

PEGATRON CORPORATION AND SUBSIDIARIES**Consolidated Financial Statements****With Independent Auditors' Review Report
For the Six Months Ended June 30, 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 June 30, 2020 and 2019, and the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2020 and 2019, and changes in equity and cash flows for the six months ended June 30, 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 \$31,009,386 thousand and \$29,401,172 thousand, constituting 4.94% and 5.52% of consolidated total assets as of June 30, 2020 and 2019, respectively, total liabilities amounting to \$9,159,443 thousand and \$8,500,300 thousand, constituting 2.08% and 2.42% of consolidated total liabilities as of June 30, 2020 and 2019, respectively, and total comprehensive loss amounting to \$89,815 thousand, \$537,486 thousand, \$555,850 thousand and \$811,030 thousand, constituting (1.66)%, (16.37)%, (8.27)% and (16.19)% of consolidated total comprehensive income (loss) for the three months and the six months ended June 30, 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 \$389,890 thousand and \$277,537 thousand as of June 30, 2020 and 2019, respectively, and its equity in net earnings (loss) on these investee companies of \$96,646 thousand, \$31,936 thousand, \$146,106 thousand and \$53,122 thousand for the three months and the six months ended June 30, 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 June 30, 2020 and 2019, and of its consolidated financial performance for the three months and six months ended June 30, 2020 and 2019, and its consolidated cash flows for the six months ended June 30, 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 \$58,299,340 thousand and \$54,755,077 thousand, representing 9.28% and 10.28% of the related consolidated total assets as of June 30, 2020 and 2019, and net sales of \$14,005,083 thousand, \$8,850,649 thousand, \$24,724,220 thousand and \$17,290,820 thousand, representing 4.27%, 2.96%, 4.08% and 2.91% of the related consolidated total net sales for the three months and the six months ended June 30, 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)
August 13, 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 JUNE 30, 2020 AND 2019

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2020, December 31, 2019, and June 30, 2019

(Expressed in Thousands of New Taiwan Dollars)

	June 30, 2020		December 31, 2019		June 30, 2019		
	Amount	%	Amount	%	Amount	%	
Assets							
Current assets:							
1100	Cash and cash equivalents (Note 6(a))	\$ 176,681,836	28	145,795,913	26	145,433,361	28
1110	Current financial assets at fair value through profit or loss (Note 6(b))	9,889,427	2	6,801,529	1	6,689,211	1
1170	Notes and accounts receivable, net (Notes 6(d) and 6(y))	189,861,673	30	206,338,405	36	150,370,398	28
1200	Other receivables, net (Note 6(e))	1,220,252	-	1,472,702	-	1,564,859	-
130X	Inventories (Note 6(f))	119,529,589	19	106,063,490	19	116,549,805	22
1460	Non-current assets classified as held for sale, net (Note 6(g))	-	-	122,652	-	133,539	-
1476	Other current financial assets (Notes 6(n) and 8)	32,215,570	5	3,564,920	1	4,751,454	1
1479	Other current assets (Note 6(n))	6,187,646	1	5,674,300	1	6,147,710	1
		<u>535,585,993</u>	<u>85</u>	<u>475,833,911</u>	<u>84</u>	<u>431,640,337</u>	<u>81</u>
Non-current assets:							
1510	Non-current financial assets at fair value through profit or loss (Note 6(b))	545,836	-	556,266	-	542,660	-
1517	Non-current financial assets at fair value through other comprehensive income (Note 6(c))	794,427	-	858,158	-	825,497	-
1550	Investments accounted for using equity method (Note 6(h))	397,088	-	256,093	-	292,370	-
1600	Property, plant and equipment (Notes 6(j) and 8)	77,959,628	13	80,248,760	14	86,097,330	17
1755	Right-of-use assets (Note 6(k))	6,264,947	1	5,888,602	1	6,257,308	1
1760	Investment property, net (Note 6(l))	42,528	-	44,496	-	47,679	-
1780	Intangible assets (Note 6(m))	1,227,642	-	1,297,891	-	1,421,242	-
1840	Deferred tax assets	3,036,752	1	3,305,613	1	3,358,568	1
1915	Prepayments on purchase of equipment	1,839,944	-	1,698,780	-	1,777,480	-
1980	Other non-current financial assets (Notes 6(n) and 8)	492,053	-	481,158	-	331,629	-
1990	Other non-current assets (Note 6(n))	107,013	-	50,065	-	187,756	-
		<u>92,707,858</u>	<u>15</u>	<u>94,685,882</u>	<u>16</u>	<u>101,139,519</u>	<u>19</u>
Total assets		<u>\$ 628,293,851</u>	<u>100</u>	<u>570,519,793</u>	<u>100</u>	<u>532,779,856</u>	<u>100</u>

See accompanying notes to financial statements.

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AS OF JUNE 30, 2020 AND 2019

PEGATRON CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets (CONT'D)

June 30, 2020, December 31, 2019, and June 30, 2019

(Expressed in Thousands of New Taiwan Dollars)

	June 30, 2020		December 31, 2019		June 30, 2019		
	Amount	%	Amount	%	Amount	%	
Liabilities and Equity							
Current liabilities:							
2100	Short-term loans (Note 6(o))	\$ 133,077,247	21	64,808,786	11	97,543,495	19
2130	Current contract liabilities (Note 6(y))	1,875,570	-	1,522,221	-	1,363,387	-
2150	Notes and accounts payable (Note 7)	190,864,339	31	218,101,566	38	150,839,894	28
2209	Accrued expenses (Note 6(s))	28,040,732	5	26,992,758	5	24,165,320	5
2216	Dividends payable	12,556,762	2	-	-	10,064,990	2
2219	Other payables	4,713,835	1	3,760,422	1	4,437,950	1
2230	Current tax liabilities	2,395,667	-	4,037,776	1	1,337,883	-
2281	Current lease liabilities (Note 6(r))	1,491,834	-	1,195,039	-	1,291,771	-
2321	Bonds payable, current portion (Note 6(q))	4,000,000	1	3,000,000	1	-	-
2322	Long-term loans payable, current portion (Note 6(p))	2,006,970	-	2,657,496	-	2,189,750	-
2399	Other current liabilities (Note 6(p))	24,219,002	4	19,510,595	4	19,270,208	4
		<u>405,241,958</u>	<u>65</u>	<u>345,586,659</u>	<u>61</u>	<u>312,504,648</u>	<u>59</u>
Non-Current liabilities:							
2527	Non-current contract liabilities (Note 6(y))	456,837	-	420,197	-	487,672	-
2530	Bonds payable (Note 6(q))	19,482,161	3	20,480,339	4	23,478,518	5
2540	Long-term loans (Note 6(p))	10,343,946	2	6,534,954	1	10,341,575	2
2570	Deferred tax liabilities	2,662,227	-	1,928,241	-	1,993,388	-
2581	Non-current lease liabilities (Note 6(r))	1,444,470	-	1,294,702	-	1,245,476	-
2670	Other non-current liabilities	927,198	-	1,029,188	-	1,040,883	-
		<u>35,316,839</u>	<u>5</u>	<u>31,687,621</u>	<u>5</u>	<u>38,587,512</u>	<u>7</u>
	Total liabilities	<u>440,558,797</u>	<u>70</u>	<u>377,274,280</u>	<u>66</u>	<u>351,092,160</u>	<u>66</u>
Equity Attributable to Owners of the Parent Company (Note 6(u)):							
3100	Share capital	26,107,591	4	26,110,919	5	26,115,915	5
Capital surplus:							
3210	Capital surplus, premium on capital stock	77,443,735	12	76,645,504	13	76,584,774	14
3280	Capital surplus, others (Note 6(v))	4,143,042	1	4,406,597	1	3,804,459	1
		<u>81,586,777</u>	<u>13</u>	<u>81,052,101</u>	<u>14</u>	<u>80,389,233</u>	<u>15</u>
Retained earnings:							
3310	Legal reserve	13,706,083	2	11,774,310	2	11,774,310	2
3320	Special reserve	11,286,050	2	7,868,877	2	7,868,877	2
3350	Unappropriated retained earnings	33,605,844	5	42,156,192	7	27,617,392	5
		<u>58,597,977</u>	<u>9</u>	<u>61,799,379</u>	<u>11</u>	<u>47,260,579</u>	<u>9</u>
Other equity interest:							
3410	Exchange differences on translation of foreign financial statements	(12,891,100)	(2)	(10,982,396)	(2)	(6,197,513)	(1)
3420	Unrealized losses on financial assets measured at fair value through other comprehensive income	(418,247)	-	(303,654)	-	(373,649)	-
3491	Deferred compensation cost arising from issuance of restricted stock (Note 6(v))	-	-	(8,287)	-	(11,462)	-
		<u>(13,309,347)</u>	<u>(2)</u>	<u>(11,294,337)</u>	<u>(2)</u>	<u>(6,582,624)</u>	<u>(1)</u>
3500	Treasury stock	(2,480)	-	(3,000)	-	(1,916)	-
	Equity attributable to the parent company	<u>152,980,518</u>	<u>24</u>	<u>157,665,062</u>	<u>28</u>	<u>147,181,187</u>	<u>28</u>
36xx	Non-controlling interests (Notes 6(i) and (u))	34,754,536	6	35,580,451	6	34,506,509	6
	Total equity	<u>187,735,054</u>	<u>30</u>	<u>193,245,513</u>	<u>34</u>	<u>181,687,696</u>	<u>34</u>
	Total liabilities and equity	<u>\$ 628,293,851</u>	<u>100</u>	<u>570,519,793</u>	<u>100</u>	<u>532,779,856</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 and six months ended June 30, 2020 and 2019

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

	For the three months ended June 30				For the six months ended June 30				
	2020		2019		2020		2019		
	Amount	%	Amount	%	Amount	%	Amount	%	
4110	Operating revenue (Note 6(y))	\$ 328,418,522	100	300,210,452	100	\$ 607,505,035	100	594,976,295	100
4170	Less: Sales returns and allowances	575,861	-	845,081	-	1,183,926	-	1,496,381	-
	Operating revenue, net	327,842,661	100	299,365,371	100	606,321,109	100	593,479,914	100
5000	Cost of sales (Notes 6(f), 6(r), 6(s), 6(z) and 7)	313,517,646	96	289,233,666	97	585,830,873	97	576,676,223	97
	Gross profit from operations	14,325,015	4	10,131,705	3	20,490,236	3	16,803,691	3
6000	Operating expenses (Notes 6(r), 6(s) and 6(z)):								
6100	Selling expenses	1,282,451	-	1,650,764	-	2,292,466	-	2,614,551	-
6200	General and administrative expenses	2,212,126	1	1,944,885	1	4,148,633	1	3,931,121	1
6300	Research and development expenses	4,379,795	1	3,576,196	1	7,880,805	1	6,878,753	1
	Total operating expenses	7,874,372	2	7,171,845	2	14,321,904	2	13,424,425	2
	Net operating income	6,450,643	2	2,959,860	1	6,168,332	1	3,379,266	1
	Non-operating income and expenses:								
7100	Interest income (Note 6(h))	842,092	-	972,232	-	1,912,903	-	1,887,202	-
7010	Other income (Notes 6(l), 6(r) and 6(aa))	865,050	-	1,210,323	-	1,970,895	-	1,647,032	-
7020	Other gains and losses (Notes 6(j), 6(aa) and 12)	3,018,469	1	(35,660)	-	3,483,483	1	1,011,333	-
7050	Finance costs (Notes 6(d), 6(q), 6(r) and 6(aa))	(481,401)	-	(869,631)	-	(1,159,787)	-	(1,956,421)	-
7060	Share of profit of associates and joint ventures accounted for using equity method (Note 6(h))	92,863	-	30,218	-	141,208	-	47,014	-
7590	Miscellaneous disbursements	(10,037)	-	(8,702)	-	(40,069)	-	(24,631)	-
	Total non-operating income and expenses	4,327,036	1	1,298,780	-	6,308,633	1	2,611,529	-
	Profit before tax	10,777,679	3	4,258,640	1	12,476,965	2	5,990,795	1
7950	Less: Tax expenses (note 6(t))	2,826,764	1	1,330,347	-	3,366,971	1	2,461,422	-
	Profit for the year	7,950,915	2	2,928,293	1	9,109,994	1	3,529,373	1
8300	Other comprehensive income:								
8310	Components of other comprehensive income that will not be reclassified to profit or loss								
8316	Unrealized (losses) gains from investments in equity instruments measured at fair value through other comprehensive income	79,708	-	(15,486)	-	(136,413)	-	12,673	-
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	79,708	-	(15,486)	-	(136,413)	-	12,673	-
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	(2,614,509)	(1)	369,935	-	(2,256,471)	-	1,465,830	-
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))	28	-	(344)	-	(146)	-	58	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (Note 6(t))	2,851	-	(418)	-	(937)	-	15	-
	Total components of other comprehensive income that will be reclassified to profit or loss	(2,617,332)	(1)	370,009	-	(2,255,680)	-	1,465,873	-
8300	Other comprehensive income for the period, net of tax	(2,537,624)	(1)	354,523	-	(2,392,093)	-	1,478,546	-
8500	Total comprehensive income for the period	\$ 5,413,291	1	3,282,816	1	\$ 6,717,901	1	5,007,919	1
	Profit attributable to:								
8610	Owners of the parent company	\$ 7,073,777	2	3,464,886	1	\$ 8,618,616	1	4,796,207	1
8620	Non-controlling interests	877,138	-	(536,593)	-	491,378	-	(1,266,834)	-
		\$ 7,950,915	2	2,928,293	1	\$ 9,109,994	1	3,529,373	1
	Comprehensive income attributable to:								
8710	Owners of the parent company	\$ 4,852,762	1	3,944,173	1	\$ 6,573,499	1	6,093,923	1
8720	Non-controlling interests	560,529	-	(661,357)	-	144,402	-	(1,086,004)	-
		\$ 5,413,291	1	3,282,816	1	\$ 6,717,901	1	5,007,919	1
	Earnings per share, net of tax (Note 6(x))								
9750	Basic earnings per share	\$ 2.71		1.33		\$ 3.30		1.84	
9850	Diluted earnings per share	\$ 2.70		1.32		\$ 3.27		1.83	

