$ **126,986**	**58,545**
Net income attribute to non-controlling interest	$ **171,793**	**29,750**
Comprehensive income attribute to non-controlling interest	$ **41,793**	**340**
Cash flows from operating activities	$ 404,572	541,030
Cash flows from investing activities	(745,570)	8,117
Cash flows from financing activities	(35,676)	(287,604)
Net (decrease) increase in cash and cash equivalents	$ **(376,674)**	**261,543**

(iv) Information regarding CASETEK CAYMAN

	December 31, 2017	December 31, 2016
Current assets	$ 24,532,609	28,863,585
Non-current assets	24,376,375	21,739,451
Current liabilities	(13,006,681)	(19,445,716)
Non-current liabilities	(7,348,521)	(2,412,077)
Net assets	$ **28,553,782**	**28,745,243**
Non-controlling interest	$ **11,325,194**	**11,287,107**

	For the years ended December 31	
	2017	2016
Operating revenue	$ **33,253,215**	**32,763,310**
Net income for the year	$ 1,656,491	2,801,624
Other comprehensive loss	(566,263)	(2,340,299)
Comprehensive income	$ **1,090,228**	**461,325**
Net income attribute to non-controlling interest	$ **652,240**	**1,100,086**
Comprehensive income attribute to non-controlling interest	$ **428,498**	**176,272**
Cash flows from operating activities	$ 4,926,571	5,188,093
Cash flows from investing activities	(6,458,042)	(6,529,986)
Cash flows from financing activities	(1,932,221)	2,075,656
Net (decrease) increase in cash and cash equivalents	$ **(3,463,692)**	**733,763**

(Continued)

(h) 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, 2017 and 2016 were as follows:

	Land	Buildings	Machinery and equipment	Instrument equipment	Other facilities	Construction in progress	Total
Cost or deemed cost:							
Balance on January 1, 2017	$ 4,320,454	41,981,188	55,592,564	1,471,421	22,666,711	6,140,308	132,172,646
Additions	-	2,296,433	7,757,178	80,065	5,357,531	4,854,351	20,345,558
Disposals and obsolescence	-	(304,006)	(3,297,134)	(120,600)	(2,566,241)	-	(6,287,981)
Reclassifications	47,287	1,693,046	6,032,557	106,673	3,080,897	(4,355,037)	6,605,423
Effect of movement in exchange rate	(5,812)	(1,897,336)	(1,502,154)	(84,377)	(1,144,338)	(111,396)	(4,745,413)
Balance on December 31, 2017	**$ 4,361,929**	**43,769,325**	**64,583,011**	**1,453,182**	**27,394,560**	**6,528,226**	**148,090,233**
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**
Depreciation and impairment loss：							
Balance on January 1, 2017	$ -	13,531,902	35,312,005	1,189,276	15,278,654	-	65,311,837
Depreciation for the year	-	2,156,554	6,685,271	178,271	3,852,111	-	12,872,207
Reversal of impairment loss	-	(4)	(44,650)	(7)	(10,386)	-	(55,047)
Reclassifications	-	100,870	(95,680)	59,255	58,071	-	122,516
Disposals and obsolescence	-	(296,890)	(2,816,532)	(118,285)	(2,321,982)	-	(5,553,689)
Effect of movement in exchange rate	-	(629,233)	(1,146,892)	(78,238)	(828,499)	-	(2,682,862)
Balance on December 31, 2017	**$ -**	**14,863,199**	**37,893,522**	**1,230,272**	**16,027,969**	**-**	**70,014,962**
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**
Carrying amounts：							
Balance on December 31, 2017	**$ 4,361,929**	**28,906,126**	**26,689,489**	**222,910**	**11,366,591**	**6,528,226**	**78,075,271**
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**

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

	For the years ended December 31	
	2017	**2016**
(Reversal gain) impairment loss	**$ (55,047)**	**59,968**

(Continued)

(ii) KINSUS INTERCONNECT TECHNOLOGY CORP. completed a series of farm land purchases covering a total land area of 36,115.24 square meters in the name of KINSUS's chairman instead of KINSUS, due to the restriction imposed by the local government.

(iii) For the years ended December 31, 2017 and 2016, an impairment loss on damaged and to be maintained equipment of $418 and $16,571, respectively, was recognized by CASETEK CAYMAN and its subsidiaries. In addition, CASETEK CAYMAN and its subsidiaries sold damaged equipment at selling price exceeding their carrying amount by $925 and $2,959 which was recognized as a reversal gain for the years ended December 31, 2017 and 2016, respectively.

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

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

(i) Investment property

	Land	Buildings	Total
Cost or deemed cost:			
Balance on January 1, 2017	$ -	65,086	65,086
Effect of movement in exchange rate	-	(1,323)	(1,323)
Balance on December 31, 2017	**$ -**	**63,763**	**63,763**
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**
Depreciation and impairment loss：			
Balance on January 1, 2017	$ -	7,865	7,865
Depreciation for the year	-	3,149	3,149
Effect of movement in exchange rate	-	(121)	(121)
Balance on December 31, 2017	**$ -**	**10,893**	**10,893**
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**
Carrying amounts：			
Balance on December 31, 2017	**$ -**	**52,870**	**52,870**
Balance on December 31, 2016	**$ -**	**57,221**	**57,221**

(Continued)

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

	For the years ended December 31	
	2017	**2016**
Rental income	$ 1,987	18,047
Direct operating expenses arising from investment property that generate rental income	$ 3,149	8,594

(ii) As of December 31, 2017 and 2016, the fair value of investment property of the Group was \$86,145 and \$87,564, respectively. The fair value of investment property was based on the market price evaluation of the buildings located in the area.

(iii) As of December 31, 2017 and 2016, the aforesaid investment properties were not pledged as collateral.

(j) Intangible assets

The movements in the costs of intangible assets, amortization, and impairment loss of the Group for the years ended December 31, 2017 and 2016 were as follows:

	Goodwill	**Others**	**Total**
Costs:			
Balance on January 1, 2017	$ 1,799,633	1,090,054	2,889,687
Additions	-	366,923	366,923
Disposals	-	(49,423)	(49,423)
Reclassifications	-	14,663	14,663
Effect of movement in exchange rate	(86,962)	(47,464)	(134,426)
Balance on December 31, 2017	**$ 1,712,671**	**1,374,753**	**3,087,424**
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**
Amortization and Impairment Loss:			
Balance on January 1, 2017	$ 671,792	778,709	1,450,501
Amortization for the year	-	233,799	233,799
Disposals	-	(49,423)	(49,423)
Effect of movement in exchange rate	-	(44,687)	(44,687)
Balance on December 31, 2017	**$ 671,792**	**918,398**	**1,590,190**

(Continued)

	Goodwill	Others	Total
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**
Carrying amounts:			
Balance on December 31, 2017	**$ 1,040,879**	**456,355**	**1,497,234**
Balance on December 31, 2016	**$ 1,127,841**	**311,345**	**1,439,186**

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

	For the years ended December 31 2017	2016
Operating costs	$ 122,562	38,802
Operating expenses	111,237	102,746
	$ 233,799	**141,548**

(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, 2017	December 31, 2016
Mechanics	$ 997,954	1,081,452
Consumer electronic	41,403	44,867
Others	1,522	1,522
	$ 1,040,879	**1,127,841**

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 for the years ended December 31, 2017 and 2016. The key assumptions used in determining the value in use by each cash-generating unit were as follows:

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

The key assumptions used to estimate the value in use were as follows:

	December 31, 2017	December 31, 2016
Discount rate (before tax)	11.20 %	14.21 %

(Continued)

The discount rate was a pre-tax measure based on the rate of 10-year government bonds issued by the Taiwan government in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing generally in equities and the systemic risk of the specific CGU.

Cash flows of five years were included in the discounted cash flow model, which was based on the financial forecast for the following year approved by the management.

Budgeted EBITDA over the financial forecast period was based on expectations of future outcome, taking into account the past experience, adjusted for the anticipated revenue growth. Revenue growth is projected by taking into account the average growth levels experienced over the past few years.

2) The recoverable amount of the customer electronic 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, 2017 and 2016, the Group has not noted any indication of potential impairment loss based on the impairment testing performed.

(k) Other financial assets and other assets

Other financial assets and other assets were as follows:

	December 31, 2017	December 31, 2016
Other financial assets-current	$ 1,222,740	479,510
Other financial assets-noncurrent	300,700	427,655
Other current assets	8,741,935	7,172,425
Other noncurrent assets	51,384	46,143
	$ 10,316,759	**8,125,733**

(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 deposits. 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.

(Continued)

(l) Short-term loans

	December 31, 2017	December 31, 2016
Unsecured bank loans	$ **46,058,620**	**31,148,468**
Interest rate	**0.5%~6.85%**	**0.51%~6.85%**

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

(m) Long-term loans

	December 31, 2017	December 31, 2016
Unsecured bank loans	$ 7,961,112	4,896,147
Secured bank loans	101,000	171,000
	8,062,112	5,067,147
Less: current portion	(1,107,312)	(536,257)
Less: fees	-	(8,000)
Total	$ **6,954,800**	**4,522,890**
Interest rate	**1.02%~2.80%**	**1.02%~2.59%**

(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 for the year year ended December 31, 2016. CASETEK CAYMAN is the endorsement guarantee provider for such loan.

