

PEGATRON CORPORATION AND SUBSIDIARIES**Consolidated Financial Statements**

**With Independent Auditors' Review Report
For the Three Months Ended March 31, 2020 and 2019**

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The independent auditors' review report and the accompanying consolidated financial statements are the 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 independent auditors' review report and consolidated financial statements, the Chinese version shall prevail.

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Independent Auditors' Review Report

To the Board of Directors of Pegatron Corporation :

Introduction

We have reviewed the accompanying consolidated balance sheets of Pegatron Corporation and its subsidiaries as of March 31, 2020 and 2019, and the related consolidated statements of comprehensive income and changes in equity and cash flows for the three months ended March 31, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 4(c), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect total assets amounting to \$34,578,019 thousand and \$28,913,796 thousand, constituting 5.80% and 5.17% of consolidated total assets as of March 31, 2020 and 2019, respectively, total liabilities amounting to \$11,673,569 thousand and \$9,207,750 thousand, constituting 2.82% and 2.48% of consolidated total liabilities as of March 31, 2020 and 2019, respectively, and total comprehensive loss amounting to \$466,035 thousand and \$273,544 thousand, constituting (35.72)% and (15.86)% of consolidated total comprehensive income (loss) for the three months ended March 31, 2020 and 2019, respectively.

Furthermore, as stated in Note 6(h), the other equity accounted investments of Pegatron Corporation and its subsidiaries in its investee companies of \$293,243 thousand and \$245,601 thousand as of March 31, 2020 and 2019, respectively, and its equity in net earnings (loss) on these investee companies of \$49,460 thousand and \$21,186 thousand for the three months ended March 31, 2020 and 2019, respectively, were recognized solely on the financial statements prepared by these investee companies, but not reviewed by independent auditors.

**Qualified Conclusion**

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and equity accounted investee companies described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews and the review reports of other auditors (please refer to Other Matter paragraph), nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of Pegatron Corporation and its subsidiaries as of March 31, 2020 and 2019, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Other Matter

We did not review the financial statements of certain consolidated subsidiaries, with total assets of \$55,442,694 thousand and \$55,044,701 thousand, representing 9.30% and 9.84% of the related consolidated total assets as of March 31, 2020 and 2019, and net sales of \$10,719,137 thousand and \$8,440,171 thousand, representing 3.85% and 2.87% of the related consolidated total net sales for the three months ended March 31, 2020 and 2019, respectively. Those financial statements were reviewed by other auditors whose reports have been furnished to us, and our review, insofar as it relates to the amounts included for certain consolidated subsidiaries, are based solely on the reports of the other auditors.

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

KPMG

Taipei, Taiwan (Republic of China)

May 7, 2020

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' review report and the accompanying consolidated financial statements are the 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 independent auditors' review report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH THE GENERALLY ACCEPTED AUDITING STANDARDS
AS OF MARCH 31, 2020 AND 2019

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2020, December 31, 2019, and March 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

Assets	March 31, 2020		December 31, 2019		March 31, 2019		
	Amount	%	Amount	%	Amount	%	
Current assets:							
1100	Cash and cash equivalents (Note 6(a))	\$ 166,178,884	28	145,795,913	26	150,657,456	27
1110	Current financial assets at fair value through profit or loss (Note 6(b))	6,881,422	1	6,801,529	1	6,593,624	1
1170	Notes and accounts receivable, net (Notes 6(d) and 6(y))	163,958,224	27	206,338,405	36	149,169,014	27
1200	Other receivables, net (Note 6(e))	1,239,523	-	1,472,702	-	1,536,264	-
130X	Inventories (Note 6(f))	124,265,252	21	106,063,490	19	139,448,116	25
1460	Non-current assets classified as held for sale, net (Note 6(g))	121,826	-	122,652	-	149,211	-
1476	Other current financial assets (Notes 6(n) and 8)	34,449,648	6	3,564,920	1	1,426,569	-
1479	Other current assets (Note 6(n))	6,065,460	1	5,674,300	1	5,887,308	1
		<u>503,160,239</u>	<u>84</u>	<u>475,833,911</u>	<u>84</u>	<u>454,867,562</u>	<u>81</u>
Non-current assets:							
1510	Non-current financial assets at fair value through profit or loss (Note 6(b))	544,033	-	556,266	-	417,121	-
1517	Non-current financial assets at fair value through other comprehensive income (Note 6(c))	640,934	-	858,158	-	841,302	-
1550	Investments accounted for using equity method (Note 6(h))	304,372	-	256,093	-	262,346	-
1600	Property, plant and equipment (Notes 6(j) and 8)	78,064,928	14	80,248,760	14	88,435,450	17
1755	Right-of-use assets (Note 6(k))	6,285,089	1	5,888,602	1	6,464,233	1
1760	Investment property, net (Note 6(l))	44,126	-	44,496	-	48,095	-
1780	Intangible assets (Note 6(m))	1,272,021	-	1,297,891	-	1,456,333	-
1840	Deferred tax assets	3,264,758	1	3,305,613	1	3,844,139	1
1915	Prepayments on purchase of equipment	1,807,837	-	1,698,780	-	1,720,274	-
1980	Other non-current financial assets (Notes 6(n) and 8)	716,687	-	481,158	-	576,847	-
1990	Other non-current assets (Note 6(n))	179,854	-	50,065	-	258,673	-
		<u>93,124,639</u>	<u>16</u>	<u>94,685,882</u>	<u>16</u>	<u>104,324,813</u>	<u>19</u>
Total assets		\$ <u>596,284,878</u>	<u>100</u>	<u>570,519,793</u>	<u>100</u>	<u>559,192,375</u>	<u>100</u>

See accompanying notes to financial statements.

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REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH THE GENERALLY ACCEPTED AUDITING STANDARDS
AS OF MARCH 31, 2020 AND 2019

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets (CONT'D)

March 31, 2020, December 31, 2019, and March 31, 2019

(Expressed in Thousands of New Taiwan Dollars)

	March 31, 2020		December 31, 2019		March 31, 2019	
	Amount	%	Amount	%	Amount	%
Liabilities and Equity						
Current liabilities:						
2100	\$ 127,307,086	21	64,808,786	11	119,417,440	21
2130	1,608,550	-	1,522,221	-	1,264,104	-
2150	178,312,217	30	218,101,566	38	164,981,037	30
2209	23,807,021	4	26,992,758	5	23,594,821	4
2216	12,334,293	2	-	-	-	-
2219	3,610,669	1	3,760,422	1	5,553,928	1
2230	2,960,759	1	4,037,776	1	2,939,440	1
2281	1,324,571	-	1,195,039	-	1,405,746	-
2321	4,000,000	1	3,000,000	1	-	-
2322	2,081,496	-	2,657,496	-	2,388,950	-
2399	22,539,756	4	19,510,595	4	19,134,070	4
	<u>379,886,418</u>	<u>64</u>	<u>345,586,659</u>	<u>61</u>	<u>340,679,536</u>	<u>61</u>
Non-Current liabilities:						
2527	432,703	-	420,197	-	405,495	-
2530	19,481,250	3	20,480,339	4	14,987,333	3
2540	9,456,402	2	6,534,954	1	10,584,937	2
2570	2,010,902	-	1,928,241	-	1,770,621	-
2581	1,560,337	-	1,294,702	-	1,290,146	-
2670	1,014,569	-	1,029,188	-	1,053,642	-
	<u>33,956,163</u>	<u>5</u>	<u>31,687,621</u>	<u>5</u>	<u>30,092,174</u>	<u>5</u>
	<u>413,842,581</u>	<u>69</u>	<u>377,274,280</u>	<u>66</u>	<u>370,771,710</u>	<u>66</u>
Equity Attributable to Owners of the Parent Company (Note 6(u)):						
3100	26,107,919	4	26,110,919	5	26,118,799	5
Capital surplus:						
3210	76,646,473	13	76,645,504	13	75,697,900	13
3280	4,616,929	1	4,406,597	1	4,974,500	1
	<u>81,263,402</u>	<u>14</u>	<u>81,052,101</u>	<u>14</u>	<u>80,672,400</u>	<u>14</u>
Retained earnings:						
3310	11,774,310	2	11,774,310	2	10,662,823	2
3320	7,868,877	1	7,868,877	2	8,815,213	1
3350	31,952,594	6	42,156,192	7	33,480,558	6
	<u>51,595,781</u>	<u>9</u>	<u>61,799,379</u>	<u>11</u>	<u>52,958,594</u>	<u>9</u>
Other equity interest:						
3410	(10,590,377)	(2)	(10,982,396)	(2)	(6,692,286)	(1)
3420	(519,901)	-	(303,654)	-	(358,163)	-
3491	(8,287)	-	(8,287)	-	(340,290)	-
	<u>(11,118,565)</u>	<u>(2)</u>	<u>(11,294,337)</u>	<u>(2)</u>	<u>(7,390,739)</u>	<u>(1)</u>
3500	(328)	-	(3,000)	-	(2,884)	-
	<u>147,848,209</u>	<u>25</u>	<u>157,665,062</u>	<u>28</u>	<u>152,356,170</u>	<u>27</u>
36xx	34,594,088	6	35,580,451	6	36,064,495	7
	<u>182,442,297</u>	<u>31</u>	<u>193,245,513</u>	<u>34</u>	<u>188,420,665</u>	<u>34</u>
	<u>596,284,878</u>	<u>100</u>	<u>570,519,793</u>	<u>100</u>	<u>559,192,375</u>	<u>100</u>

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2020 and 2019

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

		For the three months ended March 31			
		2020		2019	
		Amount	%	Amount	%
4110	Operating revenue (Note 6(y))	\$ 279,086,513	100	294,765,843	100
4170	Less: Sales returns and allowances	608,065	-	651,300	-
	Operating revenue, net	278,478,448	100	294,114,543	100
5000	Cost of sales (Notes 6(f), 6(r), 6(s), 6(z) and 7)	272,313,227	98	287,442,557	98
	Gross profit from operations	6,165,221	2	6,671,986	2
6000	Operating expenses (Notes 6(r), 6(s) and 6(z)):				
6100	Selling expenses	1,010,015	-	963,787	-
6200	General and administrative expenses	1,936,507	1	1,986,236	1
6300	Research and development expenses	3,501,010	1	3,302,557	1
	Total operating expenses	6,447,532	2	6,252,580	2
	Net operating income	(282,311)	-	419,406	-
	Non-operating income and expenses:				
7010	Other income (Notes 6(l), 6(r) and 6(aa))	2,176,656	1	1,351,679	-
7020	Other gains and losses (Notes 6(j), 6(aa) and 12)	465,014	-	1,046,993	-
7050	Finance costs (Notes 6(d), 6(q), 6(r) and 6(aa))	(678,386)	-	(1,086,790)	-
7060	Share of profit of associates and joint ventures accounted for using equity method (Note 6(h))	48,345	-	16,796	-
7590	Miscellaneous disbursements	(30,032)	-	(15,929)	-
	Total non-operating income and expenses	1,981,597	1	1,312,749	-
	Profit before tax	1,699,286	1	1,732,155	-
7950	Less: Tax expenses (note 6(t))	540,207	-	1,131,075	-
	Profit for the year	1,159,079	1	601,080	-
8300	Other comprehensive income:				
8310	Components of other comprehensive income that will not be reclassified to profit or loss				
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(216,121)	-	28,159	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (Note 6(t))	-	-	-	-
	Total components of other comprehensive income that will not be reclassified to profit or loss	(216,121)	-	28,159	-
8360	Components of other comprehensive income that will be reclassified to profit or loss (Note 6(ab))				
8361	Exchange differences on translation of foreign financial statements	358,038	-	1,095,895	-
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(h))	(174)	-	402	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (Note 6(t))	(3,788)	-	433	-
	Total components of other comprehensive income that will be reclassified to profit or loss	361,652	-	1,095,864	-
8300	Other comprehensive income for the period, net of tax	145,531	-	1,124,023	-
8500	Total comprehensive income for the period	\$ 1,304,610	1	1,725,103	-
	Profit attributable to:				
8610	Owners of the parent company	\$ 1,544,839	1	1,331,321	-
8620	Non-controlling interests	(385,760)	-	(730,241)	-
		\$ 1,159,079	1	601,080	-
	Comprehensive income attributable to:				
8710	Owners of the parent company	\$ 1,720,737	1	2,149,750	-
8720	Non-controlling interests	(416,127)	-	(424,647)	-
		\$ 1,304,610	1	1,725,103	-
	Earnings per share, net of tax (Note 6(x))				
9750	Basic earnings per share	\$ 0.59		0.51	
9850	Diluted earnings per share	\$ 0.58		0.51	

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of the parent company											
	Share capital			Retained earnings		Total other equity interest					Total equity attributable to owners of the parent company	
	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 financial assets measured at fair value through other comprehensive income	Deferred compensation arising from issuance of restricted stock	Treasury stock		Non-controlling interests
Balance at January 1, 2019	\$ 26,123,773	80,676,330	10,662,823	8,815,213	32,149,237	51,627,273	(7,482,556)	(386,322)	(524,686)	(4,974)	36,417,945	186,446,783
Profit for the period	-	-	-	-	1,331,321	1,331,321	-	-	-	-	(730,241)	601,080
Other comprehensive income for the period	-	-	-	-	790,270	790,270	-	28,159	-	-	818,429	1,124,023
Total comprehensive income for the period	-	-	-	-	1,331,321	1,331,321	-	28,159	-	-	818,429	1,725,103
Changes in ownership interests in subsidiaries	(4,974)	(7,756)	-	-	-	-	-	-	-	(8,393,564)	(424,647)	-
Expiration of restricted shares of stock issued to employees	-	2,884	-	-	-	-	-	-	184,396	2,090	-	185,338
Compensation cost arising from restricted shares of stock	-	942	-	-	-	-	-	-	184,396	-	-	185,338
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	7,756	-
Balance at March 31, 2019	\$ 26,118,799	80,672,400	10,662,823	8,815,213	33,480,558	52,958,594	(6,692,286)	(358,163)	(340,290)	(2,884)	36,064,495	188,420,665
Balance at January 1, 2020	\$ 26,110,919	81,052,101	11,774,310	7,868,877	42,156,192	61,799,379	(10,982,396)	(303,654)	(8,287)	(3,000)	35,580,451	193,245,513
Profit for the period	-	-	-	-	1,544,839	1,544,839	-	-	-	-	(385,760)	1,159,079
Other comprehensive income for the period	-	-	-	-	392,019	392,019	-	(216,121)	-	-	175,898	145,531
Total comprehensive income	-	-	-	-	1,544,839	1,544,839	-	(216,121)	-	-	175,898	1,304,610
Appropriation and distribution of retained earnings:	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(11,748,563)	(11,748,563)	-	-	-	-	-	(11,748,563)
Difference between consideration and carrying amount of subsidiaries acquired or disposed	-	30	-	-	-	-	-	-	-	-	30	-
Changes in ownership interests in subsidiaries	-	(26)	-	-	-	-	-	-	-	-	26	-
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	126	126	-	(126)	-	-	-	-
Expiration of restricted shares of stock issued to employees	(3,000)	328	-	-	-	-	-	-	-	2,672	-	-
Compensation cost arising from restricted shares of stock	-	210,969	-	-	-	-	-	-	-	-	210,969	-
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(570,232)	(570,232)
Balance at March 31, 2020	\$ 26,107,919	81,263,402	11,774,310	7,868,877	31,952,594	51,595,781	(10,590,377)	(519,901)	(8,287)	(328)	34,594,088	182,442,297

See accompanying notes to financial statements.