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 six months ended June 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of the parent company											
	Retained earnings					Total other equity interest						
Share capital	Unrealized gains					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	Financial assets measured at fair value through other comprehensive income	Deferred compensation arising from issuance of restricted stock	Treasury stock	Non-controlling interests	Total equity
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	-	-	-	-	4,796,207	4,796,207	-	12,673	-	-	4,796,207	186,446,783
Other comprehensive income for the period	-	-	-	-	-	-	1,285,043	12,673	-	-	(1,266,834)	3,529,373
Total comprehensive income for the period	-	-	-	-	4,796,207	4,796,207	1,285,043	12,673	-	-	180,830	1,478,546
Appropriation and distribution of retained earnings:											(1,086,004)	5,007,919
Legal reserve appropriated	-	-	1,111,487	-	(1,111,487)	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(946,336)	946,336	-	-	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(9,141,580)	(9,141,580)	-	-	-	-	-	(9,141,580)
Changes in ownership interests in subsidiaries	-	9,094	-	-	-	-	-	-	-	-	9,094	(9,094)
Expiration of restricted shares of stock issued to employees	(7,858)	4,800	-	-	(21,321)	(21,321)	-	-	-	3,058	-	(21,321)
Compensation cost arising from restricted shares of stock	-	(300,991)	-	-	-	-	-	513,224	513,224	-	-	212,233
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(816,338)	(816,338)
Balance at June 30, 2019	\$ 26,115,915	80,389,233	11,774,310	7,868,877	27,617,392	47,260,579	(6,197,513)	(373,649)	(11,462)	(1,916)	34,506,509	181,687,696
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	-	-	-	-	8,618,616	8,618,616	-	-	-	-	8,618,616	193,245,513
Other comprehensive income for the period	-	-	-	-	-	-	(1,908,704)	(136,413)	-	-	(346,976)	(2,392,093)
Total comprehensive income	-	-	-	-	8,618,616	8,618,616	(1,908,704)	(136,413)	-	-	8,271,640	(2,392,093)
Appropriation and distribution of retained earnings:											144,402	6,717,901
Legal reserve appropriated	-	-	1,931,773	-	(1,931,773)	-	-	-	-	-	-	-
Special reserve appropriated	-	-	-	3,417,173	(3,417,173)	-	-	-	-	-	-	-
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	-	2	-	-	-	-	-	-	-	-	2	(2)
Changes in ownership interests in subsidiaries	-	9,822	-	-	-	-	-	-	-	-	9,822	(9,822)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(21,820)	(21,820)	-	21,820	-	-	-	-
Expiration of restricted shares of stock issued to employees	(3,328)	2,808	-	-	(49,635)	(49,635)	-	-	-	520	-	(49,635)
Compensation cost arising from restricted shares of stock	-	522,044	-	-	-	-	-	8,287	8,287	-	-	530,331
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(960,493)	(960,493)
Balance at June 30, 2020	\$ 26,107,591	81,586,777	13,706,083	11,256,050	33,605,844	58,597,977	(12,891,100)	(418,247)	-	(2,480)	34,754,536	187,735,054

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 six months ended June 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2020	2019
Cash flows from operating activities:		
Profit before tax	\$ 12,476,965	5,990,795
Adjustments:		
Adjustments to reconcile profit:		
Depreciation expense	9,013,443	9,263,485
Amortization expense	110,923	136,302
Expected credit loss (reversal gain)	(9,750)	28,075
Net (gain) loss on financial assets and liabilities at fair value through profit or loss	(2,816,808)	(886,126)
Interest expense	1,153,863	1,947,746
Interest income	(1,912,903)	(1,887,202)
Dividend income	(14,858)	-
Compensation cost arising from employee stock options	431,539	344,454
Amortization of issuance costs on bonds payable	1,822	1,256
Share of gain of associates and joint ventures accounted for using equity method	(141,208)	(47,014)
Gain on lease remeasurement	(2,970)	(2,059)
(Gain) loss on disposal of property, plant and equipment	(38,622)	2,380
Property, plant and equipment charged to expenses	70,834	26,219
Intangible asset charged to expenses	167	-
(Reversal gain) impairment loss on non-financial assets	(8,781)	21,357
(Gain) loss on foreign currency exchange on long-term loans	(69,097)	98,109
Long-term prepaid rentals charged to expenses	(15,145)	-
Provision of other current liabilities	-	800,966
Decrease in other current assets	-	34,945
Total adjustments to reconcile profit	5,752,449	9,882,893
Changes in operating assets and liabilities:		
Changes in operating assets:		
Increase in financial assets at fair value through profit or loss	(260,660)	(2,812,772)
Decrease in notes and accounts receivable	16,486,152	48,487,955
Decrease in other receivables	630,505	108,148
(Increase) decrease in inventories	(13,466,099)	48,438,536
Increase in other financial assets	(28,650,650)	(3,956,679)
(Increase) decrease in other current assets	(616,773)	1,554,986
(Increase) decrease in other non-current assets	(56,948)	141,663
Total changes in operating assets	(25,934,473)	91,961,837
Changes in operating liabilities:		
Increase in contract liabilities	389,989	487,862
Decrease in notes and accounts payable	(27,237,227)	(77,234,862)
(Increase) decrease in accrued expenses	967,778	(3,055,999)
(Increase) decrease in other payables	1,005,300	(1,426,401)
Increase in other current liabilities	4,706,664	2,215,021
Decrease in other non-current liabilities	(106,096)	(52,447)
Total changes in operating liabilities	(20,273,592)	(79,066,826)
Total changes in operating assets and liabilities	(46,208,065)	12,895,011
Total adjustments	(40,455,616)	22,777,904
Cash (outflow) inflow generated from operations	(27,978,651)	28,768,699
Interest received	1,683,746	1,693,559
Dividends received	14,858	-
Interest paid	(1,154,187)	(1,855,652)
Income taxes paid	(3,761,043)	(3,710,817)
Net cash flows (used in) from operating activities	(31,195,277)	24,895,789

(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 six months ended June 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2020	2019
Cash flows used in investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(228,044)	-
Proceeds from disposal of financial assets at fair value through other comprehensive income	154,220	-
Proceeds from capital reduction of investments accounted for using equity method	-	1,336
Proceeds from disposal of non-current assets classified as held for sale	-	3,050
Acquisition of property, plant and equipment	(5,896,724)	(3,837,707)
Proceeds from disposal of property, plant and equipment	369,975	666,963
Acquisition of intangible assets	(52,376)	(62,147)
(Increase) decrease in other financial assets	(10,895)	319,267
Increase in prepayments on purchase of equipment	(1,138,659)	(2,173,363)
Net cash flows used in investing activities	<u>(6,802,503)</u>	<u>(5,082,601)</u>
Cash flows from (used in) financing activities:		
Increase in short-term loans	68,268,461	10,616,249
Proceeds from issuing bonds	-	8,490,500
Proceeds from long-term loans	5,383,940	3,329,500
Repayments of long-term loans	(2,135,717)	(2,796,487)
Repayments of lease liabilities	(934,988)	(677,301)
Redemption of restricted stock	(3,348)	(4,800)
Changes in non-controlling interests	(187,011)	16,457
Net cash flows from financing activities	<u>70,391,337</u>	<u>18,974,118</u>
Effect of exchange rate fluctuations on cash held	<u>(1,507,634)</u>	<u>578,009</u>
Net increase in cash and cash equivalents	30,885,923	39,365,315
Cash and cash equivalents, beginning of the period	<u>145,795,913</u>	<u>106,068,046</u>
Cash and cash equivalents, end of the period	<u><u>\$ 176,681,836</u></u>	<u><u>145,433,361</u></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

Notes to the Consolidated Financial Statements

June 30, 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 six months ended June 30, 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 August 13, 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
Amendments to IFRS 16 “Covid-19-Related Rent Concessions”	June 1, 2020

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Amendments to IFRS 16 “Covid-19-Related Rent Concessions”

As a practical expedient, a lessee may elect not to assess whether a rent concession that meets conditions is a lease modification and the change in lease liability is recognized in profit or loss. The amendments have been endorsed by the FSC in July 2020, earlier application from January 1, 2020 is permitted. Related accounting policy is explained in Note 4(m).

The Group has elected to apply the practical expedient for all rent concessions that meet the criteria beginning January 1, 2020, with early adoption. No adjustment was made upon the initial application of the amendments. The amounts recognized in profit or loss for the three month and the six month ended June 30, 2020 were 5,082 thousand and 5,082 thousand, respectively.

(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, 2023
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”	January 1, 2022
Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023

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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

(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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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.