(ii) Loan covenants

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

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 (Profit before tax + depreciation + amortization + interest expenses)/interest expenses): should not be less than 400%.

(Continued)

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, 2017 and 2016.

2) 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, 2017 and 2016.

(n) Bonds payable

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

	December 31, 2017	December 31, 2016
Ordinary corporate bonds issued	$ 7,000,000	-
Unamortized discount on bonds payable	(7,524)	-
Bonds payable, end of the year	**$ 6,992,476**	**-**

(Continued)

	For the years ended December 31	
	2017	**2016**
Interest expense	$ 34,164	-

On May 9, 2017, the Company's Board of Directors approved to issue unsecured ordinary corporate bonds amounting to no more than $15,000,000, which were approved and declared effective by the Taipei Exchange (TPEx) on July 4, 2017 and December 29, 2017, respectively.

The offering information and main rights and obligations were as follows:

Item	1st unsecured ordinary bonds issued in 2017
1.Issuing amount	The Bonds are issued at $7,000,000, which comprise Tranche A, Tranche B and Tranche C. The issuing amounts of Tranche A, Tranche B and Tranche C are $3,000,000, $2,000,000 and $2,000,000, respectively.
2.Par value	Each unit is valued at $1,000.
3.Offering price	The Bonds are issued by par value at the issuance date.
4.Issuance period	Each of Tranche A, Tranche B and Tranche C has 3-year term, 5-year term and 7-year term, respectively. The issuance period of Tranche A commences from July 13, 2017 and matures on July 13, 2020. The issuance period of Tranche B commences from July 13, 2017 and matures on July 13, 2022. The issuance period of Tranche C commences from July 13, 2017 and matures on July 13, 2024.
5.Coupon rate	Tranche A, B and C bear annual coupon rates of 0.91%, 1.06% and 1.20%, respectively.
6.Repayment	Tranche A, Tranche B and Tranche C are repayable on maturity.
7.Interest payment	Interests are payable annually at coupon rate from the issuance date. The payment of each bond is rounded to the nearest dollar. If the repayment date and interest payment date are bank closing days, principal and interest shall be paid without extra interest on the next business day. If bondholders receive principal and interest past due the repayment date and interest payment date, there will no calculation of extra interest.
8.Guarantee	The Bonds are unsecured ordinary corporate bonds.

Item	2nd unsecured ordinary bonds issued in 2017
1.Issuing amount	The Bonds are issued at $8,000,000, which comprise Tranche A, Tranche B and Tranche C. The issuing amounts of Tranche A, Tranche B and Tranche C are $1,000,000, $4,500,000 and $2,500,000, respectively.
2.Par value	Each unit is valued at $1,000.
3.Offering price	The Bonds are issued by par value at the issuance date.
4.Issuance period	Each of Tranche A, Tranche B and Tranche C has 3-year term, 5-year term and 7-year term, respectively. The issuance period of Tranche A commences from January 10, 2018 and matures on January 10, 2021. The issuance period of Tranche B commences from January 10, 2018 and matures on January 10, 2023. The issuance period of Tranche C commences from January 10, 2018 and matures on January 10, 2025.

(Continued)

Item	2nd unsecured ordinary bonds issued in 2017
5.Coupon rate	Tranche A, B and C bear annual coupon rates of 0.78%, 0.92% and 1.08%, respectively.
6.Repayment	Tranche A, Tranche B and Tranche C are repayable on maturity.
7.Interest payment	Interests are payable annually at coupon rate from the issuance date. The payment of each bond is rounded to the nearest dollar. If the repayment date and interest payment date are bank closing days, principal and interest shall be paid without extra interest on the next business day. If bondholders receive principal and interest past due the repayment date and interest payment date, there will no calculation of extra interest.
8.Guarantee	The Bonds are unsecured ordinary corporate bonds.

(o) Provisions

		Warranties	Allowance for sales returns and discounts	Total
Balance on January 1, 2017	$	83	159,981	160,064
Provisions made during the year		-	54,744	54,744
Provisions used during the year		(78)	(22,610)	(22,688)
Provisions reversed during the year		-	(4,417)	(4,417)
Effect of movement in exchange rate		(5)	(896)	(901)
Balance on December 31, 2017	$	-	186,802	186,802
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

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.

(Continued)

(p) Operating leases

(i) Leasee

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

	December 31, 2017	December 31, 2016
Less than one year	$ 2,331,263	1,603,335
Between one and five years	3,281,836	1,564,062
More than five years	120,346	206,720
	$ 5,733,445	**3,374,117**

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, 2017 and 2016, expenses recognized in profit or loss in respect of operating leases were as follows:

	For the years ended December 31	
	2017	2016
Cost of sales	$ 1,899,926	1,588,808
Operating expenses	431,008	496,377
	$ 2,330,934	**2,085,185**

(ii) Long-term prepaid rentals

	December 31, 2017	December 31, 2016
Long-term prepaid rentals	**$ 3,783,164**	**4,014,064**

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

2) As of December 31, 2017 and 2016, the aforesaid land use rights were not pledged as collateral.

(q) Employee benefits

(i) Defined benefit plans

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

	December 31, 2017	December 31, 2016
Present value of defined benefit obligations	$ 234,479	230,574
Fair value of plan assets	(147,608)	(143,849)
Net defined benefit liabilities	**$ 86,871**	**86,725**

(Continued)

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, 2017 and 2016 were as follows:

	For the years ended December 31	
	2017	**2016**
Defined benefit obligation, January 1	$ 230,574	331,194
Current service costs and interest	10,347	38,041
Re-measurements of the net defined benefit liability		
－Actuarial gains (losses) arose from changes in demographic assumptions	2,050	(2,432)
－Actuarial gains arose from changes in financial assumption	8,948	9,163
－Experience adjustments	(13,500)	(11,405)
Benefits paid by the plan	(3,940)	-
Loss of control of a subsidiary	-	(133,987)
Defined benefit obligation, December 31	**$ 234,479**	**331,194**

(Continued)

3) Movements in the fair value of plan assets

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

	For the years ended December 31	
	2017	**2016**
Fair value of plan assets, January 1	$ 143,849	195,829
Interests revenue	2,421	10,799
Re-measurements of the net defined benefit liability		
－Experience adjustments	(1,088)	(409)
Contributions made	6,241	6,286
Benefits paid by the plan	(3,940)	-
Expected return on plan assets	125	(914)
Loss of control of a subsidiary	-	(67,742)
Fair value of plan assets, December 31	**$ 147,608**	**143,849**

4) Expenses recognized in profit or loss

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

	For the years ended December 31	
	2017	**2016**
Current service cost	$ 6,318	33,651
Net interest on net defined benefit liability	1,608	(6,409)
	$ 7,926	**27,242**
Operating costs	$ 577	841
Operating expenses	7,349	26,401
	$ 7,926	**27,242**

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, 2017 and 2016 were as follows:

	For the years ended December 31	
	2017	**2016**
Cumulative amount, January 1	$ 79,280	83,545
Recognized during the year	(1,414)	(4,265)
Cumulative amount, December 31	**$ 77,866**	**79,280**

(Continued)

6) Actuarial assumptions

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

	December 31, 2017	**December 31, 2016**
Discount rate	1.15%～1.63%	1.35%～1.80%
Future salary increase rate	2.00%～3.00%	2.00%～3.00%

Based on the actuarial report, the Group is expected to make a contribution payment of $6,191 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 8 and 24 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 discount rate and future salary increase rate. Changes in actuarial assumptions may have significant impact on the amount of defined benefit obligation.

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

	Impact on the present value of defined benefit obligation	
	Increase by 0.50%	**Decrease by 0.50%**
December 31, 2017		
Discount rate	(21,733)	24,362
Future salary increase rate	23,767	(21,443)
December 31, 2016		
Discount rate	(21,587)	24,285
Future salary increase rate	20,536	(18,137)

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.

(Continued)

(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, 2017 and 2016 amounted to $5,273,507 and $5,785,909, respectively.

(iii) Short-term employee benefits

As of December 31, 2017 and 2016, the Group's short-term employee benefits liabilities were $330,441 and $333,344, respectively.