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

REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS**PEGATRON CORPORATION AND SUBSIDIARIES****Consolidated Statements of Cash Flows****For the three months ended March 31, 2020 and 2019****(Expressed in Thousands of New Taiwan Dollars)**

	For the three months ended March 31	
	2020	2019
Cash flows from operating activities:		
Profit before tax	\$ 1,699,286	1,732,155
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	4,571,913	4,638,969
Amortization expense	62,951	66,273
Expected credit loss	21,543	5,582
Net loss (gain) on financial assets and liabilities at fair value through profit or loss	178,056	(896,480)
Interest expense	675,306	1,082,092
Interest income	(1,070,811)	(914,970)
Compensation cost arising from employee stock options	228,315	243,519
Amortization of issuance costs on bonds payable	911	571
Share of gain of associates and joint ventures accounted for using equity method	(48,345)	(16,796)
Gain on lease remeasurement	(2,698)	(90)
Gain on disposal of property, plant and equipment	(5,191)	(5,171)
Property, plant and equipment charged to expenses	22,254	6,436
(Reversal gain) impairment loss on non-financial assets	(405)	11,587
(Gain) loss on foreign currency exchange on long-term loans	54,902	29,859
Long-term prepaid rentals charged to expenses	(585)	-
Provision of other current liabilities	-	308,441
Decrease in other current assets	-	43,052
Total adjustments to reconcile profit	<u>4,688,116</u>	<u>4,602,874</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Increase in financial assets at fair value through profit or loss	(245,716)	(2,581,292)
Decrease in notes and accounts receivable	42,358,712	49,713,720
Decrease in other receivables	641,417	91,173
(Increase) decrease in inventories	(18,201,762)	25,540,225
Increase in other financial assets	(30,884,728)	(631,794)
Decrease in other current assets	214,065	1,411,491
Decrease in other non-current assets	211	70,746
Total changes in operating assets	<u>(6,117,801)</u>	<u>73,614,269</u>
Changes in operating liabilities:		
Increase in contract liabilities	98,835	306,402
Decrease in notes and accounts payable	(39,789,349)	(63,093,719)
Decrease in accrued expenses	(3,032,243)	(3,547,183)
Decrease in other payables	(13,649)	(502,687)
Increase in other current liabilities	3,025,802	2,571,362
Decrease in other non-current liabilities	(34,323)	(39,688)
Total changes in operating liabilities	<u>(39,744,927)</u>	<u>(64,305,513)</u>
Total changes in operating assets and liabilities	<u>(45,862,728)</u>	<u>9,308,756</u>
Total adjustments	<u>(41,174,612)</u>	<u>13,911,630</u>
Cash (outflow) inflow generated from operations	(39,475,326)	15,643,785
Interest received	817,978	755,566
Interest paid	(526,084)	(1,053,763)
Income taxes paid	(2,271,016)	(1,203,733)
Net cash flows (used in) from operating activities	<u>(41,454,448)</u>	<u>14,141,855</u>

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

REVIEWED ONLY, NOT AUDITED IN ACCORDANCE WITH GENERALLY ACCEPTED AUDITING STANDARDS**PEGATRON CORPORATION AND SUBSIDIARIES****Consolidated Statements of Cash Flows (CONT'D)****For the three months ended March 31, 2020 and 2019****(Expressed in Thousands of New Taiwan Dollars)**

	For the three months ended March 31	
	2020	2019
Cash flows used in investing activities:		
Proceeds from disposal of financial assets at fair value through other comprehensive income	1,386	-
Proceeds from capital reduction of investments accounted for using equity method	-	1,336
Acquisition of property, plant and equipment	(1,695,448)	(1,732,253)
Proceeds from disposal of property, plant and equipment	78,779	218,125
Acquisition of intangible assets	(26,919)	(36,672)
(Increase) decrease in other financial assets	(235,529)	74,049
Increase in other non-current assets	(130,000)	-
Increase in prepayments on purchase of equipment	(572,633)	(1,576,031)
Net cash flows used in investing activities	(2,580,364)	(3,051,446)
Cash flows (used in) from financing activities:		
Increase in short-term loans	62,498,300	32,490,194
Proceeds from long-term loans	4,219,580	2,695,100
Repayments of long-term loans	(1,906,564)	(1,651,275)
Repayments of lease liabilities	(475,181)	(357,717)
Redemption of restricted stock	(7,348)	(2,884)
Changes in non-controlling interests	(48)	22,529
Net cash flows from financing activities	64,328,739	33,195,947
Effect of exchange rate fluctuations on cash held	89,044	303,054
Net increase in cash and cash equivalents	20,382,971	44,589,410
Cash and cash equivalents, beginning of the period	145,795,913	106,068,046
Cash and cash equivalents, end of the period	\$ 166,178,884	150,657,456

See accompanying notes to financial statements.

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

Reviewed only, not audited in accordance with generally accepted auditing standards

PEGATRON CORPORATION AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

(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 three months ended March 31, 2020 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 May 7, 2020.

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

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, 2020.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (b) 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 International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
January 23, 2022	Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

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

(4) Summary of significant accounting policies:

The accompanying consolidated financial statements are the 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 consolidated financial statements, the Chinese version shall prevail.

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(a) Statement of compliance

These consolidated 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), and guidelines of IAS 34 “Interim Financial Reporting” which are endorsed and issued into effect by FSC, and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for a complete set of the annual consolidated financial statements.

(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 at fair value through profit or loss are measured at fair value ;
- 2) Fair value through other comprehensive income 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 on which control commences until the date on which control ceases. The Group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having 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)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(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. Subsequently, the retained investment is recognized as either investments accounted for using equity method or financial instruments at FVOCI depending on the extent of its impact.

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

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2020	December 31, 2019	March 31, 2019	
THE COMPANY	UNIHAN HOLDING LTD. (UNIHAN HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Note 15
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDINGS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 15
CASETEK HOLDINGS	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 15
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 %	100.00 %	Note 15

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2020	December 31, 2019	March 31, 2019	
CASETEK HOLDINGS	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDINGS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 15
KAEDAR HOLDINGS	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00 %	100.00 %	100.00 %	Note 15
CASETEK HOLDINGS	KAEDAR TRADING LTD.	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 15
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 %	100.00 %	Note 15
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 %	100.00 %	Note 15
THE COMPANY, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	AZUREWAVE TECHNOLOGIES, INC. (AZUREWAVE)	Manufacturing office machinery, electronic parts and computer peripherals and selling precision equipment, and digital cameras	32.86 %	32.85 %	32.83 %	Notes 1 and 2
AZUREWAVE	EZWAVE TECHNOLOGIES, INC.	Manufacturing office machinery, electronic parts and computer peripherals	100.00 %	100.00 %	100.00 %	Notes 1 and 15
AZUREWAVE	Azurewave Technologies (USA) Inc.	Market development activities	100.00 %	100.00 %	100.00 %	Notes 1 and 15
AZUREWAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00 %	100.00 %	100.00 %	Notes 1 and 15
AZUREWAVE	Azwave Holding (Samoa) Inc.(Azwave Samoa)	Investing activities	100.00 %	100.00 %	100.00 %	Note 1
Azwave Samoa	AZUREWAVE TECHNOLOGIES (SHANGHAI) INC.	Designing, manufacturing and trading computer products	100.00 %	100.00 %	100.00 %	Notes 1 and 15
Azwave Samoa	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00 %	100.00 %	100.00 %	Notes 1 and 15
Azwave Samoa	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00 %	100.00 %	100.00 %	Notes 1 and 15
THE COMPANY	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00 %	100.00 %	100.00 %	Note 15
AMA PRECISION	AMA Holdings Limited(AMA)	Investing activities	100.00 %	100.00 %	100.00 %	Note 15
AMA, MAINTEK COMPUTER (SUZHOU) CO., LTD.	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD.	Manufacturing and selling new electronic parts and premium hardware	- %	- %	100.00 %	Notes 13 and 15
THE COMPANY	PEGATRON HOLLAND HOLDING B.V.(PHH)	Investing activities	100.00 %	100.00 %	100.00 %	Note 15

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2020	December 31, 2019	March 31, 2019	
PHH	PEGATRON Czech s.r.o.	Installing, repairing and selling electronic products	100.00 %	100.00 %	100.00 %	Note 15
THE COMPANY	PEGATRON HOLDING LTD. (PEGATRON HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	
PEGATRON HOLDING	POWTEK HOLDINGS LIMITED (POWTEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 15
POWTEK	POWTEK (SHANGHAI) LTD.	Selling main boards, computer peripherals, note books, servers and software, and providing after-sales service	100.00 %	100.00 %	100.00 %	Note 15
PEGATRON HOLDING	PIOTEK HOLDINGS LTD. (CAYMAN)	Investing activities	100.00 %	100.00 %	100.00 %	Notes 5
KINSUS SAMOA	(PIOTEK CAYMAN)					
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Notes 5
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 %	100.00 %	Notes 5
PIOTEK HOLDING	PIOTEK(H.K.) TRADING LIMITED	Trading activities	100.00 %	100.00 %	100.00 %	Notes 5
PEGATRON HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 15
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 15
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 %	100.00 %	
PEGATRON HOLDING	DIGITEK GLOBAL HOLDINGS LIMITED (DIGITEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 15
DIGITEK	DIGITEK (CHONGQING) LTD.	Manufacturing, developing, and selling GPS, electronic calculators, and after sale service	100.00 %	100.00 %	100.00 %	
DIGITEK (CHONGQING) LTD.	CHONGQING ZUANSHUO TRADING CO., LTD.	Computer software and hardware, computer parts, electronic products (excluding electronic publications), electric appliance, industrial communication device (excluding wireless transmitter and transmitter), communication equipment (excluding wireless transmitter and satellite ground receiving facilities), and providing related technical consulting services. Import and export of goods and technology. Packaging service, product design, marketing planning, business consulting	100.00 %	100.00 %	100.00 %	Note 15

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2020	December 31, 2019	March 31, 2019	
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 15
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 %	100.00 %	
PEGATRON HOLDING	PROTEK GLOBAL HOLDINGS LTD. (PROTEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 15
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 %	100.00 %	
PEGATRON HOLDING	COTEK HOLDINGS LIMITED(COTEK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 15
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 %	100.00 %	Note 15
PEGATRON HOLDING	TOP QUARK LIMITED(TOP QUARK)	Investing activities	100.00 %	100.00 %	100.00 %	Note 15
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 %	100.00 %	Note 15
THE COMPANY	ASUSPOWER INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	100.00 %	
THE COMPANY	ASUS INVESTMENT CO., LTD.	Investing activities	100.00 %	100.00 %	100.00 %	
THE COMPANY	ASUSTEK INVESTMENT CO., LTD.	Investing activities	100.00 %	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	55.92 %	55.92 %	55.90 %	Note 3
ASROCK	ASIAROCK TECHNOLOGY LIMITED (ASIAROCK)	Investing and holding activities	100.00 %	100.00 %	100.00 %	
ASIAROCK	ASROCK EUROPE B.V.	Selling database service and trading electronic components	100.00 %	100.00 %	100.00 %	
ASIAROCK	Calrock Holdings, LLC.	Office building leasing	100.00 %	100.00 %	100.00 %	Note 15
ASROCK	Leader Insight Holdings Limited (Leader)	Investing and holding activities	100.00 %	100.00 %	100.00 %	Note 15

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2020	December 31, 2019	March 31, 2019	
Leader	First place International Limited (First place)	Investing and holding activities	100.00 %	100.00 %	100.00 %	Note 15
First place	ASRock America, Inc.	Selling database service and trading electronic components	100.00 %	100.00 %	100.00 %	
ASROCK	ASRock Rack Incorporation	Manufacturing and selling computer and related peripherals	62.03 %	62.02 %	59.98 %	Note 6
ASROCK	ASRock Industrial Computer Corporation	Manufacturing and selling computer and related peripherals	67.52 %	67.38 %	82.47 %	Note 7
ASROCK	Soaring Asia Limited	Trading activities	100.00 %	100.00 %	100.00 %	Note 15
ASUSPOWER INVESTMENT AND ASUS INVESTMENT	PEGATRON Mexico, S.A. DE C.V.	Sales and repair service center in Mexico	100.00 %	100.00 %	100.00 %	Note 15
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	38.56 %	38.56 %	38.53 %	Notes 4 and 5
KINSUS	KINSUS INVESTMENT CO., LTD. (KINSUS INVESTMENT)	Investing activities	100.00 %	100.00 %	100.00 %	Note 5
KINSUS INVESTMENT, ASUSPOWER INVESTMENT AND ASUSTEK INVESTMENT	PEGAVISION CORPORATION	Manufacturing medical appliances	45.21 %	45.21 %	54.87 %	Notes 5, 8 and 9
KINSUS INVESTMENT, ASUSTEK INVESTMENT AND ASUS INVESTMENT	FUYANG TECHNOLOGY CORPORATION	Manufacturing and wholesaling wires, cables, and electronic components	89.13 %	89.13 %	89.13 %	Note 15
PEGAVISION CORPORATION	PEGAVISION HOLDINGS CORPORATION (PEGAVISION)	Investing activities	100.00 %	100.00 %	100.00 %	Notes 5 and 8
PEGAVISION CORPORATION	PEGAVISION JAPAN INC.	Selling medical appliances	100.00 %	100.00 %	100.00 %	Notes 5 and 8
FUYANG TECHNOLOGY CORPORATION	FUYANG FLEX HOLDING LTD. (FUYANG HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Note 15
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 %	100.00 %	Note 15
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	100.00 %	100.00 %	100.00 %	Notes 5 and 8
PEGAVISION (SHANGHAI) LIMITED	Gemvision Technology (Zhejiang) Limited.	Manufacturing and selling medical appliances	100.00 %	100.00 %	100.00 %	Notes 5 and 8

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2020	December 31, 2019	March 31, 2019	
KINSUS	KINSUS CORP. (USA)	Developing and designing new technology and products; analyzing marketing strategy and developing new customers	100.00 %	100.00 %	100.00 %	Note 5
KINSUS	KINSUS HOLDING (SAMOA) LIMITED (KINSUS SAMOA)	Investing activities	100.00 %	100.00 %	100.00 %	Note 5
KINSUS SAMOA	KINSUS HOLDING (CAYMAN) LIMITED(KINSUS CAYMAN)	Investing activities	100.00 %	100.00 %	100.00 %	Note 5
KINSUS CAYMAN	KINSUS INTERCONNECT TECHNOLOGY (SUZHOU) CORP.	Manufacturing and selling circuit boards	100.00 %	100.00 %	100.00 %	Note 5
KINSUS CAYMAN	KINSUS TRADING (SUZHOU) CORP.	Manufacturing and selling circuit boards related products and materials	100.00 %	100.00 %	100.00 %	Note 5
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 %	100.00 %	Note 15
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	ASUSPOWER CORPORATION	Investing and trading activities	100.00 %	100.00 %	100.00 %	
THE COMPANY, ASUSPOWER CORPORATION	CASETEK HOLDINGS LIMITED(CAYMAN) (CASETEK CAYMAN)	Investing activities	59.41 %	59.41 %	59.41 %	
CASETEK CAYMAN	RIH LI INTERNATIONAL LIMITED (RIH LI)	Investing activities	100.00 %	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 %	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 %	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 %	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 %	100.00 %	