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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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
			June 30, 2020	December 31, 2019	June 30, 2019	
THE COMPANY	UNIHAN HOLDING LTD. (UNIHAN HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Note 18
UNIHAN HOLDING	CASETEK HOLDINGS LIMITED (CASETEK HOLDINGS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
CASETEK HOLDINGS	SLITEK HOLDINGS LIMITED	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
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 18
CASETEK HOLDINGS	KAEDAR HOLDINGS LIMITED (KAEDAR HOLDINGS)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
KAEDAR HOLDINGS	KAEDAR ELECTRONICS (KUNSHAN) CO., LTD.	Tooling molds of stainless steel computer cases	100.00 %	100.00 %	100.00 %	Note 18
CASETEK HOLDINGS	KAEDAR TRADING LTD.	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
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 18
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 18
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 18

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			June 30, 2020	December 31, 2019	June 30, 2019	
AZUREWAVE	Azurewave Technologies (USA) Inc.	Market development activities	100.00 %	100.00 %	100.00 %	Notes 1 and 18
AZUREWAVE	AZURE LIGHTING TECHNOLOGIES, INC.	Selling electronic parts	100.00 %	100.00 %	100.00 %	Notes 1 and 18
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 18
Azwave Samoa	AZURE LIGHTING TECHNOLOGIES, INC. (YANGZHOU)	Manufacturing and selling LED and relevant lighting products	100.00 %	100.00 %	100.00 %	Notes 1 and 18
Azwave Samoa	AIGALE CORPORATION (SHANGHAI)	Designing and selling communication equipment and electronic products	100.00 %	100.00 %	100.00 %	Notes 1 and 18
THE COMPANY	AMA PRECISION INC.(AMA PRECISION)	Designing and developing computer parts	100.00 %	100.00 %	100.00 %	Note 18
AMA PRECISION	AMA Holdings Limited(AMA)	Investing activities	- %	100.00 %	100.00 %	Note 17 and 18
AMA, MAINTEK COMPUTER (SUZHOU) CO., LTD.	TOPTEK PRECISION INDUSTRY(SUZHOU) CO., LTD.	Manufacturing and selling new electronic parts and premium hardware	- %	- %	100.00 %	Notes 15 and 18
THE COMPANY	PEGATRON HOLLAND HOLDING B.V.(PHH)	Investing activities	100.00 %	100.00 %	100.00 %	Note 18
PHH	PEGATRON Czech s.r.o.	Installing, repairing and selling electronic products	100.00 %	100.00 %	100.00 %	Note 18
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 18
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 18
PEGATRON HOLDING	PIOTEK HOLDINGS LTD. (CAYMAN)	Investing activities	100.00 %	100.00 %	100.00 %	Note 5
KINSUS SAMOA	(PIOTEK CAYMAN)					
PIOTEK CAYMAN	PIOTEK HOLDING LIMITED (PIOTEK HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Note 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 %	Note 5
PIOTEK HOLDING	PIOTEK(H.K.) TRADING LIMITED	Trading activities	100.00 %	100.00 %	100.00 %	Note 5
PEGATRON HOLDING	GRAND UPRIGHT TECHNOLOGY LIMITED	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			June 30, 2020	December 31, 2019	June 30, 2019	
PEGATRON HOLDING	ASLINK PRECISION CO., LTD. (ASLINK)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
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 18
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 18
PEGATRON HOLDING	MAGNIFICENT BRIGHTNESS LIMITED (MAGNIFICENT)	Investing and trading activities	100.00 %	100.00 %	100.00 %	Note 18
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 18
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 18
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 18
PEGATRON HOLDING	TOP QUARK LIMITED(TOP QUARK)	Investing activities	100.00 %	100.00 %	100.00 %	Note 18

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			June 30, 2020	December 31, 2019	June 30, 2019	
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 18
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 18
ASROCK	Leader Insight Holdings Limited (Leader)	Investing and holding activities	100.00 %	100.00 %	100.00 %	Note 18
Leader	First place International Limited (First place)	Investing and holding activities	100.00 %	100.00 %	100.00 %	Note 18
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	62.05 %	62.02 %	59.98 %	Note 6
ASROCK	ASRock Industrial Computer Corporation	Manufacturing and selling computer and related peripherals	67.58 %	67.38 %	82.47 %	Note 7
ASROCK	Soaring Asia Limited	Trading activities	100.00 %	100.00 %	100.00 %	Note 18
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 18
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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			June 30, 2020	December 31, 2019	June 30, 2019	
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 18
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
PEGAVISION CORPORATION	AQUAMAX CORPORATION	Selling medical appliances	100.00 %	- %	- %	Notes 5, 8 and 10
PEGAVISION CORPORATION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	100.00 %	- %	- %	Notes 5, 8 and 11
FUYANG TECHNOLOGY CORPORATION	FUYANG FLEX HOLDING LTD. (FUYANG HOLDING)	Investing activities	100.00 %	100.00 %	100.00 %	Note 18
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 18
PEGAVISION	PEGAVISION (SHANGHAI) LIMITED	Selling medical appliances	- %	100.00 %	100.00 %	Notes 5, 8 and 11
PEGAVISION (SHANGHAI) LIMITED	Gemvision Technology (Zhejiang) Limited.	Manufacturing and selling medical appliances	100.00 %	100.00 %	100.00 %	Notes 5, 8 and 11
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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			June 30, 2020	December 31, 2019	June 30, 2019	
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 18
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 %	
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 14
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 16
CASETEK CAYMAN	RI-KUAN METAL CORPORATION	Selling iron and aluminum products	100.00 %	100.00 %	100.00 %	

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Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			June 30, 2020	December 31, 2019	June 30, 2019	
RI-KUAN METAL CORPORATION	RITENG USA, INC	Market survey	100.00 %	100.00 %	100.00 %	Note 12
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 13
ASUS INVESTMENT	AS FLY TRAVEL SERVICE LIMITED	Trading agency	100.00 %	100.00 %	100.00 %	Note 18
ASUSPOWER INVESTMENT	PEGATRON TECHNOLOGY SERVICE INC. (PTSI)	Sales and repair service center in North America	100.00 %	100.00 %	100.00 %	Note 18
PTSI	PEGATRON SERVICOS DE INFORMATICA LTDA.	Maintenance service	100.00 %	100.00 %	100.00 %	Note 18
ASUSPOWER INVESTMENT	PEGA INTERNATIONAL LIMITED	Design service and sales	100.00 %	100.00 %	100.00 %	Note 18
ASUSPOWER INVESTMENT	PEGATRON JAPAN INC.	Sales and repair service center in Japan	100.00 %	100.00 %	100.00 %	Note 18
ASUSPOWER INVESTMENT	PEGATRON LOGISTIC SERVICE INC.	Sales and logistics center in North America	100.00 %	100.00 %	100.00 %	Note 18
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 18
Lumens Optics	Lumens Integration Inc.	Selling computer communication products and peripherals	100.00 %	100.00 %	100.00 %	Note 18
Lumens Optics	Lumens Digit Image Inc. (SAMOA)(Lumens)	Investing activities	100.00 %	100.00 %	100.00 %	Note 18
Lumens	Lumens (Suzhou) Digital Image Inc.	Manufacturing and selling projectors, projection screens and related products	100.00 %	100.00 %	100.00 %	Note 18
ASUSPOWER INVESTMENT	Pegatron Service Singapore Pte. Ltd.(PSG)	Sales and logistics center in Singapore	100.00 %	100.00 %	100.00 %	Note 18
PSG	PEGATRON SERVICE KOREA LLC.	Sales and repair service center in Korea	100.00 %	100.00 %	100.00 %	Note 18
ASUS INVESTMENT	HUA-YUAN INVESTMENT LIMITED	Investing activities	100.00 %	100.00 %	100.00 %	Note 18
THE COMPANY	PEGATRON SERVICE AUSTRALIA PTY. LTD.	Investing activities	100.00 %	100.00 %	100.00 %	Note 18

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Investor	Subsidiary	Nature of business	Shareholding ratio			Notes
			June 30, 2020	December 31, 2019	June 30, 2019	
THE COMPANY	PEGATRON USA, INC.	Sales and repair service center in North America	100.00 %	100.00 %	100.00 %	Note 18
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 18
THE COMPANY	PEGATRON VIETNAM COMPANY LIMITED	Manufacturing and selling consumer electronics, computers, related peripherals, communication equipment, and electronic parts	100.00 %	- %	- %	Notes 10 and 18
THE COMPANY	PEGATRON TECHNOLOGY HAI PHONG COMPANY LIMITED	Manufacturing and selling consumer electronics, computers, related peripherals, communication equipment, and electronic parts	100.00 %	- %	- %	Notes 10 and 18

- 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, November 6, 2019, and April 29, 2020, respectively, 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, October 28, 2019, and April 27, 2020, respectively, 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%.
- 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, March 25, 2020, and April 15, 2020, respectively, the Group purchased 3, 2 and 9 thousand shares from non-related parties amounting to \$60 \$40, and \$172 thousand, respectively, resulting in the Group's shareholding ratio to increase to 62.05%.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 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, March 23, 2019, and May 7, 2020, respectively, the Group purchased 30, 20 and 21 thousand shares from non-related parties amounting to \$300, \$246 and \$266, respectively, resulting in the Group's shareholding ratio to increase from 67.38% to 67.58%.
- 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 855 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 2020.
- Note 11 : Based on the consideration of the Group's reorganization, the shares of PEGAVISION (SHANGHAI) LIMITED, originally held by Pegavision Holdings Corporation, was transferred to Pegavision Corporation. All related registration procedures had been completed on May 13, 2020.
- Note 12 : Subsidiary established by the Group in the second quarter of 2019.
- Note 13 : Subsidiary established by the Group in the third quarter of 2019.
- Note 14 : 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 15 : It was liquidated in December 2019.
- Note 16 : It was written off in the forth quarter of 2019.
- Note 17 : It was written off in the second quarter of 2020.
- Note 18 : It is an insignificant subsidiary, and its financial statements for the six months ended June 30, 2020 and 2019, have not been reviewed.

(vii) Subsidiaries excluded from consolidation : None.

(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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

(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

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (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.

- (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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

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.

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PEGATRON CORPORATION AND SUBSIDIARIES
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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.

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.

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PEGATRON CORPORATION AND SUBSIDIARIES
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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.

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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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).

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.

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PEGATRON CORPORATION AND SUBSIDIARIES
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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.

(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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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.

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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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.

(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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.
 - 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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

As a practical expedient, the Group elects not to assess all rent concessions that meets all the conditions as follows are lease modifications or not:

- 1) the rent concessions occurring as a direct consequence of the covid-19 pandemic;
- 2) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- 3) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- 4) there is no substantive change to other terms and conditions of the lease.

In accordance with the practical expedient, the effect of the change in the lease liability is reflected in profit or loss in the period in which the event or condition that triggers the rent concession occurs.

(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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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.

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	1-5 years
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Intangible assets in development	3-10 years
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Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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.

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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

(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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

(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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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.

(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>June 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
Cash on hand	\$ 13,854	10,354	10,519
Cash in banks	41,377,556	36,563,302	28,043,421
Time deposits	133,693,350	104,823,503	115,136,399
Cash equivalents	<u>1,597,076</u>	<u>4,398,754</u>	<u>2,243,022</u>
	<u>\$ 176,681,836</u>	<u>145,795,913</u>	<u>145,433,361</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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Current mandatorily measured at fair value through profit or loss :			
Non-derivative financial assets			
Shares of stock of listed companies	\$ 1,215,464	875,720	779,442
Shares of stock of unlisted companies	16,500	16,500	16,500
Beneficiary certificates	2,514,156	2,437,370	2,263,703
Shares of stock of overseas listed companies	6,143,307	3,471,939	3,629,566
Derivative financial assets			
Non-current mandatorily measured at fair value through profit or loss :			
Non-derivative financial assets			
Shares of stock of listed companies	226,800	225,050	219,800
Beneficiary certificates	247,526	259,706	243,209
Shares of stock of overseas unlisted companies	<u>71,510</u>	<u>71,510</u>	<u>79,651</u>
Total	<u>\$ 10,435,263</u>	<u>7,357,795</u>	<u>7,231,871</u>

(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.

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Equity instruments at fair value through other comprehensive income :			
Shares of stock of listed companies	\$ 436,222	586,407	543,192
Shares of stock of unlisted companies	149,448	150,000	150,000
Shares of stock of overseas listed companies	126,732	-	-
Shares of stock of overseas unlisted companies	<u>82,025</u>	<u>121,751</u>	<u>132,305</u>
Total	<u>\$ 794,427</u>	<u>858,158</u>	<u>825,497</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 and the six months ended June 30, 2020 and 2019, the Group not has recognized any dividend from equity instruments designated at fair value through other comprehensive income.

For the six months ended June 30, 2020, the Group has sold its shares as a result of investment strategic. The shares sold had a fair value of \$154,220 and the Group realized a gain of \$21,820, which is already included in other comprehensive income. The gain has been converted to retained earnings. No strategic investments were disposed for the six months ended June 30, 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.