(r) Income Tax

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

	For the years ended December 31	
	2017	**2016**
Current income tax expense		
Current period incurred	$ 5,630,157	6,172,734
Prior years income tax adjustment	(163,761)	120,865
10% surtax on undistributed earnings	203,174	991,507
Deferred tax expense		
The origination and reversal of temporary differences	(1,271,292)	(342,828)
Income tax expense	**$ 4,398,278**	**6,942,278**

(ii) The amount of income tax recognized in other comprehensive income (loss) for the years ended December 31, 2017 and 2016 was as follows:

	For the years ended December 31	
	2017	**2016**
Items that will not be reclassified subsequently to profit or loss:		
Re-measurements of the net defined benefit plans	**$ (1,088)**	**1,286**
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign financial statements	**$ (10,392)**	**(96,953)**

(Continued)

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

	For the years ended December 31	
	2017	**2016**
Profit before income tax	$ 20,413,050	29,079,670
Income tax on pre-tax financial income calculated at the domestic rates applicable to profits in the country concerned	6,129,532	7,925,416
Permanent differences	(1,063,023)	(1,997,374)
Changes in unrecognized temporary differences	(1,409,781)	(1,224,929)
Oversea dividends received	480,802	1,072,864
Prior years income tax adjustment	(163,761)	120,865
10% surtax on undistributed earnings	203,174	991,507
Others	221,335	53,929
Income tax expense	**$ 4,398,278**	**6,942,278**

(iv) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

As of December 31, 2017 and 2016, the temporary differences associated with investments in subsidiaries were not recognized as deferred income tax liabilities as the 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, 2017	**December 31, 2016**
The aggregate temporary differences associated with investments in subsidiaries	**$ 43,076,877**	**34,747,332**
Unrecognized deferred tax liabilities	**$ 7,323,069**	**5,907,046**

2) Unrecognized deferred tax assets

	December 31, 2017	**December 31, 2016**
Deductible temporary differences	$ 656,964	692,807
Tax losses	852,174	810,089
	$ 1,509,138	**1,502,896**

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.

(Continued)

As of December 31, 2017, 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	2012~2017	$ 2,037,861	2018~2022
ASROCK and its subsidiaries	2013~2017	339,364	2023~2027
CASETEK CAYMAN and its subsidiaries	2015~2017	1,862,211	2020~2022
AZUREWAVE and its subsidiaries	2013~2016	394,481	2023~2026
AMA PRECISION	2009~2017	147,345	2019~2027
		$ 4,781,262	

3) Recognized deferred tax assets and liabilities

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

	Gain on foreign investments	Others	Total
Deferred tax liabilities:			
Balance on January 1, 2017	$ 1,766,001	37,243	1,803,244
Recognized in profit	(165,393)	(13,380)	(178,773)
Recognized in other comprehensive income	(9,387)	-	(9,387)
Exchange differences on translation	(14,404)	801	(13,603)
Balance on December 31, 2017	**$ 1,576,817**	**24,664**	**1,601,481**
Balance on January 1, 2016	$ 2,519,429	59,552	2,578,981
Recognized in (profit) loss	(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 on December 31, 2016	**$ 1,766,001**	**37,243**	**1,803,244**

(Continued)

Deferred tax assets:		Provision for Contingent Service Cost	Gain on valuation of inventory	Unrealized expenses	Others	Total
Balance on January 1, 2017	$	84,387	752,469	1,337,980	173,097	2,347,933
Recognized in profit		24,178	542,971	403,502	121,868	1,092,519
Recognized in other comprehensive income		-	-	1,005	1,088	2,093
Exchange differences on translation		-	(41,881)	(54,728)	56	(96,553)
Balance on December 31, 2017	$	**108,565**	**1,253,559**	**1,687,759**	**296,109**	**3,345,992**
Balance on January 1, 2016	$	151,534	1,106,849	1,452,824	141,299	2,852,506
Recognized in (profit) loss		(33,089)	(287,105)	42,112	41,145	(236,937)
Recognized in other comprehensive income		-	-	-	(1,286)	(1,286)
Exchange differences on translation		(1,267)	(67,275)	(113,724)	5,642	(176,624)
Loss of control of a subsidiary		(32,791)	-	(43,232)	(13,703)	(89,726)
Balance on December 31, 2016	$	**84,387**	**752,469**	**1,337,980**	**173,097**	**2,347,933**

(v) Status of approval of income tax

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

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

Years of Approval	Company Name
2015	AZURE WAVE, AZURE LIGHTING, EZWAVE TECHNOLOGIES, AMA, ASUS INVESTMENT, ASUSTEK INVESTMENT, ASUSPOWER INVESTMENT, KINSUS INTERCONNECT TECHNOLOGY CORP. (whose 2014 income tax return has not been approved yet), PEGAVISION, KINSUS INVESTMENT, STARLINK, ASFLY TRAVEL SERVICE LTD., HUA-YUAN INVESTMENT LTD., ASROCK INCORPORATION (whose 2014 income tax return has not been approved yet), ASROCK RACK, INC., PEGA INTERNATIONAL LIMITED, LUMENS OPTICS and RIH KUAN METAL.

(Continued)

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

	December 31, 2017	December 31, 2016
Stockholders' imputation tax credit account	(Note)	4,779,126

	2017	2016 (Actual)
Tax deduction ratio for earnings distributable to R.O.C. residents	(Note)	14.70 %

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.

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

(s) Share capital and other interests

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

(i) Nominal ordinary shares

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

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

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

(Continued)

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

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

(ii) Global depositary receipts

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

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

1) Voting Rights

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

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

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

(Continued)

(iii) Capital surplus

The components of the capital surplus were as follows:

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

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

(iv) Retained earnings

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

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

(Continued)

1) Legal reserve

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

2) Special reserve

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

3) Earnings Distribution

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

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

(v) Treasury stock

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

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

(Continued)

(vi) Other equity accounts (net of tax)

	Exchange differences on translation of foreign financial statements	Available -for-sale investments	Deferred compensation arising from issuance of restricted stock	Total
Balance on January 1, 2017	$ (3,552,939)	183,953	(429,882)	(3,798,868)
Exchange differences on foreign operation	(6,154,844)	-	-	(6,154,844)
Exchange differences on associates accounted for using equity method	9,409	-	-	9,409
Unrealized gain on available-for-sale financial assets	-	541,228	-	541,228
Unrealized gain on available-for-sale financial assets of associates accounted for using equity method	-	157,980	-	157,980
Deferred compensation cost	-	-	(792,350)	(792,350)
Balance on December 31, 2017	**$ (9,698,374)**	**883,161**	**(1,222,232)**	**(10,037,445)**
Balance on 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	-	(14,425)	-	(14,425)
Deferred compensation cost	-	-	808,495	808,495
Disposal of subsidiaries	6,248	(12,856)	-	(6,608)
Balance on December 31, 2016	**$ (3,552,939)**	**183,953**	**(429,882)**	**(3,798,868)**

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

	For the years ended December 31	
	2017	**2016**
Balance on January 1	$ 33,752,611	41,958,390
Profit attributable to non-controlling interests	1,331,784	2,797,577
Other comprehensive income attributable to non-controlling interests		
Exchange differences on foreign operation	(434,397)	(1,243,916)
Unrealized gain on available-for-sale financial assets	-	151,805
Actuarial (loss) gain on defined benefit plans	(1,798)	2,270
Disposal of subsidiaries	-	(7,454,156)
Changes in ownership interest in subsidiaries	165,279	(2,575)
Changes in non-controlling interests	(1,065,407)	(2,456,784)
Balance on December 31	**$ 33,748,072**	**33,752,611**

(Continued)

(t) Share-based payment

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

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

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

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

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

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

(Continued)

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 cancel the shares thereafter.

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

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

(i) Determining the fair value of equity instruments granted

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

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

(Continued)

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

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

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

(ii) Restricted stock to employee

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

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

(iii) Expenses resulting from share-based payments

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

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

(u) Subsidiary's share-based payments

(i) For the year ended December 31, 2016, Ability (TW) had a share-based payment arrangement as follows:

Type of arrangement	Grant date	Thousand shares granted	Contractual life	Vesting condition
Restricted stock to employees (Note)	May 21, 2014	22,000	3 years	3 years of service

The aforementioned share-based arrangement was equity-settled.

Note: The restricted shares of stock issued by Ability Enterprise may not be transferred unless the vesting conditions have elapsed. The holder of the restricted shares are entitled to the right as existing common shareholders; Employee resigns in the vesting period is obligate to return the restricted shares of stock but without returning the distributed dividend.

(Continued)

1) Determining the fair value of equity instruments granted

The Trinomial Tree Option Valuation Model was adopted to estimate the fair value of the second batch of Ability (TW) employee stock option on the day of granted and at the end of each period. The measurement inputs were as follows:

	Equity-settled
	Restricted stock to employee
	Issued in 2014
Grant date	May 21, 2014
Stock price at grant date	$ 20.90
Exercise price	10.00
Expected duration	3 years
Current market price	20.90
Expected volatility	Note A
Expected dividend yield	Note B
Risk-free interest rate	Note C

Note A : The expected volatility is 22.22% for the 1st year, 21.15% for the 2nd year, and 25.67% for the 3rd year.

Note B : The dividend yield is 8.22% for the 1st year, - % for the 2nd year, and - % for the 3rd year.

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

2) Expenses resulting from share-based payments

Ability (TW) incurred expenses from share-based payment transactions as follows:

	For the years ended December 31	
	2017	2016 (Note)
Equity-settled	$ -	10,170

Note: As disclose in Note 6(f), the Group ceased 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 above.