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2020	December 31, 2019	March 31, 2019	
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 %	100.00 %	
RIH LI	RI SHAN COMPUTER ACCESSORY (JIA SHAN) 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 %	100.00 %	Note 12
RIH LI	RI KAI COMPUTER ACCESSORY CO., LTD.(RI KAI)	Designing, developing, manufacturing and selling electronic components, precision, nonmetal and metal tooling	100.00 %	100.00 %	100.00 %	
CASETEK CAYMAN	APEX SUN LIMITED	Investing activities	- %	- %	100.00 %	Note 14
CASETEK CAYMAN	RI-KUAN METAL CORPORATION	Selling iron and aluminum products	100.00 %	100.00 %	100.00 %	
RI-KUAN METAL CORPORATION	RITENG USA, INC	Market survey	100.00 %	100.00 %	- %	Note 10
CASETEK CAYMAN	APLUS PRECISION LIMITED(APLUS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	
APLUS	UNITED NEW LIMITED(UNITED)	Investing and trading activities	100.00 %	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 %	100.00 %	
CASETEK CAYMAN	MEGA MERIT LIMITED	Trading activities	100.00 %	100.00 %	100.00 %	
CASETEK CAYMAN	CASETEK SINGAPORE PTE. LTD.	Trading activities	100.00 %	100.00 %	- %	Note 11
ASUS INVESTMENT	AS FLY TRAVEL SERVICE LIMITED	Trading agency	100.00 %	100.00 %	100.00 %	Note 15
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00 %	100.00 %	100.00 %	Note 15
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.	Maintenance service	100.00 %	100.00 %	100.00 %	Note 15
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00 %	100.00 %	100.00 %	Note 15
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00 %	100.00 %	100.00 %	Note 15
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00 %	100.00 %	100.00 %	Note 15

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			March 31, 2020	December 31, 2019	March 31, 2019	
ASUSPOWER INVESTMENT, ASUS INVESTMENT AND ASUSTEK INVESTMENT	Lumens Digital Optics Inc. (Lumens Optics)	Developing, manufacturing and selling computer data projectors and related peripherals	55.21 %	55.21 %	55.21 %	Note 15
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00 %	100.00 %	100.00 %	Note 15
Lumens Optics	Lumens Digit Image Inc. (SAMOA)(Lumens)	Investing activities	100.00 %	100.00 %	100.00 %	Note 15
Lumens	Lumens (Suzhou) Digital Image Inc.	Manufacturing and selling projectors, projection screens and related products	100.00 %	100.00 %	100.00 %	Note 15
ASUSPOWER INVESTMENT	Pegatron Service Singapore Pte. Ltd.(PSG)	Sales and logistics center in Singapore	100.00 %	100.00 %	100.00 %	Note 15
PSG	PEGATRON SERVICE KOREA LLC.	Sales and repair service center in Korea	100.00 %	100.00 %	100.00 %	Note 15
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00 %	100.00 %	100.00 %	Note 15
THE COMPANY	PEGATRON SERVICE AUSTRALIA PTY. LTD.	Investing activities	100.00 %	100.00 %	100.00 %	Note 15
THE COMPANY	PEGATRON USA, INC.	Sales and repair service center in North America	100.00 %	100.00 %	100.00 %	Note 15
THE COMPANY, ASUSPOWER INVESTMENT	PT. PEGATRON TECHNOLOGY INDONESIA	Data storage and processing equipment, manufacturing wired and wireless communication equipment, and whole selling of computer equipment and electronic components	100.00 %	100.00 %	100.00 %	Note 15

Note 1 : Since the Group only held 32.86% of voting rights of AZUREWAVE TECHNOLOGY INC. (AZUREWAVE), with the remaining 67.14% 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 AZUREWAVE, therefore, AZUREWAVE has been included in the consolidated financial statement of the Group.

Note 2 : On August 7, 2019, December 26, 2019, and March 18, 2020, respectively, AZUREWAVE TECHNOLOGY INC. (AZUREWAVE) reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in AZUREWAVE to increase from 32.83% to 32.86%.

Note 3 : On August 8, 2019 and November 6, 2019, ASROCK INCORPORATION (ASROCK) reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in ASROCK to increase from 55.90% to 55.92%.

Note 4 : On July 29, 2019 and October 28, 2019, KINSUS reduced its capital by canceling those retired employee restricted shares, resulting in the Group's shareholding ratio in KINSUS to decrease from 38.53% to 38.56%.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- Note 5 : Since the Group only held 38.56% of the voting rights of KINSUS INTERCONNECT TECHNOLOGY CORP. (KINSUS), with the remaining 61.44% 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.
- Note 6 : ASRock Rack Incorporation approved to increase its capital on June 10, 2019. However, the Group did not increase its shares proportionally in ASRock Rack Incorporation, resulting in its shareholding ratio to increase from 59.98% to 62.01%. On December 17, 2019, and March 25, 2020, the Group purchased 30 and 20 thousand shares from non-related parties amounting to \$60 and \$40, respectively, resulting in the Group's shareholding ratio to increase to 62.03%.
- Note 7 : On July 24, 2019, ASRock Industrial Computer Corporation approved to increase its capital by \$200,000, with the Group investing the amount of \$112,122. The record date for the capital increase through cash was October 1, 2019. However, The Group did not increase its shares proportionally in ASRock Industrial Computer Corporation, resulting in its shareholding ratio to decrease from 82.47% to 67.38%. On January 12, 2019 and March 23, 2019 the Group purchased 30 and 20 thousand shares from non-related parties amounting to \$300 and \$246, respectively, resulting in the Group's shareholding ratio to increase from 67.38% to 67.52%.
- Note 8 : Since the Group only held 45.21% of rights of PEGAVISION CORPORATION (PEGAVISION), with the remaining 54.79% 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 PEGAVISION, therefore, PEGAVISION has been included in the consolidated financial statements of the Group.
- Note 9 : PEGAVISION handled a cash increase of \$100,000 and issued the ordinary shares of 10,000 thousand shares, with a face value of \$10 per share, prior to its initial listing according to the IPO. However, the Group did not increase its shares proportionally in PEGAVISION, and sold ordinary shares 1,275 thousand shares, resulting in its shareholding ratio to decrease from 54.87% to 45.21%.
- Note 10 : Subsidiary established by the Group in the second quarter of 2019.
- Note 11 : Subsidiary established by the Group in the third quarter of 2019.
- Note 12 : On May 21, 2019, RI SHAN COMPUTER ACCESSORY (JIASHAN) CO., LTD. changed its name to the current name from KAI JIA (SUZHOU) COMPUTER ACCESSORY CO., LTD.
- Note 13 : It was liquidated in December 2019.
- Note 14 : It was written off in the forth quarter of 2019.
- Note 15 : It is an insignificant subsidiary, and its financial statements for the three months ended March 21, 2020 and 2019, have not been reviewed.

(vii) Subsidiaries excluded from consolidation : None.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(d) Foreign currency

(i) Foreign currency transaction

Transactions in foreign currencies are translated into the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of translation.

Exchange differences are generally recognized in profit or loss, except for the following accounts which are recognized in other comprehensive income :

- 1) fair value through other comprehensive income 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 are effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the Group's functional currency at the exchange rates at the reporting date. The income and expenses of foreign operations, are translated into the Group's functional currency at average rate. Exchange differences are recognized in other comprehensive income.

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

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

An asset is classified as current when :

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

All other assets are classified as non-current.

A liability is classified as current when :

- (i) It is expected to be settled within the Group's normal operating cycle ;
- (ii) It is held primarily for the purpose of trading ;
- (iii) The liability is due to be settled within twelve months after the reporting period ; or
- (iv) The Group 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 assets

Accounts receivable and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a accounts receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A accounts receivable without a significant financing component is initially measured at the transaction price.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL :

- a) it is held within a business model whose objective is to hold assets to collect contractual cash flows ; and
- b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL :

- a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ; and
- b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Some accounts receivable are held within a business model whose objective is achieved by both collecting contractual cash flows and selling by the Group, therefore, those receivables are measured at FVOCI. However, they are included in the ‘ accounts receivable’ line item.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Group's right to receive payment is established.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets. Accounts receivable that the Group intends to sell immediately or in the near term are measured at FVTPL; however, they are included in the 'accounts receivable' line item. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes :

- a) the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets ;
- b) how the performance of the portfolio is evaluated and reported to the Group's management ;
- c) the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed ;
- d) the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, and are consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

5) Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial assets on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers :

- a) contingent events that would change the amount or timing of cash flows ;
- b) terms that may adjust the contractual coupon rate, including variable rate features ;
- c) prepayment and extension features ; and
- d) terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features)

6) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, notes and accounts receivable, other receivable and other financial assets) and trade receivables measured at FVOCI.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following which are measured as 12-month ECL :

- a) debt securities that are determined to have low credit risk at the reporting date ; and
- b) other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for accounts receivable and contract assets are always measured at an amount equal to lifetime ECL.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 180 days past due or the debtor is unlikely to pay its credit obligations to the Group in full.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data :

- a) significant financial difficulty of the borrower or issuer ;
- b) a breach of contract such as a default or being more than 180 days past due ;
- c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider ;
- d) it is probable that the borrower will enter bankruptcy or other financial reorganization ; or
- e) the disappearance of an active market for a security because of financial difficulties.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is charge to profit or loss and is recognized in other comprehensive income.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amount due.

7) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) Equity instrument

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 as the amount of consideration received, less the direct cost of issuing.

3) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

5) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

6) 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.

7) 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.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of: (a) the amount of the loss allowance determined in accordance with IFRS 9; and (b) the amount recognized initially less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out below.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 present 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) Non-current assets held for sale

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

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a *pro rata* basis, except that no loss is allocated to assets not within the scope of IAS 36 – *Impairment of Assets*. Such assets will continue to be measured in accordance with the Group's accounting policies.

Impairment losses on assets initially classified as held for sale and any subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of the cumulative impairment loss that has been recognized.

Once classified as held for sale are to be depreciated or amortized, they are no longer depreciated or amortized.

(j) Investment in associates

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

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

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

Gains and losses resulting from the transactions between the Group and an associate are recognized only to the extent of unrelated. Group's interests in the associate.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

When the Group's share of losses of an associate equals or exceeds its interest in associates, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

(k) Investment property

Investment property is a property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation and accumulated impairment loss.

Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

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

(l) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent cost

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

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PEGATRON CORPORATION AND SUBSIDIARIES
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(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straightline basis over the estimated useful lives of each component of an item of property, plant and equipment.

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	0-10 years
Instrument equipment	0-10 years
Office and other equipment	1-10 years
Miscellaneous equipment	0-25 years

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

(iv) 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.

(m) Leased

(i) Identifying a lease

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of the use; and
- 3) The Group has the right to direct the use of the asset if either :
 - The Group has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.
 - In rare cases where the decision about how and for what purpose the asset is used is predetermined.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- the Group has the right to operate the asset and the providers do not have the right to vary; or
- the Group designed the asset in a way that predetermines how and for what purpose it will be used.

(ii) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- 1) fixed payments, including in-substance fixed payments;
- 2) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- 3) amounts expected to be payable under a residual value guarantee; and
- 4) payments or penalties for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- 1) there is a change in future lease payments arising from the change in an index or rate; or
- 2) there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- 3) there is a change in the Group's estimate of purchase options; or
- 4) there is a change of its assessment on whether it will exercise an extension or termination option; or

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5) there is any lease modifications in lease subject, scope of the lease or other terms.

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

(iii) As a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies IFRS15 to allocate the consideration in the contract.

(n) Intangible assets

(i) Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost, less accumulated impairment losses.

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

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

(ii) Subsequent expenditure

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

(iii) Amortization

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

Amortization is calculated over the cost of the asset, less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful life of intangible assets for the current and comparative periods is as follows :

Computer software cost	0-10 years
Intangible assets in development	2-10 years

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(o) Impairment – non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories, contract assets, deferred tax assets and investment properties and biological assets, measured at fair value, less costs) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

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Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

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

(p) Revenue from contracts with customers

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

(i) Sale of goods

The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The Group grants its main customers the right to return the product within certain period. Therefore, the Group reduces its revenue by the amount of expected returns and discounts, and recognizes a refund liability and a right to the returned goods. Accumulated experience is used to estimate such returns and discounts at the time of sale. Also, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. At each reporting date, the Group reassesses the estimated amount of expected returns and discounts.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

(ii) Rendering of services

Revenue from providing services is recognized in the accounting period in which performance obligation is satisfied.

(iii) Financial components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

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(q) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are expensed as the related service is provided.

(ii) Defined benefit plans

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.

(iii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid 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.

(r) Share-based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards 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 at settlement date based on the fair value of the share appreciation rights. Any change in the liability is recognized in profit or loss.

Grant date of a share-based payment award is the date which the board of directors authorized the price and number of a new award.

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(s) Income taxes

Tax expense in the interim financial statements is measured and disclosed according to paragraph B12 of IAS 34 "Interim Financial Reporting."

Income tax expense for the period is best estimated by multiplying pretax income for the interim reporting period with the effective annual tax rate as forecasted by management. It is recognized fully as tax expense for the current period.

For a change in tax rate that is substantively enacted in an interim period, the effect of the change should immediately be recognized in the interim period in which the change occurs.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases are measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled and recognized directly in equity or other comprehensive income as tax expense.

(t) Business combination

The Group accounts for business combinations using the acquisition method. The goodwill arising from an acquisition is measured as the excess of (i) the consideration transferred (which is generally measured at fair value) and (ii) the amount of non-controlling interest in the acquiree, both over the identifiable net assets acquired at the acquisition date. If the amount calculated above is a deficit balance, the Group recognized that amount as a gain on a bargain purchase in profit or loss immediately after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed.

For each business combination, 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 stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value, and recognizes the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the Group may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income will be recognized on the same basis as would be required if the Group had disposed directly of the previously held equity interest. If the disposal of the equity interest required a reclassification to profit or loss, such an amount will be reclassified to profit or loss.

All acquisition-related transaction costs are expensed as incurred, except for the issuance of debt or equity instruments.

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 will not exceed one year from the acquisition date.

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PEGATRON CORPORATION AND SUBSIDIARIES
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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.

(u) 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 nondepreciable asset, the grant is credited to income over the same period over which the cost is charged to income.

(v) 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.

(w) 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 consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 "Interim Financial Reporting" and 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 preparation of the consolidated financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2019. For the related information, please refer to Note 5 of the consolidated financial statements for the year ended December 31, 2019.

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(6) Explanation of significant accounts:

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2019. Please refer to Note 6 of the consolidated financial statements for the year ended December 31, 2019.

(a) Cash and cash equivalents

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Cash on hand	\$ 14,201	10,354	12,816
Cash in banks	35,274,231	36,563,302	29,245,550
Time deposits	130,889,845	104,823,503	119,857,477
Cash equivalents	<u>607</u>	<u>4,398,754</u>	<u>1,541,613</u>
	<u>\$ 166,178,884</u>	<u>145,795,913</u>	<u>150,657,456</u>

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

(b) Financial assets at fair value through profit or loss

	<u>March 31, 2020</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Current mandatorily measured at fair value through profit or loss :			
Non-derivative financial assets			
Shares of stock of listed companies	\$ 899,075	875,720	718,575
Shares of stock of unlisted companies	14,653	16,500	-
Beneficiary certificates	2,388,272	2,437,370	2,196,509
Shares of stock of overseas listed companies	3,579,422	3,471,939	3,678,520
Derivative financial assets			
Forward exchange contracts	-	-	20
Non-current mandatorily measured at fair value through profit or loss :			
Non-derivative financial assets			
Shares of stock of listed companies	212,800	225,050	220,500
Beneficiary certificates	259,723	259,706	116,970
Shares of stock of overseas unlisted companies	<u>71,510</u>	<u>71,510</u>	<u>79,651</u>
Total	<u>\$ 7,425,455</u>	<u>7,357,795</u>	<u>7,010,745</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (i) Please refer to Note 6(aa) for re-measurement at fair value recognized in profit or loss.
- (ii) Please refer to Note 6(ab) for credit risk and market risk.
- (iii) The aforesaid financial assets were not pledged as collateral.