(d) Notes and accounts receivable, net

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

	June 30, 2020	December 31, 2019	June 30, 2019
Notes receivables from operating activities	\$ 7,158	20,232	15,920
Accounts receivable-measured at amortized cost	191,519,063	200,499,571	152,161,857
Accounts receivable-fair value through other comprehensive income	-	7,495,000	-
Less : Allowance for impairment	<u>1,664,548</u>	<u>1,676,398</u>	<u>1,807,379</u>
	<u>\$ 189,861,673</u>	<u>206,338,405</u>	<u>150,370,398</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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The loss allowance provision was determined as follows :

	June 30, 2020		
	Gross carrying amount	Expected loss rate	Loss allowance provision
Current	\$ 188,414,888	0%~1%	(45,413)
Overdue 0 to 30 days	1,354,721	1%~30%	(48,339)
Overdue 31 to 120 days	175,284	1%~100%	(14,032)
Overdue 121 to 365 days	46,660	31%~100%	(22,096)
Over 365 days past due	<u>1,534,668</u>	100%	<u>(1,534,668)</u>
	<u>\$ 191,526,221</u>		<u>(1,664,548)</u>
	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>
	June 30, 2019		
	Gross carrying amount	Expected loss rate	Loss allowance provision
Current	\$ 146,991,385	0%~1%	(27,874)
Overdue 0 to 30 days	3,226,795	1%~30%	(64,434)
Overdue 31 to 120 days	237,259	1%~100%	(21,688)
Overdue 121 to 365 days	83,354	18%~100%	(54,399)
Over 365 days past due	<u>1,638,984</u>	100%	<u>(1,638,984)</u>
	<u>\$ 152,177,777</u>		<u>(1,807,379)</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the six months ended June 30	
	2020	2019
Balance on January 1	\$ 1,676,398	1,780,928
Impairment losses recognized	15,674	87,883
Impairment losses reversed	(1,142)	-
Amounts written off	(25,093)	(62,653)
Foreign exchange (gains) losses	(1,289)	1,221
Balance on June 30	<u>\$ 1,664,548</u>	<u>1,807,379</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.

As of June 30, 2020, December 31, 2019 and June 30, 2019, the relevant information on accounts receivable factored by the Company, but unsettled, were as follows :

June 30, 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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

June 30, 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 -	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 and the six months ended June 30, 2020 and 2019, the Company recognized a fee and interest on bank advance payment of \$0, \$0, \$58 and \$65,952 thousand, respectively, from the factoring of accounts receivable, which was accounted under finance costs in the statement of comprehensive income.

As of June 30, 2020, December 31, 2019 and June 30, 2019, KINSUS INTERCONNECT TECHNOLOGY CORP. sold its accounts receivable without recourse as follows :

June 30, 2020							
Purchaser	Amount Derecognized	Factoring Line (thousands)	Amount Advanced (thousands)		Collateral	Range of Interest Rate	Significant Factoring Terms
			Unpaid	Paid			
Mega International Commercial Bank	\$ 343,577	USD 30,000	USD 18,508	USD 11,492	None	0.46%~ 0.53%	The accounts receivable factoring is without recourse

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	\$ 286,663	USD 30,000	USD 29,500	USD 500	None	2.17%	The accounts receivable factoring is without recourse

June 30, 2019							
Purchaser	Amount Derecognized	Factoring Line (thousands)	Amount Advanced (thousands)		Collateral	Range of Interest Rate	Significant Factoring Terms
			Unpaid	Paid			
Mega International Commercial Bank	\$ 321,026	USD 30,000	USD 25,566	USD 4,434	None	2.83%	The accounts receivable factoring is without recourse

As of June 30, 2020, December 31, 2019 and June 30, 2019, KINSUS reclassified the derecognized accounts receivable to other receivables.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) Other receivables

	<u>June 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
Other receivables	\$ 1,236,501	1,489,704	1,582,182
Less : Allowance for impairment	<u>16,249</u>	<u>17,002</u>	<u>17,323</u>
	<u>\$ 1,220,252</u>	<u>1,472,702</u>	<u>1,564,859</u>

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

(f) Inventories

	<u>June 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
Merchandise	\$ 1,307,813	1,285,078	1,066,589
Finished goods	53,760,766	61,552,810	69,437,967
Work in process	23,086,702	18,134,156	18,119,420
Raw materials	<u>48,315,220</u>	<u>31,614,069</u>	<u>35,866,705</u>
Subtotal	126,470,501	112,586,113	124,490,681
Less: Allowance for inventory market decline and obsolescence	<u>6,940,912</u>	<u>6,522,623</u>	<u>7,940,876</u>
Total	<u>\$ 119,529,589</u>	<u>106,063,490</u>	<u>116,549,805</u>

For the three months and the six months ended June 30, 2020 and 2019, the components of cost of goods sold were as follows :

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Cost of goods sold	\$ 308,241,997	282,318,217	576,546,788	564,341,501
Provision on (reversal of) inventory market price decline	(457,990)	(808,681)	418,289	(135,552)
Loss on disposal of inventory	4,688,519	6,005,548	6,817,264	9,350,591
Unallocated manufacturing overhead	1,043,500	1,715,511	2,045,356	3,115,079
Loss on physical inventory	<u>1,620</u>	<u>3,071</u>	<u>3,176</u>	<u>4,604</u>
	<u>\$ 313,517,646</u>	<u>289,233,666</u>	<u>585,830,873</u>	<u>576,676,223</u>

For the three months ended June 30, 2020, the Group recognized a gain from the reversal of allowance for inventory valuation loss due to the destocking of inventories. Such gain was deducted from cost of goods sold. For the six months ended June 30, 2020, the Group recognized an inventory valuation loss, accounted for as cost of good sold, due to the decreasing value from the carrying amount to the net realized value.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

For the three months and the six months ended June 30, 2019, the Group recognized a gain from the reversal of allowance for inventory valuation loss due to the destocking of inventories. Such gain was deducted from cost of goods sold.

As of June 30, 2020, December 31, 2019, and June 30, 2019, the aforesaid inventories were not pledged as collateral.

(g) Non-current assets held for sale

In June 2020, the land use rights and plants of CASETEK CAYMAN and its subsidiaries did not meet the definition of non current assets held-for-sale due to the change on disposal plan. The land use rights and plants was reclassified to right-of-use assets and property, plant and equipment. Please refer to Notes 6(j) and (k) for details.

(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.

	<u>June 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>	
Individually insignificant associates	\$ <u>397,088</u>	<u>256,093</u>	<u>292,370</u>	
	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
The Group's share of profit (loss) of the associates				
Profit for the period	\$ 92,863	30,218	141,208	47,014
Other comprehensive (loss) profit	<u>28</u>	<u>(344)</u>	<u>(146)</u>	<u>58</u>
Total comprehensive income profit	\$ <u>92,891</u>	<u>29,874</u>	<u>141,062</u>	<u>47,072</u>

(ii) As of June 30, 2020, December 31, 2019 and June 30, 2019, the aforesaid investments accounted for using equity method were not pledged as collateral.

(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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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		
		June 30, 2020	December 31, 2019	June 30, 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

	June 30, 2020	December 31, 2019	June 30, 2019
Current assets	\$ 20,457,429	19,340,507	18,014,260
Non-current assets	20,828,636	22,362,838	23,653,524
Current liabilities	(10,704,747)	(10,841,218)	(11,446,472)
Non-current liabilities	(1,944,671)	(2,024,427)	(2,879,676)
Net assets	\$ 28,636,647	28,837,700	27,341,636
Non-controlling interest	\$ 17,870,792	17,957,674	16,618,264

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Operating revenue	\$ 6,786,185	5,174,646	12,678,518	10,093,717
Net income (loss) for the period	\$ 334,979	(1,021,846)	413,914	(1,771,022)
Other comprehensive (loss) income	(51,340)	(28,647)	(52,757)	36,341
Comprehensive income (loss)	\$ 283,639	(1,050,493)	361,157	(1,734,681)
Net income (loss) attribute to non-controlling interest	\$ 218,611	(577,568)	315,213	(988,395)
Comprehensive income (loss) attribute to non-controlling interest	\$ 191,576	(591,040)	284,914	(971,087)

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Cash flows from operating activities	\$ 1,389,829	(189,793)	2,378,004	1,032,572
Cash flows from investing activities	(165,455)	(819,620)	(1,108,587)	(2,381,419)
Cash flows from financing activities	(391,731)	927,656	(846,865)	1,307,962
Net increase (decrease) in cash and cash equivalents	<u>\$ 832,643</u>	<u>(81,757)</u>	<u>422,552</u>	<u>(40,885)</u>

(ii) Information regarding ASROCK and its subsidiaries

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Current assets	\$ 11,361,820	9,706,137	9,831,283
Non-current assets	606,554	560,035	440,508
Current liabilities	(5,326,846)	(3,747,151)	(4,260,711)
Non-current liabilities	(87,240)	(64,554)	(80,695)
Net assets	<u>\$ 6,554,288</u>	<u>6,454,467</u>	<u>5,930,385</u>
Non-controlling interest	<u>\$ 3,134,626</u>	<u>3,030,844</u>	<u>2,702,256</u>

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Operating revenue	\$ <u>4,717,460</u>	<u>2,861,597</u>	<u>8,313,749</u>	<u>5,684,632</u>
Net income for the period	\$ 405,262	113,457	606,202	215,128
Other comprehensive (loss) income	(76,503)	30,211	(43,283)	43,328
Comprehensive income	<u>\$ 328,759</u>	<u>143,668</u>	<u>562,919</u>	<u>258,456</u>
Net income attribute to non-controlling interest	<u>\$ 219,940</u>	<u>58,322</u>	<u>316,262</u>	<u>105,460</u>
Comprehensive income attribute to non-controlling interest	<u>\$ 186,215</u>	<u>71,647</u>	<u>297,583</u>	<u>124,572</u>
Cash flows from operating activities	\$ 442,117	192,710	627,508	243,199
Cash flows from investing activities	151,365	244,209	(94,101)	(299,623)
Cash flows from financing activities	(10,887)	(53,731)	(19,286)	(60,593)
Net increase (decrease) decrease in cash and cash equivalents	<u>\$ 582,595</u>	<u>383,188</u>	<u>514,121</u>	<u>(117,017)</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Information regarding CASETEK CAYMAN

	<u>June 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
Current assets	\$ 30,564,346	26,620,964	27,145,713
Non-current assets	24,011,305	25,082,697	27,316,095
Current liabilities	(18,377,837)	(14,543,892)	(12,800,446)
Non-current liabilities	<u>(7,424,224)</u>	<u>(6,559,372)</u>	<u>(9,595,522)</u>
Net assets	<u>\$ 28,773,590</u>	<u>30,600,397</u>	<u>32,065,840</u>
Non-controlling interest	<u>\$ 11,534,176</u>	<u>12,385,305</u>	<u>12,980,016</u>

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Operating revenue	<u>\$ 11,545,970</u>	<u>8,806,945</u>	<u>16,735,407</u>	<u>15,448,945</u>
Net loss for the period	\$ 782,533	1,904	(521,757)	(662,023)
Other comprehensive (loss) income	<u>(578,157)</u>	<u>(325,653)</u>	<u>(698,655)</u>	<u>326,482</u>
Comprehensive income (loss)	<u>\$ 204,376</u>	<u>(323,749)</u>	<u>(1,220,412)</u>	<u>(335,541)</u>
Net loss attribute to non- controlling interest	<u>\$ 317,570</u>	<u>(1,663)</u>	<u>(211,741)</u>	<u>(272,735)</u>
Comprehensive loss attribute to non- controlling interest	<u>\$ (84,418)</u>	<u>(130,940)</u>	<u>(493,793)</u>	<u>(137,362)</u>
Cash flows from operating activities	\$ 1,368,400	314,049	2,006,498	1,049,853
Cash flows from investing activities	(695,646)	(521,640)	(1,554,202)	(1,205,422)
Cash flows from financing activities	<u>731,037</u>	<u>8,725</u>	<u>670,400</u>	<u>612,871</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ 1,403,791</u>	<u>(198,866)</u>	<u>1,122,696</u>	<u>457,302</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
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(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 :