(Continued)

(ii) Restricted stock to employee of AZURE WAVE

On June 16, 2016, pursuant to the resolution of its shareholders during their meeting, AZURE WAVE will issue 5,000 thousand new restricted shares of stock to those full-time employees who meet certain requirements of AZURE WAVE. The restricted shares of stock has been registered with and approved by the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C. On March 13, 2017, board of directors approved to issue all restricted shares of stock with fair value of NT$14.55 each at grant date. The record date for the capital increase through issuance of restricted shares of stock was May 25, 2017. On June 5, 2017, AZURE WAVE's board of directors approved to decrease issued shares to 3,655 thousand shares. Furthermore, the record date for the capital increase through issuance of restricted shares of stock was changed to June 5, 2017.

Employees with restricted stock awards are entitled to purchase shares at the price of NT$10 per share provided that these employees continue to work for AZURE WAVE 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 AZURE WAVE, before it is vested. These shares of stock shall not be sold, pledged, transferred, gifted, or by any other means of disposed to third parties during the custody period. These shares of stock are entitled to the same right as the holders of common stock 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, AZURE WAVE will repurchase all the unvested shares at the issue price, and cancel the shares thereafter.

For the years ended December 31, 2017, AZURE WAVE recognized share-based compensation cost of $5,715. As of December 31, 2017, AZURE WAVE has deferred compensation cost arising from issuance of restricted stock of $7,589.

(iii) Restricted stock to employee of ASROCK

On June 7, 2017, the shareholders of ASROCK approved a resolution passed during their meeting to award 6,000 thousand new restricted shares of stock to those full-time employees who meet certain requirement of ASROCK. The restricted shares of stock totaling 5,750 thousand shares have been registered with and approved by the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C. On September 22, 2017, 5,704 thousand shares were actually issued for such award with fair value of NT$68.8 each at grant date.

Employees with restricted stock awards are entitled to purchase shares at the price of NT$10 per share provided that these employees continue to work for ASROCK for the following three years. 40%, 30% and 30% 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 ASROCK, 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 same right as holders of common shares once issued, except for those shares kept by a trust or shares that do not meet the vesting condition.

(Continued)

The aforesaid information of restricted stock to employees was follows:

	Restricted stock to employee			
Vesting period	Year 1	Year 2	Year 3	Total
Original vested shares (In thousands)	2,282	1,711	1,711	5,704
Estimated employee turnover rate	14.04 %	28.02 %	42.73 %	
Vested shares after considering employee turnover rate (In thousands)	1,961	1,232	980	4,173
Embedded value	NT$58.80	58.80	58.80	
Service costs	$ 115,323	72,425	57,624	245,372

On September 22, 2017, ASROCK issued restricted shares of stock to employees totaling 5,704 thousand shares, which was charged to capital surplus of $245,372. As of December 31, 2017, ASROCK has deferred compensation cost arising from issuance of restricted stock of $174,268.

1) Cancellation or amendment to share-based payment transactions

ASROCK did not made any cancellation or amendment to share-based payment transactions for the year ended December 31, 2017.

2) The expense resulting from the share-based payment transactions was as follows:

	For the year ended December 31
	2017
Expense resulting from equity-settled share-based payment	$ 71,104

(iv) Restricted stock to employee of CASETEK CAYMAN

On June 22, 2017, pursuant to the resolution of its shareholders during their meeting, CASETEK CAYMAN will issue 1,500 thousand new restricted shares of stock to those full-time employees who meet certain requirement of CASETEK CAYMAN and its subsidiaries. The restricted shares of stock has been registered with and approved by the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C. On August 31, 2017, board of directors of CASETEK CAYMAN approved to issue all restricted shares of stock. The record date for the capital increase through issuance of restricted shares of stock was September 5, 2017.

Employees with restricted stock awards are entitled to obtain shares without consideration provided that these employees continue to work for CASETEK CAYMAN for at least six months. 50% of the restricted stock is vested in six months, and the remaining shares of stock is vested in year 1. The restricted stock is kept by a trust, which is appointed by CASETEK CAYMAN, before it is vested. These shares of stock shall not be sold, pledged, transferred, gifted, or by any other means of disposed to third parties during the custody period. The voting rights of these shareholders are executed by the custodian. If the shares remain unvested after the vesting period, CASETEK CAYMAN bears the right to retire the restricted shares of stock without any payment 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.

(Continued)

Information on aforesaid restricted shares of stock to employee was as follows:

	For the year ended December 31
(In thousands of shares)	2017
Outstanding as of January 1	$ -
Granted during the year	1,500
Outstanding as of December 31	**$ 1,500**

Capital surplus of $135,000 was recognized from the measurement of aforesaid restricted employee stock, at fair value of NT$100 per share based on the closing price of CASETEK CAYMAN shares at grant date. As of December 31, 2017, CASETEK CAYMAN has deferred compensation cost arising from issuance of restricted shares of stock of $76,858.

In addition to the aforementioned restricted shares of stock to employee, for the years ended December 31, 2017, CASETEK CAYMAN and its subsidiaries had share-based payment transactions as follows:

	Equity-settled Cash-settled share-based payment plan (reserved for employees to subscribe)
Grant date (The date when employees confirmed)	December 18, 2017
Number of shares granted	3,569 thousand shares
Contractual life	0.137 year
Recipients	Employees of CASETEK CAYMAN and its subsidiaries
Vesting conditions	Immediately vested

1) Determining the fair value of equity instruments granted

CASETEK CAYMAN and its subsidiaries estimated the fair value of their share-based payment transactions at grant date. The measurement inputs were as follows:

	For the year ended December 31 2017 Cash-settled share-based payment plan (reserved for employees to subscribe)
Fair value at grant date	NT$ 1.12
Stock price at grant date	NT$ 101
Exercise price	NT$ 92
Expected volatility (%)	39.08%
Expected life of the option (year)	0.137 year
Expected dividend	-
Risk-free interest rate (%)	0.60%

(Continued)

The expected volatility is based on the stock price volatility, which is calculated by the natural logarithmic rate of return, the annualized standard deviation of daily returns and the annual historical adjusted closing price. It is adjusted when there is additional market information about the volatility. The expected life of the option is in compliance with the issuance regulation of CASETEK CAYMAN and its subsidiaries. The expected dividend yield and risk-free interest rates were determined based on 1-3 month time deposits with fixed interest rate from Bank of Taiwan. Service and non-market performance conditions attached to the transactions were not taken into account in determining the fair value.

2) Expenses and equity resulting from share-based payments

Incurred expenses and equity from share-based payment transactions of CASETEK CAYMAN and its subsidiaries were as follows:

	For the year ended December 31 2017
Expenses resulting from issuance of restricted stock to employees	$ 73,142
Expenses resulting from cash-settled share-based payment to employees	3,997
Total	**$ 77,139**

(v) Treasury stock transferred to employee of KINSUS

On September 22, 2017, KINSUS transferred its treasury stock totaling 550 thousand shares to employees at the price of NT$59.79 per share in accordance with the regulations governing secondary transfer of treasury stock to employees.

The stock option was measured at fair value at grant date.

Information on aforesaid share-based payment was as follows:

Grant date	Total shares issued (In thousands of shares)	Exercise price per share
September 22, 2017	550	NT$59.79

(Continued)

Fair value of aforementioned share-based payment was measured by Black-Scholes valuation model. The assumptions adopted in this model were as follows:

	Treasury stock transferred to employees
Exercise price	NT$59.79
Market price on measurement date (per share)	NT$75.2
Expected price volatility rate (%)	25.26%
Risk-free interest rate (%)	0.6%
Expected dividend yield (%)	-%
Expected duration	0.032877 year
Fair value	NT$15.4

Related information on the transfer of treasury stock was as follows:

	For the year ended December 31	
	2017	
	Outstanding number of options (In thousand units)	Weighted average exercise price per share
Outstanding as of January 1	-	$ -
Granted during the year	550	59.79
Exercise during the year	(550)	(59.79)
Outstanding as of December 31	-	$ -
Weighted-average fair value of the options granted	$ 15.4	

The expense resulting from the share-based payment transactions was as follows:

	For the year ended December 31
	2017
Expense resulting from equity-settled share-based payment	$ 8,371

(vi) Employee stock option of FUYANG TECHNOLOGY CORPORATION

As of December 31, 2017, FUYANG TECHNOLOGY CORPORATION had the following share-based payment transaction:

	Equity-settled
	Employee stock option
Grant date	July 10, 2017
Number of shares granted (In thousands of shares)	10,000
Contractual life	4 years
Vesting conditions	At least 2 years of service after acquisition

(Continued)

1) Determining the fair value of equity instruments granted

FUYANG TECHNOLOGY CORPORATION adoopted 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:

	For the year ended December 31
	2017
	Employee stock option issued in 2017
Valuation model	
Fair value at grant date	NT$ 1.54
Stock price at grant date	NT$ 8.05
Exercise price	NT$ 10.00
Assumptions	
Dividend yield	-
Expected price volatility	32.81 %
Expected life of the option (years)	4 years
Risk-free interest rate (%)	0.73 %

The expected volatility rate is estimated based on peers' average annualized standard deviation of daily returns. The expceted life of the option is in compliance with the issuance regulation of FUYANG TECHNOLOGY CORPORATION. The risk-free interest rate was determined based on government bonds. Service and non-market performance conditions attached to the transactions were not taken into account in determining the fair value.