The following derivative instruments, without the application of hedge accounting, were classified as mandatorily measured at fair value through profit or loss assets :

	March 31, 2019	
	Amount (in thousands)	Period
Forward exchange contracts	USD	2,800 2019.3.27~2019.5.31

- (c) Financial assets at fair value through other comprehensive income

	March 31, 2020	December 31, 2019	March 31, 2019
Equity instruments at fair value through other comprehensive income :			
Shares of stock of listed companies	\$ 368,900	586,407	558,677
Shares of stock of unlisted companies	150,439	150,000	150,000
Shares of stock of overseas unlisted companies	121,595	121,751	132,625
Total	\$ 640,934	858,158	841,302

- (i) Equity instruments at fair value through other comprehensive income

The Group holds these equity instruments, which are not held for trading at designated fair value through other comprehensive income, for long-term strategic purposes.

For the three months ended March 31, 2020 and 2019, the Group not has recognized any dividend from equity instruments designated at fair value through other comprehensive income.

For the three months ended March 31, 2020, the Group has sold its shares as a result of investment strategic. The shares sold had a fair value of \$1,386 and the Group realized a gain of \$126, which is already included in other comprehensive income. The gain has been converted to retained earnings. No strategic investments were disposed for the three months ended March 31, 2019, and there were no transfers of any cumulative gains or losses within equity relating to these investments.

- (ii) Please refer to Note 6(ab) for credit risk and market risk.
- (iii) The aforesaid financial assets were not pledged as collateral.

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(d) Notes and accounts receivable, net

(i) The components of notes and accounts receivable were as follows :

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
Notes receivables from operating activities	\$ 9,095	20,232	26,101
Accounts receivable-measured at amortized cost	165,647,463	200,499,571	150,925,223
Accounts receivable-fair value through other comprehensive income	-	7,495,000	-
Less : Allowance for impairment	<u>1,698,334</u>	<u>1,676,398</u>	<u>1,782,310</u>
	<u>\$ 163,958,224</u>	<u>206,338,405</u>	<u>149,169,014</u>

The Group assesses its portion accounts receivable held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and therefore such assets are recognized as accounts receivable were measured at fair value through other comprehensive income.

(ii) Credit loss

The Group applies the simplified approach to provide for the loss allowance used for expected credit losses, which permit the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, notes and accounts receivable have been grouped based on shared credit risk characteristics and the days past due, as well as forward looking information, including overall economic environment and related industrial information.

The loss allowance provision was determined as follows :

	<u>March 31, 2020</u>		
	<u>Gross carrying amount</u>	<u>Expected loss rate</u>	<u>Loss allowance provision</u>
Current	\$ 161,638,527	0%~2%	(31,056)
Overdue 0 to 30 days	2,221,993	1%~30%	(63,509)
Overdue 31 to 120 days	203,197	2%~100%	(16,280)
Overdue 121 to 365 days	27,462	38%~100%	(22,110)
Over 365 days past due	<u>1,565,379</u>	100%	<u>(1,565,379)</u>
	<u>\$ 165,656,558</u>		<u>(1,698,334)</u>

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	December 31, 2019		
	Gross carrying amount	Expected loss rate	Loss allowance provision
Current	\$ 203,528,826	0%~2%	(33,125)
Overdue 0 to 30 days	2,656,159	0%~30%	(46,356)
Overdue 31 to 120 days	204,686	2%~100%	(27,881)
Overdue 121 to 365 days	73,112	4%~100%	(17,016)
Over 365 days past due	<u>1,552,020</u>	100%	<u>(1,552,020)</u>
	<u>\$ 208,014,803</u>		<u>(1,676,398)</u>
	March 31, 2019		
	Gross carrying amount	Expected loss rate	Loss allowance provision
Current	\$ 147,792,446	0%~2%	(26,101)
Overdue 0 to 30 days	1,190,336	1%~30%	(39,639)
Overdue 31 to 120 days	273,968	1%~100%	(31,396)
Overdue 121 to 365 days	13,121	19%~100%	(3,721)
Over 365 days past due	<u>1,681,453</u>	100%	<u>(1,681,453)</u>
	<u>\$ 150,951,324</u>		<u>(1,782,310)</u>

The movement in the allowance for notes and accounts receivable was as follows :

	For the three months ended March 31	
	2020	2019
Balance on January 1	\$ 1,676,398	1,780,928
Impairment losses recognized	23,358	12,384
Impairment losses reversed	(1,889)	(11,534)
Foreign exchange losses	<u>467</u>	<u>532</u>
Balance on March 31	<u>\$ 1,698,334</u>	<u>1,782,310</u>

The aforesaid financial assets were not pledged as collateral.

- (iii) Please refer to Note 6(ab) for the Group's notes and accounts receivable exposure to credit risk and currency risk.
- (iv) Accounts receivable factoring

The Group entered into separate factoring agreements with different financial institutions to sell its accounts receivable. The Group derecognized the above accounts receivable because it has transferred substantially all of the risks and rewards of their ownership, and it does not have any continuing involvement in them.

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As of March 31, 2020 and 2019, and December 31, 2019, the relevant information on accounts receivable factored by the Company, but unsettled, were as follows :

March 31, 2020							
Purchaser	Amount Derecognized	Factoring Line (thousands)	Amount Advanced (thousands)		Collateral	Range of Interest Rate	Significant Factoring Terms
			Unpaid	Paid			
ANZ (Note 2)	\$ -	USD 830,000	USD 830,000	USD -	None	-	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.
December 31, 2019							
Purchaser	Amount Derecognized	Factoring Line (thousands)	Amount Advanced (thousands)		Collateral	Range of Interest Rate	Significant Factoring Terms
			Unpaid	Paid			
ANZ (Note 1)	\$ 7,495,000	USD 1,200,000	USD 950,000	USD 250,000	None	2.03%~ 2.93%	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.
March 31, 2019							
Purchaser	Amount Derecognized	Factoring Line (thousands)	Amount Advanced (thousands)		Collateral	Range of Interest Rate	Significant Factoring Terms
			Unpaid	Paid			
ANZ (Note 1)	\$ -	USD 1,200,000	USD 1,200,000	USD -	None	2.87%~ 2.93%	The accounts receivable factoring is without recourse but the seller still bears the risks except for eligible obligor's insolvency.

Note 1 : In October 2017, 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.

Note 2 : Mizuho Bank has withdrawn from the joint accounts receivable factoring agreement in February 2020, resulting in the factoring line decrease to \$830,000.

For the three months ended March 31, 2020 and 2019, the Company recognized a fee and interest on bank advance payment of \$58 and \$65,952, respectively, from the factoring of accounts receivable, which was accounted under finance costs in the statement of comprehensive income.

As of March 31, 2020 and 2019, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows :

March 31, 2020							
Purchaser	Amount Derecognized	Factoring Line (thousands)	Amount Advanced (thousands)		Collateral	Range of Interest Rate	Significant Factoring Terms
			Unpaid	Paid			
Mega International Commercial Bank	\$ 307,749	USD 30,000	USD 21,000	USD 9,000	None	1.86%~ 2.41%	The accounts receivable factoring is without recourse

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December 31, 2019							
Purchaser	Amount Derecognized	Factoring Line (thousands)	Amount Advanced (thousands)		Collateral	Range of Interest Rate	Significant Factoring Terms
			Unpaid	Paid			
Mega International Commercial Bank	\$ <u>286,663</u>	USD <u>30,000</u>	USD <u>29,500</u>	USD <u>500</u>	None	2.17%	The accounts receivable factoring is without recourse

March 31, 2019							
Purchaser	Amount Derecognized	Factoring Line (thousands)	Amount Advanced (thousands)		Collateral	Range of Interest Rate	Significant Factoring Terms
			Unpaid	Paid			
Mega International Commercial Bank	\$ <u>208,314</u>	USD <u>30,000</u>	USD <u>30,000</u>	USD <u>-</u>	None	-	The accounts receivable factoring is without recourse

As of March 31, 2020, December 31, 2019 and March 31, 2019, KINSUS reclassified the derecognized accounts receivable to other receivables.

(e) Other receivables

	March 31, 2020	December 31, 2019	March 31, 2019
Other receivables	\$ 1,256,491	1,489,704	1,555,696
Less : Allowance for impairment	<u>16,968</u>	<u>17,002</u>	<u>19,432</u>
	<u>\$ 1,239,523</u>	<u>1,472,702</u>	<u>1,536,264</u>

Please refer to Note 6(ab) for credit risk.

(f) Inventories

	March 31, 2020	December 31, 2019	March 31, 2019
Merchandise	\$ 1,428,394	1,285,078	313,664
Finished goods	46,066,074	61,552,810	85,344,019
Work in process	29,751,781	18,134,156	24,692,808
Raw materials	<u>54,417,905</u>	<u>31,614,069</u>	<u>37,847,182</u>
Subtotal	131,664,154	112,586,113	148,197,673
Less: Allowance for inventory market decline and obsolescence	<u>7,398,902</u>	<u>6,522,623</u>	<u>8,749,557</u>
Total	<u>\$ 124,265,252</u>	<u>106,063,490</u>	<u>139,448,116</u>

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For the three months ended March 31, 2020 and 2019, the components of cost of goods sold were as follows :

	For the three months ended March 31	
	2020	2019
Cost of goods sold	\$ 268,304,791	282,023,284
Provision on inventory market price decline	876,279	673,129
Loss on disposal of inventory	2,128,745	3,345,043
Unallocated manufacturing overhead	1,001,856	1,399,568
Loss on physical inventory	1,556	1,533
	\$ 272,313,227	287,442,557

For the three months ended March 31, 2020 and 2019, the Group recognized a provision on inventory market decline, which was converted to profit or loss under cost of goods sold.

As of March 31, 2020, December 31, 2019, and March 31, 2019, the aforesaid inventories were not pledged as collateral.

(g) Non-current assets held for sale

There were no significant changes in non-current assets held for sale for the three months ended March 31, 2020 and 2019. For other related information, please refer to Note 6(g) of the consolidated financial statements for the year ended December 31, 2019.

(h) 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.

	March 31, 2020	December 31, 2019	March 31, 2019
Individually insignificant associates	\$ 304,372	256,093	262,346

	For the three months ended March 31	
	2020	2019
The Group's share of profit (loss) of the associates		
Profit for the period	\$ 48,345	16,796
Other comprehensive (loss) profit	(174)	402
Total comprehensive income profit	\$ 48,171	17,198

(ii) As of March 31, 2020, December 31, 2019 and March 31, 2019, the aforesaid investments accounted for using equity method were not pledged as collateral.

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(iii) The unreviewed financial statements of investments accounted for using equity method.

Investments accounted for using equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have not been reviewed.

(i) Subsidiaries that have material non-controlling interest

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

Subsidiaries	Main operation place/Country of registration	Equity ownership of non-controlling interest		
		March 31, 2020	December 31, 2019	March 31, 2019
KINSUS and its subsidiaries	Taiwan	61.44 %	61.44 %	61.47 %
ASROCK and its subsidiaries	Taiwan	44.08 %	44.08 %	44.10 %
CASETEK CAYMAN	Taiwan/ Cayman	40.59 %	40.59 %	40.59 %

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

	March 31, 2020	December 31, 2019	March 31, 2019
Current assets	\$ 19,337,816	19,340,507	18,082,272
Non-current assets	21,597,272	22,362,838	24,248,973
Current liabilities	(10,469,016)	(10,841,218)	(10,009,977)
Non-current liabilities	(2,118,403)	(2,024,427)	(3,216,893)
Net assets	<u>\$ 28,347,669</u>	<u>28,837,700</u>	<u>29,104,375</u>
Non-controlling interest	<u>\$ 17,683,555</u>	<u>17,957,674</u>	<u>17,661,704</u>

	For the three months ended March 31	
	2020	2019
Operating revenue	<u>\$ 5,892,333</u>	<u>4,919,071</u>
Net income (loss) for the period	\$ 78,935	(749,176)
Other comprehensive (loss) income	(1,417)	64,988
Comprehensive income (loss)	<u>\$ 77,518</u>	<u>(684,188)</u>
Net income (loss) attribute to non-controlling interest	<u>\$ 96,602</u>	<u>(410,827)</u>
Comprehensive income (loss) attribute to non-controlling interest	<u>\$ 93,338</u>	<u>(380,047)</u>

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	<u>For the three months ended March 31</u>	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities	\$ 988,175	1,222,365
Cash flows from investing activities	(943,132)	(1,561,799)
Cash flows from financing activities	(455,134)	380,306
Net (decrease) increase in cash and cash equivalents	<u>\$ (410,091)</u>	<u>40,872</u>

(ii) Information regarding ASROCK and its subsidiaries

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
Current assets	\$ 10,055,748	9,706,137	9,108,900
Non-current assets	539,996	560,035	700,891
Current liabilities	(4,326,064)	(3,747,151)	(3,483,705)
Non-current liabilities	(55,036)	(64,554)	(78,313)
Net assets	<u>\$ 6,214,644</u>	<u>6,454,467</u>	<u>6,247,773</u>
Non-controlling interest	<u>\$ 2,937,880</u>	<u>3,030,844</u>	<u>2,822,062</u>

	<u>For the three months ended March 31</u>	
	<u>2020</u>	<u>2019</u>
Operating revenue	\$ <u>3,596,289</u>	<u>2,823,035</u>
Net income for the period	\$ 200,940	101,671
Other comprehensive (loss) income	33,220	13,117
Comprehensive income	<u>\$ 234,160</u>	<u>114,788</u>
Net income attribute to non-controlling interest	<u>\$ 96,322</u>	<u>47,138</u>
Comprehensive income attribute to non-controlling interest	<u>\$ 111,368</u>	<u>52,925</u>
Cash flows from operating activities	\$ 185,391	50,489
Cash flows from investing activities	(245,466)	(543,832)
Cash flows from financing activities	(8,399)	(6,862)
Net decrease in cash and cash equivalents	<u>\$ (68,474)</u>	<u>(500,205)</u>

(iii) Information regarding CASETEK CAYMAN

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
Current assets	\$ 24,481,616	26,620,964	26,735,865
Non-current assets	24,371,563	25,082,697	28,528,308
Current liabilities	(12,191,795)	(14,543,892)	(12,952,760)
Non-current liabilities	(7,485,775)	(6,559,372)	(9,495,359)
Net assets	<u>\$ 29,175,609</u>	<u>30,600,397</u>	<u>32,816,054</u>
Non-controlling interest	<u>\$ 11,807,094</u>	<u>12,385,305</u>	<u>13,284,470</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
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	For the three months ended March 31	
	2020	2019
Operating revenue	\$ <u>5,189,437</u>	<u>6,642,000</u>
Net loss for the period	\$ (1,304,290)	(663,927)
Other comprehensive (loss) income	(120,498)	652,135
Comprehensive loss	\$ <u>(1,424,788)</u>	<u>(11,792)</u>
Net loss attribute to non-controlling interest	\$ <u>(529,311)</u>	<u>(271,072)</u>
Comprehensive loss attribute to non-controlling interest	\$ <u>(578,211)</u>	<u>(6,422)</u>
Cash flows from operating activities	\$ 638,098	735,804
Cash flows from investing activities	(858,556)	(683,782)
Cash flows from financing activities	(60,637)	604,146
Net (loss) increase in cash and cash equivalents	\$ <u>(281,095)</u>	<u>656,168</u>