	<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>
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	773,090	767,267	854,487	74,060	1,058,960	2,423,814	5,951,678
Disposals and obsolescence	-	(71,235)	(1,350,472)	(123,939)	(1,131,390)	-	(2,677,036)
Reclassifications	-	2,445,784	1,188,691	1,015	1,365,742	(4,025,489)	975,743
Effect of movement in exchange rate	(13,996)	(799,909)	(954,934)	(10,945)	(420,349)	(41,906)	(2,242,039)
Balance on June 30, 2020	<u>\$ 8,513,756</u>	<u>57,638,321</u>	<u>66,899,878</u>	<u>1,336,346</u>	<u>34,989,120</u>	<u>1,603,220</u>	<u>170,980,641</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	-	185,981	520,744	70,989	1,269,200	1,920,152	3,967,066
Disposals and obsolescence	-	(97,552)	(2,104,488)	(104,775)	(1,191,505)	-	(3,498,320)
Reclassifications	1,317,564	5,817,690	2,680,917	3,289	1,414,399	(8,189,716)	3,044,143
Effect of movement in exchange rate	3,033	406,383	518,776	12,267	269,527	144,954	1,354,940
Balance on June 30, 2019	<u>\$ 7,705,483</u>	<u>54,792,200</u>	<u>73,228,478</u>	<u>1,426,348</u>	<u>33,957,412</u>	<u>4,267,025</u>	<u>175,376,946</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	-	1,549,955	3,620,740	71,746	2,785,166	-	8,027,607
Impairment loss	-	-	(5,774)	-	(3,007)	-	(8,781)
Reclassifications	-	61,176	(28,621)	-	(47,951)	-	(15,396)
Disposals and obsolescence	-	(70,544)	(1,186,204)	(123,262)	(965,673)	-	(2,345,683)
Effect of movement in exchange rate	-	(324,671)	(709,938)	(10,726)	(314,934)	-	(1,360,269)
Balance on June 30, 2020	<u>\$ -</u>	<u>20,683,361</u>	<u>47,978,370</u>	<u>1,056,602</u>	<u>23,302,680</u>	<u>-</u>	<u>93,021,013</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	-	1,353,087	4,173,853	62,450	2,911,055	-	8,500,445
(Reversal gain) impairment loss	-	(1)	10,612	-	(112)	-	10,499
Reclassifications	-	-	(395)	-	4,173	-	3,778
Disposals and obsolescence	-	(97,545)	(1,647,323)	(104,316)	(979,793)	-	(2,828,977)
Effect of movement in exchange rate	-	169,913	336,545	11,930	172,128	-	690,516
Balance on June 30, 2019	<u>\$ -</u>	<u>18,741,026</u>	<u>48,110,626</u>	<u>1,227,148</u>	<u>21,200,816</u>	<u>-</u>	<u>89,279,616</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 June 30, 2020	<u>\$ 8,513,756</u>	<u>36,954,960</u>	<u>18,921,508</u>	<u>279,744</u>	<u>11,686,440</u>	<u>1,603,220</u>	<u>77,959,628</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 June 30, 2019	<u>\$ 7,705,483</u>	<u>36,051,174</u>	<u>25,117,852</u>	<u>199,200</u>	<u>12,756,596</u>	<u>4,267,025</u>	<u>86,097,330</u>

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

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
(Reversal gain) impairment loss	\$ (8,376)	(1,088)	(8,781)	10,499

- (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 six months ended June 30, 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 \$12,149. 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) In June 2020, the plants of CASETEK CAYMAN and its subsidiaries did not meet the definition of non-current assets held-for-sale, therefore, they were reclassified to property, plant, and equipment. Please refer to Notes 6(g) for details.
- (v) Please refer to Note 6(aa) for gain and loss on the disposal of property, plant and equipment.
- (vi) Please refer to Note 8 for the details of property, plant and equipment pledged as collateral.
- (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 :

	Land	Buildings	Machinery equipment	Transportation equipment	Total
Cost:					
Balance on January 1, 2020	\$ 4,186,259	3,837,947	17,793	2,918	8,044,917
Additions	44,726	1,484,590	-	1,300	1,530,616
Reductions	-	(361,509)	-	-	(361,509)
Reclassification	45,578	-	-	-	45,578
Effect of changes in foreign exchange rates	(65,809)	(40,356)	-	(5)	(106,170)
Balance on June 30, 2020	\$ 4,210,754	4,920,672	17,793	4,213	9,153,432
Balance on January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	4,540,409	2,925,838	17,793	1,331	7,485,371
Additions	11,139	469,085	-	577	480,801
Reductions	-	(314,892)	-	-	(314,892)
Effect of changes in foreign exchange rates	48,248	27,523	-	-	75,771
Balance on June 30, 2019	\$ 4,599,796	3,107,554	17,793	1,908	7,727,051

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PEGATRON CORPORATION AND SUBSIDIARIES
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	<u>Land</u>	<u>Buildings</u>	<u>Machinery equipment</u>	<u>Transportation equipment</u>	<u>Total</u>
Accumulated depreciation:					
Balance on January 1, 2020	\$ 788,316	1,360,026	6,888	1,085	2,156,315
Depreciation for the period	51,264	928,922	3,444	676	984,306
Reclassification	10,272	-	-	-	10,272
Reductions	-	(225,762)	-	-	(225,762)
Effect of changes in foreign exchange rate	(12,524)	(24,119)	-	(3)	(36,646)
Balance on June 30, 2020	<u>\$ 837,328</u>	<u>2,039,067</u>	<u>10,332</u>	<u>1,758</u>	<u>2,888,485</u>
Balance on January 1, 2019	\$ -	-	-	-	-
Effects of retrospective application	778,162	-	-	-	778,162
Depreciation for the period	49,013	708,657	3,444	351	761,465
Reductions	-	(79,472)	-	-	(79,472)
Effect of changes in foreign exchange rates	8,257	1,331	-	-	9,588
Balance on June 30, 2019	<u>\$ 835,432</u>	<u>630,516</u>	<u>3,444</u>	<u>351</u>	<u>1,469,743</u>
Carrying amounts:					
Balance on January 1, 2020	<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 June 30, 2020	<u>\$ 3,373,426</u>	<u>2,881,605</u>	<u>7,461</u>	<u>2,455</u>	<u>6,264,947</u>
Balance on June 30, 2019	<u>\$ 3,764,364</u>	<u>2,477,038</u>	<u>14,349</u>	<u>1,557</u>	<u>6,257,308</u>

In June 2020, the land use rights of CASETEK CAYMAN and its subsidiaries did not meet the definition of non-current assets held-for-sale, therefore, they were reclassified to right-of-use assets. Please refer to Notes 6(g) for details.

(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 June 30, 2020	<u>\$ 42,528</u>
Balance on January 1, 2019	<u>\$ 48,712</u>
Balance on June 30, 2019	<u>\$ 47,679</u>

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

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Rental income	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>
Direct operating expenses arising from investment property that generate rental income	<u>\$ 761</u>	<u>793</u>	<u>1,530</u>	<u>1,575</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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- (ii) As of June 30, 2020, December 31, 2019 and June 30, 2019, the fair value of investment property of the Group was \$75,298, \$83,623 and \$80,572, 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 six months ended June 30, 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 June 30, 2020, December 31, 2019 and June 30, 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 :

	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Costs:			
Balance on January 1, 2020	\$ 1,720,354	1,433,887	3,154,241
Additions	-	52,376	52,376
Disposals	-	(269,213)	(269,213)
Reclassifications	-	923	923
Effect of changes in foreign exchange rate	(11,560)	(12,212)	(23,772)
Balance on June 30, 2020	<u>\$ 1,708,794</u>	<u>1,205,761</u>	<u>2,914,555</u>
Balance on January 1, 2019	\$ 1,746,024	1,488,815	3,234,839
Additions	-	62,147	62,147
Disposals	-	(34,978)	(34,978)
Reclassifications	-	6,565	6,565
Effect of changes in foreign exchange rate	12,049	8,207	20,256
Balance on June 30, 2019	<u>\$ 1,758,073</u>	<u>1,530,756</u>	<u>3,288,829</u>
Amortization and impairment loss:			
Balance on January 1, 2020	\$ 671,792	1,184,558	1,856,350
Amortization for the period	-	110,923	110,923
Disposals	-	(269,213)	(269,213)
Reclassifications	-	(117)	(117)
Effect of changes in foreign exchange rate	-	(11,030)	(11,030)
Balance on June 30, 2020	<u>\$ 671,792</u>	<u>1,015,121</u>	<u>1,686,913</u>

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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	<u>Goodwill</u>	<u>Others</u>	<u>Total</u>
Balance on January 1, 2019	\$ 671,792	1,087,175	1,758,967
Amortization for the period	-	136,302	136,302
Disposals	-	(34,978)	(34,978)
Effect of changes in foreign exchange rate	-	7,296	7,296
Balance on June 30, 2019	<u>\$ 671,792</u>	<u>1,195,795</u>	<u>1,867,587</u>
Carrying amounts:			
Balance on January 1, 2020	<u>\$ 1,048,562</u>	<u>249,329</u>	<u>1,297,891</u>
Balance on June 30, 2020	<u>\$ 1,037,002</u>	<u>190,640</u>	<u>1,227,642</u>
Balance on January 1, 2019	<u>\$ 1,074,232</u>	<u>401,640</u>	<u>1,475,872</u>
Balance on June 30, 2019	<u>\$ 1,086,281</u>	<u>334,961</u>	<u>1,421,242</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	1,522	1,522
	<u>\$ 1,048,562</u>	<u>1,074,232</u>

For the six months ended June 30, 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.

(n) Other financial assets and other assets

Other financial assets and other assets were as follows :

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Other financial assets-current	\$ 32,215,570	3,564,920	4,751,454
Other financial assets-noncurrent	492,053	481,158	331,629
Other current assets	6,187,646	5,674,300	6,147,710
Other noncurrent assets	107,013	50,065	187,756
	<u>\$ 39,002,282</u>	<u>9,770,443</u>	<u>11,418,549</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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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(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 other long-term expenses and others.

(o) Short-term loans

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Unsecured bank loans	\$ 132,780,757	64,808,786	97,463,005
Secured bank loans	-	-	80,490
Accounts receivable factoring	<u>296,490</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 133,077,247</u>	<u>64,808,786</u>	<u>97,543,495</u>
Interest rate	<u>0.32%~3.20%</u>	<u>0.60%~4.70%</u>	<u>0.60%~3.685%</u>

(i) CASETEK CAYMAN and its subsidiaries entered into a factoring agreement with a financial institution to sell its accounts receivable. According to the agreement, CASETEK CAYMAN and its subsidiaries will provide the bank a guarantee for all the accounts receivable that cannot be recovered in a specific period, and they should also retain either all or substantially all of the risks and rewards of those accounts receivable, which did not meet the definition of financial assets. In addition, the accounts receivable of RI PEI COMPUTER ACCESSORY (SHANGHAI) CO., LTD to MEGA MERIT LIMITED were factored to the said financial institution, wherein the transactions were eliminated in the consolidated financial statements. At reporting date, the related financial liabilities and the total carrying amount of accounts receivable transferred, which were not derecognized but was eliminated, were as follows :

<u>June 30, 2020</u>						
<u>Purchaser</u>	<u>Amount Transferred</u>	<u>Factored Line</u>	<u>Advanced Amount (listed as short- term loan)</u>	<u>Range of interest rate</u>	<u>Collateral</u>	
City bank (CHINA)	\$ 309,091 (USD10,425 thousand)	309,091 (USD10,425 thousand)	296,490 (USD10,000 thousand)	0.68%	Accounts receivable	

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

(p) Long-term loans

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Unsecured bank loans	\$ 12,350,916	9,192,450	11,631,325
Secured bank loans	<u>-</u>	<u>-</u>	<u>900,000</u>
	12,350,916	9,192,450	12,531,325
Less: current portion	<u>(2,006,970)</u>	<u>(2,657,496)</u>	<u>(2,189,750)</u>
Total	<u>\$ 10,343,946</u>	<u>6,534,954</u>	<u>10,341,575</u>
Interest rate	<u>0.35%~3.35%</u>	<u>0.60%~3.97%</u>	<u>1.074%~3.97%</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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 \$2,135,717 and \$2,796,487 for the six months ended June 30, 2020 and 2019, respectively. In addition, the Group proceeded from long-term loans of \$5,383,940 and \$3,329,500 for the six months ended June 30, 2020 and 2019, respectively. Please refer to Note 6(aa) for interest expenses.