2) Information on employee stock options was as follows:

	For the year ended December 31	
	2017	
	Weighted-average exercise price	Units of stock option (In thousand units)
Outstanding as of January 1, 2017	$ -	-
Granted during the year	8.05	10,000
Exercised during the year	-	-
Outstanding as of December 31, 2017		**10,000**
Exercisable as of December 31, 2017		**-**

(Continued)

3) Expenses resulting from share-based payments

As of December 31, 2017, the expense resulting from the share-based payment transactions were as follows:

		For the year ended December 31
		2017
Expenses resulting from employee stock option	$	2,370

(vii) Stock appreciation rights of FUYANG ELECTRONICS (SUZHOU) CO., LTD.

On April 28, 2017, board of directors of FUYANG ELECTRONICS (SUZHOU) CO., LTD. approved to issue 5,000 thousand units of stock appreciation rights to employees with fair value of NT$10 each. As of December 31, 2017, FUYANG ELECTRONICS (SUZHOU) CO., LTD. had two share-based payment arrangements as follows:

		Stock appreciation rights (employee)	
Vesting period		6 years	7 yesrs
Original vested units (In thousand units)		2,500	2,500
Expected employee turnover rate		93.16%	95.63%
Vested units after considering employee turnover rate (In thousand units)		171	109
Fair value (dollars)	$	2.86	2.86
Service costs	$	489	312

(v) Earnings per share

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

		For the years ended December 31	
		2017	2016
Basic earnings per share			
Profit attributable to ordinary shareholders	$	14,682,988	19,339,815
Weighted-average number of ordinary shares		2,592,882	2,579,930
	$	5.66	7.50
Diluted earnings per share			
Profit attributable to ordinary shareholders (diluted)	$	14,682,988	19,339,815
Weighted-average number of ordinary shares		2,592,882	2,579,930
Effect of potentially dilutive ordinary shares			
Employee stock bonus		16,663	27,941
Weighted-average number of ordinary shares (diluted)		2,609,545	2,607,871
	$	5.63	7.42

(Continued)

(w) Revenue

	For the years ended December 31	
	2017	**2016**
Sale of goods	$ 1,152,703,488	1,074,052,905
Others	41,105,027	83,657,208
	$ 1,193,808,515	**1,157,710,113**

(x) Remuneration of employees and directors

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

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

(y) Non-operating income and expenses

(i) Other income

	For the years ended December 31	
	2017	**2016**
Interest income	$ 1,499,714	1,057,275
Subsidy income	1,106,003	845,078
Rental income	235,994	253,063
Technical service income	393,739	251,385
Other income	938,169	765,332
	$ 4,173,619	**3,172,133**

(Continued)

(ii) Other gains and losses

	For the years ended December 31	
	2017	**2016**
Gain on reversal of uncollectable account	$ 198,966	70,336
Loss on disposal of property, plant and equipment	(46,833)	(150,078)
Gain (loss) from disposal of investments	38,091	(574,526)
Foreign exchange loss	(1,555,274)	(4,383,186)
Reversal of (Impairment loss)	34,474	(59,968)
Net gain on evaluation of financial assets measured at fair value through profit or loss	146,321	67,790
Other losses	(470,924)	(217,855)
	$ (1,655,179)	**(5,247,487)**

(iii) Finance costs

	For the years ended December 31	
	2017	**2016**
Interest expenses	$ 951,706	912,165
Finance expense – bank fees	66,298	92,841
	$ 1,018,004	**1,005,006**

(z) Reclassification of other comprehensive income

	For the years ended December 31	
	2017	**2016**
Available-for-sale financial assets		
Net change in fair value	$ 541,228	(14,425)
Share of other comprehensive income of associates accounted for using equity method	157,980	-
Reclassification to profit or loss for losing control of subsidiaries	-	(12,856)
Net fair value change recognized in other comprehensive income	**$ 699,208**	**(27,281)**
Cumulative adjustment		
Cumulative adjustment from current year	$ (6,154,844)	(7,263,087)
Share of other comprehensive income (loss) of associates accounted for using equity method	9,409	(48,217)
Reclassification to profit or loss for losing control of subsidiaries	-	6,248
Net fair value change recognized in other comprehensive income	**$ (6,145,435)**	**(7,305,056)**

(Continued)

(aa) 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, 2017 and 2016, the accounts receivable from the Group's top three customers amounted to $92,809,599 and $44,383,971, representing 61% and 47% 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, 2017	**December 31, 2016**
Not past due	$ 147,767,079	133,275,190
Past due 0 - 30 days	2,429,404	2,478,288
Past due 31 - 120 days	151,490	286,556
Past due 121 - 365 days	283,491	86,671
Past due more than 1 year	2,010,431	1,690,475
	$ 152,641,895	**137,817,180**

The movement in the allowance for impairment with respect to the receivables for the years ended December 31, 2017 and 2016 was as follows:

	Individually assessed impairment	**Collectively assessed impairment**	**Total**
Balance on January 1, 2017	$ 71,343	1,839,270	1,910,613
Recognition of loss from impairment	53,993	9,461	63,454
Reversal of impairment loss	(15)	(225,566)	(225,581)
Written off unrecoverable amount	-	(1,223)	(1,223)
Foreign exchange gain	(5,866)	(4,587)	(10,453)
Balance on December 31, 2017	**$ 119,455**	**1,617,355**	**1,736,810**

(Continued)

	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)
Foreign exchange gain	(2,228)	(2,302)	(4,530)
Loss of control of a subsidiary	-	(176,022)	(176,022)
Balance on December 31, 2016	**$ 71,343**	**1,839,270**	**1,910,613**

(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, 2017					
Non-derivative financial liabilities					
Secured bank loans	$ 101,000	101,000	54,625	28,375	18,000
Unsecured bank loans	54,019,732	54,019,732	47,111,307	640,700	6,267,725
Unsecured ordinary corporate bond	7,000,000	7,000,000	-	-	7,000,000
Non-interest bearing liabilities	225,450,155	225,450,155	225,450,155	-	-
	$ 286,570,887	**286,570,887**	**272,616,087**	**669,075**	**13,285,725**
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**

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.

(Continued)

(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, 2017			December 31, 2016		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
Financial assets						
Monetary items						
USD:NTD	$11,672,655	29.760	347,378,213	10,433,545	32.25	336,481,826
USD:CNY	339,735	6.5342	10,110,518	8,227,417	6.937	265,335,128
USD:CZK	56,342	21.2916	1,676,738	39,837	25.6342	1,284,759
CNY:NTD	111,783	4.5545	509,116	1,175,798	4.649	5,466,285
Financial liabilities						
Monetary items						
USD:NTD	11,389,063	29.760	338,938,515	10,062,359	32.25	324,511,078
USD:CNY	262,842	6.5342	7,822,182	9,582,667	6.937	309,042,094
USD:CZK	28,305	21.2916	842,357	21,448	25.6342	691,706
CNY:NTD	149,726	4.5545	681,927	729,450	4.649	3,391,213

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 and other payables that are denominated in foreign currency. A 1% of appreciation or depreciation of each major foreign currency against the Group's functional currency as of December 31, 2017 and 2016 would have increased (decreased) the before-tax net income for the years ended December 31, 2017 and 2016 by $13,442 and $(291,494), 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, 2017 and 2016, the foreign exchange losses, including both realized and unrealized, amounted to $1,555,274 and $4,383,186, respectively.

(Continued)

(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 at the reporting date.

For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year at 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 $103,242 and $97,067 for the years ended December 31, 2017 and 2016, 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, 2017	December 31, 2016
Financial assets at fair value through profit or loss		
Held-for-trading non-derivative financial assets	$ 2,824,913	4,367,847
Available-for-sale financial assets	1,543,613	1,056,145
Financial assets carried at cost	350,509	371,082
Deposits and receivables		
Cash and cash equivalents	107,444,124	108,713,312
Notes, accounts and other receivables	150,905,085	135,906,567
Other financial assets	1,523,440	907,165
Sub-total	259,872,649	245,527,044
Total	**$ 264,591,684**	**251,322,118**

(Continued)

Financial liabilities:

		December 31, 2017	December 31, 2016
Financial liabilities carried at amortized cost			
Short-term loans	$	46,058,620	31,148,468
Notes, accounts, other payables and accrued expenses		225,450,155	201,926,183
Bonds payable		6,992,476	-
Long-term loans (including current portion)		8,062,112	5,059,147
Guarantee deposit (recognized in other noncurrent liabilities)		818,529	527,461
Total	$	**287,381,892**	**238,661,259**

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, 2017				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial Assets					
Financial assets designated as at fair value through profit or loss					
Held-for-trading non-derivative financial assets	$ 2,824,913	2,824,913	-	-	2,824,913
Available-for-sale financial assets					
Stock of listed companies	721,071	721,071	-	-	721,071
Equity investment－common stock	437,760	-	437,760	-	437,760
Stock of overseas listed companies	384,782	384,782	-	-	384,782
Total	$ **4,368,526**	**3,930,766**	**437,760**	**-**	**4,368,526**

(Continued)

	December 31, 2016				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial Assets					
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
Total	$ 5,423,992	5,245,072	178,920	-	5,423,992

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

3) Valuation techniques for financial instruments 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.