(j) Property, plant and equipment

The movements in the cost, depreciation, and impairment of the property, plant and equipment of the Group were as follows :

	Land	Buildings	Machinery equipment	Instrument equipment	Other facilities	Construction in progress	Total
Cost or deemed cost:							
Balance on January 1, 2020	\$ 7,754,662	55,296,414	67,162,106	1,396,155	34,116,157	3,246,801	168,972,295
Additions	-	172,681	176,781	27,673	419,102	683,087	1,479,324
Disposals and obsolescence	-	(36,388)	(291,366)	(59,097)	(287,160)	-	(674,011)
Reclassifications	-	2,402,245	510,910	672	417,434	(2,954,832)	376,429
Effect of movement in exchange rate	(14,769)	35,061	(75,880)	7,013	82,313	16,292	50,030
Balance on March 31, 2020	\$ <u>7,739,893</u>	<u>57,870,013</u>	<u>67,482,551</u>	<u>1,372,416</u>	<u>34,747,846</u>	<u>991,348</u>	<u>170,204,067</u>
Balance on January 1, 2019	\$ 6,384,886	48,479,698	71,612,529	1,444,578	32,195,791	10,391,635	170,509,117
Additions	-	130,084	146,919	59,696	694,728	1,087,164	2,118,591
Disposals and obsolescence	-	(74,506)	(482,481)	(63,440)	(451,561)	-	(1,071,988)
Reclassifications	1,317,564	4,884,700	1,880,551	2,780	879,427	(6,532,583)	2,432,439
Effect of movement in exchange rate	1,373	339,084	844,973	5,594	228,723	141,067	1,560,814
Balance on March 31, 2019	\$ <u>7,703,823</u>	<u>53,759,060</u>	<u>74,002,491</u>	<u>1,449,208</u>	<u>33,547,108</u>	<u>5,087,283</u>	<u>175,548,973</u>
Depreciation and impairment loss :							
Balance on January 1, 2020	\$ -	19,467,445	46,288,167	1,118,844	21,849,079	-	88,723,535
Depreciation for the period	-	758,247	1,885,321	35,924	1,403,551	-	4,083,043
Impairment loss	-	-	(361)	-	(44)	-	(405)
Reclassifications	-	(2,001)	(356)	-	(44,985)	-	(47,342)
Disposals and obsolescence	-	(36,368)	(255,873)	(58,864)	(249,318)	-	(600,423)
Effect of movement in exchange rate	-	(17,103)	(57,675)	6,948	48,561	-	(19,269)
Balance on March 31, 2020	\$ <u>-</u>	<u>20,170,220</u>	<u>47,859,223</u>	<u>1,102,852</u>	<u>23,006,844</u>	<u>-</u>	<u>92,139,139</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>Land</u>	<u>Buildings</u>	<u>Machinery equipment</u>	<u>Instrument equipment</u>	<u>Other facilities</u>	<u>Construction in progress</u>	<u>Total</u>
Balance on January 1, 2019	\$ -	17,315,572	45,237,334	1,257,084	19,093,365	-	82,903,355
Depreciation for the period	-	645,542	2,129,338	31,111	1,442,518	-	4,248,509
Impairment loss	-	(1)	10,932	-	656	-	11,587
Reclassifications	-	-	(17)	-	4,194	-	4,177
Disposals and obsolescence	-	(74,504)	(299,050)	(63,052)	(422,428)	-	(859,034)
Effect of movement in exchange rate	-	111,781	544,278	5,287	143,583	-	804,929
Balance on March 31, 2019	<u>\$ -</u>	<u>17,998,390</u>	<u>47,622,815</u>	<u>1,230,430</u>	<u>20,261,888</u>	<u>-</u>	<u>87,113,523</u>
Carrying amounts :							
Balance on January 1, 2020	<u>\$ 7,754,662</u>	<u>35,828,969</u>	<u>20,873,939</u>	<u>277,311</u>	<u>12,267,078</u>	<u>3,246,801</u>	<u>80,248,760</u>
Balance on March 31, 2020	<u>\$ 7,739,893</u>	<u>37,699,793</u>	<u>19,623,328</u>	<u>269,564</u>	<u>11,741,002</u>	<u>991,348</u>	<u>78,064,928</u>
Balance on January 1, 2019	<u>\$ 6,384,886</u>	<u>31,164,126</u>	<u>26,375,195</u>	<u>187,494</u>	<u>13,102,426</u>	<u>10,391,635</u>	<u>87,605,762</u>
Balance on March 31, 2019	<u>\$ 7,703,823</u>	<u>35,760,670</u>	<u>26,379,676</u>	<u>218,778</u>	<u>13,285,220</u>	<u>5,087,283</u>	<u>88,435,450</u>

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

	<u>For the three months ended March 31</u>	
	<u>2020</u>	<u>2019</u>
(Reversal gain) impairment loss	<u>\$ (405)</u>	<u>11,587</u>

- (ii) KINSUS INTERCONNECT TECHNOLOGY CORP. and its subsidiaries 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 three months ended March 31, 2019, KINSUS INTERCONNECT TECHNOLOGY CORP. and its subsidiaries had written the carrying amount of certain property, plant and equipment to their recoverable amount of \$0, and recognized an impairment loss of \$11,943, respectively. Impairment loss was recognized under other income and losses in the consolidated statement of comprehensive income. The recoverable amount of individual asset was estimated based on its value-in-use.
- (iv) Please refer to Note 6(aa) for gain and loss on the disposal of property, plant and equipment.
- (v) Please refer to Note 8 for the details of property, plant and equipment pledged as collateral.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(k) Right-of-use assets

The movements in the cost and depreciation of the leased land, buildings, machinery equipment and transportation equipment were as follows :

	<u>Land</u>	<u>Buildings</u>	<u>Machinery equipment</u>	<u>Transportation equipment</u>	<u>Total</u>
Cost:					
Balance on January 1, 2020	\$ 4,186,259	3,837,947	17,793	2,918	8,044,917
Additions	44,726	942,926	-	-	987,652
Reductions	-	(191,675)	-	-	(191,675)
Effect of changes in foreign exchange rates	<u>15,598</u>	<u>20,016</u>	<u>-</u>	<u>4</u>	<u>35,618</u>
Balance on March 31, 2020	<u>\$ 4,246,583</u>	<u>4,609,214</u>	<u>17,793</u>	<u>2,922</u>	<u>8,876,512</u>
Balance on January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	4,540,409	2,925,838	17,793	1,331	7,485,371
Additions	-	109,915	-	-	109,915
Reductions	-	(19,960)	-	-	(19,960)
Effect of changes in foreign exchange rates	<u>46,065</u>	<u>13,601</u>	<u>-</u>	<u>-</u>	<u>59,666</u>
Balance on March 31, 2019	<u>\$ 4,586,474</u>	<u>3,029,394</u>	<u>17,793</u>	<u>1,331</u>	<u>7,634,992</u>
Accumulated depreciation:					
Balance on January 1, 2020	\$ 788,316	1,360,026	6,888	1,085	2,156,315
Depreciation for the period	24,906	461,217	1,722	256	488,101
Reductions	-	(64,653)	-	-	(64,653)
Effect of movement in exchange rate	<u>3,432</u>	<u>8,225</u>	<u>-</u>	<u>3</u>	<u>11,660</u>
Balance on March 31, 2020	<u>\$ 816,654</u>	<u>1,764,815</u>	<u>8,610</u>	<u>1,344</u>	<u>2,591,423</u>
Balance on January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	778,162	-	-	-	778,162
Depreciation for the period	23,925	363,871	1,722	160	389,678
Reductions	-	(4,991)	-	-	(4,991)
Effect of changes in foreign exchange rates	<u>7,265</u>	<u>645</u>	<u>-</u>	<u>-</u>	<u>7,910</u>
Balance on March 31, 2019	<u>\$ 809,352</u>	<u>359,525</u>	<u>1,722</u>	<u>160</u>	<u>1,170,759</u>
Carrying amounts:					
Balance on December 31, 2019	<u>\$ 3,397,943</u>	<u>2,477,921</u>	<u>10,905</u>	<u>1,833</u>	<u>5,888,602</u>
Balance on March 31, 2020	<u>\$ 3,429,929</u>	<u>2,844,399</u>	<u>9,183</u>	<u>1,578</u>	<u>6,285,089</u>
Balance on March 31, 2019	<u>\$ 3,777,122</u>	<u>2,669,869</u>	<u>16,071</u>	<u>1,171</u>	<u>6,464,233</u>

(l) Investment property

Investment property are owned by the Group, and the movement were as follows :

	<u>Buildings</u>
Carrying amounts:	
Balance on January 1, 2020	\$ <u>44,496</u>
Balance on March 31, 2020	\$ <u>44,126</u>
Balance on January 1, 2019	\$ <u>48,712</u>
Balance on March 31, 2019	\$ <u>48,095</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
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- (i) Rental income and direct operating expenses arising from investment property were as follows :

	For the three months ended March 31	
	2020	2019
Rental income	\$ -	-
Direct operating expenses arising from investment property that generate rental income	\$ 769	782

- (ii) As of March 31, 2020, December 31, 2019 and March 31, 2019, the fair value of investment property of the Group was \$77,915, \$83,623 and \$78,885, respectively. The fair value of investment property was based on the market price evaluation of the buildings located in the area.
- (iii) There were no significant additions, disposal, or recognition and reversal of impairment losses of investment property for the three months ended March 31, 2020 and 2019. Information on depreciation for the period is discussed in Note 12. Please refer to Note 6(m) of the consolidated financial statements for the year ended December 31, 2019 for other related information.
- (iv) As of March 31, 2020, December 31, 2019 and March 31, 2019, the aforesaid investment properties were not pledged as collateral.
- (m) Intangible assets

The movements in the costs, amortization, and impairment loss of the Group were as follows :

	Goodwill	Others	Total
Costs:			
Balance on January 1, 2020	\$ 1,720,354	1,433,887	3,154,241
Additions	-	26,919	26,919
Disposals	-	(45,923)	(45,923)
Reclassifications	-	1,122	1,122
Effect of changes in foreign exchange rate	9,185	3,189	12,374
Balance on March 31, 2020	\$ 1,729,539	1,419,194	3,148,733
Balance on January 1, 2019	\$ 1,746,024	1,488,815	3,234,839
Additions	-	36,672	36,672
Disposals	-	(21,730)	(21,730)
Reclassifications	-	4,878	4,878
Effect of changes in foreign exchange rate	3,667	6,141	9,808
Balance on March 31, 2019	\$ 1,749,691	1,514,776	3,264,467

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	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Amortization and impairment loss:			
Balance on January 1, 2020	\$ 671,792	1,184,558	1,856,350
Amortization for the period	-	62,951	62,951
Disposals	-	(45,923)	(45,923)
Effect of changes in foreign exchange rate	-	3,334	3,334
Balance on March 31, 2020	<u>\$ 671,792</u>	<u>1,204,920</u>	<u>1,876,712</u>
Balance on January 1, 2019	\$ 671,792	1,087,175	1,758,967
Amortization for the period	-	66,273	66,273
Disposals	-	(21,730)	(21,730)
Effect of changes in foreign exchange rate	-	4,624	4,624
Balance on March 31, 2019	<u>\$ 671,792</u>	<u>1,136,342</u>	<u>1,808,134</u>
Carrying amounts:			
Balance on January 1, 2020	<u>\$ 1,048,562</u>	<u>249,329</u>	<u>1,297,891</u>
Balance on March 31, 2020	<u>\$ 1,057,747</u>	<u>214,274</u>	<u>1,272,021</u>
Balance on January 1, 2019	<u>\$ 1,074,232</u>	<u>401,640</u>	<u>1,475,872</u>
Balance on March 31, 2019	<u>\$ 1,077,899</u>	<u>378,434</u>	<u>1,456,333</u>

(i) 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 :

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Mechanics	\$ 1,005,331	1,029,978
Consumer electronic	41,709	42,732
Others	<u>1,522</u>	<u>1,522</u>
	<u>\$ 1,048,562</u>	<u>1,074,232</u>

For the three months ended March 31, 2020 and 2019, there were no significant addition, disposal, impairment loss, or reversal gain on goodwill. Please refer to Note 6(m) of the consolidated financial statements for the year ended December 31, 2019 for other related information.

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(n) Other financial assets and other assets

Other financial assets and other assets were as follows :

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
Other financial assets-current	\$ 34,449,648	3,564,920	1,426,569
Other financial assets-noncurrent	716,687	481,158	576,847
Other current assets	6,065,460	5,674,300	5,887,308
Other noncurrent assets	<u>179,854</u>	<u>50,065</u>	<u>258,673</u>
	<u>\$ 41,411,649</u>	<u>9,770,443</u>	<u>8,149,397</u>

(i) Other financial assets are assets that do not qualify as 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, rights to the returned goods and others.

(iii). Other noncurrent assets consisted of prepayments on purchase of land and others.

(o) Short-term loans

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
Unsecured bank loans	\$ 127,307,086	64,808,786	119,336,950
Secured bank loans	-	-	80,490
Total	<u>\$ 127,307,086</u>	<u>64,808,786</u>	<u>119,417,440</u>
Interest rate	<u>0.68%~3.20%</u>	<u>0.60%~4.70%</u>	<u>0.71%~4.45%</u>

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

(p) Long-term loans

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
Unsecured bank loans	\$ 11,537,898	9,192,450	12,073,887
Secured bank loans	-	-	900,000
	11,537,898	9,192,450	12,973,887
Less: current portion	<u>(2,081,496)</u>	<u>(2,657,496)</u>	<u>(2,388,950)</u>
Total	<u>\$ 9,456,402</u>	<u>6,534,954</u>	<u>10,584,937</u>
Interest rate	<u>0.35%~3.15%</u>	<u>0.60%~3.97%</u>	<u>1.074%~3.97%</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
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(i) Borrowing and repayment

In consideration of the operating situation and the terms of the loan agreement, the Group repaid the long-term loans of \$1,906,564 and \$1,651,275 for the three months ended March 31, 2020 and 2019, respectively. In addition, the Group proceeded from long-term loans of \$4,219,580 and \$2,695,100 for the three months ended March 31, 2020 and 2019, respectively. Please refer to Note 6(aa) for interest expenses.

For three months ended March 31, 2020, KINSUS acquired the government's low-rate loans, which were recorded in other current liabilities and other non-current liabilities, from the Ministry of Economic Affairs. The government grant can only be recognized when there is reasonable assurance that KINSUS will comply with all of the conditions attached to the grant and the grant will be received.

(ii) Collateral for bank loans

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

(iii) Loan covenants

On January 3, 2018 and January 30, 2015, CASETEK CAYMAN signed a USD360,000 and USD300,000 thousand worth of credit facility in the form of credit loan with multiple banks, respectively. 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).