(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 December 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>June 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>	<u>June 30,</u> <u>2019</u>
Ordinary corporate bonds issued	\$ 23,500,000	23,500,000	23,500,000
Unamortized discount on bonds payable	(17,839)	(19,661)	(21,482)
Bonds payable, end of the year	23,482,161	23,480,339	23,478,518
Less: current portion	(4,000,000)	(3,000,000)	-
	<u>\$ 19,482,161</u>	<u>20,480,339</u>	<u>23,478,518</u>
	<u>For the three months ended June 30</u>	<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Interest expense	<u>\$ 55,505</u>	<u>40,759</u>	<u>111,214</u>
			<u>77,425</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 :

	June 30, 2020	December 31, 2019	June 30, 2019
Current	\$ <u>1,491,834</u>	<u>1,195,039</u>	<u>1,291,771</u>
Non-current	\$ <u>1,444,470</u>	<u>1,294,702</u>	<u>1,245,476</u>

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

The amounts recognized in profit or loss were as follows :

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Interest on lease liabilities	\$ <u>28,719</u>	<u>25,443</u>	<u>62,220</u>	<u>54,838</u>
Variable lease payments not included in the measurement of lease liabilities	\$ <u>2,829</u>	<u>4,171</u>	<u>6,173</u>	<u>7,145</u>
Income from sub-leasing right-of-use assets	\$ <u>135</u>	<u>117</u>	<u>442</u>	<u>156</u>
Expenses relating to short-term leases	\$ <u>219,528</u>	<u>156,324</u>	<u>428,290</u>	<u>322,946</u>
Expenses relating to leases of low-value, excluding short-term leases of low-value assets	\$ <u>3,748</u>	<u>253</u>	<u>9,694</u>	<u>596</u>

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

	For the six months ended June 30	
	2020	2019
Total cash outflow for leases	\$ <u>1,441,365</u>	<u>1,062,826</u>

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.

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PEGATRON CORPORATION AND SUBSIDIARIES
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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 June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Operating cost	\$ 42	68	84	139
Operating expense	<u>982</u>	<u>886</u>	<u>1,971</u>	<u>1,754</u>
	<u>\$ 1,024</u>	<u>954</u>	<u>2,055</u>	<u>1,893</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 June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Operating cost	\$ 783,260	1,141,317	1,346,636	2,353,857
Operating expense	<u>160,635</u>	<u>205,926</u>	<u>314,129</u>	<u>425,334</u>
	<u>\$ 943,895</u>	<u>1,347,243</u>	<u>1,660,765</u>	<u>2,779,191</u>

(iii) Short-term employee benefits

As of June 30, 2020, December 31, 2019 and June 30, 2019, the Group's short-term employee benefits liabilities were \$313,290, \$277,395 and \$274,729, respectively.

(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."

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (ii) The components of income tax expense for the three months and the six months ended June 30, 2020 and 2019 were as follows :

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current income tax expense				
Current period incurred	\$ 2,919,821	1,436,924	3,404,579	2,578,752
Prior years income tax adjustment	(93,057)	(106,577)	(37,608)	(117,330)
Income tax expense	<u>\$ 2,826,764</u>	<u>1,330,347</u>	<u>3,366,971</u>	<u>2,461,422</u>

- (iii) The amount of income tax recognized in other comprehensive (income) loss was as follows :

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Items that will be reclassified subsequently to profit or loss :				
Exchange differences on translation of foreign financial statements	\$ <u>2,851</u>	<u>(418)</u>	<u>(937)</u>	<u>15</u>

- (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 :

<u>Years of Approval</u>	<u>Company Name</u>
2016	PEGAVISION CORPORATION
2017	KINSUS INTERCONNECT TECHNOLOGY CORP., KINSUS INVESTMENT, LUMENS OPTICS, and ASROCK INCORPORATION.
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, RI KUAN METAL CORPORATION., ASROCK RACK, INC., and FUYANG TECHNOLOGY CORPORATION (Income tax returns through 2016 haven't been approved).

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(u) Capital and other equity

Except for the following disclosure, there were no significant change for capital and other equity for the six months ended June 30, 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 six months ended June 30, 2020 and 2019, the Company had retired 333 and 786 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 2,610,759, 2,611,092, and 2,611,592 thousand common shares of stock, as of June 30, 2020, December 31, 2019 and June 30, 2019, respectively. All share proceeds from outstanding capital have been collected.

As of June 30, 2020, December 31, 2019 and June 30, 2019, the restricted employee stocks have expired, of which 248, 300, and 192 thousand shares, respectively, have not been retired.

(ii) Global depository receipts

As of June 30, 2020, December 31, 2019, and June 30, 2019, the Company has listed, in total, 709, 790, and 1,231 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 3,544, 3,949, and 6,156 thousand shares of stock, respectively.

(iii) Capital surplus

The components of the capital surplus were as follows :

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
From issuance of share capital	\$ 66,370,071	65,571,841	65,511,111
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	2,432,389	2,432,387	2,383,056
Changes in ownership interest in subsidiaries	1,225,362	1,215,540	769,119
Employee stock options	1,304	1,304	1,304
Restricted stock to employees	50,457	323,835	217,449
Other	<u>409,917</u>	<u>409,917</u>	<u>409,917</u>
	<u>\$ 81,586,777</u>	<u>81,052,101</u>	<u>80,389,233</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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.

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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 six months ended June 30	
	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	(1,908,558)	-	-	(1,908,558)
Exchange differences on associates accounted for using equity method	(146)	-	-	(146)
Unrealized gain from financial assets measured at fair value through other comprehensive income	-	(136,413)	-	(136,413)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	21,820	-	21,820
Deferred compensation cost arising from issuance of restricted stock	-	-	8,287	8,287
Balance on June 30, 2020	\$ (12,891,100)	(418,247)	-	(13,309,347)
Balance on January 1, 2019	\$ (7,482,556)	(386,322)	(524,686)	(8,393,564)
Exchange differences on foreign operation	1,284,985	-	-	1,284,985
Exchange differences on associates accounted for using equity method	58	-	-	58
Unrealized losses from financial assets measured at fair value through other comprehensive income	-	12,673	-	12,673
Deferred compensation cost arising from issuance of restricted stock	-	-	513,224	513,224
Balance on June 30, 2019	\$ (6,197,513)	(373,649)	(11,462)	(6,582,624)

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>
Balance on January 1	\$ 35,580,451	36,417,945
Income (loss) attributable to non-controlling interests	491,378	(1,266,834)
Other comprehensive income attributable to non-controlling interests		
Exchange differences on foreign operation	(346,976)	180,830
Changes in ownership interest in subsidiaries	(9,824)	(9,094)
Changes in non-controlling interests	<u>(960,493)</u>	<u>(816,338)</u>
Balance on June 30	<u>\$ 34,754,536</u>	<u>34,506,509</u>

(v) Share-based payment

Except for the following disclosure, there were no significant changes for share-based payment for the three months ended June 30, 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 six months ended June 30, 2020 and 2019, 281 and 480 thousand shares of restricted employee stock have expired, which were converted to capital surplus of \$2,808 and \$4,800, respectively. As of June 30, 2020, December 31, 2019, and June 30, 2019, the Company has deferred compensation cost arising from the issuance of restricted employee stock of \$0, \$8,287, and \$11,462, respectively.

(ii) Expenses recognized in profit or loss

The Company incurred expenses of share-based arrangements for the three months and the six months ended June 30, 2020 and 2019 as follows :

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Expenses resulting from the issuance of restricted employee stock	\$ <u>185,924</u>	<u>55,649</u>	<u>396,893</u>	<u>240,987</u>

(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 June 30, 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.

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Restricted stock to employee of AZUREWAVE

For the three months six months ended June 30, 2020 and 2019, AZUREWAVE recognized share-based compensation cost of \$0, \$430 \$1,160 and \$1,385, respectively, due to the issuance of restricted employee stock. As of June 30, 2020 and June 30, 2019, AZUREWAVE has deferred compensation cost of \$0 and \$1,251, respectively.

(ii) Restricted stock to employee of ASROCK

1) ASROCK

On June 30, 2020, ASROCK has the capital surplus-restricted shares of stock and deferred compensation cost amounting to \$98,465 and \$(3,578), 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.

The aforesaid information of restricted stock to employee was follows:

Vesting period	Restricted stock to employee				
	year 1	years 2	years 3	years 4	Total
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

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

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

For the six months ended June 30, 2019, the assumptions and pricing model adopted in this share-based payments were as follows:

	For the six months ended June 30 2019
Expected volatility rate	30.95%
Risk-free interest rate	0.5743%
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.

The aforesaid information on the employee stock option was as follow:

	For the six months ended June 30			
	2020		2019	
	Outstanding number of options	Weighted average exercise price	Outstanding number of options	Weighted average exercise price
Outstanding as of January 1 (In thousand units)	1,500	\$ 10	-	-
Granted during the period	-	-	1,500	10
Outstanding as of June 30 (In thousand units)	1,500	10	1,500	10
Exercisable as of June 30 (In thousand units)	750		-	
Weighted average fair value of the options granted	-		-	

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PEGATRON CORPORATION AND SUBSIDIARIES
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As of June 30, 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>
June 30, 2020		
Outstanding option	\$ 10	1 years
June 30, 2019		
Outstanding option	\$ 10	2 years

ASRock Industrial Computer Corporation increased its capital by 20,000 thousand shares, at a par value of \$10 per share, with the record date of the capital increase by cash on October 1, 2019, based on the resolution approved by its board of directors on July 24, 2019 and completed the registration on October 29, 2019.

In accordance with the Company Act., ASRock Industrial Computer Corporation retained 10% of the aforesaid shares for its employees to purchase using the fair value method, adopting the Black Scholes model to calculate the fair value of the stock option at grant date as follows:

Stock price at grant date	NT\$12.28
Exercise price	NT\$10.00
Expected price volatility	26.96%
Risk-free interest rate	0.3874%
Expected life of the option	0.0795 years
Weighted average stock price	NT\$2.28

For the year ended December 31, 2019, ASRock Industrial Computer Corporation incurred compensation cost of \$4,560 because of the capital increase and recognized the cost in capital surplus.

- 4) ASROCK did not make any cancellations or amendments to share-based payment transactions for the six months ended June 30, 2020 .
- 5) The expenses resulting from share-based payment transactions were as follows :

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Expense resulting from equity-settled share-based payment \$	<u>11,324</u>	<u>21,921</u>	<u>20,545</u>	<u>43,418</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
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(iii) Employee stock option of FUYANG TECHNOLOGY CORPORATION

The expense resulting from share-based payment transactions for the three months and the six months ended June 30, 2020 and 2019, were as follows :

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Expenses resulting from employee stock option	\$ <u>347</u>	<u>946</u>	<u>691</u>	<u>1,894</u>

(iv) Compensated restricted stock to employee of KINSUS

- 1) On August 28, 2018, KINSUS issued shares of employee restricted stock. As of June 30, 2020, 525 thousand shares of employee restricted stock have expired, resulting in the capital surplus of KINSUS to increase by \$5,250 . Subsequently, the deferred compensation cost of KINSUS arising from the issuance of its employee restricted stock amounted to \$9,184 .
- 2) 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 :

<u>Vesting conditions</u>	
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.

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PEGATRON CORPORATION AND SUBSIDIARIES
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- d) The voting rights of these shareholders are executed by the custodian, and the custodian will act based on law and regulations.

As of June 30, 2019, 229 thousand shares of employee restricted stock have expired, resulting in the capital surplus of KINSUS to increase by \$2,289. On June 30, 2019, KINSUS has the deferred compensation cost arising from the issuance of its employee restricted stock amounting to \$51,142.

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. As of June 30, 2020, 34 thousand shares of employee restricted stock have expired, resulting in the capital surplus of KINSUS to increase by \$339. On June 30, 2020, KINSUS has the deferred compensation cost arising from the issuance of its employee restricted stock amounting to \$1,334.