(Continued)

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, 2017

Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.

	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d): Financial Instruments (Note)	Amounts not offset (d): Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	$ 31,766,866	22,767,959	8,998,907	-	-	8,998,907

December 31, 2017

Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.

	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d): Financial Instruments (Note)	Amounts not offset (d): Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	$ 22,767,959	22,767,959	-	-	-	-

December 31, 2016

Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.

	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d): Financial Instruments (Note)	Amounts not offset (d): 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.

	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset (d): Financial Instruments (Note)	Amounts not offset (d): Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	$ 25,397,763	25,397,763	-	-	-	-

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

(Continued)

(ab) 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 consolidated interim financial reports.

(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.

(Continued)

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. Please refer to Notes 9 and 13 for details of endorsements and guarantees provided by the Group as of December 31, 2017 and 2016.

(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 has 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.

(Continued)

(v) Market risk

Market risk is a risk that arises from changes in market prices, such as foreign exchange rates, interest rates and equity prices that 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.

(Continued)

(ac) 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, 2017	December 31, 2016
Total liabilities	$ 308,511,809	261,923,032
Less: cash and cash equivalents	107,444,124	108,713,312
Net debt	**$ 201,067,685**	**153,209,720**
Total capital (Note)	**$ 380,791,495**	**335,231,921**
Debt to equity ratio	**52.80%**	**45.70%**

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, 2017.

(7) Related-party transactions:

(a) The ultimate parent company

The Company is the ultimate parent company of the Group.

(b) Names and relationship with related parties

The following are entities that have had transactions with related parties and the Group during the periods covered in the consolidated financial statements.

Name of related party	Relationship with the Group
HONGJIE (SUZHOU) PACKING LIMITED	Other related party
Altasec Technology Corporation	Other related party
GREEN PACKING LIMITED	Other related party

(Continued)

(c) 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	
	For the years ended December 31			
	2017	2016	December 31, 2017	December 31, 2016
Other related parties	$ -	662	-	-

There were no significant differences between the terms and pricing of sales transactions with related enterprises and those carried out with other normal vendors. The average collection period for notes and accounts receivable pertaining to such sale transactions ranged from one to three months. Receivables from related parties were not secured with collaterals, and did not require provisions for bad debt expenses.

(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	
	For the years ended December 31			
	2017	2016	December 31, 2017	December 31, 2016
Other related parties	$ 88	41,357	14	4,472

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.

(d) Key management personnel compensation:

	For the years ended December 31	
	2017	2016
Short-term employee benefits	$ 488,481	443,410
Post-employment benefits	3,371	3,527
Share-based payments	286,538	158,955
	$ 778,390	605,892

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

(Continued)

(8) Pledged assets:

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

Asset	Purpose of pledge	December 31, 2017	December 31, 2016
Other financial asset-restricted deposit	Post-release duty deposits, customs duty, rental deposits, travel agency guarantee, etc.	$ 73,297	46,691
Property, plant and equipment	Bank loans	143,554	249,649
Other financial asset-guarantee deposits	Customs duty guarantee, rental deposits, and deposits for performance guarantee	35,348	37,382
		$ 252,199	333,722

(9) Significant commitments and contingencies:

(a) Significant commitments and contingencies were as follows:

(i) Unused standby letters of credit

	December 31, 2017	December 31, 2016
EUR	$ 2,589	2,655
JPY	2,968,349	1,454,932
USD	5,853	8,469
CNY	-	955

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

	December 31, 2017	December 31, 2016
NTD	$ 78,998	87,869

(iii) As of December 31, 2017 and 2016, the significant contracts for purchase of properties by the Group amounted to $24,033,496 and $11,554,587, of which $10,860,011 and $2,830,075, respectively, were unpaid.

(iv) As of December 31, 2017 and 2016, the Group provided endorsement guarantee for bank loans obtained by the related parties, including Group entities, amounting to $3,779,520 and $8,850,948, respectively.

(v) As of December 31, 2017 and 2016, the Group issued a tariff guarantee of $1,689,442 and $662,165, respectively, to the bank for the purpose of importing goods.

(Continued)

(b) Significant contingent liability:

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

(10) Losses due to major disasters: None.

(11) Subsequent events:

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the FY 2018 corporate income tax return. This increase does not affect the amounts of the current and deferred income taxes recognized on December 31, 2017. However, it will increase the Group's current and deferred tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences and unused tax losses recognized on December 31, 2017, the deferred tax assets and deferred tax liabilities would increase by $117,256 and $57,531, respectively.

(12) Other:

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

By function / By item	For the year ended December 31, 2017			For the year ended December 31, 2016		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	$ 50,119,863	14,779,941	64,899,804	44,130,325	16,128,396	60,258,721
Health and labor insurance	5,103,857	934,649	6,038,506	4,824,910	933,909	5,758,819
Pension	4,433,255	848,178	5,281,433	4,920,426	892,725	5,813,151
Others	1,773,415	858,011	2,631,426	1,713,449	789,294	2,502,743
Depreciation	11,157,465	1,714,742	12,872,207	11,438,450	1,323,819	12,762,269
Amortization	122,562	111,237	233,799	38,802	102,746	141,548

Above depreciations did not include depreciation in investment property which was accounted under non-operating expense as follows:

	For the years ended December 31	
	2017	2016
Depreciation in investment property	$ 3,149	8,594

(Continued)

(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 interim 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			
	2017			
	DMS	**Strategic Investment Group**	**Adjustment and eliminations**	**Total**
Revenue：				
Revenue from external customers	$ 1,114,498,123	79,310,392	-	1,193,808,515
Intersegment revenues	598,538	5,337,413	(5,935,951)	-
Total revenue	**$ 1,115,096,661**	**84,647,805**	**(5,935,951)**	**1,193,808,515**
Share of profit of associates and joint ventures accounted for using equity method	**$ 964,610**	**10,175,786**	**(11,144,880)**	**(4,484)**
Other significant non-monetary items:				
Goodwill	**$ -**	**1,040,879**	**-**	**1,040,879**
Reportable segment profit or loss	**$ 17,617,935**	**13,932,664**	**(11,137,549)**	**20,413,050**
Assets:				
Investments accounted for using equity method	**$ 41,824,169**	**98,099,017**	**(139,419,468)**	**503,718**
Reportable segment assets	**$ 411,234,014**	**216,441,900**	**(139,440,295)**	**488,235,619**
Reportable segment liabilities	**$ 265,258,276**	**43,274,359**	**(20,826)**	**308,511,809**

(Continued)

	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**

(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 2017	2016
Europe	$ 453,169,704	332,669,838
USA	407,742,938	396,964,194
Taiwan	149,381,904	170,921,579
China	71,290,164	103,033,702
Japan	67,788,946	87,650,950
Others	44,434,859	66,469,850
	$ 1,193,808,515	**1,157,710,113**

(Continued)

(ii) Non-current assets

Region	December 31, 2017	December 31, 2016
Taiwan	$ 24,801,356	20,868,460
China	60,560,120	52,969,239
Others	778,442	882,559
Total	**$ 86,139,918**	**74,720,258**

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 2017 and 2016 were as follows:

Customer	2017	2016
A	$ 733,049,391	691,091,107
B	111,201,206	125,455,471
C	60,744,975	77,163,832
	$ 904,995,572	**893,710,410**

Attachment II

(English Translation of Financial Report Originally Issued in Chinese)

PEGATRON CORPORATION

NON-CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(With Independent Accountants' Audit Report Thereon)

Independent Auditors' Report

To the Board of Directors of Pegatron Corporation:

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in the Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained, inclusive of the reports from other auditors, is sufficient and appropriate to provide a basis 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, 2017 of Pegatron Corporation. Those matters have been addressed in our audit opinion on the said non-consolidated financial statements and during the formation of our auditing opinion. However, we does not express an opinion on these matters individually. The key audit matters that, in our professional judgment, should be communicated are as follows:

1. Revenue recognition

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

   (a) Key audit matters:

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

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

(b) Auditing procedures performed:

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

2. Inventory valuation

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

(a) Key audit matters:

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

(b) Auditing procedures performed:

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

Other Matters

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

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

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

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

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

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

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

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

1. Assess for purposes of identifying the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error, design and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pegatron Corporation's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Evaluate for purposes of determining the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Pegatron Corporation's ability to continue as a going concern. If we determine that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non-consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on Pegatron Corporation. We are responsible for the direction, supervision and performance of the audit.

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

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

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

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

KPMG

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

Notes to Readers

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

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, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

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

See accompanying notes to financial statements.

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

PEGATRON CORPORATION

Non-Consolidated Balance Sheets(CONT'D)

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

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

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

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

See accompanying notes to financial statements.

(English Translation of and Report Originally Issued in Chinese)

PEGATRON CORPORATION

Non-Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

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

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

See accompanying notes to financial statements.

(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, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

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

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

PEGATRON CORPORATION

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

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

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

See accompanying notes to financial statements.