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 March 31, 2020, December 31, 2019, and March 31, 2019. For other related information, please refer to Note 6(p) of the consolidated financial statements for the year ended December 31, 2019.

(q) Bonds payable

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

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
Ordinary corporate bonds issued	\$ 23,500,000	23,500,000	15,000,000
Unamortized discount on bonds payable	(18,750)	(19,661)	(12,667)
Bonds payable, end of the year	23,481,250	23,480,339	14,987,333
Less: current portion	(4,000,000)	(3,000,000)	-
	<u>\$ 19,481,250</u>	<u>20,480,339</u>	<u>14,987,333</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
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	For the three months ended March 31	
	2020	2019
Interest expense	\$ 55,709	36,666

On March 26, 2020, the Board of Directors approved to issue unsecured ordinary corporate bonds with the total maximum amount of 10 billion, which have yet to be approved and declared effective by the Taipei Exchange (TPEX). On March 14, 2019, the Board of Directors approved to issue unsecured ordinary corporate bonds with the total amount not exceeding 15 billion dollars, which were approved and declared effective by TPEX on June 3, 2019. For other related information, please refer to Note(q) of the consolidated financial statements for the year ended December 31, 2019.

(r) Lease liabilities

The Group's lease liabilities were as follows :

	March 31, 2020	December 31, 2019	March 31, 2019
Current	\$ 1,324,571	1,195,039	1,405,746
Non-current	\$ 1,560,337	1,294,702	1,290,146

Please refer to Note 6(ab) for maturity analysis.

The amounts recognized in profit or loss were as follows :

	For the three months ended March 31	
	2020	2019
Interest on lease liabilities	\$ 33,501	29,395
Variable lease payments not included in the measurement of lease liabilities	\$ 3,344	2,974
Income from sub-leasing right-of-use assets	\$ 307	39
Expenses relating to short-term leases	\$ 208,762	166,622
Expenses relating to leases of low-value, excluding short-term leases of low-value assets	\$ 5,946	343

The amount recognized in the statement of cash flows for the Group was as follows :

	For the three months ended March 31	
	2020	2019
Total cash outflow for leases	\$ 726,734	557,051

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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The Group leases land, buildings, machinery equipment, transportation equipment, and other equipment. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term. According to the lease contracts, some leases shall not be rent, sub-leased or by any other means totally or partially transferred to third parties, unless obtain the lessor's approval. Some leases do not contain renewal option, and no restrictions were disposed in the contracts. Some leases provide for additional rent payments that are based on changes in the facts or circumstances after the lease commencement date.

The Group leases employees' dormitories, parking lots and other equipment that are short-term or leases of low-value items. The Group has chosen to apply the exemption and not to recognize right-of-use assets and lease liabilities for these leases.

(s) Employee benefits

(i) Defined benefit plans

Management believes that there was no material market volatility, no material reimbursement and settlement or other material one-time events. As a result, the pension cost in the accompanying interim consolidated financial statements was measured and disclosed according to the actuarial report as of December 31, 2019 and 2018.

The expenses recognized in profit or loss for the Group were as follows :

	<u>For the three months ended March 31</u>	
	<u>2020</u>	<u>2019</u>
Operating cost	\$ 42	71
Operating expense	989	868
	<u>\$ 1,031</u>	<u>939</u>

(ii) Defined contribution plans

The contributions of the Group to the Bureau of the Labor Insurance and China Labor and Social Security Bureau for the employees' pension benefits were as follows :

	<u>For the three months ended March 31</u>	
	<u>2020</u>	<u>2019</u>
Operating cost	\$ 563,376	1,212,540
Operating expense	153,494	219,408
	<u>\$ 716,870</u>	<u>1,431,948</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(t) Income tax

- (i) Tax expense in the interim financial statements is measured and disclosed according to paragraph B12 of IAS 34 "Interim Financial Reporting."
- (ii) The components of income tax expense for the three months ended March 31, 2020 and 2019 were as follows :

	For the three months ended March 31	
	2020	2019
Current income tax expense		
Current period incurred	\$ 484,758	1,141,828
Prior years income tax adjustment	55,449	(10,753)
Income tax expense	\$ 540,207	1,131,075

- (iii) The amount of income tax recognized in other comprehensive income (loss) for the three months ended March 31, 2020 and 2019 was as follows :

	For the three months ended March 31	
	2020	2019
Items that will be reclassified subsequently to profit or loss :		
Exchange differences on translation of foreign financial statements	\$ (3,788)	433

(iv) Status of approval of income tax

- 1) The Company's income tax returns through 2017 have been assessed and approved by the Tax Authority.
- 2) The tax returns of the Group's subsidiaries approved by the Tax Authority were as follows :

Years of Approval	Company Name
2016	PEGAVISION CORPORATION
2017	ASROCK RACK, INC., KINSUS INTERCONNECT TECHNOLOGY CORP., KINSUS INVESTMENT, LUMENS OPTICS, FUYANG TECHNOLOGY CORPORATION, and ASROCK INCORPORATION.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Years of Approval</u>	<u>Company Name</u>
2018	PEGA INTERNATIONAL LIMITED, AMA, AZUREWAVE, AZURE LIGHTING TECHNOLOGIES, INC., EZWAVE TECHNOLOGIES, INC., ASUS INVESTMENT, ASUSTEK INVESTMENT, ASUSPOWER INVESTMENT, STARLINK ELECTRONICS CORPORATION, HUA YUAN INVESTMENT LTD, AS FLY TRAVEL SERVICE LTD, and RI KUAN METAL CORPORATION (Income tax returns through 2016 haven't been approved).

(u) Capital and other equity

Except for the following disclosure, there were no significant change for capital and other equity for the three months ended March 31, 2020 and 2019. For the related information, please refer to Note 6(v) of the consolidated financial statements for the year ended December 31, 2019.

(i) Ordinary shares

For the three months ended March 31, 2020 and 2019, the Company had retired 300 and 497 thousand shares, respectively, of restricted employee stock. The authorized capital of the Company consisted of 3,000,000 thousand shares, with par value of \$10 per share, and the outstanding capital consisted of 2,610,792, 2,611,092, and 2,611,880 thousand common shares of stock, as of March 31, 2020, December 31, 2019 and March 31, 2019, respectively. All share proceeds from outstanding capital have been collected.

As of March 31, 2020, December 31, 2019 and March 31, 2019, the restricted employee stocks have expired, of which 33, 300, and 288 thousand shares, respectively, have not been retired.

(ii) Global depositary receipts

As of March 31, 2020, December 31, 2019, and March 31, 2019, the Company has listed, in total, 732, 790, and 1,433 thousand units of GDR, respectively, on the Euro MTF market of the Luxembourg Stock Exchange. As each unit of these GDRs represents 5 common shares of the Company, the Company has listed company shares totaling 3,662, 3,949, and 7,166 thousand shares of stock, respectively.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Capital surplus

The components of the capital surplus were as follows :

	March 31, 2020	December 31, 2019	March 31, 2019
From issuance of share capital	\$ 65,572,810	65,571,841	64,624,237
From conversion of convertible bonds	11,073,663	11,073,663	11,073,663
From treasury stock transactions	23,614	23,614	23,614
Difference between consideration and carrying amount of subsidiaries acquired or disposed	2,432,417	2,432,387	2,383,056
Changes in ownership interest in subsidiaries	1,215,514	1,215,540	752,269
Employee stock options	1,304	1,304	1,304
Restricted stock to employees	534,163	323,835	1,404,340
Other	409,917	409,917	409,917
	<u>\$ 81,263,402</u>	<u>81,052,101</u>	<u>80,672,400</u>

(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 shareholder's meeting.

According to the R.O.C. Company Act, the Company should distribute dividends and bonus, or all or part of the legal reserve and capital surplus, stipulated by the Company Act, as cash dividends based on the resolution of the Board of Directors with two-thirds directors present and approved by one-half of the present directors.

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Legal reserve

When a company incurs profit, 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% of the actual share capital.

2) Special reserve

In accordance with Ruling No. 1010012865 issued by the FSC on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as special earnings reserve during earnings distribution. The amount to be reclassified should equal the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior-period earnings shall be reclassified as special earnings reserve (and does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

On March 26, 2020, the Board of Directors resolved to appropriate the 2019 earnings; on June 21, 2019, the shareholder's meeting resolved to appropriate the 2018 earnings. These earnings were appropriated or distributed as follows :

	For the three months ended March 31	
	2019	2018
Common stock dividends per share (dollars)		
—Cash	\$ 4.50	3.50

(v) Other equity (net of tax)

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Deferred compensation arising from issuance of restricted stock	Total
Balance on January 1, 2020	\$ (10,982,396)	(303,654)	(8,287)	(11,294,337)
Exchange differences on foreign operation	392,193	-	-	392,193
Exchange differences on associates accounted for using equity method	(174)	-	-	(174)
Unrealized gain from financial assets measured at fair value through other comprehensive income	-	(216,121)	-	(216,121)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	(126)	-	(126)
Balance on March 31, 2020	\$ (10,590,377)	(519,901)	(8,287)	(11,118,565)

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Deferred compensation arising from issuance of restricted stock	Total
Balance on January 1, 2019	\$ (7,482,556)	(386,322)	(524,686)	(8,393,564)
Exchange differences on foreign operation	789,868	-	-	789,868
Exchange differences on associates accounted for using equity method	402	-	-	402
Unrealized losses from financial assets measured at fair value through other comprehensive income	-	28,159	-	28,159
Deferred compensation cost arising from issuance of restricted stock	-	-	184,396	184,396
Balance on March 31, 2019	<u>\$ (6,692,286)</u>	<u>(358,163)</u>	<u>(340,290)</u>	<u>(7,390,739)</u>

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

	For the three months ended March 31	
	2020	2019
Balance on January 1	\$ 35,580,451	36,417,945
Loss attributable to non-controlling interests	(385,760)	(730,241)
Other comprehensive income attributable to non-controlling interests		
Exchange differences on foreign operation	(30,367)	305,594
Difference between consideration and carrying amount of subsidiaries acquired or disposed	(30)	-
Changes in ownership interest in subsidiaries	26	7,756
Changes in non-controlling interests	<u>(570,232)</u>	<u>63,441</u>
Balance on March 31	<u>\$ 34,594,088</u>	<u>36,064,495</u>

(v) Share-based payment

Except for the following disclosure, there were no significant changes for share-based payment for the three months ended March 31, 2020 and 2019. For the related information, please refer to Note 6(w) of the consolidated financial statements for the year ended December 31, 2019.

(i) Restricted employee stock

For the three months ended March 31, 2020 and 2019, 33 and 288 thousand shares of restricted employee stock have expired, which were converted to capital surplus of \$328 and \$2,884, respectively. As of March 31, 2020, December 31, 2019, and March 31, 2019, the Company has deferred compensation cost arising from the issuance of restricted employee stock of \$8,287, \$8,287, and \$340,290, respectively.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Expenses recognized in profit or loss

The Company incurred expenses of share-based arrangements for the three months ended March 31, 2020 and 2019 as follows :

	For the three months ended March 31	
	2020	2019
Expenses resulting from the issuance of restricted employee stock	\$ 210,969	185,338

(w) Subsidiary's share-based payments

Except for the following disclosure, there were no significant changes for share-based payment for the three months ended March 31, 2020 and 2019. For the related information, please refer to Note 6(x) of the consolidated financial statements for the year ended December 31, 2019.

(i) Restricted stock to employee of AZUREWAVE

For the three months ended March 31, 2020 and 2019, AZUREWAVE recognized share-based compensation cost of \$1,160 and \$955, respectively, due to the issuance of restricted employee stock. As of March 31, 2020, December 31, 2019, and March 31, 2019, AZUREWAVE has deferred compensation cost of \$0, \$345 and \$1,681, respectively.

(ii) Restricted stock to employee of ASROCK

1) ASROCK

On March 31, 2020, ASROCK has the capital surplus-restricted shares of stock and deferred compensation cost amounting to \$98,465 and \$14,313, respectively.

2) ASROCK RACK INCORPORATION

On February 27, 2019, the Board of Directors of ASROCK RACK INCORPORATION approved to award 1,490 thousand new restricted shares of stock to those fulltime employees who met certain requirement of ASROCK RACK INCORPORATION. On March 4, 2019, 1,490 thousand shares were actually issued for such award with fair value of NT\$5.53 each at the granted date.

Employees with restricted stock awards who keep working for ASROCK RACK INCORPORATION for three years, 50% of the restricted shares of stock are vested in year 3, which started at the granted date. During the service, employees cannot violate the law, code of conduct, code of business ethics conduct, etc. Employees with restricted stock awards who keep working for ASROCK RACK INCORPORATION for four years, residual 50% of the restricted shares of stock is vested in year 4, which started at the granted date. Meanwhile, during the service, employees cannot violate the law, code of conduct, code of business ethics conduct etc. The restricted stock is kept by a trust, which is appointed by ASROCK RACK INCORPORATION, 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.

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PEGATRON CORPORATION AND SUBSIDIARIES
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The aforesaid information of restricted stock to employee was follows:

Vesting period	<u>Restricted stock to employee</u>				
	<u>year 1</u>	<u>years 2</u>	<u>years 3</u>	<u>years 4</u>	<u>Total</u>
Original vested shares	-	-	745,000	745,000	1,490,000
Estimated employee turnover rate	-	-	36.08 %	43.53 %	
Vested shares after considering employee turnover rate	-	-	476,204	420,702	896,906
Embedded value	NT\$ -	-	5.53	5.53	
Service costs	\$ -	-	2,633	2,326	4,959

3) **ASROCK INDUSTRIAL COMPUTER CORPORATION**

On January 15, 2019, the Board of Directors of ASROCK INDUSTRIAL COMPUTER CORPORATION approved a resolution passed during their meeting to award 1,500 thousand employee stock option. Each option certificate can purchase one ordinary share, delivered by issuing new shares. The option certificates, awarded to those employees who meet certain requirement of ASROCK INDUSTRIAL COMPUTER CORPORATION. Duration is 30 months. One year after issuance, the certificate owners can exercise a specific proportion of the option certificates. The exercise price of the option is \$10 per share. After the issue of the options, even if ASROCK INDUSTRIAL COMPUTER has changed the total amount of the common shares, the price would not be changed.

The fair value of the options is evaluated according to the binomial option pricing model, and the parameters and assumptions are based on the terms and conditions of the contract.