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

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Expense resulting from equity-settled share-based payment	\$ <u>5,629</u>	<u>21,989</u>	<u>12,250</u>	<u>56,770</u>

- 4) KINSUS did not made any cancellations or amendments to share-based payment transactions for the six months ended June 30, 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 June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Basic earnings per share				
Profit attributable to ordinary shareholders	\$ <u>7,073,777</u>	<u>3,464,886</u>	<u>8,618,616</u>	<u>4,796,207</u>
Weighted-average number of ordinary shares	<u>2,610,631</u>	<u>2,611,477</u>	<u>2,610,702</u>	<u>2,611,608</u>
	\$ <u>2.71</u>	<u>1.33</u>	<u>3.30</u>	<u>1.84</u>
Diluted earnings per share				
Profit attributable to ordinary shareholders (diluted)	\$ <u>7,073,777</u>	<u>3,464,886</u>	<u>8,618,616</u>	<u>4,796,207</u>
Weighted-average number of ordinary shares	2,610,631	2,611,477	2,610,702	2,611,608
Effect of potentially dilutive ordinary shares				
Employee stock bonus	<u>11,453</u>	<u>7,393</u>	<u>25,560</u>	<u>13,975</u>
Weighted-average number of ordinary shares (diluted)	<u>2,622,084</u>	<u>2,618,870</u>	<u>2,636,262</u>	<u>2,625,583</u>
	\$ <u>2.70</u>	<u>1.32</u>	<u>3.27</u>	<u>1.83</u>

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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 June 30, 2020			
	DMS	Strategic Investment Group	Total
Primary geographical markets :			
Europe	\$ 117,194,543	1,036,848	118,231,391
U.S.A.	126,525,984	8,767,629	135,293,613
Taiwan	15,939,516	3,148,207	19,087,723
China	17,925,202	11,667,205	29,592,407
Japan	5,485,707	413,211	5,898,918
Other countries	<u>18,780,757</u>	<u>957,852</u>	<u>19,738,609</u>
	<u>\$ 301,851,709</u>	<u>25,990,952</u>	<u>327,842,661</u>
For the three months ended June 30, 2019			
	DMS	Strategic Investment Group	Total
Primary geographical markets :			
Europe	\$ 120,951,822	312,197	121,264,019
U.S.A.	83,228,929	6,364,045	89,592,974
Taiwan	31,296,055	200,892	31,496,947
China	9,515,400	10,906,321	20,421,721
Japan	18,597,604	31,210	18,628,814
Other countries	<u>17,756,387</u>	<u>204,509</u>	<u>17,960,896</u>
	<u>\$ 281,346,197</u>	<u>18,019,174</u>	<u>299,365,371</u>

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PEGATRON CORPORATION AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	For the six months ended June 30, 2020		
		Strategic Investment Group	
	DMS		Total
Primary geographical markets :			
Europe	\$ 227,836,984	2,468,323	230,305,307
U.S.A.	237,373,020	13,797,111	251,170,131
Taiwan	32,325,705	5,624,503	37,950,208
China	24,143,591	18,246,668	42,390,259
Japan	9,069,857	792,636	9,862,493
Other countries	<u>32,868,872</u>	<u>1,773,839</u>	<u>34,642,711</u>
	<u>\$ 563,618,029</u>	<u>42,703,080</u>	<u>606,321,109</u>

	For the six months ended June 30, 2019		
		Strategic Investment Group	
	DMS		Total
Primary geographical markets :			
Europe	\$ 253,466,614	2,305,827	255,772,441
U.S.A.	169,386,669	11,441,851	180,828,520
Taiwan	57,853,639	2,181,244	60,034,883
China	16,813,173	16,899,879	33,713,052
Japan	32,461,116	77,333	32,538,449
Other countries	<u>30,211,575</u>	<u>380,994</u>	<u>30,592,569</u>
	<u>\$ 560,192,786</u>	<u>33,287,128</u>	<u>593,479,914</u>

(ii) Contract balances

	June 30, 2020	December 31, 2019	June 30, 2019
Notes receivable	\$ 7,158	20,232	15,920
Accounts receivable	191,519,063	207,994,571	152,161,857
Less: Allowance for impairment	<u>1,664,548</u>	<u>1,676,398</u>	<u>1,807,379</u>
Total	<u>\$ 189,861,673</u>	<u>206,338,405</u>	<u>150,370,398</u>
Contract liabilities	<u>\$ 2,332,407</u>	<u>1,942,418</u>	<u>1,851,059</u>

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 and the six months ended June 30, 2020 and 2019 that were included in the contract liability balance at the beginning of the period were \$1,278,179, \$465,058, \$1,796,941 and \$1,043,992, respectively.

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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 six months ended June 30, 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 and the six months ended June 30, 2020 and 2019, remuneration of employees of \$598,000, \$298,000, \$733,000 and \$397,000 thousand, respectively, and remuneration of directors of \$60,000, \$30,000, \$73,000 and \$39,000 thousand, 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) Interest income

The components of interest income were as follows:

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Interest income from bank deposits	\$ <u>842,092</u>	<u>972,232</u>	<u>1,912,903</u>	<u>1,887,202</u>

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(ii) Other income

The components of other income were as follows:

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Subsidy income	\$ 405,674	826,933	1,044,174	879,337
Rental income	212,557	184,409	429,140	400,801
Technical service income	146,115	146,301	240,925	279,734
Other income	100,704	52,680	256,656	87,160
	<u>\$ 865,050</u>	<u>1,210,323</u>	<u>1,970,895</u>	<u>1,647,032</u>

(iii) Other gains and losses

The components of other gain and losses were as follows:

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Expected credit (loss) reversal gain	\$ (859)	(4,913)\$	-	4,524
Gains (losses) on disposals of property, plant and equipment	36,638	(7,458)	43,560	(378)
Foreign exchange (losses) gains	(20,822)	(5,134)	611,364	140,359
Gains on lease modifications	272	1,969	2,970	2,059
Reversal gain (impairment loss) on non-financial assets	8,376	(9,770)	8,781	(21,357)
Net gains (losses) on financial assets measured at fair value through profit or loss	2,994,864	(10,354)	2,816,808	886,126
	<u>\$ 3,018,469</u>	<u>(35,660)</u>	<u>3,483,483</u>	<u>1,011,333</u>

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(iv) Finance costs

The components of finance costs were as follows:

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Interest expenses	\$ 478,557	865,654	1,153,863	1,947,746
Financial expense- bank fees and factoring fees, etc.	2,844	3,977	5,924	8,675
	\$ 481,401	869,631	1,159,787	1,956,421

(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 June 30, 2020, December 31, 2019 and June 30, 2019, the accounts receivable from the Group's top three customers were amounted to \$134,399,543, \$151,554,738 and \$87,400,534, respectively, representing 70%, 73% and 57% 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.

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 six months ended June 30, 2020 and 2019 were determined as follows :

	Other receivables
Balance on January 1, 2020	\$ 17,002
Impairment loss recognized	182
Reversal of impairment loss	(513)
Effect of changes in foreign exchange rate	(422)
Balance on June 30, 2020	\$ 16,249

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	Other receivables
Balance on January 1, 2019	\$ 14,374
Impairment loss recognized	2,845
Effect of changes in foreign exchange rate	104
Balance on June 30, 2019	\$ 17,323

(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
June 30, 2020					
Non-derivative financial liabilities					
Accounts receivable factoring	\$ 296,490	296,490	296,490	-	-
Unsecured bank loans	145,131,673	145,131,673	134,787,727	606,753	9,737,193
Unsecured ordinary corporate bonds	23,500,000	23,500,000	4,000,000	-	19,500,000
Non-interest bearing liabilities	236,947,347	236,947,347	236,947,347	-	-
Lease liabilities	2,936,304	2,936,304	1,491,834	854,118	590,352
	\$ 408,811,814	408,811,814	377,523,398	1,460,871	29,827,545
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
June 30, 2019					
Non-derivative financial liabilities					
Secured bank loans	\$ 980,490	980,490	80,490	17,308	882,692
Unsecured bank loans	109,094,330	109,094,330	99,652,755	5,866,500	3,575,075
Unsecured ordinary corporate bonds	23,500,000	23,500,000	-	4,000,000	19,500,000
Non-interest bearing liabilities	190,400,542	190,400,542	190,400,542	-	-
Lease liabilities	2,537,247	2,537,247	1,291,771	1,019,908	225,568
	\$ 326,512,609	326,512,609	291,425,558	10,903,716	24,183,335

The liquidity of the aforesaid bank loans, bonds payable, and lease liabilities 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.

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(iii) Market risk

1) Currency risk

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

(Unit: Foreign currency / NTD in Thousands)

	June 30, 2020			June 30, 2019		
	Foreign Currency	Exchange Rate	NTD	Foreign Currency	Exchange Rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$13,980,341	29.649	414,503,130	10,297,089	31.060	319,827,584
USD:CNY	466,100	7.0795	13,819,407	437,004	6.8747	13,573,298
CNY:USD	1,998,213	0.1413	8,368,531	2,105,166	0.1455	9,511,172
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	13,816,763	29.649	409,653,206	9,694,739	31.060	301,118,593
USD:CNY	425,499	7.0795	12,615,627	371,037	6.8747	11,524,370
CNY:USD	2,034,243	0.1413	8,519,425	2,063,845	0.1455	9,324,483
<u>December 31, 2019</u>						
	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 June 30, 2020 and 2019 would have increased (decreased) the before-tax net income for the six months ended June 30, 2020 and 2019 by \$58,226 and \$217,474, respectively. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for both periods.

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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 and the six months ended June 30, 2020 and 2019, foreign exchange gain (including realized and unrealized portions) amounted to \$(20,822), \$(5,134), \$611,364 and \$140,359 thousand, 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.

If the interest rate increases / decreases by 1%, the Group's net income will decrease /increase by \$99,664 and \$114,631 for the six months ended June 30, 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 six months ended June 30			
	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%	\$ 23,833	230,207	24,765	141,749
Decrease 3%	\$ (23,833)	(230,207)	(24,765)	(141,749)

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(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 :

	June 30, 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	\$ 10,435,263	9,514,367	585,360	335,536	10,435,263
Financial assets at fair value through other comprehensive income					
Stock of listed companies	\$ 436,222	436,222	-	-	436,222
Stock of unlisted companies	149,448	-	-	149,448	149,448
Stock of overseas listed companies	126,732	126,732	-	-	126,732
Stock of overseas unlisted companies	82,025	-	-	82,025	82,025
Subtotal	\$ 794,427	562,954	-	231,473	794,427
Financial assets at amortized cost					
Cash and cash equivalents	\$176,681,836	-	-	-	-
Notes and accounts receivable	189,861,673	-	-	-	-
Other receivables	1,220,252	-	-	-	-
Other financial assets	32,707,623	-	-	-	-
Subtotal	\$400,471,384	-	-	-	-
Financial liabilities at amortized cost					
Bank loans	\$145,428,163	-	-	-	-
Non-interest bearing liabilities	236,947,347	-	-	-	-
Lease liabilities	2,936,304	-	-	-	-
Unsecured ordinary corporate bonds	23,482,161	-	-	-	-
Subtotal	\$408,793,975	-	-	-	-

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	December 31, 2019				
	<u>Book Value</u>	<u>Fair Value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
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	<u>121,751</u>	<u>-</u>	<u>-</u>	<u>121,751</u>	<u>121,751</u>
Subtotal	\$ 8,353,158	8,081,407	-	271,751	8,353,158
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	<u>4,046,078</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	\$350,158,098	-	-	-	-
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>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	\$349,718,732	-	-	-	-
	June 30, 2019				
	<u>Book Value</u>	<u>Fair Value</u>			<u>Total</u>
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Financial assets at fair value through profit or loss					
Financial assets mandatorily measured at fair value through profit or loss	\$ 7,231,871	6,417,311	475,200	339,360	7,231,871
Financial assets at fair value through other comprehensive income					
Stock of listed companies	543,192	543,192	-	-	543,192
Stock of unlisted companies	150,000	-	-	150,000	150,000
Stock of overseas unlisted companies	<u>132,305</u>	<u>-</u>	<u>-</u>	<u>132,305</u>	<u>132,305</u>
Subtotal	\$ 825,497	543,192	-	282,305	825,497

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	June 30, 2019				
	Book Value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at amortized cost					
Cash and cash equivalents	\$145,433,361	-	-	-	-
Notes and accounts receivable	150,370,398	-	-	-	-
Other receivables	1,564,859	-	-	-	-
Other financial assets	<u>5,083,083</u>	-	-	-	-
Subtotal	<u>\$302,451,701</u>	-	-	-	-
Financial liabilities at amortized cost					
Bank loans	\$110,074,820	-	-	-	-
Non-interest bearing liabilities	190,400,542	-	-	-	-
Lease liabilities	2,537,247	-	-	-	-
Unsecured ordinary corporate bonds	<u>23,478,518</u>	-	-	-	-
Subtotal	<u>\$326,491,127</u>	-	-	-	-

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.