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

(1) Company history

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

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

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

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

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

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

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

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 " Presentation of Financial Statements-Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016

(Continued)

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

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

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

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

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

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

(i) IFRS 9 "Financial Instruments"

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

(Continued)

1) Classification- Financial assets

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

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

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

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

(Continued)

2) Impairment-Financial assets and contact assets

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

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

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

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

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

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

3) Disclosures

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

4) Transition

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

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

(Continued)

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

(ii) IFRS 15 Revenue from Contracts with Customers

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

1) Sales of goods

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

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

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

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

(Continued)

2) Transition

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

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

(iii) Amendments to IAS 7 "Disclosure Initiative"

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

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

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

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

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

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

(Continued)

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	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) Available-for-sale financial assets are measured at fair value; and

2) The net defined benefit liability is recognized as the present value of the defined benefit less the fair value of plan assets.

(ii) Functional and presentation currency

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

(Continued)

(c) Foreign currency

(i) Foreign currency transaction

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

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

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

1) Available-for-sale equity investment;

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

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

(ii) Foreign operations

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

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

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

(Continued)

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

An asset is classified as current when:

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

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

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

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

All other assets are classified as non-current.

A liability is classified as current when:

(i) It is expected to be settled during the Company in its normal operating cycle;

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

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

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

All other liabilities are classified as non-current.

(e) Cash and cash equivalents

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

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

(f) Financial instruments

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

(i) Financial assets

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

(Continued)

1) Available-for sale financial assets

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

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

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

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

2) Loans and receivables

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

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

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

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

(Continued)

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

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

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

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

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

3) Impairment of financial assets

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

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

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

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

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

(Continued)

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

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

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

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

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

4) Derecognition of financial assets

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

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

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

(Continued)

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity instruments

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

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

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

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

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

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

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

2) Other financial liabilities

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

(Continued)

3) Derecognition of financial liabilities

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

4) Offsetting of financial assets and liabilities

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

5) Financial guarantee contract

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

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

(iii) Derivative financial instruments, including hedge accounting

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

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

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

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

(Continued)

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.

(Continued)

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.

(Continued)

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

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

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

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

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

(j) Leased assets

(i) Lessor

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

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

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

(ii) Lessee

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

(Continued)

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

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

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

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

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

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

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

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

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

(k) Intangible assets

(i) Other Intangible Assets

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

(ii) Subsequent Expenditure

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

(Continued)

(iii) Amortization

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

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

Computer software cost	0-5 years

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

(l) Impairment – Non-financial assets

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

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

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

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

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

(m) Provisions

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

(Continued)

(n) Treasury stock

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

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

(o) Revenue

(i) Goods sold

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

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

(ii) Service

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

(p) Employee benefits

(i) Defined contribution plans

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

(Continued)

(ii) Defined benefit plans

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

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

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

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

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

(iii) Short-term employee benefits

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

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

(Continued)

(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

(Continued)

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.

(Continued)

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

(t) Earnings per share

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

(u) Operating segments

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

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

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

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

(a) Judgment regarding control of subsidiaries

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

(b) Valuation of inventories

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

(Continued)

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

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

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

(ii) Please refer to Note 6(x) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

(b) Investment in financial assets and liabilities

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

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

(ii) For the years ended December 31, 2017 and 2016, the Company recognized a net gain on financial assets at fair value through profit or loss of $24 and $1,298, respectively.

(iii) For the years ended December 31, 2017 and 2016, the Company recognized unrealized gain on available-for-sale financial asset amounted to $102,719 and 4,983, respectively.

(iv) The aforementioned investments held by the Company are measured at amortized cost at each reporting date given the range of reasonable fair value estimates is large and the probability for each estimate of fair value cannot be reasonably determined, therefore, the Company management determines the fair value cannot be measured reliably. As of December 31, 2017 and 2016, the Company had accumulated impairment loss thereon of $150,000.

(v) Please refer to Note 6(v) for further discussion on gains and losses on disposal of investments.

(vi) Please refer to Note 6(x) for the Company's credibility, currency, and risk exposure related with financial instruments.

(vii) As of December 31, 2017 and 2016, the aforesaid financial assets were not pledged as collateral.

(Continued)

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

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

(c) Accounts and other receivable, net

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

(i) Please refer to Note 6(x) for the Company' s accounts receivable and other receivables exposure to credit risk and currency risk, and the impairment evaluation of accounts receivable.

(ii) Accounts receivables which are transferred in accordance with derecognition standards of IFRS are deemed as sale of accounts receivables. As of December 31, 2017 and 2016, the Company sold its accounts receivable without recourse as follows:

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

(Continued)

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

Note: In October 2016, the Company signed a one year joint accounts receivable factoring agreement with ANZ Bank and six other banks where each bank will factor on pro-rata basis.

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

(d) Inventories

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

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

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

(Continued)

(i) For the years ended December 31, 2017 and 2016, cost of goods sold and expenses amounting to $1,061,785,925 and $981,245,130 were recognized, respectively. For the years ended December 31, 2017 and 2016, the Company recognized a provision on inventory market price decline of $427,184 and $126,604, respectively, which was charged to cost of goods sold because of adjusting inventory value to net realize value.

(ii) As of December 31, 2017 and 2016, the aforesaid inventories were not pledged as collateral.

(e) Investments accounted for using equity method

	December 31, 2017	December 31, 2016
Subsidiary	$ 122,190,881	117,619,640

(i) Subsidiaries

Please refer to the consolidated financial statement for the years ended December 31, 2017 and 2016.

(ii) For the years ended December 31, 2017 and 2016, the Company had participated in the capital increase of PEGATRON HOLDING LTD., and invested USD100,000 thousand (approximately NTD3,018,000) and USD45,000 thousand (approximately NTD1,420,200), respectively.

(iii) For the years ended December 31, 2017 and 2016, the Company received cash dividend of $2,869,410 and $4,307,600, respectively, from its investee companies accounted for under equity method.

(iv) As of December 31, 2017 and 2016, the investments in aforesaid equity-accounted investees were not pledged as collateral.

(f) Loss of control of a subsidiary

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

(Continued)

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, 2017 and 2016 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, 2017	$ 2,358,521	2,151,229	38,282	291,538	743,617	219,062	5,802,249
Additions	-	4,155	6,573	77,109	41,500	344,297	473,634
Disposals and obsolescence	-	(22,423)	(3,070)	(98,286)	(548,724)	-	(672,503)
Reclassifications	-	717	-	8,944	227,637	(1,227)	236,071
Balance on December 31, 2017	**$ 2,358,521**	**2,133,678**	**41,785**	**279,305**	**464,030**	**562,132**	**5,839,451**
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**
Depreciation and impairment loss：							
Balance on January 1, 2017	$ -	724,915	25,475	126,292	201,557	-	1,078,239
Depreciation for the year	-	55,355	6,004	99,540	547,483	-	708,382
Disposals and obsolescence	-	(22,423)	(3,018)	(97,927)	(546,714)	-	(670,082)
Balance on December 31, 2017	**$ -**	**757,847**	**28,461**	**127,905**	**202,326**	**-**	**1,116,539**
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**

(Continued)

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

(i) As of December 31, 2017 and 2016, the property, plant and equipment were not pledged as collateral.

(ii) The Company has started construction of new buildings. Please refer to Note 9(a) for the total cost and expenditure thereof.

(h) Intangible assets

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

Costs:	
Balance on January 1, 2017	$ 232,034
Additions	264,318
Disposals	(31,660)
Balance on December 31, 2017	**$ 464,692**
Balance on January 1, 2016	$ 96,357
Additions	151,161
Disposals	(15,484)
Balance on December 31, 2016	**$ 232,034**
Amortization and Impairment Loss:	
Balance on January 1, 2017	$ 47,984
Amortization for the year	131,407
Disposals	(31,660)
Balance on December 31, 2017	**$ 147,731**
Balance on January 1, 2016	$ 28,781
Amortization for the year	34,687
Disposals	(15,484)
Balance on December 31, 2016	**$ 47,984**
Carrying amounts:	
Balance on December 31, 2017	**$ 316,961**
Balance on December 31, 2016	**$ 184,050**

(i) The amortization of intangible assets and impairment losses are respectively included in the statement of comprehensive income. Please refer to Note 12 for details.

(ii) As of December 31, 2017 and 2016, the intangible assets were not pledged as collateral.

(Continued)

(i) Other financial assets and other assets

	December 31, 2017	December 31, 2016
Other financial assets－current	$ 41,616	41,539
Other financial assets－noncurrent	33,349	35,383
Other current assets	129,665	161,864
Other noncurrent assets	4,230	10,606
	$ 208,860	**249,392**

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

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

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

(j) Short-term loans

	December 31, 2017	December 31, 2016
Unsecured bank loans	**$ 22,034,400**	**15,689,400**
Interest rate	**0.50%~6.85%**	**0.51%~6.85%**

(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**

(i) Securities for bank loans

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

(ii) Loan covenants

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

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

(Continued)

2) Debt ratio ((total liabilities + contingent liabilities)/tangible net assets): should not be higher than 80%.