<u>Grant date</u>	<u>Total shares issued (In thousands of shares)</u>	<u>Exercise price per share</u>
January 15, 2019	1,500	NT\$ 10

For the three months ended March 31, 2019, the assumptions and pricing model adopted in this share-based payments were as follows:

	<u>For the three months ended March 31 2019</u>
Expected volatility rate	33.48%
Expected duration of option	2.5 years
Weighted average stock price	NT\$8.92
Pricing model	Binomial options pricing model

Expected duration period of option was estimated by historical data and current expectation. Consequently, it might not equal to actual implement situation. Expected volatility rate assumed that historical volatility close to the duration period of the option represents future trend. Hence, it might not equal the actual ratio in the future.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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The aforesaid information on the employee stock option was as follow:

	<u>For the three months ended March 31</u>			
	<u>2020</u>		<u>2019</u>	
	<u>Outstanding number of options</u>	<u>Weighted average exercise price</u>	<u>Outstanding number of options</u>	<u>Weighted average exercise price</u>
Outstanding as of January 1 (In thousand units)	1,500	\$ -	-	-
Granted during the period	-	10	1,500	10
Outstanding as of March 31 (In thousand units)	<u>1,500</u>	10	<u>1,500</u>	10
Exercisable as of March 31 (In thousand units)	<u>750</u>		<u>-</u>	
Weighted average fair value of the options granted \$	<u>-</u>		<u>-</u>	

As of March 31, 2020 and 2019, related information about outstanding options on the share-based payments was as follows:

	<u>Exercise price</u>	<u>Weighted average residual duration</u>
March 31, 2020		
Outstanding option	\$ 10	1.25 years
March 31, 2019		
Outstanding option	\$ 10	2.25 years

- 4) ASROCK did not make any cancellations or amendments to share-based payment transactions for the three months ended March 31, 2020 .
- 5) The expenses resulting from share-based payment transactions were as follows :

	<u>For the three months ended March 31</u>	
	<u>2020</u>	<u>2019</u>
Expense resulting from equity-settled share-based payment	<u>\$ 9,221</u>	<u>21,497</u>

(iii) Employee stock option of FUYANG TECHNOLOGY CORPORATION

The expense resulting from share-based payment transactions for the three months ended March 31, 2020 and 2019, were as follows :

	<u>For the three months ended March 31</u>	
	<u>2020</u>	<u>2019</u>
Expenses resulting from employee stock option	<u>\$ 344</u>	<u>948</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Compensated restricted stock to employee of KINSUS

- 1) On February 28, 2019, the board of KINSUS approved to issue 659 thousand shares of restricted stock, with the record date for the capital increase on March 18, 2019. However, only 599 thousand shares were actually issued, with a fair value of \$43.45 per share at the granted date.

Employees with restricted stock awards are entitled to purchase shares at the price of \$10 per share, and the vesting conditions were as follows :

Vesting conditions	
One month from grant date	20 %
April 25, 2019	20 %
September 25, 2019	15 %
April 25, 2020	15 %
September 25, 2020	15 %
April 25, 2021	15 %

The restricted obligation before vested was as follows :

- a) The restricted stock is kept by a trust before being vested. These shares shall not be sold, pledged, transferred, gifted, or disposed of by any other means to third parties during the custody period.
- b) Upon the issuance of the restricted stock, it shall be kept by a trust immediately. Before the vesting conditions have been met, there shall not be any reason or way to request trustee returning the restricted stock.
- c) The restricted stock can participate in the distribution of cash dividend and stock dividend in the vesting period.
- d) The voting rights of these shareholders are executed by the custodian, and the custodian will act based on law and regulations.

As of March 31, 2019, 132 thousand shares of employee restricted stock have expired, resulting in the capital surplus of KINSUS to increase by \$1,314. On March 31, 2019, KINSUS has the deferred compensation cost arising from the issuance of its employee restricted stock amounting to \$72,706.

As of March 18, 2019, KINSUS issued a total of 599 thousand shares of employee restricted stock, resulting in its capital surplus - restricted employee stock to increase by \$19,396. On March 31, 2019, KINSUS has the deferred compensation cost arising from the issuance of its employee restricted stock amounting to \$12,754.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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As of March 31, 2020, 28 thousand shares of employee restricted stock have expired, resulting in the capital surplus of KINSUS to increase by \$275. On March 31, 2020, KINSUS has the deferred compensation cost arising from the issuance of its employee restricted stock amounting to \$2,173.

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

	<u>For the three months ended March 31</u>	
	<u>2020</u>	<u>2019</u>
Expense resulting from equity-settled share-based payment	\$ <u>6,621</u>	<u>34,781</u>

- 3) KINSUS did not made any cancellations or amendments to share-based payment transactions for the three months ended March 31, 2020 and 2019.

- (x) Earnings per share

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

	<u>For the three months ended March 31</u>	
	<u>2020</u>	<u>2019</u>
Basic earnings per share		
Profit attributable to ordinary shareholders	\$ <u>1,544,839</u>	<u>1,331,321</u>
Weighted-average number of ordinary shares	<u>2,611,312</u>	<u>2,606,766</u>
	\$ <u>0.59</u>	<u>0.51</u>
Diluted earnings per share		
Profit attributable to ordinary shareholders (diluted)	\$ <u>1,544,839</u>	<u>1,331,321</u>
Weighted-average number of ordinary shares	2,611,312	2,606,766
Effect of potentially dilutive ordinary shares		
Employee stock bonus	<u>30,541</u>	<u>15,095</u>
Weighted-average number of ordinary shares (diluted)	<u>2,641,853</u>	<u>2,621,861</u>
	\$ <u>0.58</u>	<u>0.51</u>

(Continued)

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Notes to the Consolidated Financial Statements

(y) Revenue from contracts with customers

(i) Disaggregation of revenue

For the three months ended March 31, 2020			
	DMS	Strategic Investment Group	Total
Primary geographical markets :			
Europe	\$ 110,642,441	1,431,475	112,073,916
U.S.A.	110,847,036	5,029,482	115,876,518
Taiwan	16,386,189	2,476,296	18,862,485
China	6,218,389	6,579,463	12,797,852
Japan	3,584,150	379,425	3,963,575
Other countries	<u>14,088,115</u>	<u>815,987</u>	<u>14,904,102</u>
	<u>\$ 261,766,320</u>	<u>16,712,128</u>	<u>278,478,448</u>
For the three months ended March 31, 2019			
	DMS	Strategic Investment Group	Total
Primary geographical markets :			
Europe	\$ 132,514,792	1,993,630	134,508,422
U.S.A.	86,157,740	5,077,806	91,235,546
Taiwan	26,557,584	1,980,352	28,537,936
China	7,297,773	5,993,558	13,291,331
Japan	13,863,512	46,123	13,909,635
Other countries	<u>12,455,188</u>	<u>176,485</u>	<u>12,631,673</u>
	<u>\$ 278,846,589</u>	<u>15,267,954</u>	<u>294,114,543</u>

(ii) Contract balances

	March 31, 2020	December 31, 2019	March 31, 2019
Notes receivable	\$ 9,095	20,232	26,101
Accounts receivable	165,647,463	207,994,571	150,925,223
Less: Allowance for impairment	<u>1,698,334</u>	<u>1,676,398</u>	<u>1,782,310</u>
Total	<u>\$ 163,958,224</u>	<u>206,338,405</u>	<u>149,169,014</u>
Contract liabilities	<u>\$ 2,041,253</u>	<u>1,942,418</u>	<u>1,669,599</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Please refer to Note 6(d) for the details on accounts receivable and allowance for impairment.

The amounts of revenue recognized for the three months ended March 31, 2020 and 2019 that were included in the contract liability balance at the beginning of the period were \$518,762 and \$578,934, respectively.

The major change in the balance of contract liabilities is the difference between the time frame in the performance obligation to be satisfied and the payment to be received. There were no other significant changes for the three months ended March 31, 2020 and 2019.

(z) 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 three months ended March 31, 2020 and 2019, remuneration of employees of \$135,000 and \$99,000, respectively, and remuneration of directors of \$13,000 and \$9,000, 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 that period. 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 the Board of Directors meeting.

For the years ended December 31, 2019 and 2018, the Company accrued remuneration of employees of \$1,639,000 and \$896,000, respectively, and remuneration of directors of \$163,000 and \$89,000, respectively. There was no difference between the amounts approved in the Board of Directors meeting. For further information, please refer to Market Observation Post System.

(aa) Non-operating income and expenses

(i) Other income

The components of other income were as follows:

	<u>For the three months ended March 31</u>	
	<u>2020</u>	<u>2019</u>
Interest income	\$ 1,070,811	914,970
Subsidy income	638,500	52,404
Rental income	216,583	216,392
Technical service income	94,810	133,433
Other income	<u>155,952</u>	<u>34,480</u>
	<u>\$ 2,176,656</u>	<u>1,351,679</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Other gains and losses

The components of other gain and losses were as follows:

	<u>For the three months ended March 31</u>	
	<u>2020</u>	<u>2019</u>
Reversal of expected credit loss	\$ 859	9,437
Gains on disposals of property, plant and equipment	6,922	7,080
Foreign exchange gains	632,186	145,493
Gains on lease modifications	2,698	90
Reversal gain (impairment loss) on non-financial assets	405	(11,587)
Net (losses) gains on financial assets measured at fair value through profit or loss	<u>(178,056)</u>	<u>896,480</u>
	<u>\$ 465,014</u>	<u>1,046,993</u>

(iii) Finance costs

The components of finance costs were as follows:

	<u>For the three months ended March 31</u>	
	<u>2020</u>	<u>2019</u>
Interest expenses	\$ 675,306	1,082,092
Financial expense-bank fees and factoring fees, etc.	<u>3,080</u>	<u>4,698</u>
	<u>\$ 678,386</u>	<u>1,086,790</u>

(ab) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) Concentration of credit risk

As of March 31, 2020, December 31, 2019 and March 31, 2019, the accounts receivable from the Group's top three customers were amounted to \$124,655,179, \$151,554,738 and \$98,578,850, respectively, representing 75%, 73% and 65% of accounts receivable, respectively, which exposes the Group to credit risk.

3) Accounts receivable of credit risk

For credit risk exposure of notes and accounts receivables, please refer to note 6(d).

Other financial assets at amortized cost includes other receivables and time deposits, etc.

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All of these financial assets are considered to be low risk, and thus the impairment provision recognized during the period was limited to 12 months expected losses. (Please refer to Note 4(g) for the Group determines whether credit risk is to be low risk).

The loss allowance provision for the three months ended March 31, 2020 and 2019 were determined as follows :

	Other receivables
Balance on January 1, 2020	\$ 17,002
Impairment loss recognized	82
Reversal of impairment loss	(8)
Effect of changes in foreign exchange rate	(108)
Balance on March 31, 2020	\$ 16,968
Balance on January 1, 2019	\$ 14,374
Impairment loss recognized	4,732
Effect of changes in foreign exchange rate	326
Balance on March 31, 2019	\$ 19,432

(ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, excluding estimated interest payments and the impact of netting agreements.

	Carrying amount	Contractual cash flows	Within 1 year	1-2 years	More than 2 years
March 31, 2020					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 138,844,984	138,844,984	129,388,582	686,033	8,770,369
Unsecured ordinary corporate bonds	23,500,000	23,500,000	4,000,000	-	19,500,000
Non-interest bearing liabilities	218,913,061	218,913,061	218,913,061	-	-
Lease liabilities	2,884,908	2,884,908	1,324,571	1,134,822	425,515
	\$ 384,142,953	384,142,953	353,626,214	1,820,855	28,695,884
December 31, 2019					
Non-derivative financial liabilities					
Unsecured bank loans	\$ 74,001,236	74,001,236	67,466,282	857,421	5,677,533
Unsecured ordinary corporate bonds	23,500,000	23,500,000	3,000,000	1,000,000	19,500,000
Non-interest bearing liabilities	249,747,416	249,747,416	249,747,416	-	-
Lease liabilities	2,489,741	2,489,741	1,195,039	914,164	380,538
	\$ 349,738,393	349,738,393	321,408,737	2,771,585	25,558,071

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	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>1-2 years</u>	<u>More than 2 years</u>
March 31, 2019					
Non-derivative financial liabilities					
Secured bank loans	\$ 980,490	980,490	80,490	-	900,000
Unsecured bank loans	131,410,837	131,410,837	121,725,900	5,883,287	3,801,650
Unsecured ordinary corporate bonds	15,000,000	15,000,000	-	4,000,000	11,000,000
Non-interest bearing liabilities	195,014,544	195,014,544	195,014,544	-	-
Lease liabilities	<u>2,695,892</u>	<u>2,695,892</u>	<u>1,405,746</u>	<u>961,005</u>	<u>329,141</u>
	<u>\$ 345,101,763</u>	<u>345,101,763</u>	<u>318,226,680</u>	<u>10,844,292</u>	<u>16,030,791</u>

The liquidity of the aforesaid bank loans and bonds payable does not include interest expense on cash outflow. The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

(iii) Market risk

1) Currency risk

The Group's significant exposures to foreign currency risk were as follows :

(Unit: Foreign currency / NTD in Thousands)

	<u>March 31, 2020</u>			<u>March 31, 2019</u>		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$15,345,001	30.243	464,078,865	10,819,284	30.820	333,450,333
USD:CNY	395,446	7.0851	11,959,486	402,288	6.7335	12,398,477
CNY:USD	2,521,846	0.1411	10,764,589	2,724,676	0.1485	12,471,154
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	14,991,455	30.243	453,386,574	10,643,146	30.820	328,021,760
USD:CNY	363,227	7.0851	10,985,086	355,142	6.7335	10,945,442
CNY:USD	1,904,225	0.1411	8,128,252	2,213,848	0.1485	10,133,036

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	December 31, 2019		
	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$18,131,819	29.980	543,591,934
USD:CNY	433,187	6.9762	12,987,041
CNY:USD	2,178,975	0.1433	9,364,077
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	17,505,328	29.980	524,809,733
USD:CNY	368,450	6.9762	11,046,212
CNY:USD	2,243,752	0.1433	9,642,454

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 and other receivables, loans, accounts 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 March 31, 2020 and 2019 would have increased (decreased) the before-tax net income for the three months ended March 31, 2020 and 2019 by \$150,107 and \$107,528, respectively. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for both periods.

3) Foreign exchange gains or losses on monetary item

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For the three months ended March 31, 2020 and 2019, foreign exchange gain (including realized and unrealized portions) amounted to \$632,186 and \$145,493, respectively.

4) 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.

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If the interest rate increases / decreases by 1%, the Group's net income will decrease /increase by \$31,251 and \$68,147 for the three months ended March 31, 2020 and 2019, respectively, assuming all other variable factors remain constant. This is mainly due to the Group's variable rate borrowing and cash advances for accounts receivable factoring.