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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 six months ended June 30, 2020 and 2019.

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	271,751	619,467
Total gains and losses recognized:			
In profit or loss	(12,180)	-	(12,180)
In other comprehensive income	-	(1,143)	(1,143)
Disposal	-	(39,135)	(39,135)
Ending Balance, December 31, 2020	<u>\$ 335,536</u>	<u>231,473</u>	<u>567,009</u>
Opening balance, January 1, 2019	\$ 202,971	282,075	485,046
Total gains and losses recognized:			
In profit or loss	119,889	-	119,889
In other comprehensive income	-	230	230
Purchased	16,500	-	16,500
Ending Balance, December 31, 2019	<u>\$ 339,360</u>	<u>282,305</u>	<u>621,665</u>

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For the years ended June 30, 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 June 30</u>		<u>For the six months ended June 30</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Total gains and losses recognized:				
In profit or loss, and including “other gains and losses”	\$ <u>(10,350)</u>	<u>126,239</u>	<u>(12,180)</u>	<u>119,889</u>
In other comprehensive income, and presented in “exchange differences on translation of foreign financial statements”	\$ <u>(1,425)</u>	<u>(320)</u>	<u>(1,143)</u>	<u>230</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.

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 June 30, 2020, December 31, 2019 and June 30, 2019, were 1.0~2.6, 1.0~2.6, and 0.9, respectively.) ·Market illiquidity discount (As of June 30, 2020, December 31, 2019 and June 30, 2019, were 20%) 	<ul style="list-style-type: none"> The estimated fair value would increase (decrease) if: ·the multiplier were higher (lower) ·the market illiquidity discount were lower (higher).

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<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 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 June 30, 2020, December 31, 2019 and June 30, 2019, were 1.9~6.2, 1.9~6.2, and 1.8~5.7, respectively.) ·Market illiquidity discount (As of June 30, 2020, December 31, 2019 and June 30, 2019, were 20%) 	<ul style="list-style-type: none"> The estimated fair value would increase (decrease) if: ·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

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 :

	<u>Inputs</u>	<u>Fluctuation in inputs</u>	<u>Profit or loss</u>		<u>Other comprehensive income</u>	
			<u>Favorable</u>	<u>Unfavorable</u>	<u>Favorable</u>	<u>Unfavorable</u>
June 30, 2020						
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%	-	-	2,315	(2,315)
Equity investments without an active market	Market illiquidity discount	1%	-	-	2,315	(2,315)
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)

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	Inputs	Fluctuation in inputs	Profit or loss		Other comprehensive income	
			Favorable	Unfavorable	Favorable	Unfavorable
June 30, 2019						
Financial assets at fair value through profit or loss						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	962	(962)	-	-
Equity investments without an active market	Market illiquidity discount	1%	962	(962)	-	-
Financial assets at fair value through other comprehensive income						
Equity investments without an active market	Multiplier of price-to-book ratio	1%	-	-	2,823	(2,823)
Equity investments without an active market	Market illiquidity discount	1%	-	-	2,823	(2,823)

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.

(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 :

June 30, 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	\$ 22,606,195	16,030,544	6,575,651	-	-	6,575,651
Other financial asset and short-term loan	\$ 13,341,266	13,341,266	-	-	-	-
June 30, 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	\$ 16,030,544	16,030,544	-	-	-	-
Other financial asset and short-term loan	\$ 13,341,266	13,341,266	-	-	-	-

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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	-	-	-	-

June 30, 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	\$ 28,447,795	22,977,059	5,470,736	-	-	5,470,736

June 30, 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	\$ 22,977,059	22,977,059	-	-	-	-

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 six months ended June 30, 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.

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(ae) Financing activities not affecting current cash flow

For the six months ended June 30, 2020 and 2019, reconciliation of liabilities arising from financing activities were as follows :

	January 1, 2020	Cash flows	Non-cash changes		June 30, 2020
			Foreign exchange movement	Other	
Long-term loans	\$ 9,192,450	3,248,223	(69,097)	(20,660)	12,350,916
Short-term loans	64,808,786	68,268,461	-	-	133,077,247
Bonds payable	23,480,339	-	-	1,822	23,482,161
Lease liabilities	2,489,741	(934,988)	(17,515)	1,399,066	2,936,304
Non-controlling interests	<u>35,580,451</u>	<u>(187,011)</u>	<u>(346,976)</u>	<u>(291,928)</u>	<u>34,754,536</u>
Total liabilities from financing activities	<u>\$135,551,767</u>	<u>70,394,685</u>	<u>(433,588)</u>	<u>1,088,300</u>	<u>206,601,164</u>

	January 1, 2019	Cash flows	Non-cash changes		June 30, 2019
			Foreign exchange movement	Other	
Long-term loans	\$ 11,900,203	533,013	98,109	-	12,531,325
Short-term loans	86,927,246	10,616,249	-	-	97,543,495
Bonds payable	14,986,762	8,490,500	-	1,256	23,478,518
Lease liabilities	2,945,584	(677,301)	25,642	243,322	2,537,247
Non-controlling interests	<u>36,417,945</u>	<u>16,457</u>	<u>180,830</u>	<u>(2,108,723)</u>	<u>34,506,509</u>
Total liabilities from financing activities	<u>\$153,177,740</u>	<u>18,978,918</u>	<u>304,581</u>	<u>(1,864,145)</u>	<u>170,597,094</u>

(7) Related-party transactions:

(a) Key management personnel compensation :

	For the three months ended June 30		For the six months ended June 30	
	2020	2019	2020	2019
Short-term employee benefits	\$ 99,465	92,602	216,921	193,084
Post-employment benefits	990	914	1,981	1,820
Share-based payments	<u>57,467</u>	<u>5,366</u>	<u>107,017</u>	<u>47,795</u>
	<u>\$ 157,922</u>	<u>98,882</u>	<u>325,919</u>	<u>242,699</u>

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

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(8) Pledged assets:

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

<u>Asset</u>	<u>Purpose of pledge</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Accounts receivable (Note)	Accounts receivable factoring (listed as short-term loans)	\$ 309,091	-	-
Other financial asset- restricted deposit	Post-release duty deposits, customs duty, lease deposits, short-term loans, travel agency guarantee, etc.	113,292	203,219	178,961
Other financial asset- restricted deposit	Litigation pledge	-	10,998	289,776
Property, plant and equipment	Bank loans	1,380,925	1,383,038	1,386,910
Other financial asset- guarantee deposits	Customs duty guarantee, rental deposits, and deposits for performance guarantee	54,242	42,985	37,325
		<u>\$ 1,857,550</u>	<u>1,640,240</u>	<u>1,892,972</u>

(9) Commitments and contingencies:

(a) Significant commitments and contingencies were as follows :

(i) Unused standby letters of credit

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
EUR	\$ 3	29	-
JPY	2,013,437	1,029,071	1,057,943
USD	2,504	3,376	7,652

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

	<u>June 30, 2020</u>	<u>December 31, 2019</u>	<u>June 30, 2019</u>
NTD	<u>\$ 159,355</u>	<u>34,263</u>	<u>61,280</u>

(iii) As of June 30, 2020, December 31, 2019, and June 30, 2019, the significant contracts for purchase of properties by the Group amounted to \$9,561,422, \$15,002,411 and \$14,775,297, of which \$3,056,696, \$2,215,402 and \$1,946,582, respectively, were unpaid.

(iv) As of June 30, 2020, December 31, 2019, and June 30, 2019, the Group provided endorsement guarantee for bank loans, including Group entities, amounting to \$355,788, \$1,259,160 and \$1,304,520, respectively.

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(v) As of June 30, 2020, December 31, 2019, and June 30, 2019, the Group issued a tariff guarantee of \$1,581,419, \$1,764,424 and \$1,806,348, 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.

(12) Other:

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

By function	For the three months ended June 30					
	2020			2019		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit						
Salary	\$ 13,303,438	4,455,809	17,759,247	12,469,041	3,388,925	15,857,966
Health and labor insurance	739,672	198,720	938,392	972,390	219,930	1,192,320
Pension	783,302	161,617	944,919	1,141,385	206,812	1,348,197
Others	707,602	228,084	935,686	322,280	230,043	552,323
Depreciation	3,985,618	455,151	4,440,769	4,139,786	483,937	4,623,723
Amortization	20,367	27,605	47,972	39,090	30,939	70,029

By function	For the six months ended June 30					
	2020			2019		
	Operating cost	Operating expense	Total	Operating cost	Operating expense	Total
Employee benefit						
Salary	\$ 25,096,685	7,854,137	32,950,822	24,247,359	6,702,547	30,949,906
Health and labor insurance	1,466,452	442,624	1,909,076	1,822,853	464,993	2,287,846
Pension	1,346,720	316,100	1,662,820	2,353,996	427,088	2,781,084
Others	1,146,312	449,788	1,596,100	642,350	460,764	1,103,114
Depreciation	8,067,322	944,591	9,011,913	8,323,369	938,541	9,261,910
Amortization	45,437	65,486	110,923	78,741	57,561	136,302

(Continued)

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

	<u>For the three months ended June 30</u>		<u>For the six months ended June 30</u>	
	2020	2019	2020	2019
Depreciation in investment property	\$ <u>761</u>	<u>793</u>	<u>1,530</u>	<u>1,575</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 June 30, 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	Table 4
5	Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock	Table 5
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 6
8	Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock	Table 7
9	Trading in derivative instruments	None
10	Business relationships and significant intercompany transactions	Table 10

(b) Information on investees:

Please refer to Table 8 for the information on investees for the six months ended June 30, 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.

(Continued)

PEGATRON CORPORATION AND SUBSIDIARIES
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(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 and the six months ended June 30, 2020 and 2019. The Group's operating segment information and reconciliation were as follows :

<u>For the three months ended June 30, 2020</u>	<u>DMS</u>	<u>Strategic Investment Group</u>	<u>Adjustment and eliminations</u>	<u>Total</u>
Reportable segment profit or loss	\$ <u>9,223,893</u>	<u>3,222,558</u>	<u>(1,668,772)</u>	<u>10,777,679</u>
<u>For the three months ended June 30, 2019</u>	<u>DMS</u>	<u>Strategic Investment Group</u>	<u>Adjustment and eliminations</u>	<u>Total</u>
Reportable segment profit or loss	\$ <u>4,410,984</u>	<u>1,270,315</u>	<u>(1,422,659)</u>	<u>4,258,640</u>
<u>For the six months ended June 30, 2020</u>	<u>DMS</u>	<u>Strategic Investment Group</u>	<u>Adjustment and eliminations</u>	<u>Total</u>
Reportable segment profit or loss	\$ <u>11,218,401</u>	<u>1,580,283</u>	<u>(321,719)</u>	<u>12,476,965</u>
<u>For the six months ended June 30, 2019</u>	<u>DMS</u>	<u>Strategic Investment Group</u>	<u>Adjustment and eliminations</u>	<u>Total</u>
Reportable segment profit or loss	\$ <u>6,659,706</u>	<u>3,455,056</u>	<u>(4,123,967)</u>	<u>5,990,795</u>
Reportable segment assets				
June 30, 2020	\$ <u>546,327,967</u>	<u>239,825,533</u>	<u>(157,859,649)</u>	<u>628,293,851</u>
December 31, 2019	\$ <u>492,727,088</u>	<u>234,288,174</u>	<u>(156,495,469)</u>	<u>570,519,793</u>
June 30, 2019	\$ <u>455,623,844</u>	<u>232,196,153</u>	<u>(155,040,141)</u>	<u>532,779,856</u>