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

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

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

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

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

(l) Bonds payable

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

	December 31, 2017	December 31, 2016
Ordinary corporate bonds issued	$ 7,000,000	-
Unamortized discount on bonds payable	(7,524)	-
Bonds payable, end of the year	**$ 6,992,476**	**-**

	For the years ended December 31	
	2017	**2016**
Interest expense	**$ 34,164**	**-**

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

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

(Continued)

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

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

(Continued)

ı) Provisions

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

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

) Operating leases

(i) Leasee

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

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

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

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

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

(Continued)

(o) Employee benefits

(i) Defined benefit plans

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

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

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

1) Composition of plan assets

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

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

2) Movements in present value of the defined benefit obligations

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

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

(Continued)

3) Movements in the fair value of plan assets

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

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

4) Expenses recognized in profit or loss

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

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

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

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

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

(Continued)

6) Actuarial assumptions

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

	December 31, 2017	December 31, 2016
Discount rate	1.60 %	1.80 %
Future salary increase rate	3.00 %	3.00 %

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

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

7) Sensitivity Analysis

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

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

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

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

(ii) Defined contribution plans

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

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

(Continued)

(iii) Short-term employee benefits

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

(p) Income tax

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

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

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

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

(Continued)

(iii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities

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

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

2) Recognized deferred tax assets and liabilities

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

	Gain on foreign investments	Others	Total
Deferred on tax liabilities:			
Balance on January 1, 2017	$ 225,261	-	225,261
Recognized in profit	(225,261)	-	(225,261)
Balance on December 31, 2017	$ -	-	-
Balance on January 1, 2016	$ 225,261	-	225,261
Balance on December 31, 2016	$ 225,261	-	225,261

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

(iv) Status of approval of income tax

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

(Continued)

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

	December 31, 2017	December 31, 2016
Stockholders' imputation tax credit account	(Note)	$ 4,779,126

	2017	2016(Actual)
Tax deduction ratio for earnings distributable to R.O.C. residents	(Note)	14.70%

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

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

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

(q) Share capital and other interests

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

(i) Nominal ordinary shares

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

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

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

(Continued)

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

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

(ii) Global depositary receipts

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

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

1) Voting Rights

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

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

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

(Continued)

(iii) Capital surplus

The components of the capital surplus were as follows:

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

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

(iv) Retained earnings

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

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

(Continued)

1) Legal reserve

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

2) Special reserve

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

3) Earnings Distribution

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

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

(v) Treasury stock

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

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

(Continued)

(vi) Other equity accounts (net of tax)

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

(Continued)

(r) Share-based payment

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

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

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

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

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

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

(Continued)

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

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

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

(i) Determining the fair value of equity instruments granted

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

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

(Continued)

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

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

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

(ii) Restricted stock to employee

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

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

(iii) Expenses resulting from share-based payments

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

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

(s) Earnings per share

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

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

(Continued)

	For the years ended December 31	
	2017	**2016**
Diluted earnings per share		
Profit attributable to ordinary shareholders (diluted)	**$ 14,682,988**	**19,339,815**
Weighted-average number of ordinary shares	2,592,882	2,579,930
Effect of potentially dilutive ordinary shares		
Employee stock bonus	16,663	27,941
Weighted-average number of ordinary shares (diluted)	2,609,545	2,607,871
	$ 5.63	**7.42**

(t) Revenue

	For the years ended December 31	
	2017	**2016**
Sale of goods	$ 1,055,520,481	984,213,641
Others	25,054,514	23,883,146
	$ 1,080,574,995	**1,008,096,787**

(u) Remuneration of employees and directors

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

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

(Continued)

(v) Non-operation income and expenses

(i) Other income

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

(ii) Other gains and losses

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

(iii) Finance costs

	For the years ended December 31		
		2017	2016
Interest expenses	$	551,494	492,506
Finance expense–bank fees		57,336	79,811
	$	**608,830**	**572,317**

(Continued)

(w) Reclassification of other comprehensive income

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

	For the years ended December 31	
	2017	**2016**
Available-for-sale financial assets		
Net change in fair value	$ 102,719	4,983
Net gain (loss) from subsidiaries for using equity method	596,489	(39,573)
Reclassification to profit or loss for losing control of subsidiaries	-	7,309
Net fair value change recognized in other comprehensive income	**$ 699,208**	**(27,281)**

	For the years ended December 31	
	2017	**2016**
Cumulative adjustment		
Losses from subsidiaries for using equity method	$ (6,145,435)	(7,295,693)
Reclassification to profit or loss for losing control of subsidiaries	-	(9,363)
Net fair value change recognized in other comprehensive income	**$ (6,145,435)**	**(7,305,056)**

(x) Financial instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Credit risk concentrations

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

(Continued)

3) Impairment losses

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

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

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

	Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2017	$ -	1,642,501	1,642,501
Reversal of impairment loss	-	(131,585)	(131,585)
Balance on December 31, 2017	**$ -**	**1,510,916**	**1,510,916**
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**

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

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

(Continued)

(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, 2017					
Non-derivative financial liabilities					
Unsecured bank loans	$ 22,034,400	22,034,400	22,034,400	-	-
Unsecured ordinary corporate bond	7,000,000	-	-	-	7,000,000
Non-interest bearing liabilities	318,904,144	318,904,144	318,904,144	-	-
	$ 347,938,544	**340,938,544**	**340,938,544**	**-**	**7,000,000**
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**	**-**

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

(Continued)

2) Sensitivity analysis

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

3) Gains or losses on monetary item

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

(iv) Interest rate analysis

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

The Company's internal management reported the increases/decreases in the interest rates and the exposure to changes in interest rates of 1% is considered by management to be a reasonable change of interest rate.

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

(v) Fair value of financial instruments

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

(Continued)

1) Categories of financial instruments

Financial Assets:

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

Financial liabilities:

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

2) Fair value hierarchy

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

a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.

b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

c) Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

(Continued)

	December 31, 2017				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Available-for-sale financial assets					
Listed stock	$ 659,392	659,392	-	-	659,392

	December 31, 2016				
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Available-for-sale financial assets					
Listed stock	$ 556,673	556,673	-	-	556,673

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

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

a) Non-derivative financial instruments

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

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

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

b) Derivative financial instruments

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

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

(Continued)

(vi) Offsetting of financial assets and financial liabilities

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

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

December 31, 2017
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.

	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d) Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	$ 82,977,604	70,068,442	12,909,162	-	-	12,909,162

December 31, 2017
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.

	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d) Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	$ 70,068,442	70,068,442	-	-	-	-

December 31, 2016
Financial assets subject to offsetting agreement or contract and have legally enforceable right to set off.

	Gross Assets (a)	Gross Liabilities Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d) Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	$ 66,360,118	59,499,028	6,861,090	-	-	6,861,090

December 31, 2016
Financial liabilities subject to offsetting agreement or contract and have legally enforceable right to set off.

	Gross Liabilities (a)	Gross Assets Offset (b)	Net amounts presented (c)=(a)-(b)	Amounts not offset(d) Financial Instruments (Note)	Cash collected as pledge	Net amounts (e)=(c)-(d)
Accounts Receivable and Payable	$ 59,499,028	59,499,028	-	-	-	-

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

(y) Financial risk management

(i) Overview

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

(Continued)

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

(ii) Risk management framework

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

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

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

(iii) Credit risk

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

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

1) Accounts receivables and other receivables

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

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

(Continued)

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.

(Continued)

(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.

(Continued)

(z) Capital management

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

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

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

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

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

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

(7) Related-party transactions:

(a) The ultimate parent company

The Company is the ultimate parent company.

(b) Names and relationship with related parties

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

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

(Continued)

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

(Continued)

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

(Continued)

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

(Continued)

(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	
	For the years ended December 31			
	2017	2016	December 31, 2017	December 31, 2016
Subsidiaries	$ 6,035,026	5,793,802	190,257,570	199,196,892

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	
	For the years ended December 31			
	2017	2016	December 31, 2017	December 31, 2016
Subsidiaries	$ 98,828,391	125,153,433	143,407,464	173,716,300
Other related parties	88	40,827	-	4,391
	$ 98,828,585	125,194,365	143,407,570	173,720,796

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	
	2017	2016
Subsidiaries	$ 39,760	61,820

(iv) Other income and losses from Related Parties

	For the years ended December 31	
	2017	2016
Subsidiaries	$ 14,668	12,202

(Continued)

(v) Rental revenue

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

(vi) Other related party transactions recorded as expenses

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

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

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

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

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

(ix) Borrowings from related parties

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

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

(Continued)

(d) Key management personnel compensation

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

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

(8) Pledged assets:

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

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

(9) Significant commitments and contingencies:

(a) Significant commitments and contingencies were as follows:

(i) Unused standby letters of credit

	December 31, 2017	December 31, 2016
EUR	$ 2,540	2,540

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

	December 31, 2017	December 31, 2016
NTD	$ 78,998	87,869

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

(b) Significant contingent liability:

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

(Continued)

(10) Losses due to major disasters: None.

(11) Subsequent events:

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

(12) Other:

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

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

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

(13) Segment information:

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

Pegatron Corporation

T.H. Tung, Chairman

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