5) Other market price risk

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 three months ended March 31			
	2020		2019	
	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%	\$ 19,228	143,324	25,239	140,917
Decrease 3%	\$ (19,228)	(143,324)	(25,239)	(140,917)

(iv) Fair value of financial instruments

1) Categories of financial instruments and fair value hierarchy

The Group measured its financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows : however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and lease liabilities, disclosure of fair value information is not required :

	March 31, 2020				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	\$ 7,425,455	6,693,649	385,920	345,886	7,425,455
Financial assets at fair value through other comprehensive income					
Stock of listed companies	\$ 368,900	368,900	-	-	368,900
Stock of unlisted companies	150,439	-	-	150,439	150,439
Stock of overseas unlisted companies	121,595	-	-	121,595	121,595
Subtotal	\$ 640,934	368,900	-	272,034	640,934

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		March 31, 2020			
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets at amortized cost					
Cash and cash equivalents	\$166,178,884	-	-	-	-
Notes and accounts receivable	163,958,224	-	-	-	-
Other receivables	1,239,523	-	-	-	-
Other financial assets	35,166,335	-	-	-	-
Subtotal	<u>\$366,542,966</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities at amortized cost					
Bank loans	\$138,844,984	-	-	-	-
Non-interest bearing liabilities	218,913,061	-	-	-	-
Lease liabilities	2,884,908	-	-	-	-
Unsecured ordinary corporate bonds	23,481,250	-	-	-	-
Subtotal	<u>\$384,124,203</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		December 31, 2019			
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	\$ 7,357,795	6,372,879	637,200	347,716	7,357,795
Financial assets at fair value through other comprehensive income					
Accounts receivables— fair value through other comprehensive income	\$ 7,495,000	7,495,000	-	-	7,495,000
Stock of listed companies	586,407	586,407	-	-	586,407
Stock of unlisted companies	150,000	-	-	150,000	150,000
Stock of overseas unlisted companies	121,751	-	-	121,751	121,751
Subtotal	<u>\$ 8,353,158</u>	<u>8,081,407</u>	<u>-</u>	<u>271,751</u>	<u>8,353,158</u>
Financial assets at amortized cost					
Cash and cash equivalents	\$145,795,913	-	-	-	-
Notes and accounts receivable	198,843,405	-	-	-	-
Other receivables	1,472,702	-	-	-	-
Other financial assets	4,046,078	-	-	-	-
Subtotal	<u>\$350,158,098</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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		December 31, 2019			
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial liabilities at amortized cost					
Bank loans	\$ 74,001,236	-	-	-	-
Non-interest bearing liabilities	249,747,416	-	-	-	-
Lease liabilities	2,489,741	-	-	-	-
Unsecured ordinary corporate bonds	<u>23,480,339</u>	-	-	-	-
Subtotal	<u>\$349,718,732</u>	-	-	-	-
		March 31, 2019			
		Fair Value			
	Book Value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	\$ 7,010,745	<u>6,379,944</u>	<u>434,180</u>	<u>196,621</u>	<u>7,010,745</u>
Financial assets at fair value through other comprehensive income					
Stock of listed companies	558,677	558,677	-	-	558,677
Stock of unlisted companies	150,000	-	-	150,000	150,000
Stock of overseas unlisted companies	<u>132,625</u>	-	-	<u>132,625</u>	<u>132,625</u>
Subtotal	<u>\$ 841,302</u>	<u>558,677</u>	-	<u>282,625</u>	<u>841,302</u>
Financial assets at amortized cost					
Cash and cash equivalents	\$150,657,456	-	-	-	-
Notes and accounts receivable	149,169,014	-	-	-	-
Other receivables	1,536,264	-	-	-	-
Other financial assets	<u>2,003,416</u>	-	-	-	-
Subtotal	<u>\$303,366,150</u>	-	-	-	-
Financial liabilities at amortized cost					
Bank loans	\$132,391,327	-	-	-	-
Non-interest bearing liabilities	195,014,544	-	-	-	-
Lease liabilities	2,695,892	-	-	-	-
Unsecured ordinary corporate bonds	<u>14,987,333</u>	-	-	-	-
Subtotal	<u>\$345,089,096</u>	-	-	-	-

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2) 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 and liabilities 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.

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.

4) Transfers between Level 1 and Level 2

There have been no transfers from each level for the three months ended March 31, 2020 and 2019.

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5) Reconciliation of Level 3 fair values

	<u>At fair value through profit or loss</u>	<u>Fair value through other comprehensive income</u>	
	<u>Non derivative mandatorily measured at fair value through profit or loss</u>	<u>Unquoted equity instruments</u>	<u>Total</u>
Opening balance, January 1, 2020	\$ 347,716	271,752	619,468
Total gains and losses recognized:			
In profit or loss	(1,830)	-	(1,830)
In other comprehensive income	-	282	282
Ending Balance, December 31, 2020	<u>\$ 345,886</u>	<u>272,034</u>	<u>617,920</u>
Opening balance, January 1, 2019	\$ 202,971	282,075	485,046
Total gains and losses recognized:			
In profit or loss	(6,350)	-	(6,350)
In other comprehensive income	-	550	550
Ending Balance, December 31, 2019	<u>\$ 196,621</u>	<u>282,625</u>	<u>479,246</u>

For the years ended March 31, 2020 and 2019, total gains and losses that were included in “other gains and losses” and “unrealized gains and losses from financial assets at fair value through other comprehensive income” were as follows:

	<u>For the three months ended March 31</u>	
	<u>2020</u>	<u>2019</u>
Total gains and losses recognized:		
In profit or loss, and including “other gains and losses”	<u>\$ (1,830)</u>	<u>(6,350)</u>
In other comprehensive income, and presented in “unrealized gains and losses from financial assets at fair value through other comprehensive income”	<u>\$ 282</u>	<u>550</u>

6) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Group’s financial instruments that use Level 3 inputs to measure fair value include financial assets measured at fair value through profit or loss – equity investments, private equity and financial assets measured at fair value through other comprehensive income – equity investments.

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Most of the Group's financial assets in Level 3 have only one significant unobservable input, while its financial instrument investments without an active market have more than one significant unobservable inputs. The significant unobservable inputs of financial instrument investments without an active market are individually independent, and there is no correlation between them.

Quantified information of significant unobservable inputs was as follows :

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Financial assets at fair value through profit or loss-equity investments without an active market	Market Approach	<ul style="list-style-type: none"> ·The multiplier of price-to-book ratio (As of March 31, 2020, December 31, 2019 and March 31, 2019, were 1.0~2.6, 1.0~2.6, and 0.9, respectively.) ·Market illiquidity discount (As of March 31, 2020, December 31, 2019 and March 31, 2019, were 20%) 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> ·the multiplier were higher (lower) ·the market illiquidity discount were lower (higher).
Financial assets at fair value through other comprehensive income-equity investments without an active market	Market Approach	<ul style="list-style-type: none"> ·The multiplier of price-to-book ratio (As of March 31, 2020, December 31, 2019 and March 31, 2019, were 1.9~6.2, 1.9~6.2, and 1.8~5.7, respectively.) ·Market illiquidity discount (As of March 31, 2020, December 31, 2019 and March 31, 2019, were 20%) 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> ·the multiplier were higher (lower) ·the market illiquidity discount were lower (higher).
Financial assets at fair value through profit or loss-private fund	Net Asset Value Method	·Net Asset Value	Not applicable

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7) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

The Group's measurement on the fair value of financial instruments is deemed reasonable despite different valuation models or assumptions may lead to different results. For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on profit or loss and other comprehensive income :

	Inputs	Fluctuation in inputs	Profit or loss		Other comprehensive income	
			Favorable	Unfavorable	Favorable	Unfavorable
March 31, 2020						
Financial assets at fair value through profit or loss						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	862	(862)	-	-
Equity investments without an active market	Market illiquidity discount	1%	862	(862)	-	-
Financial assets at fair value through other comprehensive income						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	-	-	2,720	(2,720)
Equity investments without an active market	Market illiquidity discount	1%	-	-	2,720	(2,720)
December 31, 2019						
Financial assets at fair value through profit or loss						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	880	(880)	-	-
Equity investments without an active market	Market illiquidity discount	1%	880	(880)	-	-
Financial assets at fair value through other comprehensive income						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	-	-	2,718	(2,718)
Equity investments without an active market	Market illiquidity discount	1%	-	-	2,718	(2,718)
March 31, 2019						
Financial assets at fair value through profit or loss						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	797	(797)	-	-
Equity investments without an active market	Market illiquidity discount	1%	797	(797)	-	-
Financial assets at fair value through other comprehensive income						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	-	-	2,826	(2,826)
Equity investments without an active market	Market illiquidity discount	1%	-	-	2,826	(2,826)

The favorable and unfavorable effects represent the changes in fair value, and fair value is based on a variety of unobservable inputs calculated using a valuation technique. The analysis above only reflects the effects of changes in a single input, and it does not include the interrelationships with another input.

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(v) 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 :

March 31, 2020						
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	\$ 11,530,449	9,929,203	1,601,246	-	-	1,601,246

March 31, 2020						
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	\$ 9,929,203	9,929,203	-	-	-	-

December 31, 2019						
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	\$ 23,050,581	15,787,701	7,262,880	-	-	7,262,880

December 31, 2019						
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	\$ 15,787,701	15,787,701	-	-	-	-

March 31, 2019						
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	\$ 21,801,973	16,633,200	5,168,773	-	-	5,168,773

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March 31, 2019						
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	<u>\$ 16,633,200</u>	<u>16,633,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

(ac) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in Note 6(ae) of the consolidated financial statements for the year ended December 31, 2019.

(ad) Capital management

Management believes that there were no changes in the Group's approach to the targets, policies and procedures in capital management as disclosed in the consolidated financial statements for the year ended December 31, 2019. Also, they believe that for the three months ended March 31, 2020, there were also no changes in the Group's capital management information. For other related information, please refer to Note 6(af) of the consolidated financial statements for the year ended December 31, 2019.

(ae) Financing activities not affecting current cash flow

For the three months ended March 31, 2020 and 2019, reconciliation of liabilities arising from financing activities were as follows :

	January 1, 2020	Cash flows	Non-cash changes		March 31, 2020
			Foreign exchange movement	Other	
Long-term loans	\$ 9,192,450	2,313,016	54,902	(22,470)	11,537,898
Short-term loans	64,808,786	62,498,300	-	-	127,307,086
Bonds payable	23,480,339	-	-	911	23,481,250
Lease liabilities	2,489,741	(475,181)	11,720	858,628	2,884,908
Other payables-restricted employee stock	96,667	(7,348)	-	6,204	95,523
Non-controlling interests	<u>35,580,451</u>	<u>(48)</u>	<u>(30,367)</u>	<u>(955,948)</u>	<u>34,594,088</u>
Total liabilities from financing activities	<u>\$135,648,434</u>	<u>64,328,739</u>	<u>36,255</u>	<u>(112,675)</u>	<u>199,900,753</u>

(Continued)

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	January 1, 2019	Cash flows	Non-cash changes		March 31, 2019
			Foreign exchange movement	Other	
Long-term loans	\$ 11,900,203	1,043,825	29,859	-	12,973,887
Short-term loans	86,927,246	32,490,194	-	-	119,417,440
Bonds payable	14,986,762	-	-	571	14,987,333
Lease liabilities	2,945,584	(357,717)	13,171	94,854	2,695,892
Other payables-restricted employee stock	191,883	(2,884)	-	(560)	188,439
Non-controlling interests	<u>36,417,945</u>	<u>22,529</u>	<u>305,594</u>	<u>(681,573)</u>	<u>36,064,495</u>
Total liabilities from financing activities	<u>\$153,369,623</u>	<u>33,195,947</u>	<u>348,624</u>	<u>(586,708)</u>	<u>186,327,486</u>

(7) Related-party transactions:

(a) Key management personnel compensation :

	For the three months ended March 31	
	2020	2019
Short-term employee benefits	\$ 117,456	100,482
Post-employment benefits	991	906
Share-based payments	49,550	42,429
	<u>\$ 167,997</u>	<u>143,817</u>

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

(8) Pledged assets:

The book value of pledged assets provided by the Group were as follows :

Asset	Purpose of pledge	March 31, 2020	December 31, 2019	March 31, 2019
Other financial asset-restricted deposit	Post-release duty deposits, customs duty, lease deposits, short-term loans, travel agency guarantee, etc.	\$ 113,300	203,219	184,311
Other financial asset-restricted deposit	Litigation pledge	-	10,998	-
Property, plant and equipment	Bank loans	1,381,982	1,383,038	1,317,564
Other financial asset-guarantee deposits	Customs duty guarantee, rental deposits, and deposits for performance guarantee	297,321	42,985	37,591
		<u>\$ 1,792,603</u>	<u>1,640,240</u>	<u>1,539,466</u>

(Continued)

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(9) Commitments and contingencies:

(a) Significant commitments and contingencies were as follows :

(i) Unused standby letters of credit

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
EUR	\$ 3	29	-
JPY	752,900	1,029,071	1,190,031
USD	3,167	3,376	5,220

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

	<u>March 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>March 31,</u> <u>2019</u>
NTD	<u>\$ 160,842</u>	<u>34,263</u>	<u>61,280</u>

(iii) As of March 31, 2020, December 31, 2019, and March 31, 2019, the significant contracts for purchase of properties by the Group amounted to \$10,126,811, \$15,002,411 and \$17,475,093, of which \$3,665,947, \$2,215,402 and \$2,829,423, respectively, were unpaid.

(iv) As of March 31, 2020, December 31, 2019, and March 31, 2019, the Group provided endorsement guarantee for bank loans, including Group entities, amounting to \$1,270,206, \$1,259,160 and \$1,294,440, respectively.

(v) As of March 31, 2020, December 31, 2019, and March 31, 2019, the Group issued a tariff guarantee of \$1,533,991, \$1,764,424 and \$2,758,724, respectively, to the bank for the purpose of importing goods.

(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 and the lawsuit has still been in cognizance. In April 2019, the Group has already compromised and both parties have revoked the lawsuit. It is not expected to have a material effect on the Group's operation.

(10) Losses due to major disasters: None.

(11) Subsequent Events: None.

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(12) Other:

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

By function	For the three months ended March 31					
	2020			2019		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit						
Salary	\$ 11,793,247	3,398,328	15,191,575	11,778,318	3,313,622	15,091,940
Health and labor insurance	726,780	243,904	970,684	850,463	245,063	1,095,526
Pension	563,418	154,483	717,901	1,212,611	220,276	1,432,887
Others	438,710	221,704	660,414	320,070	230,721	550,791
Depreciation	4,081,704	489,440	4,571,144	4,183,583	454,604	4,638,187
Amortization	25,070	37,881	62,951	39,651	26,622	66,273

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

	For the three months ended March 31	
	2020	2019
Depreciation in investment property	\$ <u>769</u>	<u>782</u>

(13) Other disclosures:**(a) Information on significant transactions:**

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group:

No.	Item	Table
1	Loans to other parties	Table 1
2	Guarantees and endorsements for other parties	Table 2
3	Securities held as of March 31, 2020 (excluding investment in subsidiaries, associates and joint ventures)	Table 3
4	Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock	None
5	Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock	None 4
6	Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock	None
7	Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock	Table 5
8	Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock	Table 6
9	Trading in derivative instruments	None
10	Business relationships and significant intercompany transactions	Table 9

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(b) Information on investees:

Please refer to Table 8 for the information on investees for the three months ended March 31, 2020.

(c) Information on investment in mainland China:

(i) Please refer to Table 9 for names of investee, main businesses and products, total amount of capital surplus, method of investment, investment flows, net income (losses) of the investee, percentage of ownership and the upper limit on investment.

(ii) Please refer to information on significant transactions for either directly or indirectly through a third area, with investee companies in the Mainland Area. The transactions were eliminated in the consolidated financial statements.

(d) Major shareholders:

Shareholder's Name	Shareholding	Shares	Percentage
ASUSTek Company Inc.		448,506,484	17.17 %

(14) Segment information:None

Please refer to Note 6(y) for the information on revenue for the three months ended March 31, 2020 and 2019. The Group's operating segment information and reconciliation were as follows :

<u>For the three months ended March 31, 2020</u>	<u>DMS</u>	<u>Strategic Investment Group</u>	<u>Adjustment and eliminations</u>	<u>Total</u>
Reportable segment profit or loss	\$ <u>1,994,508</u>	<u>(1,642,275)</u>	<u>1,347,053</u>	<u>1,699,286</u>
<u>For the three months ended March 31, 2019</u>				
Reportable segment profit or loss	\$ <u>2,248,722</u>	<u>2,184,741</u>	<u>(2,701,308)</u>	<u>1,732,155</u>
Reportable segment assets				
March 31, 2020	\$ <u>521,909,317</u>	<u>229,896,866</u>	<u>(155,521,305)</u>	<u>596,284,878</u>
December 31, 2019	\$ <u>492,727,088</u>	<u>234,288,174</u>	<u>(156,495,469)</u>	<u>570,519,793</u>
March 31, 2019	\$ <u>480,288,545</u>	<u>232,193,693</u>	<u>(153,289,863)</u>	<u>559,192,375</u>